*Translation from Danish by Danske Bank of a statement dated 15 June 2018 from the Danish Financial Supervisory Authority (*Finanstilsynet*). In case of discrepancies, the Danish version prevails.*

M E M O R A N D U M

The Danish Financial Supervisory Authority
15 June 2018

Statement on themed inspection of Danske Bank A/S (new loans for cooperative dwellings etc. in growth regions)

Introduction
In the period from December 2017 to January 2018, the Danish Financial Supervisory Authority (the FSA) conducted a credit inspection of Danske Bank's approvals of new loans for cooperative dwellings and housing cooperatives in growth regions. The purpose of the inspection was to assess the bank's risk appetite in connection with loans granted to cooperative dwellings and housing cooperatives and to assess the basis on which the bank approved new loans.

The growth regions were limited to Copenhagen, its neighbouring municipalities and the City of Aarhus.

The inspection was part of a cross-sector, themed review of two SIFI banks and four medium-sized banks.

Summary and risk assessment
The FSA reviewed 28 credit approvals from September 2016 to August 2017. Twenty approvals concerned loans for personal cooperative dwellings, while eight approvals related to new loans for housing cooperatives with standard risk. As a result, the conclusions involve only personal cooperative dwelling customers.

In January 2016, the FSA issued guidelines for how banks should use appropriate caution when assessing the creditworthiness in relation to loans for personal customers' cooperative dwellings in growth regions (guidelines), for example. The banks must consequently be particularly aware to ensure that these customers have robust finances. The review of approvals gave the impression that the bank did not focus sufficiently on this aspect during the period covered by the inspection.

The FSA observed that several approvals deviated from the guidelines in one or more respects and that the loans should not have been approved since customer finances were not sufficiently robust. For example, the bank had granted loans to customers with a low and inadequate amount available for consumption while the debt-to-income ratio was higher than 4, and net assets were negative or not sufficiently positive to compensate for the high debt-to-income ratio. Three customers revealed objective evidence of impairment (OEI) at the time of approval without this having been observed by the bank.

The implementation of the measures listed in the guidelines or other measures with the same effect was not sufficiently good from the start since several approvals deviated from the guidelines. In fact, the bank's own controls showed a high percentage of approvals that deviated from the guidelines. As a result, the bank had launched initiatives to reduce the number of deviating approvals. For example, the bank had relaunched the guidelines vis-à-vis the branches and increased system support. The FSA reprimanded the bank for having taken too long to implement the growth guidelines satisfactorily.

Seven of the customers reviewed were weak and, for all, the bank's risk classification was too positive to give an accurate view of the credit risk. The FSA ordered the bank to ensure that customers are given an accurate risk classification on the basis of the estimated credit risk.