Translation from Danish by Danske Bank of a letter dated 17 June 2016 from the Danish Financial Supervisory Authority (*Finanstilsynet*). In case of discrepancies, the Danish version prevails.

The board of directors and the executive board of
Danske Bank A/S
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Decision on additional liquidity requirement for Danish SIFIs, including Danske Bank

In pursuance of section 152(4) of the Danish Financial Business Act, the Danish Financial Supervisory Authority (the FSA) makes a decision to set an additional liquidity requirement for Danske Bank at the consolidated level.

Furthermore, the FSA has today made a decision on an additional liquidity requirement for all other systemically important financial institutions (SIFIs) in Denmark. In making these decisions, the FSA has considered the financial institutions' individual business models and activities, thus making the requirement as appropriate as possible.

In addition to the liquidity coverage ratio (LCR) requirement (the LCR requirement) in article 412 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the CRR), Danske Bank Group must thus also meet an LCR requirement for Danske Bank's major currencies (see section 152(4) of the Danish Financial Business Act). Major currencies are the currencies in which a financial institution must separately report information to the competent national authorities in pursuance of article 415(2) of the CRR. Norwegian kroner (NOK) and Swedish kronor (SEK) are excluded, however.

No LCR requirements have been set for NOK and SEK because liquid assets denominated in DKK are broadly accepted in both the Norwegian and the Swedish markets. This being the case, the FSA is of the opinion that sufficient liquidity in SEK and NOK can be generated on the basis of liquid assets denominated in DKK.

The LCR currency requirement need not be met for Danske Bank's reporting currency (DKK). On the basis of information reported by Danske Bank, the consolidated requirement will currently apply to EUR and USD.

The requirement will be phased in, which means that Danske Bank must meet the following percentages of the full requirement: 60% at 1 October 2016, 80% at 1 April 2017 and 100% at 1 July 2017. The phase-in of the LCR currency requirement will take effect in connection with the first reporting of LCR on the new reporting form adjusted according to Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No. 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirements for Credit Institutions (the LCR Regulation).

The FSA thus sets the proportion of Danske Bank's net liquidity outflows in major currencies that can be met during a stressed period by holding assets not denominated in those currencies to 0% (see article 8(6)(second sentence) of the LCR Regulation). It should be noted, however, that this decision does not apply to SEK and NOK (see above). SEK and NOK are still governed by article 8(6)(first sentence) of the LCR Regulation, which stipulates that credit institutions must have a suitable match between their holdings of liquid assets and net liquidity outflows.

Legal basis
In pursuance of section 152(4) of the Danish Financial Business Act, the FSA may set an additional specific liquidity requirement for a financial institution or a group of financial institutions with similar risk profiles that takes into account special liquidity risks at the institution or groups [sic] of institutions as well as systemic liquidity risks. These provisions allow the FSA to require that an individual institution or groups [sic] of institutions tighten liquidity reserves or financing structures if this is deemed necessary to take into account the liquidity risks of the institution or institutions, including systemic liquidity risks. The FSA has the same option in respect of mortgage providers in pursuance of section 153(3) of the Danish Financial Business Act.

An individual assessment of the conditions prevailing at an institution or a group of institutions will show whether it is necessary to make the institution or the group of institutions subject to an additional specific liquidity requirement. In making any such assessment, the FSA will pay particular attention to the institution's specific business model, conditions for the institution's operational liquidity management (see section 71) and conditions for the institution's risk management (see section 344(3)). Any systemic liquidity risks will also be taken into account; these are liquidity risks that threaten the integrity of the financial markets in Denmark.

The provisions of section 152(4) of the Danish Financial Business Act implement the provisions of articles 103, 104(1)(k) and 105 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD IV).

In pursuance of article 105 of CRD IV, the competent authorities, in determining an appropriate level for liquidity requirements, must assess whether it is necessary to impose a specific liquidity requirement to take into account the liquidity risks to which an institution is or may be exposed. The assessment will be based on the following:

a) the institution's particular business model
b) the institution's arrangements, processes and mechanisms referred to in section II of CRD IV, in particular article 86
c) the outcome of the review and evaluation carried out in accordance with article 97
d) the systemic liquidity risks that threaten the integrity of the financial markets of the individual member state

In pursuance of article 412 of the CRR, institutions must hold liquid assets whose total value covers liquidity outflows less liquidity inflows under stressed conditions during a period of 30 days (the LCR requirement).

The European Commission has been empowered to adopt detailed rules for the LCR requirement (see article 460(1) of the CRR). The European Commission made use of this empowerment to issue the LCR Regulation.

