

Individual Solvency Need
Nordea Bank Danmark Group
30 June 2012



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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 the Financial Business Act (Lov om finansiel virksomhed jf. lovbekendtgørelse nr. 705 af 25. Juni 2012), og bekendtgørelse nr. 1399 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 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

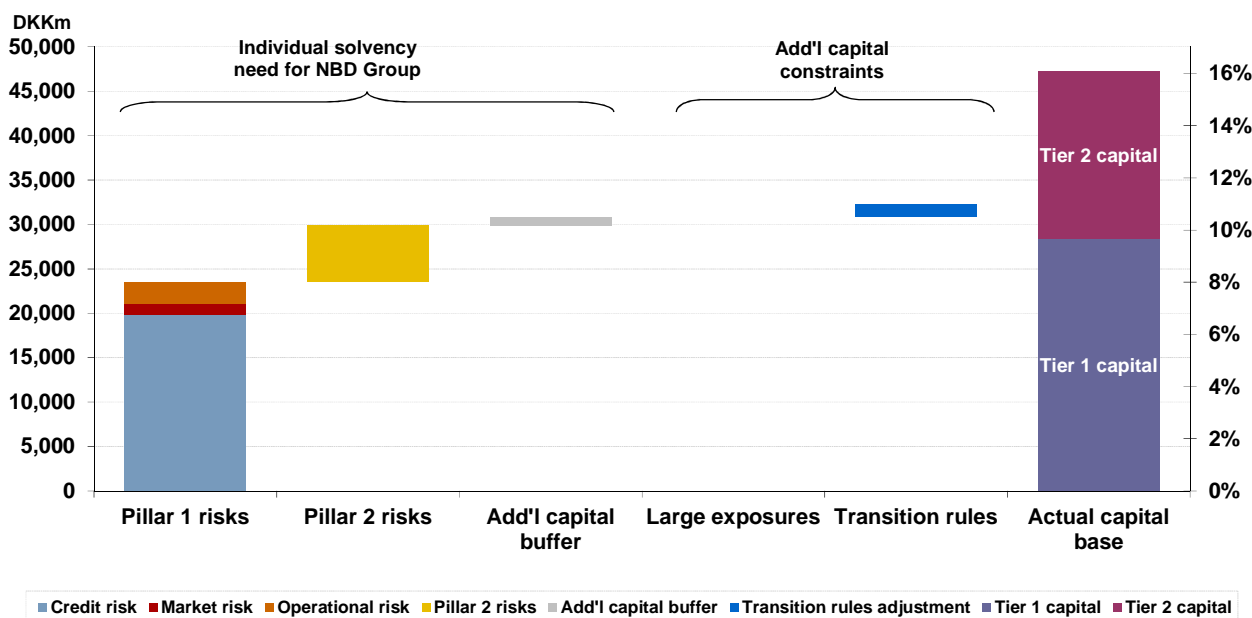
The Nordea Bank Danmark Group and its individual legal entities are well capitalised at end-Q2 2012 and have access to available capital from Nordea Bank AB (publ), the parent company of the Nordea Bank Danmark Group, if necessary.

- The individual solvency need at end-Q2 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-Q2 2012 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.

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 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 have been implemented during the first half of 2012, among other things to fulfil the requirement according to the new provisioning rules published by the FSA, which affect the Pillar 1 calculation. However, at present it is uncertain when the full effect is reflected in the individual solvency need and a reversal can be initiated. A review of the effect of the process improvements is expected to take place in Q3-Q4 2012. 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 Q2 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-Q2 of 31 bps, which equals DKK 896m. For Nordea Kredit Realkreditatieselskab 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-Q2 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 Realkreditatieselskab are affected by transition rules. Transition rules increase the capital requirement for Nordea Bank Danmark Group by DKK 1,391m and for Nordea Kredit Realkreditatieselskab by DKK 3,656m.

