

Introduction to MREL – Minimum Requirement for own funds and Eligible Liabilities

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I.	BRRD and MREL	2
II.	MREL in Norway	7
III.	SNP in Norway	14
IV.	MREL in Sweden and others	22
V.	Credit ratings on SNP	26

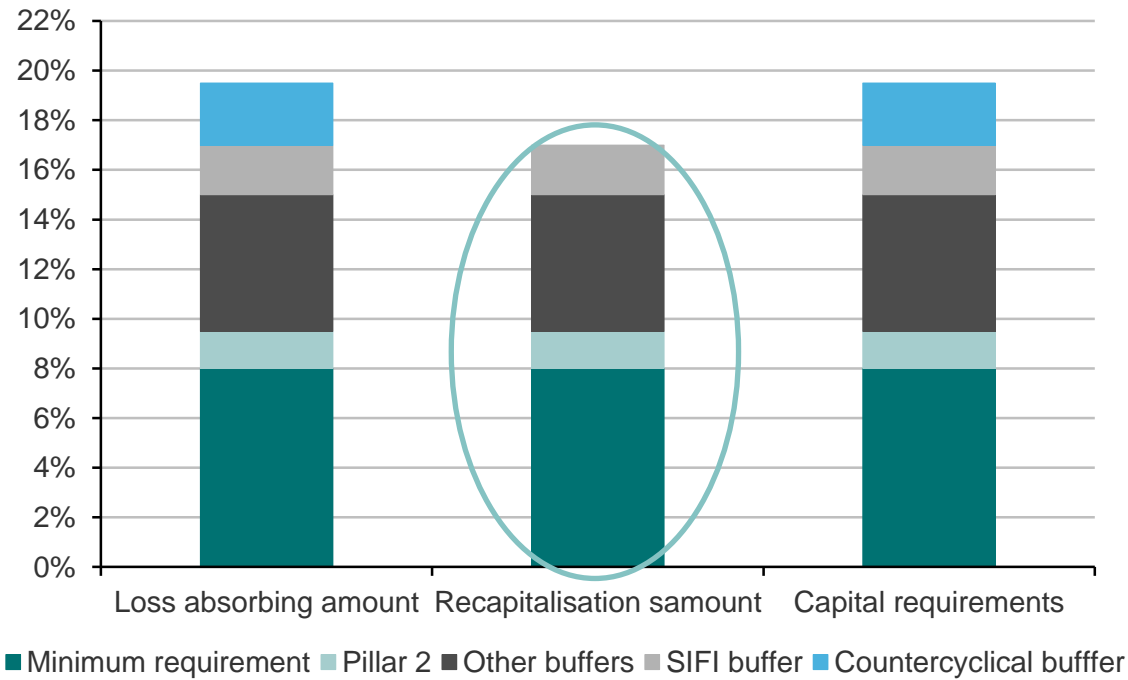
Background

- The Arendal crash (1890)
 - A sailing ship per tenth citizen
- The Kristiania crash (1900)
 - A client with debt equal to 20% of government budget
 - Real estate bubble
- The wake of World War (1920)
 - 1300 new brokerages established
 - Andresens og Bergens Kreditbank
- The Norwegian banking crisis (1987)
 - Credit boom, stock index 5 doubled from 1983 to 1986
- The global financial crisis (2008)
 - Subprime, unknown CDS-exposure and frozen interbank market

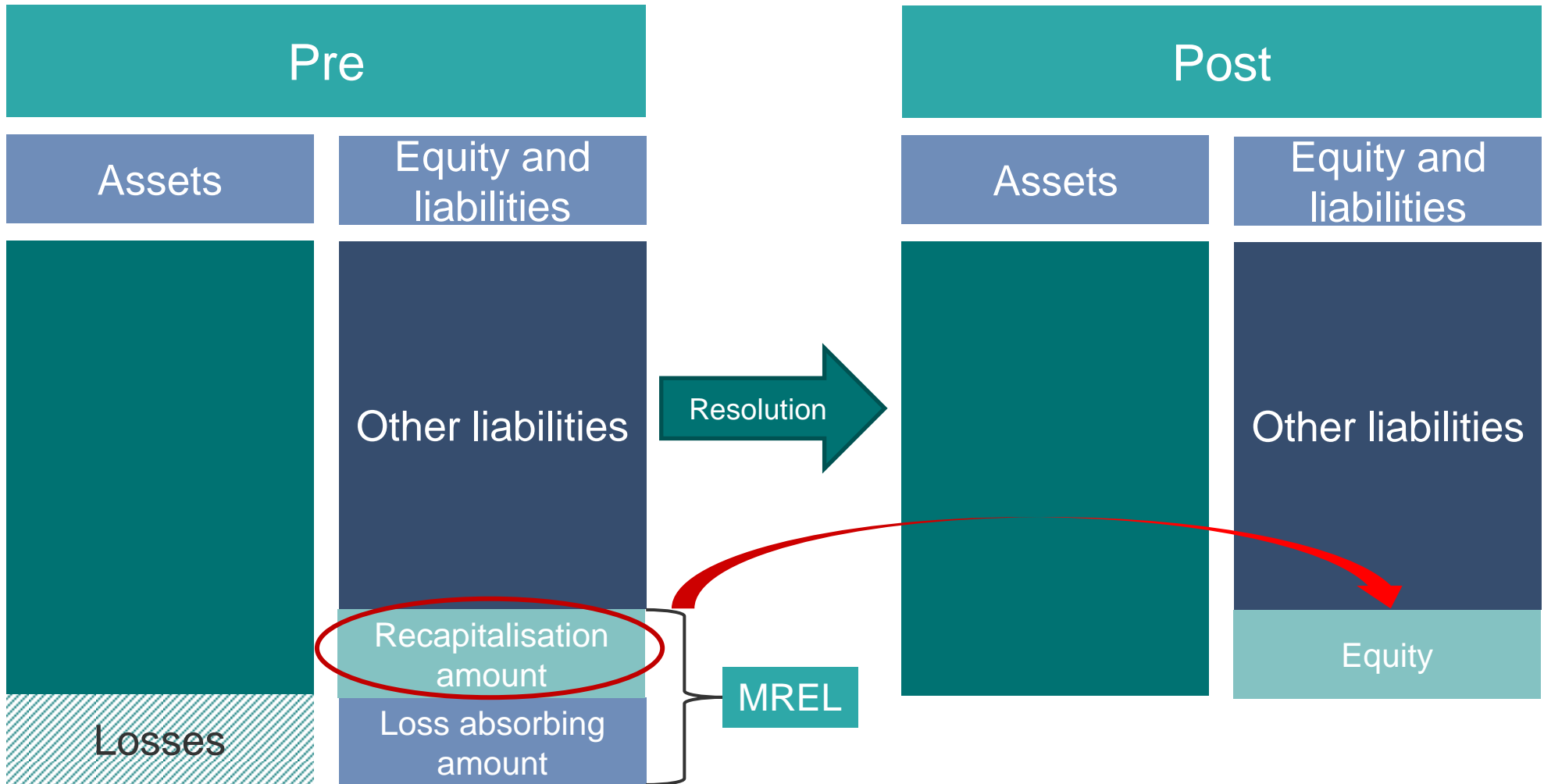


What is MREL and how much MREL is required?

