

Realkredit Danmark A/S
For the attention of the Board of Directors and the Executive Board

24 November 2022
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Statement on inspection at Realkredit Danmark

1. Scope of the inspection

In the period from 30 May to 1 June 2022, the Danish Financial Supervisory Authority (the Danish FSA) conducted a functional inspection at Realkredit Danmark A/S (Realkredit Danmark) of the bond issuance, funding and liquidity areas. Bond issuance and funding comprise risk management in relation to bond issuance and investment of funds, including the market risk area and risks covered by the balance principle.

In the bond issuance and funding areas, the Danish FSA inspected the institution's policies, business procedures and work descriptions. The Danish FSA also inspected the institution's delegated authorities in the market risk area.

In the liquidity area, the Danish FSA inspected the institution's policies, business procedures and work descriptions.

The Danish FSA also reviewed management reporting in the areas inspected, including reporting from the risk management function, the compliance function and Group Internal Audit.

2. Summary and risk assessment

The risk management function at Realkredit Danmark has many tasks in the areas inspected relative to the resources allocated to the function. This entails a risk that the function will not perform tasks outside the scope of ordinary operations in a satisfactory manner. Such tasks include, in particular, risk analysis and risk identification, which are at risk of being given lower priority. The inspection identified material risk management deficiencies attributable, among other things, to development projects not being completed.

The Danish FSA has ordered Realkredit Danmark to ensure that the risk management function has sufficient resources to ensure that all material risks are identified, measured, controlled and correctly reported.

There are material deficiencies in the institution's risk management, including in the day-to-day monitoring, controlling and validation of risk. This applies in particular to internal controls in the second line of defence, in which a significant control had not been functional for a long period of time. In addition, several other controls had not been implemented. The deficiencies entail a risk that the most significant activities in the areas inspected are not carried out in a satisfactory manner.

Realkredit Danmark is ordered to ensure that the institution establishes formalised and documented internal controls in the market risk and liquidity areas that ensure adequate monitoring of the institution's liquidity and market risks.

Realkredit Danmark's business procedures and documentation in the bond issuance, funding and liquidity areas were inadequate. It is important that the institution ensure that adequate work and business procedures are established for the institution's internal processes. The risk associated with inadequate formalisation of business procedures and documentation is particularly noticeable in relation

to any replacement of key staff members as the institution is heavily dependent on key staff members in the areas inspected.

The Danish FSA has ordered Realkredit Danmark to ensure that business procedures, work descriptions and documentation of controls are adequate.

The results of the inspection did not warrant a recalculation of the solvency need calculated by the institution or the liquidity targets set.