

# SOLVENCY NEED RATIO (THE ICAAP RESULT) AT END-JUNE 2014

The Bank's calculation method and model for calculating the solvency need ratio (the ICAAP result) are unchanged compared with end-March 2014.

## Process and methodology for calculating the solvency need ratio

Towards the end of 2012, amendments to the Danish Financial Business Act were adopted, the effect being that the solvency need ratio (the ICAAP result) (the Pillar 2 capital requirement) was redefined so as to serve as an add-on to the 8% requirement. To follow up on the amendments, the Danish Financial Supervisory Authority issued new guidelines specifying the requirements as to an adequate capital base and the solvency need ratio (the ICAAP Result), based on the 8+ method.

The 8+ method is based on the statutory minimum requirement of 8% of the risk-weighted items (Pillar 1) plus add-ons for risks and matters not fully reflected in the calculation of risk-weighted items. In other words, ordinary risks are assumed to be covered by the 8% requirement, and, consequently a position has to be taken as to the extent to which an institution has additional risks that necessitate an add-on to the solvency need ratio (the ICAAP result) (Pillar 2).

In the guidelines issued by the Danish Financial Supervisory Authority, benchmarks have been introduced within a number of risk areas determining when the Authority basically finds that Pillar 1 is insufficient, and that an add-on to the solvency need ratio (the ICAAP result) is required. In addition, to the extent possible methods have been introduced for calculating the amount of the add-on within the individual risk areas.

The Bank's calculation method follows the guidelines issued by the Danish Financial Supervisory Authority and is based on an assessment of the Bank's risks within the following seven key areas, of which the first six are directly addressed in the guidelines:

1. Earnings
2. Lending growth
3. Credit risks
4. Market risks
5. Liquidity risks
6. Operational risks
7. Other risks

The impact of the individual areas on the capital need has been calculated directly using the methods designated by the Danish Financial Supervisory Authority in its guidelines, and by making supplementary calculations. Management has made an estimate in a few risk areas.

In the Bank's opinion, the risk factors included in the model cover all the risk areas required by legislation to be taken into consideration by Management in determining the solvency need and the risks that the Management finds the Bank has assumed.

## Solvency need (ICAAP result)

The sufficient own funds at end-June 2014 has been calculated at DKK 4,328 million, and are thus DKK 5 million lower than in the statement at end-March 2014.

The Group's total risk exposure dropped from DKK 44.7 billion at end-March 2014 to DKK 44.6 billion at end-June 2014, and the solvency need calculated in per cent is unchanged 9.7%.

## SOLVENCY NEED RATIO BROKEN DOWN BY RISK AREA, END-JUNE 2014

Risk area	The Group		Parent Comp.	
	Sufficient own funds DKK m	Solvency need %	Sufficient own funds DKK m	Solvency need %
Credit risks	3,352	7.5	3,430	7.6
Market risks	518	1.2	522	1.2
Operational risks	457	1.0	408	0.9
Other risks	0	0.0	0	0.0
Any add-on, if required by law	0	0.0	0	0.0
<b>Total</b>	<b>4,328</b>	<b>9.7</b>	<b>4,361</b>	<b>9.7</b>

## Excess coverage relative to the statutory requirement and internal capital targets

At end-June 2014, the Group's total capital ratio stood at 16.9%, corresponding to an excess coverage of 7.2 percentage points relative to the solvency need ratio.

Thus, the excess coverage dropped relative to end-March 2014, when the excess coverage was calculated at 9.7 percentage points.

## EXCESS CAPITAL COVERAGE RELATIVE TO THE STATUTORY REQUIREMENT, END-JUNE 2014

	The Group	Parent Company
Own funds (DKK m)	7,526	7,554
Sufficient own funds (DKK m)	4,328	4,361
Excess coverage (DKK m)	3,198	3,193
Capital (%)	16.9	16.8
Solvency need ratio (%)	9.7	9.7
Excess coverage (percentage points)	7.2	7.1

The internal capital target is that the total capital ratio must at least be 3.0 percentage points above the solvency need ratio (the ICAAP result). Given the excess coverage of 7.2 percentage points at end-June 2014, the Bank's excess coverage is thus comfortably above the target.

Measured in amounts, the Bank had an excess capital coverage of DKK 3.2 billion at end-June 2014.