Lessons from bank resolution in Denmark

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Finansiel **Stabilitet**

Agenda

- The Danish Banking Sector
- Bank resolution policy in the past
- The Financial Stability Company (FSC)
- BRRD compatibility
- Conclusions

Overview Danish banking sector

The Danish banking sector (end 2013) did on a group level consist of:

- 6 SIFI banks (commercial banks and mortgage banks)
- 79 smaller and medium sized savings and commercial banks
- 1 mortgage bank

Danish SIFI banks (banks and mortgage banks), group level (june 2012)			
	Assets as percentage of GDP	Loans as a percentage of the banking sector's total	Deposit as a percentage of the banking sector's total
Danske Bank	182,6	30,6	32,6
Nykredit	80,4	30,8	4,0
Nordea Bank Danmark	48,9	15,9	22,2
Jyske Bank (including BRFkredit)	27,0	8,4	9,3
Sydbank	12,6	1,9	5,4
DLR Kredit	7,8	3,4	-
Other non SIFI banks and mortgage banks		9,0	26,5

Bank resolution policy in the past

- No failure of mortgage banks yet
- Private solutions, when smaller commercial or savings banks fail
- Government back-stop in other cases
- Bail-in of junior claims through purchase and assumption transfers - decided by management
- Guarantee Fund for Depositors and Investors (DGF) established in 1987, funded by bank levies and with higher coverage than required by EU
- Initially DGF contribution ("dowry") to facilitate transfer if least cost solution
- Later replaced by private support scheme – to avoid EU state aid complications

The Bank Packages I

- Summer 2008: Failed Roskilde Bank transferred to consortium of central bank and private banking scheme

- BP1 Autumn 2008: Members of private support scheme covered in 2 years by general government guarantee on all senior, unsecured claims - failed banks to be transferred to new FSC

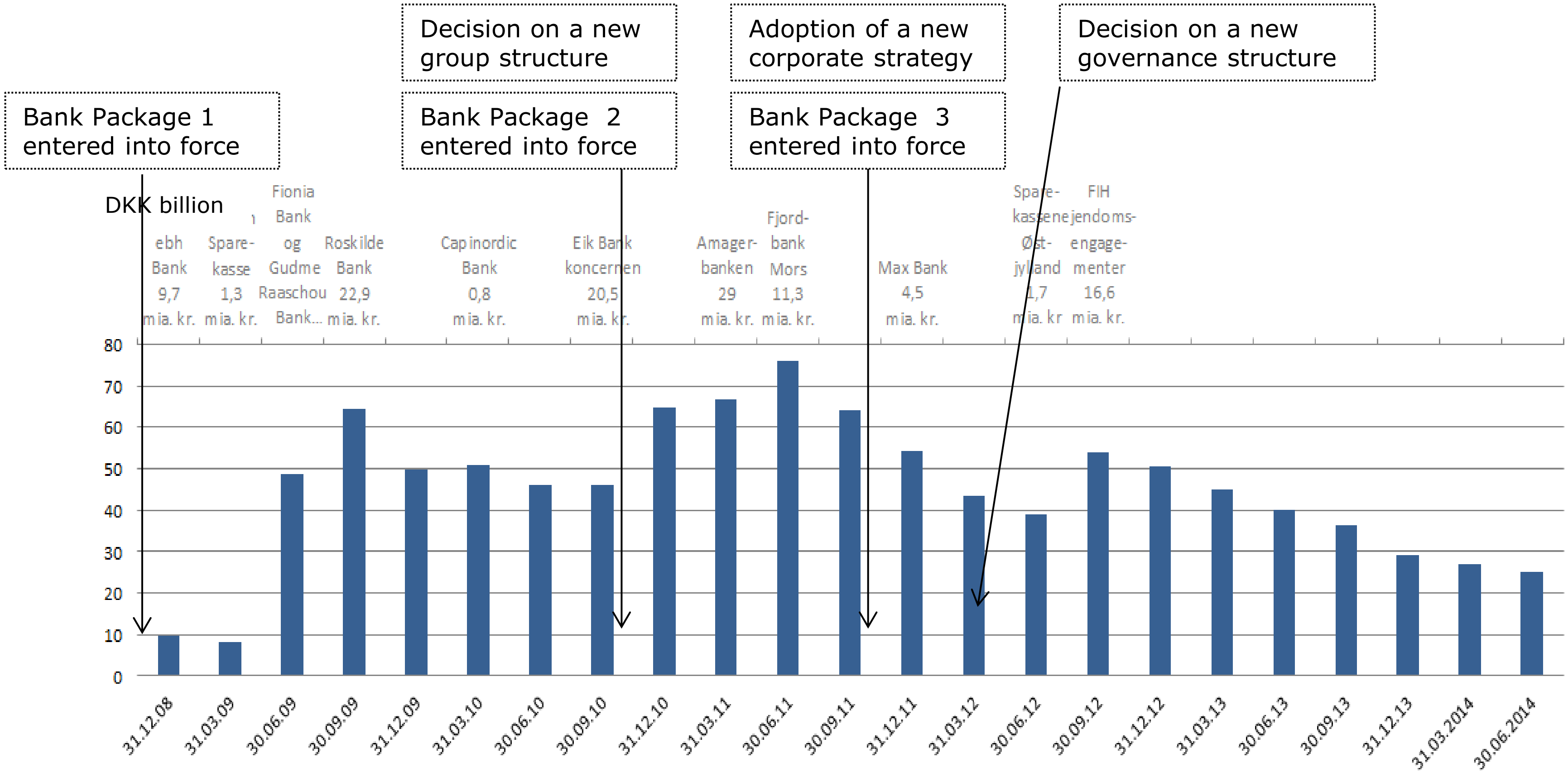
- BP2 Spring 2009: Government injection of higher T1 capital and FSC starts to issue individual government guarantees on specific senior, unsecured claims . FSC administrator of DGF

