Risk Information for Ringkjøbing Landbobank A/S
Statement on the rest of the risk information

(as of 30 January 2013)

Please note, that this statement is structured so that it follows the respective points in Appendix 20 of the regulation on capital adequacy.

Contents

Attention is drawn to the fact that the bank has prepared two statements concerning risk information, one on the adequate capital base and the individual solvency requirement and one on the rest of the risk information (this statement).

Disclaimer:
»The following is a translation of a Danish original document. The original Danish text shall be the governing text for all purposes and in case of any discrepancy the Danish wording shall be applicable.«

1. Objectives and risk policies

Risks and risk management

Ringkjøbing Landbobank is exposed to various types of risk in connection with its operations: credit risk, market risk, liquidity risk and operational risk. The credit risk is defined as the risk that payments owing to the bank are not judged to be recoverable because of lack of either ability or willingness to make payment at the agreed time. The market risk is defined as the risk that the market value of the bank's assets and liabilities will change as a result of changes in market conditions. The bank's total market risk includes interest rate risks, foreign currency risks, share risks and property risks. The liquidity risk is defined as the risk that the bank's obligations to make payments cannot be honoured under the bank's cash flow position. Finally, the operational risk is defined as the risk of either direct or indirect financial losses as a result of faults in internal processes and systems, human error or external events.

Policy for risk taking and management

The framework for the bank's risk taking is specified by the board of directors, which has adopted a policy for each individual risk area, which inter alia defines the bank's risk profile in the area. Each policy is reviewed and reassessed by the board at least once a year in connection with the board's position on the bank's general business model and risk profile.

The bank's general principle for assuming a risk is that the bank will only assume risks within a moderate risk profile which the bank has the expertise to manage. The basis for the board of directors' review of the bank's business model and associated policies for each individual risk area is a general risk report prepared by the bank's risk manager. The report covers the various risks to which the bank is exposed, and gives the board a complete picture of the bank's general risk profile. In comparison with the market possibilities, the board than assesses whether the bank's business model and risk profile should be adjusted. The report also acts as a basis for any adaptation of the policies in the various risk areas.

Apart from the strategic risk management, there is an on-going operational central management and monitoring of the bank's risks in each area. This monitoring is reported to the bank's management and board of directors. The management and control and reporting functions are separate, and the work is performed by several of the bank's central staff functions. The bank's risk manager ensures full reporting of risks and provides a meaningful picture of the bank's actual risk taking.

The various types of risk are subsequently described in more detail.

Credit risks - loans

Over the years, Ringkjøbing Landbobank has developed to its present status as primarily a regional bank in central and western Jutland and a niche bank within selected areas. This development has been a part of the bank's strategy, and the bank's management notes with satisfaction that the bank has achieved a significant diversified portfolio of loans, including a wide geographic distribution of branches. In general, Ringkjøbing Landbobank assumes credit risks on the basis of a policy, the objectives of which are to have a well-balanced relationship between assumed risks and the return gained by the bank, that the bank's losses must be at an acceptable level relative to the Danish financial sector, and finally, losses suffered even in extreme situations must be able to be accommodated within the bank's results. The gearing of loans relative to the bank's subordinated capital is about 4.5, and the bank's objective is that the results must be achieved with a lesser or the same credit gearing as that of the country's major banks.

Historically, the bank has always had a healthy and conservative credit policy, and focus will remain on ensuring an efficient management and monitoring of the bank's total portfolio of loans via its central credit department.

Apart from the normal following up and management of credit in the bank's central credit department, where there is regular reviewing of and following up on all major commitments, the bank has developed a set of credit evaluation models which are used to assess the quality of the exposure to credit. Statistical models are used for private and small business customers, while an expert model is used for major businesses. The statistical model has 7-10 different factors, including information on the customer's assets and a quantity of behavioural data. The expert model for business customers is based on information on the customer's creditworthiness and earning capacity.

Using these models, the bank's judgment is that the credit quality for those loans which have not been written down is generally unchanged relative to 2011. As in previous years, the bank is, however, aware of the risks which the economic conditions are imposing on the bank's customers. A particular problem is the challenge posed to the bank's private customers by a weak property market and potentially rising interest rates. The bank's customers are, however, judged to be relatively less vulnerable to these challenges, among other reasons because of a relatively low home loan burden in the bank's core area Ringkjøbing Landbobank is exposed to various types of risk in connection with its operations: credit risk, market risk, liquidity risk and operational risk.

