

MEMORANDUM

The Danish Financial Supervisory Authority

9 June 2020

Statement on inspection at Danske Bank A/S (approvals of rental property and property project loans in Denmark)

In October 2019, the Danish Financial Supervisory Authority (the FSA) conducted an inspection at Danske Bank. The primary purpose was to assess the bank's risk appetite and practices in relation to the approval of loans to customers owning rental property and property projects in Denmark.

Summary and risk assessment

The FSA reviewed 50 loan approvals processed by the bank during the period after 30 June 2018.

The bank's credit policy guidelines, risk analysis and especially the analysis of the robustness of the ability of customers to service debt can be improved. This is particularly the case where a newly built property or a property in the process of being built or developed has not been pre-sold in full or where the property's rental income in the long run may be subject to special uncertainty.

The fact that the bank's credit policy permits loans with a long interest-only period and a short-term lending rate so that the debt is reduced only moderately may also involve a risk. This may result in significant losses if property prices later fall. To illustrate this risk, the bank could increase the stress applied in its analysis.

The FSA observed that the employees of the bank approved deviations from the credit policy without prior submission to the bank's Board of Directors for approval. The subsequent reporting was not enough for the bank's Board of Directors to assess whether it would have approved the deviations if they had been submitted to the Board of Directors.

The bank was ordered to ensure that substantial deviations from its credit policy are made only to a limited extent and prior to the submission of approvals to the bank's Board of Directors for final approval.