

MEMORANDUM

9 October 2017

Statement on inspection at Sydbank (independent controls as regards the credit area)

Introduction

In April 2017 the Danish FSA conducted an inspection of Sydbank's independent controls as regards the credit area.

A bank must supervise all its significant tasks in the credit area. The bank's unit performing the credit tasks must ensure adequate control. Moreover one or more units within the bank must carry out independent control of the tasks.

The objective of the inspection was to assess the independent credit control's tasks, methods, independence, resources and planning as well as the quality of the work carried out. In addition the objective was to assess the responsibilities of the compliance function and internal audit in connection with controls as regards the credit area.

The inspection formed part of a cross-sector thematic review at the largest banks.

Summary and risk assessment

A bank must have business procedures for independent controls of all significant activities in the credit area. To ensure adequate control the bank must make a risk assessment of the credit area.

At the inspection the Danish FSA found that the bank did not have business procedures for a number of material control tasks. Moreover the bank did not have documentation of the risk assessment to be used by the bank when planning the independent credit controls. Furthermore the supervision of the bank's compliance with its credit policy as well as follow-up on overdrafts and arrears was not entirely adequate.

Therefore the bank was ordered to ensure adequate business procedures, to document its risk assessment and to have sufficient assurance of its assessment of the credit processes.

A bank must have a compliance function which assesses and supervises the bank's methods of and procedures for complying with legislation, market standards or internal set of rules (compliance risks). The compliance function may delegate compliance tasks to other units, however the compliance officer may not delegate his responsibility.

The Danish FSA found that the compliance function does not have sufficient focus on the compliance tasks performed by other units in the credit area.

Therefore the bank was ordered to ensure that the compliance function supervises and assesses whether the methods of and the procedures for controlling the credit area are efficient.

Finally a bank's internal audit must assess on a regular basis whether the bank's business procedures and internal controls in any material respects are organised and function appropriately.

The Danish FSA found that the internal audit's controls in the credit area are not adequately thorough and that the internal audit's operational audit in this area is insufficient.

Therefore the bank was ordered to ensure that the operational audit is improved considerably and that the board of directors and the group executive management receive information about material defects in the internal controls.