

Translation from Danish by Danske Bank of a memorandum dated 28 July 2014 from the Danish Financial Supervisory Authority (*Finanstilsynet*). In case of discrepancies, the Danish version prevails

## **Danish FSA statement on order to Danske Bank A/S on risk weighting of specialised lending to retail customers**

### **Introduction**

The Danish Financial Supervisory Authority (FSA) has assessed Danske Bank's use of a special lenient risk weighting for qualifying revolving retail exposures (QRRE). QRRE are typically credit cards and overdraft facilities to private individuals. The assessment is part of a sector-wide investigation where the theme has also been assessed for the three other Danish IRB banks that use the same lenient risk weighting for QRRE.

### **Summary and risk assessment**

IRB banks must meet a number of requirements to be allowed to use the specialised risk weighting for QRRE. The FSA has focused on the requirement of low volatility of loss rates for QRRE.

The FSA assesses that Danske Bank's own figures do not demonstrate that loss rates are less volatile for QRRE than for other lending to retail customers.

Consequently, the FSA has ordered Danske Bank to no longer use the specialised risk weighting for QRRE.

The FSA has also carried out calculations for the sector as a whole. The calculations show that loss rates are not less volatile for QRRE than for other lending to private individuals.

Danske Bank Group has calculated its solvency need at 31 March 2014 at 10.5%. Its actual solvency ratio was 18.1%. The order has not caused the FSA to change its assessment of the Group's solvency need. However, risk-weighted assets rise by DKK 2.7 billion, whereas the actual solvency ratio is almost unchanged and, in rounded figures, still amounts to 18.1% at 31 March 2014.