FINANSTILSYNET

Danish Financial Supervisory Authority

9 September 2024

Report on inspection of Jyske Bank A/S regarding management of interest-rate risk in the banking book

In May 2024, the Danish Financial Supervisory Authority (the Danish FSA) conducted an inspection at Jyske Bank A/S (the Bank). The inspection focused on the Bank's management of interest-rate risk in the banking book (IRRBB).

Interest-rate risk in the banking book includes the risk of fluctuations in the institution's earnings due to changes in interest rates as well as the risk of fluctuations in equity due to changes in interest rates. Fluctuations in equity may occur in case of changes in the value of assets and liabilities due to changes in interest rates.

Institutions must have processes in place to measure and manage both, but the primary regulatory focus regarding interest-rate risk in the banking book is the risk that interest-rate changes will affect the value of the Bank's equity or earnings, threatening excess capital adequacy.

Summary and risk assessment

Jyske Bank's interest-rate risks in the banking book primarily arise from the Bank's deposit and lending business, the Bank's cash balance as well as issuances. The Bank uses a model for modelling the maturity of non-maturing deposits (NMD model).

Jyske Bank actively manages these risks, and the Bank's set-up is considered complex compared to other Danish institutions.

The Bank's approach to modelling deposits is largely based on expert assessments. The Bank has not performed quantitative or statistical analyses to support such assessments, and this is not in accordance with applicable international standards in this area. There is a risk that the estimates are not sufficiently accurate or conservative, and that the Bank's calculation of interest-rate risks in the banking book is not correct. The Bank has been ordered to perform these analyses on an ongoing basis to ensure that the model - and consequently, the calculation of interest-rate risk - is appropriate.

Since the Bank uses behavioural modelling, sensitivity analyses are necessary to estimate the sensitivity to customer behaviour. The Bank already had tools in place to calculate sensitivity and uses these to perform analyses as required, for instance, in case of strategic considerations and ad hoc analyses. However, there is no formalized set-up for these analyses. The Bank has been ordered to increase the systematic approach to conducting sensitivity analyses and to ensure that the results are included in the reporting on interest-rate-risk development in the banking book.

The inspection did not lead to a changed assessment of the Bank's solvency requirement.