

## **MEMORANDUM**

**The Danish Financial Supervisory Authority**  
31 May 2021

### **Statement on inspection of Danske Bank Sweden (impairment charges in the light of COVID-19)**

#### **Introduction**

In May 2021, the Danish Financial Supervisory Authority (the Danish FSA) conducted an inspection of the impairment charges made by Danske Bank's branch in Sweden against loans to its business customers.

The purpose of the inspection was to assess whether the bank had made adequate impairment charges at 31 December 2020, including in the light of the adverse effects of COVID-19 on the Swedish and international economies. The Danish FSA also examined whether the loans were placed in the correct stages in accordance with the impairment rules.

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

The Danish FSA's assessment of the bank's impairment charges and staging was based on a review of loans granted to 19 business customers selected among the 100 largest loans. Prior to its selection, the Danish FSA had discarded customers with the best ratings and customers whose facilities had all been placed in stage 1.

The Danish FSA assessed that the bank's guidelines on staging of loans were generally satisfactory. Furthermore, the Danish FSA assessed that the impairment charges against the selected loans with objective evidence of credit impairment, including the management overlays, were adequate and necessary overall.

In some cases, however, budget and interim material for the business customers was missing as was information about their use of COVID-19 rescue packages. The Danish FSA finds that this information is relevant to the bank's assessment of the credit risk associated with the customers and thus to the staging of loans and impairment calculations. In its impairment calculations, the bank also generally needed to provide argumentation for and document or demonstrate the probability of the scenarios in which the bank did not incur losses. Against this background, the Danish FSA refers to the inspection conducted in October 2020 of the Danske Bank Group's impairment charges in which the bank was ordered to ensure that the manual impairment calculations include realistic and well-founded scenarios. Danske Bank still has time to comply with the order.