

Individual Solvency Need
Nordea Bank Danmark Group
30 September 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) 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

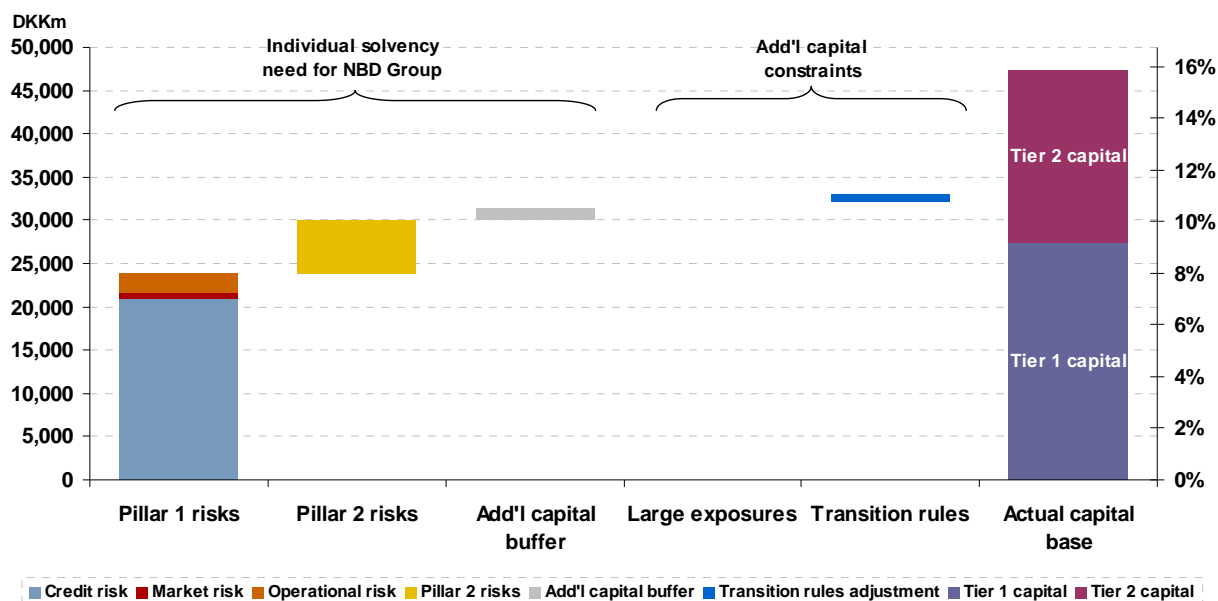
The Nordea Bank Danmark Group and its individual legal entities are well capitalised at end-Q3 2011 and have access to available capital from Nordea Bank AB (publ), the parent company of the Nordea Bank Danmark Group, if necessary.

- The individual solvency need at end-Q3 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-Q3 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-Q3 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. The development of the discrepancy of the average ADF and the PD is closely monitored. During Q3 2011, additional capital is allocated to the temporary capital allocation following a widening of the discrepancy.

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 10.1%, 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-Q3 of approx 40 bp, which equals DKK 1.3bn. 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-Q3 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 842m and for Nordea Kredit Realkreditaktieselskab by DKK 4,042m.

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-Q3 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-Q3 2011

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Credit risk	22,541	20,645	7,011
<i>IRB approach</i>	<i>19,669</i>	<i>15,866</i>	<i>5,695</i>
- of which corporate	12,165	10,074	2,446
- of which institutions	384	383	0
- of which retail mortgage	3,372	530	2,738
- of which retail revolving	0	0	0
- of which retail other	3,558	4,719	493
- of which equity	0	0	0
- of which assets without counterparty	190	159	18
- of which securitisation	0	0	0
<i>SA approach</i>	<i>1,294</i>	<i>4,409</i>	<i>1,200</i>
- of which sovereign	36	36	0
- of which institutions	318	1,012	1,180
- of which corporate	1	1,010	0
- of which retail	300	0	0
- of which retail mortgage	0	0	0
- of which other	254	0	0
- of which past due items	73	0	0
- of which short-term claims on institutions and corporate	0	0	0
- of which equity	287	2,346	2
- of which assets without counterparty	24	6	19
- of which securitisation	0	0	0
<i>Concentration risk</i>	<i>1,578</i>	<i>370</i>	<i>116</i>
Market risk	1,248	1,190	45
- of which trading book	612	554	0
- of which FX outside trading book*	0	0	0
- of which IRR in the banking book	324	324	45
- of which real estate risk	179	179	0
- of which pension plans	134	134	0
Operational risk	2,295	2,164	160
Other risks	5,245	6,181	720
- 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	1,255	1,046	0
- of which additional internal buffers	1,294	2,541	664
Individual solvency need (adequate capital base)	31,329	30,179	7,937
Additional capital requirement due to legal demands	0	0	0
Adjusted individual solvency need (adjusted adequate capital base)	31,329	30,179	7,937
Individual solvency need pct. for Credit risk	7.6%	7.2%	8.0%
Individual solvency need pct. for Market risk	0.4%	0.4%	0.1%
Individual solvency need pct. for Operational risk	0.8%	0.8%	0.2%
Individual solvency need pct. for Other risks	1.8%	2.2%	0.8%
Individual solvency need pct. incl. additional internal buffers	10.5%	10.5%	9.0%
Individual solvency need pct. excl. additional internal buffers	10.1%	9.6%	8.2%
Tier 1 capital	27,405	26,564	13,541
Capital base	47,410	47,240	13,541
Pillar 1 RWA	298,373	287,422	88,185
Actual Tier 1 ratio	9.2%	9.2%	15.4%
Actual capital ratio	15.9%	16.4%	15.4%

*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-Q3 2011 is presented in detail in the table below.

Table 2. The Nordea Bank Danmark Group and its legal entities – capital base at end-Q3 2011

	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
DKKmn			
Calculation of total capital base			
Original own funds			
Paid-up capital	5,000	5,000	1,717
Share premium	0	0	0
Eligible capital	5,000	5,000	1,717
Reserves	24,554	24,554	13,284
Minority interests	1,251	0	0
Income (positive/negative) from current year	0	0	0
Eligible reserves	25,805	24,554	13,284
Tier 1 capital (before hybrid capital and deductions)	30,805	29,554	15,002
Hybrid capital loans subject to limits	0	0	0
Proposed/actual dividend	0	0	0
Deferred tax assets	-150	0	0
Intangible assets	-2,957	-2,930	-10
Deductions for investments in credit institutions	-60	-60	0
IRB provisions excess (+) / shortfall (-)	-234	0	-1,450
Other items, net	0	0	0
Deductions from original own funds	-3,400	-2,990	-1,460
Tier 1 capital (net after deduction)	27,405	26,564	13,541
- of which hybrid capital	0	0	0
Additional own funds	0	0	0
Securities of indeterminate dur. and other instr.	0	0	0
Subordinate loan capital	20,278	20,278	0
Other additional own funds	20	20	0
Tier 2 capital (before deductions)	20,298	20,298	0
Deductions for investments in credit institutions	-60	-60	0
IRB provisions excess (+) / shortfall (-)	-234	437	0
Deductions from original additional own funds	-293	378	0
Tier 2 capital (net after deductions)	20,005	20,676	0
Total own funds for solvency purposes	47,410	47,240	13,541