Translation by Danske Bank of a statement from the Danish Financial Supervisory Authority dated 28 September 2012. In case of discrepancies, the Danish version prevails.

Inspection of Danske Bank (credit area)

1. Introduction

In May-June 2012, the Danish Financial Supervisory Authority (FSA) conducted an inspection of Danske Bank A/S. The FSA performed a function-based inspection, that is, an inspection of one or more selected areas.

The Danish FSA inspected the credit area regarding the Group's corporate customers (Corporates & Institutions, Shipping and special financial exposures) and lending to corporate customers in Denmark, Sweden, Norway, Ireland, Northern Ireland, Germany and Poland. The FSA also inspected exposures to the bank's management.

The purpose of the inspection was to assess the bank's credit management, impairment charges and solvency need.

2. Summary and risk assessment

The FSA reviewed 590 loans exceeding about DKK 10 million. In addition, the FSA reviewed loans to the bank's board of directors and executive board. The loans had drawing rights for a total of DKK 292 billion, of which DKK 191 billion had been drawn. The Danske Bank Group's lending stood at DKK 1,704 billion at 30 June 2012. DKK 889 billion of that amount was lending to personal customers. Lending to personal customers was not included in the inspection.

The inspection was concurrent with Danske Bank's quarterly review of loans to estimate loan impairment charges for the second quarter of 2012. The FSA is of the opinion that the bank made adequate impairment charges at 30 June 2012 for the loans reviewed.

Owing to difficult conditions in several of the bank's significant markets, in particular the markets in Ireland, Northern Ireland and Denmark, substantial impairment charges may be seen also in future.

The FSA finds that the bank's credit management is generally satisfactory and at the same level as that of the other major Danish banks. However, in a number of cases, the FSA found that the basis for decision, including company descriptions and, in particular, analyses and risk assessments, is at a level lower than the level of other major Danish banks. Moreover, in several cases, the ratings of corporate customers in Sweden were not true and fair.

The board of directors and the executive board were ordered to ensure that the decision basis for the approval of lending and subsequent follow-up contain relevant analyses and risk assessments to enable the bank to identify exposures with increased risks and take action regarding such exposures. The board of directors and the executive board were also ordered to ensure that the bank makes adequate, updated and prudent valuations of mortgaged properties in Denmark and that the bank's ratings of customers in its branch in Sweden are true and fair.

The bank's risk analysis of special financial exposures does not, or does only to a limited extent, consider the bank's solvency need. Special financial exposures is a portfolio of financial vehicles from the period before the financial crisis, for example lending to conduits, which are companies without activity other than owning and managing claims. The bank is in the process of liquidating its portfolio of special financial exposures. The risk on some of the exposures was not covered. The board of directors and the executive board were ordered to ensure that they have an adequate and forward-looking basis for assessing the risks regarding special financial counterparties in terms of its solvency need and that the bank sets aside the required additional capital to cover the risk on the special financial exposures.

Finally, the FSA found that the board of director's processing of loans to the board of directors and the executive board is deficient. The board of directors was ordered to ensure that exposures to the management are approved on the basis of all relevant information about the customers. It must be possible to assess whether facilities are granted in accordance with the bank's usual business conditions and on market terms. According to Danish legislation, exposures to the board of directors and the executive board must be monitored with particular care. The FSA pointed out one exposure where the risk was increased and where tight control must be considered necessary. As a matter of principle, exposures to the board of directors and the executive board involving increased risk should be avoided.

The FSA provided risk information, stating that the board of directors and the executive board should continue to monitor the very low required returns on Swedish real property and the risk that prices decline with a view to considering a reduction of the bank's risks.

The Danske Bank Group calculated its solvency need at 30 June 2012 at 10.4%. Its actual solvency at 30 June 2012 was 17.7%.

The FSA assessed that it was necessary to set aside additional capital to cover the solvency need because of the continued uncertainty about the credit risk on special financial lending. In future, Danske Bank will set aside a special add-on in the region of DKK 1 billion or 0.1 of a percentage point to cover the risk. Our inspection did not give rise to any other objections to the bank's assessment of its solvency need as a result of the bank's credit risk.