Actual net losses

In DKK 1,000

Year	Actual net losses	Actual net losses after interest	Loans with suspended calculation of interest	Write-downs on loans and provisions for guarantees	Total loans and guarantees etc.	Percentage loss before interest *)	Percentage loss after interest *)
1988	-14,205	-5,205	4,522	93,900	1,408,830	-1.01%	-0.37%
1989	-18,302	-5,302	13,107	117,270	1,468,206	-1.25%	-0.36%
1990	-15,867	-1,867	47,182	147,800	1,555,647	-1.02%	-0.12%
1991	-11,429	3,571	47,626	170,000	1,805,506	-0.63%	0.20%
1992	-32,928	-14,928	43,325	177,900	1,933,081	**-1.70%**	**-0.77%**
1993	-27,875	-6,875	30,964	208,700	1,893,098	-1.47%	-0.36%
1994	-14,554	4,446	33,889	223,500	1,938,572	-0.75%	0.23%
1995	-10,806	10,194	27,292	238,800	2,058,561	-0.52%	0.50%
1996	-19,802	-1,802	18,404	233,400	2,588,028	-0.77%	-0.07%
1997	-31,412	-12,412	39,846	236,600	3,261,429	-0.96%	-0.38%
1998	-2,914	18,086	4,905	263,600	3,752,602	-0.08%	0.48%
1999	-442	21,558	18,595	290,450	5,148,190	**-0.01%**	0.42%
2000	-405	27,595	12,843	316,750	5,377,749	**-0.01%**	**0.51%**
2001	-8,038	20,962	14,222	331,950	6,113,523	-0.13%	0.34%
2002	-8,470	20,530	26,290	382,850	7,655,112	-0.11%	0.27%
2003	-22,741	2,259	23,412	394,850	8,497,124	-0.27%	0.03%
2004	-14,554	9,446	18,875	404,855	11,523,143	-0.13%	0.08%
2005	-22,908	192	35,796	357,000	15,522,264	-0.15%	0.00%
2006	-13,531	7,028	20,578	295,000	17,858,787	-0.08%	0.04%
2007	-15,264	4,888	13,190	289,097	19,227,573	-0.08%	0.03%
2008	-34,789	-10,237	22,110	356,083	16,475,975	-0.21%	-0.06%
2009	-73,767	-47,658	62,649	467,025	14,890,027	-0.50%	-0.32%
2010	-69,428	-40,207	66,237	565,035	14,758,234	-0.47%	-0.27%
2011	-78,813	-43,073	61,419	649,856	14,448,638	-0.55%	-0.30%
2012	-90,022	-48,337	113,312	758,363	14,849,702	-0.61%	-0.33%
25-year average (1988 - 2012)						**-0.54%**	**-0.02%**
10-year average (2003 - 2012)						**-0.30%**	**-0.11%**

*) Actual net losses relative to total loans, guarantees, write-downs on loans and provisions for guarantees.

Explanation: The percentage losses were computed as the actual net losses for the year before and after interest on the written-down part of loans as a percentage of total loans, guarantees and write-downs on loans and provisions for guarantees. A minus sign before a percentage loss indicates a loss, while a positive percentage loss means that the interest on the written-down part of loans was greater than the actual net losses for the year. All the above figures are exclusive amounts regarding the national bank package I etc.

The above table documents the bank's healthy credit policy. As will be evident, the bank's average percentage loss after interest over the last 25 years (1988 - 2012) was -0.02%, with -0.77% (1992) the highest loss and +0.51% (2000) the most positive figure. The average percentage loss before interest over the last 25 years is -0.54%, with -1.70 percent (1992) the highest loss and -0.01% (1999 and 2000) the lowest loss. The average percentage loss after interest over the last ten years (2003 - 2012) was -0.11%; the average percentage loss before interest was -0.30%. The regional section of the bank is run partly via branches in the bank's original core area in West Jutland and partly via branches in the three big central and western Jutland cities Herning, Holstebro and Viborg.

The most important niches within the bank's niche section are financing of medical practitioners' purchases of private practices, a Private Banking department covering affluent private customers, and financing of securities and loans for the financing of wind turbines. The financing of wind turbines is for Danish investors' purchases of wind turbines erected in Denmark, Germany and France.

An important common factor in the niche areas is that the bank attempts to obtain a first mortgage, and therewith satisfactory security in the mortgaged assets, which is an important part of the bank's business philosophy.

