

Individual Solvency Need
Nordea Bank Danmark Group
31 March 2013



1	<i>Introduction</i>	3
1.1	Main conclusions	3
2	<i>Definition of the individual solvency need</i>	4
3	<i>Individual solvency need and capital base</i>	6
3.1	Individual solvency need	6
3.2	Capital base	7

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

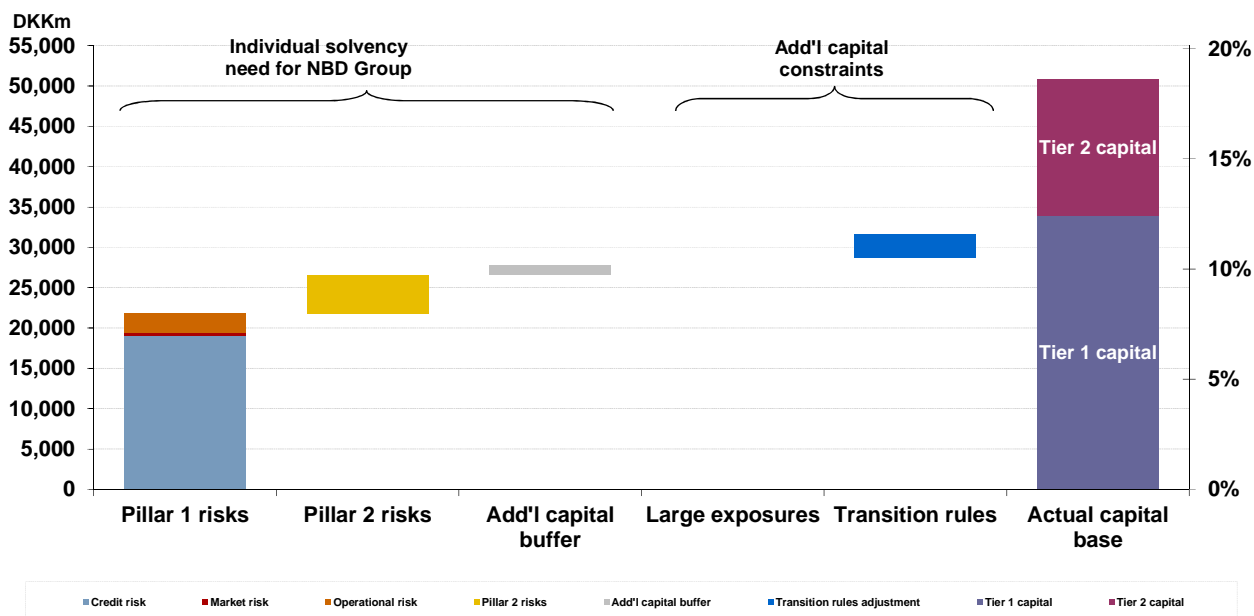
The Nordea Bank Danmark Group and its individual legal entities are well capitalised at end-Q1 2013 and have access to available capital from Nordea Bank AB (publ), the parent company of the Nordea Bank Danmark Group, if necessary.

- The individual solvency need at end-Q1 2013 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 2013 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-Q1 2013



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.

As part of the annual review of the internal capital models, the business risk model has been updated to more accurately reflect the risks associated with the uncertainty in business conditions, materialised through earnings uncertainty. For the Nordea Bank Danmark Group, Nordea Bank Danmark A/S and Nordea Kredit Realkreditaktieselskab, this model update has reduced the capital needed for business risk by DKK 913m, DKK 875m and DKK 22m respectively.

Also included in the Pillar 2 requirement are three temporary capital allocations. The purpose of the first capital allocation of DKK 350m is to compensate for some inherent risks in the household portfolio that are not fully reflected in the customer ratings. A reversal will be considered during Q2 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. The third capital allocation relates to a credit process change that was implemented in Q4 2012. Household customers with OEI and without individually assessed provision are going forward classified as non-defaulted and not defaulted as previously. The Danish Financial Supervisory Authority has required that Nordea Bank Danmark A/S must allocate a temporary Pillar 2 buffer identical to the decrease in RWA, netted with reversals of capital shortfall (DKK 945m) as long as the approval process for the credit process is on-going.

