

MEMORANDUM

16 April 2015
File No. 6852-0030

Statement on inspection of Realkredit Danmark A/S

Introduction

In October 2014, the Danish Financial Supervisory Authority (FSA) conducted an inspection of a number of selected areas at Realkredit Danmark, including the institution's management, organisation, outsourcing, risk management function, compliance function, group relations and capital adequacy calculation.

The inspection also included a test of the institution's valuation of agricultural property on the basis of 81 selected loan offers, with 16 properties selected for physical inspection.

Summary and risk assessment

Realkredit Danmark's business model is based to a great degree on the outsourcing to Danske Bank of material activity areas. This extensive outsourcing poses a possible risk in the future that Realkredit Danmark cannot maintain mortgage credit competencies sufficient to carry out sufficient monitoring of the outsourced areas.

The FSA's control of Realkredit Danmark's valuation of agricultural property resulted in an order that Realkredit Danmark must adjust two valuations and correct the loans in accordance with the maximum valuation if a loan is too large.

According to Realkredit Danmark's business procedures, it is possible to supplement the valuation of agricultural property with a separate amenity value and it is also possible to value residential rental property on agricultural property on the basis of 75% of the cash value.

An order was given about Realkredit Danmark's method of valuing agricultural property with special qualities, such as an attractive location, because the method is not sufficiently precise.

The FSA gave Realkredit Danmark another order that it must value residential rental property on agricultural property on the basis of a profitability calculation because it is not certain that 75% of the cash value is more conservative than a profitability calculation.

At 30 September 2014, Realkredit Danmark A/S calculated its solvency need at 11.8% and its total capital requirement [sic] under the transitional rules for institutions with an IRB approval at 20.7%. Its actual solvency ratio at 30 September 2014 was 35.5%.

The inspection did not give rise to any comments from the FSA on Realkredit Danmark A/S's calculation of its solvency need in the areas reviewed.