Translation from Danish by Danske Bank of a statement dated 20 November 2018 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
20 November 2018

Statement on inspection of Danske Bank A/S (loans for business acquisitions)

In March 2018, the Danish Financial Supervisory Authority (the FSA) conducted an inspection at Danske Bank. The inspection formed part of a themed review of large banks' funding of business acquisitions in Denmark in 2017 by private equity funds and others. Loans granted to private equity funds and others also included loans for other transactions in which a holding company makes an acquisition, for example in connection with a full or partial management buyout.

The purpose of the review was to assess the banks' risk analyses and risk appetite when they consider loans for acquisitions.

According to the FSA, funding business acquisitions is associated with a high degree of risk. This is because businesses are often assigned a high value in a given transaction, not least when interest rates are low and market liquidity is generally high. Investors are interested in obtaining large loans for the acquisition and in lenient loan repayment terms. Consequently, it was a theme whether the banks' risk appetite in relation to the funding of acquisitions had increased in relation previous reviews.

Summary and risk assessment

The FSA reviewed 17 loan approvals made by Danske Bank in 2017. These were loans that were subsequently established, loans approved by the bank but not established and loans that the bank did not want to approve.

In the opinion of the FSA, the bank's risk appetite had not changed significantly from the previous inspections of loans granted for acquisitions. The bank's risk analysis was in line with that of other banks, but there is room for improvement in a few respects.

The analyses etc. of the rating reports were not as well-founded as those of the rating reports used by the bank in other similar business cases. The bank's classification of customers by risk was more optimistic than that of other banks.

The bank's credit policy for loans for acquisitions did not, in some respects, comprise guidelines, which meant that specific risks were not addressed. The FSA ordered the bank to ensure that its credit policy in the area reflects the intended risk appetite.