FINANSTILSYNET

The Danish Financial Supervisory Authority

20 November 2018

Report on inspection of Jyske Bank A/S (loans for acquisition of companies)

In May 2018, the Danish Financial Supervisory Authority (the FSA) inspected Jyske Bank. The inspection was part of a thematic inspection of large banks' financing of capital funds' etc. acquisition of companies in Denmark in 2017. Loans to capital funds etc. also comprised loans in connection with other transactions where a holding company acquires a company, for instance when the management takes over in full or in part (so-called management buyouts).

The purpose of the investigation was to assess banks' risk analyses and risk tolerance when granting loans for the acquisition of companies.

The FSA assesses that generally a high risk is involved in the financing of acquisition of companies. The reason is that companies when traded are often valued very high, not least when interest rates are low, and there is in general ample liquidity in the markets. Investors are interested in obtaining large loans for the acquisition and favourable repayment terms. It was, therefore, a theme whether banks' risk tolerance in connection with the financing of acquisition of companies had increased compared with previous investigations.

Summary and risk assessment

The FSA investigated 10 cases concerning the granting of loans processed by the Bank in 2017: loans that were subsequently established, loans that were granted by the Bank but not established and loans that the Bank refused to grant.

The FSA assessed that the Bank's risk tolerance in the major loan applications was in line with that of the other banks. With respect to the minor loans for acquisition of companies the Bank's risk tolerance was larger than that of the other banks. The conclusion is based on a limited number of applications.

The Bank's credit policy in the area permitted loans with high risks. The FSA ordered the Bank to ensure that the credit policy expresses the intended risk tolerance.

The Bank's risk analysis was insufficient, and primarily a more thorough analysis was required of the sensitivity in case of changes in the client's earnings etc. Consequently, the Bank was ordered to base credit-related decisions to a sufficient degree on the robustness of the client's future earnings and cash flow.

The Bank's classification of clients according to risk corresponded to the FSA's assessment of risk, but it was not adequately documented. The Bank was ordered to ensure that classification of clients based on the estimated credit risk is made on a uniform and well-documented basis.