- Minimum requirement for own funds and eligible liabilities (**MREL**) is part of the implementation of the EU Bank Recovery and Resolution Directive (**BRRD**)
- Recapitalisation amount to be (mostly) fulfilled by subordinated debt (**Senior Non-Preferred**)
- Subordination volume uncertain – 2019 requirement from NFSA shown in graph
- $\text{MREL requirement} - \text{total capital} = \text{SNP requirement}$



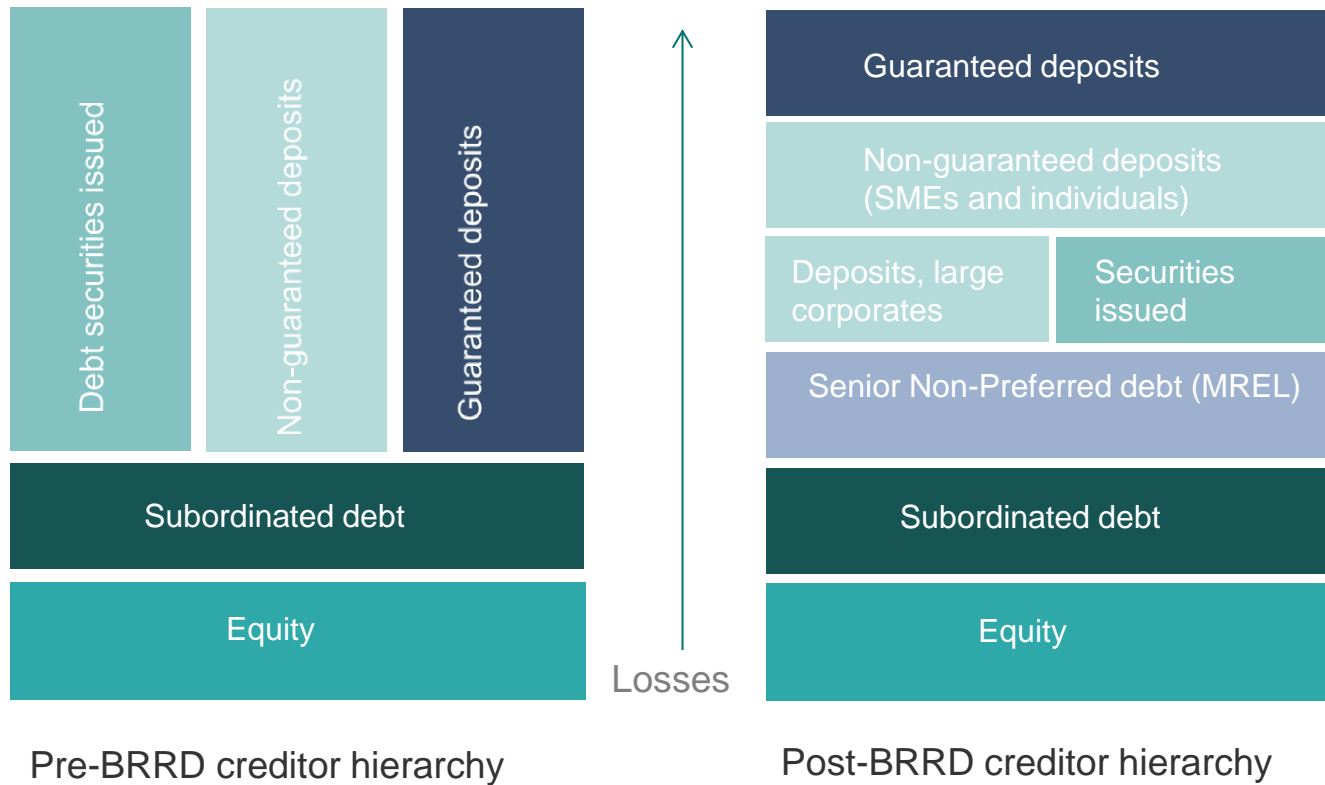
Resolution by bail-in - illustration



MREL=«Minimum requirement for eligible liabilities»
Source: Riksgälden

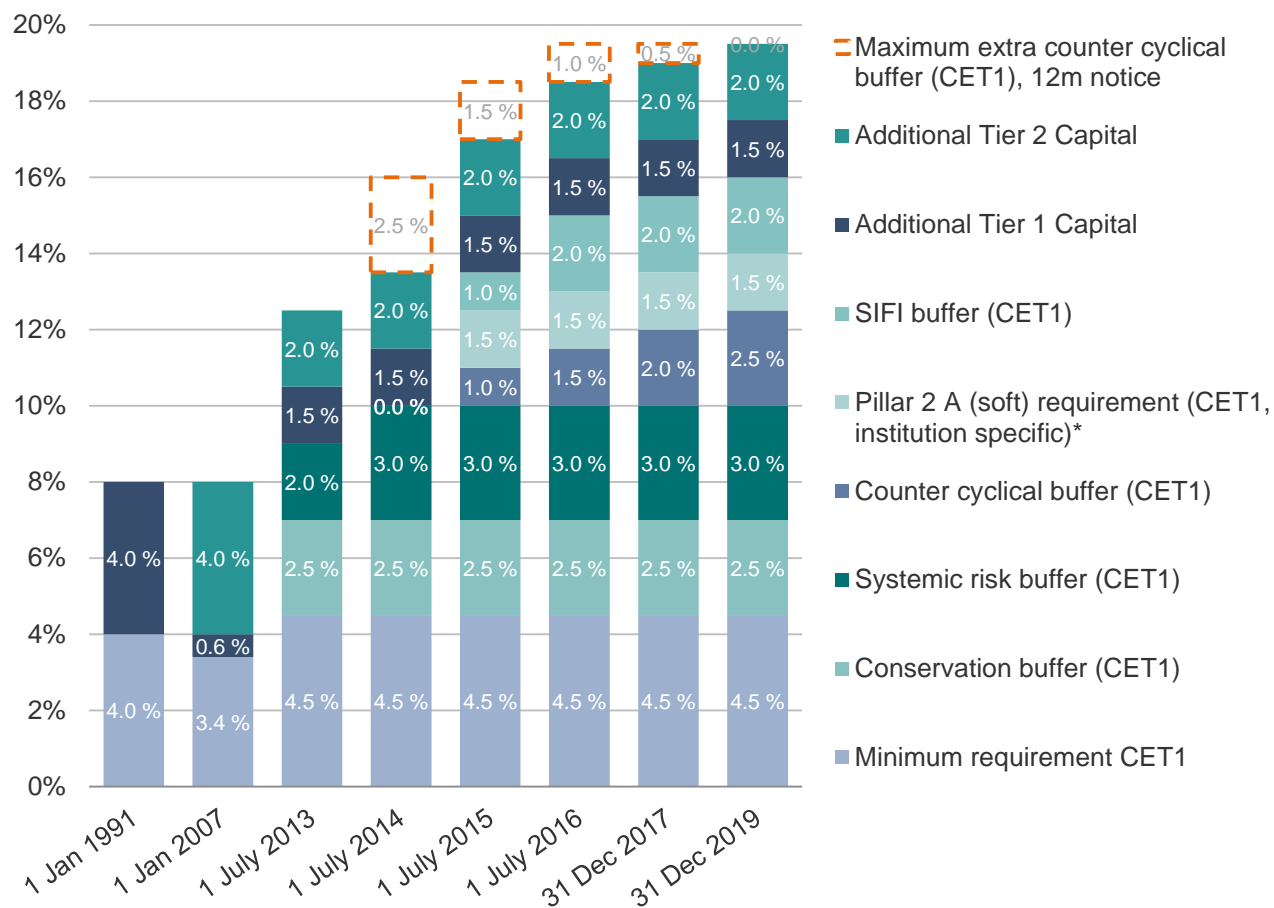
BRRD introduces the new creditor hierarchy

Non preferred debt to recapitalize the «new» bank



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Capital requirements for a Norwegian SIFI bank



*Eksempelbank. Inkludert SIFI-buffer. Pilar 2-kravene stilles på individuell basis. Motsyklisk buffer avhengig av landeksponering, det samme vil muligens gjelde for systemrisikobuffer fremover.

