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## CHANGE RULES – SHIFT HAPPENS...

Spar Nord's view on the implications of the new CRD IV regime

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## CRD IV HAS IMPLICATIONS ACROSS THE PALETTE



### Higher capital requirements

- Conservation buffer
- Counter-cyclical buffer
- Systemic risk buffer

### New demands on quality

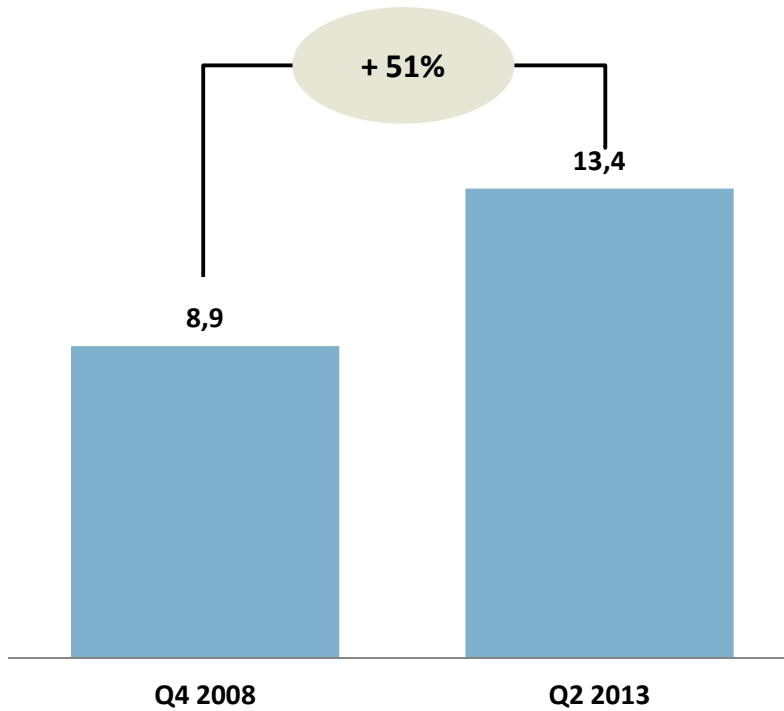
- Phasing-out of hybrid capital
- Deduction rules
- Stake in Nørresundby Bank
- Shares in sector companies

### New definitions of RWA

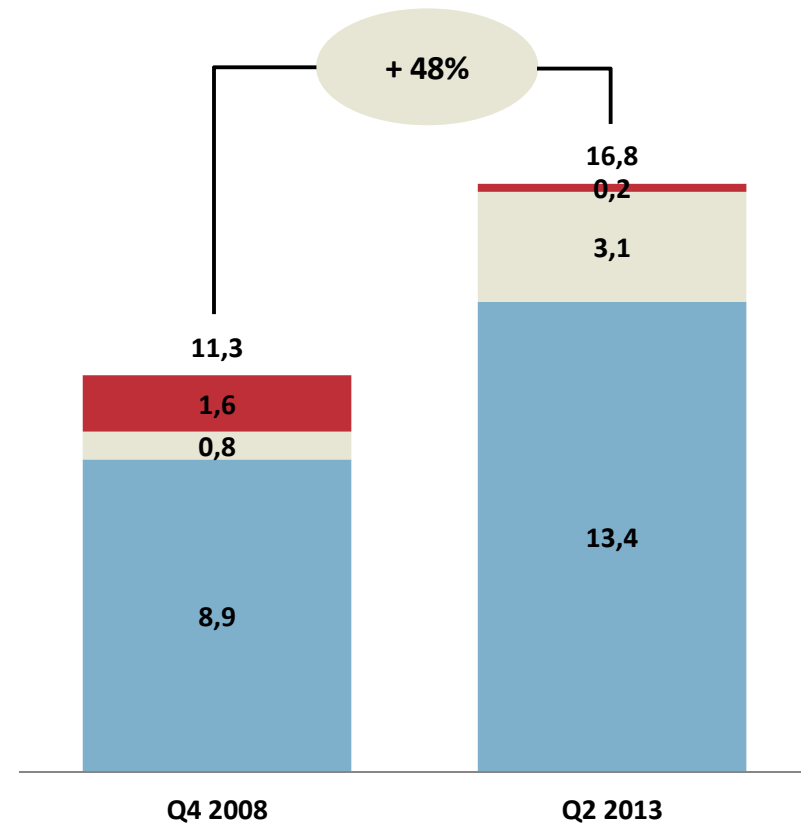
- Extended definition of default and high risk customers
- New calculation of counterparty risk/CVA
- Higher RWA on financial counterparties
- Discount on SME lending

