Individual Solvency Need

Nordea Kredit Realkreditaktieselskab
31 March 2019



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. 1140 af 26. September 2017) and Danish Executive Order 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/ir) 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

11.0%

Remained the same as in Q4 2019

Total capital ratio

23.2%

Decreased from 26.5% in Q4 2018

Capital situation

Nordea Kredit is adequate capitalised at end-Q1 2019 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

13.5bn

Increased from 11.9bn in Q4 2018

Excess capital above individual solvency need incl. combined buffers

8.9 bn

Decreased from 10.5bn in Q4 2018

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 and is phased in, starting from 15 June 2016. As of 15 June 2018 the requirement is 1.6% of mortgage loans growing to 2.0% when fully implemented in 2020. The debt buffer requirement needs to be met by own funds instruments or unsecured senior debt not used to cover capital requirements.

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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, operational risk, and earnings risk (prev. business risk).

Temporary Pillar II add-ons

From Q4 2018, the Pillar II add-ons reflecting the model deficiencies have been incorporated in the Pillar I capital requirements. Hence previous model related Pillar II add-ons are amounted for in Pillar I REA.

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 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

For Nordea Kredit the general management buffer is the difference between the measured Pillar I and Pillar II risks and the 11.0% individual solvency need.

A management buffer of 0.8% is included in Pillar II Other risks at end Q1 2019. The DFSA benchmark model for earnings risk calculation results in no capital add-on at end Q1 2019.

Combined buffers

The combined buffers consist of the Capital Conservation buffer (2.5%), the SIFI buffer (1.50%) and the Counter-cyclical buffer (0.5%). 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 Q1 2019 the own funds held by Nordea Kredit resulted in a capital buffer above the individual solvency need including the combined buffer requirements of DKK 8.9bn in total. This is a decrease in relation to Q4 2018. Disregarding the management buffer from the ISN, the capital excess would increase by DKK 728m.

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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-Q1 2019 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-Q1 2019

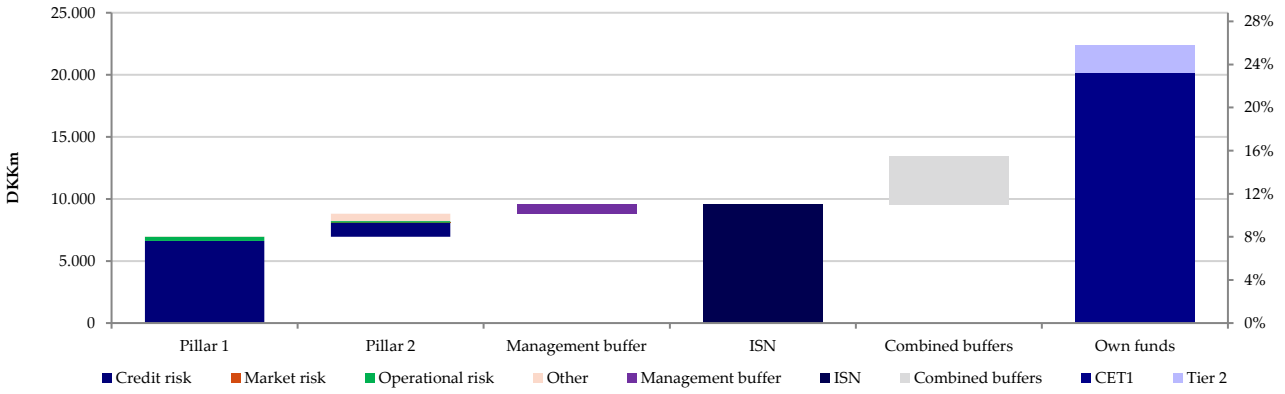


Table 1 Individual solvency need for Nordea Kredit at end-Q1 2019

DKKm / pct.	Solvency requirement	Pct. of REA
Pillar I		
Credit risk	6,615	7.6%
Market risk	0	0.0%
Operational risk	328	0.4%
Other	2	0.0%
Total Pillar I	**6,944**	**8.0%**
Pillar II		
Credit risk	1,130	1.3%
Market risk	4	0.0%
Operational risk	131	0.2%
Other	1,339	1.5%
- of which Management buffer	*728*	*0.8%*
Total Pillar II	**2,604**	**3.0%**
Individual solvency need	**9,548**	**11.0%**
Combined capital buffer requirements	3,909	4.5%
Individual solvency need + combined buffers	**13,457**	**15.5%**
Own funds	22,346	25.7%
Excess capital above individual solvency need + combined buffers	**8,889**	**10.2%**

Pillar II add-ons, not included or adequately covered in the CRR, consist of	Credit	Market	Operational	Other
Concentration risk	x			
IRR in the banking book		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-Q1 2019

DKKm / pct.	DKKm	Pct. of REA
Own funds (net after deductions)		
Common Equity Tier 1 capital	**20,146**	**23.2%**
Tier 1 capital	**20,146**	**23.2%**
Total own funds	**22,346**	**25.7%**
REA		
Total Risk Exposure Amount	**86,804**	

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