Translation from Danish prepared by Jyske Bank of a statement dated 4 April 2022 issued by the Danish Financial Supervisory Authority (Finanstilsynet). In the event of any discrepancy between the Danish version and the English version, the Danish version shall prevail.

Report on inspection of Jyske Bank (loans for financing of owner-occupied and vacation homes)

Introduction

In September 2021, the Danish Financial Supervisory Authority (FSA) conducted an inspection of Jyske Bank's risk tolerance when granting home loans to finance its clients' purchases of owner-occupied and vacation homes in the first half of 2021.

The FSA also investigated whether the bank's granting of loans was in compliance with Executive Order on Good Business Practice for home credit as regards home loans involving risk and requirements of clients' own funds and whether the clients' financial position was sufficiently robust in line with the FSA's Executive Order on the management and control of banks, etc. The inspection also investigated whether the home loans granted in growth areas were granted in compliance with the growth guidelines. Moreover, a purpose of the inspection was to assess the bank's own controls and reporting in the area.

Summary and risk assessment

The FSA reviewed bank's credit policy, relevant business procedures and reports. In addition, the FSA performed spot checks of a total of 70 loans granted to finance purchases of owner-occupied homes in growth areas, 47 loans outside growth areas and 8 loans for the purchase of vacation homes. The loans granted were selected for clients with a debt factor above 3.5 and a loan-to-value ratio above 60.

The bank had not introduced stricter requirements than those set out in the best practice regulation on clients' own funding of home purchases. In this way the bank differs from other banks that have introduced requirements of higher own funds considering the situation in the housing market with the higher accumulation of risk.

The bank had introduced exemptions to requirements of clients' own funds that were not in line with the best practice regulation. Moreover, the bank's exemptions were described differently in two business procedures, which both deviated from the credit policy. The FSA has ordered the bank to change this.

In actual practice the bank did not decide specifically whether the individual client's own funds were adequate. According to the best practice regulation and the bank's own business procedures, the requirement of own funds must be assessed in relation to the individual client. The FSA has ordered the bank to ensure compliance with the business procedures in actual practice.

Based on the spot checks of loans granted, the FSA assessed that 4% - 6% of the bank's total loans granted in growth areas in the first half of 2021 deviated from one or more of the main

rules in the growth guidelines without the deviations being offset by equally prudent compensating measures. 2% - 4% of the home loans in the entire country were risky without the clients being comprised by an approved exemption.

For 11% of loans granted to finance owner-occupied homes outside the growth areas, the FSA assessed that the disposable amount after the purchase was not sufficient for the client. The reason was especially that the bank's material did not provide any basis for concluding whether the clients were able to cope with the very steep decline i their disposable amount caused by the home purchase.

In quite a few cases, the bank had granted home loans to client with zero wealth or slightly positive wealth. The absence of robustness of the financial circumstances was not compensated for by any faster repayment of the debt on the part of the clients, so they within a short period could accumulate wealth enabling them to be able to endure a decline in housing prices of minimum 5% without this resulting in negative wealth.

The FSA has ordered the bank to make sure that the robustness on the part of its clients is sufficient when granting loans for home financing, which also involves that the bank must ensure that the client's disposable amount is sufficient and that the clients' wealth is not low without compensating measures.

Many errors were detected in the calculations of the clients' financial ratios, especially in the calculation of disposable amounts. In several cases, the decline in the disposable amount following the client's home purchase was considerably larger than calculated by the bank. Due to these errors, among other things, the FSA concluded that in some cases the disposable amount was not sufficient. Because of the many errors and the incorrect implementation of certain parts of the rules, there was a risk that the bank made the wrong credit decisions, and the management reporting was misleading. To this must be added that the bank's division of clients into personal and corporate clients was in some cases incorrect. The FSA has ordered the bank to ensure that granting of loans to personal clients be based on correct data and the division of clients into personal and corporate clients be true.

The FSA's review showed that the bank lacked relevant controls in the first line of defence. The many errors in the bank's basis for decisions that were established by the FSA should have been identified by control measures in the first line of defence. The FSA has ordered the bank to establish relevant credit controls in the first line of defence.

In the first quarter of 2021, the bank's and Jyske Realkredit's reports on debt factors to the credit register were very faulty. The bank has stated that the data quality has improved considerably as of the second quarter of 2021.