# Individual Solvency Need as at 30 September 2012

**Solvency requirement and adequate capital**
In accordance with legislation, the Supervisory Board and the Executive Board must ascertain vestjyskBANK's individual solvency need.

A description of the model, process and method used is given under the section "Further explanation of the methods used for calculating the adequate capital base and the solvency need".

The solvency requirement is calculated according to the criteria below, as vestjyskBANK is covered by section 124(2)(1) of the Danish Financial Business Act.

**Standardised approach for measuring credit risk**
vestjyskBANK uses the standardised credit risk approach for measuring risk-weighted items and is required to state 8 percent of the risk-weighted exposures for each of the categories listed in section 9 of the Danish Executive Order on Capital Adequacy (kapitaldækningsbekendtgørelsen).

**Internal rating-based method**
vestjyskBANK currently has no plans to use an internal approach for measuring credit risk.

**Solvency requirement for operational risk**
vestjyskBANK uses the basic indicator approach for measuring solvency requirements for operational risk.

**Further explanation of the methods used for calculating the adequate capital base and the solvency need**
The Supervisory Board of vestjyskBANK holds discussions to determine the solvency need at least once every quarter. These discussions take as their starting point a motion from the Executive Board, which includes a proposal in respect of the size of the solvency need as well as proposals for the choice of stress variables, stress levels, any risk areas and expected growth. On the basis of these discussions, the Supervisory Board makes a decision on the calculation of the Bank's solvency need, which must be sufficient to cover vestjyskBANK's risks, cf. section 124(1) and (4) of the Danish Financial Business Act.

Furthermore, once a year, the Supervisory Board discusses at length the method for calculating vestjyskBANK's solvency need, including which risk areas and stress levels ought to be taken into account when calculating the solvency need.

The Management of vestjyskBANK has decided that the calculation of the Bank's solvency need should be based on a template drawn up by the Danish Association of Local Banks, Savings Banks and Cooperative Banks (Lokale Pengeinstitutter) and on the Danish FSA's "Guidelines on Adequate Capital Base and the Solvency Need of Credit Institutions" ("Vejledning om tilstrækkelig basiskapital og solvensbehov for kreditinstitutter"). It is Management's view that vestjyskBANK, by taking this model and guidelines from the Danish FSA as its basis, is able to calculate a solvency need sufficient to cover the Bank's risks.

Under the method vestjyskBANK uses to calculate the solvency need, capital is allocated to four risk areas (credit risk, market risk, operational risk and other risks).



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The first part of the model contains a number of stress tests. In these stress tests, the individual accounting items / budget items are "stressed" using a number of variables. As a rule, the most recently presented financial report – the Annual Report or the Quarterly Report – is used as a basis.

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**Stress tests used for determining solvency need**

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|---|---|
| **Capital for covering credit risks** | *Impairment of loans etc.:*<br>Loans, guarantees and unused credit commitments: 3.69%<br>Unused credit commitments have been included in the calculation with 10, 20 or 50%, depending on the term of notice. |
| **Capital for covering market risks** | *Share price risk:*<br>30%, but only 15% for shares in sector companies. Already deducted amounts in the capital base are deducted.<br><br>*Interest rate risk:*<br>1.35% of the trading portfolio and 1.0% outside the trading portfolio. Interest structure risk is stressed by 0.7% in each direction.<br><br>*Foreign currency risk:*<br>For EUR: Exchange Rate Indicator 1 * 2.25%<br>Other currencies: Exchange Rate Indicator 1 * 12%<br><br>*Risk on derivative financial instruments:*<br>8% of the positive market value |
| **Capital for covering other risks** | General decrease in net interest income: 12%<br>General decrease in net fee income: 17%<br>Own properties: 18% |

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On the basis of the Bank's specific situation as well as the requirements set out in the Danish Executive Order on Capital Adequacy and the "Guidelines on Adequate Capital Base and the Solvency Need of Credit Institutions" it is ascertained which risks vestjyskBANK should be able to withstand and consequently which variables and stress levels should be tested. Stress tests are basically an attempt to expose vestjyskBANK's accounting figures to a number of negative events in order to see how the Bank reacts in the given scenario.

When calculating vestjyskBANK's solvency need, the point of departure is an economic depression scenario, which, among other things, is reflected in the chosen stress levels, cf. the table above.

