

## **Report on thematic inspection of market risk at Jyske Bank A/S (management of interest- rate risk with focus on hedging transactions)**

### **Introduction**

In March 2016, the FSA conducted a thematic inspection at Jyske Bank A/S on the bank's management of interest-rate risk with focus on hedging transaction in respect of market risk. On the basis of a risk assessment, thematic inspections were conducted at four selected banks.

### **Summary and risk assessment**

Through the thematic inspection, the FSA assessed the management of interest-rate risk in the trading portfolio as conducted by management and also as conducted by the acting units. This inspection covered the bank's use of risk hedging transactions conducted by employees and their managers' insight into these. Moreover the FSA examined whether the bank has assumed material interest-rate risks that are not handled in a reassuring way. Finally, the inspection covered the issue whether there are material loss of information or information gaps between the picture of risk on the basis of which the acting employees operate and the picture of risk that management receives through reporting.

The background for the thematic inspection is that interest-rate risk is the largest risk posed to the banks' trading portfolio, and therefore management of such risk is crucial for the bank's risk handling in this respect.

The business areas involving market risk include trading in securities and other financial instruments on behalf of clients as well as on the bank's own behalf.

The FSA found that Jyske Bank A/S' management of interest-rate risk in connection with the bank's trading portfolio is essentially in compliance with the statutory requirements in the area.

The FSA found, however, that there is a risk that the bank's own limits will be exceeded in the course of the day, and therefore the bank has been ordered to introduce further measures to ensure a continuously updated picture of risk so that this risk is reduced.