



Nordea

Individual Solvency Need

Nordea Kredit Realkreditaktieselskab

30 June 2021

1. Introduction

This report presents the individual solvency need (tilstrækkelig basiskapital og solvensbehov for pengeinstitutter) for Nordea Kredit Realkreditatieselskab (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. 1447 af 11. September 2020" and later updates) and Danish Executive Order no. 2155 of 3 December 2020 ("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) results report for Nordea Kredit is produced on an annual basis with quarterly follow-up. The results reports and the follow-up material are approved by the Board of Directors and presented to the Danish Financial Supervisory Authority (DFSA).

All amounts are in DKK unless stated otherwise.

Main conclusions

ISN ratio including add-on related to SREP, but excluding combined buffer requirement

10.50%

Unchanged from 10.50% in Q1 2021.

Total capital ratio

29.62%

Increased from 29.09% in Q1 2021.

Capital situation

Nordea Kredit is adequately capitalised at end Q2 2021 and has access to available capital from the parent company if deemed 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 conducted using DFSA scenarios and methods.

Individual solvency need including add-on related to SREP and combined buffer requirement

11.9bn

Decreased from 12.1bn in Q1 2021

Excess capital above individual solvency need including add-on related to SREP and combined buffer requirement

12.4bn

Increased from 12.2bn in Q1 2021.

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 to Pillar I, Pillar II risks, i.e. risks not included in the CRR or not adequately covered, are considered.

At the end of Q2 2021 the total Pillar II add-on reflects the requirements stated by the DFSA in the 2020 Supervisory Review and Evaluation process (SREP) of an add-on of 2.50%. The total Pillar II add-on includes concentration risk and interest rate risk in the banking book (IRRBB).

Combined buffer requirement

The combined buffer requirement consists of the Capital Conversation Buffer (2.5%), the SIFI buffer in the form of an O-SII buffer (1.5%) and the Countercyclical Capital Buffer (0%). The combined buffer requirement is not included in the individual solvency need ratio set by the Nordea Kredit Board of Directors.

Excess capital above requirements

At the end of Q2 2021 the own funds held by Nordea Kredit resulted in a capital buffer above the individual solvency need including add-on related to SREP and the combined buffer requirement of DKK 12.4bn in total, which is increased from DKK 12.2bn in Q1 2021.

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 Q2 2021 are presented in detail in Tables 1 and 2 below.

Figure 1 Individual solvency need including add-ons related to SREP and combined buffer requirement as well as actual capital for Nordea Kredit at end Q2 2021

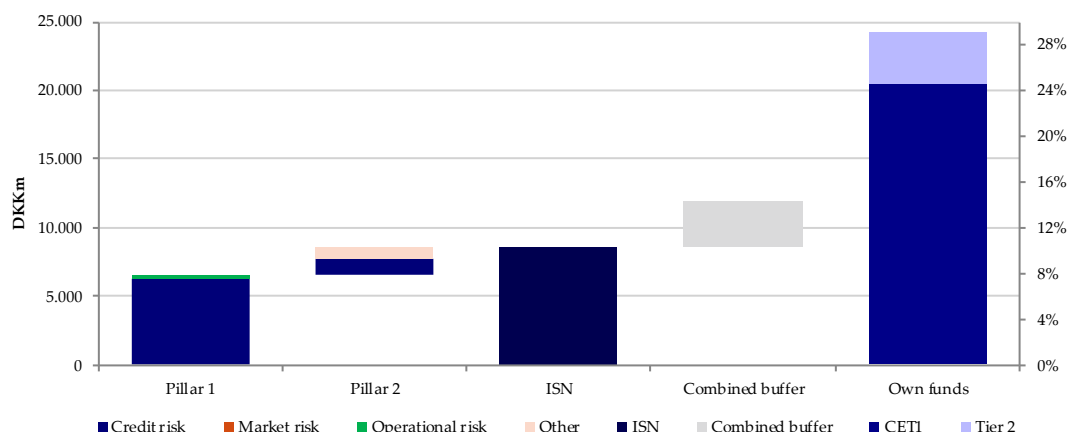


Table 1 Individual solvency need for Nordea Kredit at end Q2 2021

DKKm / pct.	Solvency requirement			Pct. of REA		
	Q2 2021	Q1 2021	Delta	Q2 2021	Q1 2021	Delta
Pillar I						
Credit risk	6.228	6.360	-133	7,60%	7,60%	-0,01%
Market risk	0	0	0	0,00%	0,00%	0,00%
Operational risk	332	332	0	0,40%	0,40%	0,01%
Other	0	0	0	0,00%	0,00%	0,00%
Total Pillar I	6.560	6.692	-133	8,00%	8,00%	0,00%
Pillar II						
Credit risk	1.146	1.174	-28	1,40%	1,40%	-0,01%
Market risk	32	24	8	0,04%	0,03%	0,01%
Operational risk	0	0	0	0,00%	0,00%	0,00%
Other	872	893	-21	1,06%	1,07%	0,00%
Total Pillar II	2.050	2.091	-41	2,50%	2,50%	0,00%
Individual solvency need including add-ons related to SREP	8.609	8.784	-174	10,50%	10,50%	0,00%
Combined capital buffer requirement	3.280	3.347	-66	4,00%	4,00%	0,00%
Individual solvency need including add-ons related to SREP and combined buffer requirement	11.890	12.130	-241	14,50%	14,50%	0,00%
Own funds	24.285	24.336	-51	29,62%	29,09%	0,53%
Excess capital above individual solvency need including add-ons related to SREP and combined buffer requirement	12.395	12.205	190	15,12%	14,59%	0,53%

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

Table 2 Own funds and total risk exposure amount for Nordea Kredit at end Q2 2021

DKKm / pct.	Q2 2021	Q1 2020	Delta	Q2 2021	Q1 2021	Delta
Own funds (net after deductions)						
Common Equity Tier 1 capital	20.535	20.586	-51	25,04%	24,61%	0,44%
Tier 1 capital	20.535	20.586	-51	25,04%	24,61%	0,44%
Total own funds	24.285	24.336	-51	29,62%	29,09%	0,53%
REA						
Total Risk Exposure Amount	81.994	83.653	-1.658			