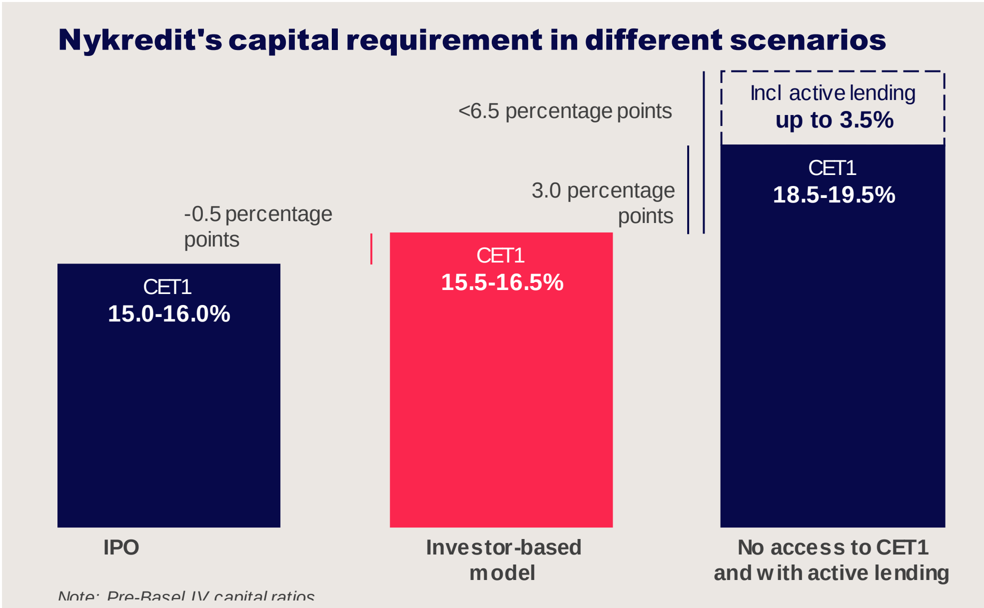
Forenet Kredit

Nykredit

Facts

Nykredit's capital requirements in different scenarios



Nykredit's capital target has so far been a CET1 ratio of 17.5%.In mid-2017 the Danish FSA voiced a need for Nykredit either to raise this target or to obtain a higher funding flexibility. The Danish FSA has thus stated that as a systemically important financial institution Nykredit must meet all regulatory requirements inclusive of capital buffers, taking into account any stress test effects, reflecting a severe recession with high unemployment, large property price drops etc.

Against this backdrop, the Danish FSA has laid down a minimum capital target of 14.5% for Nykredit in a listed company scenario. To secure a comfortable buffer against the FSA requirement, Nykredit would in that scenario operate with a capital requirement of 15-16%.

The Danish FSA finds that Nykredit's funding flexibility is slightly lower in the proposed investor-based model, and in that scenario Nykredit's capital target will be 0.5 percentage points higher than that of a listed scenario. Nykredit will therefore operate with a capital requirement of 15.5-16.5%.

However, Nykredit's capital requirements will be significantly lower in the investor-based model compared with the current situation where Nykredit has limited funding flexibility.

This is because the Danish FSA finds that institutions with limited funding flexibility must hold more capital in case of future crises compared with institutions that can raise capital. The investor model therefore provides Nykredit with a capital requirement of 15.5-16.5% compared with 18.5-19.5% in the current situation with limited funding flexibility. In practice Nykredit must hold additional capital equal to some 3 percentage points compared with the investor model.

Furthermore, the Danish FSA require institutions with limited funding flexibility to hold additional capital depending on how ambitious a lending target they pursue.

This additional capital buffer requirement is not fixed but will for Nykredit probably amount to up to 3.5 percentage points, as this level will secure Nykredit's capacity to maintain lending at all times.

The additional capital requirements should also be seen in the light of the fact that the Danish FSA does not find that institutions' capital planning may rely on financial markets allowing institutions more than two years to rebuild capital. This may be very difficult for an institution with limited funding flexibility.

The FSA requirements illustrate the need for Nykredit to strengthen its funding flexibility to counter the growing unpredictability of Nykredit's regulatory conditions.