

Translation from Danish by Danske Bank of a statement dated 3 July 2015 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

3 July 2015

Statement on inspection at Danske Bank (risk management function, compliance function and internal audit)

Introduction

In June 2015, the Danish Financial Supervisory Authority (the FSA), in collaboration with eight foreign supervisory authorities that supervise Danske Bank's foreign subsidiaries and branches, conducted an inspection of Danske Bank's risk management function, compliance function and internal audit.

The inspection formed part of a cross-sector review in which the same functions at other large Danish banks were also inspected. The reason is that the risk management and compliance functions have central responsibilities in monitoring and controlling the bank (the "second line of defence"), while internal audit conducts audits of all the bank's activities, including the risk management and compliance functions, and thus is the "third line of defence".

Summary and risk assessment

The risk management function is led by the chief risk officer, who is a member of the executive board, and it is responsible for maintaining a comprehensive overview of the bank's risks for the purpose of assessing whether risk management is sound, among other things.

The compliance function is led by the head of Group Compliance, and it oversees the bank's compliance risk, which is the risk that the bank does not comply with the law or the bank's internal rules and the like.

Internal audit is led by the chief internal auditor, and it conducts operational audits, that is, audits of the bank's risk management and control processes, among other things. The financial audit of the bank's annual report is conducted by external auditors. Until January 2015, internal audit conducted both financial and operational audits.

The inspection covered a review of the three functions' organisations, responsibilities, coordination with other functions, resources, competencies and reporting.

The FSA finds it important that the three functions have unhindered access to the bank's board of directors, and the FSA considers this to be the case.

The bank has recently made major management and organisational changes in the three functions inspected. The FSA has made the bank's board of directors and executive board aware that many changes in essential control functions and processes may entail an increased risk of errors in the implementation phase and the subsequent period.

As a result of one of the organisational changes that has been made, part of the credit approval process is now organised in three credit units in the risk management function. That is, the risk management function thus contains both units that assume risks and units that must monitor and control these risks. The FSA finds that it is important that the bank's board of directors and executive board are aware of the risks of this organisation.

The FSA has not taken its final position on the new organisation of the risk management function. The FSA has requested that the bank make an analysis of the organisation of the risk management function in light of the requirements for the independence of the risk management function and the chief risk officer as well as the requirements for managing conflicts of interest.

The FSA finds that the coordination between the central risk management function and the local risk management functions at the foreign subsidiaries and branches has not been adequate. The bank's new chief risk officer is in the process of improving this area, and the FSA must be kept informed of this process.

The bank is focusing on the compliance function, and it has carried out a number of improvements, among other things. The FSA finds, however, that there is still room for improvement regarding the monitoring and reporting of risks.

The bank has chosen not to consider a number of risks to be compliance risks and they are therefore not included in the compliance function's responsibilities. The bank is in the process of outlining and analysing the way the function handles its duties. The FSA has requested that the bank also analyse and determine the necessary compliance level in the various areas of the bank and present the conclusions to the FSA.

The FSA does not have material observations on internal auditing in the areas reviewed. The FSA notes, however, that the process of implementing internal audit's recommendations and following up on them has not been satisfactory. This process has now been made more stringent.

At 31 March 2015, Danske Bank Group had calculated its solvency need to be 10.6%. Its actual total capital ratio at 31 March 2015 was 18.4%. The inspection did not give rise to any change in the FSA's assessment of the group's solvency need.