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-Q1 of 43 bps, which equals DKK 1,163m. 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 2013, 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 2,940m and for Nordea Kredit Realkreditaktieselskab by DKK 3,673m.

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 2013 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 2013

DKKmn	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Credit risk	20,461	18,226	7,337
<i>IRB approach</i>	<i>17,706</i>	<i>13,374</i>	<i>5,910</i>
- of which corporate	11,374	8,740	2,924
- of which institutions	403	403	0
- of which retail mortgage	2,742	355	2,312
- of which retail revolving			
- of which retail other	2,938	3,724	621
- of which equity			
- of which assets without counterparty	248	152	53
- of which securitisation			
<i>SA approach</i>	<i>1,263</i>	<i>4,538</i>	<i>1,282</i>
- of which sovereign	35	35	
- of which institutions	81	836	1,272
- of which corporate	41	1,118	
- of which retail	317		
- of which retail mortgage			
- of which other	312		
- of which past due items	80		
- of which short-term claims on institutions and corporate			
- of which equity	371	2,545	1
- of which assets without counterparty	27	5	9
- of which securitisation			
<i>Concentration risk</i>	<i>1,492</i>	<i>314</i>	<i>146</i>
Market risk	951	833	15
- of which trading book, internal approach	270	270	0
- of which trading book, standardised approach	213	95	0
- of which banking book, standardised approach	0	0	0
- of which IRR in the banking book	205	205	15
- of which real estate risk	138	138	0
- of which pension plans	125	125	0
Operational risk	2,401	2,243	199
Other risks	4,870	5,631	1,687
- of which business risk	1,234	1,184	28
- of which temporary capital allocation for household portfolio	350	350	0
- of which corporate and bank ADF/PD adaption	1,178	914	0
- of which OEI adjustment	945	586	358
- of which additional internal buffers	1,163	2,596	1,301
Individual solvency need (adequate capital base)	28,683	26,933	9,238
Additional capital requirement due to legal demands	0	0	0
Adjusted individual solvency need (adjusted adequate capital base)	28,683	26,933	9,238
Individual solvency need pct. for Credit risk	7.5%	7.1%	7.9%
Individual solvency need pct. for Market risk	0.3%	0.3%	0.0%
Individual solvency need pct. for Operational risk	0.9%	0.9%	0.2%
Individual solvency need pct. for Other risks	1.8%	2.2%	1.8%
Individual solvency need pct. incl. additional internal buffers	10.5%	10.5%	10.0%
Individual solvency need pct. excl. additional internal buffers	10.1%	9.5%	8.6%
Tier 1 capital	33,966	33,667	14,252
Capital base	50,807	51,354	14,252
Pillar 1 RWA	273,170	256,501	92,381
Actual Tier 1 ratio	12.4%	13.1%	15.4%
Actual capital ratio	18.6%	20.0%	15.4%

3.2 Capital base

The capital base for the Nordea Bank Danmark Group and its legal entities at end-Q1 2013 is presented in detail in the table below.

Table 2. The Nordea Bank Danmark Group and its legal entities – capital base at end-Q1 2013

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	31,910	31,911	14,744
Minority interests	1,265	0	0
Income (positive/negative) from current year	0	0	0
Eligible reserves	33,176	31,911	14,744
Tier 1 capital (before hybrid capital and deductions)	38,176	36,911	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	-2,865	-2,832	-3
Deductions for investments in credit institutions	0	0	
IRB provisions excess (+) / shortfall (-)	-1,258	-412	-2,205
Other items, net	0	0	0
Deductions from original own funds	-4,210	-3,244	-2,209
Tier 1 capital (net after deduction)	33,966	33,667	14,252
- 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	18,079	18,079	0
Other additional own funds	20	20	0
Tier 2 capital (before deductions)	18,099	18,099	0
Deductions for investments in credit institutions	0	0	0
IRB provisions excess (+) / shortfall (-)	-1,258	-412	0
Deductions from original additional own funds	-1,258	-412	0
Tier 2 capital (net after deductions)	16,841	17,687	0
Total own funds for solvency purposes	50,807	51,354	14,252