*[Translation by Danske Bank of a statement from the Danish Financial Supervisory Authority (*Finanstilsynet*). In case of discrepancies, the Danish version prevails.]*

MEMORANDUM

Danish Financial
Supervisory Authority
28 September 2011

Statement on inspection of Danske Bank in Ireland

1. Introduction

In June 2011, the Danish Financial Supervisory Authority (FSA) inspected Danske Bank's branch in Ireland – National Irish Bank. The FSA performed a function-based inspection, that is, an inspection of one or more selected areas. Following up on the inspections previously carried out, most recently in September 2008, May 2009 and June-July 2010, we focused on the branch's credit activities.

This report must be published in accordance with the Danish Executive Order on the Duty of Banks and Mortgage Credit Institutions to Publish the Danish FSA's Assessment of the Institution.

2. Summary and risk assessment

At 31 March 2011, lending by the branch in Ireland amounted to EUR 9.8 billion, or 4.4% of the Danske Bank Group's total lending. Personal customers account for some 30% of the branch's lending, and commercial customers for about 70%. More than 75% of the loans are related to real property.

As during other inspections outside Denmark, we had a meeting with the local FSA. We also met with the Irish central bank and the Blackrock consultancy firm, engaged by the Irish authorities to analyse the Irish banks' credit risk and credit management. The purpose of the meetings was to give us a better basis for assessing Danske Bank's credit risk and credit management in Ireland.

We inspected 200 loan exposures in the range of EUR 50,000 to EUR 438 million. The exposures included the largest exposures of the branch and several samples.

The inspection was concurrent with the bank's quarterly review of loans to estimate loan impairment charges for the second quarter of 2011. We assessed that an additional amount of EUR 23.0 million of impairment charges against loans was required compared with the Irish bank branch's preliminary calculations. Compared with the financial statements for the first quarter of 2011, additional loans impairment charges of EUR 132.5 million were recognised against the exposures reviewed.

At 30 June 2011, the total loan impairment charges and losses amounted to DKK 15.3 billion, or 21% of the loans. It is our opinion that – because of the considerable charges made in the first and second quarters of 2011 and previously – the bank's level of impairment charges is adequate. The difficult conditions in the Irish market are likely to continue to result in significant impairment charges.

A contributory factor is that the bank has provided a considerable volume of property finance. The property market in Ireland suffers from uncertainty with regard to pricing, a very low number of completed sales and a lack of transparency of the terms of completed sales. The market has not improved since our inspection in 2010. We still find that estimates of the values of land sold for development and small residential rental properties, in particular, are subject to uncertainty.

Loans for home-market-based commercial purposes are also likely to generate increased losses. Overall, the bank's loans to personal customers do not yet show material signs of weakness.

Most of the loans are variable-rate facilities based on a reference rate. For a number of loans, the borrowers are able to pay interest and instalments (if applicable) only because short-term interest rates remain low. Although impairment charges have been made against such loans, the credit risk associated with future interest rate increases is significant.

Furthermore, a large proportion of the loans have been granted at interest rates so low that even if they are settled as agreed, they will not generate earnings; this is also the case for other banks in the Irish market.

Following our inspection in September 2008, the bank has taken significant and necessary steps to improve credit management at the Irish branch. Some of these measures were being implemented when we conducted our follow-up inspection in May 2009, and after the inspection in June-July 2010, we found that the bank's credit management had been adapted to the difficult market conditions in Ireland. Subsequently, additional initiatives have been taken, and it is our opinion that, as a result, the credit management at the Irish branch is now in line with the credit management in the other parts of the banking group. We expect the need for strict management and close follow-up at the Irish branch to persist for a long time in order to minimise losses.

The Danske Bank Group has calculated its solvency need at 30 June 2011 at 10.3%. Its actual solvency ratio at 30 June 2011 was 18.8%.

At 30 September 2011, the bank changed its model with the result that the risk on loans granted by the branch in Ireland entails a significant increase of the solvency need. In addition, as a result of the considerable uncertainty surrounding the credit risk on the Irish loan portfolio, the bank has maintained its considerable capital add-ons to cover this risk in its solvency need calculations. Our inspection now did not give rise to objections from the FSA to the bank's assessment of its solvency need as a result of the credit risk at the Irish branch.