Individual solvency need at end-March 2022

The Bank's calculation method and model for calculating the individual solvency need are unchanged compared with the annual risk report at end-December 2020. This report supplements the annual risk report with quarterly information on own funds and individual solvency need ratio in accordance with Article 438(b) of Regulation (EU) No. 575/2013 of 26 June 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

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 requirement of 8% 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 per cent requirement, and the question to consider is whether a bank is exposed to other risks that necessitate an increase in the solvency need (pillar II).

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 ten key areas, of which the first nine are directly addressed in the guidelines:

1. Earnings
2. Growth in lending
3. Credit risks
   - Credit risk attaching to large customers in financial difficulty
   - Concentration risk: Individual customers
   - Concentration risk: Industries
   - Concentration, collateral
   - Concentration, geography
   - Deduction in own funds for non-performing exposures
   - Other credit risks
4. Market risks
   - Interest rate risk
   - Equity risk
   - Foreign exchange risk
   - Credit spread risk
5. Liquidity risk
6. Operational risk
7. Leverage ratio
8. Regulatory maturity of capital instruments
9. Large corporates – sensitivity matrix for borrower interest rate risk
10. Other risks
    - The Bank's business profile
    - Strategic risk
    - Reputational risks
    - Properties
    - IFRS9 transitional arrangement phase-out

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 2022 have been calculated at DKK 5,925 million, which is DKK 98 million more than at end-December 2021.

The Group's total risk exposure amount is increased from DKK 60.5 billion at end-December 2021 to DKK 61.1 billion at end-March 2022, and the solvency need ratio is 9.7%.

Solvency need broken down by risk area
At end-March 2022

	Group		Parent	
	Adequate own funds	Solvency need ratio	Adequate own funds	Solvency need ratio
Risk area	**DKKm**	**%**	**DKKm**	**%**
Credit risks	4,318	7.1	4,325	7.1
Markets risks	751	1.2	751	1.2
Operational risk	770	1.3	769	1.3
Other risks	86	0.1	86	0.1
Any add-on if required by law	0	0.0	0	0.0
Total	**5,925**	**9.7**	**5,930**	**9.7**

Excess coverage relative to statutory requirements
At end-March 2022, the Group's capital ratio stood at 20.0%, corresponding to an excess coverage of 6.7 percentage points relative to the capital requirements excluding tier 1 and tier 2 capital which exceeds the threshold values for inclusion in the excess coverage. At end-March 2022, the regulatory buffers represented 3.5%.

Excess capital coverage relative to statutory requirement
At end-March 2022

	Group	Parent
Own funds, DKKm	12,239	12,245
Adequate own funds, DKKm	5,925	5,930
Combined buffer requirement, DKKm	2,142	2,145
Adequate capital requirement, DKKm	8,067	8,075
Capital that may not be included in the excess coverage, DKKm	93	90
Excess coverage, DKKm	4,080	4,080
Capital ratio, %	20.0	20.0
Individual solvency need, %	9.7	9.7
Combined buffer requirement, %	3.5	3.5
Total capital requirement, %	13.2	13.2
Excess coverage, percentagepoints	6.7	6.7

In monetary terms, the Group had an excess capital coverage of DKK 4.1 billion at end-March 2022.