

# **Risk disclosure for Ringkjøbing Landbobank A/S**

## **Quarterly report on the adequacy of the capital base and individual solvency requirement**

(as at 28 January 2015)

Please note that the report is structured to supplement the report “Risk disclosure for Ringkjøbing Landbobank A/S – Report on other disclosure requirements”, which is published once a year. This report contains the quarterly information on the capital base and individual solvency requirement, which follow *inter alia* from CRR Article 438. The report follows the chronology of this Article.

<b>Contents</b>	<b>Page</b>
1 Approach to assessing the adequacy of the capital base, Article 438(a) .....	2
2 Individual solvency requirement and how it is met, Article 438(b) .....	4
3 Risk-weighted items by exposure class, Article 438(c).....	5
4 Risk-weighted exposures cf. Part Three, Title II, Chapter 3, Article 438(d) .....	6
5 Reporting of risk-weighted market risk items, CRR 438(e) and 445 .....	6

## **1 Approach to assessing the adequacy of the capital base, Article 438(a)**

The bank's approach to assessing whether the internal capital is sufficient to support current and future activities (the solvency requirement) follows the bank's ICAAP (Internal Capital Adequacy Assessment Process).

The risks to which the bank is exposed are identified in the ICAAP to assess the risk profile. When the risks are identified, an assessment is made of how they can be reduced, e.g. via procedures, emergency plans etc. Finally, an assessment is made of which risks are to be covered by capital. The internal capital (solvency requirement) is the bank's own assessment of the capital requirement attributable to the risks assumed by the bank. The bank's board of directors has quarterly discussions on the determination of the internal capital (solvency requirement) to ensure that it is sufficient to support current and future activities. The discussions are based on a recommendation from the bank's general management. The recommendation contains a proposal on the amount of the internal capital (solvency requirement). On the basis of the discussions, the board of directors makes a decision on calculation of the bank's internal capital (solvency requirement) which adequately covers the bank's risks and supports current and future activities.

Once a year, the board of directors also discusses the details of the method of calculation of the bank's internal capital (solvency requirement), including the risk areas and benchmarks which should be taken into account when calculating the internal capital (solvency requirement).

The internal capital (the solvency requirement) is calculated by an 8+ method which includes the risk types which are judged to require capital cover: credit risks, market risks, operational risks, other risks and supplements following from statutory requirements. The assessment is based on the bank's risk profile, capital circumstances and considerations regarding the future which can be of significance for these, including the budget.

The Danish Financial Supervisory Authority has issued "Guideline on adequate capital base and solvency requirement for credit institutions." The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark has also issued a solvency requirement model. Both the FSA's guideline and the Local Banks Association's solvency requirement model, which the bank uses, are based on the 8+ method, where the basis is a minimum requirement of 8% of the risk-weighted items (the Pillar I requirement) with a supplement for risks and circumstances which are not fully reflected in the calculation of the risk-weighted items.

The FSA's guideline also sets out benchmarks for when the FSA judges that in principle, Pillar I is not adequate within the individual risk areas, such that the solvency requirement must be supplemented. Methods are also set up to a high degree to calculate the amount of the supplement within the individual risk areas.

Although the FSA sets up benchmarks in most areas, the bank assesses whether the specified benchmarks take account of the bank's risks to an adequate degree in all areas, and individual adaptations are made to the requisite extent. The bank's own records are used for this purpose. The bank follows the template below when calculating its internal capital (solvency requirement):

	DKK 1,000	%
1) Pillar I requirement		
+2) Earnings (capital for risk hedging because of weak earnings)		
+3) Growth in loans (capital to cover organic growth in the volume of business)		
+4) Credit risks, of which 4a) Credit risks on major customers (>2% of the capital base) with financial problems • 4b) Other credit risks  • 4c) Concentration risk on individual commitments  • 4d) Concentration risk on sectors		
+5) Market risks, of which • 5a) Interest risks  • 5b) Share risks  • 5c) Exchange rate risks		
++6) Liquidity risks (capital to cover costlier liquidity)		
+7) Operational risks (capital to hedge operational risks over and above Pillar I)		
+8) Gearing (capital for hedging of risks attributable to high gearing)		
+9) Possible supplement under statutory requirements		
Total = capital requirement/solvency requirement • of which for credit risks (4) • of which for market risks (5) • of which for operational risks (7) • of which for other risks (2+3+6+8) • of which supplements under statutory requirements (1+9)		
Total risk exposure		
Capital base/capital ratio		
Excess capital cover		

The bank believes that the risk factors included in the model are adequate for all the risk areas which the bank's management is required by law to take into account when fixing the internal capital (solvency requirement) and the risks which management finds that the bank has assumed. The board of directors and general management must also assess whether the capital base is adequate for supporting future activities. This assessment is a part of the bank's general determination of its internal capital (solvency requirement).