# STRONG TREND IN CET1 & SOLVENCY RATIO – UNAIDED BY MAGIC MODELS

CORE TIER 1 RATIO



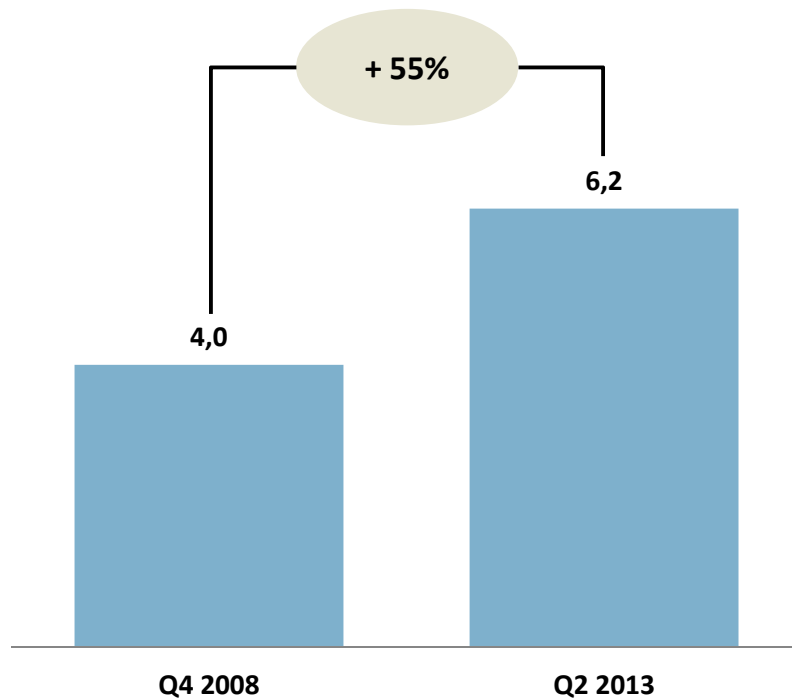
SOLVENCY RATIO



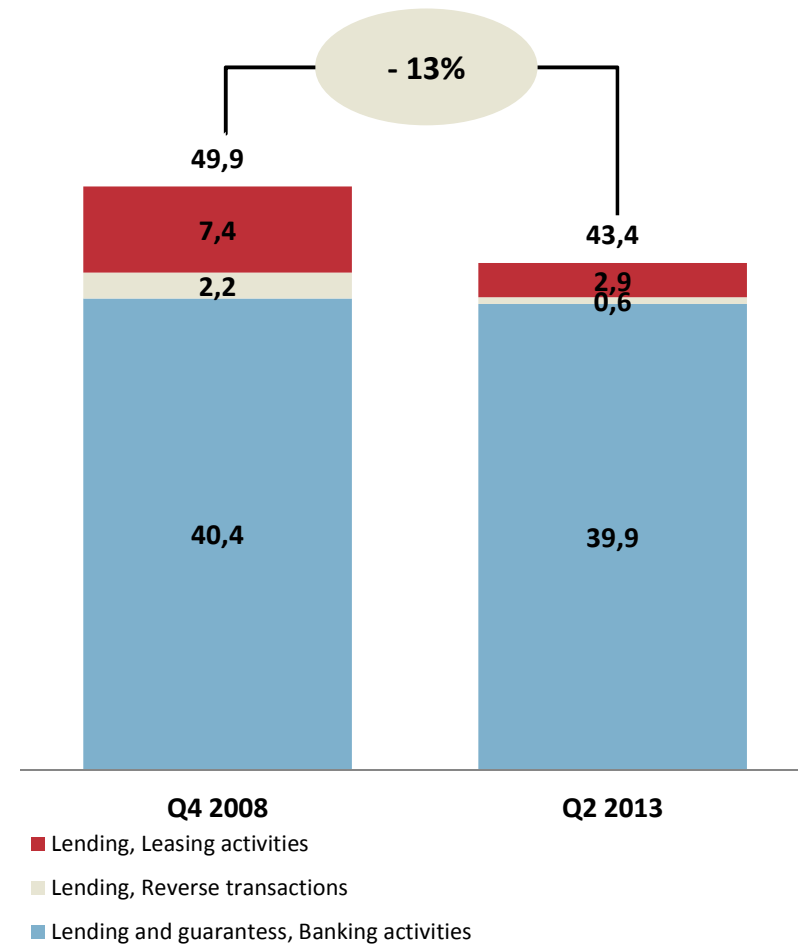