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 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-Q2 2012

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Credit risk	21,410	19,701	6,895
<i>IRB approach</i>	<i>18,360</i>	<i>14,429</i>	<i>5,556</i>
- of which corporate	11,342	9,170	2,466
- of which institutions	407	406	0
- of which retail mortgage	2,862	420	668
- of which retail revolving	0	0	0
- of which retail other	3,488	4,259	2,375
- of which equity	0	0	0
- of which assets without counterparty	261	174	47
- of which securitisation	0	0	0
<i>SA approach</i>	<i>1,439</i>	<i>4,826</i>	<i>1,222</i>
- of which sovereign	29	29	0
- of which institutions	271	1,228	1,203
- of which corporate	53	1,075	0
- of which retail	328	0	0
- of which retail mortgage	0	0	0
- of which other	273	0	0
- of which past due items	76	0	0
- of which short-term claims on institutions and corporate	0	0	0
- of which equity	388	2,491	1
- of which assets without counterparty	22	4	18
- of which securitisation	0	0	0
<i>Concentration risk</i>	<i>1,610</i>	<i>446</i>	<i>117</i>
Market risk	2,161	2,049	32
- of which trading book, internal approach	1,015	1,015	0
- of which trading book, standardised approach	149	32	0
- of which banking book, standardised approach	102	107	0
- of which IRR in the banking book	543	543	32
- of which real estate risk	171	171	0
- of which pension plans	181	181	0
Operational risk	2,424	2,287	182
Other risks	4,835	5,752	1,592
- of which business risk	2,064	1,997	49
- of which temporary capital allocation for household portfolio	700	700	0
- of which corporate and bank ADF/PD adaption	1,175	958	0
- of which additional internal buffers	896	2,098	1,543
Individual solvency need (adequate capital base)	30,830	29,789	8,701
Additional capital requirement due to legal demands	0	0	0
Adjusted individual solvency need (adjusted adequate capital base)	30,830	29,789	8,701
Individual solvency need pct. for Credit risk	7.3%	6.9%	7.9%
Individual solvency need pct. for Market risk	0.7%	0.7%	0.0%
Individual solvency need pct. for Operational risk	0.8%	0.8%	0.2%
Individual solvency need pct. for Other risks	1.6%	2.0%	1.8%
Individual solvency need pct. incl. additional internal buffers	10.5%	10.5%	10.0%
Individual solvency need pct. excl. additional internal buffers	10.2%	9.8%	8.2%
Tier 1 capital	28,355	27,783	14,148
Capital base	47,186	47,154	14,148
Pillar 1 RWA	293,618	283,708	87,010
Actual Tier 1 ratio	9.7%	9.8%	16.3%
Actual capital ratio	16.1%	16.6%	16.3%

3.2 Capital base

The capital base for the Nordea Bank Danmark Group and its legal entities at end-Q2 2012 is presented in detail in the table below.

Table 2. The Nordea Bank Danmark Group and its legal entities – capital base at end-Q2 2012

DKKmn	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	26,690	26,693	14,040
Minority interests	1,265	0	0
Income (positive/negative) from current year	0	0	0
Eligible reserves	27,955	26,693	14,040
Tier 1 capital (before hybrid capital and deductions)	32,955	31,693	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	-3,039	-3,006	-5
Deductions for investments in credit institutions	-217	-217	0
IRB provisions excess (+) / shortfall (-)	-1,228	-687	-1,605
Other items, net	0	0	0
Deductions from original own funds	-4,600	-3,910	-1,610
Tier 1 capital (net after deduction)	28,355	27,783	14,148
- 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	20,256	20,256	0
Other additional own funds	20	20	0
Tier 2 capital (before deductions)	20,276	20,276	0
Deductions for investments in credit institutions	-217	-217	0
IRB provisions excess (+) / shortfall (-)	-1,228	-687	0
Deductions from original additional own funds	-1,445	-904	0
Tier 2 capital (net after deductions)	18,831	19,372	0
Total own funds for solvency purposes	47,186	47,154	14,148