Individual solvency need at end-March 2019

The Bank's calculation method and model for calculating the individual solvency need are unchanged compared with end-December 2018.

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 FSA issued new guidelines specifying the requirements regarding an adequate total capital and the solvency need ratio, based on the 8+ method.

The 8+ approach is based on the statutory minimum capital requirement of 8.0% of the total risk exposure amount (Pillar 1) plus add-ons for risks and matters not fully reflected in the calculation of the total risk exposure amount. 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 FSA, benchmarks have been introduced within a number of risk areas determining when the FSA 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 FSA 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. Growth in lending
3. Credit risks
4. Market risks
5. Liquidity risk
6. Operational risk
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 FSA in its guidelines, and by making supplementary calculations. Management has made an estimate in selected risk areas.

Management believes that the risk factors included in the model cover all the risk areas that Management is required by legislation to take into account when calculating the solvency need as well as the risks Management believes the Bank has assumed.

Individual solvency need

The adequate own funds at end-March 2019 have been calculated at DKK 5,182 million, which is DKK 91 million more than at end-December 2018.

The Group's total risk exposure amount rose from DKK 53.9 billion in December 2018 to DKK 54.5 billion at end-March 2019, and the solvency need ratio is unchanged at 9.5.

Solvency need broken down by risk area
End-March 2019

Risk area	Group Adequate own funds DKKm	Group Solvency need ratio %	Parent Adequate own funds DKKm	Parent Solvency need ratio %
Credit risks	3,928	7.2	3,938	7.2
Market risks	676	1.2	676	1.2
Operational risk	544	1.0	542	1.0
Other risks	34	0.1	34	0.1
Any add-on, if required by law	0	0.0	0	0.0
Total	**5,182**	**9.5**	**5,189**	**9.5**

Excess coverage relative to statutory requirement

At end-March 2019, the Group's capital ratio stood at 18.2%, corresponding to an excess coverage of 5.6 percentage points relative to the individual solvency need plus the regulatory buffers and less tier 2 capital which exceeds the threshold values for inclusion in the excess coverage. At end-March 2019, the regulatory buffers represented 3.0%.

Excess capital coverage relative to statutory requirement
End-March 2019

	Group	Parent
Own funds. DKKm	9,909	9,909
Adequate own funds. DKKm	5,182	5,189
Combined buffer requirement. DKKm	1,639	1,642
Adequate capital requirement. DKKm	6,821	6,831
Capital that may not be included in the excess coverage. DKKm	8	6
Excess coverage. DKKm	3,080	3,072
Capital. %	18.2	18.1
Individual solvency need. %	9.5	9.5
Combined buffer requirement. %	3.0	3.0
Total capital requirement. %	12.5	12.5
Excess coverage. % points	5.6	5.6

In monetary terms, the Group had an excess capital coverage of DKK 3.1 billion at end-March 2019.