



Individual Solvency Need

Nordea Bank Danmark Group
30 June 2015

1 Introduction

This report presents the individual solvency need (tilstrækkelig basiskapital og solvensbehov for pengeinstitutter) for the Nordea Bank Danmark Group and its legal entities, Nordea Bank Danmark A/S and Nordea Kredit Realkreditaktieselskab. The purpose of this report is to fulfil external disclosure requirements regarding the solvency need according to EU regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending regulation (EU) no 648/2012 and the Danish Financial Business Act (Lov om finansiel virksomhed jf. lovbekendtgørelse nr. 182 af 18. Februar 2015) and Danish executive order "bekendtgørelse nr. 295 of 27 March 2014 om opgørelse af risikoeksponeringer, kapitalgrundlag og solvensbehov". An update of the individual solvency need is published each quarter and is available on Nordea's Investor Relations website (nordea.com/ir) and links can be found on each legal entity's website. Details about the Nordea Bank Danmark Group's risk profile and key exposures are available in the annually disclosed Capital and Risk Management (Pillar 3) report for the Nordea Bank Danmark Group, also available on Nordea's Investor Relations website. Reference to the individual solvency need reporting is made in the annual report and the interim report for Nordea Bank Danmark A/S and Nordea Kredit Realkreditaktieselskab.

The Internal Capital Adequacy Assessment Process (ICAAP) reports for the Nordea Bank Danmark Group and Nordea Kredit Realkreditaktieselskab are produced at least annually. The reports are approved by the Board of Directors and presented to the Financial Supervisory Authority.

1.1 Main conclusions

The Nordea Bank Danmark Group and its individual legal entities are well capitalised at end-Q2 2015 and have access to available capital from Nordea Bank AB (publ), the parent company of the Nordea Bank Danmark Group, if necessary.

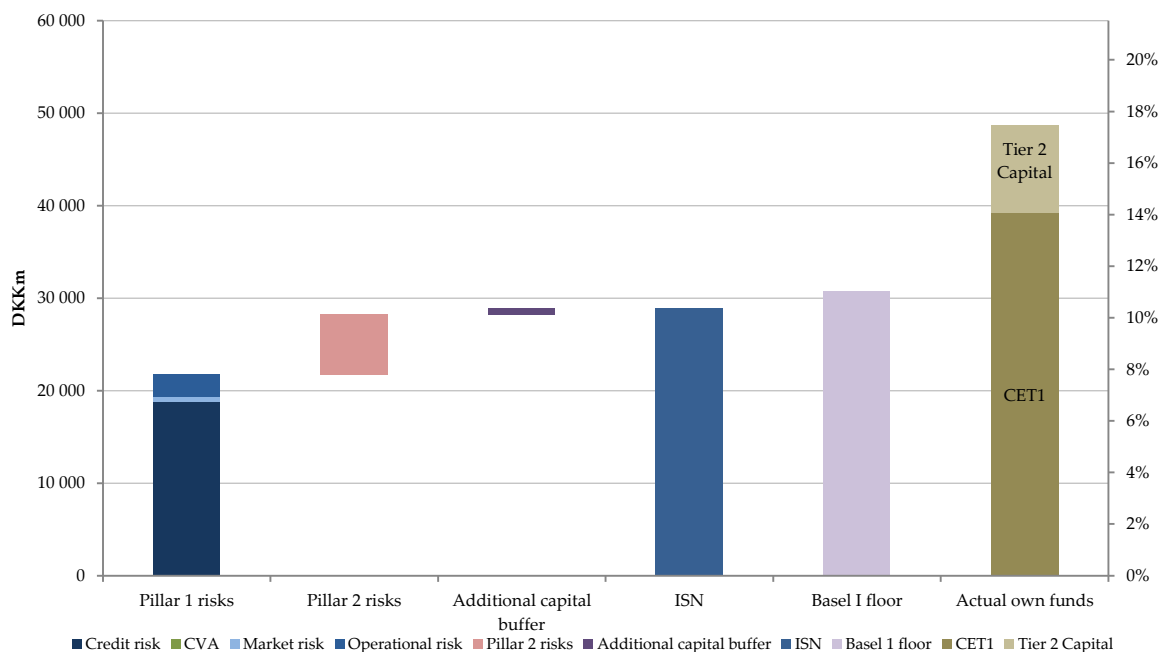
- The individual solvency need at end-Q2 2015 for the Nordea Bank Danmark Group and Nordea Bank Danmark A/S remains unchanged at 10.8%. The individual solvency need is in excess of the legal minimum requirement of 8%, according to capital adequacy rules.
- The CET1 ratio for the Nordea Bank Danmark Group increased to 14.9% (Q1 2015: 14.3%).
- The individual solvency need for Nordea Kredit Realkreditaktieselskab at end-Q2 2015 is unchanged at 10%.
- The Nordea Bank Danmark Group and its legal entities conduct capital adequacy stress testing in collaboration with the Nordea Group to ensure that adequate capital is available within the Nordea Bank Danmark Group and its parent company in the event of, for instance, severe credit losses or changes in regulatory capital requirements. Stress testing is also made using Finanstilsynets scenarios and methods.
- Nordea Bank Danmark has been appointed as being a systemically important financial institution (SIFI) in Denmark. This will require Nordea Bank Danmark to hold a 2% SIFI buffer (SRB buffer) for Nordea Bank Danmark A/S, Nordea Kredit Realkreditaktieselskab and Nordea Bank Danmark

Group. Due to the transition rule the actual buffer will be 0.4% in 2015. The buffer has to be applied to all exposure – both domestic and international. The buffer has to be fulfilled with common equity tier 1 instruments.

