

Statement on inspection at Sydbank

In March 2021 the Danish FSA conducted an inspection at Sydbank A/S. The objective of the inspection was to assess the bank's governance focusing on the bank's risk management function and its compliance function.

The Danish FSA has focused on the functions' division of responsibility and duties, their collaboration with the first line of defence and the collaboration between the two functions. The Danish FSA has moreover considered the bank's documentation of the work carried out.

Summary and risk assessment

The bank's compliance officer and chief risk officer report to the group executive management member who is also responsible for areas in the first line of defence. The Danish FSA finds that the bank's compensatory measures are adequate for now but that when assuming new risk the bank must ensure that compensatory measures continue to be adequate. Moreover the bank must consider whether the responsibility for the second line of defence is compatible with also being responsible for customer facing functions in the first line of defence.

The bank involves the compliance function as well as the risk management function in its significant decision-making processes. However the bank did not have business procedures in this area or make sure that sufficient documentation of the areas discussed was in place. The bank was ordered to implement processes and business procedures to ensure that the chief risk officer is involved in significant decisions and that this involvement is adequately documented.

The bank has set up several committees at group executive management level. In connection with the inspection the Danish FSA has focused on whether the segregation of duties between the first and the second line of defence is observed. As a result of the composition of committee members there is a risk of confusion of roles across the first and second lines of defence. Consequently the Danish FSA notes that it is important that the bank focuses on ensuring that the chief risk officer's independence is not compromised as a result of his participation in the bank's committees.

The risk management function as well as the compliance function submit recommendations to the bank on a regular basis when inspections or controls identify inexpediencies. However here is no coordinated follow-up or reporting as regards all recommendations. Following the most recent specification of the Danish executive order on management the bank must have guidelines regarding the follow-up of the conclusions and recommendations submitted by the compliance officer or the chief risk officer and such responsibility lies with the group executive management.

The inspection did not give rise to any change in the bank's solvency need, which represented 10.4% at 30 June 2021.