



Individual Solvency Need

Nordea Bank Danmark Group
31 March 2016

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 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. 182 af 18. februar 2015) and Danish Executive Order no. 295 (27 March 2014) "Bekendtgørelse 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 respective Board of Directors and presented to the Financial Supervisory Authority.

1.1 Main conclusions

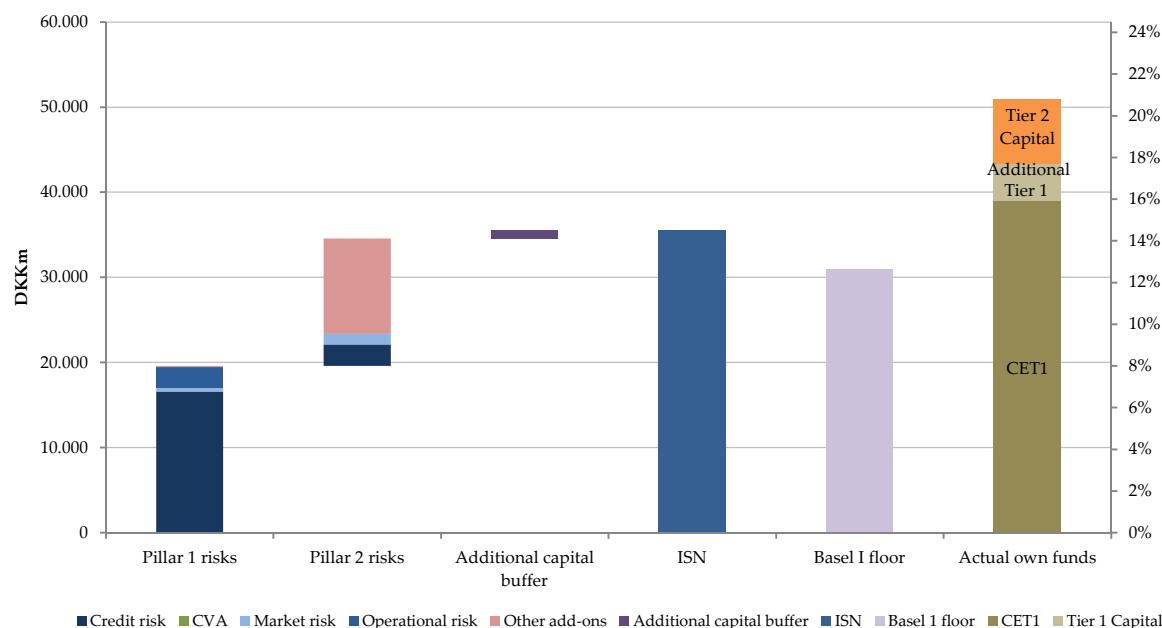
- Outcome from the Supervisory Review and Evaluation Process (SREP) led to a change in the ISN ratio in Q3 2015. Pillar II SREP add-ons are kept and the specific SREP add-on to pillar 1 REA is either kept or included in the ordinary Pillar 1 calculations.
- The ISN amount has decreased slightly but due to a higher relative decrease in REA the ISN % level has increased. The ISN level for Nordea Bank Danmark has increased from 14.2% to 14.5%, the ISN level in Nordea Bank A/S has increased from 12.9% to 13.2% and the ISN level in Nordea Realkredit has increased from 11.4% to 11.8%.
- The SREP add-ons relates to 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.
- The Nordea Bank Danmark Group and its individual legal entities are well capitalised at end-Q1 2016 and have access to available capital from Nordea Bank AB (publ), the parent company of the Nordea Bank Danmark Group, if necessary.
- The CET1 ratio for the Nordea Bank Danmark Group was 15.9% (Q4 2015: 15.2%).
- 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.

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 2016 for the NBD Group



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 not 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.

The concentration risk for the Nordea Bank Danmark Group is calculated on a stand-alone basis by scaling the Nordea Group allocated concentration risk with a factor of 2.8. The scaling factor adjust the difference between the concentration risk of Nordea Bank Danmark within the Nordea Group and the concentration risk calculated for the Nordea Bank Danmark Group as a stand-alone entity using the Swedish FSAs concentration risk model. The scaling factor was changed in 2016 Q1 to adjust for changes in the Nordea internal concentration risk model.

Also included in the Pillar 2 requirement are a number of temporary capital add-ons for changes pending on approvals by FSAs and other add-ons of which some are related to the SREP.

There are two add-ons pending approvals. The first 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 as long as the approval process for the above mentioned change is ongoing. In Q1 2016 this add-on amounted to DKK 1,291m. The second add-on pending on approvals relates to changes made in the Danish scorecards not yet implemented in the Pillar 1 framework. This add-on amounts to DKK 164m.

There are three other add-ons, the first 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 Q1 2016 this capital add-on amounted to DKK 1,120m.

The second reflects the risk of late registration of OEI in the Household portfolio and amounts to DKK 200m. 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 third reflects the increased requirements in the SREP which relates to 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. In total the add-on amounts to DKK 6,964m. Part of the adjustments that will be made due to the SREP is reversal of changes made in Pillar 1 REA. Before the changes are in effect, and are included in the relevant risk measure, these are reported as other risks in Pillar 1, in 2016 Q1 they amounted to DKK 161m.

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 specific credit risks. Once we have gathered experience with the application of the new collective provisioning model and the process has matured these specific capital add-ons will be reversed.

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 individual solvency need. The individual solvency need before management buffer of 14.1% for the Nordea Bank Danmark Group allows for an internal buffer at end-Q1 of 38 bps, which amounts to DKK 942m. For Nordea Kredit Realkreditaktieselskab the buffer is the difference between the measured Pillar 1 and Pillar 2 risks and the 11.8% individual solvency need, which amounts to DKK 257m.