Banks first in line for MREL requirements: NFSA SREP Group 1 and 2

SREP Group 1: 6 institutions

DNB ASA

Kommunalbanken AS

Nordea Eiendomskreditt AS

Nordea Finans Norge AS

Santander Consumer Bank AS

SG Finans AS

SREP Group 2: 13 institutions

Bank Norwegian AS

OBOS-Banken AS

Sbanken ASA

SpareBank 1 BV

SpareBank 1 Nord-Norge

SpareBank 1 SMN

SpareBank 1 SR-Bank

SpareBank 1 Østlandet

Sparebanken Møre

Sparebanken Sogn og Fjordane

Sparebanken Sør

Sparebanken Vest

Sparebanken Øst

- Update on progress from NFSA 07 May 2019: Banks to receive MREL requirements (late) in 2019 marked

First public Norwegian MREL advance notice 27 November 2019

Norwegian Finans Holding ASA shall hold total MREL capital equal to 37.135 % of adjusted risk weighted assets as of 31.12.2018 which leads to an MREL requirement of NOK 4,675 million. This absolute requirement will apply until a new requirement is calculated expectedly prior to year end 2020.

The MREL capital issued by Norwegian Finans Holding ASA shall be issued in senior non preferred format with an expected phase-in period until 31.12.2022. Senior preferred debt issued by Bank Norwegian AS per 31.12.2019, with a minimum remaining tenor of 1 year, will qualify as MREL capital until 31.12.2022.

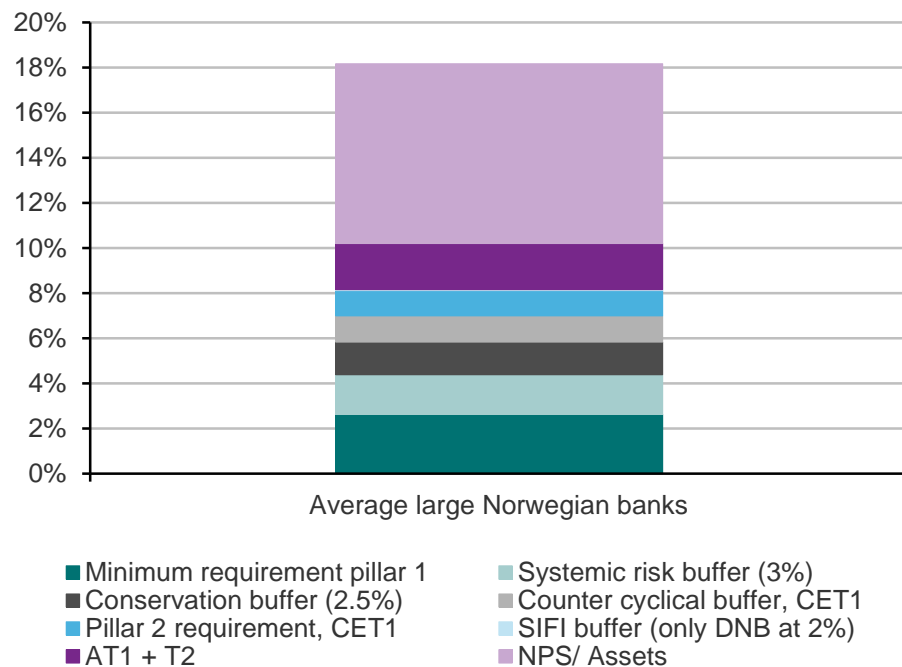
Norwegian Finans Holding ASA is required to meet the minimum MREL requirement per 30.06.2020. The company shall deliver a plan to the Norwegian FSA within 31.03.2020 on how to fulfill the requirement going forward. The advance notice is a preliminary notice to Norwegian Finance Holding ASA of its MREL requirement.

The final requirements were announced 23 December 2019

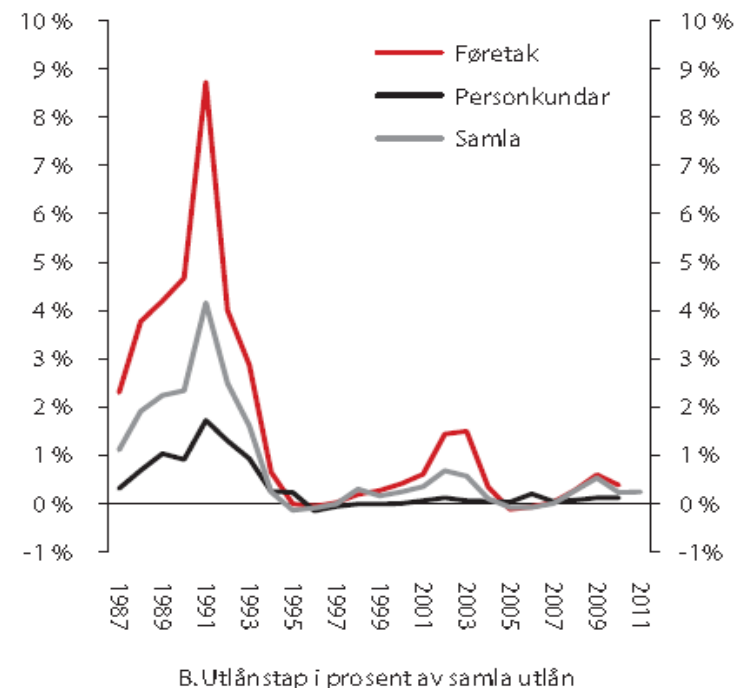
MREL 2019	MREL i prosent av justert beregningsgrunnlag	MREL-beløp (beløp i millioner kroner)	Comments
DNB ASA	36,72	318 190	<ul style="list-style-type: none"> ▪ Hold-Co requirement for DNB <ul style="list-style-type: none"> - Will seek to merge DNB ASA and DNB DNB Bank ASA.
Sparebank 1 SR-Bank	32,90	33 714	<ul style="list-style-type: none"> ▪ Covered bond issuers exempted – but exposure towards own CB subsidiary included in RWA.
Sparebank 1 SMN	33,70	27 235	<ul style="list-style-type: none"> ▪ Uncertain capital requirements going forward.
Sparebanken Vest	32,90	20 775	
Sparebank 1 Østlandet	33,10	18 891	
Sparebank 1 Nord-Norge	32,50	18 730	
Sparebanken Sør	33,50	19 684	
Norwegian Finans Holding/Bank Norwegian	37,13	12 893	<ul style="list-style-type: none"> ▪ Based on adjusted RWA as of YE2018, recalculations going forward.

