*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

20 December 2011

Inspection of Danske Bank in Northern Ireland

1. Introduction

In September 2011, the Danish Financial Supervisory Authority (FSA) inspected Danske Bank A/S's subsidiary in Northern Ireland – Northern Bank. The FSA performed a function-based inspection, that is, an inspection of one or more selected areas. The FSA inspected the credit area. The most recent inspection was conducted in May 2009.

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.

2. Summary and risk assessment

At 30 June 2011, lending by the subsidiary in Northern Ireland amounted to DKK 48.9 billion, or 2.9% of the Danske Bank Group's total lending. The bank is among the four largest on the market in Northern Ireland. Lending breaks down into about 40% to personal customers and about 60% to business customers. About half of the bank's business lending is related to real property.

As part of our preparations for this inspection, we participated in part of the UK FSA's regular inspection of Northern Bank's risk areas in May 2011.

During our inspection in September 2011, we reviewed 245 lending exposures ranging from GBP 30,000 to GBP 132 million. The exposures included the largest exposures of the subsidiary and several samples.

At 30 June 2011, the total accumulated loan impairment charges and loss write-offs amounted to DKK 4.3 billion, or 8% of the loans.

The inspection was concurrent with Danske Bank's quarterly review of loans to estimate loan impairment charges for the third quarter of 2011. Compared with the financial statements for the second quarter of 2011, the bank recognised additional loan impairment charges of GBP 25.9 million against the inspected exposures. In our opinion, however, the Danske Bank Group needed to make impairment charges of an additional GBP 1.6 million compared with the preliminary calculations of the Northern Ireland bank.

In consequence of the difficult conditions in the Northern Ireland market, the bank may see significant impairment charges also in future.

A contributory factor is the bank's lending to the commercial property market. At our inspection in 2009, we gave the bank risk information on this lending portfolio.
As was the case at previous inspections, lending in relation to construction and the real property market showed particular signs of weakness.

We still consider the bank's credit management as regards business customers satisfactory.

The weak property market generates uncertainty about property values. We are of the opinion that especially the value of land plots for development and certain areas designated for farming, in particular farm land not in use, is uncertain.

Most of the bank's lending to agricultural customers must be considered secured on the property.

The bank's lending to personal customers did not show material signs of weakness, because repayment terms have been agreed, and the loans are serviced as scheduled and have acceptable maturities.

Most of the loans are variable-rate facilities based on a reference rate. For a number of loans, in particular loans secured on real property, the borrowers are able to pay interest and instalments (if applicable) only because short-term interest rates remain very low. Although impairment charges have been made against such loans, the credit risk associated with future interest rate increases is significant.

Furthermore, a large proportion of the loans have been granted at interest rates so low that even if they are settled as agreed, they will generate only modest earnings. This is also the case for loans granted by other banks in the Northern Ireland market.

The Danske Bank Group has calculated its solvency need at 30 June 2011 at 10.3%. Its actual solvency ratio at 30 June 2011 was 18.8%.

Owing to the considerable uncertainty about the credit risk on lending at the Northern Ireland bank, Danske Bank has set aside a capital add-on to cover the risk. Our inspection now did not give rise to objections to the bank's assessment of its solvency need as a result of the credit risk at the subsidiary.