



Individual Solvency Need

Nordea Bank Danmark Group
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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. 948 af 2. juli 2013 and amended by law 268 of 25 March 2014) 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 and its legal entities' 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

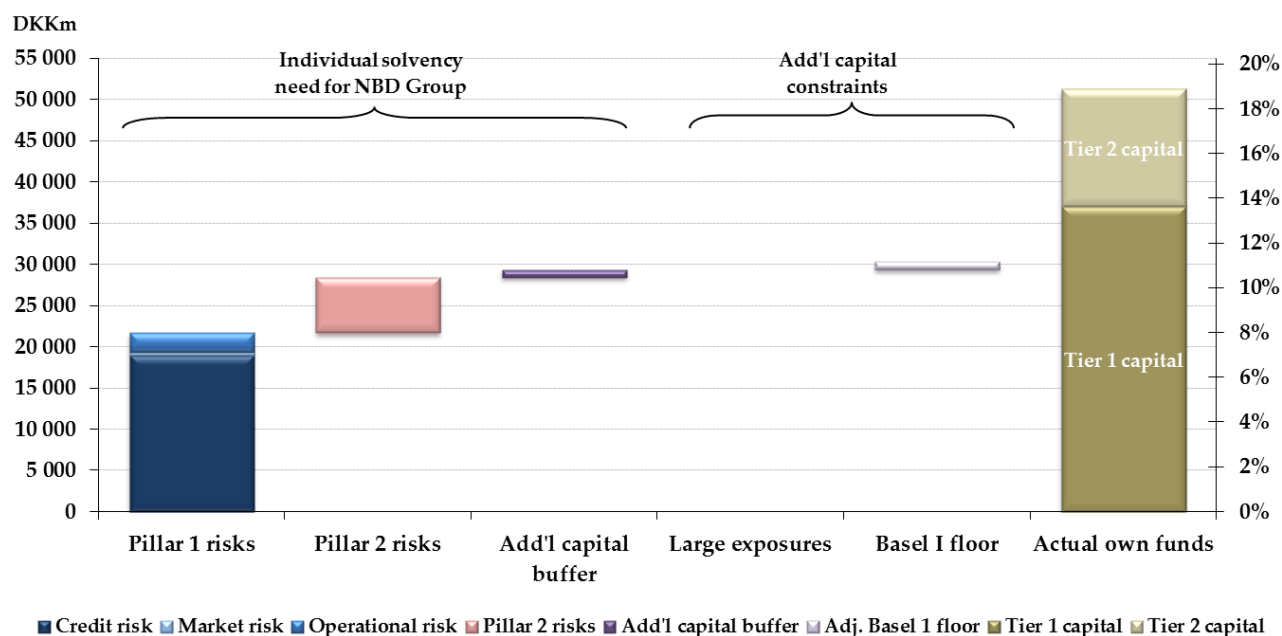
The Nordea Bank Danmark Group and its individual legal entities are well capitalised at end-Q2 2014 and have access to available capital from Nordea Bank AB (publ), the parent company of the Nordea Bank Danmark Group, if necessary.

- The individual solvency need at end-Q2 2014 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.
- Nordea Bank Danmark has during Q2 2014 been approved to redeem a subordinated loan, (Tier 2 instrument, EUR 275m) which decreased own funds with approximately DKK 1.3 bn after transitional rules.
- The individual solvency need for Nordea Kredit Realkreditaktieselskab at end-Q2 2014 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.
- Nordea Bank Danmark has officially been appointed systemically important financial institution (SIFI) in June 2014. This will lead to an additional capital buffer requirement. The exact amount and phase-in period will be announced by the Danish Minister for Business and Growth during the autumn 2014.

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 2014



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, 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, that is, 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, which captures the P&L volatility.

Also included in the Pillar 2 requirement are four temporary capital allocations. The first capital allocation of DKK 350m 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 has decreased as the risk of late registration of OEI has decreased following an improved credit process. This capital add-on will be reviewed during the second half of 2014.

The second 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 remains at 11% of the credit risk Pillar 1 capital requirement for the IRB corporate and institutions portfolio.

The third 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 that Nordea Bank Danmark A/S must allocate a temporary Pillar 2 buffer identical to the decrease in Risk Exposure Amount (REA), netted with reversals of capital shortfall (DKK 1,251m) as long as the approval process for the above mentioned change is ongoing.

Included is also a fourth and temporary capital allocation amounting to 25% 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. This capital allocation will be analysed and reviewed further during 2014.

Finally, additional capital 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 the dodgy macroeconomic environment conditions causing increased uncertainty regarding the future risk picture. For the Nordea Bank Danmark Group and Nordea Bank Danmark A/S, this buffer is the difference between the measured Pillar 1 and Pillar 2 risks (including the interim 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 34 bps, which equals DKK 918m. For Nordea Kredit Realkreditaktieselskab the buffer is the difference between the measured Pillar 1 and Pillar 2 risks and the 10% individual solvency need.

