

## **Statement on thematic review of market risk at Sydbank A/S (interest rate risk management with focus on hedging transactions)**

### **Introduction**

In March 2016 the Danish Financial Supervisory Authority (FSA) conducted a thematic review at Sydbank A/S of the bank's interest rate risk management with focus on hedging transactions as regards market risk. On the basis of a risk assessment, the review was conducted at four selected banks.

### **Summary and risk assessment**

In its thematic review the FSA assessed the management of interest rate risk in the trading portfolio – by management as well as by the transacting entities. The review comprised the bank's use of hedging transactions made by its employees and their managers' knowledge hereof. Furthermore the FSA examined whether the bank has significant interest rate risks that are not handled in a prudent manner. Finally it was examined whether significant information losses or gaps exist between the risk scenario under which the transacting employees operate and the risk scenario submitted to the board of directors and the executive management via reporting.

The background for the thematic review is that interest rate risk represents the largest risk in banks' trading portfolios and consequently the management of this risk is key to banks' risk management in this respect.

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

It is the FSA's assessment that the interest rate risk management of Sydbank A/S as regards its trading portfolio is in compliance with the statutory requirements in the area in all material respects.

A significant risk associated with bond portfolios in general is the credit risk as regards bond issuers. In the FSA's assessment – and in the bank's own assessment – the size of this risk is significant to the bank and the FSA has noted that the bank's management is already paying close attention to the risk, which is an element of the general transaction framework.

However, in the FSA's opinion, the risk would receive further attention throughout the organisation if a separate framework for this risk is established as is the case with the bank's other material risks, which is why the bank has been ordered to establish such a framework.