In accordance with article 8(6) of the LCR Regulation, the institutions concerned must ensure that there is a sufficient currency match between their holdings of liquid assets and their net liquidity outflows. Furthermore, article 8(6)(second sentence) of the LCR Regulation allows the competent authorities to require that institutions reduce any currency mismatch by limiting their possibility of holding liquid assets in one currency to cover net liquidity outflows in another currency.

However, the competent authorities may restrict the currency mismatch only for the reporting currency or for a currency subject to separate reporting requirements in accordance with article 415(2) of the CRR (known as a major currency).

In determining the level of restrictions on currency mismatching that may be applied in accordance with this paragraph, the competent authorities must at least consider the following:

1. whether the credit institution is in a position to
    a. use the liquid assets to generate liquidity in the currency and the jurisdiction in which the net liquidity outflows arise
    b. exchange currencies and raise funds in foreign currency markets under stressed conditions consistent with the 30-calendar-day stressed period set out in article 4 of the LCR Regulation
    c. transfer a liquidity surplus from one currency to another and across jurisdictions and legal entities within the group under stressed conditions consistent with the 30-calendar-day stressed period set out in article 4 of the LCR Regulation
2. the effect of sudden, adverse exchange rate movements on existing mismatched positions and on the effectiveness of any currency hedges

Finally, article 8(6) specifies that any restriction on currency mismatching imposed in accordance with article 8(6) is deemed to constitute a specific liquidity requirement (see article 105 of CRD IV).

Formulation of the LCR currency requirement
In its calculation of the LCR currency requirement, the FSA made a number of assessments of how the LCR currency requirement must be calculated in order to allow for a number of irregularities that are dealt with in more detail below.

The cap on high-quality liquid assets (HQLA) is removed from the calculation of the LCR currency requirement. This means that it is not a requirement that 30% of the liquidity buffer is made up of level 1 assets covered by article 10(1)(a-e) and (g) in individual currencies. The FSA is of the opinion that the liquidity buffer is adequately diversified in the total LCR requirement, which is why the same stringent diversification will not be imposed on the LCR currency requirement.

In the total LCR requirement, netting of derivatives contracts concluded with a counterparty is possible provided that a bilateral netting agreement exists, and netting is also possible for currency derivatives contracts in respect of which the repayment of principal falls due on the same day. In its calculation of the LCR currency requirement, the FSA found it expedient to allow netting of inflows and outflows of derivatives. Excess inflows of derivatives may, however, be used only to cover another outflow within the normal LCR framework, that is, subject to the 75% cap. This means that the gross volumes of inflows and outflows of derivatives must still be reported, but the inflows and outflows of derivatives will be netted out in the calculation of LCR currency requirements. This treatment of derivatives is in line with the method applied by the Swedish FSA to LCR requirements for EUR and USD and makes it possible for Danish SIFIs to continue acting as intermediaries for Danish pension funds and businesses' currency risk hedging.

At present, no exact method for calculating adverse market scenarios as regards the LCR calculation has been prepared by the EU. The FSA therefore considers it expedient that the calculation of LCR outflows in a currency disregards the item "additional collateral in adverse market scenario" calculated in the LCR. The FSA will reconsider whether "adverse market scenario" should be added to the LCR currency requirement once the final version of Regulatory Technical Standards (RTS) has been prepared.

The LCR Regulation does not treat repos and reverse repos in the same way on the inflow and outflow sides of the LCR calculation. The FSA finds that a symmetrical treatment of them is most appropriate so that cash flows relating to currency repos are calculated in the same way on the inflow and outflow sides of the LCR currency requirement. This is achieved by multiplying the cash side of the individual transaction by the relevant inflow or outflow factor corresponding to the haircut specified in the LCR Regulation for the collateral used in the repo transaction.

Requirement for Danske Bank's USCP programme
In connection with the formulation of the requirement above, Danske Bank has committed itself to holding its USCP programme and the maximum amount due per day under the programme within the agreed framework. The purpose is to ensure timely payment at all times. The FSA has based its decision on this.

Justification
The size and importance of SIFIs mean that it may have far-reaching adverse consequences for households, businesses and economies in general if a SIFI gets into trouble. Special risks thus attach to SIFIs, which is why tighter requirements generally exist for such institutions than for other institutions.

The common European liquidity requirement (the LCR requirement) set out in the CRR and in force since 1 October 2015 will be phased in over a period ending in 2018 in Denmark. The full LCR requirement (100%) has been applicable to Danish SIFIs since 1 October 2015, however. The general LCR requirement must be met for all currencies together, and the requirement only to a limited extent takes into account any mismatch in the institutions' net liquidity outflows in specific currencies (see article 8(6) of the LCR Regulation).

