

26 April 2023
File no. 22-014888
MAK/KLAS

Statement on inspection of Danske Bank A/S's non-performing exposures etc.

Introduction

In January 2023, the Danish Financial Supervisory Authority (the Danish FSA) conducted an inspection of Danske Bank A/S's classification of non-performing exposures and its calculation of the requirements for minimum loss coverage for non-performing loans and guarantees.

The purpose of the inspection was to assess the bank's compliance with the requirements of

- the Danish Executive Order on Management and its schedules detailing non-performing exposures and exposures subject to forbearance measures
- the European regulations on the calculation of minimum loss coverage for non-performing exposures

Summary and risk assessment

The Danish FSA reviewed the bank's policies, guidelines, business procedures, organisation, management reports, audit reports, lists of non-performing exposures, etc.

The bank does not comply with the transitional provisions of the European regulations specifying that exposures must cease to be subject to derogation from capital deductions for insufficient minimum loss coverage for non-performing exposures. This entails a risk that the bank's capital deductions are calculated at an insufficient level. This is a material breach of the rules, and it is unsatisfactory that the bank has failed to comply with these rules.

In connection with the inspection, the bank decided to include an uncertainty add-on in the capital deduction to compensate for its non-compliance with the transitional provisions.

Neither the risk management and compliance functions nor Group Internal Audit has adequately monitored the bank's compliance with new and amended rules to ensure that the bank's management is aware of the deficiencies.

The Danish FSA has ordered the bank to ensure proper monitoring and compliance with the transitional provisions.

The bank must continue to include the uncertainty add-on in the capital deduction until the bank has complied with the order. The bank must regularly reassess the uncertainty add-on and ensure that it is calculated conservatively on the basis of factual information about the bank's portfolio and the quality of its data.