

Individual Solvency Need
Nordea Bank Danmark Group
31 December 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. 915 af 12. september 2012 (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

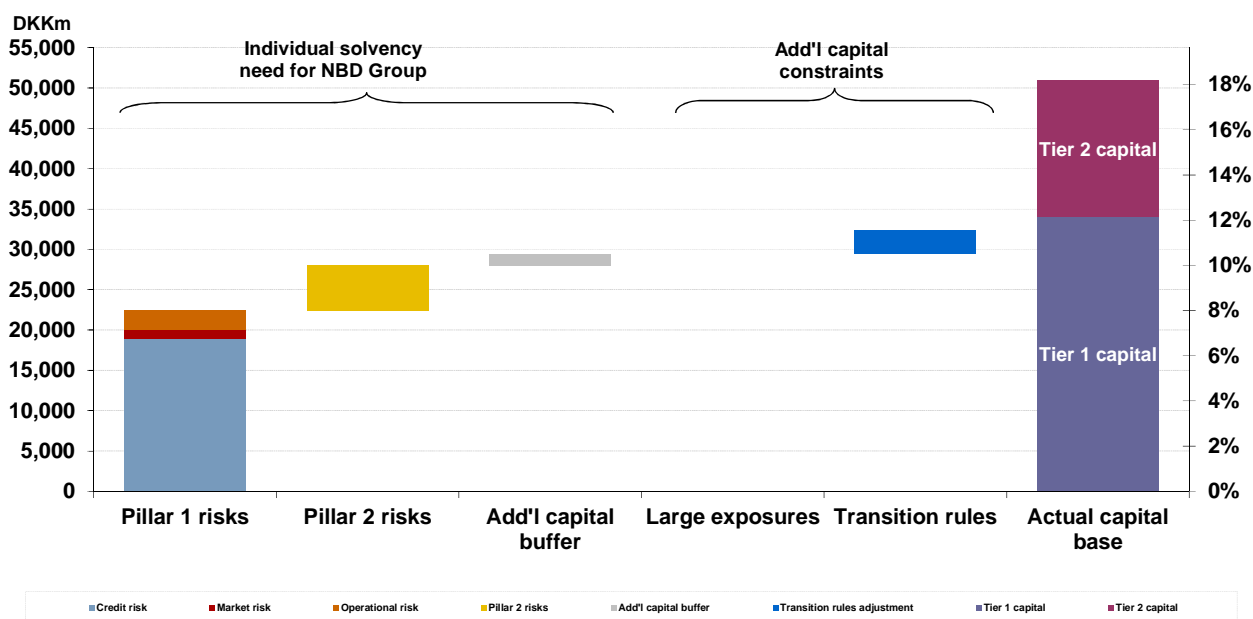
The Nordea Bank Danmark Group and its individual legal entities are well capitalised at end-Q4 2012 and have access to available capital from Nordea Bank AB (publ), the parent company of the Nordea Bank Danmark Group, if necessary.

- The individual solvency need at end-Q4 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-Q4 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.
- A new guideline from the Financial Supervisory Authority on how to estimate the individual solvency need (Vejledning om tilstrækkelig basiskapital og solvensbehov for kreditinstitutter) was issued during Q4 2012. The enactment (1 January 2013) of the new guideline has currently not caused any changes in the individual solvency need for the Nordea Bank Danmark Group.

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-Q4 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 to mitigate these risks have been conducted since 2011. Enhanced focus and additional actions have been taken during especially H1 2012, among other things to fulfil the requirement according to the new provisioning rules published by the FSA, which affect the Pillar 1 calculation. A partial reversal of 50% of the temporary capital allocation made in 2010 has been realised by end Q4 2012. A possible full reversal will be considered during H1 2013. 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 capital add-on for this is unchanged.

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, as well as a precautionary action to compensate for the continuation of the generally stressed macroeconomic environment in Denmark during 2012 causing increased uncertainty regarding the future risk picture. 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-Q4 of 49 bps, which equals DKK 1,380m. 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-Q4 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 2,909m and for Nordea Kredit Realkreditaktieselskab by DKK 4,061m.

