

Report on enforcement order to Jyske Bank A/S concerning risk weighting of special loans to personal clients

Introduction

The Danish Financial Supervisory Authority (FSA) made an assessment of Jyske Bank's use of specially low risk weighting for Qualifying Revolving Retail Exposures (QRRE). Typically, QRRE covers credit cards and overdraft facilities for private individuals. The assessment was made as part of an inspection across the sector where the theme was also assessed at the three other Danish IRB banks, which use the same low risk weighting for QRRE.

Summary and risk assessment

IRB banks must meet a number of requirements to be able to use the special risk weighting for QRRE. The inspection of the FSA focused particularly on the requirement that the variation in the percentage loss for QRRE cannot be too high.

The FSA finds that Jyske Bank's own data do not render probable that the losses for QRRE vary less than for other loans to personal clients.

Accordingly, the FSA has ordered the bank no longer to use the special risk weighting for QRRE.

In addition, the FSA has made calculations for the sector as a whole. The calculations show that the variation in the losses is not lower for QRRE than for other loans to private individuals.

As at 31 March 2014, the Jyske Bank Group stated its solvency requirement at 10.0 per cent. The actual solvency ratio was 16.2 per cent. In its statement of the solvency requirement, the Group had included an addition due to uncertainty in respect of the use of the special risk weighting for QRRE. The addition is removed at the implementation of the enforcement order and, accordingly, the solvency requirement declines to 9.9 per cent. Concurrently, the risk-weighted assets increase by DKK 1.1bn and the actual solvency ratio declines to 16.0 per cent as at 31 March 2014.