

Individual Solvency Need

Nordea Kredit Realkreditatieselskab

30 September 2020

Nordea

1 Introduction

This report presents the individual solvency need (tilstrækkelig basiskapital og solvensbehov for pengeinstitutter) for Nordea Kredit Realkreditaktieselskab (Nordea Kredit). This report fulfils external disclosure requirements regarding the solvency need according to EU regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, and the Danish Financial Business Act (Lov om finansiel virksomhed jf. lovbekendtgørelse nr.937 af 6. September 2019) and Danish Executive Order no. 295 (27 Marts 2014) and adjusted by no 1353 (22 November 2016) "Bekendtgørelse om opgørelse af risikoeksponeringer, kapitalgrundlag og solvensbehov".

The individual solvency need is updated and published each quarter. Details about Nordea Kredit's risk profile and key exposures are available in the annually disclosed Capital and Risk Management (Pillar 3) report for Nordea Kredit, starting from 2016. Both reports are available on Nordea's Investor Relations website (nordea.com/en/investor-relations/) and links can be found on Nordea Kredit's website. Reference to the individual solvency need reporting is made in the annual report and the interim report for Nordea Kredit. The Internal Capital Adequacy Assessment Process (ICAAP) report for Nordea Kredit is produced at least annually. The reports are approved by the Board of Directors and presented to the Danish Financial Supervisory Authority (DFSA).

All amounts are in DKK unless stated otherwise.

1.1 Main conclusions

ISN ratio excluding combined buffers

10.4%

Decreased from 11.0% in Q2 2020. Without management buffer decrease from 10.5%.

Total capital ratio

29.4%

Decreased from 29.5% in Q2 2020

Capital situation

Nordea Kredit is adequately capitalised at end Q3 2020 and has access to available capital from the parent company if necessary.

Stress Testing

Nordea Kredit conducts capital adequacy stress testing in collaboration with the Nordea Group to ensure that adequate capital is available in the event of, for instance, severe credit losses or changes in regulatory capital requirements. Stress testing is also made using DFSA scenarios and methods.

Individual solvency need incl. combined buffers

12.0bn

Decreased from 12.4bn in Q2 2020. Without management buffer unchanged.

Excess capital above individual solvency need incl. combined buffers

12.5bn

Increased from 12.0bn in Q2 2020. Without management buffer increase from 12.4 bn in Q2.

Debt buffer

In addition to capital requirements Nordea Kredit has to meet a debt buffer requirement. The debt buffer is a way of implementing MREL in BRRD for mortgage institutions. The requirement is 2.0% of mortgage loans. The debt buffer requirement needs to be met by own funds instruments or unsecured senior debt not used to cover capital requirements. The excess capital is partly used to cover the debt buffer requirement.

2 Description of the individual solvency need

Approach

Nordea Kredit uses a Pillar I plus Pillar II approach in calculating the individual solvency need. Each component and its capital requirement are shown graphically on page 3 in Figure 1, along with the Individual Solvency Need in Table 1, and the Own Funds and REA in Table 2.

This methodology uses the Pillar I capital requirements for credit risk, Credit Value Adjustment (CVA), market risk and operational risk as outlined in the Capital Requirements Regulation (CRR) as the starting point for its risk assessment. For each of these types, the risk is measured solely according to models and processes approved by the DFSA for use in the calculation of legal capital requirements.

Pillar II add-ons

In addition, Pillar II risks, i.e. risks not included in the CRR or not adequately covered, are considered – specifically concentration risk, interest rate risk in the banking book (IRRBB), and earnings risk (prev. business risk).

The DFSA benchmark model for earnings risk calculation results in no capital add-on at end Q3 2020.

Pillar II add-ons due to SREP

Finally, some Pillar II add-ons reflect the increased requirements in the SREP which relate to maturity floor adjustments, simplified maturity and inadequate second line of defence and its involvement in the governance of the

IRB system and modelling. Included in SREP is also an add-on for operational risk from inspections relating to IT and key processes.

Management buffer

Valid from end Q3 2020 Nordea Kredit has decided a decommission of the management buffer, which is the difference between the calculated Pillar I and Pillar II risks and the Board of Directors decided individual solvency need ratio.

In Q2 the management buffer was 0.5%.

Combined buffers

The combined buffers consist of the Capital Conservation buffer (2.5%), the SIFI buffer (1.5%) and the Counter-cyclical buffer (0.0%). The combined buffer requirements are not included in the ISN ratio set by the Nordea Kredit Board.

