



Individual Solvency Need

Nordea Bank Danmark Group
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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-Q2 2013 and have access to available capital from Nordea Bank AB (publ), the parent company of the Nordea Bank Danmark Group, if necessary.

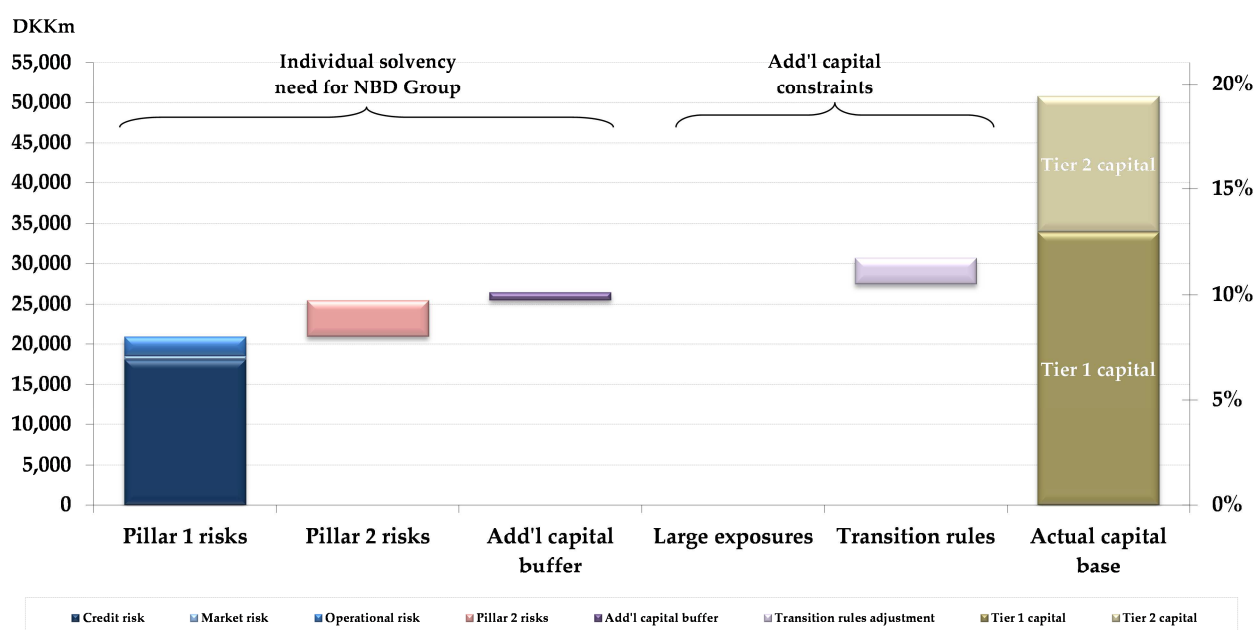
- The individual solvency need at end-Q2 2013 for the Nordea Bank Danmark Group and Nordea Bank Danmark A/S remains unchanged at 10.5%. The individual solvency need is in excess of the legal minimum requirement of 8%.
- The individual solvency need for Nordea Kredit Realkreditaktieselskab at end-Q2 2013 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.
- The guideline from the Financial Supervisory Authority describes how to estimate the individual solvency need (Vejledning om tilstrækkelig basiskapital og solvensbehov for kreditinstitutter). The enactment (1 January 2013) of the guideline has currently not caused any changes in the individual solvency need for the Nordea Bank Danmark Group.

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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 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.

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 review, which was conducted during Q2 2013 to investigate a potential reversal, resulted in an unchanged capital allocation for Q2. A new review will be conducted during H2 2013 or 2014. 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 992m) 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-Q2 of 37 bps, which equals DKK 959m. 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-Q2 2013, large exposures and transition rules are not a 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 3,212m and for Nordea Kredit Realkreditaktieselskab by DKK 3,739m.

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 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-Q2 2013

DKKm	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Credit risk	19,531	17,681	7,299
<i>IRB approach</i>	<i>16,853</i>	<i>12,777</i>	<i>5,713</i>
- of which corporate	10,822	8,141	2,916
- of which institutions	370	370	0
- of which retail mortgage	2,533	325	2,131
- of which retail revolving	0	0	0
- of which retail other	2,907	3,787	627
- of which equity	0	0	0
- of which assets without counterparty	221	154	39
- of which securitisation	0	0	0
<i>SA approach</i>	<i>1,248</i>	<i>4,606</i>	<i>1,440</i>
- of which sovereign	38	38	0
- of which institutions	64	759	1,433
- of which corporate	43	1,264	0
- of which retail	349	0	0
- of which retail mortgage	0	0	0
- of which other	322	0	0
- of which past due items	32	0	0
- of which short-term claims on institutions and corporate	0	0	0
- of which equity	378	2,541	1
- of which assets without counterparty	22	5	6
- of which securitisation	0	0	0
<i>Concentration risk</i>	<i>1,430</i>	<i>298</i>	<i>146</i>
Market risk	900	766	26
- of which trading book, internal approach	187	187	0
- of which trading book, standardised approach	237	103	0
- of which banking book, standardised approach	0	0	0
- of which IRR in the banking book	259	259	26
- of which real estate risk	125	125	0
- of which pension plans	92	92	0
Operational risk	2,401	2,243	199
Other risks	4,633	5,449	1,666
- of which business risk	1,213	1,164	28
- of which temporary capital allocation for household portfolio	350	350	0
- of which corporate and bank ADF/PD adaption	1,119	851	0
- of which OEI adjustment	992	618	375
- of which additional internal buffers	959	2,467	1,264
Individual solvency need (adequate capital base)	27,466	26,139	9,190
Additional capital requirement due to legal demands	0	0	0
Adjusted individual solvency need (adjusted adequate capital base)	27,466	26,139	9,190
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	34,018	33,891	13,883
Capital base	50,846	51,746	13,883
Pillar 1 RWA	261,579	248,940	91,895
Actual Tier 1 ratio	13.0%	13.6%	15.1%
Actual capital ratio	19.4%	20.8%	15.1%

3.2 Capital base

The capital base for the Nordea Bank Danmark Group and its legal entities at end-Q2 2013 is presented in detail in the table below.

Table 2. The Nordea Bank Danmark Group and its legal entities – capital base at end-Q2 2013

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	31,958	31,958	14,744
Minority interests	1,265	0	0
Income (positive/negative) from current year	0	0	0
Eligible reserves	33,224	31,958	14,744
Tier 1 capital (before hybrid capital and deductions)	38,224	36,958	16,461
Hybrid capital loans subject to limits	0	0	0
Proposed/actual dividend	0	0	0
Deferred tax assets	-81	0	-1
Intangible assets	-2,845	-2,813	-2
Deductions for investments in credit institutions	0	0	
IRB provisions excess (+) / shortfall (-)	-1,279	-253	-2,575
Other items, net	0	0	0
Deductions from original own funds	-4,206	-3,067	-2,578
Tier 1 capital (net after deduction)	34,018	33,891	13,883
- 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	18,088	18,088	0
Other additional own funds	20	20	0
Tier 2 capital (before deductions)	18,108	18,108	0
Deductions for investments in credit institutions	0	0	0
IRB provisions excess (+) / shortfall (-)	-1,279	-253	0
Deductions from original additional own funds	-1,279	-253	0
Tier 2 capital (net after deductions)	16,828	17,854	0
Total own funds for solvency purposes	50,846	51,746	13,883