*Translation from Danish by Danske Bank of a statement dated 6 July 2021 from the Danish Financial Supervisory Authority (*Finanstilsynet*). In case of discrepancies, the Danish version prevails.*

M E M O R A N D U M

The Danish Financial Supervisory Authority
6 July 2021
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Statement on inspection at Realkredit Danmark A/S

In March 2021, the Danish Financial Supervisory Authority (the Danish FSA) investigated Realkredit Danmark A/S's lending to industries exposed to the COVID-19 crisis. The inspection was a functional inspection of the credit area and comprised a random sample of a total of 30 exposures calculated at the end of the third quarter of 2020, of which 20 exposures were secured mainly on office and commercial properties and 10 exposures were secured mainly on hotel properties. Furthermore, the institution's relevant policies, business procedures and reports were reviewed.

Summary and risk assessment

The purpose of the Danish FSA's review of the exposures was to assess the impact of the COVID-19 crisis on the institution's exposures in specific lending segments and how the institution has addressed this, in relation to both ratings and impairment charges.

The purpose of the Danish FSA's review was also to assess the institution's credit management and reporting on cyclical industries.

The Danish FSA observed that a large part of the exposures had seen a decline in their rating since the beginning of the COVID-19 crisis. However, the Danish FSA also observed that significant downgrades did not take place until late in the COVID-19 crisis.

At the beginning of the COVID-19 crisis, Realkredit Danmark A/S's total impairment charges rose by DKK 656 million to DKK 3,455 million.

This rise was driven primarily by changed stress scenarios in the institution's impairment model and model corrections, which were not implemented directly in the impairment model. The review of the exposures highlights the need for extraordinary measures in terms of impairment charges in the event of sudden cyclical fluctuations.

Furthermore, the Danish FSA observed that the Board of Directors has granted the Executive Board a larger limit in the credit area than is the case at comparable institutions. This requires stringent reporting and that the Executive Board has the necessary credit skills on an ongoing basis.