

Individual Solvency Need  
Nordea Bank Danmark Group  
30 June 2011



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## 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 the Financial Business Act (Lov om finansiel virksomhed jf. lovbekendtgørelse nr. 342 af 8. april 2011 og bekendtgørelse nr. 1225 af 28. oktober 2010, kapitaldækningsbekendtgørelsen).

An update of the individual solvency need is published each quarter and is available on Nordea's Investor Relations website ([nordea.com/ir](http://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 adequacy 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 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

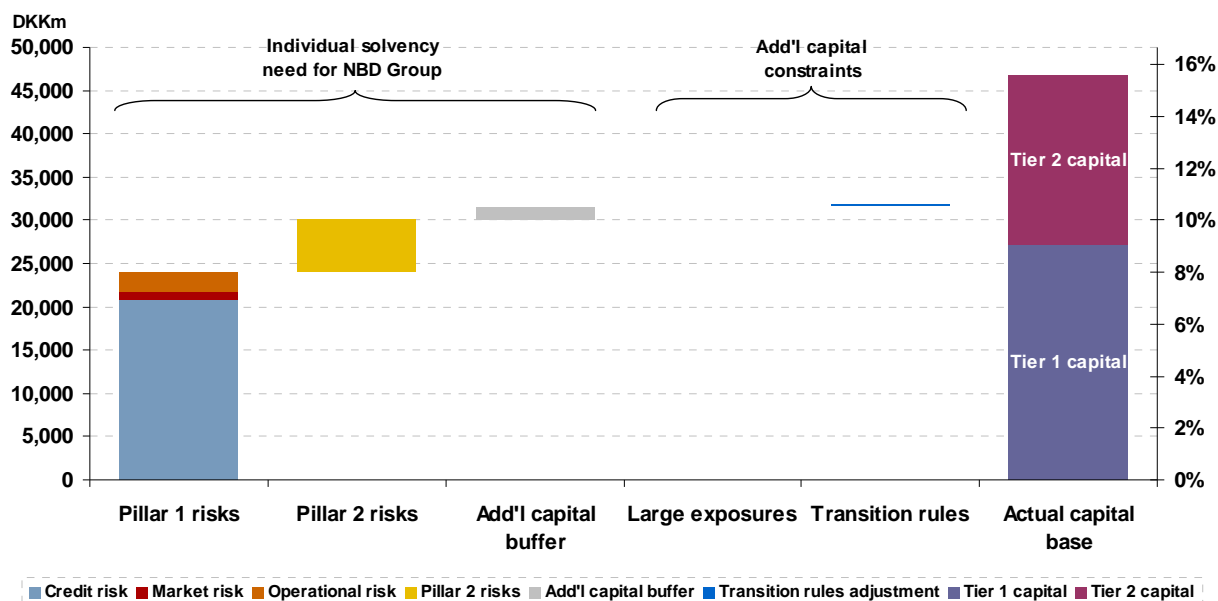
The Nordea Bank Danmark Group and its individual legal entities are well capitalised at end-Q2 2011 and have access to available capital from Nordea Bank AB (publ), the parent company of the Nordea Bank Danmark Group, if necessary.

- The individual solvency need at end-Q2 2011 for the Nordea Bank Danmark Group and Nordea Bank Danmark A/S is unchanged at 10.5%. The individual solvency need is in excess of the legal minimum requirement of 8%.
- The individual solvency need for Nordea Kredit Realkreditaktieselskab at end-Q2 2011 is 9%.
- 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.

## 2 Definition of the individual solvency need

The definition of the individual solvency need and changes in methodology are described below. For more details on capital measurement and handling of specific risks, please see the Nordea Bank Danmark Group's Pillar 3 report as well as previous individual solvency need reports available on Nordea's Investor Relations website.

**Figure 1. Individual solvency need, capital constraints and actual capital at end-Q2 2011**



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 Directive (CRD) 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 CRD, 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.

Included in the Pillar 2 requirement is also two temporary capital allocations. The purpose of the first capital allocation is to compensate for some inherent risks in the household portfolio that are not fully reflected in the customer ratings. Until now the effects has been assessed to be too moderate to initiate a reversal. During Q2 2011 a sample of household customers was tested, displaying the anticipated outcome. The actions considered necessary have been taken and process improvements are expected to take full effect during 2011. However, at present it is uncertain when the full effect is reflected in the individual solvency. 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.

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-weighted assets. 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), which is 10.0%, and the 10.5% individual solvency need. The individual solvency need of 10.5% for the Nordea Bank Danmark Group allows for an internal buffer at end-Q2 of approx 50 bp, which equals DKK 1.5bn. For Nordea Kredit Realkreditaktieselskab the buffer is the difference between the measured Pillar 1 and Pillar 2 risks and the 9% individual solvency need.

In addition to the individual solvency need, there are additional regulatory capital constraints related to large exposures and Basel II transition rules. At end-Q2 2011, large exposures and transition rules are not a material constraint for Nordea Bank Danmark A/S, but the Nordea Bank Danmark

Group and Nordea Kredit Realkreditaktieselskab are affected by transition rules. Transition rules increase the capital requirement for Nordea Bank Danmark Group by DKK 199m and for Nordea Kredit Realkreditaktieselskab by DKK 3,725m.

### 3 Individual solvency need and capital base

#### 3.1 Individual solvency need

The individual solvency need for the Nordea Bank Danmark Group and its legal entities at end-Q2 2011 is presented in detail in the table below.