How much MREL is proposed? Share of assets

MREL requirements, % of assets

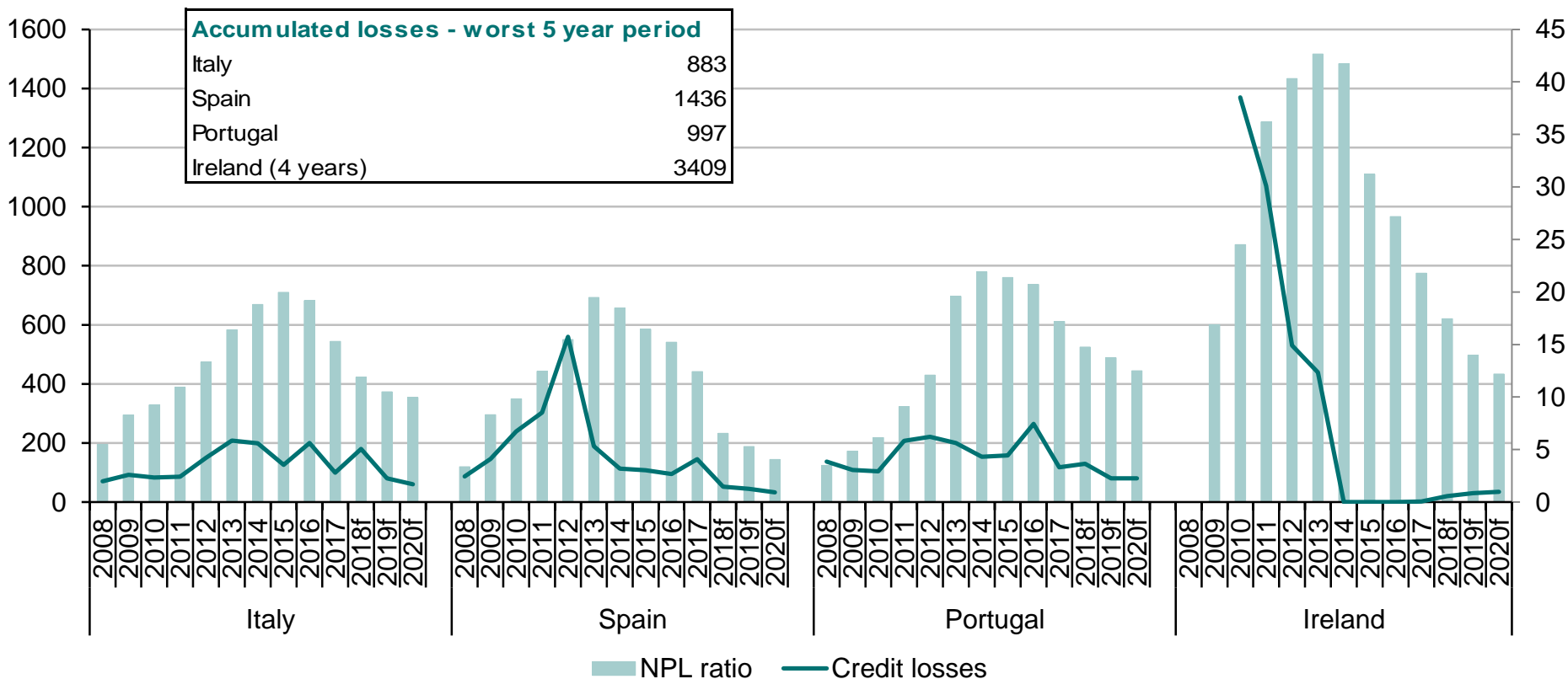


Credit losses during banking crisis



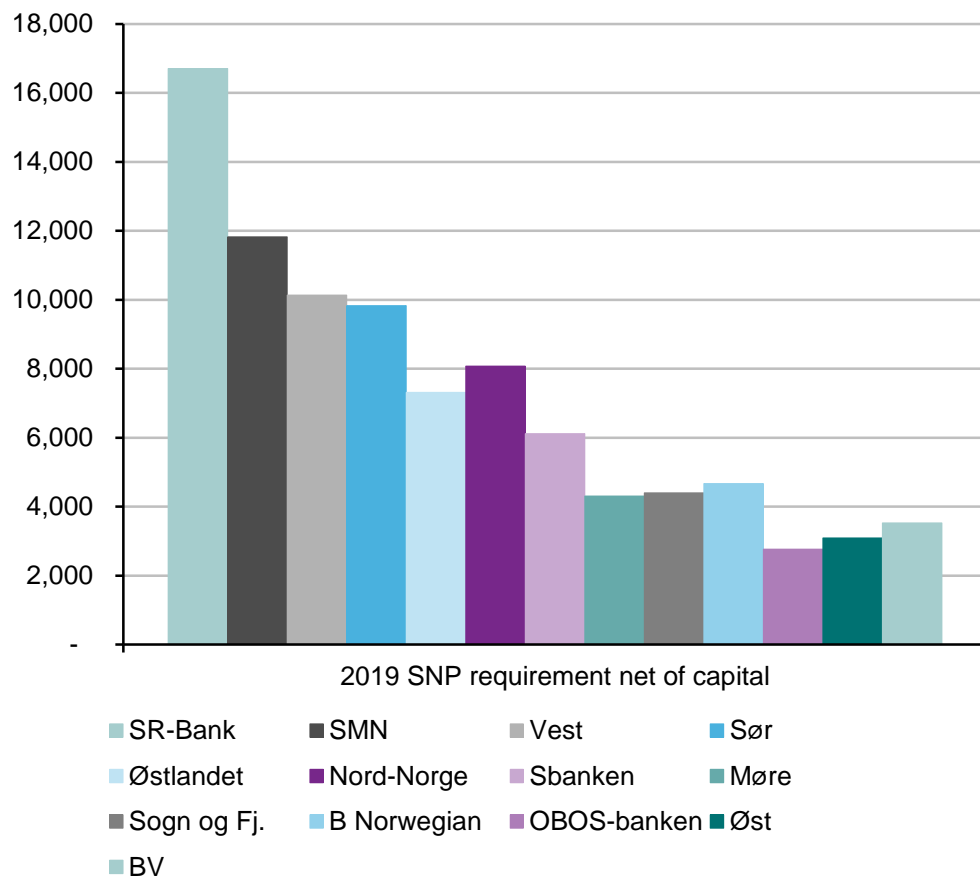
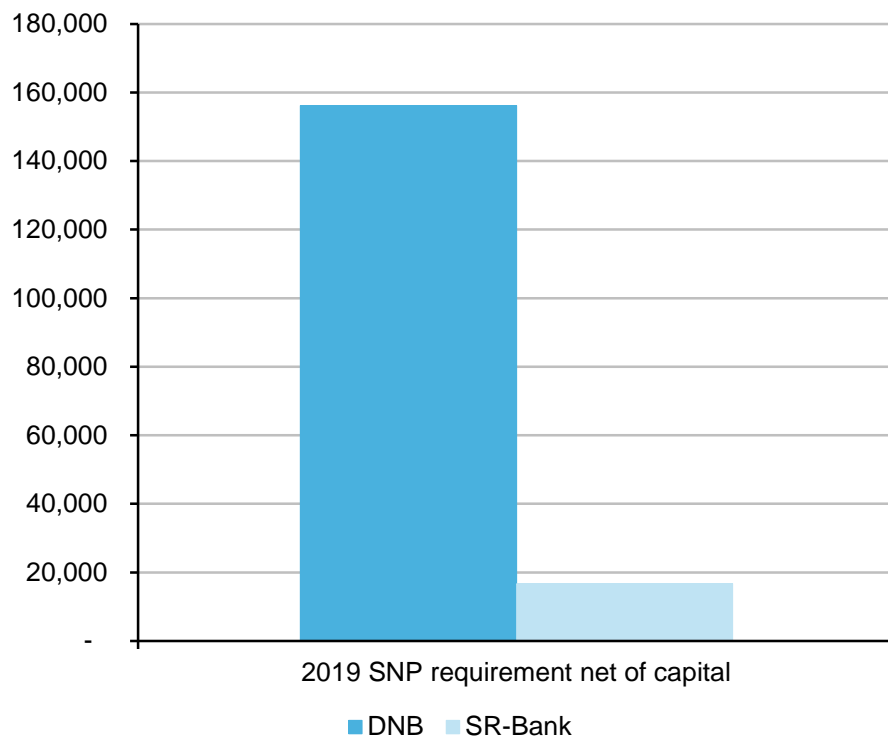
- Capital attrition during crisis: ~7% of total assets
- Capital + SNP = 2.5x capital attrition

Lessons from PIIS in the wake of the financial crisis – credit losses (bp)



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SNP requirements, NOKm, Norwegian banks, parent banks – “Worst case”