2 Definition of the individual solvency need

The definition of the individual solvency need and changes in methodology are described below.

Figure 1 Individual solvency need, capital constraints and actual capital at end-Q2 2015



The Nordea Bank Danmark Group and its legal entities use a Pillar 1 plus Pillar 2 approach in calculating the individual solvency need. Each component and its capital requirement are shown graphically for the Nordea Bank Danmark Group in Figure 1 above. This methodology uses the Pillar 1 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 Financial Supervisory Authority for use in the calculation of legal capital requirements.

In addition, Pillar 2 risks, i.e. risks not included in the CRR or adequately covered, are considered – specifically concentration risk, interest rate risk in the banking book, market risk in internal defined pension plans, real estate risk and business risk.

Also included in the Pillar 2 requirement are a number of temporary capital allocations. The first temporary allocation of DKK 200m reflects the risk of late registration of OEI in the Household portfolio. A capital add-on reflecting this risk has been included for a few years but the add-on has been reduced as the number of unidentified OEI customers has been very low in the recently reviewed branch regions.

The second temporary capital allocation is to reflect 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. This capital add-on is 11.5% of the credit risk Pillar 1 capital requirement for the IRB corporate and institutions portfolio. In Q2 2015 this capital add-on amounted to DKK 1,183m.

The third temporary capital allocation relates to a credit process change that was 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. The Danish Financial Supervisory Authority has required Nordea Bank Danmark A/S to allocate a temporary capital buffer, identical to the decrease in Risk Exposure Amount (REA), netted with reversals of capital shortfall (DKK 1,287m) as long as the approval process for the above mentioned change is ongoing.

The fourth temporary capital allocation is a 25% add-on of the Pillar 1 requirement for operational risk following ongoing discussion with regulators on the accuracy of the standardised approach for calculating capital requirements for operational risks. In Q2 2015 this capital add-on amounted to DKK 599m.

Included is also a fifth temporary capital add-on related to changes made in the Danish scorecards not yet implemented in the Pillar 1 framework. The add-on amounted to DKK 164m.

Finally, a temporary capital allocation is designated to provide buffers above current capital requirements in the event of unexpected changes to the capital base and/or risk exposure amount, as well as a precautionary action to compensate for the continuation of slow economic growth and uncertain macro environment causing uncertainty regarding the future risk picture. To reflect the current conditions in the agricultural sector and low interest rates impact on customers holding swap contracts, part of this additional buffer has been earmarked as specific capital add-ons to cover these risks.

The add-on for the agricultural sector is DKK 150m and for customers having swap contracts DKK 100m. Both add-ons are temporary and may be reduced as the customers' annual reports/financial statements are reviewed and the eventually lower customer ratings are reflected in the Pillar 1 capital requirement.

For the Nordea Bank Danmark Group and Nordea Bank Danmark A/S, the general management buffer is the difference between the measured Pillar 1 and Pillar 2 risks (including the temporary allocations) and the 10.8% individual solvency need. The individual solvency need of 10.8% for the Nordea Bank Danmark Group allows for an internal buffer at end-Q2 of 14 bps, which amounts to DKK 358m. For Nordea Kredit Realkreditaktieselskab the buffer is the difference between the measured Pillar 1 and Pillar 2 risks and the 10% individual solvency need, which amounts to DKK 783m.

In addition to the individual solvency need, there are regulatory capital constraints related to large exposures and the Basel I floor. At end-Q2 2015, the Basel I floor is a constraint for Nordea Bank Danmark Group and Nordea Kredit Realkreditaktieselskab. The Basel 1 floor increased the capital requirement for the Nordea Bank Danmark Group by DKK 3,123m and for Nordea Kredit Realkreditaktieselskab by DKK 7,268m to DKK 30,721m and DKK 13,991m respectively.

3 Individual solvency need and own funds

3.1 Individual solvency need

The individual solvency need for the Nordea Bank Danmark Group and its legal entities at end-Q2 2015 is presented in detail in the table 1 and 2 below.