The Bank Packages II

- BP3 Autumn 2010: Failed banks to ”choose” between normal bankruptcy procedure or transfer of assets and some senior, unsecured claims to FSC subsidiary (DGF to guarantee FSC winding up result)
- BP4 Summer 2011: ”Dowry” reintroduced and extended to include pari passu contribution from FSC , prolongation of individual government guarantees in case of mergers (”dowry” requires viable part of failed bank including all retail customers to be auctioned of during weekend)
- BP5 Spring 2012 : FSC allowed to aquire impaired asset portfolio from distressed bank - unlimited guarantee from holding company of distressed bank

Financial Stability Company 2008-2014

- from the beginning ……………………



Numbers of significant subsidiaries

1	2	4	5	5	6	5	7	7	7	6	6	7	5	5	5	5	5	5	5

Numbers of banking licenses

1	2	3	4	4	4	3	5	5	5	3	3	4	5	3	3	1	1	1	0

FSC results since 2008

	Total taken over	Wound up until end of 2013
Individual customers (thousands)	459	456
Deposit accounts, DKK bn.	65	64
Loan accounts and guarantees, DKK bn.	99	86
Employees (number)	Ca. 2.600	Ca. 2.500

BRRD compatibility

- FSC to become resolution authority.
- BRRD introduces new powers, though present regime comparable to a combination of bail-in, bridgebank and sale of business.
- Resolution plans will enable resolvability of SIFIs
- Depositors and DGF's claims on the failed bank is given higher ranking in insolvency hierarchy.
- Resolution of mortgage banks more in line with resolution of other banks.

Conclusions

- 8 banks purchased by FSC according to “BP1” (costs paid by banking sector and junior claims, no reduction of credits or liquidity of senior claims and no interruption of banking services)
- 2 banks purchased by FSC according to BP3 (costs paid junior claims, senior, unsecured claims not covered by DGS/FSC and DGS/FSC, no reduction of credits or liquidity of senior claims after initial hair cuts [14-15.4 p.c.] and no interruption of banking services)
- 2 banks purchased by FSC according to BP4 (costs paid by junior claims and DGS/FSC – but less than if BP3 had been applied, no reduction of credits or liquidity of senior claims and no interruption of banking services)
- No banks purchased by FSC since April 2012 – private solutions are back
- Currently: Minimal government exposure to banks – Denmark keeps AAA-rating

ENCLOSURES

Winding up banks according to the backstop solution (Exit Package/BP3)

Starting point: The Danish FSA sets a deadline (usually late Friday) by which the distressed bank must comply with solvency requirements (usually late Sunday)

Objectives: To avoid bankruptcy, government bailout and any creditor (or owner) worse off

- The distressed bank accepts to be taken over if there is no other option when the deadline expires
- The FSC and the DGF set the preliminary transfer price, including “extra haircut”
- All assets are transferred to a FSC subsidiary bank that pays by assumption of liabilities
- All creditors guaranteed by the FSC or the DGF suffer no losses
- Other senior creditors receive initial payouts and potential additional payouts (earn out)
- Subordinate creditors and owners lose their investment in practice
- The final transfer price is set by independent auditors
- Controlled winding up of the FSC subsidiary bank with a loss guarantee from DGF

FSC: Finansiel Stabilitet
DGF: The Guarantee Fund for Depositors and Investors

Winding up banks according to the potential solution (Consolidation Package/BP4)

Starting point: Equivalent to the backstop solution

Objectives: Equivalent to the backstop solution plus no losses for senior, unsecured creditors except the FSC and the DGF

- The FSC and the DGF can accept improvement for other senior, unsecured creditors provided that
  - a viable bank acquire retail operations of distressed bank and
  - the FSC and the DGF are not worse off

- The potential solution is not always feasible – a combination of a high expected final payout and an acquirer of the retail operations willing to pay extra for a fast take over is required