Concentration of credit

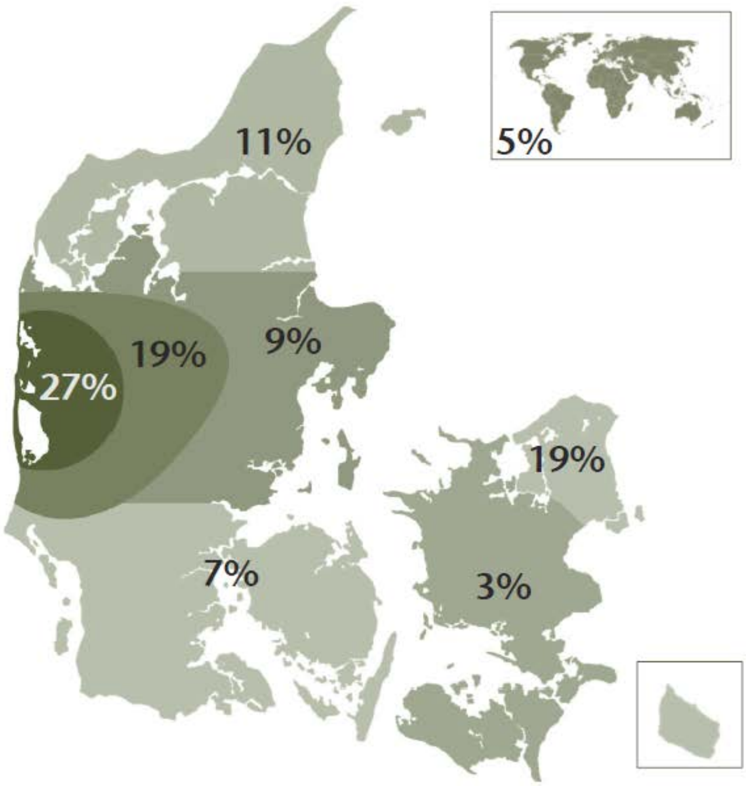
As indicated in the summary below, total large exposures amount to 27.2%. This figure includes a good quality commitment of 10.4% with adequate security and a commitment with a well-consolidated financial counterparty which will be redeemed in 2013.

Concentration of credit

	2012	2011	2010	2009	2008
Total large exposures	27.2%	11.8%	0.0%	0.0%	12.1%

Explanation: The Danish Financial Supervisory Authority key figure »Total large exposures«.

Geographic spread of the bank's loans and guarantee portfolio



Explanation: Distribution of the bank's loans and guarantee portfolio before write-downs and provisions by customer addresses.

As is evident from the figure, a significant geographic diversification of the bank's portfolio of loans and guarantees has been achieved via both the regional section and the niche section.
The loans via the bank's niche section have also helped to ensure a major diversification in the bank's loans portfolio, so that this portfolio is not correlated with the economic cycle to the same extent as if the bank were run exclusively as a regional bank.

Security

The bank seeks to ensure that its loans are secured to the greatest possible extent.

The most important types of security for loans to private customers are real estate, securities, cars and guarantees.

The most important types of security for loans to business customers are real estate, securities, wind turbines, guarantees, inventory and debtors.

The above (types of security used for the customer groups “Private” and “Business” can be summed up as follows:

	Private	**Business**
Real estate	X	X
Bank account	X	X
Deposit/securities	X	X
Vehicles	X	X
Operating equipment		X
Surety/guarantee	X	X
Debtors		X

As described above, security is accorded a very high priority within the bank’s niche concepts. The most important types of security are mortgage in real estate, securities and wind turbines and guarantees, but other assets are also used as security and assessed on a case-by-case basis.

An IT-based system has been established to monitor securities and follow up on any pledging agreements which may be entered into.

Security in real estate is monitored at a general level by obtaining current public valuations and various statistical material. A more exact valuation of the properties in question is made if this general information indicates that a group of properties can fall in value.

Credit risk on financial counterparties

Exposure to financial counterparties, and therewith a credit risk, including a settlement risk, arises in connection with the bank's trading in securities, foreign currency and derivative financial instruments, the bank's loans to other banks, and the bank's possession of bonds and transfer of funds. The settlement risk is the risk that in connection with the settlement of trades in securities and/or currency, the bank will not receive payment or securities corresponding to the securities and/or payments which the bank had made and delivered.

The bank's board of directors grants lines of credit for credit risks and the risk of winding up against financial counterparties. When granting lines of credit, account is taken of the individual counterparty's risk profile, rating, size and financial circumstances, and there is constant follow-up on the lines of credit which were granted. The bank's policy is to keep the credit risk on financial counterparties at a balanced level relative to the bank's size, and against credit institutions with good creditworthiness.

