Translation from Danish by Danske Bank of a decision dated 19 March 2020 from the Danish Financial Supervisory Authority (Finanstilsynet)*. In case of discrepancies, the Danish version prevails.*

To the Executive Leadership Team of Danske Bank A/S

19 March 2020
File no. 3022-0003

Setting the minimum requirement for own funds and eligible liabilities

1. Decision

The Danish Financial Supervisory Authority (the FSA) sets the minimum requirement for own funds and eligible liabilities (MREL) for Danske Bank A/S as a parent company at the consolidated level at 11.3% of Danske Bank's total liabilities and own funds (total capital) at the consolidated level. This corresponds to 35.8% of risk-weighted exposures at end-2018. It is equal to DKK 230 billion at end-2018. The requirement is generally set based on data at end-2018. However, the requirement takes into consideration the DKK 4 billion increase in the Pillar II add-on to the solvency need in the third quarter of 2019. The MREL takes effect on 16 March 2020.

Realkredit Danmark A/S is exempted from the MREL and is therefore not consolidated, neither for the purpose of calculating the risk-weighted exposures on the basis of which the MREL is calculated nor for the purpose of calculating the liabilities and own funds of which the MREL is expressed as a percentage.

The MREL is set by the FSA on the basis of the Group's resolution plan. The MREL may be met with capital instruments and debt instruments that, in resolution and bankruptcy, are written down and converted before unsecured claims and in general fulfil the conditions for MREL funds. Debt instruments issued before 1 January 2018 that, in resolution and bankruptcy, are not written down and converted before other unsecured claims but otherwise fulfil the conditions for MREL funds may be included to meet the MREL until 1 January 2022.

Liabilities used for meeting the consolidated MREL may not also be used for meeting or financing liabilities included to meet the capital and debt buffer requirements applicable to Realkredit Danmark A/S.

2. Legal basis

It follows from section 266(1) of the Danish Financial Business Act that the FSA, after having consulted *Finansiel Stabilitet*, will set the requirement for the size of a financial institution's eligible liabilities.

A financial institution that is a parent undertaking and which is subject to consolidated supervision is also required to meet the MREL at the consolidated level (see section 266(3) of the Danish Financial Business Act).

After having consulted *Finansiel Stabilitet*, the FSA will set the MREL for a financial institution at the consolidated level on the basis of a specific assessment of the following criteria (see section 268(1) of the Danish Financial Business Act):

1) The group can be wound up using the resolution tools.
2) If bail-in is applied, the group has sufficient eligible liabilities to ensure that losses can be absorbed and that the group's common equity tier 1 capital can be restored to a level that allows the group to continue to meet the requirements for authorisation, while sustaining sufficient market confidence.
3) The group has sufficient eligible liabilities to ensure that, if certain categories of eligible liabilities are excluded from bail-in, losses can be absorbed and that the group's common equity tier 1

capital can be restored to a level that allows the group to continue to meet the requirements for authorisation.
4) The group's size, business model, financing model and risk profile.
5) To what extent the Danish Guarantee Fund for Depositors and Investors can help finance the resolution of the group in accordance with section 2a of the Danish Guarantee Fund for Depositors and Investors Act.
6) To what extent a negative impact on financial stability, possibly also through a rub-off effect on other financial undertakings/groups, will result from the fact that the group is failing.

Commission Delegated Regulation (EU) No. 2016/1450[1] (the regulation), which specifies the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities, details the criteria set out in section 268(1) of the Danish Financial Business Act.

The MREL must be expressed as a percentage of the institution's total liabilities and own funds (see article 7(2) of the regulation).

The MREL consists of a loss absorption amount (see article 1 of the regulation) and a recapitalisation amount (see article 2 of the regulation) as well as the necessary adjustments listed in articles 3-6 (see article 7(1) of the regulation).

The loss absorption amount is generally determined as the institution's solvency need plus the combined capital buffer requirement (see article 1(4) of the regulation).

The recapitalisation amount is determined on the basis of the institution's expected resolution strategy as identified in its resolution plan. The recapitalisation amount is generally set at zero if the resolution strategy is bankruptcy (see article 2(2) of the regulation). If the resolution strategy is not bankruptcy, the recapitalisation amount is generally determined as the institution's solvency need plus capital buffers (see article 2(5), (7) and (8) of the regulation).

The FSA may decide to increase or decrease the loss absorption and recapitalisation amounts (see article 1(5) and article 2(3) and (9) of the regulation). The FSA may also make adjustments in accordance with articles 3-6 of the regulation.

The FSA may determine an appropriate transitional period for an institution to meet the MREL (see article 8(1) of the regulation). The transitional period must be as short as possible. For each 12-month period during the transitional period, the FSA must set a planned MREL (see article 8(2) of the regulation). The institution must meet the MREL by the end of the transitional period.

Mortgage credit institutions are exempt from the MREL (see section 266(1) of the Danish Financial Business Act). Instead, mortgage credit institutions are required to meet a debt buffer requirement (see section 125 of the Danish Financial Business Act).

