Individual solvency need at end-March 2017

The Bank's calculation method and model for calculating the individual solvency need are unchanged compared with end-December 2016.

Methodology for calculating the individual solvency need ratio

Towards the end of 2012, amendments to the Danish Financial Business Act were adopted, the effect being that the individual solvency need ratio (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 regarding an adequate capital base and the solvency need ratio, based on the 8+ method.

The 8+ method is based on the statutory minimum requirement of 8% of the total risk exposure (Pillar 1) plus add-ons for risks and matters not fully reflected in the calculation of the total risk exposure. In other words, ordinary risks are assumed to be covered by the 8% requirement, and, consequently a position has to be taken on the extent to which an institution has additional risks that necessitate an add-on to the solvency need ratio (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 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 nine key areas, of which the first eight are directly addressed in the guidelines:

1. Earnings
2. Lending growth
3. Credit risks
4. Market risks
5. Liquidity risks
6. Operational risks
7. Leverage
8. Regulatory maturity of capital instruments
9. 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 the Bank's Management in determining the solvency need and the risks that the Management finds the Bank has assumed.

Individual solvency need

The adequate own funds at end-March 2017 have been calculated at DKK 4,500 million, and have thus dropped by DKK 18 million compared to end-December 2016.

The Group's total risk exposure rose from DKK 47.5 billion in December 2016 to DKK 47.7 billion at end-March 2017, and the solvency need ratio has declined from 9.5% to 9.4%.

SOLVENCY NEED BROKEN DOWN INTO RISK CATEGORIES END-MARCH 2017

	The Group	The Group	Parent Comp.	Parent Comp.
Risk area	**Adequate own funds DKK m**	**Solvency need %**	**Adequate own funds DKK m**	**Solvency need %**
Credit risks	3,599	7.5	3,606	7.6
Market risks	379	0.8	379	0.8
Operational risks	455	1.0	448	0.9
Other risks	67	0.1	67	0.1
Any add-on, if required by law	0	0.0	0	0.0
Total	4,500	9.4	4,500	9.4

Excess coverage relative to statutory requirement

At end-March 2017, the Group's total capital ratio stood at 17.6%, corresponding to an excess coverage of 6.9 percentage points relative to the individual solvency need plus the regulatory buffers. At end-March, the regulatory buffers represented 1.3%.

EXCESS CAPITAL COVERAGE RELATIVE TO STATUTORY REQUIREMENT END-MARCH 2017

	The Group	Parent Company
Own funds, DKK m	8,413.6	8,413.4
Adequate own funds, DKK m	4,500.3	4,500.2
Combined buffer requirement, DKK m	604.5	604.5
Total capital requirement, DKK m	5,104.9	5,104.7
Excess coverage, DKK m	3,308.7	3,308.6
Capital, %	17.6	17.6
Individual solvency need ratio, %	9.4	9.4
Combined buffer requirement, %	1.3	1.3
Total capital requirement, %	10.7	10.7
Excess coverage, percentage points	6.9	6.9

In monetary terms, the Group had an excess capital coverage of DKK 3.3 billion at end-March 2017.