

Statement on inspection at Sydbank A/S (impairment charges for weak corporate exposures)

Introduction

In November 2018 the Danish FSA conducted an inspection of Sydbank's application of the impairment rules.

The objective was to assess whether the bank's impairment method lived up to the accounting rules thereby ensuring that impairment charges were adequate. Concerning the loans and advances where the bank calculated the impairment charges manually the Danish FSA assessed whether the calculations comprised relevant scenarios and whether the weighting of them was correct.

Summary and risk assessment

The Danish FSA's assessment of the bank's impairment method was based on a review of 36 randomly selected loans and advances of minimum of DKK 3m to weak corporate clients which were predominantly defined by being classified in the weak part of stage 2 (significant increase in credit risk and a probability of loss of above 5%) or in stage 3 (credit impaired). In addition the Danish FSA reviewed selected business procedures.

The Danish FSA found that the bank's method for allocating customers to the stages of the accounting rules was inadequate and that 28% of the examined loans and advances were not correctly classified.

As regards eight of the reviewed loans and advances classified in the

wrong stage, the weighting of scenarios was incorrect as a result of which the bank's impairment charges for each exposure were insufficient. However as the bank's impairment charges for other exposures were significant the Danish FSA found an indication that the bank's total impairment charges were sufficient.

The bank must explain how its method has subsequently been changed and how correct classification by stage as well as adequate impairment charges are ensured.