Excess capital above requirements

At the end of Q3 2020 the own funds held by Nordea Kredit resulted in a capital buffer above the individual solvency need including the combined buffer requirements of DKK 12.5bn in total, or an increase from DKK 12.0bn in Q2 2020. If the management was disregarded in Q2 2020 the excess has increased with DKK 77m.

3 Individual solvency need, own funds and REA

The components of the capital requirement are shown in figure 1. The individual solvency need, the own funds and the total risk exposure amounts for Nordea Kredit at end Q3 2020 are presented in detail in tables 1 and 2 below.

Figure 1 Individual solvency need including combined buffers and actual capital for Nordea Kredit at end Q3 2020

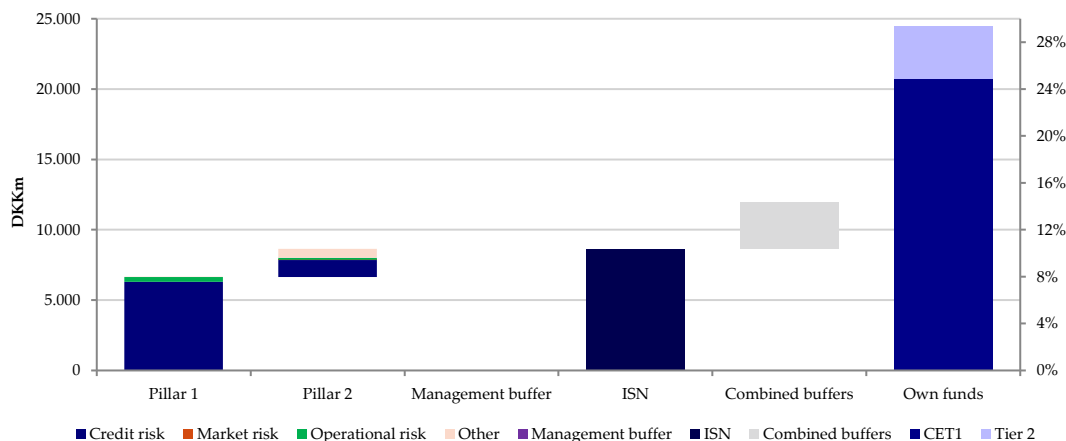


Table 1 Individual solvency need for Nordea Kredit at end Q3 2020

DKKm / pct.	Solvency requirement			Pct. of REA		
	Q3 2020	Q2 2020	Delta	Q3 2020	Q2 2020	Delta
Pillar I						
Credit risk	6.311	6.287	25	7,6%	7,6%	0,0%
Market risk	0	0	0	0,0%	0,0%	0,0%
Operational risk	331	331	0	0,4%	0,4%	0,0%
Other	2	1	0	0,0%	0,0%	0,0%
Total Pillar I	6.644	6.619	25	8,0%	8,0%	0,0%
Pillar II						
Credit risk	1.216	1.303	-87	1,5%	1,6%	-0,1%
Market risk	12	10	2	0,0%	0,0%	0,0%
Operational risk	132	133	0	0,2%	0,2%	0,0%
Other	631	1.037	-406	0,8%	1,3%	-0,5%
- of which Management buffer	0	404	-404	0,0%	0,5%	-0,5%
Total Pillar II	1.991	2.482	-492	2,4%	3,0%	-0,6%
Individual solvency need	8.635	9.101	-467	10,4%	11,0%	-0,6%
Combined capital buffer requirements	3.323	3.310	12	4,0%	4,0%	0,0%
Individual solvency need + combined buffers	11.957	12.412	-454	14,4%	15,0%	-0,6%
Own funds	24.456	24.429	27	29,4%	29,5%	-0,1%
Excess capital above individual solvency need + combined buffers	12.499	12.017	481	15,0%	14,5%	0,5%

Pillar II add-ons, not included or adequately covered in the CRR, consist of	Credit	Market	Operational	Other
Concentration risk	x			
IRRBB		x		
Add-ons related to SREP	x		x	x

Table 2 Own funds excluding profit and total risk exposure amount for Nordea Kredit at end Q3 2020

DKKm / pct.	Q3 2020	Q2 2020	Delta	Q3 2020	Q2 2020	Delta
Own funds (net after deductions)						
Common Equity Tier 1 capital	20.706	20.679	27	24,9%	25,0%	-0,1%
Tier 1 capital	20.706	20.679	27	24,9%	25,0%	-0,1%
Total own funds	24.456	24.429	27	29,4%	29,5%	-0,1%
REA						
Total Risk Exposure Amount	83.052	82.740	313			