

Statement on thematic inspection at Sydbank A/S (lending to corporate clients)

In the first half of 2017 the Danish FSA conducted an inspection of Sydbank A/S. The main objective was to assess the bank's risk appetite in connection with lending to corporate clients and to assess the basis on which the bank approves loans.

The thematic inspection formed part of a cross-sector review of 13 banks and 2 branches of foreign banks.

Summary and risk assessment

The Danish FSA reviewed 75 loans approved in the period from April to December 2016. The approvals comprised loans to small and medium-sized businesses as well as property financing.

The Danish FSA found that the bank's risk appetite was generally in line with that of other large banks and thus characterised by growing competition for customers. Consequently in a number of cases Sydbank had approved loans with an increased risk, for instance where the bank had approved loans to clients with negative or very limited earnings and/or very limited capital or where the bank had waived guarantees. In a few cases, Sydbank had also approved loans that were imprudent due to the clients' weak finances.

The Danish FSA finds it important to be mindful that the extent of approvals with an increased risk is not excessive. The bank is more susceptible to losses as regards this part of the portfolio in connection with small negative changes in economic trends than in connection with portfolios with a normal risk.

The Danish FSA found that the descriptions and risk analyses in the bank's basis of approval could be improved in a number of cases but were acceptable. In one case the basis of approval was inadequate for decision-making. Among the inadequacies were incomplete descriptions of the client's accounting and budget material, the bank failing to state the client's liquidity requirement or the bank lacking knowledge of the ownership structure or lacking arguments for not taking guarantees. The bank must focus on improving the basis of approval, particularly as regards loans to small businesses.

The Danish FSA found on its inspection that the bank's data extraction was defective. The Danish FSA will discuss data quality in the credit area with the bank at a later point in time.