Table 1 Individual solvency need for Nordea Bank Danmark Group and its legal entities at end-Q2 2015

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Credit risk	18 785	17 000	5 270
- of which counterparty credit risk	19	19	0
<i>IRB approach</i>	16 073	12 201	5 117
- of which corporate	9 853	7 191	2 518
- of which advanced	9 388	7 190	2 518
- of which foundation	465	0	
- of which institutions	435	435	2
- of which retail	5 537	4 383	2 585
- of which secured by immovable property collateral	3 121	498	2 361
- of which other retail	2 416	3 885	224
- of which other	248	192	11
<i>SA approach</i>	1 364	4 517	6
- of which central governments or central banks	48	35	0
- of which regional governments or local authorities			
- of which public sector entities	4	4	
- of which multilateral development banks			
- of which international organisations			
- of which institutions	75	58	
- of which corporate	252	1 403	
- of which retail	397		
- of which secured by mortgages on immovable property	89		
- of which in default	6		
- of which associated with particularly high risk	435	435	
- of which covered bonds	3	177	
- of which institutions and corporates with a short-term credit assessment			
- of which collective investments undertakings (CIU)			
- of which equity	18	2 402	2
- of which other items	36	3	5
<i>Concentration risk</i>	1 349	282	147
Credit Value Adjustment Risk (CVA)	4	4	
Market risk	1 191	992	15
- of which trading book, internal approach	357	357	
- of which trading book, standardised approach	184	17	0
- of which banking book, standardised approach	66	35	0
- of which IRR in the banking book	501	501	15
- of which real estate risk	0	0	0
- of which pension plans	83	83	0
Operational risk	2 396	2 206	256
Other risks	5 222	5 942	1 183
- of which business risk	1 180	1 134	24
- of which late registration in household portfolio	200	200	0
- of which corporate and bank ADF/PD adaption	1 183	877	0
- of which OEI adjustment	1 287	976	312
- of which new scorecards	164	164	
- of which add-on for increased risk for customers with swap contacts	100	100	
- of which add-on for increased risk for customers in agriculture sector	150	150	
- of which operational risk add-on	599	552	64
- of which additional internal buffers	358	1 789	783
Individual solvency need (adequate own funds)	27 598	26 144	6 723
Additional capital requirement due to legal demands	0	0	0
Adjusted individual solvency need (adjusted adequate own funds)	27 598	26 144	6 723
Additional regulatory capital requirement due to transition rules	3 123	0	7 268
Capital requirement according to transition rules	30 721	26 144	13 991

Table 2 Key solvency figures for Nordea Bank Danmark Group and its legal entities at Q2 2015

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Individual solvency need pct. for Credit risk	7,4%	7,0%	7,8%
Individual solvency need pct. for CVA	0,0%	0,0%	0,0%
Individual solvency need pct. for Market risk	0,5%	0,4%	0,0%
Individual solvency need pct. for Operational risk	0,9%	0,9%	0,4%
Individual solvency need pct. for Other risks	2,0%	2,5%	1,8%
Individual solvency need pct. incl. additional internal buffers	10,8%	10,8%	10,0%
Individual solvency need pct. excl. additional internal buffers	10,7%	10,1%	8,8%
Common Equity Tier 1 Capital	38 256	37 177	18 611
Tier 1 Capital	38 256	37 177	18 611
Own funds	47 795	46 776	18 611
Total Risk Exposure Amount	255 534	242 073	67 231
Total Risk Exposure Amount incl Basel 1 floor	384 015	319 544	174 884
Common Equity Tier 1 ratio	15,0%	15,4%	27,7%
Tier 1 ratio	15,0%	15,4%	27,7%
Total capital ratio	18,7%	19,3%	27,7%
Basel 1 floor Common Equity Tier 1 ratio	10,0%	11,6%	10,6%
Basel 1 floor Funds incl transition rules	12,4%	14,6%	10,6%

3.2 Own funds

The own funds for the Nordea Bank Danmark Group and its legal entities at end-Q2 2015 is presented in detail in table 3 below.

Table 3 Own funds excluding profit for Nordea Bank Danmark Group and its legal entities at end-Q2 2015

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Calculation of own funds			
Own funds			
Paid up instruments	5 000	5 000	1 717
Share premium	0	0	0
Capital instruments eligible as CET 1 capital	5 000	5 000	1 717
Retained earnings/other reserves/accumulated other comprehensive income	34 172	34 172	17 120
Other CET1 instruments	1 255	0	0
Common Equity Tier 1 capital before deductions	40 426	39 171	18 838
Deferred tax assets	0	0	0
Goodwill and other intangible assets	-1 844	-1 809	0
Deductions for defined pension fund asset	-73	-73	0
IRB provisions excess (+) / shortfall (-)	-148	-10	-225
Other items, net	-105	-102	-1
Deductions from Common Equity Tier 1 capital	-2 170	-1 994	-226
Additional Tier 1 Capital	0	0	0
Tier 1 capital (net after deduction)	38 256	37 177	18 611
-of which additional Tier 1 capital	0	0	0
Capital instruments and subordinated loans eligible as Tier 2 capital	9 603	9 603	0
Other additional Tier 2 instruments	0	0	0
Tier 2 capital (before deductions)	9 603	9 603	0
IRB provisions excess (+) / shortfall (-)	-63	-4	0
Tier 2 capital (net after deductions)	9 539	9 599	0
Participations hold in insurance undert., reinsurance	0	0	0
Pension assets in excess of related liabilities	0	0	0
Total own funds	47 795	46 776	18 611