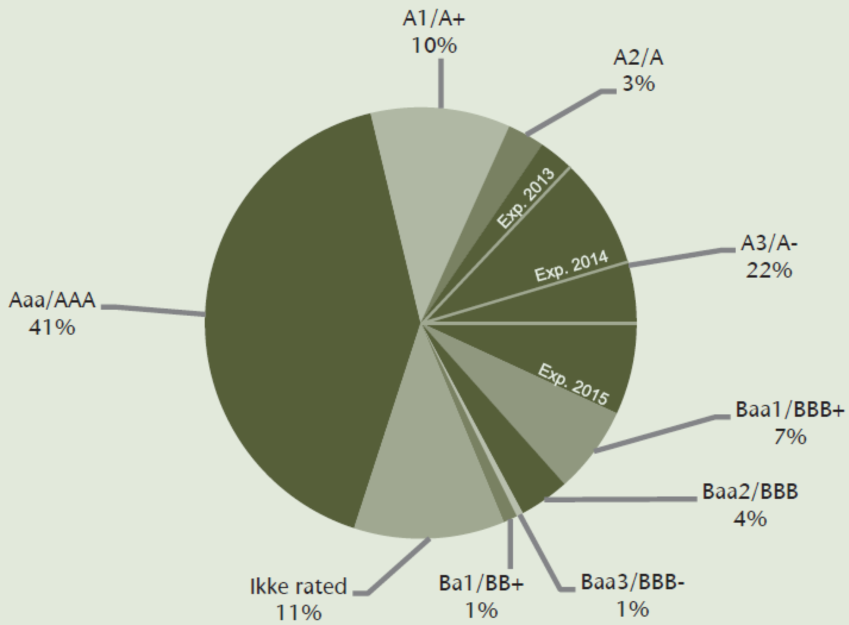
Claims on central banks and credit institutions

One of the two major items concerning the credit risk with financial counterparties is credit alliances with central banks and credit institutions. The bank has assumed only a moderate risk on this item, and in the total credit balances with central banks and credit institutions, only 72% is thus due within three months.

The bond portfolio

The second of the two major items concerning the credit risk with financial counterparties is the bank's bond portfolio.

Bonds distributed by rating classes



Explanation: The bond portfolio distributed by rating classes. Ratings from the credit rating bureaus Moody's Investors Service, Standard & Poor's and Fitch were used in the specification.

As will be evident in the figure below, the bond portfolio consists mainly of AAA-rated Danish mortgage credit bonds and bank bonds. There is also a modest holding of commercial bonds. The portfolio of bank bonds consists chiefly of bonds with short terms issued by rated Nordic banks. These bonds have a good credit quality, but their market value can vary over time in connection with general changes in credit spread in the market, and company-specific circumstances can also affect the value of these bonds.

The credit spreads on these bonds were reduced throughout 2012, resulting in a capital gain for the bank. On the other hand, a later extension of the spreads could trigger a loss. Given the relatively short term, the risk involved is, however, manageable. The bank's bond portfolio does not involve any exposure to southern European countries.

Market risks

The bank's basic policy with respect to market risks is that the bank wishes to keep such risks at a relatively low level. The bank has determined a concrete framework for each type of market risk, and the risk assessment includes the objective that there must be a sensible and balanced relationship between risk and return.

The bank uses derivatives to cover and manage the various market risk types to the extent to which the bank wishes to reduce the extent of, or eliminate, the market risks which the bank has assumed. To supplement the more traditional measures of market risk, the bank has a mathematical/statistical model to compute market risks. The model is used to compute Value at Risk (VaR), which is regularly reported to the bank's management. VaR is a measure of risk which describes the bank's risk under normal market conditions. An isolated VaR is calculated for interest rate, foreign exchange and listed share positions, and a total VaR is also calculated for all of the bank's market risks consisting of interest rate, foreign exchange and listed share positions. This possibility of calculating a total VaR for the bank's market risks is one of the major advantages of the VaR model compared with more traditional measures of risk.

Interest rate risk

The bank's loan and deposit business and accounts with credit institutions are mostly entered into on a variable basis. The bank's fixed interest financial assets and liabilities are monitored continuously, and hedging transactions are entered into as needed with a consequent reduction of the interest rate risk. Ringkjøbing Landbobank's policy is to maintain a low interest rate risk, and the bank thus does not assume high levels of exposure to movements in interest rates.
The bank's interest rate risk is monitored and managed daily by the bank's securities department, and the bank's service and support department controls maintenance of the limits for assumption of interest rate risk, and reports to the bank's board of directors and management.

