

MEMORANDUM

20 November 2018

Statement on inspection at Sydbank A/S (loans to finance business acquisitions)

In May 2018, the Danish FSA conducted an inspection at Sydbank. The inspection formed part of a thematic review of the major banks' financing of acquisitions made by private-equity funds and others in Denmark in 2017. Lending to private-equity funds and others also included loans related to other transactions in which a holding company acquires a business, eg in connection with full or partial management buyouts.

The object of the review was to assess the banks' risk analyses and risk tolerance when approving loans to finance business acquisitions.

In the FSA's assessment, the financing of acquisitions is generally associated with a high degree of risk because businesses are often expensively valued in transactions, not least when interest rates are low and the overall market liquidity is abundant. Investors have an interest in obtaining large loans for the acquisition as well as favourable repayment terms. Consequently one of the themes was whether the banks' risk tolerance in connection with the financing of acquisitions had increased compared to that found at previous inspections.

Summary and risk assessment

The FSA reviewed 12 requests for loan approvals processed by the bank in 2017. These covered loans which were subsequently established, loans which were approved by the bank but not established, and loans which the bank did not wish to approve.

The FSA assessed that the bank's credit policy in this area was generally adequate and that the bank's risk analysis and risk tolerance were in line with those of other banks.

The bank's documentation of the classification of clients based on risk was less substantiated than the documentation of some of the other banks. In the FSA's assessment, the bank's classification was generally prudent but in a few cases the bank underestimated the risk.