

MEMORANDUM

The Danish Financial Supervisory Authority
23 September 2019

Statement on inspection at Danske Bank A/S (approvals of Finnish business loans)

In June 2019, the Danish Financial Supervisory Authority (the FSA) conducted an inspection at Danske Bank's branch in Finland.

The primary purpose of the inspection was to assess the bank's risk appetite and practices in relation to the approval of loans to new or existing business customers in Finland. Among other things, this involved looking at loans for the construction, development and leasing of real property. Another purpose was to assess whether the bank's risk analyses in relation to the approval of loans are adequate and reflect the bank's credit policy.

Summary and risk assessment

The FSA reviewed 60 loan approvals processed by Danske Bank during the period after 30 June 2018.

The FSA finds that Danske Bank's risk appetite in relation to business loans in Finland is on a par with that of other Finnish banks and comparable units of the bank.

The inspection resulted in an order to Danske Bank to ensure that the bank's exposures to a customer or a group of connected clients comprise all exposures to the customer or the group of connected clients. This applies equally to customers connected on the basis of controlling interests and to customers where the bank must identify economic dependency.

In a few respects, the bank's risk analysis can be improved. Analysing a customer's liquidity on the basis of severe, but not unrealistic scenarios will contribute considerably to identifying risk. Stress tests should be performed before significant increases and regularly as part of credit management.

Even though Finland has not seen as wide fluctuations in property prices as other Nordic countries, real property continues to be traded on a major scale and at markedly higher values than before. The bank is an active player in property financing, primarily in selected, large cities. So far, demand has been great, but sales of new flats are now slowing down. The FSA pointed out to Danske Bank that it should not underestimate the risk, especially not in relation to contractors with significant growth in total assets and a large increase in interest-bearing debt.