Explanation: The interest rate risk shows the effect on the result as a percentage of the core capital after deductions of one percentage point change in the interest level.

As will be evident from the figure, the bank has maintained a low interest risk over the last five years in accordance with the bank's policy for this type of risk.

Foreign exchange risk

The bank's principal currency is the Danish krone, but the bank has also entered into loan and deposit arrangements in other currencies. The bank's policy is to maintain a minimal foreign exchange risk, and the bank thus reduces on-going positions in foreign currencies via hedging.
The bank's positions in foreign exchange are managed daily by the foreign department, while the bank's service and support department monitors maintenance of lines of credit and reports to the board of directors and management.
As in previous years, the bank's foreign exchange risk in 2012 was at an insignificant level.

Share risk

The bank is co-owner of various industrial companies via equity interests in DLR Kredit A/S, PRAS A/S, BankInvest Holding A/S, SparInvest Holding A/S, EgnsInvest Holding A/S, Letpension Holding A/S, Nets Holding A/S, Swift, Bluegarden A/S, Værdipapircentralen A/S, Bankernes Kontantservice A/S, Landbrugets Finansieringsbank A/S and Bankdata.
These holdings are comparable with the wholly owned subsidiaries of major banks, and the equity interests are thus not deemed to be a part of the bank's share risk. The bank also holds a small portfolio of listed shares.
The bank's policy is to maintain a low share risk. The daily management of the bank's share portfolio is undertaken by the securities department, while monitoring of the lines of credit and reporting to management and the board of directors are performed by the service and support department.
The bank's portfolio of listed shares etc. amounted to DKK 29 million at the end of 2012 against DKK 12 million at the end of 2011. The portfolio of sector and capital shares at the end of 2012 was DKK 201 million against DKK 237 million at the end of 2011.
As will be evident from the figure below, the bank's exposure to shares (excluding sector and capital shares) as a percentage of the bank's equity has been modest, therewith documenting the bank's goal of maintaining a low risk on shares.
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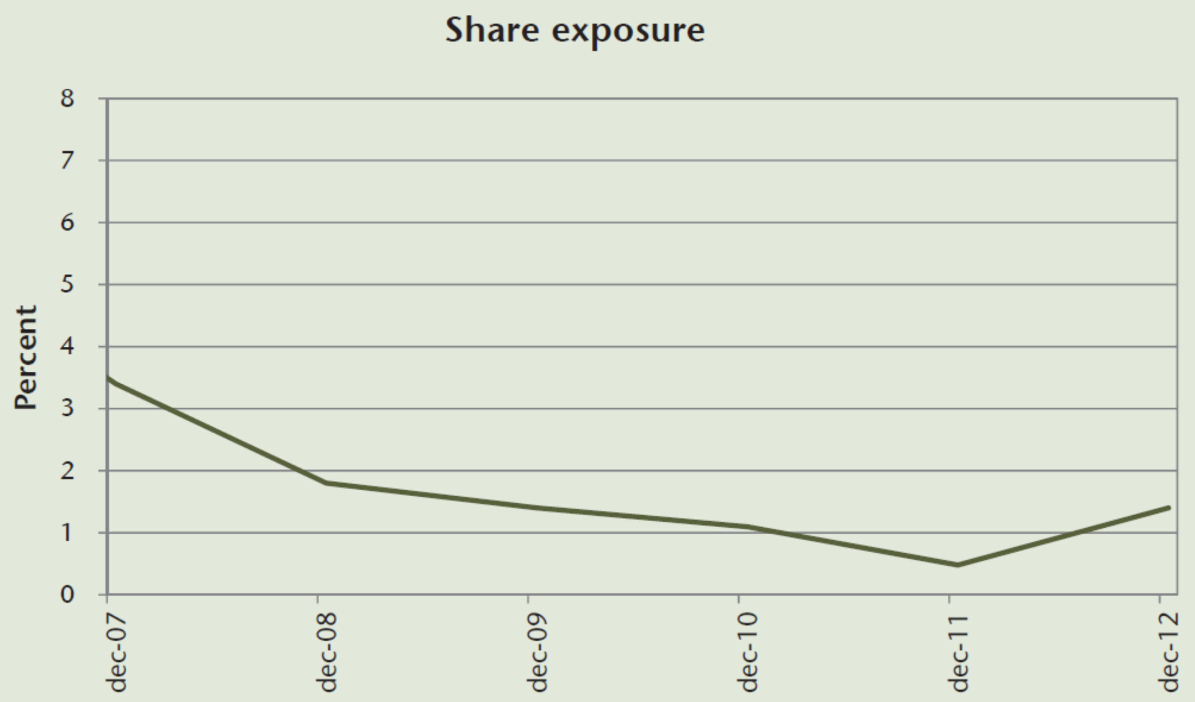
The bank's policy is to maintain a minimal foreign exchange risk, and the bank thus reduces ongoing positions in foreign currencies via hedging. The bank's positions in foreign exchange are managed daily by the foreign department, while the bank's service and support department monitors maintenance of lines and reports to the board of directors and management. As in previous years, the bank's foreign exchange risk in 2011 was at an insignificant level.



