

## **MEMORANDUM**

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

16 December 2019

File no. 6252-0230

/lej

## **Statement on liquidity inspection at Danske Bank A/S**

### **Introduction**

During the period from September to October 2019, the Danish Financial Supervisory Authority (the FSA) conducted a liquidity inspection at Danske Bank. The purpose of the inspection was to review the bank's liquidity risk management. The primary task was to examine the bank's management and control of the LCR and currency-specific liquidity requirements, including how the bank applies forecasting models to manage the LCR at Danske Bank A/S and Danske Bank Group.

Furthermore, the FSA reviewed Danske Bank's liquidity risk policy and the relevant instructions and reports as well as the contingency plan.

The inspection did not concern the circumstances of the subsidiaries.

### **Summary and risk assessment**

The FSA found that Danske Bank had not set adequate levels for LCR limits for Danske Bank A/S to ensure compliance with the statutory LCR requirement at all times. A large number of the risk indicators and internal limits have been the same at Danske Bank for many years. The FSA found that the risk indicators and internal limits had not been systematically reassessed.

The FSA also found that close cooperation was in place between the day-to-day management and controls in the first line of defence and the independent risk management and control function in the second line of defence. Close cooperation facilitates a general understanding of the business and the related risk, but it can also have the result that the second line of defence comes too close to the risk taking in the first line of defence.

The FSA therefore issued an order to Danske Bank to ensure that adequate LCR limits are laid down for Danske Bank A/S, that the risk indicators and the internal limits are sufficiently reviewed and that Danske Bank strengthens its work in relation to liquidity risks and limits in the second line of defence.

Furthermore, the FSA found that the Board of Directors and committees of Danske Bank are not always sufficiently informed of errors and uncertainties in the calculation of risk indicators in the liquidity and funding area. The FSA therefore issued an order to Danske Bank to ensure that the Board of Directors, the Executive Leadership Team and committees are sufficiently informed in the liquidity and funding area.