

## **M E M O R A N D U M**

6 October 2015

### **Statement on review of new Swedish loans etc. at Danske Bank A/S**

#### Introduction

The Danish Financial Supervisory Authority (the FSA) has completed a review of new Swedish loans etc. at Danske Bank A/S. The purpose of the review was to assess the bank's practices and risk appetite in connection with new lending etc. and to assess the basis on which the bank approved new loans. The review was conducted in June-July 2015.

The review was made in the light of the bank's strategic objective of growth at the Swedish unit, particularly in the context of the developments seen in the Swedish property market.

#### **Summary and risk assessment**

For the purposes of the review, the FSA had selected 187 of the bank's approvals of Swedish loans etc. in the period from January 2014 to March 2015 in the following segments:

- rental property (67)
- personal customers (57)
- small and medium-sized enterprises (26)
- leveraged finance (9)
- large business customers (28)

Moreover, the FSA reviewed selected business procedures in relation to lending provided by the Swedish branch.

The bank pursues a strategic objective of increasing its market share in Sweden for lending to business and personal customers. Since January 2014, the bank has recorded high growth in lending to Swedish property companies, while seeing a small reduction in lending to Swedish personal customers. However, the bank also wants to increase home lending to Swedish personal customers; the standard practice in this area is to grant 50-year variable-rate loans with an interest-only period for up to 70-75% of the current market value of the individual home. In some loan applications, the bank had approved interest-only periods for up to 80% of the current market value of the home

During a number of years, the Swedish property market has seen considerable price increases.

The FSA provided risk information to the bank to the effect that, in view of the current situation in the Swedish property market, the selected growth strategy causes the bank to be subject to a material risk of incurring significant future losses. In addition to ensuring thorough credit assessment of its customers, the

bank should consider whether developments in the Swedish property market give cause for adjusting its strategy.

Finally, the FSA ordered the bank to improve the quality of the basis for deciding whether to approve credit facilities to Swedish personal customers and also to make sure that the customer's actual amount of assets and debt-to-income ratio are included in the basis for decision-making and that the customer's income is verified.

Danske Bank Group calculated its solvency need at 30 June 2015 at 10.5%. Its total capital ratio at 30 June 2015 was 18.7%. The review did not give rise to any change in the FSA's assessment of the group's solvency need.