Translation from Danish by Danske Bank of a statement dated 2 May 2016 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

2 May 2016

Statement on inspection of Danske Bank A/S's operational risks

Introduction

In September 2015, the Danish Financial Supervisory Authority (the FSA) conducted an inspection of Danske Bank's management of operational risks. The inspection formed part of a cross-sector review in which the operational risks of other SIFI banks were also inspected.

Operational risk means the risk of losses as a result of inappropriate or inadequate internal procedures or human or system errors or as a result of external events.

Material operational risk at a bank is often caused by weaknesses in IT systems, including weaknesses with respect to their integration as well as weaknesses in measures to protect against breakdowns and against attacks from cyber criminals. Operational risk may also exist as result of a large number of manual routines, ineffective segregation of functions or insufficient controls, errors in advisory services provided to customers and inadequate measures to protect against money laundering and terrorism financing. Major changes, such as launching new IT systems, introducing new business activities, large organisational changes and strong growth in one or more business areas, at a bank may also contribute substantially to operational risk.

Summary and risk assessment

Before the inspection, the bank had identified a number of deficiencies in its management of operational risks and had taken initiatives to remedy this situation. Such deficiencies included inadequate considerations as to how large operational risks the bank is willing to accept and insufficient analyses of the operational risks to which the bank is exposed. There were also examples of losses as a result of operational risk that had been reported to the bank's board of directors long after they should have been reported according to the bank's own guidelines. The bank had identified a special need for better management of operational risks at foreign units. The bank had also concluded that the number of employees in the area was too low, that the division of tasks was not clear and that the bank's staff needed more internal training on operational risk. The FSA reprimanded the bank for its non-compliance with the requirements for managing operational risk.

Besides the areas identified by the bank, the FSA found that Group Operational Risk, the unit at the bank responsible for monitoring operational risk, had played a very limited role in connection with the bank's decisions that could involve material operational risk, such as the bank's decision to move a number of tasks to its branch in Lithuania. Therefore, the bank was ordered to ensure that Group Operational Risk have a more prominent role in relation to analyses in connection with such decisions.

The FSA also observed that the bank's internal reporting on operational risks was not sufficiently detailed in that there was no separate country reporting on operational risks. Furthermore, the bank's internal communications of observed operational risks were not clear. The bank has stated that it is working to improve the reports to the board of directors and the executive board and that some of the improvements will be made as the bank's source data improve.

At 31 December 2015, Danske Bank Group calculated its solvency need ratio to be 10.7%. Its total capital ratio at 31 December 2015 was 21.0%. The inspection did not give rise to any change in the FSA's assessment of the group's solvency need.