



Individual Solvency Need

Nordea Bank Danmark Group  
31 December 2014

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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 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-Q4 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-Q4 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.
- As part of the ordinary capital planning process Nordea Bank Danmark A/S redeemed a subordinated loan (Tier 2 instrument, EUR 200m) in December 2014. The redemption was performed due to that the new capital regulations continuously would have reduced the amount of the instrument allowed to be accounted for as own funds. The redemption could be done since the Nordea Bank Danmark A/S CET1 amount is well above capital targets.
- The CET1 ratio for the Nordea Bank Danmark Group increased to 14.8% (Q4 2013: 14.0%) after deduction of the suggested dividend for 2014 of DKK 5,500m for Nordea Bank Danmark A/S.
- The individual solvency need for Nordea Kredit Realkreditaktieselskab at end-Q4 2014 is unchanged at 10%.

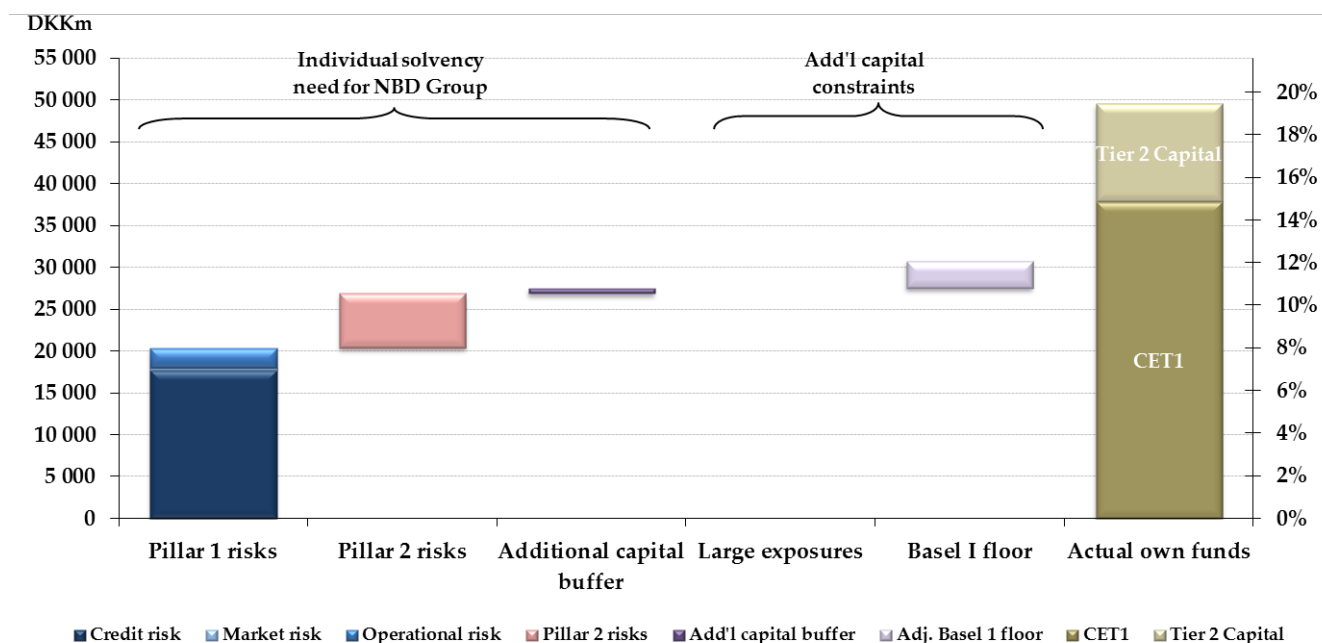
- The Nordea Bank Danmark Group and its legal entities conduct capital adequacy stress testing in collaboration with the Nordea Group to ensure that adequate capital is available within the Nordea Bank Danmark Group and its parent company in the event of, for instance, severe credit losses or changes in regulatory capital requirements.
- Nordea Bank Danmark has 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 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-Q4 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 a number of temporary capital allocations. The first capital 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. The add-on has been reduced by DKK 150m at the end of Q4 2014 as the handling of household customers has improved significantly during 2014. Thus the number of unidentified OEI customers has been very low in the recently reviewed branch regions.

