



MEMORANDUM

FINANSTILSYNET

29 June

Report on inspection of Bank DnB NORD A/S (Lithuania)

1. Background

In May 2010 the Danish Financial Supervisory A inspected Bank DnB NORD A/S with regard to the subsidiary bank in Lithuania.

The inspection formed part of the Supervisory Authority's general supervision of the DnB NORD Group. As the Norwegian Bank DnB NOR ASA owns 51% of the DnB NORD Group the Norwegian FSA also participated in the inspection.

During the inspection the Supervisory Authority examined the subsidiary bank's credit area.

This report will be published in compliance with the regulations of the executive order on financial- and mortgage credit institutions' obligation to publish the evaluation of the institution made by the Supervisory Authority.

2. Resume and risk assessment

During the inspection the Supervisory Authority examined the 13 largest credit exposures and carried out spot checks on another 100 credit exposures to corporate- and retail customers.

Furthermore, the Supervisory Authority went through the internal management reporting on credit risks, audit reports, procedures for valuation of mortgaged real estate etc., as well as procedures for assessment of impairment charges on individually assessed loans and groups write downs. The financial situation in Lithuania and the handling by the Lithuanian authorities of mortgages secured on real estate was also discussed during our inspection.

The subsidiary bank in Lithuania is the largest entity in the DnB NORD Group and its credits account for approximately 36 percent of the total credits of the Group.

The present financial situation in Lithuania implies that the assessment of impairment charges contains estimates to a greater extent than normally. The Supervisory Authority is of the opinion that impairment charges in Lithuania have been assessed by Bank DnB NORD A/S in accordance with the accounting rules. In some cases we noted shortcomings in the calculation of the indication of impairment. In the opinion of the Supervisory Authority it had, however, no significant effect on the Group's total impairment charges at the time of the inspection. Bank DnB NORD A/S has been ordered to strengthen the quality of the Lithuanian subsidiary bank's impairment calculations.

Prior to the inspection the DnB NORD Group raised its solvency ratio to 13.2 percent. The increase was made as a consequence of discussions with the Supervisory Authority. The actual solvency is 13.5 percent. The inspection did not cause the Supervisory Authority to change its estimate of the bank's solvency ratio.

The Supervisory Authority has instructed Bank DnB NORD A/S to have intensified focus on any changes in the financial situation in Lithuania or changes in the country's legislation that might have influence on the Group's impairment charges or solvency need.

The Group's internal audit has pointed out some areas for improvement in relation to the Lithuanian subsidiary bank's management of credit risks. This applies for amongst other analysis of risks related to customers. The Supervisory Authority agrees to this. If the measures are implemented such as the bank plans, the Supervisory Authority finds that the management of credit risks in Lithuania will be satisfactory.