*[Translation of a statement from the Danish FSA (*Finanstilsynet*). In case of discrepancies, the Danish version prevails.]*

MEMORANDUM

Statement on inspection of Danske Bank A/S (IRB area)

Introduction

In September 2010, the Danish Financial Supervisory Authority (FSA) conducted an inspection of Danske Bank A/S. The FSA subsequently held a number of meetings with Danske Bank. The FSA conducted a function-based inspection, that is, an inspection of one or more selected areas. In cooperation with the financial supervisory authorities in Finland, Sweden and Norway, the Danish FSA carried out a partial inspection of Danske Bank's use of internal ratings-based (IRB) models for solvency need calculation purposes.

This statement must be published in accordance with the Danish Executive Order on the Duty of Financial Companies to Publish the Danish FSA's Assessment of the Company (the Executive Order on Publication).

Summary and risk assessment

At the end of 2007, the FSA gave Danske Bank approval to use the IRB approach in its credit risk calculations for capital adequacy assessment purposes.

The models originally approved had been developed in a favourable economic climate. But the economic crisis has shown that, like the models of other IRB institutions, Danske Bank's models do not perform adequately in times of such rapid and violent cyclical fluctuations as the downturn of the past few years.

An important element of the IRB approach is Danske Bank's own calculations of the probability that customers default on their obligations to

Danske Bank. Danske Bank uses different estimates of such probability of default (PD) for different purposes.

For the purpose of calculating the regulatory capital requirement, Danske Bank uses estimates reflecting its long-term risk and thus involving as little cyclicality as possible. The models did not perform well in connection with the sharp economic downturn. In particular, estimates have shown fluctuations that are larger than expected for cyclically neutral estimates. The FSA has therefore ordered Danske Bank to ensure the high-quality forecasting ability of the models and make sure that the capital requirement resulting from the use of the models is not misleading.

In its internal risk management, Danske Bank uses estimates that are to reflect the current risk and thus involve cyclicality. The crisis has revealed weaknesses in these models as well. The models reacted slowly to the changes of the business cycle. In particular, the models used for large corporates strongly underestimated customer defaults.

To a large extent, Danske Bank is aware of the problems and has taken steps to counteract their effects. For example, Danske Bank has introduced a safety margin that is added to estimates when the models underestimate default volumes. However, the FSA has ordered Danske Bank to make an upwards adjustment to the estimates instead of using margins for models that constantly underestimate default volumes. Danske Bank must also continue its efforts to ensure that the models perform adequately in all phases of the business cycle.

The FSA has also ordered Danske Bank to adjust its guidelines for the use of the safety margins mentioned above to ensure that the procedures are fully documented and to reduce the scope of subjective assessments.

Another important element of the IRB approach is Danske Bank's internal calculations of expected losses on defaulted loans. The FSA has observed that these calculations have resulted in estimates that are too low. The reason is that Danske Bank has a large number of late-paying customers and customers with long-term excesses, but these customers are actually not in financial difficulty. Nonetheless, many of these customers are included in Danske Bank's calculations as if they were in financial difficulty. Generally, Danske Bank will not suffer losses on such customers. As a result, calculations of losses on defaulted loans will result in estimates that are too low because loans to customers that are not in actual financial difficulty are included in these calculations.

It should be noted that other of Danske Bank's calculations are more cautious because such customers are included. But this does not offset the

effect of too low estimates for losses on defaulted loans, other things being equal.

The FSA has ordered Danske Bank to adjust its estimates, ensuring that loans to customers that are not in actual financial difficulty are excluded from the calculations. The large numbers of excesses and past due amounts relating to relatively good customers also indicate that some parts of the credit process need to be revised. Accordingly, the FSA has ordered Danske Bank to analyse this area and take steps to further reduce the default cases recorded that are not actual defaults.

Given Danske Bank's size and the number of markets in which it operates, its IRB system is more complex than the systems of other Danish banks and mortgage credit institutions using the IRB approach.

The FSA assesses that Danske Bank has the qualifications required to use the IRB approach, and that its current monitoring of the area is adequate.

The FSA finds, however, that Danske Bank makes a large number of ongoing changes to its IRB models; this increases complexity and reduces continuity and stability. On the other hand, the FSA acknowledges that ongoing model improvement and development are required.

Danske Bank intends to introduce a number of changes to address the problems detected by the FSA. Overall, the FSA finds that the use of the IRB approach has resulted in greater-than-expected uncertainty. The FSA has therefore ordered Danske Bank to take account of the increased uncertainty in its solvency need calculations.

Danske Bank set aside capital to address uncertainty in its solvency need calculations at 31 December 2010. Danske Bank's solvency need is thus calculated at DKK 90 billion, or 10.7%, and its actual solvency is 17.7%. In the FSA's opinion, Danske Bank has thus taken account of the risks detected during the inspection.