

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

**MEMORANDUM**

**Financial Supervisory Authority**

9 September 2011

REAL

File No. 6852-0042

## **Statement on inspection at Realkredit Danmark A/S**

### **Introduction**

During the period from March to May 2011, the Danish Financial Supervisory Authority (FSA) conducted a function-based inspection at Realkredit Danmark A/S.

During the inspection, the FSA reviewed Realkredit Danmark A/S's lending for private residential rental property and shopping centres.

This statement must be published in accordance with the Danish Executive Order on the Duty of Banks and Mortgage Credit Institutions to Publish the Danish FSA's Assessment of the Institution (the Executive Order on Publication).

### **Summary and risk assessment**

During the inspection we discussed with Realkredit Danmark A/S its strategy on lending for private residential rental property and shopping centres and reviewed selected loans in these property categories. Lending for private residential rental property constituted 5.5% and for office premises and commercial property (including shopping centres) 10.7% of Realkredit Danmark A/S's total lending at the end of 2010 – below the average of comparable mortgage finance institutions.

The selected loans consisted of 18 loans for private residential rental property, 10 loans for shopping centres, loans to the 10 largest private residential rental property customers and 75 new loans for private residential rental property and shopping centres.

Finally, we reviewed Realkredit Danmark A/S's organisation, rules of procedure, risk policy and management and audit reports in this area.

It is our impression that the credit quality of the loans granted by Realkredit Danmark A/S for the property categories reviewed does not deviate negatively from the quality of loans granted by comparable mortgage finance institutions. At 31 March 2011, the delinquency rate (3½ months) for loans for private residential

rental property was 2.3% and for office premises and commercial property (including shopping centres) 1.3%.

The values of private residential rental property and shopping centres have fallen in recent years, and in several instances the LTV of Realkredit Danmark A/S's loans for private residential rental property and shopping centres is high. These property categories have been affected by earnings and profitability problems, and most of the loans are variable-rate loans and therefore sensitive to changes in interest rates. It is our opinion, however, that at this point in time Realkredit Danmark A/S has reasonable coverage on the properties.

As a result of our review of the selected loans, we ordered Realkredit Danmark A/S to make impairment charges against one exposure that Realkredit Danmark A/S had not itself considered impaired. These impairment charges were recognised in Realkredit Danmark A/S's financial statements for Q2 2011.

At 31 March 2011, Realkredit Danmark A/S had calculated its solvency need at 16.2%. Calculated on the basis of the transitional rules for mortgage finance institutions using the IRB approach, however, Realkredit Danmark A/S's solvency requirement at 31 March 2011 was 19.3%. Its actual solvency at 31 March 2011 was 35.8%. On the basis of our general knowledge of Realkredit Danmark A/S and our inspection of the areas selected, we do not have any comments on Realkredit Danmark A/S's calculated solvency need and the calculated adequate capital base.