



FINANSTILSYNET

(Danish Financial Supervisory Authority)

MEMORANDUM

Finanstilsynet
(Danish
Financial
Supervisory
Authority)

26 June 2015

Report on the inspection at Jyske Bank A/S (new loans for personal clients)

Introduction

In April 2015, the Danish Financial Supervisory Authority conducted an inspection of Jyske Bank's new loans in the form of home loan products to personal clients. The objective was to assess the credit quality of the clients and hence the bank's risk tolerance in connection with new loans and to assess the basis on which the bank granted the loans.

The background was that in 2014 and 2015 the bank has increased its home loans markedly, one reason being the termination of the cooperation with the mortgage credit institution Totalkredit.

Summary and risk assessment

The FSA examined 271 accounts where the bank had granted new home loans to personal clients since January 2014. Some of the accounts had been selected on the basis of danger signals such as liabilities exceeding assets. Also the FSA examined selected business procedures and reports on home loans.

In a small number of cases, Jyske Bank had granted loans that were imprudent, for instance due to the client's weak financial position in the form of liabilities exceeding assets in combination with a low or insufficient disposable income. In addition, in a number of cases, the bank did not meet its own quality standards. In 2014, the bank took several measures with a view to ensuring quality of the many new clients. One of these measures was that, in December 2014, the bank adjusted its credit policy for personal clients and the relevant business procedures. The FSA found that these reflected normal risk tolerance.

Before granting loans, the bank prepares a basis for decisions describing the purpose of the loan, the client's financial circumstances, the security provided and the risks associated with the client. The FSA assessed that in some cases, the bank's basis for decisions was erroneous and insufficient, and this could have affected the credit assessment. The bank is focusing on this issue and has initiated several initiatives to reduce the number of errors.

Jyske Bank has been given permission by the FSA to use the internal rating based approach to calculate its credit risk for capital adequacy purposes (the IRB approach). When applying the IRB approach, clients are divided into risk categories based on the probability of the loan defaulting within a year.

When conducting the inspection, the FSA considered whether the bank's risk classification of the clients was true and fair from a credit-related perspective with a longer time horizon than a year. The purpose was to assess whether an addition to the solvency requirement was needed. In some of the cases where clients' liabilities exceeded their assets, the FSA assessed that the credit risk was higher than reflected by the bank's risk classification of the clients. However, after the inspection, the bank has reassessed its weighting of liabilities in its personal client models, which caused an increase in the bank's risk-weighted assets in the amount of DKK 236m. Therefore the FSA assessed that there is no need for any addition to the solvency requirement.

As at,31 March 2015, the Jyske Bank Group stated its solvency requirement at 10.7 per cent. On 31 March 2015, the actual solvency ratio was at 16.3 per cent.