

15 July 2020

## **Statement on a themed inspection at Sydbank A/S**

### **Introduction**

In February 2020, the Danish Financial Supervisory Authority (the FSA) conducted an inspection at Sydbank A/S.

This was a themed inspection in several financial institutions with the focus on the banks' market risk management functions and governance regarding valuation models.

For 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 the responsibility of the banks' market risk functions in the second line of defence. The FSA placed particular emphasis on the distribution of responsibilities between the first and second lines of defence, including the extent to which the risk management functions in the second line of defence challenge the risk-taking of transactional entities and whether there is sufficient monitoring that the bank's market risks are within the limits determined by the board of directors and the board of management. The inspection focused on governance regarding market risks related to positions in the trading book.

As regards valuation models, the FSA's inspection focused on the banks' governance in terms of ensuring correct valuations. Correct valuations are key to establishing whether the banks have calculated risks correctly. The inspection did not include the IT risks associated with operating and implementing the valuation models.

### **Summary and risk assessment**

During the inspection, the FSA found that the bank's actual market risks were of limited complexity and scope.

The FSA found that the bank had a clear distribution of responsibilities between the first and second lines of defence in the market risk area and that the executive management is strongly involved in the market risk area and makes most of the decisions.

The inspection revealed that the bank generally had relatively few business procedures, business processes and method descriptions relating to valuation methods. In addition, the overall documentation of valuation models was inadequate. Accordingly, the bank was ordered to set up a method description for the validation of valuation models and to improve the overall documentation of its valuation models.

The FSA observed that the bank had not ensured independence and adequate documentation for compensatory measures in respect of its valuation models. The bank was therefore ordered to ensure such independence and documentation.

At 31 December 2019, Sydbank A/S calculated its solvency need ratio at 10.8%. The inspection did not give rise to change the bank's calculated solvency need.