

# **Report on thematic inspection of Jyske Bank A/S**

## **Introduction**

In February 2020, the Danish Financial Supervisory Authority (the FSA) inspected Jyske Bank A/S.

The inspection was in the form of a thematic inspection of several institutions focusing on the banks' market risk management functions and governance relating to valuation models.

In respect of the market risk area, the FSA reviewed the key management documents and the organisation of the area, including the use of committees. In addition, the FSA examined which tasks are handled by the banks' market risk functions in the second line of defence. At the inspection, the FSA emphasised especially the allocation of responsibility between the first and the second line of defence, including to which extent the risk management functions in the second line of defence pose a challenge to the risk taking in the acting units, and whether sufficient monitoring takes place of whether the bank's market risks are within the limits determined by the supervisory board and the executive board. The inspection focused on governance regarding market risks relating to positions in the trading portfolio.

In respect of valuation models, the FSA focused during its inspection on the banks' governance as regards ensuring whether values are determined correctly. Correct determination of values is crucial to the correct determination of the banks' risks. The inspection did not cover the IT-related risks in connection with operating and implementing the valuation models.

## **Summary and risk assessment**

The FSA assessed during the inspection that, on the whole, the bank has a risk management function in the area of market risk that adequately monitors and understands the development of the bank's market risks.

As regards approval of loans of internal limits in the market risk area across the acting units, the bank was ordered to specify internal documents, so it does not appear as if the bank's second line of defence is involved in such business decisions as approval of loans of internal limits in the market risk area.

The inspection revealed that the bank did not have intraday controls on all the bank's limits in the market risk area, where transactions are made within the day. It appeared from the inspection that the bank is in the process of improving its system set-up so that intraday controls can in future be made on all limits. The bank was ordered to ensure that in the intermediate period compensating measures are taken so the limits are not breached within the day.

As at 31 December 2019, Jyske Bank A/S determined its solvency requirement at 11.2%. The inspection did not give rise to any change to the solvency requirement.