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-Q4 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-Q4 2012

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Credit risk	20,281	18,277	6,962
<i>IRB approach</i>	<i>17,588</i>	<i>13,607</i>	<i>5,683</i>
- of which corporate	10,968	8,647	2,475
- of which institutions	335	335	
- of which retail mortgage	2,944	398	2,468
- of which retail revolving			
- of which retail other	3,044	4,084	625
- of which equity			
- of which assets without counterparty	298	143	115
- of which securitisation			
<i>SA approach</i>	<i>1,261</i>	<i>4,342</i>	<i>1,162</i>
- of which sovereign	38	38	
- of which institutions	84	634	1,154
- of which corporate	40	1,133	
- of which retail	318	0	
- of which retail mortgage			
- of which other	270		
- of which past due items	78	0	
- of which short-term claims on institutions and corporate			
- of which equity	398	2,531	1
- of which assets without counterparty	36	5	7
- of which securitisation	0	0	0
<i>Concentration risk</i>	<i>1,432</i>	<i>328</i>	<i>117</i>
Market risk	1,781	1,705	10
- of which trading book, internal approach	450	450	0
- of which trading book, standardised approach	690	613	0
- of which banking book, standardised approach	0	0	0
- of which IRR in the banking book	338	338	10
- of which real estate risk	133	133	0
- of which pension plans	170	170	0
Operational risk	2,424	2,287	182
Other risks	4,931	5,687	1,631
- of which business risk	2,071	1,998	51
- of which temporary capital allocation for household portfolio	350	350	0
- of which corporate and bank ADF/PD adaption	1,130	898	0
- of which additional internal buffers	1,380	2,441	1,580
Individual solvency need (adequate capital base)	29,418	27,956	8,785
Additional capital requirement due to legal demands	0	0	0
Adjusted individual solvency need (adjusted adequate capital base)	29,418	27,956	8,785
Individual solvency need pct. for Credit risk	7.2%	6.9%	7.9%
Individual solvency need pct. for Market risk	0.6%	0.6%	0.0%
Individual solvency need pct. for Operational risk	0.9%	0.9%	0.2%
Individual solvency need pct. for Other risks	1.8%	2.1%	1.9%
Individual solvency need pct. incl. additional internal buffers	10.5%	10.5%	10.0%
Individual solvency need pct. excl. additional internal buffers	10.0%	9.6%	8.2%
Tier 1 capital	34,009	33,600	14,239
Capital base	50,854	51,182	14,239
Pillar 1 RWA	280,169	266,243	87,851
Actual Tier 1 ratio	12.1%	12.6%	16.2%
Actual capital ratio	18.2%	19.2%	16.2%

3.2 Capital base

The capital base for the Nordea Bank Danmark Group and its legal entities at end-Q4 2012 is presented in detail in the table below.

Table 2. The Nordea Bank Danmark Group and its legal entities – capital base at end-Q4 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	30,509	30,509	14,041
Minority interests	1,265	0	0
Income (positive/negative) from current year	1,514	1,514	703
Eligible reserves	33,288	32,023	14,743
Tier 1 capital (before hybrid capital and deductions)	38,288	37,023	16,461
Hybrid capital loans subject to limits	0	0	0
Proposed/actual dividend	0	0	0
Deferred tax assets	-86	0	-1
Intangible assets	-2,925	-2,891	-3
Deductions for investments in credit institutions	0	0	
IRB provisions excess (+) / shortfall (-)	-1,268	-531	-2,218
Other items, net	0	0	0
Deductions from original own funds	-4,279	-3,422	-2,222
Tier 1 capital (net after deduction)	34,009	33,600	14,239
- 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	18,093	18,093	0
Other additional own funds	20	20	0
Tier 2 capital (before deductions)	18,113	18,113	0
Deductions for investments in credit institutions	0	0	0
IRB provisions excess (+) / shortfall (-)	-1,268	-531	0
Deductions from original additional own funds	-1,268	-531	0
Tier 2 capital (net after deductions)	16,845	17,582	0
Total own funds for solvency purposes	50,854	51,182	14,239