Explanation: The share exposure is computed as the bank's holding of shares (excluding sector shares and other holdings) as a percentage of the shareholders' equity.

Property risk

The bank primarily wishes to possess only properties for use in banking operations, and also to maintain minimal property risks.

The bank's portfolio of both domicile and investment properties is thus quite modest relative to the bank's balance sheet total.

Value at Risk

The bank's total Value at Risk at the end of 2012 was DKK 5.8 million. This sum is an expression of the maximum loss in a statistical perspective which the bank could risk losing with 99% probability if all market positions were retained unchanged for a period of 10 days.

VaR summary

In DKK million

Risk	Average VaR figure	Min. VaR figure*	Max. VaR figure*	End of year VaR figur
Interest	15.0	3.1	28.9	5.7
Foreign currency	0.3	0.1	0.2	0.1
Share	2.7	2.6	2.4	2.2
Diversification	-3.3	-2.3	-3.1	-2.2
Total VaR figure	**14.7**	**3.5**	**28.4**	**5.8**

* Determined by the total VaR figure

As indicated in the table, the bank's total VaR throughout 2012 varied from DKK 3.5 million to DKK 28.4 million. The average VaR figure has been DKK 14.7 million, a small increase relative to last year.

The model in brief

The model is a parametric VaR model based on a historical analysis of the covariation (correlations) between the prices of various financial assets etc., including different share indices, various official interest rates and interest swap rates, and different exchange rate indices. By combining the historical knowledge of the covariation for the financial markets with the bank's current positions, the model can calculate a risk of losses for a forthcoming ten-day period. All of the bank's interest rate positions, foreign currency positions and listed share positions etc. are included in the calculation, while positions in sector shares and unlisted ownership interests are not included. The model does not take account of credit spread risks on the bank's bond portfolio. The model is unchanged relative to last year.

Back tests and stress tests

So-called "back tests" are made to document that the VaR model provides a sensible picture of the bank's risk. The test compares the calculated loss under the model with the losses which the bank would actually have suffered if the positions in question had been retained for a ten-day period. A number of stress tests are also carried out to indicate the bank's risk of loss in abnormal market situations. Back tests of the model were performed throughout the year with satisfactory results.

Liquidity risk

In general with respect to the bank's liquidity management, it is the bank's objective not to have uncovered net funding requirements and not to be dependent on the shortterm money market. An objective is thus that the bank may not be affected by a total shutdown of the money market for a period of 12 months.

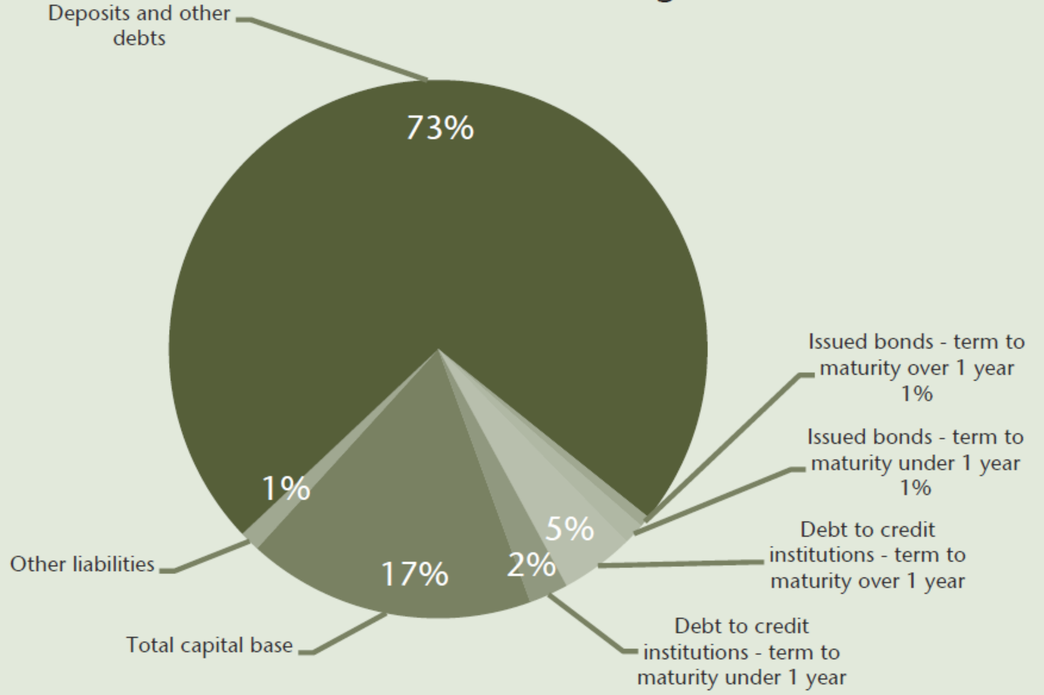
The bank’s loans portfolio is funded primarily via a range of sources, namely the bank’s deposits, by taking out long-term loans with other credit institutions, via issuing bonds, and finally via the subordinated capital taken up by the bank, and the bank’s equity.

