MEMORANDUM

The Danish FSA

11 February 2022

Statement on inspection at Sydbank A/S (approvals of purchases of owner-occupied dwellings and recreational dwellings)

In October-November 2021 the Danish FSA conducted an inspection at Sydbank A/S. The objective of the inspection was to assess the bank's risk appetite in connection with the financing of retail customers' purchases of owner-occupied dwellings and recreational dwellings.

The Danish FSA focused on whether the bank's approvals to buy owner-occupied dwellings and recreational dwellings was in compliance with the Danish executive order on good practices for housing loans as regards risky home loans and requirements concerning customers' self-financing.

The Danish FSA moreover considered the bank's compliance with the growth guidance and customers' resilience. The objective of the inspection was also to assess the bank's own controls and reporting in the area.

Summary and risk assessment

The bank has implemented the rules of the growth guidance to the entire country apart from the item concerning interest rate stress in connection with floating interest rates which has only been implemented as regards growth areas.

The bank has not introduced requirements that are stricter than the good practice rules with respect to customers' self-financing in connection with the purchase of dwellings. Other banks have introduced some additional requirements regarding higher self-financing in light of the housing market situation with a build-up of risk.

Neither the credit policy nor the bank's business procedures propose that a specific and individual assessment is made as to what constitutes suitable self-financing for each individual customer. The bank has been ordered to ensure that the bank complies with the Danish executive order on good practices for housing loans and in practice decides in each individual case whether the self-financing is suitable.

The Danish FSA reviewed a total of 69 loan approval cases, comprising 49 cases in growth areas and 20 cases outside growth areas. In addition the customers selected were sampled from among customers with a debt-to-income ratio in excess of 3.5 and an LTV of over 60. The review of 49 loans in growth areas showed that an item in the growth guidance had been deviated from in two cases. The deviations had not been balanced out by equally careful and compensating measures.

Furthermore there were a number of cases in which customers' assets were negative or limited after purchasing a dwelling and the bank has assumed a higher risk as regards these customers. The risks of this type of customers can be mitigated by increasing the requirements as regards debt servicing. By establishing a shorter maturity the customers will obtain a certain resilience in terms of assets within a few years.

The inspection did not give rise to any change in the bank's solvency need, which represented 10.4% at 31 October 2021.