

The text of the following notification from the Danish FSA dated 4 October 2021 has been translated from Danish into English by The BANK of Greenland. In the event of any discrepancies, the Danish text will apply.

4. October 2021

J nr. 21-001527

Attn. Board of Directors and Executive Management of The BANK of Greenland.

1. Decision

For the BANK of Greenland, the Danish Financial Supervisory Authority (FSA) **determines** the minimum requirement for own funds and eligible liabilities (MREL) at 1 January 2027 as 20.1% of The BANK of Greenland's total liabilities and own funds. This corresponds to 30.4% of the risk exposure amount (REA), equivalent to DKK 1,473 million based on data at the end of 2020.

The MREL requirement will be phased in towards 1 January 2027. The following requirements must be fulfilled on the given dates:

- 1 January 2022: 11.7% of the total liabilities and own funds (17.7% of REA)
- 1 January 2023: 13.4% of the total liabilities and own funds (20.3% of REA)
- 1 January 2024: 15.1% of the total liabilities and own funds (22.8% of REA)
- 1 January 2025: 16.8% of the total liabilities and own funds (25.3% of REA)
- 1 January 2026: 18.4% of the total liabilities and own funds (27.9% of REA)
- 1 January 2027: 20.1% of the total liabilities and own funds (30.4% of REA)

The FSA **determines** that the total requirement for own funds and eligible liabilities shall be covered by capital instruments and debt, which in the event of resolution and bankruptcy shall be written down and converted before unsecured claims.

2. Legal basis

2.1 Minimum requirement for own funds and eligible liabilities

In accordance with Section 266(1), sub-paragraph 1 of the Danish Financial Business Act (*lov om finansiel virksomhed*), which is in force in Greenland by Royal Decree (Danish Financial Business Act), following consultation with Finansiell Stabilitet (The Danish resolution authority) the FSA determines the requirement concerning the size of a financial institution's own funds and eligible liabilities (MREL).

In accordance with Section 266(1), sub-paragraph 3 of the Danish Financial Business Act, the MREL requirement is determined as a percentage of the company's total liabilities and own funds.

The requirement is determined individually for each company, cf. Section 266(1), sub-paragraph 2 of the Danish Financial Business Act.

Pursuant to Section 268(1) of the Danish Financial Business Act, the requirement is determined on the basis of the following criteria:

- 1) The company can be resolved using the resolution instruments.
- 2) If bail-in is applied, the company has sufficient own funds and eligible liabilities to ensure that the losses can be absorbed and the company's Common Equity Tier 1 capital can be restored to a level at which the

undertaking can continue to fulfil the requirements for a licence, and sufficient market confidence can be maintained.

- 3) The company has sufficient own funds and eligible liabilities to ensure that, if certain categories of own funds and eligible liabilities are excluded from bail-in, the losses can be absorbed and the undertaking's Common Equity Tier 1 capital can be restored to a level at which the undertaking can continue to fulfil the requirements for a licence.
- 4) The company's size, business model, funding model and risk profile.
- 5) The extent to which the depositor and investor guarantee scheme can help to finance the resolution in accordance with Sector 2a of the Danish Act on a Depositor and Investor Guarantee Scheme (*lov om en indskyder- og investorgarantiordning*), which is in force in Greenland by Royal Decree.
- 6) The extent to which the group is in distress, or has a negative effect on financial stability, including spillover effects on other financial services companies.

2.2. Requirement for subordination of the minimum requirement for own funds and eligible liabilities.

The FSA may require that own funds and eligible liabilities shall in full or in part consist of liabilities that can be converted, cf. Section 268(2), sub-paragraph 2 of the Danish Financial Business Act.

2.3. Resolution plan and interest of the public

In accordance with Section 259 and Section 260, the FSA shall prepare, adopt and maintain a resolution plan. In the resolution plan, it is assessed whether the interest of the general public necessitates implementation of resolution measures, as this is a precondition for restructuring or resolution, cf. Section 4(1), sub-paragraph 3 of the Danish Act on Restructuring and Resolution of Certain Financial Enterprises (*lov om restrukturering og afvikling af visse finansielle virksomheder*), which is in force in Greenland by Royal Decree (Danish Act on Restructuring and Resolution of Certain Financial Enterprises).

According to Section 5 of the Act on Restructuring and Resolution of Certain Financial Enterprises, the interest of the public includes the following:

- 1) To ensure the continuity of critical functions, the discontinuance of which is likely to lead to the disruption of services that are essential to the real economy, or likely to disrupt financial stability.
- 2) To avoid a significant adverse effect on financial stability, in particular by preventing contagion, including to market infrastructures, and by maintaining market discipline.
- 3) To protect public funds by minimising reliance on extraordinary public financial support.
- 4) To protect depositors and investors covered by the Danish Act on a Depositor and Investor Guarantee Scheme.
- 5) To protect clients' funds and clients' assets.

Moreover, it is a condition that the resolution objectives in question cannot be met to the same extent in the event of bankruptcy proceedings, cf. the remarks to Section 4(1), sub-paragraph 3 of the Danish Act on Restructuring and Resolution of Certain Financial Enterprises.

3. The assessment of the FSA

The FSA determines the minimum requirement for own funds and eligible liabilities, cf. Section 266 of the Danish Financial Business Act, on the basis of the criteria laid down in Section 268(1) of the Danish Financial Business Act and the resolution plan for The BANK of Greenland.

