

## **Nils Bernstein: Actions taken over Roskilde Bank**

Introductory statement by Mr Nils Bernstein, Governor of the National Bank of Denmark, at the press conference about Roskilde Bank, Copenhagen, 27 August 2008.

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On 10 July 2008, Danmarks Nationalbank decided to provide the necessary liquidity to Roskilde Bank, following Roskilde Bank's realisation that it would have to make considerably larger write-downs than initially assumed – kr. 1 billion.

At the time, the management of Roskilde Bank assessed that the bank was still in compliance with the statutory solvency requirement and the bank's capital need as stated. The Danish Financial Supervisory Authority found no reason to reject the bank's assessment.

A condition of Danmarks Nationalbank's liquidity guarantee was that the management of Roskilde Bank would continue its efforts to divest all or parts of Roskilde Bank.

Against this background, from 15 July 2008 to the deadline on 22 August, Danske Markets was in charge of a sales process during which a number of interested banks scrutinised Roskilde Bank and its exposures very closely.

At the expiry of the deadline the unfortunate outcome was that no banks would submit an offer for either all or parts of Roskilde Bank. According to Danske Markets, one explanation was that the potential buyers had discovered that the quality of the bank's credit exposures was subject to great uncertainty. As a result, no one ventured to give an estimate of the value of Roskilde Bank's assets.

At the same time, in connection with preparation of the interim report, Roskilde Bank's auditors discovered write-downs of at least kr. 1 billion more than the amount notified to Danmarks Nationalbank on 10 July. Consequently, the bank no longer complied with the statutory solvency requirement. Also on Friday, 22 August, the auditors notified the Danish Financial Supervisory Authority accordingly.

On 24 August, the Danish Financial Supervisory Authority set a deadline for Roskilde Bank – 29 August 2008 at 4:00 pm – for returning to compliance with the solvency requirement and the bank's individual capital need.

This is a rough sketch of the situation we faced in the late afternoon on Friday, 22 August.

Danmarks Nationalbank regards this situation as very serious.

We find that the circumstances of Roskilde Bank now pose a considerable threat to financial stability in Denmark. An important factor in this context is that several other Danish banks are also relying on the international capital markets as a source of financing. Consequently, any losses on loans to Roskilde Bank may have an adverse knock-on effect on other Danish banks.

Since Friday evening, we have negotiated with the parties concerned – Roskilde Bank's management and board of directors, the Danish financial sector, the Danish Financial Supervisory Authority and the government – in order to reach a solution for Roskilde Bank that would mitigate the adverse effects.

Today, I am pleased to announce that we have found a solution that has met with full support from all parties.

Danmarks Nationalbank and "Det Private Beredskab" have entered into an agreement with the board of directors of Roskilde Bank on taking over all assets and liabilities of Roskilde Bank, except subordinated loan capital, hybrid core capital and an encapsulated savings bank fund.

The operations of Roskilde Bank will continue in a new bank to which Danmarks Nationalbank and "Det Private Beredskab" are expected to contribute kr. 4.5 billion. The purpose of the new bank is to continue banking business in order to maximise the proceeds from the discontinuation of the business taken over from Roskilde Bank.

Managing Director Søren Kaare-Andersen will be managing director of the new bank, also called Roskilde Bank. Together with "Det Private Beredskab", we are in the process of composing a well-qualified board of directors for the new bank.

At the same time, Danmarks Nationalbank has agreed with three Danish banks – Danske Bank, Nykredit and Nordea – that they are to make a number of experienced credit experts available to the new Roskilde Bank. They are to help improve the general credit culture and participate in a full-scale review of existing credit exposures with a view to gaining an overall picture.

Unfortunately, under the current circumstances, this takeover agreement means that the shareholders and depositors of supplementary capital and hybrid core capital have probably lost their money.

However, the agreed structure implies that on completion of the discontinuation process, any funds left after remuneration of the contributed share capital will be allocated to the owners of subordinated loan capital and the old shareholders of Roskilde Bank in that order.

Danmarks Nationalbank and "Det Private Beredskab" aim to ensure transparency in the discontinuation of Roskilde Bank's operations. Representatives of any association or similar organisation that may be established by old shareholders in Roskilde Bank to safeguard a significant part of their interests would be welcome to participate in regular meetings to discuss the activities of the new bank and the discontinuation process in general.

I would like to emphasise that this is indeed an extraordinary situation. Roskilde Bank suffered from very substantial exposure to the property market, unfavourably combined with a lenient credit culture. As a result, the bank was unable to survive on its own, and we had to step in to ensure responsible discontinuation.