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 1,327m) as long as the approval process for the above mentioned change is ongoing.

The fourth add-on is a 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.

Included is also a fifth Pillar 2 capital add-on related to changes made in the Danish scorecards not yet implemented in the Pillar 1 framework. In Q4 2014 this capital add-on amounted to DKK 164m.

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 slow economic growth and uncertain macro environment causing uncertainty regarding the future risk picture. To reflect the current conditions in the agricultural sector, as market prices for agriculture products has dropped considerably in the second half of 2014, and low interests impact on customers holding swap contracts, part of this additional buffer have 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. The latter, in order to meet an eventual drop in ratings as the annual reports are finalised and reviewed<sup>1</sup>. Both add-ons are temporary and may be reduced as the customers' annual reports/financial statements are received 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-Q4 of 16 bps, which equals an amount of DKK 404m. 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-Q4 2014, the Basel I floor is a constraint for Nordea Bank Danmark A/S, the Nordea Bank Danmark Group and Nordea Kredit Realkreditaktieselskab. The Basel 1 floor increased the capital requirement for the Nordea Bank Danmark Group by DKK 3,247m for Nordea Bank Danmark A/S by DKK 9m and for Nordea Kredit Realkreditaktieselskab by DKK 7,201m.

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<sup>1</sup> All financial contracts are booked in Nordea Bank Finland and would therefore not impact Nordea Bank Danmark directly, but only via changed customer credit ratings.

### 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-Q4 2014 is presented in detail in the table below.

**Table 1. The Nordea Bank Danmark Group and its legal entities – individual solvency need at end-Q4 2014**

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
<b>Credit risk</b>	<b>19 142</b>	<b>17 173</b>	<b>5 120</b>
<i>IRB approach</i>	<i>16 312</i>	<i>12 492</i>	<i>4 963</i>
- of which corporate	10 309	7 632	2 532
- of which institutions	511	510	2
- of which retail mortgage	2 753	446	2 107
- of which retail revolving			
- of which retail other	2 509	3 715	311
- of which equity			
- of which assets without counterparty	230	189	11
- of which securitisation			
<i>SA approach</i>	<i>1 366</i>	<i>4 348</i>	<i>6</i>
- of which sovereign	48	35	0
- of which institutions	111	204	0
- of which corporate	252	1 330	0
- of which retail	395	0	0
- of which retail mortgage	84	0	0
- of which contribution to default fund of a CCP	0	0	0
- of which past due items	8	0	0
- of which short-term claims on institutions and corporate	0	0	0
- of which equity and items with high risk	430	2 772	2
- of which assets without counterparty	37	7	5
- of which securitisation	0	0	0
Total risk for settlement/delivery	0	0	0
Total risk exposure for credit valuation adjustment	3	3	0
<i>Concentration risk</i>	<i>1 463</i>	<i>333</i>	<i>151</i>
<b>Market risk</b>	<b>634</b>	<b>494</b>	<b>17</b>
- of which trading book, internal approach	135	135	0
- of which trading book, standardised approach	169	29	0
- of which banking book, standardised approach	0	0	0
- of which IRR in the banking book	159	159	17
- of which real estate risk	115	115	0
- of which pension plans	56	56	0
<b>Operational risk</b>	<b>2 393</b>	<b>2 222</b>	<b>225</b>
<b>Other risks</b>	<b>5 343</b>	<b>6 070</b>	<b>1 131</b>
- of which business risk	1 177	1 133	24
- of which temporary capital allocation for household portfolio	200	200	0
- of which corporate and bank ADF/PD adaption	1 223	920	0
- of which OEI adjustment	1 327	998	330
- 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	598	555	56
- of which additional internal buffers	404	1 850	721
<b>Individual solvency need (adequate own funds)</b>	<b>27 511</b>	<b>25 959</b>	<b>6 493</b>
<b>Adjusted individual solvency need (adjusted adequate own funds)</b>	<b>27 511</b>	<b>25 959</b>	<b>6 493</b>
Additional regulatory capital requirement due to transition rules	3 247	209	7 201
<b>Capital requirement according to transition rules</b>	<b>30 758</b>	<b>26 168</b>	<b>13 694</b>
Individual solvency need pct. for Credit risk	7,5%	7,1%	7,9%
Individual solvency need pct. for Market risk	0,2%	0,2%	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%	1,7%
<b>Individual solvency need pct. incl. additional internal buffers</b>	<b>10,8%</b>	<b>10,8%</b>	<b>10,0%</b>
Individual solvency need pct. excl. additional internal buffers	10,6%	10,0%	8,9%
<b>Common Equity Tier 1 Capital</b>	<b>37 826</b>	<b>36 747</b>	<b>18 600</b>
<b>Tier 1 Capital</b>	<b>37 826</b>	<b>36 747</b>	<b>18 600</b>
<b>Own funds</b>	<b>49 565</b>	<b>48 581</b>	<b>18 600</b>
<b>Total Risk Exposure Amount</b>	<b>254 730</b>	<b>240 365</b>	<b>64 927</b>
<b>Total Risk Exposure Amount incl. Basel 1 floor</b>	<b>384 471</b>	<b>327 106</b>	<b>171 173</b>
<b>Common Equity Tier 1 ratio</b>	<b>14,8%</b>	<b>15,3%</b>	<b>28,6%</b>
<b>Tier 1 ratio</b>	<b>14,8%</b>	<b>15,3%</b>	<b>28,6%</b>
<b>Total capital ratio</b>	<b>19,5%</b>	<b>20,2%</b>	<b>28,6%</b>