■ Core tier 1 ■ Tier 1 ■ Tier 2

# STRENGTHENING OF EQUITY IS THE MAIN DRIVER FOR DELEVERAGING

EQUITY (DKKb)

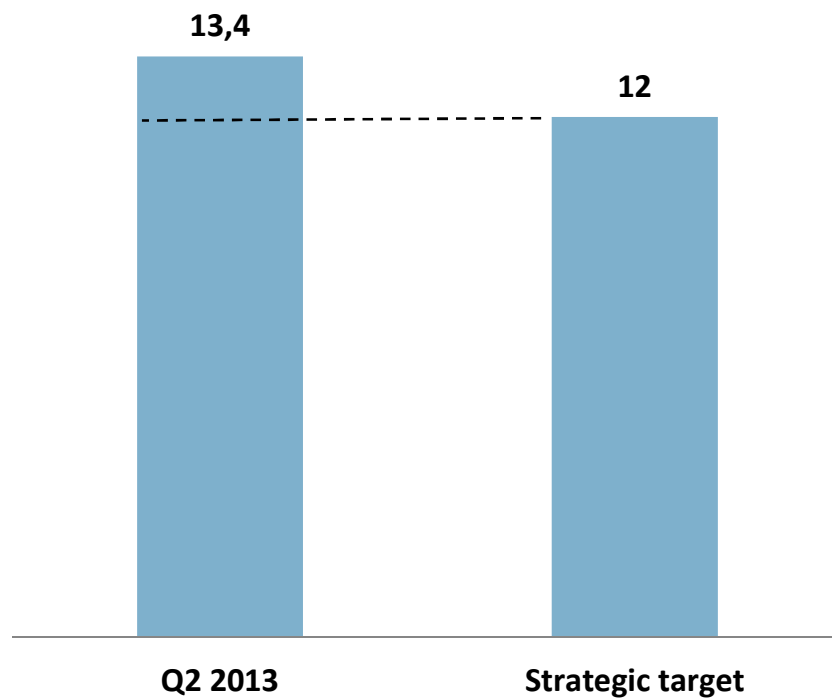


LENDING AND GUARANTEES (DKKb)

