MEMORANDUM

Finanstilsynet
(The Danish Financial Supervisory Authority)

2 May 2016

Report on inspection of operational risks at Jyske Bank A/S

Introduction

In October 2015, The Danish Financial Supervisory Authority conducted an inspection of Jyske Bank's handling of operational risks. The inspection formed part of a cross-functional inspection where operational risks were also inspected at other SIFI banks.

By operational risk is understood the risk of a loss arising from inappropriate or inadequate internal procedures or human and system errors or errors due to external events.

Material operational risks at a financial institution will often be caused by weaknesses in IT systems, including risks relating to integration of the systems as well as weaknesses relating to measures to prevent breakdowns and attacks by cybercriminals. Operational risks may also arise due to a great extent of manual routines, lack of efficient separation of duties or inadequate controls, erroneous advice of clients or insufficient measures to prevent money laundering and financing of terrorism. Major changes in the institution may also make material contributions to operational risk, for instance the putting into operation of new IT systems, the establishment of new business activities, major organisational changes and strong growth in one or more business areas.

Summary and risk assessment

One element of the bank's management of operational risk is the registration of operational risk events that have caused the bank a loss and in a few cases a gain. On the other hand, the bank does not make any methodical registration of errors in connection with which losses have not been established but that could have resulted in losses.

Such registration can give the bank insight into potential operational risk events, and in conjunction with the already registered events, such registration can constitute an important element when defining priority areas with a view to reducing risk. Therefore, the bank was ordered to register these errors methodically.

Another element in the management of operational risk is the bank's scenario analyses, of which the purpose is to identify potential risk events and the effect of these. The bank has, among other things, identified the risk scenarios in connection with which it assesses the risk to be particularly strong. The FSA finds that the bank has conducted some relevant analyses. However, the supervisory board and the executive board must explicitly decide whether there is a need to prepare actions plans for these risks, or whether the supervisory board and the executive board can accept that the bank assumes the risks. Therefore the bank was ordered to make a decision on this issue.

The supervisory board and the supervisory board's risk committee receive an annual report on the bank's operational risk, and the issue is also being discussed in connection with the supervisory board's annual discussion of the solvency requirement report. Also, the supervisory board is informed about operational risk events that have caused losses in excess of DKK 1m. Considering that the bank is a systemically important financial institution, the FSA finds there is a need for more frequent internal reporting on operational risk and enhanced documentation of the bank's discussions of this, and therefore the bank was ordered to rectify these issues.

The FSA pointed out to the bank that at some other systemically important financial institutions their internal audit conducted a more extensive audit of the operational risk management and of the bank's processes, resources and competences in the area. The FSA assess that such auditing contribute knowledge and insight that can strengthen the risk management of operational risks.

As at 31 December 2015, the Jyske Bank Group stated its solvency requirement at 10.5 per cent. The actual solvency ratio as at 31 December 2015 was 17.0 per cent. The inspection did not give rise to any changes in the FSA’s assessment of the group’s solvency requirement.