The SIFIs' potential net liquidity outflows in foreign currencies under stressed market conditions may be so substantial as to make the scope of action of relevant public authorities in Denmark rather limited. For that reason, it is important that the SIFIs have sufficiently robust business models that can address liquidity risks during stressed periods.

As an extension of this, the FSA is of the opinion that the SIFIs' liquidity risks in major currencies may entail a systemic risk for Denmark. So there is a need for Danish SIFIs to address this specific systemic liquidity risk. The FSA believes that the most appropriate implementation will be to require that SIFIs in Denmark, in addition to the general LCR requirement, also meet an additional LCR requirement for the individual SIFIs' major currencies. On the basis of this decision, SIFIs in Denmark must meet an LCR requirement of 100% for major currencies. The FSA is of the opinion that the requirement of the decision will reduce the systemic liquidity risks associated with the SIFIs' currency exposures.

Setting a specific liquidity requirement for SIFIs to cover net liquidity outflows in major currencies by holding a sufficient amount of assets denominated in the same currency will take into account the systemic liquidity risks that may threaten the integrity of the financial markets.

The FSA finds that the systemic liquidity risks resulting from the SIFIs' exposures in major currencies cannot be mitigated sufficiently by their holding liquid assets in currencies other than the currency of their net liquidity outflows. Under stressed market conditions, it may be extremely difficult or even impossible for the institutions to generate liquidity in one currency on the basis of liquid assets denominated in another currency, irrespective of any currency hedging mechanisms. Against this background, the FSA considers it necessary for SIFIs in Denmark to maintain liquid holdings denominated in the same currencies as their major currencies. This will reduce the SIFIs' potential reliance on currency from Danmarks Nationalbank (the Danish central bank).

The FSA is also of the opinion that the substantial systemic liquidity risks associated with net liquidity outflows in major currencies cannot be handled sufficiently through the SIFIs' arrangements, processes and mechanisms in relation to their management and control.

The FSA finds that it will be possible for SIFIs to transfer a liquidity surplus in currencies across jurisdictions and legal entities within the same group. The specific liquidity requirement therefore applies only at the consolidated level in accordance with article 11(3) of the CRR (see article 2(3) of the LCR Regulation).

Violation of the LCR currency requirement
The FSA finds that non-compliance with the LCR currency requirement is generally not as severe a violation as non-compliance with the requirement under the LCR Regulation.

In the event that an individual institution does not comply with the LCR currency requirement but is in compliance with the statutory requirement, the FSA will initially ask the institution to account for the situation, including issuing a statement that explains how it will remedy the situation.

In this connection, the focus will be on the institution's generating, as soon as possible, sufficient liquidity in the individual currency in the event of an insufficient amount of highly liquid assets or on the institution's reducing its exposure in the currency so as to be in compliance with the LCR currency requirement again.

If the FSA assesses that the situation may be caused by an institution's having made itself inappropriately dependent on the FX market, the FSA will consider whether it is necessary to issue risk information or a reprimand.

If the situation involves a period with stressed conditions, the FSA believes that it will be line with the intentions of the LCR rules that financial institutions are permitted to use their currency LCR buffers, while working to restore their liquidity positions.

Complaints procedure
In accordance with section 372(1) of the Danish Financial Business Act, decisions made by the FSA may be brought before the Danish Company Appeals Board by e-mail to ean@erst.dk or by letter to Dahlerups Pakhus, Langelinie Allé 17, Postboks 2000, DK-2100 København Ø, no later than four weeks after the receipt of such decisions.

According to section 7 of the Danish Executive Order on the Company Appeals Board of the Danish Ministry of Business and Growth, complaints made to the Company Appeals Board are subject to a fee of DKK 4,000. However, if the complaint does not concern current or future business matters of the complainant, the fee is DKK 2,000. According to section 15(4) of the executive order, the Board or its chairman on its behalf may decide to refund the fee paid in full or in part in the event that the complainant's claim is upheld in full or in part. The fee is refunded if the complaint is rejected.

Publication
In pursuance of section 354a(1) of the Danish Financial Business Act, any reaction from the FSA's governing board must be made public, and any such reaction must include the name of the undertaking in question.

In this connection, it should be noted that the FSA finds that nothing prevents publication of this decision (see section 354a(4) of the Danish Financial Business Act).

A copy of this letter has been sent to Danske Bank's external auditors.

Yours faithfully

Kristian Vie Madsen	Anne-Sofie Reng Japhetson
Deputy Director General	Director