



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. 948 af 2. juli 2013), 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-Q3 2013 and have access to available capital from Nordea Bank AB (publ), the parent company of the Nordea Bank Danmark Group, if necessary.

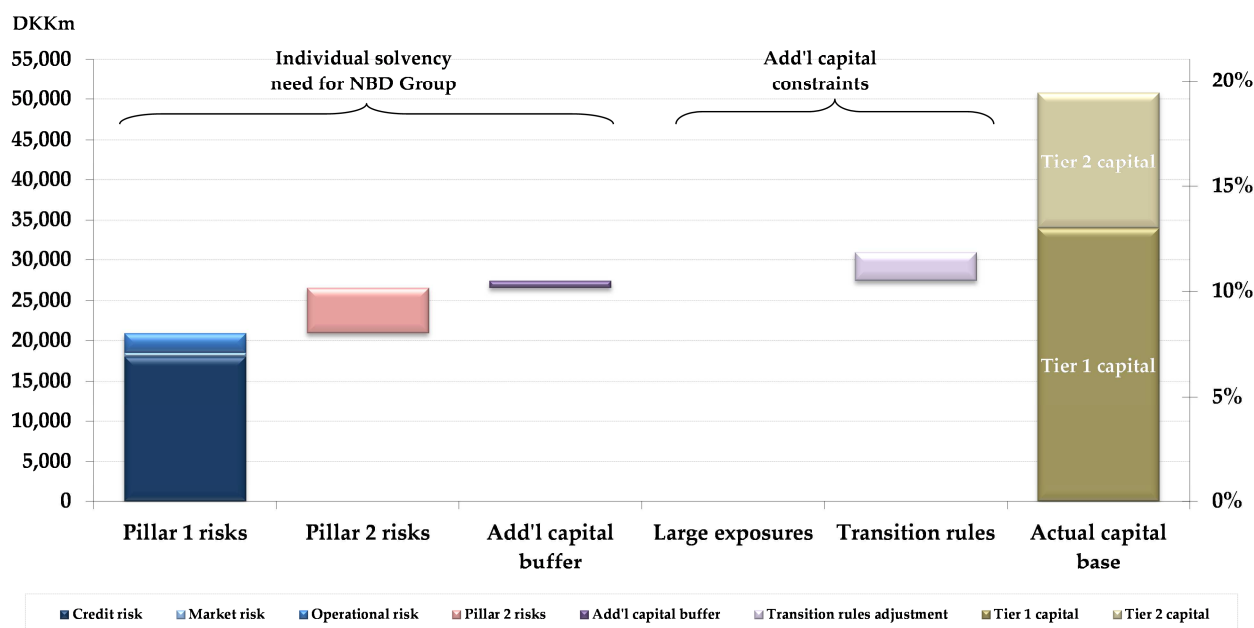
- o The individual solvency need at end-Q3 2013 for the Nordea Bank Danmark Group and Nordea Bank Danmark A/S remains unchanged at 10.5%. The individual solvency need is in excess of the legal minimum requirement of 8%, according to Basel II rules.
- o The individual solvency need for Nordea Kredit Realkreditaktieselskab at end-Q3 2013 is unchanged at 10%.
- o 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.

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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-Q3 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 first capital allocation of DKK 350m mainly reflects a more strict approach to registering customers with OEI in the Household portfolio, in order to compensate for a degree of interpretation when doing the marking. This capital allocation will be reviewed during 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 1,028m) as long as the approval process for the credit process is ongoing.

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-Q3 of 33 bps, which equals DKK 873m. 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-Q3 2013, large exposures are not a constraint for the Nordea Bank Danmark Group and its legal entities, but they are affected by transition rules. Transition rules increase the capital requirement for the Nordea Bank Danmark Group by DKK 3,475m, for Nordea Bank Danmark A/S by DKK 103m and for Nordea Kredit Realkreditaktieselskab by DKK 4,207m.