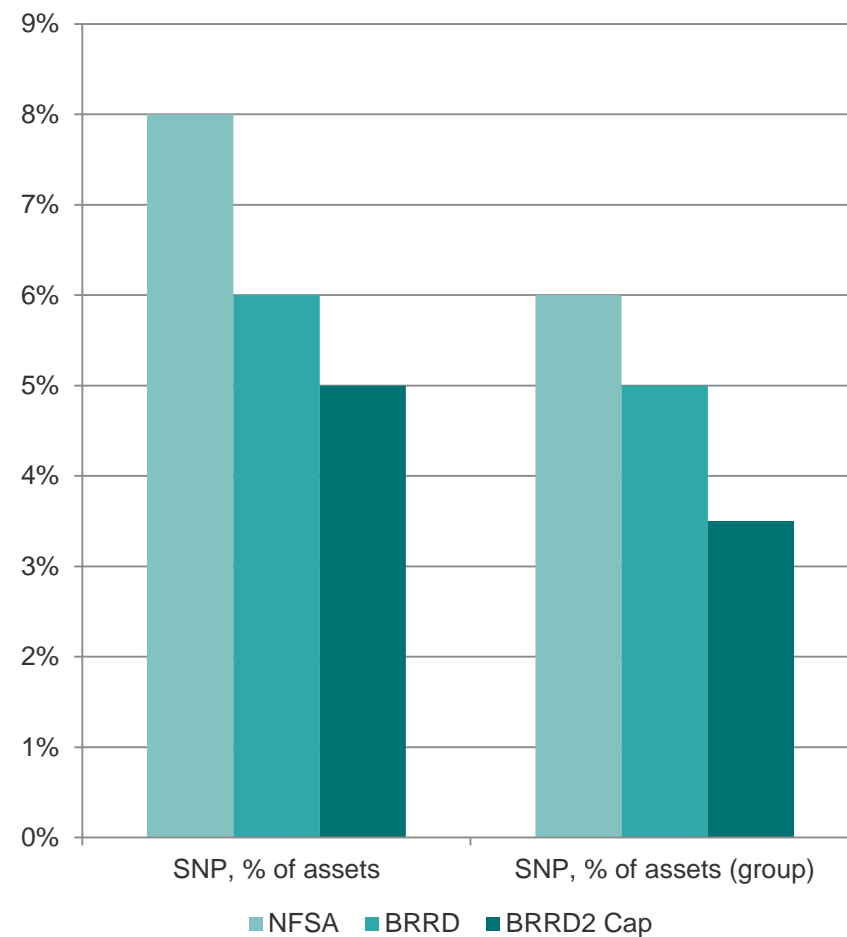
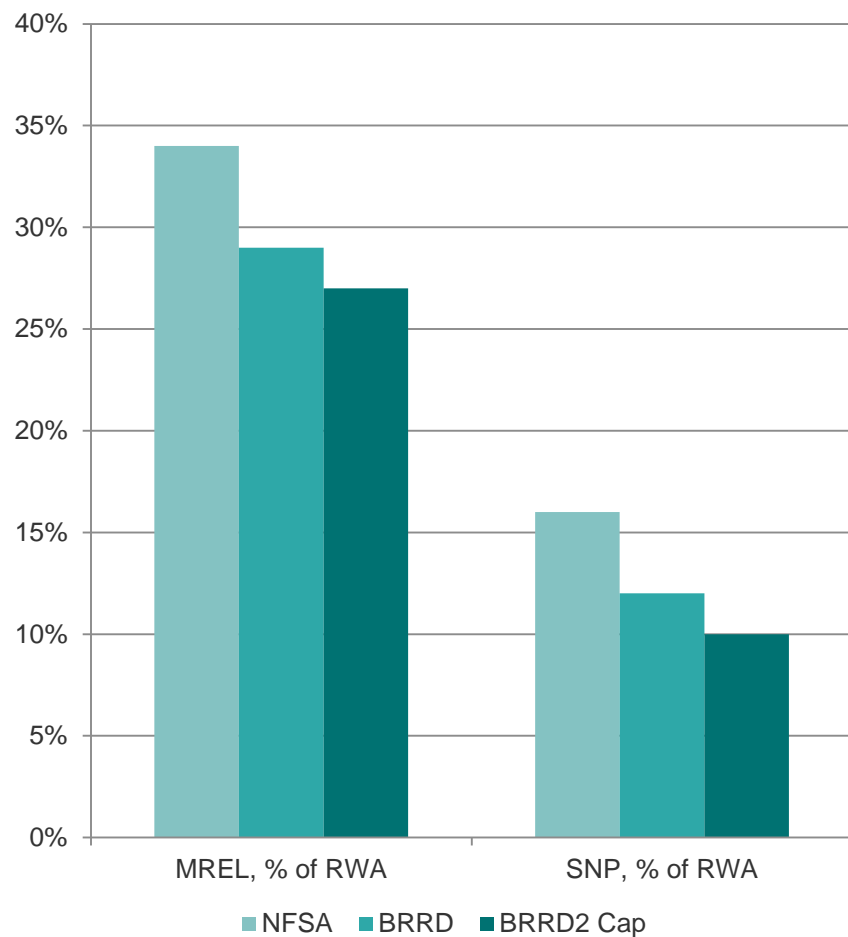


- DNB Bank in the area NOK160bn, possibly reduced to NOK60-70bn if a 27% cap is introduced (as opposed to the calculated ~37% of RWA).
- Total cNOK250bn for largest 14 Norwegian banks

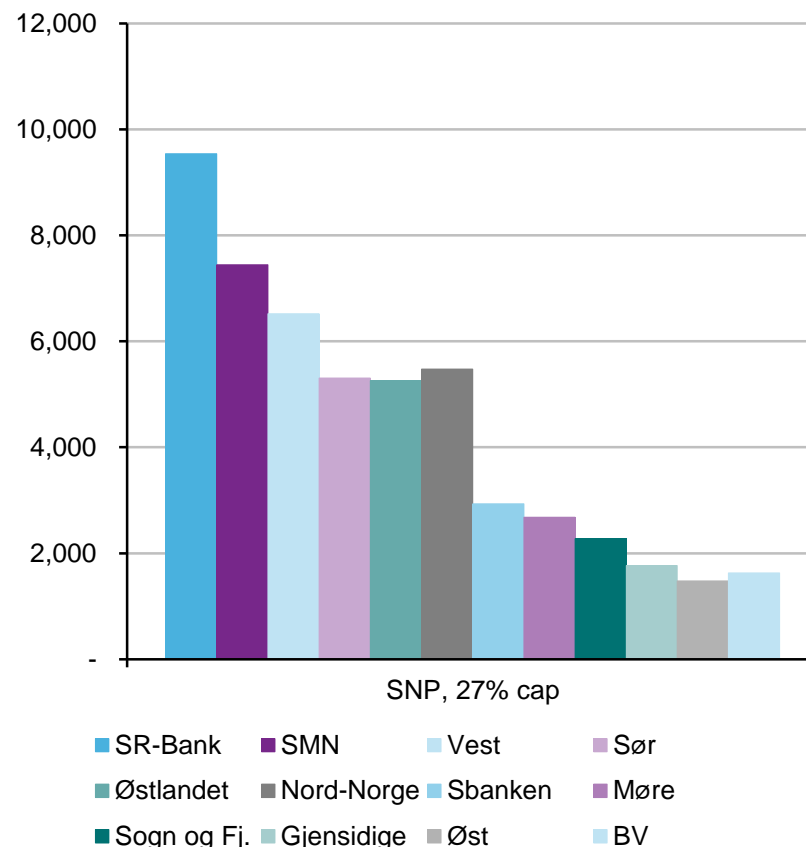
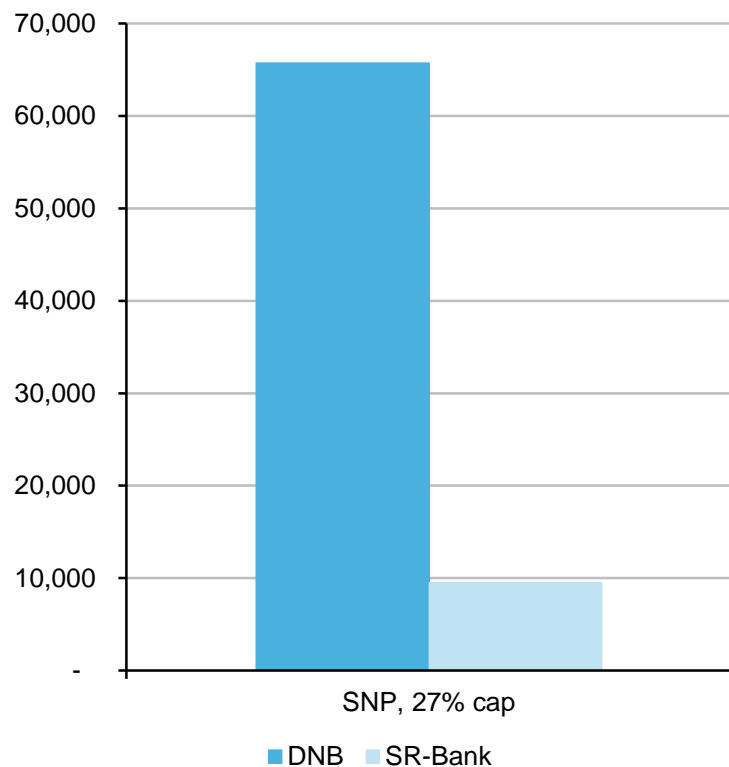
BRRD2 to the rescue?

