

MEMORANDUM

Finanstilsynet
(Danish Financial
Supervisory Authority)

3 July 2015

Report on inspection of Jyske Bank A/S (risk management function, compliance function and internal audit)

Introduction

In April 2015, The Danish Financial Supervisory Authority conducted an inspection of Jyske Bank's risk management function, compliance function and internal audit.

The inspection formed part of a cross-functional inspection where the same functions were inspected at other major banks. The background is that the risk management and the compliance functions perform key supervisory and control tasks at the bank ("2nd line of defense"), while internal audit performs an audit of all the bank's activities, including the risk management and compliance functions, and hence constitutes a "3rd line of defense".

Summary and risk assessment

The risk management function is headed by the bank's chief risk officer, and one of its tasks is to have a comprehensive overview of the bank's risks with a view to assessing whether the management of these is satisfactory.

The compliance function is headed by the chief compliance officer, and one of its tasks is to control the bank's compliance risks, namely the risk that the bank does not comply with legislation or the bank's internal rules and regulations, etc.

Internal audit is headed by the chief auditor and performs both financial and operational audit, i.e. audit of both the bank's financial statements and of risk management and control processes.

The inspection included an examination of the organisation of the three functions as well as their coordination with other functions, resources, competences and reporting.

The FSA finds that it is of importance that the three inspected functions have unimpeded access to the bank's supervisory board, and the FSA assesses this to be the case.

The chief risk officer also has other tasks, such as being the head of the Finance and Risk Management division. The FSA assesses that these tasks are not incompatible with the task of being the risk officer. However, the bank's supervisory board and executive board must pay attention to maintaining the independence of the risk officer.

The FSA assesses that there are special requirements applying to Jyske Banks compliance function due to the number of foreign private banking clients, including clients with the subsidiary bank in Gibraltar, and due to the decentralized organisation of the compliance function. The FSA assesses that the bank is paying attention to these challenges.

The compliance function had not performed an analysis of the compliance risks in the credit area, including an assessment of whether these are being handled adequately. The FSA assessed that the bank should perform such an analysis and present this to the FSA.

The chief compliance officer prepares an annual report on compliance risks to the supervisory board and the executive board. In addition, instant reporting takes place if major risks are established. The FSA pointed out to the bank that it is usual practice at other major banks to prepare quarterly or semi-annually reports supplemented with any instant reporting.

The FSA did not have any material comments on the internal audit of the areas inspected.

As at 31 March 2015, the Jyske Bank Group stated its solvency requirement at 10.7 per cent. The actual solvency ratio as at 31 March 2015 was 16.3 per cent. The inspection did not give rise to any changes in the FSA's assessment of the group's solvency requirement.