The bank’s deposit base consists primarily of core deposits and deposits from customers with a long-term relationship with the bank.

Ringkjøbing Landbobank has also entered into longer-term bilateral loan agreements with European banks. It should, however, be noted that the bank’s funding situation is not comprised such that the bank is dependent on the institutions in a single country or on single institutions.

The bank entered into an agreement with BRFkredit during 2012 on joint funding. This agreement means that the bank can procure liquidity by letting BRFkredit issue SDO bonds against security in the loans which the bank has provided to customers with security in real estate. The bank has not yet availed itself of this setup, but the bank expects that the option can act as a supplementary source of funding for the bank in the longer term.

Distribution of funding



	DKK 1,000
The short-term funding (term to maturity under 1 year):	
Issued bonds - term to maturity under 1 year	224,583
Debt to credit institutions and central banks - term to maturity under 1 year	414,472
Total	**639,055**
Is covered as follows:	
Cash in hand etc.	36,776
Deposits on demand with central banks - certificates of deposit	622,414
Claims on credit institutions - term to maturity under 1 year	92,578
Listed bonds and listed shares etc. at current value	3,812,362
Total	**4,564,130**
Excess cover	**3,925,075**

As will be evident from the above, the short-term funding (time to maturity less than one year) is supported via the bank’s portfolio of certificates of deposit and demand deposits with the Danish National Bank, short-term loan arrangements with other banks, and the bank’s portfolio of liquid securities. It should be noted that the excess liquidity cover at the end of 2012 was DKK 3.9 billion, while the corresponding figures at the end of 2011 and 2010 were DKK 3.7 billion and DKK 3.3 billion respectively.

To ensure diversification in funding, the bank established an EMTN bond programme of EUR 2 billion in 2008. The programme helps to ensure alternative funding sources for the bank. The bank has made issues under the programme in 2010 and 2011, but has not done so in 2012.

Operational risk

The capital adequacy rules require the banks to quantify and include an amount for operational risks when computing their capital adequacy. The bank uses the so-called basic indicator method where, on the basis of calculation of an average of the most recent three financial years' net incomes, a sum is quantified and ascribed to the risk-weighted items to cover the bank's operational risks.
The bank regularly produces reports on the losses and events which are judged to be attributable to operational risks. An assessment is made on the basis of the reports of whether procedures etc. can be adjusted and improved in order to avoid or minimise any operational risks, and the bank's procedures are also regularly reviewed and assessed by the bank's internal and external auditors.
An important area in assessment of the bank's operational risks is IT. The bank's IT organisation and management are always concerned about IT security, including preparation of IT emergency plans, in connection with which the bank specifies requirements and levels for availability and stability of the IT systems and data used by the bank. These requirements apply to both the bank's internal IT organisation and its external IT supplier Bankdata, which the bank owns together with a number of other banks.

2. Application, point 2

The duty of disclosure covers only the company Ringkjøbing Landbobank A/S as the bank does not have any subsidiaries.

