Individual Solvency Need

Nordea Bank Danmark Group
30 March 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. 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-Q1 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-Q1 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.
- As part of the ordinary capital planning process Nordea Bank Danmark A/S will redeem a subordinated loan (Tier 2 instrument, EUR 200m) in June 2015. The redemption is performed due to that the new capital regulations continuously will reduce the amount of the instrument allowed to be accounted for as own funds. The redemption can be done since the Nordea Bank Danmark A/S CET1 and total capital amounts are well above capital targets. Nordea Bank Danmark A/S excludes the called loan from the capital base from April, why it is still included in own funds as of Q1. This is in accordance with Nordea's prudential interpretation of the regulations.
- The CET1 ratio for the Nordea Bank Danmark Group decreased to 14.3% (Q4 2014: 14.8%).
- The individual solvency need for Nordea Kredit Realkreditaktieselskab at Q1 2015 is unchanged at 10%.

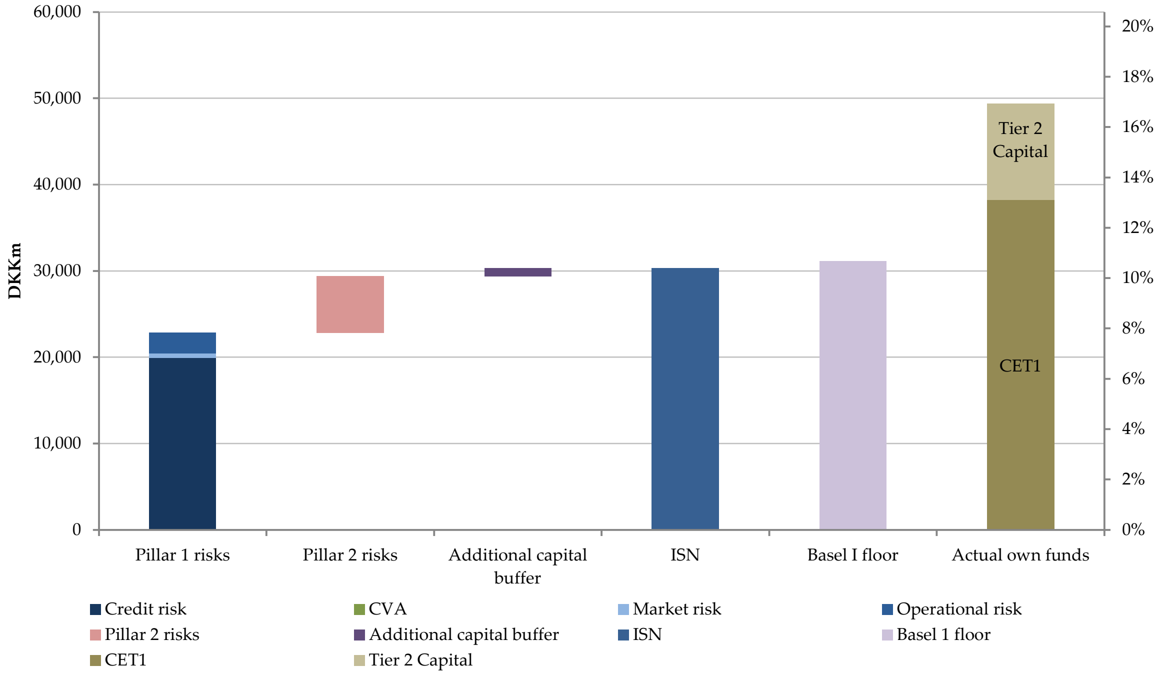
- The Nordea Bank Danmark Group and its legal entities conduct capital adequacy stress testing in collaboration with the Nordea Group to ensure that adequate capital is available within the Nordea Bank Danmark Group and its parent company in the event of, for instance, severe credit losses or changes 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 Q1 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 capital 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.

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 1,332m) 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.

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. In Q1 2015 this capital 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, 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[1]. 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 Q1 of 25 bps, which amounts to DKK 656m. 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 740m.

In addition to the individual solvency need, there are regulatory capital constraints related to large exposures and the Basel I floor. At end-Q1 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 2,259m and for Nordea Kredit Realkreditaktieselskab by DKK 6,708m to DKK 31,131m and DKK 13,772m respectively.

