

Solvency need for BRFkredit a/s for Q3 2014

To comply with the requirement of quarterly publication of the solvency need of BRFkredit a/s, a separate document regarding the solvency need situation has been prepared as a supplement to the publication of the interim report for Q3 2014.

The calculation of the adequate own funds for BRFkredit is made based on the 8+ method, cf. the guidelines from the Danish Financial Supervisory Authority, i.e. that the solvency ratio requirement of 8 pc is used as the starting point with additions for further risks that are estimated not to be covered by the solvency requirement.

Earnings

BRFkredit's budgeted core earnings warrant no addition based on the procedure described in the guidelines, i.e. the calculation of the relationship between core earnings and the aggregate loan volume.

Growth in lending

BRFkredit's budgeted growth in lending is higher than the limits stipulated in the guidelines in regard to additions, and therefore DKK 0.2bn is reserved specifically for growth in lending.

Credit risk

The solvency requirement for credit risk amounts to DKK 4.0bn. In addition, BRFkredit has allocated DKK 0.8bn to cover additional credit risk. The risk related to large-scale customers in financial difficulty amounts to DKK 0.4bn, and DKK 0.1bn has been set aside to cover risk in connection with weak commitments in the remaining credit portfolio. Via its defined activity area, BRFkredit has concentrations of credit risk. To cover the concentration of large-scale commitments, less than DKK 0.1bn has been set aside, while DKK 0.2bn has been allocated to cover the concentration of customers with ARM loans. The positive difference between provisions and expected loss, less than DKK 0.1bn, is included in Tier 2, but set aside as well when calculating the adequate own funds. On the whole, for use in the calculation of the adequate own funds, DKK 4.8bn has been allocated to cover credit risk.

Market risk

Market risk in BRFkredit is limited, as the securities portfolio consists primarily of gilt-edged assets with relative short maturity. Market risk is primarily made up of interest rate risk plus a moderate share price risk and exchange rate risk. The capital reservation for market risk consists of the solvency requirement of DKK 0.4bn.

Operational risk

No further capital reservation is made to cover operational risk, i.e. the solvency requirement of DKK 0.2bn covers operational risk in BRFkredit.

Liquidity risk

Like in other mortgage credit institutions, there is in BRFkredit a close connection between lending and funding, which means that liquidity risk is highly limited. Any liquidity deficit will be quite short-lived, e.g. in connection with term payments, and will be handled via liquidity budgets and various procedures. It is estimated that the highly limited liquidity risk in BRFkredit does not necessitate the reservation of additional capital.

Refunding risk senior secured bonds/senior debt and rating of capital centres

The demand for additional security means that the capital centres must have an influx of additional capital if the LTV value of a given property exceeds the lending limit, e.g. due to falling prices in the housing market. BRFkredit works diligently to maintain the AAA rating from S&P. The capital base in the capital centre contributes to the AAA rating, but if this capital is not sufficient, it may become necessary to supplement with additional capital, which is procured through the issuance of SSBs/senior debt. In situations where these issues require refunding to maintain their AAA rating, a refunding risk occurs. BRFkredit is constantly monitoring the development in property prices and in LTV values for the properties in the SDO-issuing capital centre, which makes it possible to plan the issuance and refunding of supplementary security.

At the end of Q3 2014, BRFkredit had sufficient capital raised through the issuance of SSBs/senior debt, and so it is estimated that it will not be necessary to carry out new issues or refunding in 2014. Consequently, no separate capital reservation is made to cover refunding risk.

Group risk

BRFkredit is the full owner of BRFkredit Bank, whose main activity – like BRFkredit – is to grant loans against a mortgage on real property. Results for BRFkredit Bank are included in the assessment of BRFkredit's earnings and have not resulted in any specific capital reservation.

Other risk

A capital reservation of DKK 0.5bn has been made to cover uncertainties related to models used in IRB modelling.

Adequate own funds

BRFkredit's adequate own funds is calculated as the sum of the capital requirement plus the additional capital required to cover other identified risk, cf. above. At the end of Q3 2014, BRFkredit's adequate own funds totals DKK 6.1bn. BRFkredit's adequate own funds corresponds to a solvency requirement of 10.5 pc.

At the end of Q3 2014, BRFkredit had a solvency ratio of 18.7 pc. The solvency related overcollateral compared to the statutory capital requirement amounts to DKK 6.2bn, to DKK 4.8bn compared to the calculated adequate own funds, and to DKK 4.0bn compared to the statutory capital requirement including transitional rules.

Adequate own funds for BRFkredit a/s

DKKbn	Q3 2014
Capital requirement – Pillar 1	4.6
- credit risk	4.0
- market risk	0.4
- operational risk	0.2
Capital requirement – Pillar 2	1.5
- earnings	0.0
- growth in lending	0.2
- credit risk	0.8
- market risk	0.0
- group risk	0.0
- other risk	0.5
Adequate own funds	6.1

Solvency ratios for BRFkredit a/s

DKKbn	Q3 2014
- own funds	10.8
- total risk exposure	58.1
- capital requirement (interim rules included)	6.9
- capital requirement (interim rules excluded)	4.6