3.1. The resolution plan

Interest of the public

The BANK of Greenland has been designated as a systemically important financial institution in Greenland, and the bank has critical functions that would have to be continued during a resolution situation.

In the resolution plan it is therefore assessed that the interest of the public would in principle require one or more resolution measures to be initiated if The BANK of Greenland is in distress, cf. Section 4(1), sub-paragraph 3 of the Danish Act on Restructuring and of Certain Financial Enterprises.

Resolution strategy

The resolution strategy is based on control of The BANK of Greenland being transferred to Finansiel Stabilitet if the conditions for resolution are fulfilled for The BANK of Greenland.

The point of departure is that, in the event of a resolution situation, The BANK of Greenland will remain in the market and be re-established as a viable enterprise. This will be ensured through recapitalisation of The BANK of Greenland through write-downs and conversion of creditors' claims.

3.2. Requirement for own funds and eligible liabilities

The MREL requirement consists of a loss absorption amount and a recapitalisation amount.

Loss absorption amount

The loss absorption amount is determined as The BANK of Greenland's solvency requirement together with the combined capital buffer requirement.

Recapitalisation amount

The recapitalisation amount is determined on the basis of the expected resolution strategy, which is identified in the company's resolution plan. If the resolution strategy is not bankruptcy, the recapitalisation requirement is in principle set as the solvency requirement plus capital buffers. For The BANK of Greenland, it is assessed that parts of the capital buffer requirement can be omitted since a smaller amount is sufficient to maintain market confidence and ensure that the bank can continue to perform critical functions. The recapitalisation amount is set as the solvency requirement, plus the capital reserve buffer and SIFI buffer. The contracyclical buffer is thereby not included in the recapitalisation requirement.

Determination of minimum requirement for own funds and eligible liabilities

Based on data sent to the FSA at the end of 2020, the FSA assesses that the minimum requirement for own funds and eligible liabilities for The BANK of Greenland must be set at 30.4% of The BANK of Greenland's risk exposure amount (REA).

The FSA assesses that the MREL requirement for The BANK of Greenland at 1 January 2027 must be set at 20.1% of The BANK of Greenland's total liabilities and own funds. This corresponds to 30.4% of The BANK of Greenland's risk exposure amount (REA). At the end of 2020 the requirement corresponds to DKK 1,473 million.

The MREL requirement will be phased in towards 1 January 2027. The following requirements must be fulfilled on the given dates:

- 1 January 2022: 11.7% of the total liabilities and own funds (17.7% of REA)
- 1 January 2023: 13.4% of the total liabilities and own funds (20.3% of REA)
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- 1 January 2027: 20.1% of the total liabilities and own funds (30.4% of REA)

3.3. Requirement for subordination of the minimum requirement for own funds and eligible liabilities

The FSA assesses that the full requirement for own funds and eligible liabilities must be covered by capital instruments and debt, which under resolution and bankruptcy shall be written down and converted before unsecured claims.

4. Consultation

On 4 March 2021, The BANK of Greenland received the decision for consultation and was given the deadline of 21 March 2021.

The BANK of Greenland submitted its consultation response to the FSA on 22 March 2021. In the consultation response, the FSA is requested to re-calculate the MREL requirement on the basis of figures at end-2020, rather than at 30 September 2020, as the solvency requirement declined during the same period, which would lead to a reduction of the MREL requirement.

The FSA has decided to meet the request for re-calculation, since this entails that the requirement will be set on the basis of the latest accounting figures. It will also be in accordance with the FSA's practice so far of calculating the MREL requirement on the basis of the year-end figures for the prior year.

5. Complaints

No later than four weeks after receipt, the decision of the FSA may be brought before the Danish Commerce and Companies Appeal Board (*Erhvervsankenævnet*), cf. Section 372(1) of the Danish Financial Business Act. The complaint must be sent by e-mail to ean@naevneneshus.dk or by post to Erhvervsankenævnets sekretariat, Toldboden 2, DK-8800 Viborg.

A fee of DKK 4,000 is payable for filling a complaint with the Commerce and Companies Appeal Board, cf. Section 7(2) of the Danish Executive Order on the Commerce and Companies Appeal Board. The fee amounts to DKK 2,000 in the case of complaints that do not pertain to current or future business activities. The Commerce and Companies Appeal Board or the Chairman may decide on full or partial repayment of the fee paid if the complaint is sustained in part or in full, cf. Section 15(4) of the Danish Executive Order on the Commerce and Companies Appeal Board. The fee will be refunded if the Danish Commerce and Companies Appeal Board rejects the complaint.

6. Publication

This decision was made by the FSA's Governing Board. It is a condition that the decision is to be published, cf. Section 354 of the Danish Financial Business Act. Publication may be omitted, however, if such publication would result in disproportionate damage to the company, cf. Section 354 a(4) of the Danish Financial Business Act. If publication has been omitted, publication must take place when the considerations that made omission necessary no longer apply, cf. Section 354(5) of the Danish Financial Business Act.

The FSA does not find any grounds to delay publication of the decision, as the FSA assesses that such publication will not result in any disproportionate damage to The BANK of Greenland. The decision must therefore be published, cf. Section 354 a of the Danish Financial Business Act.

Yours sincerely,

Anders Kragstnæs Balling
Deputy Director