[1] 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-Q1 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 Q1 2015

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Credit risk	**19,923**	**17,437**	**5,552**
- of which counterparty credit risk	19	19	0
IRB approach	*17,112*	*12,389*	*5,390*
- of which corporate	10,304	7,271	2,637
- of which advanced	9,795	7,270	2,637
- of which foundation	509	1	
- of which institutions	598	598	2
- of which retail	5,934	4,322	2,726
- of which secured by immovable property collateral	3,140	497	2,406
- of which other retail	2,794	3,825	320
- of which other	276	198	25
SA approach	*1,381*	*4,742*	*6*
- of which central governments or central banks	47	34	0
- of which regional governments or local authorities	0	0	0
- of which public sector entities	2	2	
- of which multilateral development banks			
- of which international organisations			
- of which institutions	94	76	
- of which corporate	258	1,764	
- of which retail	392		
- of which secured by mortgages on immovable property	102		0
- of which in default	7		
- of which associated with particularly high risk	434	434	
- of which covered bonds	3	50	
- of which institutions and corporates with a short-term credit assessment			
- of which collective investments undertakings (CIU)			
- of which equity	19	2,379	2
- of which other items	23	3	4
Concentration risk	*1,430*	*306*	*156*
Credit Value Adjustment Risk (CVA)	**12**	**12**	**0**
Market risk	**879**	**729**	**97**
- of which trading book, internal approach	271	271	
- of which trading book, standardised approach	178	29	0
- of which banking book, standardised approach	37	35	0
- of which IRR in the banking book	302	302	97
- of which real estate risk	0	0	0
- of which pension plans	93	93	0
Operational risk	**2,396**	**2,206**	**256**
Other risks	**5,661**	**6,190**	**1,160**
- of which business risk	1,207	1,160	25
- of which temporary capital allocation for household portfolio	200	200	0
- of which corporate and bank ADF/PD adaption	1,254	905	0
- of which OEI adjustment	1,332	1,001	331
- 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	656	1,958	740
Individual solvency need (adequate own funds)	**28,872**	**26,574**	**7,064**
Adjusted individual solvency need (adjusted adequate own funds)	**28,872**	**26,574**	**7,064**
Additional regulatory capital requirement due to transition rules	2,259	0	6,708
Capital requirement according to transition rules	**31,131**	**26,574**	**13,772**

Table 2 Key solvency figures for Nordea Bank Danmark Group and its legal entities at Q1 2015

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Individual solvency need pct. for Credit risk	7.5%	7.1%	7.9%
Individual solvency need pct. for CVA	0.0%	0.0%	0.0%
Individual solvency need pct. for Market risk	0.3%	0.3%	0.1%
Individual solvency need pct. for Operational risk	0.9%	0.9%	0.4%
Individual solvency need pct. for Other risks	2.1%	2.5%	1.6%
Individual solvency need pct. incl. additional internal buffers	**10.8%**	**10.8%**	**10.0%**
Individual solvency need pct. excl. additional internal buffers	10.6%	10.0%	9.0%
Common Equity Tier 1 Capital	**38,256**	**37,217**	**18,594**
Tier 1 Capital	**38,256**	**37,217**	**18,594**
Own funds	**49,388**	**48,425**	**18,594**
Total Risk Exposure Amount	**267,329**	**246,055**	**70,645**
Total Risk Exposure Amount incl Basel 1 floor	**389,134**	**317,059**	**172,154**
Common Equity Tier 1 ratio	**14.3%**	**15.1%**	**26.3%**
Tier 1 ratio	**14.3%**	**15.1%**	**26.3%**
Total capital ratio	**18.5%**	**19.7%**	**26.3%**
Basel 1 floor Common Equity Tier 1 ratio	**9.8%**	**11.7%**	**10.8%**
Basel 1 floor Funds incl transition rules	**12.7%**	**15.3%**	**10.8%**

3.2 Own funds

The own funds for the Nordea Bank Danmark Group and its legal entities at end-Q1 2015 is presented in detail in the table 3 below.

Table 3 Own funds for Nordea Bank Danmark Group and its legal entities at end Q1 2015

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Calculation of own funds			
Equity in the consolidated situation	39,238	39,238	18,838
Proposed/actual dividend			
Common Equity Tier 1 capital before regulatory adjustments	39,238	39,238	18,838
Deferred tax assets			
Intangible assets	-1,861	-1,826	
IRB provisions shortfall (-)[1]	-339	-84	-243
Deduction for investments in credit institutions (50%)			
Pension assets in excess of related liabilities[2]	-107	-107	
Other items, net[3]	1,324	-5	-1
Total regulatory adjustments to Common Equity Tier 1 capital	-982	-2,021	-244
Common Equity Tier 1 capital (net after deduction)	38,256	37,217	18,594
Additional Tier 1 capital before regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 capital			
Additional Tier 1 capital			
Tier 1 capital (net after deduction)	38,256	37,217	18,594
Tier 2 capital before regulatory adjustments	11,233	11,233	
IRB provisions excess (+)/shortfall (-)			
Deduction for investments in credit institutions (50%)			
Deductions for investments in insurance companies			
Pension assets in excess of related liabilities			
Other items, net	-102	-25	
Total regulatory adjustments to Tier 2 capital	-102	-25	
Tier 2 capital	11,132	11,208	
Own funds (net after deduction)	49,388	48,425	18,594

1 Transition rules allow 80% to be deducted in CET1 and 20% in T2. The transition effect is included in: Other items, net.

2 Total deductions. Transition rules require 40% to be deducted in 2015. The transition effect is included in other items, net.

3 Other items, net includes holdings of LR Realkredit A/S 1,255 DKKm in 2015 (1,255 DKKm in 2014)