It is a condition for reconstruction or resolution to take place that public interest calls for the implementation of resolution measures (see section 4(1)(iii) of the Danish Act on the Reconstruction and Resolution of Certain Financial Undertakings). Public interest covers the following (see section 5 of the Danish Act on the Reconstruction and Resolution of Certain Financial Undertakings):

1. ensuring the maintenance of critical functions if discontinuance is likely to result in interruptions to services that are of vital importance to the real economy or to result in interruptions to financial stability

[1] Commission Delegated Regulation (EU) No. 2016/1450 of 23 May 2016 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for setting the minimum requirement for own funds and eligible liabilities.

2. avoiding substantial negative consequences for financial stability, especially by preventing spreading, including to market infrastructures, and by maintaining market discipline
3. protecting public funds by minimising the dependence on extraordinary public financial support
4. protecting depositors and investors covered under the Danish Guarantee Fund for Depositors and Investors Act
5. protecting customer funds and assets

It is also a condition that the individual resolution objectives cannot be met to the same extent through liquidation or bankruptcy (see the comments on section 4(1)(iii) of the Danish Act on the Reconstruction and Resolution of Certain Financial Undertakings).

3. The FSA's assessment

Assessment of public interest
As a group, Danske Bank A/S has been designated as a systemically important financial institution with a high degree of systemic importance, and the Group performs critical functions in Denmark as well as abroad.

As a result, the resolution plan assesses that public interest, as a general rule, calls for the implementation of one or more resolution measures if Danske Bank Group should fail (see section 4(1)(iii) of the Danish Act on the Reconstruction and Resolution of Certain Financial Undertakings).

Resolution strategy
The resolution strategy for Danske Bank Group is a single-point-of-entry strategy that involves keeping the Group as one entity in the event of resolution. In general, the Group would remain on the market and be re-established as a viable undertaking. This would take place through a recapitalisation of Danske Bank A/S at the consolidated level by writing down and converting claims advanced by the bank's creditors.

Assessment of the MREL amount
For Danske Bank A/S, the loss absorption amount of the MREL is determined as the Group's solvency need plus the combined capital buffer requirement. The recapitalisation amount is determined as the solvency need plus the combined capital buffer requirement not including the countercyclical buffer.

Because Danske Bank Group, as a general rule, would be re-established as a viable undertaking by *Finansiel Stabilitet*, the MREL is thus equal to two times the solvency need plus two times the combined capital buffer requirement. However, the countercyclical capital buffer is included only once in the calculation of the MREL.

Against this background, the FSA finds that the MREL must be set at a level that corresponds to 35.8% of the Group's risk-weighted exposures at end-2018.

Since mortgage credit institutions are exempt from the MREL, Realkredit Danmark is not included in the consolidation used for setting the consolidated MREL for Danske Bank A/S. The MREL is thus calculated as 35.8% of the risk-weighted exposures for Danske Bank A/S at the consolidated level, excluding Realkredit Danmark, at end-2018. On the basis of data from end-2018, the risk-weighted exposures (REA) amount to DKK 643 billion. See below for a breakdown.

	REA (DKK billions)
Total Group REA	748
RD contribution to Group REA	-150
Danske Bank A/S exposures to RD	45
Group REA, excluding RD	**643**

Against this background, the FSA finds that the MREL must be set at 11.3% of Danske Bank's total liabilities and own funds at the consolidated level, excluding Realkredit Danmark (see section 266(3) of the Danish Financial Business Act). This corresponds to 35.8% of the bank's risk-weighted exposures at end-2018. It is equal to DKK 230 billion at end-2018. The requirement is set on the basis of the solvency need at end-2018. However, the requirement takes into consideration the DKK 4 billion increase in the Pillar II add-on to the solvency need in the third quarter of 2019. The MREL takes effect on 16 March 2020.

The MREL may be met with capital instruments and debt instruments that, in resolution and bankruptcy, are written down and converted before unsecured claims and in general fulfil the conditions for MREL funds. Debt instruments issued before 1 January 2018 that, in resolution and bankruptcy, are not written down and converted before other unsecured claims but otherwise fulfil the conditions for MREL funds may be included to meet the MREL until 1 January 2022.

Liabilities used for meeting the consolidated MREL may not also be used for meeting or financing liabilities included to meet the capital and debt buffer requirements applicable to Realkredit Danmark.

4. Complaints procedure

Decisions made by the FSA may be brought before the Danish Company Appeals Board no later than four weeks after the receipt of such decisions (see section 372(1) of the Danish Financial Business Act). Complaints must be forwarded by email to ean@naevneneshus.dk or by letter to the Danish Company Appeals Board (Secretariat), Toldboden 2, DK-8800 Viborg.

In accordance with section 7(2) of the Danish Executive Order on the Company Appeals Board, complaints made to the Company Appeals Board of the Danish Ministry of Industry, Business and Financial Affairs are subject to a fee of DKK 4,000. In accordance with section 15(4) of the Danish Executive Order on the Company Appeals Board, the board or its chairman may decide to refund part of or the whole fee paid if Danske Bank's claim is upheld in whole or in part. The fee is refunded if the board decides not to consider the complaint.