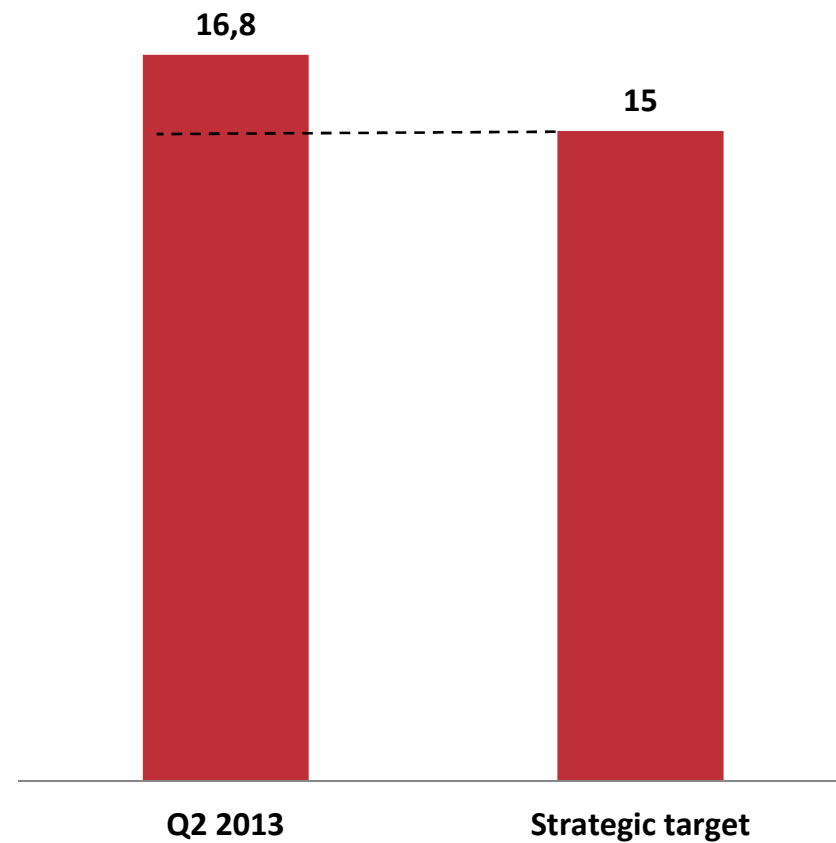


# WELL ABOVE STRATEGIC TARGETS ON CAPITAL RATIOS

CORE TIER 1 RATIO

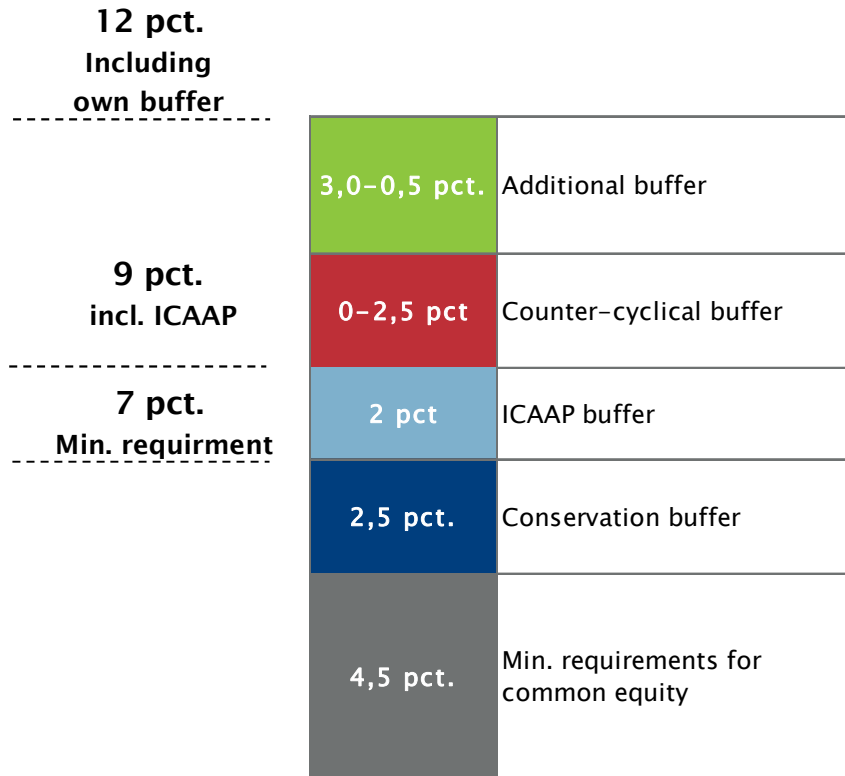


SOLVENCY RATIO

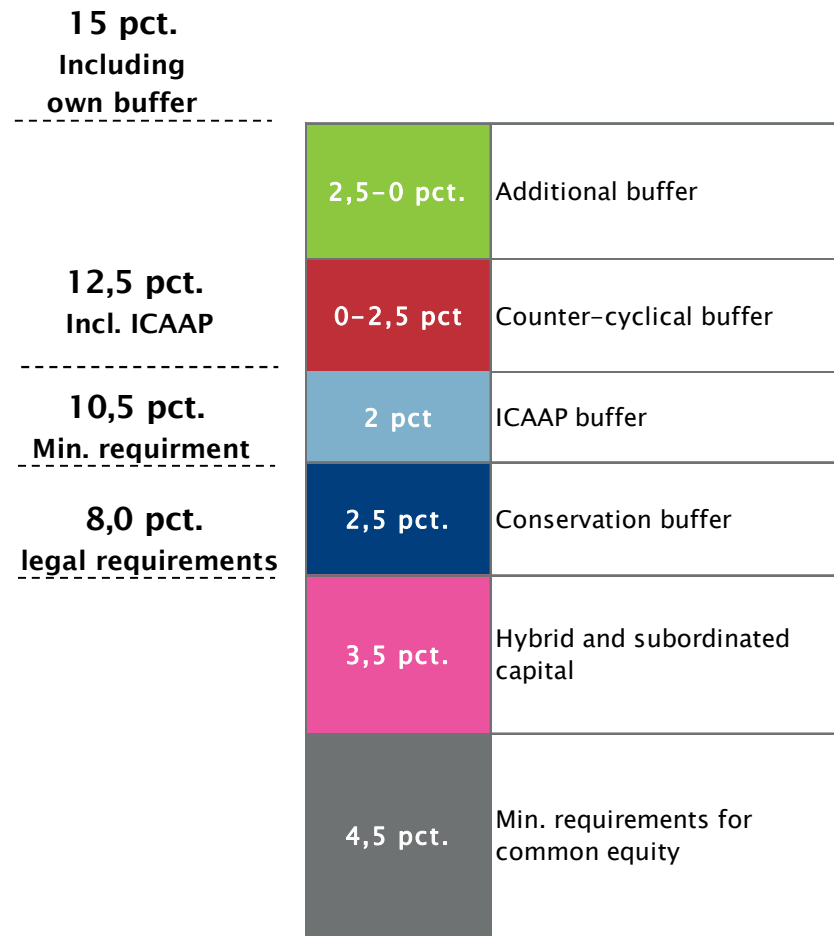


# CAPITAL REQUIREMENTS

## CORE TIER 1 RATIO

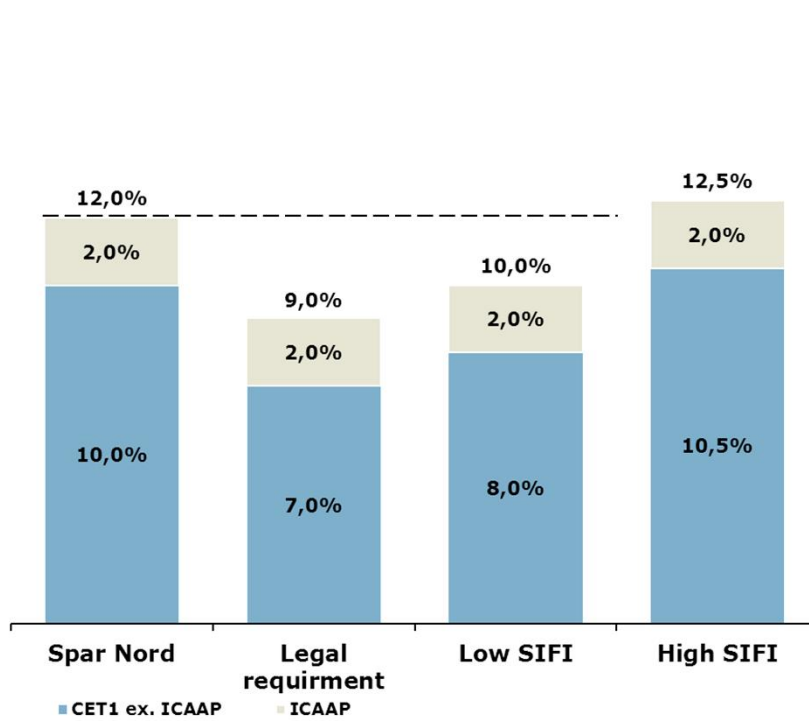


## SOLVENCY RATIO

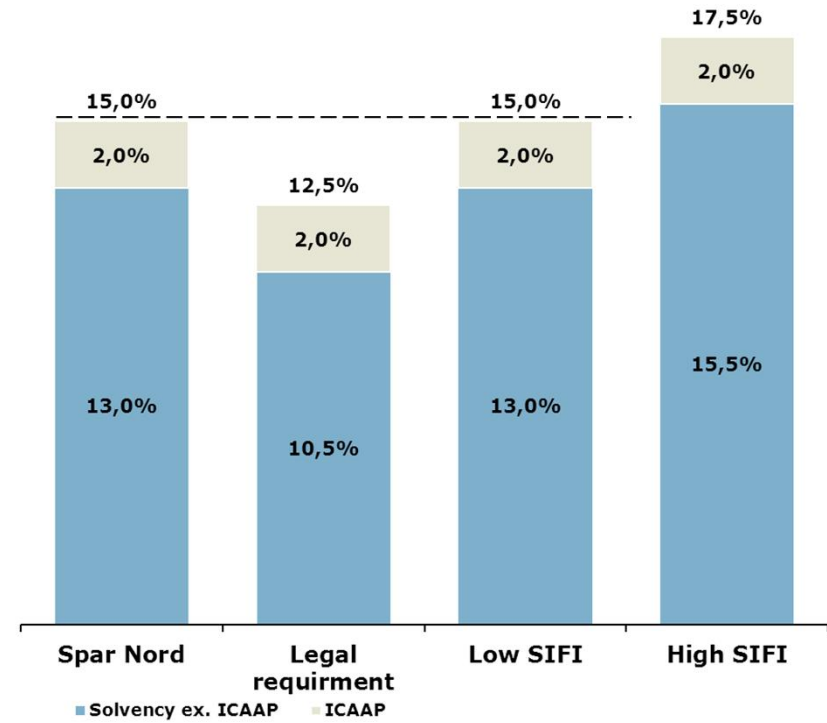


# SPAR NORD AND SIFI REQUIREMENTS

CORE TIER 1 RATIO



SOLVENCY RATIO



- SIFI requirements are specified ex. ICAAP
- For comparison a 2 pct. ICAPP buffer is added

## CRD IV IMPACT ON RISK WEIGHTED ASSETS

| CRD IV impact on RWA (DKKm)                                    | 2014           | Fully phased in | Comments   |
|--|----------------|-----------------|--|
| Increased RWA from changes in deductions rules                 | ~ 300          | ~ 1.400         | <ul style="list-style-type: none"> <li>RWA treatment of elements that otherwise would have been deducted from CET1</li> <li>Over 80 pct. comes from Nørresundby Bank</li> </ul>  |
