

[Translation by Danske Bank of a report from the Danish Financial Supervisory Authority (Finanstilsynet). In case of discrepancies, the Danish version prevails]

MEMORANDUM

The Danish Financial
Supervisory Authority
(FSA)

18 December 2012

Statement on inspection at Danske Bank A/S (management and control of the credit area)

1. Introduction

In September 2012, the Danish Financial Supervisory Authority (the FSA) conducted an inspection at Danske Bank A/S. The FSA conducted a function-based inspection of the bank's management and control of the credit area. Other major banks (group 1) were also inspected. The inspection covered the bank's compliance with requirements within the credit area in accordance with the Danish Executive Order on Management and Control of Banks etc., including requirements to be fulfilled by the risk manager.

2. Summary and risk assessment

The FSA inspected

- a. the risk manager's tasks, qualifications and resources for the credit area
- b. the statement from the bank's executive board for the purpose of the board of directors' assessment of the bank's credit risks
- c. other reporting to the board of directors on the bank's credit risks
- d. the bank's organisation in the credit area, including staffing and segregation of duties

Pursuant to the Danish Executive Order on Management and Control of Banks etc., the bank has appointed a risk manager. The risk manager is responsible for the bank's overall risk management function, while the existing risk functions are in charge of day-to-day operational risk management.

The FSA found a lack of documentation for the risk manager's and the risk management function's performance, and we have ordered the bank to put things right. On the face of it, we find that additional human resources are needed for the risk management function. The bank must inform us of its deliberations about how to reorganise the risk management function, including its staffing.

In the FSA's opinion, the bank's executive board's statement to the board of directors fails to include a description of the controlling activities and their results in the credit area. The statement must specify how the bank has obtained an overview of whether its credit management is satisfactory and detail the results of the controlling activities.

The bank has informed us that it intends to clarify the controlling activities in connection with the implementation of the new organisation. The FSA has reprimanded the bank for not including a description of the controlling activities in the statement from the executive board to the board of directors. The bank must inform the FSA about its deliberations about how to reorganise its controlling activities, and about what elements to include in the executive board's statement to the board of directors on the bank's risks.

Pursuant to the Danish Executive Order on Management and Control of Banks etc., the bank's executive board must at least once a year prepare a statement on the bank's risks and submit it to the board of directors. It is the FSA's opinion, however, that the board of director's minute book does not satisfactorily reflect the board's discussions and assessments of the bank's risks on the basis of the statement. We have therefore ordered the bank to ensure that the minute book reflects such discussions and assessments.

Apart from this, the FSA's inspection did not give rise to any material supervisory reactions.

At 30 June 2012, the Danske Bank Group calculated its solvency need at 10.4%. Its actual solvency at 30 June 2012 was 17.7%. This inspection did not give rise to any change in the FSA's assessment of the Group's solvency need.