**Table 1. The Nordea Bank Danmark Group and its legal entities – individual solvency need at end-Q2 2011**

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
<b>Credit risk</b>	<b>22,513</b>	<b>21,025</b>	<b>6,935</b>
<i>IRB approach</i>	<i>19,588</i>	<i>16,096</i>	<i>5,468</i>
- of which corporate	12,348	10,426	2,420
- of which institutions	462	459	0
- of which retail mortgage	3,290	510	376
- of which retail revolving	0	0	0
- of which retail other	3,327	4,586	2,656
- of which equity	0	0	0
- of which assets without counterparty	161	115	15
- of which securitisation	0	0	0
<i>SA approach</i>	<i>1,309</i>	<i>4,529</i>	<i>1,353</i>
- of which sovereign	32	32	0
- of which institutions	307	1,074	1,336
- of which corporate	2	1,099	0
- of which retail	294	0	0
- of which retail mortgage	0	0	0
- of which other	249	0	0
- of which past due items	74	0	0
- of which short-term claims on institutions and corporate	0	0	0
- of which equity	275	2,319	2
- of which assets without counterparty	76	4	15
- of which securitisation	0	0	0
<i>Concentration risk</i>	<i>1,616</i>	<i>400</i>	<i>114</i>
<b>Market risk</b>	<b>1,449</b>	<b>1,324</b>	<b>30</b>
- of which trading book	804	679	0
- of which FX outside trading book*	0	0	0
- of which IRR in the banking book	394	394	30
- of which real estate risk	159	159	0
- of which pension plans	92	92	0
<b>Operational risk</b>	<b>2,295</b>	<b>2,164</b>	<b>160</b>
<b>Other risks</b>	<b>5,239</b>	<b>6,289</b>	<b>728</b>
- of which business risk	1,996	1,894	56
- of which temporary capital allocation for household portfolio	700	700	0
- of which corporate and bank ADF/PD adaption	1,089	925	0
- of which additional internal buffers	1,454	2,770	672
<b>Individual solvency need (adequate capital base)</b>	<b>31,496</b>	<b>30,801</b>	<b>7,853</b>
Additional capital requirement due to legal demands	0	0	0
<b>Adjusted individual solvency need (adjusted adequate capital base)</b>	<b>31,496</b>	<b>30,801</b>	<b>7,853</b>
Individual solvency need pct. for Credit risk	7.5%	7.2%	7.9%
Individual solvency need pct. for Market risk	0.5%	0.5%	0.0%
Individual solvency need pct. for Operational risk	0.8%	0.7%	0.2%
Individual solvency need pct. for Other risks	1.7%	2.1%	0.8%
<b>Individual solvency need pct. incl. additional internal buffers</b>	<b>10.5%</b>	<b>10.5%</b>	<b>9.0%</b>
Individual solvency need pct. excl. additional internal buffers	10.0%	9.6%	8.2%
<b>Tier 1 capital</b>	<b>27,090</b>	<b>26,451</b>	<b>13,523</b>
<b>Capital base</b>	<b>46,754</b>	<b>46,553</b>	<b>13,523</b>
<b>Pillar 1 RWA</b>	<b>299,965</b>	<b>293,347</b>	<b>87,252</b>
<b>Actual Tier 1 ratio</b>	<b>9.0%</b>	<b>9.0%</b>	<b>15.5%</b>
<b>Actual capital ratio</b>	<b>15.6%</b>	<b>15.9%</b>	<b>15.5%</b>

\*if RWA for FX risk outside trading book is less than 2% of the capital base, it will eliminate the capital requirement.

### 3.2 Capital base

The capital base for the Nordea Bank Danmark Group and its legal entities at end-Q2 2011 is presented in detail in the table below.

**Table 2. The Nordea Bank Danmark Group and its legal entities – capital base at end-Q2 2011**

	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
DKKmn			
Calculation of total capital base			
<b>Original own funds</b>			
Paid-up capital	5,000	5,000	1,717
Share premium	0	0	0
<b>Eligible capital</b>	<b>5,000</b>	<b>5,000</b>	<b>1,717</b>
Reserves	24,556	24,567	13,284
Minority interests	1,266	0	0
Income (positive/negative) from current year	0	0	0
<b>Eligible reserves</b>	<b>25,822</b>	<b>24,567</b>	<b>13,284</b>
<b>Tier 1 capital (before hybrid capital and deductions)</b>	<b>30,822</b>	<b>29,567</b>	<b>15,002</b>
<b>Hybrid capital loans subject to limits</b>	<b>0</b>	<b>0</b>	<b>0</b>
Proposed/actual dividend	0	0	0
Deferred tax assets	-150	0	0
Intangible assets	-2,900	-2,872	-13
Deductions for investments in credit institutions	-70	-70	0
IRB provisions excess (+) / shortfall (-)	-611	-173	-1,466
Other items, net	0	0	0
<b>Deductions from original own funds</b>	<b>-3,732</b>	<b>-3,116</b>	<b>-1,478</b>
<b>Tier 1 capital (net after deduction)</b>	<b>27,090</b>	<b>26,451</b>	<b>13,523</b>
- of which hybrid capital	0	0	0
<b>Additional own funds</b>	<b>0</b>	<b>0</b>	<b>0</b>
Securities of indeterminate dur. and other instr.	0	0	0
Subordinate loan capital	20,325	20,325	0
Other additional own funds	20	20	0
<b>Tier 2 capital (before deductions)</b>	<b>20,345</b>	<b>20,345</b>	<b>0</b>
Deductions for investments in credit institutions	-70	-70	0
IRB provisions excess (+) / shortfall (-)	-611	-173	0
<b>Deductions from original additional own funds</b>	<b>-682</b>	<b>-244</b>	<b>0</b>
<b>Tier 2 capital (net after deductions)</b>	<b>19,664</b>	<b>20,102</b>	<b>0</b>
<b>Total own funds for solvency purposes</b>	<b>46,754</b>	<b>46,553</b>	<b>13,523</b>