Individual solvency need at end-September 2024

The Bank's calculation method and model for calculating the individual solvency need are unchanged compared with the annual risk report at end-December 2022. 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
   - Large customers in financial difficulty
   - Credit risk concentration
   - Other credit risks
   - NPE deductions
4. Market risks
   - Interest rate risk
   - Equity risk
   - Foreign exchange risk
   - Credit spread risk
   - Interest rate risk in the banking book
5. Liquidity risk
6. Operational risk
7. Leverage
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 solvency need has been calculated in part using the methods designated by the Danish FSA in its guidelines, and partly by making supplementary calculations and own methods.

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-September 2024 have been calculated at DKK 6,111 million, which is DKK 199 million more than at end-December 2023.

The Group's total risk exposure amount is increased from DKK 60.4 billion at end-December 2023 to DKK 64.0 billion at end-September 2024, and the solvency need ratio is 9.5%.

Solvency need broken down by risk area

At end-September 2024

	Group		Parent	
	Adequate own funds	Solvency need ratio	Adequate own funds	Solvency need ratio
Risk area	DKKm	%	DKKm	%
Credit risks	4,310	6.7	4,320	6.7
Markets risks	743	1.2	743	1.2
Operational risk	986	1.5	984	1.5
Other risks	72	0.1	72	0.1
Any add-on if required by law	0	0.0	0	0.0
Total	**6,111**	**9.5**	**6,119**	**9.5**

Excess coverage relative to statutory requirements

At end-September 2024, the Group's capital ratio stood at 21.1%, corresponding to an excess coverage of 5.0 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-September 2024, the regulatory buffers represented 6.5%.

Excess capital coverage relative to statutory requirement

At end-September 2024

	Group	Parent
Own funds, DKKm	13,516	13,516
Adequate own funds, DKKm	6,111	6,119
Combined buffer requirement, DKKm	4,144	4,151
Adequate capital requirement, DKKm	10,255	10,270
Capital that may not be included in the excess coverage, DKKm	77	73
Excess coverage, DKKm	3,184	3,174
Capital ratio, %	21.1	21.1
Individual solvency need, %	9.5	9.5
Combined buffer requirement, %	6.5	6.5
Total capital requirement, %	16.0	16.0
Excess coverage, percentagepoints	5.0	4.9

In monetary terms, the Group had an excess capital coverage of DKK 3,184 million at end-September 2024.