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-Q3 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-Q3 2013

DKKmn	Nordea Bank Danmark Group	Nordea Bank Danmark A/S	Nordea Kredit Realkreditaktieselskab
Credit risk	19,465	17,532	6,962
<i>IRB approach</i>	<i>16,768</i>	<i>12,613</i>	<i>5,702</i>
- of which corporate	10,870	8,032	2,913
- of which institutions	360	360	0
- of which retail mortgage	2,568	326	2,166
- of which retail revolving	0	0	0
- of which retail other	2,746	3,747	591
- of which equity	0	0	0
- of which assets without counterparty	224	148	33
- of which securitisation	0	0	0
<i>SA approach</i>	<i>1,275</i>	<i>4,627</i>	<i>1,113</i>
- of which sovereign	35	35	0
- of which institutions	61	759	1,106
- of which corporate	40	1,264	0
- of which retail	340	0	0
- of which retail mortgage	0	0	0
- of which other	329	0	0
- of which past due items	87	0	0
- of which short-term claims on institutions and corporate	0	0	0
- of which equity	372	2,564	1
- of which assets without counterparty	10	5	6
- of which securitisation	0	0	0
<i>Concentration risk</i>	<i>1,423</i>	<i>292</i>	<i>147</i>
Market risk	999	872	27
- of which trading book, internal approach	232	232	0
- of which trading book, standardised approach	232	104	0
- of which banking book, standardised approach	0	0	0
- of which IRR in the banking book	315	315	27
- of which real estate risk	125	125	0
- of which pension plans	95	95	0
Operational risk	2,401	2,243	199
Other risks	4,575	5,366	1,580
- of which business risk	1,201	1,153	27
- of which temporary capital allocation for household portfolio	350	350	0
- of which corporate and bank ADF/PD adaption	1,123	839	0
- of which OEI adjustment	1,028	632	396
- of which additional internal buffers	873	2,392	1,157
Individual solvency need (adequate capital base)	27,442	26,013	8,767
Additional capital requirement due to legal demands	0	0	0
Adjusted individual solvency need (adjusted adequate capital base)	27,442	26,013	8,767
Individual solvency need pct. for Credit risk	7.4%	7.1%	7.9%
Individual solvency need pct. for Market risk	0.4%	0.4%	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	10.2%	9.5%	8.7%
Tier 1 capital	34,027	33,904	13,831
Capital base	50,793	51,702	13,831
Pillar 1 RWA	261,348	247,740	87,673
Actual Tier 1 ratio	13.0%	13.7%	15.8%
Actual capital ratio	19.4%	20.9%	15.8%

3.2 Capital base

The capital base for the Nordea Bank Danmark Group and its legal entities at end-Q3 2013 is presented in detail in the table below.

Table 2. The Nordea Bank Danmark Group and its legal entities – capital base at end-Q3 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	31,988	31,986	14,744
Minority interests	1,265	0	0
Income (positive/negative) from current year	0	0	0
Eligible reserves	33,253	31,986	14,744
Tier 1 capital (before hybrid capital and deductions)	38,253	36,986	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	-2,804	-2,774	-1
Deductions for investments in credit institutions	0	0	
IRB provisions excess (+) / shortfall (-)	-1,340	-308	-2,629
Other items, net	0	0	0
Deductions from original own funds	-4,226	-3,082	-2,630
Tier 1 capital (net after deduction)	34,027	33,904	13,831
- 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	18,086	18,086	0
Other additional own funds	20	20	0
Tier 2 capital (before deductions)	18,106	18,106	0
Deductions for investments in credit institutions	0	0	0
IRB provisions excess (+) / shortfall (-)	-1,340	-308	0
Deductions from original additional own funds	-1,340	-308	0
Tier 2 capital (net after deductions)	16,766	17,798	0
Total own funds for solvency purposes	50,793	51,702	13,831