## 3.2 Own funds

The own funds for the Nordea Bank Danmark Group and its legal entities at end-Q4 2014 is presented in detail in the table below.

**Table 2. The Nordea Bank Danmark Group and its legal entities – own funds at end-Q4 2014**

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Calculation of own funds			
<b>Own funds</b>			
Paid up instruments	5 000	5 000	1 717
Share premium	0	0	0
<b>Capital instruments eligible as CET 1 capital</b>	<b>5 000</b>	<b>5 000</b>	<b>1 717</b>
Retained earnings/other reserves/accumulated other comprehensive income	33 976	33 976	15 780
Other CET1 Instruments	1 255	0	0
Share premium	0	0	0
Income (positive/negative) from current year	5 702	5 702	1 340
<b>Common Equity Tier 1 capital before deductions</b>	<b>45 932</b>	<b>44 677</b>	<b>18 838</b>
Proposed/actual dividend	-5 500	-5 500	0
Deferred tax assets	0	0	0
Goodwill and other intangible assets	-1 884	-1 851	0
Deductions for defined pension fund asset	-26	-26	0
IRB provisions excess (+) / shortfall (-)	-260	-118	-238
Other items, net	-435	-435	0
<b>Deductions from Common Equity Tier 1 capital</b>	<b>-8 106</b>	<b>-7 930</b>	<b>-238</b>
<b>Additional Tier 1 Capital</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Tier 1 capital (net after deduction)</b>	<b>37 826</b>	<b>36 747</b>	<b>18 600</b>
-of which additional Tier 1 capital	0	0	0
<b>Capital instruments and subordinated loans eligible as Tier 2 capital</b>	<b>11 912</b>	<b>11 912</b>	<b>0</b>
Other additional Tier 2 instruments	0	0	0
<b>Tier 2 capital (before deductions)</b>	<b>11 912</b>	<b>11 912</b>	<b>0</b>
IRB provisions excess (+) / shortfall (-)	-174	-79	0
<b>Tier 2 capital ( net after deductions)</b>	<b>11 739</b>	<b>11 834</b>	<b>0</b>
<b>Total own funds</b>	<b>49 565</b>	<b>48 581</b>	<b>18 600</b>