

NOTAT

**Finanstilsynet
(The Danish Financial Supervisory Authority)**

8 September 2017

Report on thematic inspection at Jyske Bank A/S (granting of loans to corporate clients)

In the first half of 2017, the Danish Financial Supervisory Authority (the FSA) conducted an inspection of Jyske Bank A/S. The purpose of the inspection was primarily to assess the bank's risk tolerance in connection with the granting of loans to corporate clients and to assess the bank's basis of loan granting.

The thematic inspection formed part of a cross-functional inspection of 13 financial institutions and two branches of foreign banks.

Summary and risk assessment

The FSA reviewed the granting of 75 loans during the period April to December 2016, comprising loans to small and medium-sized corporate enterprises and property financing.

The FSA found that the bank's risk tolerance was generally in line with that of the average of other major banks and hence also affected by intensifying competition for clients. Hence, there were some examples of Jyske Bank having granted high-risk loans. Examples hereof were that the bank had granted loans to clients with more or less developer activity without solid capital structures, that the clients had negative or thin earnings and/or thin capital structures, or that the bank renounced guarantees. Also, Jyske Bank had on one occasion granted a loan which was incautious due to the client's poor financial situation.

The FSA finds that it is important to be aware that the volume of high-risk loans is not too high. The bank is more susceptible to losses on this part of the portfolio in case of minor, negative cyclical changes than on portfolios with normal risk.

The FSA established that descriptions and risk analyses in the bank's loan granting process could in some instances have been better, but was yet acceptable. On one occasion, the basis of loan granting was insufficient to make a decision.

The deficiencies of the loan granting process were for instance that accounting and budget material or the client description were incomplete, that the bank had not accounted for the cash flow requirement or there was insufficient information about guarantors. The bank must focus on improving its basis of loan granting. This especially applies to the bank's loans to medium-sized corporate enterprises.

At the inspection, the FSA established that the bank's systems for data extracts were deficient. When extracting data sets it was not possible for the bank to distinguish between the granting of bank loans and mortgage loans. Also, it was not possible systematically to separate loan granting that alone concerned the utilisation of previously granted credit lines. The FSA will at a later point in time conduct detailed discussions with the bank about the systems and the data quality in the credit area.