## 2 Individual solvency requirement and how it is met, Article 438(b)

An overview of the bank's individually calculated solvency requirement is given below. It should be noted that the FSA has not fixed additional requirements for the capital base.

	DKK million	%
Pillar I requirement	1,273	8.0%
Supplements		
- of which for credit risks	90	0.6%
- of which for market risks	18	0.1%
- of which for operational risks	0	0.0%
- of which for other risks	35	0.2%
- of which supplements under statutory requirements	0	0.0%
Requirement for internal capital (solvency requirement)	1,416	8.9%

Ringkjøbing Landbobank's capital position /excess solvency (DKK million):

Capital base	2,779
Requirement for internal capital	1,416
Excess solvency	1,363
Solvency ratio	17.5%
Requirement for internal capital (solvency requirement)	8.9%
Excess solvency in percentage points	8.6%

The following is advised on the elements of the bank's individual solvency requirement:

**Credit risks:** Risk of losses because debtors or counterparties commit a breach of their payment obligations over and above the cover in Pillar I, including major customers with financial problems, concentration risk on individual commitments and sectors.

**Market risks:** Risk of losses because of potential changes in interest rates, share prices and exchange rates over and above what is covered in Pillar I. The basis is not the bank's current risks, but on the contrary the maximum risks which the bank can assume within the limits which the board of directors has set for management's powers to take market risks under the Danish Financial Business Act.

**Operational risks:** Risk of losses because of inappropriate or defective internal procedures, human error, system error and external events, including legal risks, over and above the cover in Pillar I.

**Other matters:** Possible capital for risk hedging because of weak earnings, possible capital to cover organic growth in business volume and possible capital to cover costlier liquidity from professional investors.

**Statutory requirements:** Covers the 8% requirement in Pillar I under Section 124(2:1) of the Financial Business Act and possible supplement in relation to the situations where requirements under the Financial Business Act specify a direct supplement in the solvency requirement.

Ringkjøbing Landbobank has currently only set aside capital to comply with the 8% requirement, as the other requirements are not judged to trigger a supplement to the bank at this time.

### 3 Risk-weighted items by exposure class, Article 438(c)

The provision applies to banks which calculate the risk exposures using the standardised approach.

The minimum capital requirement is 8% for each exposure class.

In DKK 1,000 on 31 December 2014	Risk-weighted exposure	Minimum capital requirement of 8%
Exposures to central governments and central banks		
Exposures to regional and local authorities		
Exposures to public sector entities		
Exposures to multilateral development banks		
Exposures to international organisations		
Exposures to institutions	47,941	3,835
Exposures to corporates	7,602,256	608,180
Retail exposures	3,343,677	267,494
Exposures secured by mortgages on real property	617,486	49,392
Exposures in default	927,486	74,199
Exposures associated with particularly high risk	0	0
Exposures in the form of covered bonds including mortgage credit bonds	0	0
Items representing securitisation positions	0	0
Exposures to institutions and corporates with a short-term credit assessment	0	0
Exposures in the form of units or shares in collective investment undertakings (CIUs)	0	0
Equity exposures	119,046	9,524
Other items	124,562	9,965

#### 4 Risk-weighted exposures cf. Part Three, Title II, Chapter 3, Article 438(d)

Only relevant for IRB institutions.

#### 5 Reporting of risk-weighted market risk items, CRR 438(e) and 445

The chart below shows the bank's capital base requirements for market risks.

Risk-weighted items with market risk

DKK 1,000 on 31 December 2014	Exposure	Capital base requirements
Weighted items with market risk	1,464,214	117,137
Instruments of debt	1,415,982	113,278
Shares	37,824	3,026
Collective investment undertakings	10,408	833
Exchange rate risk	0	0
Commodity risk	0	0
Internal models	0	0

#### *Operational risk, CRR 438(f) and CRR 446*

##### *Re point 4(e)*

The bank uses the basic indicator method to calculate the solvency requirement for the operational risk. The solvency requirement for the operational risk was calculated at DKK 125 million on 31 December 2014. (8% of tDKK 1,567,369).