

Translation by Danske Bank of a statement from the Danish Financial Supervisory Authority. In case of discrepancies, the Danish version prevails.

MEMORANDUM

22 January 2014
File No. 6852-0018

Statement on inspection at Realkredit Danmark A/S (property valuation model)

Introduction

In June, August and September 2013, the Danish Financial Supervisory Authority (the FSA) periodically conducted a function-based inspection at Realkredit Danmark A/S.

During the inspection, the FSA reviewed the property valuation model that Realkredit Danmark A/S may use for the valuation of detached and terrace houses and owner-occupied flats. For these categories of owner-occupied residential properties, the FSA has granted Realkredit Danmark A/S exemption from the duty of inspection that requires external and internal inspection of a property prior to the final valuation.

Summary and risk assessment

In connection with the inspection, the FSA reviewed Realkredit Danmark A/S's valuation of 100 owner-occupied residential properties that had been valued using the property valuation model, and 100 owner-occupied residential properties that had been valued on the basis of a conventional inspection. The 200 cases were randomly selected.

Of the 200 cases, the FSA inspected 44 properties involving a high degree of uncertainty about Realkredit Danmark A/S's valuation. Realkredit Danmark A/S had valued 20 of the properties now inspected using the property valuation model, and the 24 other properties now inspected had been valued by Realkredit Danmark A/S on the basis of a conventional inspection.

At its inspection, the FSA found that Realkredit Danmark A/S's valuations of three properties were too high. Two of these valuations had been made using the property valuation model and one had been based on a conventional inspection. Against this background, the FSA has ordered Realkredit Danmark A/S to

adjust the valuations of the three properties and to adjust the loans to comply with the maximum valuation in case the loan limit has been exceeded.

In addition, the FSA noted during its inspection that Realkredit Danmark A/S had valued 12 properties at the absolute top level of the acceptable range of estimates. Six of these property valuations had been made using the property valuation model and six had been based on a conventional inspection.

The FSA's inspection did not give reason to affirm that the use of the property valuation model leads to higher valuations than do conventional inspections, and it did thus not give reason to change the conditions in relation to Realkredit Danmark A/S's use of the property valuation model for determining loan amounts.

Finally, the FSA noted at the inspection that not all valuation reports on physically inspected properties include reference properties. On the basis of its inspection, the FSA has ordered Realkredit Danmark A/S to ensure that the loan documentation regarding physically inspected properties contains a brief description of how the property valuer has used reference properties.

Against the background of its inspection, the FSA does not have any comments on Realkredit Danmark A/S's calculated solvency need for the area selected.