

The Danish Financial Supervisory Authority

MEMORANDUM

The Danish Financial
Supervisory Authority

3 July 2015

Statement on inspection at Sydbank A/S (risk management function, compliance function and internal audit)

Introduction

In March 2015 the Danish Financial Supervisory Authority (the Danish FSA) conducted an inspection of Sydbank's risk management function, compliance function and internal audit.

The inspection formed part of a cross-sector review of the same functions at other major banks. The background is that the risk management function and the compliance function have key responsibilities as regards monitoring and control in the bank (the "2nd line of defence") whereas internal audit performs audits of all the bank's activities, including the risk management function and the compliance function and is consequently the "3rd line of defence".

Summary and risk assessment

The risk management function is led by the bank's chief risk officer and one of its responsibilities is to maintain a total overview of the bank's risks to assess whether they are adequately managed.

The compliance function is led by the compliance officer and it oversees the bank's compliance risks, ie the risk that the bank does not comply with legislation or the bank's internal rules etc.

Internal audit is led by the head of internal audit and performs financial as well as operational audits, ie audits of the bank's financial statements and of risk management and control procedures.

The inspection comprised a review of the three functions' organisation, responsibilities, coordination with other functions, resources, competences and reporting.

The Danish FSA finds it important that the three functions inspected have unimpeded access to the bank's board of directors and the Danish FSA considers this to be the case. However the compliance officer had not presented his conclusions at board meetings.

The Danish FSA had no significant remarks to the chief risk officer as regards the areas reviewed.

The compliance function has fewer resources than in other major banks, also when differences in the size and business model of the banks are taken into account. Moreover there is no clear division of responsibilities between the compliance officer and the bank's head of legal department. Finally the bank has chosen not to consider a number of risks as compliance risks and hence they are not included in the responsibilities of the compliance function.

Consequently the bank was ordered to carry out an analysis of the required compliance level and ensure that the compliance function performs the necessary compliance tasks.

Furthermore the Danish FSA found that the feedback from the compliance function to the reviewed business lines must to a wider extent contain an assessment of necessary changes and a time limit for these.

Internal audit performed its most recent audit of the compliance function in 2012. The present risk management function was established in the beginning of 2014 and had not yet been audited. The Danish FSA found that the frequency of audits of the two functions should be increased given their importance.

The Sydbank Group has calculated its solvency need at 10.3% as at 31 March 2015. The actual capital ratio represented 17.6% as at 31 March 2015. The inspection did not give rise to any change in the Danish FSA's assessment of the group's solvency need.