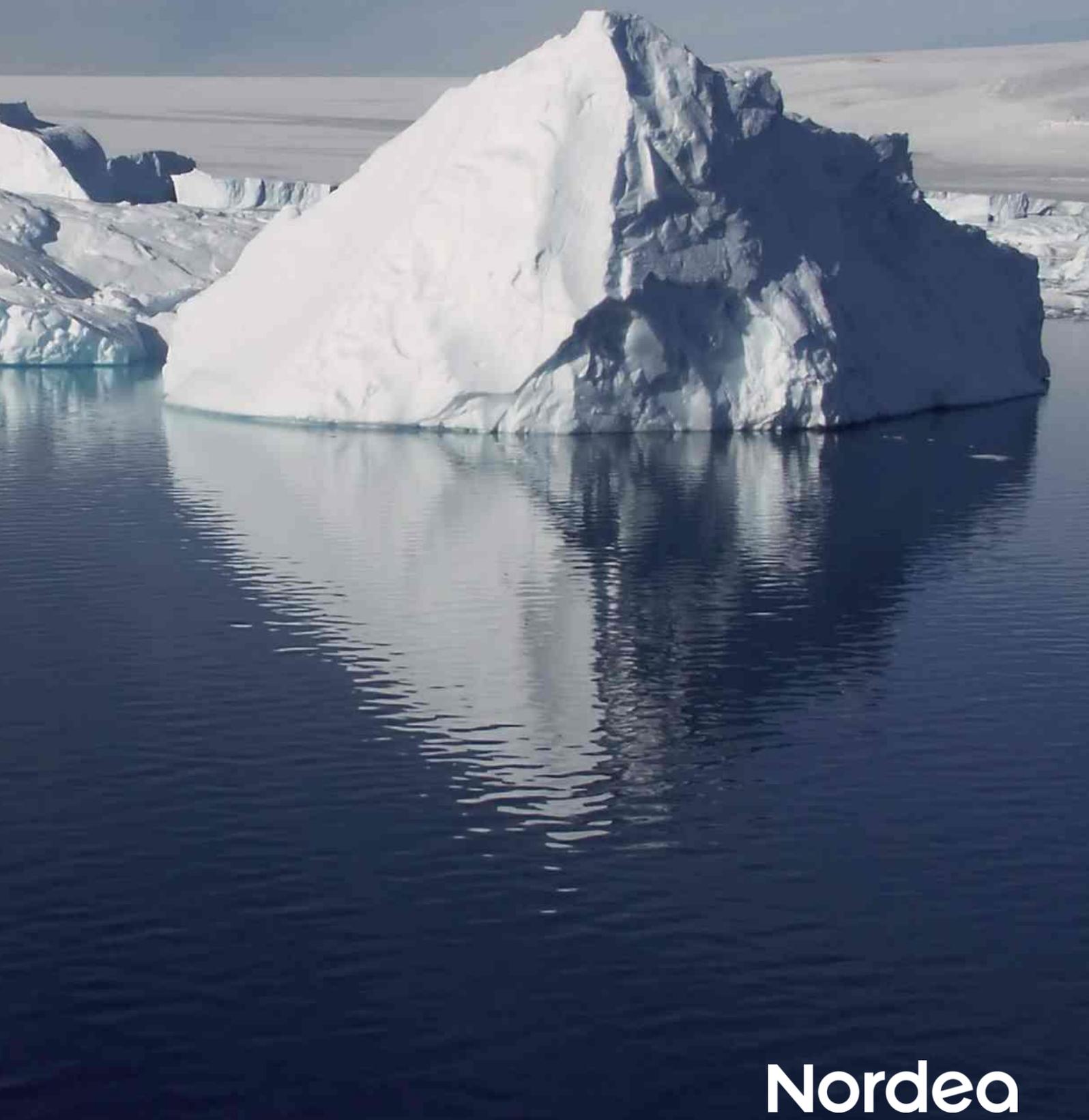


Individual Solvency Need

Nordea Kredit Realkreditaktieselskab

31 December 2017



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 (Dk-FSA).

All amounts are in DKK unless stated otherwise.

1.1 Main conclusions

ISN ratio

14.0%

Unchanged from 14.0% in Q3 2017

Total capital ratio

32.9%

Increased from 32.0% in Q3 2017

Capital situation

Nordea Kredit is well capitalised at end-Q4 2017 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 Dk-FSA scenarios and methods.

Capital requirement, incl. Basel 1 floor

14.4bn

Increased from 13.7bn in Q3 2017

Excess capital above requirements

8.2bn

Decreased from 8.5bn in Q3 2017

Gældsbuffer

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 2017 the requirement is 1.2% 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.

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 Dk-FSA 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

Also included in the Pillar II requirement are a number of temporary capital add-ons for changes pending internal approvals, approvals by FSAs or other add-ons of which some are related to the SREP.

Due to issues identified in the yearly validation process of internal models, Nordea Kredit has included a pillar 2 add-on to cover for the uncertainties found. After the issues have been solved and internal approval has been received, the add-on will be removed.

One add-on relates to a credit process change implemented in Q4 2012. Household customers with OEI and without individually assessed provision have since then been classified as non-defaulted as opposed to previously. Since this method has now been approved by the Danish and Swedish FSA's, the add-on will be removed during Q1 2018.

