Translation from Danish by Danske Bank of a statement dated 2 March 2015 from the Danish Financial Supervisory Authority (*Finanstilsynet*)

M e m o r a n d u m

2 March 2015

Statement on review of new lending etc. at Danske Bank A/S

Introduction
The Danish Financial Supervisory Authority (FSA) has completed a review of new lending etc. at Danske Bank A/S. The purpose of the review was to assess the bank's risk appetite in connection with new lending etc. and to assess the basis on which the bank approved new loans. The review was conducted in the fourth quarter of 2014.

The review formed part of a cross-sector review of the same issue at 13 other banks. The background is that the FSA has seen competition intensify as a result of the low demand for loans from the business sector and households in combination with the banks' improved capital and funding positions. This is generally positive, but it may also entail a risk that credit standards are lowered when new loans are granted – for example, in that the self-financing, collateral and guarantees provided by customers are reduced to such an extent that it increases the bank's risk considerably.

Summary and risk assessment
For the purposes of the review, the FSA selected 151 of the bank's loan approvals in the period from July 2013 to June 2014. This comprised lending to large business customers and small and medium-sized enterprises as well as financing of property leasing and financing of company acquisitions. The FSA also reviewed the bank's credit policy and selected business procedures.

Before approving a new loan, the bank draws up a credit application that describes the purpose of the individual loan, the customer's financial situation, collateral provided and customer risks. The FSA found that the quality of the bank's basis for making decisions was generally satisfactory. For the bank's units in Sweden and Norway, where the bank expects lending to grow, the quality of the decision-making basis was poorer than at the Danish units, however.

Moreover, the FSA found that the bank's risk appetite was generally at the same level as that of other large banks and thus characterised by intensified competition for financially strong business customers in particular. As a result, there were quite a few examples showing that the competition with other banks had caused Danske Bank to make terms more lenient by, for example, reducing the rate of interest payable by customers and, in a few situations, not requiring the issuance of guarantees.

Furthermore, the FSA found that the bank had an increased risk appetite for financing company acquisitions from its non-Danish units, in particular in cases where Danske Bank guaranteed the issuance of corporate bonds, for example to refinance bank debt.

Especially for large banks' financing of company acquisitions, the FSA has generally observed an increase in growth, risk appetite and competition, which has led to a relaxation of credit terms.

Consequently, Danske Bank must be aware of the risk of financing company acquisitions at overly high prices and with an overly high level of gearing.

A bank's board of directors must adopt a credit policy that specifies the bank's credit risk profile. New loans must be approved as stipulated in the credit policy. During the review, the FSA observed that Danske Bank's board of directors had failed to take a position on important aspects of the credit policy (for example, the board of directors' desire for lending broken down by geography and industry). Moreover, it was also more difficult to get an overview of the credit policy, business procedures, tools, etc., for Danske Bank than for other large banks. Thus, this entailed a risk that the bank would approve new loans with risk exposures not desired by the board of directors. The FSA therefore gave Danske Bank an order that the bank's board of directors take a position on all relevant aspects of the credit policy.

At 30 September 2014, Danske Bank Group had calculated its solvency need to be 10.6%. Its actual solvency ratio at 30 September 2014 was 19.3%. The review did not give rise to any change in the FSA's assessment of the group's solvency need.