

## **MEMORANDUM**

### **The Danish Financial Supervisory Authority**

27 October 2020  
File no. 6252-0292

### **Statement on inspection at Danske Bank A/S (cover pools (covered bonds registers))**

In March 2020, the Danish Financial Supervisory Authority (the FSA) conducted an inspection (a functional inspection) at Danske Bank A/S. During its inspection, the FSA reviewed the bank's cover pools, including the structure of the cover pools, the ongoing monitoring (LTV ratios) of the assets in the cover pools and the bank's compliance with the balance principle in relation to the cover pools. Outsourced tasks relating to the area were also reviewed.

Furthermore, the FSA reviewed the ongoing LTV ratio monitoring and calculations of collateral requirements on the basis of a random sample of 100 exposures. In that connection, the FSA did not check the valuation of the individual properties.

#### **Summary and risk assessment**

Danske Bank has three cover pools from which covered bonds are issued: one for lending to personal customers in Denmark, one for lending to personal customers in Norway and Sweden, and one for lending to business customers in Norway and Sweden.

The bank has organised its work on the cover pools so that no independent controls are made of risk management or compliance with legislation by functions in the second line of defence. The FSA issued an order to the bank in this respect. During previous inspections in other areas, the FSA pointed out that compliance work must be undertaken by a function in the second line of defence – even if it does not concern AML or financial crime. This is an example of inadequacies in this area.

The bank has outsourced a large part of its monitoring of properties in Denmark. The bank has entered into a service level agreement (SLA) in the area. The SLA does not meet the requirements set out in the Danish Executive Order on Outsourcing as inadequacies exist in terms of both requirements, controls and reporting. The FSA ordered the bank to put this matter right.