- BRRD2 deadline to comply 1 Jan 2024
- BRRD2 top tier banks (total assets > EUR100bn):
 - Capped at 27% (or $2*(P1+P2) + CBR \approx 29\%$)
 - 27%/ 29% including capital → SNP requirement at **8-10% of RWA**
 - (Opening for for cap on smaller banks if deemed systemic)
- NFSA: Capital requirements less countercyclical buffer
 - SNP requirement at **15-17% of RWA** (less surplus capital?)
- The subordination cap not yet mentioned by Norwegian authorities, but on its way into Swedish legislation (?).

BRRD2 almost halving the SNP requirement?

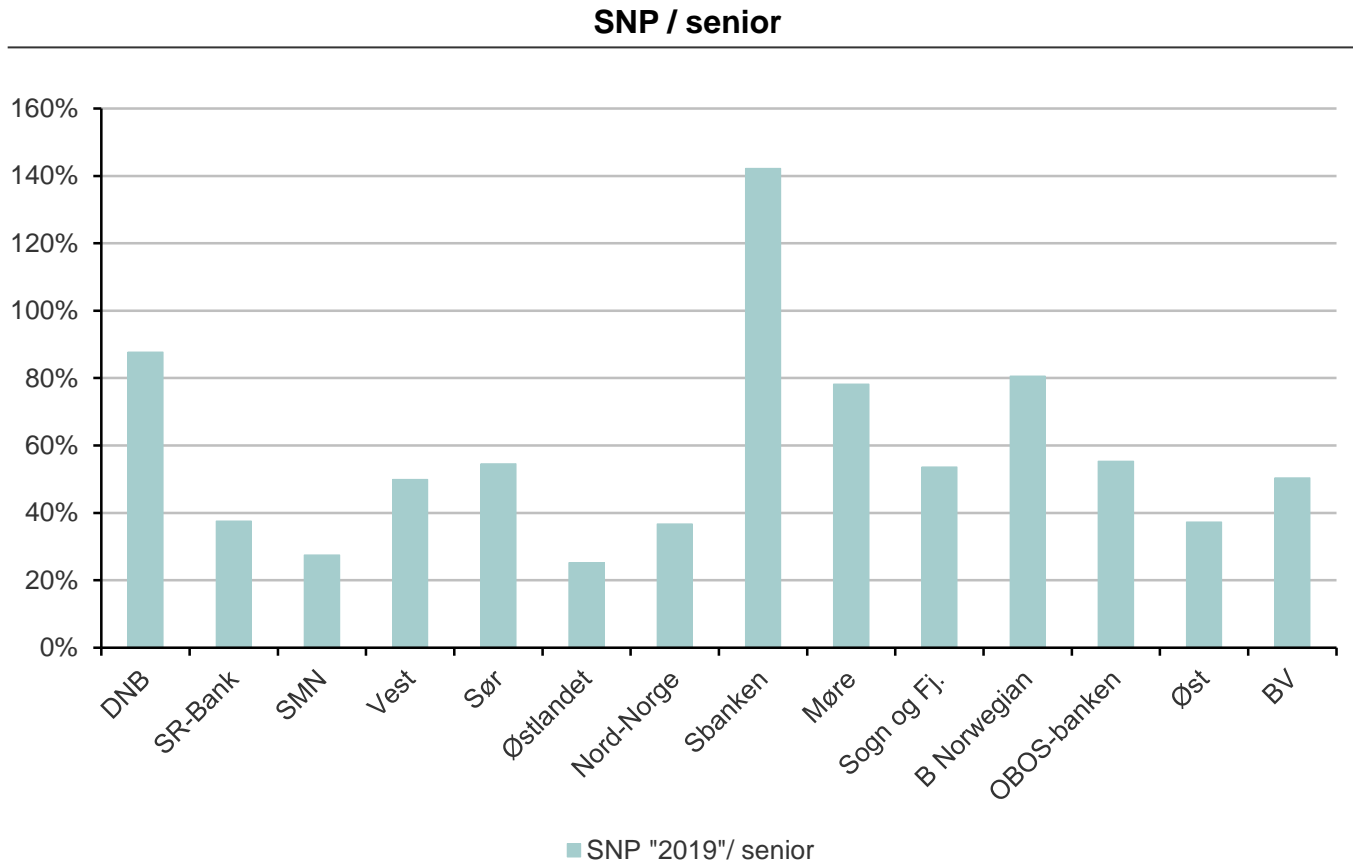


SNP requirements, “27% cap scenario”, NOKm, Norwegian banks, parent banks



- DNB Bank in the area NOK160bn, possibly reduced to NOK60-70bn if a 27% cap is introduced (as opposed to the calculated ~37% of RWA).

SNP “worst case” volume, vs outstanding senior volume (est.)



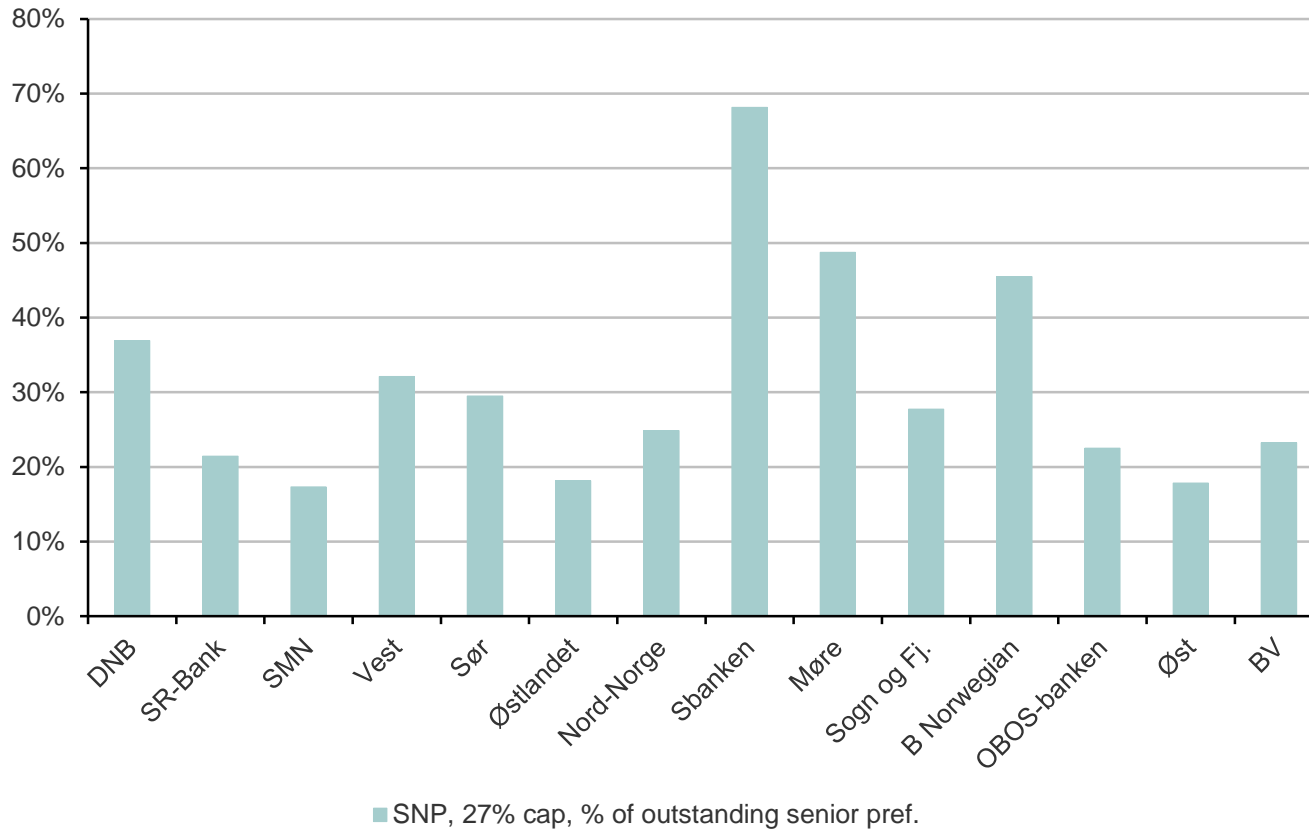
Comments

- Share of outstanding senior pref depending on amount of covered bonds issued and deposit volume
- Transitional period until end of 2022 (at least...)

