

MEMORANDUM

Finanstilsynet
(Danish Financial
Supervisory Authority)

11 December 2018

Report on inspection of Jyske Bank A/S (impairment charges on weak corporate clients)

Introduction

In October 2018, the Danish Financial Supervisory Authority conducted an inspection of Jyske Bank's handling of the impairment rules.

The purpose of the inspection was to assess whether the bank's impairment method met the accounting rules, thus ensuring that impairment charges were of an adequate size. In connection with loans and advances where the bank calculated the impairment charges manually, the FSA assessed whether the calculations covered relevant scenarios and whether the weighting of these seemed to be true and fair.

Summary and risk assessment

The FSA's assessment of the bank's impairment method was based on a review of a random sample of 43 cases with bank exposures of at least DKK 3m to weak corporate clients, which are primarily defined by being placed in the weak part of stage 2 (significant increase in credit risk and a probability of loss above 5%) or in stage 3 (credit-impaired).

The FSA assessed that the bank's impairment method resulted in impairment charges in the selected cases that, on the whole, were in compliance with the accounting rules.

The bank allocates weak clients a risk code according to the degree of the weaknesses. The risk codes determine in which stage the clients are placed, and the stage determines the extent of the impairment charges. In four cases, equalling about 9% of the selected cases, the clients were placed in a wrong stage. In all these cases, the client was placed in a stage that was too positive.

In the cases where the bank calculated the impairment charges manually, the FSA assessed that there was scope for improvement of the reasons for the choice of scenarios, the probability of the scenarios and for the series of payments.