In addition to the individual solvency need, there are regulatory capital constraints related to large exposures and the Basel I floor. At end-Q1 2016, the Basel I floor is a constraint for Nordea Kredit Realkreditaktieselskab and increase the capital requirement by DKK 6,207m.

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 2016 is presented in detail in the table 1 and 2 below.

Table 1 Individual solvency need for the Nordea Bank Danmark Group and its legal entities at end-Q1 2016

Capital requirements DKKmn	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkredit aktieselskab
Credit risk	16,557	15,824	4,883
- of which counterparty credit risk	21	21	0
<i>Credit risks measured by the IRB approach</i>	<i>15,105</i>	<i>11,212</i>	<i>4,878</i>
- of which corporate	9,307	6,733	2,387
- of which institutions	402	403	0
- of which retail	5,151	3,893	2,460
- of which other	245	182	31
<i>Credit risks measured by the standardised approach</i>	<i>1,452</i>	<i>4,612</i>	<i>5</i>
- of which corporate	266	1,432	0
- of which institutions	147	116	0
- of which retail	395	0	0
- of which equity	30	2,516	2
- other items	613	548	3
Market risk	489	330	0
- of which trading book, internal approach	287	287	0
- of which trading book, standardised approach	160	2	0
- of which banking book, standardised approach	42	41	0
Operational risk	2,378	2,201	283
Credit Value Adjustment Risk (CVA)	8	8	0
Other risks	161	83	74
Pillar 2 Credit risk	2,512	634	395
- of which concentration risk	2,262	384	395
- of which for increased risk for customers with swap contacts	100	100	0
- of which for increased risk for customers in agriculture sector	150	150	0
Pillar 2 Market risk	1,266	1,266	29
- of which IRR in the banking book	1,101	1,101	29
- of which real estate risk	0	0	0
- of which pension plans	165	165	0
Pillar 2 Business risk	1,461	1,405	30
Pillar 2 Add-ons for changes pending on approvals	1,455	1,212	243
- of which OEI adjustment	1,291	1,048	243
- of which new scorecards	164	164	
Pillar 2 Other add-ons	8,284	6,639	1,535
- of which corporate and bank ADF/PD adaption	1,120	823	275
- of which late registration in household portfolio	200	200	0
- of which due to SREP	6,964	5,616	1,259
Additional internal buffer	942	833	257
Individual solvency need (adequate own funds)	35,511	30,434	7,728
Adjusted individual solvency need (adjusted adequate own funds)	35,511	30,434	7,728
Additional regulatory capital requirement due to transition rules	0	0	6,207
Capital requirement according to transition rules	35,511	30,434	13,935

Table 2 Key solvency figures for the Nordea Bank Danmark Group and its legal entities at Q1 2016

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkredit aktieselskab
Individual solvency need pct. for Credit risk	7.8%	7.1%	8.1%
Individual solvency need pct. for Market risk	0.7%	0.7%	0.0%
Individual solvency need pct. for Operational risk	1.0%	1.0%	0.4%
Individual solvency need pct. for CVA	0.0%	0.0%	0.0%
Individual solvency need pct. for Other risks	5.0%	4.4%	3.3%
Individual solvency need pct. incl. additional internal buffers	14.5%	13.2%	11.8%
Individual solvency need pct. excl. additional internal buffers	14.1%	12.8%	11.4%
Common Equity Tier 1 Capital	38,958	37,848	19,977
Tier 1 Capital	43,297	42,223	19,977
Own funds	50,909	49,869	19,977
Total Risk Exposure Amount	244,905	230,563	65,491
Total Risk Exposure Amount incl Basel 1 floor	386,278	308,633	174,191
Common Equity Tier 1 ratio	15.9%	16.4%	30.5%
Tier 1 ratio	17.7%	18.3%	30.5%
Total capital ratio	20.8%	21.6%	30.5%
Basel 1 floor Common Equity Tier 1 ratio	10.2%	12.4%	11.7%
Basel 1 floor Funds incl transition rules	13.3%	16.3%	11.7%

3.2 Own funds

The own funds for the Nordea Bank Danmark Group and its legal entities at end-Q1 2016 is presented in detail in table 3 below.

Table 3 Own funds excluding profit for the Nordea Bank Danmark Group and its legal entities at end-Q1 2016

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
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	35,094	35,094	18,584
Other CET1 instruments	1,255	0	0
Income (positive/negative) from current year	749	749	423
Common Equity Tier 1 capital before deductions	42,098	40,843	20,725
Proposed/actual dividend	-749	-749	-423
Deferred tax assets	0	0	0
Goodwill and other intangible assets	-1,780	-1,744	0
Deductions for defined pension fund asset	-98	-98	0
IRB provisions excess (+) / shortfall (-)	-394	-288	-322
Other items, net	-118	-115	-2
Deductions from Common Equity Tier 1 capital	-3,140	-2,995	-747
Additional Tier 1 Capital	4,339	4,375	0
Tier 1 capital (net after deduction)	43,297	42,223	19,977
-of which additional Tier 1 capital	4,339	4,375	0
Capital instruments and subordinated loans eligible as Tier 2 capital	7,743	7,743	0
Other additional Tier 2 instruments	0	0	0
Tier 2 capital (before deductions)	7,743	7,743	0
IRB provisions excess (+) / shortfall (-)	-131	-96	0
Tier 2 capital (net after deductions)	7,611	7,647	0
Participations hold in insurance undert., reinsurance	0	0	0
Pension assets in excess of related liabilities	0	0	0
Total own funds	50,909	49,869	19,977