In addition to the individual solvency need, there are regulatory capital constraints related to large exposures and the Basel I floor. At end-Q2 2014, the Basel I floor is not a constraint for Nordea Bank Danmark A/S, but the Nordea Bank Danmark Group and Nordea Kredit Realkreditaktieselskab are affected by the Basel I floor. The Basel I floor increased the capital requirement for the Nordea Bank Danmark Group by DKK 977m and for Nordea Kredit Realkreditaktieselskab by DKK 6,239m.

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 2014 is presented in detail in the table below. Capital ratios and own funds presented in the table are excluding profit earned during 2014.

Table 1. The Nordea Bank Danmark Group and its legal entities – individual solvency need at end-Q2 2014

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditatieselskab
Credit risk	20 452	18 282	5 673
<i>IRB approach</i>	<i>17 563</i>	<i>13 657</i>	<i>4 979</i>
- of which corporate	11 542	9 040	2 538
- of which institutions	461	461	2
- of which retail mortgage	2 658	445	2 041
- of which retail revolving			
- of which retail other	2 687	3 552	384
- of which equity			0
- of which assets without counterparty	215	159	14
- of which securitisation			
<i>SA approach</i>	<i>1 392</i>	<i>4 303</i>	<i>557</i>
- of which sovereign	43	27	0
- of which institutions	94	160	550
- of which corporate	251	1 328	
- of which retail	394		
- of which retail mortgage	87		0
- of which contribution to default fund of a CCP	0	0	
- of which past due items	9	0	
- of which short-term claims on institutions and corporate			
- of which equity and items with high risk	503	2 784	1
- of which assets without counterparty	11	4	6
- of which securitisation			
Total risk for settlement/delivery	0	0	
Total risk exposure for credit valuation adjustment	2	2	
<i>Concentration risk</i>	<i>1 496</i>	<i>323</i>	<i>137</i>
Market risk	889	740	23
- of which trading book, internal approach	82	82	0
- of which trading book, standardised approach	199	55	0
- of which banking book, standardised approach	103	97	0
- of which IRR in the banking book	300	300	23
- of which real estate risk	126	126	0
- of which pension plans	79	79	0
Operational risk	2 393	2 222	225
Other risks	5 607	6 321	1 279
- of which business risk	1 170	1 127	24
- of which temporary capital allocation for household portfolio	350	350	0
- of which corporate and bank ADF/PD adaption	1 320	1 045	0
- of which OEI adjustment	1 251	964	287
- of which operational risk add-on	598	555	56
- of which additional internal buffers	918	2 279	912
Individual solvency need (adequate own funds)	29 340	27 565	7 200
Additional capital requirement due to legal demands	0	0	0
Adjusted individual solvency need (adjusted adequate own funds)	29 340	27 565	7 200
Individual solvency need pct. for Credit risk	7,5%	7,2%	7,9%
Individual solvency need pct. for Market risk	0,3%	0,3%	0,0%
Individual solvency need pct. for Operational risk	0,9%	0,9%	0,3%
Individual solvency need pct. for Other risks	2,1%	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	10,5%	9,9%	8,7%
Common Equity Tier 1 Capital	37 016	35 987	17 226
Tier 1 Capital	37 016	35 987	17 226
Own funds	51 287	50 388	17 226
Total Risk Exposure Amount	271 669	255 229	72 003
Total Risk Exposure Amount incl. Basel 1 floor	378 965	306 482	167 985
Common Equity Tier 1 ratio	13,6%	14,1%	23,9%
Tier 1 ratio	13,6%	14,1%	23,9%
Total capital ratio	18,9%	19,7%	23,9%

3.2 Own funds

The own funds for the Nordea Bank Danmark Group and its legal entities at end-Q2 2014 is presented in detail in the table below. Own funds presented in the table are excluding profit earned during 2014.

Table 2. The Nordea Bank Danmark Group and its legal entities – own funds at end-Q2 2014

DKKmn	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	34 032	34 032	15 780
Other CET1 instruments	1 255	0	0
Income (positive/negative) from current year	0	0	0
Common Equity Tier 1 capital before deductions	40 287	39 032	17 498
Proposed/actual dividend	0	0	0
Deferred tax assets	0	0	0
Goodwill and other intangible assets	-2 666	-2 634	0
Deductions for defined pension fund asset	-28	-28	0
IRB provisions excess (+) / shortfall (-)	-236	-42	-272
Other items, net	-341	-341	0
Deductions from Common Equity Tier 1 capital	-3 271	-3 045	-272
Additional Tier 1 Capital	0	0	0
Tier 1 capital (net after deduction)	37 016	35 987	17 226
-of which additional Tier 1 capital	0	0	0
Capital instruments and subordinated loans eligible as Tier 2 capital	14 429	14 429	0
Other additional Tier 2 instruments	0	0	0
Tier 2 capital (before deductions)	14 429	14 429	0
IRB provisions excess (+) / shortfall (-)	-158	-28	0
Tier 2 capital (net after deductions)	14 272	14 401	0
Total own funds	51 287	50 388	17 226