The results from the completed stress tests are included in the solvency need model, by the Bank holding a capital that would at least cover the result that would be obtained, if the scenario in question were to occur. The combined effect of the stress tests on the solvency need is calculated by comparing the financial results with the overall effect on the weighted items. This produces a target for how much capital is required for the Bank to be able to survive the proposed scenario.

In addition to the risk areas addressed via stress tests, there are a large number of risk areas which vestjyskBANK has found useful to take into account when assessing the solvency need.

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**Other risk areas that have been considered in relation to establishing the solvency need**

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|---|---|
| **Additional capital for covering credit risks** | *Including:*<br>Customers with financial difficulties<br>Large commitments<br>Concentration in sectors<br>Geographical concentration<br>Concentration of collaterals |
| **Additional capital for covering market risks** | |
| **Capital for covering operational risks** | |
| **Capital for covering other risks** | *Including:*<br>Strategic risks<br>Reputation risks<br>Risks in relation to the size of the financial institution<br>Property risks<br>Group risks<br>Funding<br>Liquidity risks<br>Settlement risks<br>Other risks |

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Determination of the influence of these areas on the solvency need ratio is either calculated directly by means of supplementary calculations or by Management having assessed the capital needs relating to these risk areas.

The risk factors included in the model are, in vestjyskBANK's view, applicable to all risk areas which the law requires that the Bank's Management should consider when determining the solvency need and the risks that Management finds the Bank has taken on.

In addition, the Supervisory Board and the Executive Board must consider whether the capital base is sufficient to support future activities. At vestjyskBANK, this assessment forms part of the general process of ascertaining the solvency need. Management therefore makes annual assessments of how anticipated growth will affect the determination of the solvency need.



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## Adequate capital base and solvency need for the vestjyskBANK group

### Solvency need distributed by risk areas

| | Adequate capital base MDKK | Solvency need as a percentage |
|---|---|---|
| Credit risks | 2,514 | 9.6 |
| Market risks | 402 | 1.5 |
| Operational risks | 209 | 0.8 |
| Other risks | -200 | -0.8 |
| **Adequate capital base / solvency need** | **2,925** | **11.1** |

### Surplus / capital situation

| | MDKK | Percentage |
|---|---|---|
| Capital base after deductions / solvency | 3,626 | 13,8 |
| Adequate capital base / solvency need | 2,925 | 11.1 |
| **Surplus solvency** | **701** | **2.7** |

**Solvency need**
vestjyskBANK has reported its individual solvency need as being 11.1 percent.

### Note on specifications for measurements

*Solvency need and surplus solvency*
vestjyskBANK has calculated its surplus solvency as 2.7 percentage points on the basis of a solvency need of 11.1 percent and an actual solvency ratio of 13.8 percent.

*Credit risks*
Credit risks are the Bank's largest risk area which is why the bulk of the solvency need can be attributed to this. Therefore, vestjyskBANK focuses intensely on this risk area in particular. The bulk of the allocated capital coming under the area of credit risks can be attributed to customers with financial difficulties.

*Market risks*
The capital allocated to market risks can primarily be attributed to the interest rate risk on the Bank's fixed interest rate assets and liabilities, equity risk and foreign currency risk. The market risk is calculated primarily via the stress test.

*Operational risks*
Under this category, capital has been allocated to cover the value at risk derived from internal and external circumstances caused by insufficient or defective internal procedures, human or system errors as well as external influences, including legal risks.

*Other risks*
Capital has been allocated under this category for strategic risks, reputational risks, property risks, liquidity risks and others. The capital requirement to cover these risks is reduced with the result of the stress test of core earnings, as even under the toughest stress test the Bank will have substantial earnings from its business operations.

Reference should also be made to the description of the solvency need model used under the section "Further explanation of the methods used for calculating the adequate capital base and the solvency need" for a more detailed description of which risks are attributed to the various categories.

**Disclosure of whether or not adequate capital base and solvency need are determined on the basis of legal requirements**
The adequate capital base and the solvency need are not determined on the basis of legal requirements.

**Extension of adequate capital base and solvency need resulting from legally stipulated requirements**
There has been no extension as a result of legally stipulated requirements.



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