

Individual Solvency Need
Nordea Bank Danmark Group
31 March 2012



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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. 885 af 8. august 2011), og bekendtgørelse nr. 1339 af 16. december 2011 (kapitaldækningsbekendtgørelsen) og bekendtgørelse nr. 764 af 24. Juni 2011 (bekendtgørelse om basiskapital).

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

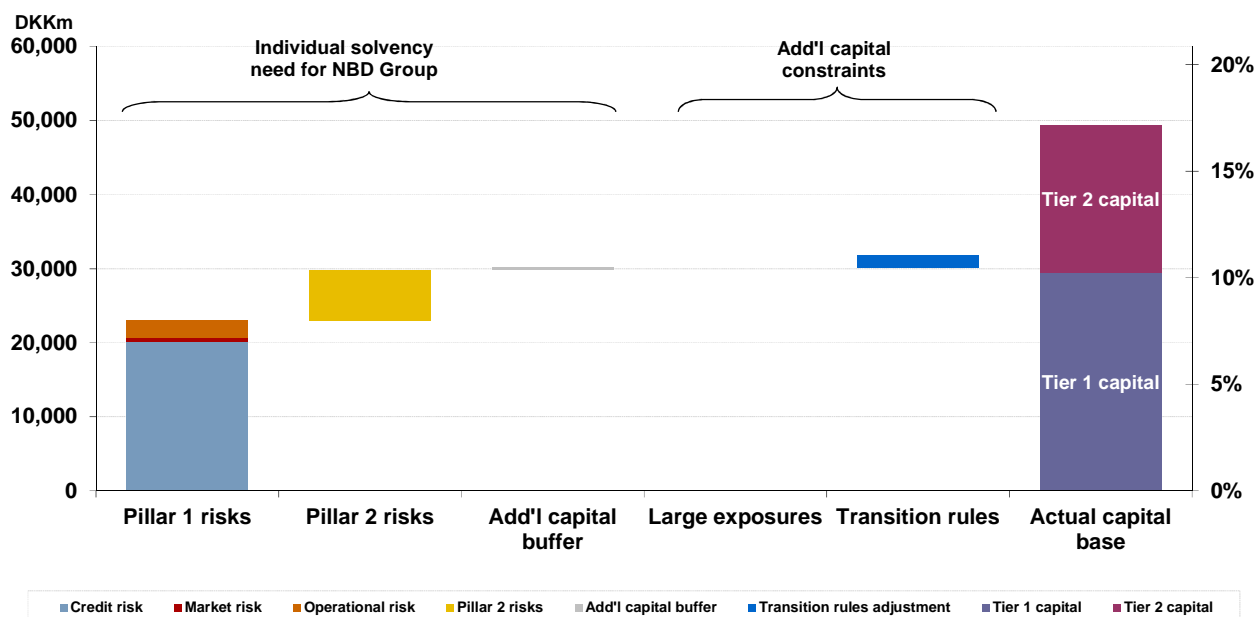
The Nordea Bank Danmark Group and its individual legal entities are well capitalised at end-Q1 2012 and have access to available capital from Nordea Bank AB (publ), the parent company of the Nordea Bank Danmark Group, if necessary.

- The individual solvency need at end-Q1 2012 for the Nordea Bank Danmark Group and Nordea Bank Danmark A/S remains 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-Q1 2012 is 10%, increased from 9%. While no change has occurred to the risk picture, the increase of the individual solvency need relates to capital structure revisions within the Nordea Group in preparation for the new capital requirement regime.
- 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-Q1 2012



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.

Also included in the Pillar 2 requirement are 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. Actions have been conducted during 2011; however, enhanced focus and additional actions have been assessed necessary. These process improvements will be implemented during the first half of 2012. At present it is uncertain when the full effect is reflected in the individual solvency need and a reversal can be initiated. 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 actual default ratio peaked in 2010 and has decreased afterwards. However, the 2011 level was still above the used PD level meaning that the average actual default ratio increased compared to the used PD. Hence, the add-on for the corporate and institutions portfolio were adjusted during 2011 from 8.5% to 10% which in Q1 2012 remains to be the adequate add-on level.

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) 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-Q1 of 15 bp, which equals DKK 0.4bn. 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 Basel II transition rules. At end-Q1 2012, 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 1,662m and for Nordea Kredit Realkreditaktieselskab by DKK 3,095m.