Another add-on reflects that the current average Actual Default Frequency (ADF) exceeds the Probability of Default (PD) used in the Pillar 1 capital requirements for the IRB corporate and institutions portfolio. The

capital add-on is 11.5% of the credit risk Pillar I capital requirement for the IRB corporate and institutions portfolio. Nordea Kredit also holds capital for changes made in Danish scorecards not yet implemented in the Pillar 1 framework.

Pillar II add-ons due to SREP

Finally, some Pillar II add-ons reflect the increased requirements in the SREP which relate to corporate risk exposure adjustments, maturity floor adjustments and inadequate second line of defence and its involvement in the governance of the IRB system and modelling. Included is also an add-on for operational risk from inspections relating to IT and key processes. Part of the adjustments that are ongoing due to SREP 2015 is reversal of changes made in Pillar I REA. Before the changes are in effect, and are included in the relevant risk measure, these are reported as other risks in Pillar I.

Management buffer

For Nordea Kredit the general management buffer is the difference between the measured Pillar I and Pillar II risks and the 14.0% individual solvency need.

A management buffer of 0.6% is included in Pillar II Other risks at end Q4 2017. The Dk-FSA benchmark model for earnings risk calculation results in no capital add-on at end Q4 2017.

Combined buffers

The combined buffers consist of the Capital Conservation buffer (~1.3%), the SIFI-buffer (0.9%) and the Countercyclical buffer (~0.008 %).

Basel 1 floor

In addition to the individual solvency need, there are regulatory capital constraints related to large exposures and the Basel 1 floor. At end-Q4 2017, the Basel 1 floor is a constraint for Nordea Kredit and increases the capital requirement by additional 6.9%-points on top of the ISN.

Excess capital above requirements

At the end of Q4 2017 the own funds held by Nordea Kredit resulted in a capital buffer above regulatory requirements of DKK 8.2bn in total.

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-Q4 2017 are presented in detail in tables 1 and 2 below.

Figure 1 Individual solvency need, capital constraints and actual capital for Nordea Kredit at end-Q4 2017

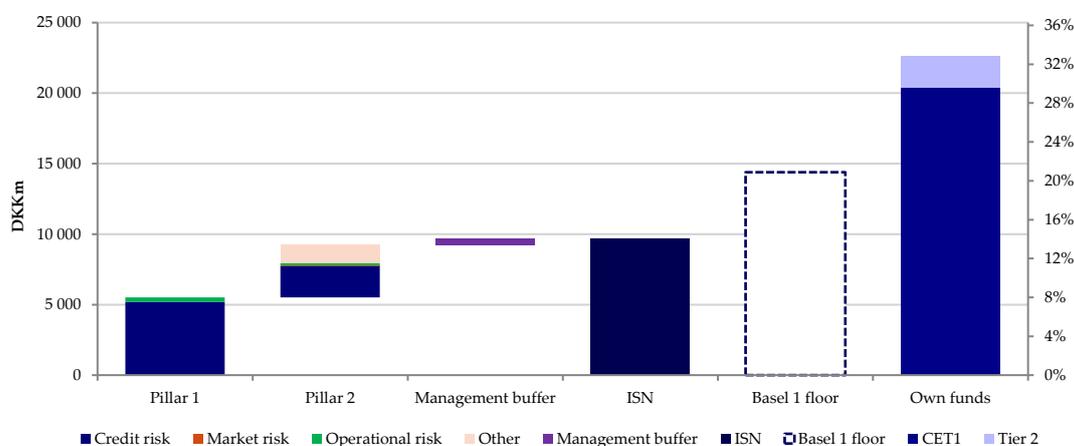


Table 1 Individual solvency need for Nordea Kredit at end-Q4 2017

DKKm / pct.	Solvency requirement	Pct. of REA
Pillar I		
Credit risk	5,202	7.6%
Market risk	0	0.0%
Operational risk	310	0.4%
Other	0	0.0%
Total Pillar I	5,512	8.0%
Pillar II		
Credit risk	2,237	3.2%
Market risk	26	0.0%
Operational risk	155	0.2%
Other	1,716	2.5%
- of which Management buffer	410	0.6%
Total Pillar II	4,134	6.0%
Individual solvency need	9,646	14.0%
Combined capital buffer requirements	1,487	2.2%
Individual solvency need + combined buffers	11,133	16.2%
Additional regulatory capital requirement due to Basel 1 floor	4,751	6.9%
Capital requirement according to Basel 1 floor	14,397	20.9%
Own funds	22,636	32.9%
Excess capital above requirements	8,239	12.0%

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		
OEI adjustments	x			
Corporate and Bank ADF/PD adjustment	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-Q4 2017

DKKm / pct.	DKKm	Pct. of REA	Pct. of REA incl. Basel 1 floor
Own funds (net after deductions)			
Common Equity Tier 1 capital	20,443	29.7%	11.5%
Tier 1 capital	20,443	29.7%	11.5%
Total own funds	22,636	32.9%	12.7%
REA			
Total Risk Exposure Amount	68,898		
Total Risk Exposure Amount incl. Basel 1 floor	179,963		