

MEMORANDUM

27 November 2014

File No. 6252-0162

Statement on inspection at Danske Bank A/S (valuation of Swedish commercial property in Cover Pool C)

Introduction

In periods from September to November 2013, the Danish Financial Supervisory Authority (FSA) conducted an inspection (a functional inspection) at Danske Bank A/S.

The inspection involved controls to check the valuation of Swedish commercial property, including residential rental property, in the bank's Cover Pool C (that is, Swedish commercial property provided as security for loans financed by means of covered bonds).

The FSA selected 53 Swedish commercial properties for inspection. The properties were located in Stockholm County, Västra Götaland County and Skåne County.

In October and November 2013, the FSA inspected ten of the properties about which there was much uncertainty about valuation. Six of these properties were located in Stockholm, two in Malmö and two in Gothenburg.

Summary and risk assessment

In Danske Bank's covered bond permission, the FSA accepts that, under certain conditions, the bank uses local covered bond rules and practices so that it is subject to the same local rules as Swedish banks. This means that Danske Bank Sweden may deviate from the requirements in the Danish Executive Order on Valuation if there are other rules or practices in Sweden for compliance with the directive requirements on covered bonds.

The inspection resulted in an order that Danske Bank must prepare comprehensive valuation reports and that the bank must ensure that the valuation reports clearly show when a property has most recently been valued and by whom.

The inspection also resulted in an order that Danske Bank must ensure that it complies with its business procedures so that, for the purposes of valuation, the bank is in possession of a list of leases and other documentation on leasing, the lease termination terms and the like.

In addition, the bank's business procedures did not ensure that there was an independent valuation in all cases. The bank received an order to ensure this.

The FSA had no comments on the actual valuations of the Swedish properties selected, however, and on the basis of the inspection, the FSA had no comments on the solvency need that Danske Bank has calculated for the area reviewed.