Source: Bloomberg, the banks, DNB Markets (calculations)

SNP, “27% cap scenario” volume, vs outstanding senior volume

SNP / senior

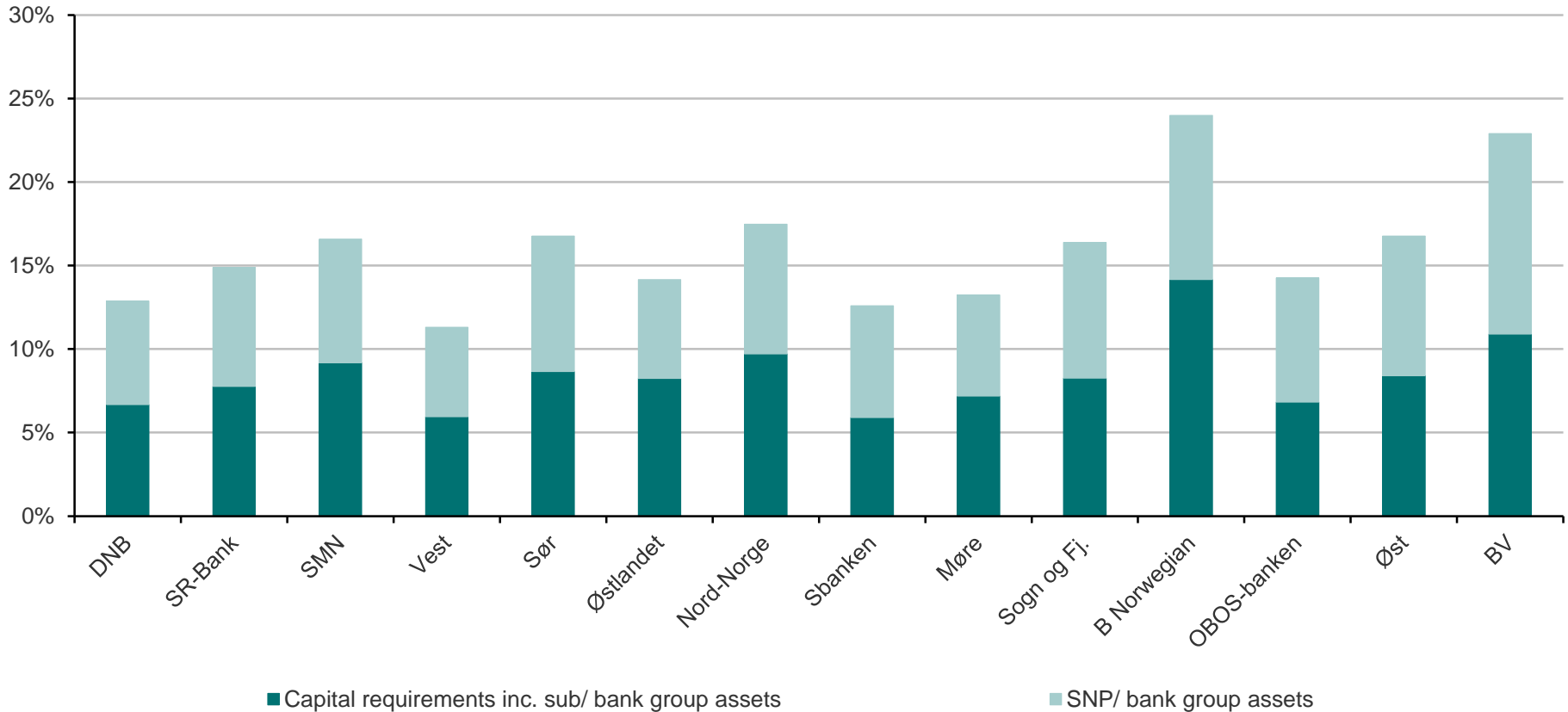


Comments

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Capital + SNP, 2019 requirements, % of total assets (“Bank groups”), Norwegian banks

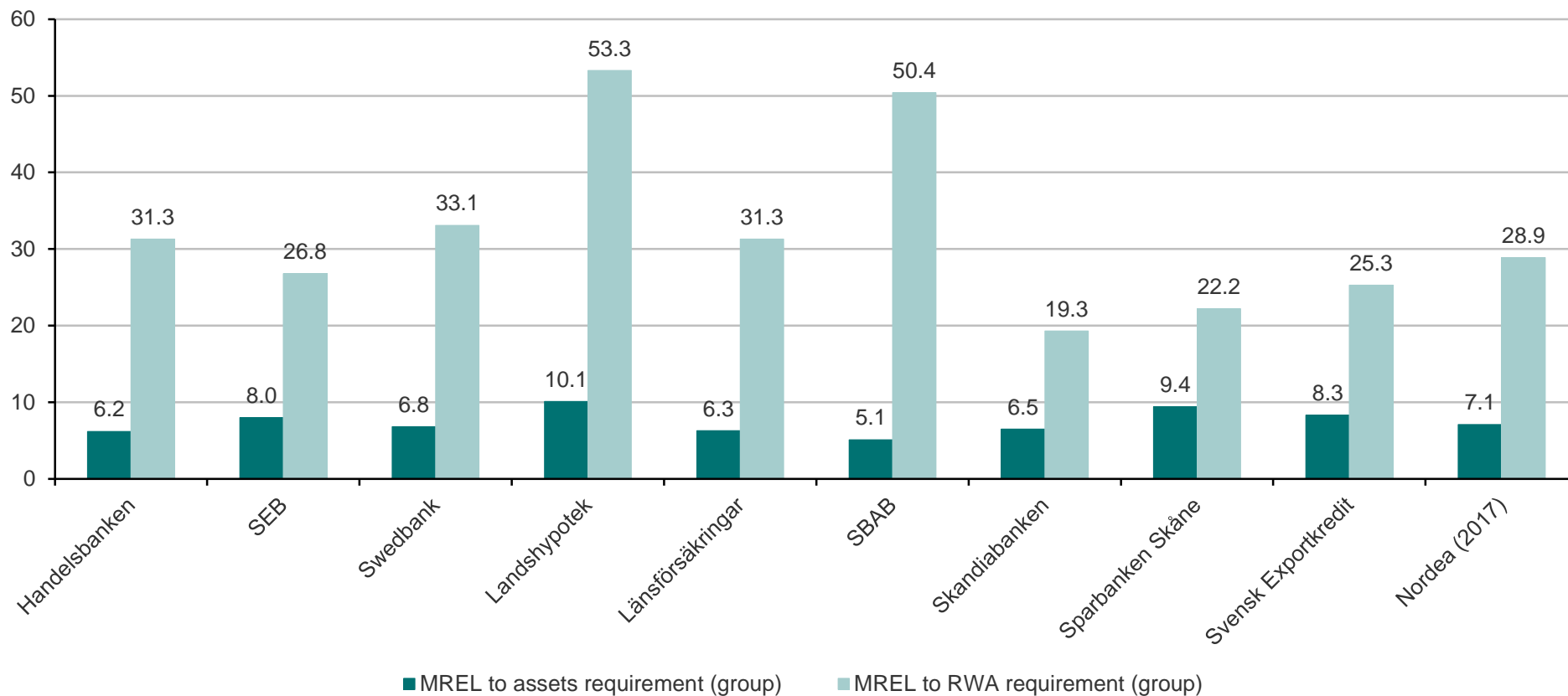


Source: NFSA, the banks, DNB Markets (calc)