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-Q1 2012 is presented in detail in the table below.

Table 1. The Nordea Bank Danmark Group and its legal entities – individual solvency need at end-Q1 2012

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Credit risk	21,721	19,808	7,147
<i>IRB approach</i>	<i>18,595</i>	<i>14,670</i>	<i>5,552</i>
- of which corporate	11,695	9,550	2,522
- of which institutions	387	387	0
- of which retail mortgage	2,850	421	2,356
- of which retail revolving	0	0	0
- of which retail other	3,395	4,159	597
- of which equity	0	0	0
- of which assets without counterparty	268	153	77
- of which securitisation	0	0	0
<i>SA approach</i>	<i>1,491</i>	<i>4,705</i>	<i>1,475</i>
- of which sovereign	61	61	0
- of which institutions	244	1,024	1,456
- of which corporate	15	1,069	0
- of which retail	321	0	0
- of which retail mortgage	0	0	0
- of which other	267	0	0
- of which past due items	75	0	0
- of which short-term claims on institutions and corporate	0	0	0
- of which equity	507	2,547	1
- of which assets without counterparty	1	4	18
- of which securitisation	0	0	0
<i>Concentration risk</i>	<i>1,636</i>	<i>433</i>	<i>120</i>
Market risk	1,652	1,629	31
- of which trading book, internal approach	331	331	0
- of which trading book, standardised approach	181	70	0
- of which banking book, standardised approach	0	88	0
- of which IRR in the banking book	821	821	31
- of which real estate risk	172	172	0
- of which pension plans	148	148	0
Operational risk	2,424	2,287	182
Other risks	4,419	5,350	1,650
- of which business risk	2,090	2,024	50
- of which temporary capital allocation for household portfolio	700	700	0
- of which corporate and bank ADF/PD adaption	1,208	994	0
- of which additional internal buffers	421	1,632	1,601
Individual solvency need (adequate capital base)	30,216	29,074	9,011
Additional capital requirement due to legal demands	0	0	0
Adjusted individual solvency need (adjusted adequate capital base)	30,216	29,074	9,011
Individual solvency need pct. for Credit risk	7.5%	7.2%	7.9%
Individual solvency need pct. for Market risk	0.6%	0.6%	0.0%
Individual solvency need pct. for Operational risk	0.8%	0.8%	0.2%
Individual solvency need pct. for Other risks	1.5%	1.9%	1.8%
Individual solvency need pct. incl. additional internal buffers	10.5%	10.5%	10.0%
Individual solvency need pct. excl. additional internal buffers	10.4%	9.9%	8.2%
Tier 1 capital	29,460	28,603	14,361
Capital base	49,436	49,254	14,361
Pillar 1 RWA	287,775	276,894	90,114
Actual Tier 1 ratio	10.2%	10.3%	15.9%
Actual capital ratio	17.2%	17.8%	15.9%

3.2 Capital base

The capital base for the Nordea Bank Danmark Group and its legal entities at end-Q1 2012 is presented in detail in the table below.

Table 2. The Nordea Bank Danmark Group and its legal entities – capital base at end-Q1 2012

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
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	26,645	26,645	14,040
Minority interests	1,264	0	0
Income (positive/negative) from current year	0	0	0
Eligible reserves	27,908	26,645	14,040
Tier 1 capital (before hybrid capital and deductions)	32,908	31,645	15,758
Hybrid capital loans subject to limits	0	0	0
Proposed/actual dividend	0	0	0
Deferred tax assets	-116	0	0
Intangible assets	-3,015	-2,984	-6
Deductions for investments in credit institutions	-58	-58	0
IRB provisions excess (+) / shortfall (-)	-260	0	-1,390
Other items, net	0	0	0
Deductions from original own funds	-3,449	-3,042	-1,397
Tier 1 capital (net after deduction)	29,460	28,603	14,361
- 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	20,274	20,274	0
Other additional own funds	20	20	0
Tier 2 capital (before deductions)	20,294	20,294	0
Deductions for investments in credit institutions	-58	-58	0
IRB provisions excess (+) / shortfall (-)	-260	415	0
Deductions from original additional own funds	-317	357	0
Tier 2 capital (net after deductions)	19,976	20,651	0
Total own funds for solvency purposes	49,436	49,254	14,361