| Changed default criteria<br>High risk exposure<br>SME discount | ~ 300          | ~ 300           | <ul style="list-style-type: none"> <li>Broader definition of the default criteria → increases RWA</li> <li>High risk exposure is a new risk category → increases RWA</li> <li>Support factor - SME exposure → decreases RWA</li> </ul> |
| CVA and CCP clearing<br>Financial counterparties               | ~ 700          | ~ 700           | <ul style="list-style-type: none"> <li>Higher capital requirements for OTC derivatives by introducing a capital charge for CVA risk</li> <li>Higher capital requirements for loans to financial intermediaries</li> </ul>              |
| <b>Total impact</b>  | <b>~ 1.300</b> | <b>~ 2.400</b>  |  |



## NØRRESUNDBY BANK – A COMPLEX AFFAIR

- Changes in the deduction rules will have a negative impact on core tier 1 ratio
- However, the same rules will boost solvency ratio
- When the ownership interest exceeds 10 pct., deductions are split between capital deductions and increased RWA
- Impact on RWA are expressed as a capital deduction

### Impact from shares in Nørresundby Bank

| Basel II          | Deductions (DKKm) | Impact on capital ratio (Pct.) |
|-------------------|-------------------|--------------------------------|
| Core tier 1 ratio | 0                 | 0                              |
| Solvency ratio    | 700               | -1,7                           |

| CRD IV            | Deductions (DKKm) | Impact on capital ratio (Pct.) |
|-------------------|-------------------|--------------------------------|
| Core tier 1 ratio | 400               | -0,8                           |
| Solvency ratio    | 400               | -0,9                           |

| Changes           | Deductions (DKKm) | Impact on capital ratio (Pct.) |
|-------------------|-------------------|--------------------------------|
| Core tier 1 ratio | 400               | -0,8                           |
| Solvency ratio    | -300              | 0,8                            |