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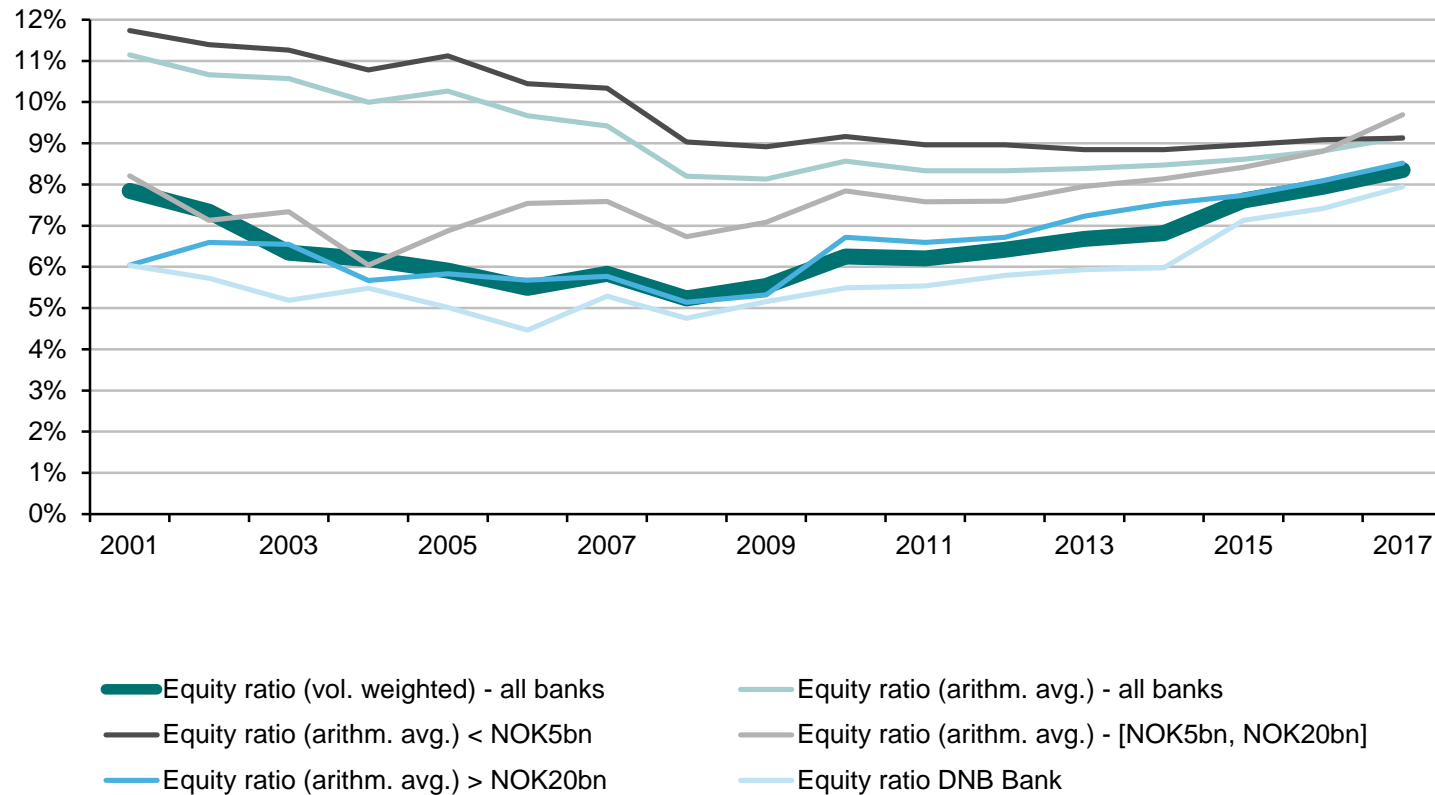
Comparison: Swedish MREL requirements much softer

- Uncertainty regarding risk weights going forward



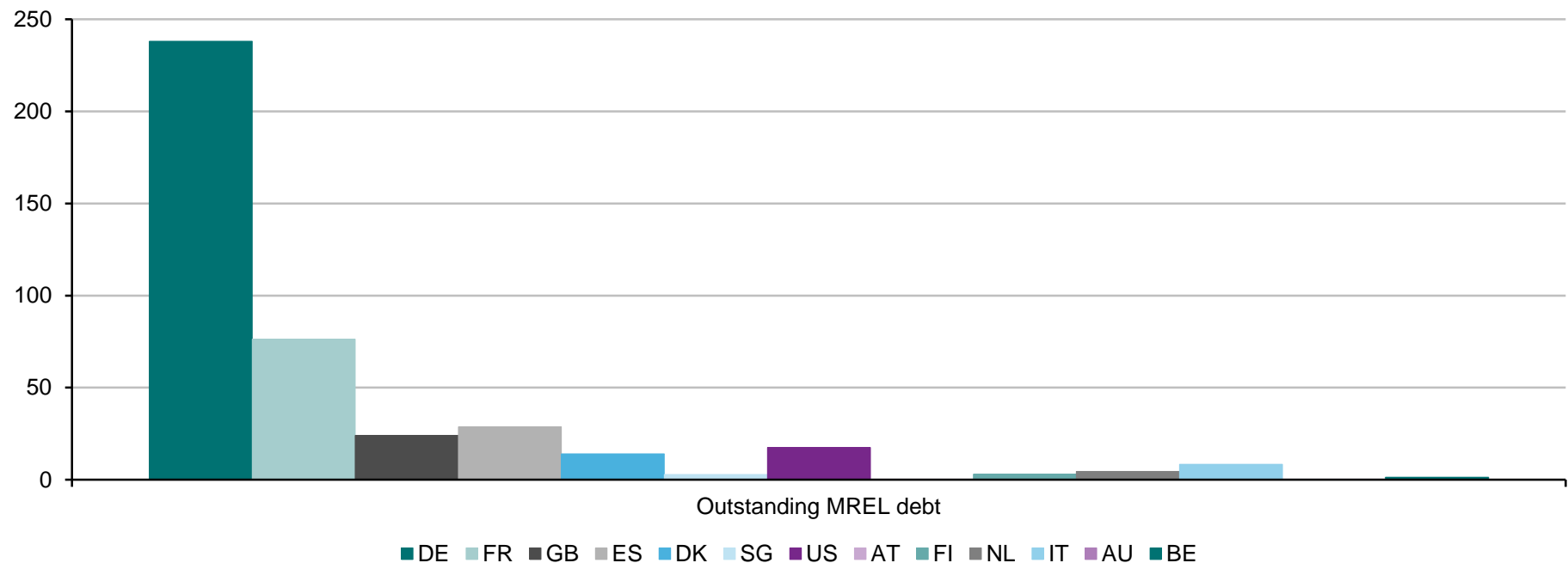
Capital strength – convergence between small and large banks

Unweighted equity ratio to adjusted assets



Outstanding MREL eligible volume (EURbn) – including HoldCo debt

- Including SNP, statutorily MREL eligible senior and HoldCo senior
- Germany overcompliant due to subordination of old senior



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Diverging ratings – DNB Markets more aligned with S&P

	S&P	Moody's	Fitch	Scope	NCR	DNBM (ACS)
	(Nordea)	(Nordea)	(Nordea)	(Nordea)	(SOAG)	(SOAG)
Senior pref	AA-	Aa3	AA-	AA-	A	a
SNP	A	Baa1	AA-	A+	(A)	a-
Tier 2	A-	Baa1	A+	A-	A-	bbb+
AT1	BBB	Ba1	BBB	BBB-	BBB	bbb-

- DNB Markets Credit Research will deduct a notch if our estimated recovery is less than 30%. This may be seen in connection with corporate methodology.
- We will review our notching rules on senior preferred ACS if our estimates indicate very high recovery as a consequence of issuance of SNP

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