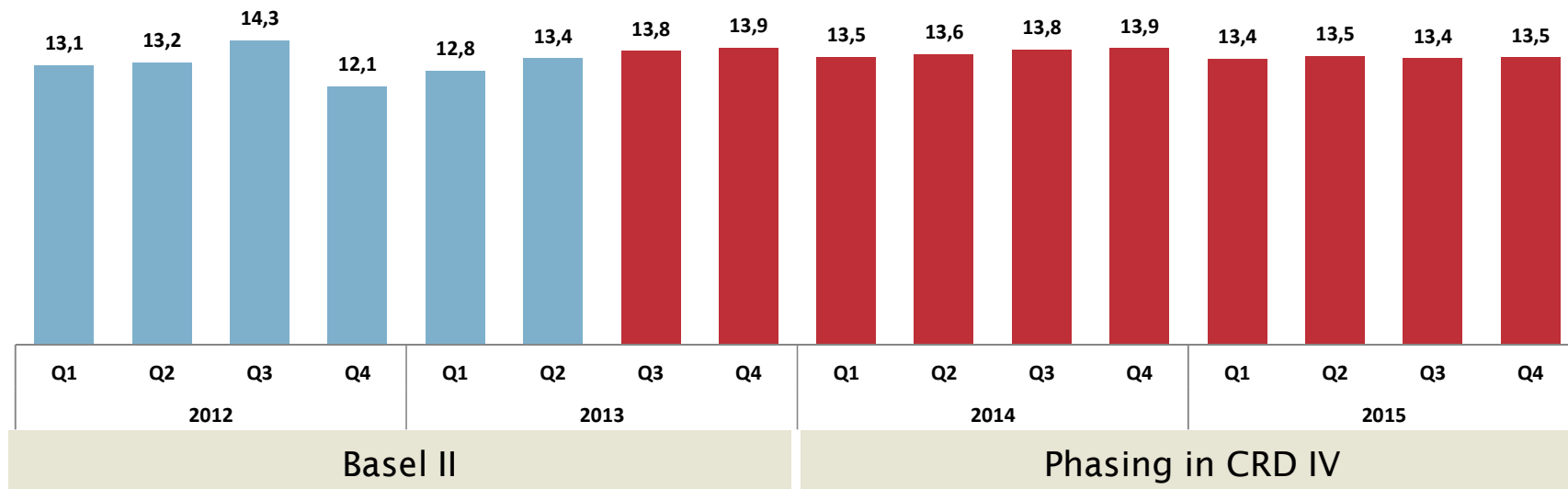
## IMPACT FROM REPAYMENT OF STATE HYBRID CAPITAL

- Repayment of DKKm 1.265 mid 2014
- In connection with the repayment, we expect to issue new Tier 2 capital.
- Timing and amount TBD.
- After the repayment the solvency ratio will still exceed 15 pct.

### Impact from repayment of state hybrid capital

| Capital ratios | Impact |
|----------------|--------|
| Tier 1 ratio   | 3,0%   |
| Solvency ratio | 3,2%   |

## CORE TIER 1 RATIO - CAPITAL SCENARIO UNTIL 2015



- Phasing in of CRD IV leads to visible deductions in CET1
- In a base scenario with modest growth and possible dividend, CET1 remains comfortably above target

## CONCLUSIONS

- The new regulatory regime leads to number of changes and it has implications across the palette
- Non-IRB status (lower leverage) and non-SIFI status adds a certain flexibility to capital policy – comfortable with targets of 12% CET1 and 15% solvency
- CRD IV leads to visible deductions – in a base scenario with modest growth CET1 remains comfortably above target
- Nørresundby Bank is no no-brainer – multiple scenarios are thinkable
- In connection with repayment of state hybrid capital, we plan to issue Tier 2 capital – timing and amount TBD



QUESTIONS