3. Capital base, point 3

The individual elements in the bank's capital base are given in the table below:

Computation of capital base as of 31 December 2012		1,000 DKK
1.	Core capital	
	Share capital	24,700
	Reserves	192
	Profit or loss carried forward and running profit for the year	2,651,248
2.	Primary deductions from core capital	
	Proposed dividend etc.	-69,660
	Deductions from core capital	-192
3.	Core capital after primary deductions	2,606,288
4.	Hybrid core capital	172,000
5.	Core capital including hybrid core capital after primary deductions	2,778,288
6.	Other deductions	0
7.	Core capital including hybrid core capital after deductions	2,778,288
8.	Tier 2 capital	
	Subordinate loan capital	201,431
9.	Included supplementary capital (from point 8)	201,431
10.	Capital base before deductions	2,979,719
11.	Deductions from capital base:	192
12.	**Capital base after deductions**	**2,979,911**

Subordinated debt – conditions:

Subordinated loan capital

- Nominal EUR 27 million taken up on 30 June 2008, thirteen-year term - maturity 30 June 2021, with the option of early redemption from 30 June 2018, subject to approval by the Danish Financial Supervisory Authority.
- The interest rate will change on 30 June 2018 to a quarterly variable rate equivalent to the EURIBOR rate for a term of three months plus 3.50% p.a.

Hybrid core capital

- Nominal DKK 200 million taken up on 2 March 2005, indefinite term, with the option of early redemption from 2 March 2015, subject to approval by the Danish Financial Supervisory Authority.
- As a consequence of a buy back of 28 million DKK of this capital only 172 million DKK is reported in the table above.
- The interest rate will change on 2 March 2015 to a quarterly variable coupon rate equivalent to the CIBOR rate published by the Central Bank of Denmark for a term of three months plus 2.16% p.a.

4. Capital adequacy requirement and adequate capital, point 4

Re point 4a

When calculating the bank's solvency requirement, the bank's management has elected to base the calculation on a template prepared by the Association of Local Banks, Savings Banks and Cooperative Savings Banks in Denmark and the Danish Financial Supervisory Authority's guidelines on an adequate capital base and solvency requirement for banks. The management's assessment is that by using this model and the Financial Supervisory Authority's guidelines as a basis, the bank has been able to calculate a solvency requirement which provides appropriate cover for the bank's risks.

In the method used by Ringkjøbing Landbobank to calculate its solvency requirement, capital is allocated to four risk areas (credit risk, market risk, operational risk and other circumstances).

The first part of the model contains a number of stress tests. The individual accounts items (according to the most recently prepared financial report – either an annual report or a quarterly report converted to an annually result) are "stressed" via a number of variables in these tests.

The bank's stress test in relation to determination of the solvency requirement:

Capital to cover credit risks	Write-downs on loans etc.: 3.69% of total gross loans and guarantees
Capital to cover market risks	Fall in share price: 30%, but only by 15% for shares and capital shares in sector companies. Increase in interest rate: 1.35% on the trading portfolio and 2.0% elsewhere. Foreign exchange risk: • EUR: Foreign exchange indicator 1 x 2.25% • Other currencies: Foreign exchange indicator 1 x 12%. Risk on derivative financial instruments: 8% of the positive market value.
Capital to cover other circumstances	General fall in net interest income: 12% General fall in net income from fees: 17% Own properties: 18%

The risks which Ringkjøbing Landbobank should be able to withstand, and therewith the variables and stress levels on which it must be tested, are fixed on the basis of the bank's concrete situation and the requirements in the regulation on capital adequacy and the guidelines on an adequate capital base and solvency requirement for banks. The stress tests are generally an attempt to expose the bank's accounts figures to a number of negative events in order to see how the bank will react in the given scenario.

When calculating the bank's solvency requirement, a scenario of recession is used which is reflected in the selected stress levels as per the table above.

The result of the stress tests is included in the solvency requirement model in that at a minimum, Ringkjøbing Landbobank must possess a level of capital which can cover the result which will occur if the scenario in question is realised. The full impact of the stress test on the solvency requirement is calculated by setting the full impact of the result in relation to the weighted items. The result is a target for the capital required to ensure that the bank can survive the scenario which was tested.

Apart from the risk areas included via stress tests, there is a large number of risk areas which Ringkjøbing Landbobank has found relevant to include in its assessment of the solvency requirement.

Other risk areas assessed in relation to determination of the solvency requirement.

Additional capital to cover credit risks	*Including:* Customers with financial problems Major commitments Commercial concentration Geographic concentration Concentration of guarantees
Additional capital to cover market risks	
Capital to cover operational risks	
Additional capital to cover other circumstances	*Including:* Strategic risks Risks to reputation Risks in relation to the bank's size Property risks Procuring of capital Liquidity risks Settlement risks Other matters

The determination of the influence of these areas on the solvency requirement is either calculated directly via supplementary calculations or via an assessment by management of the capital required in these risk areas.

In Ringkjøbing Landbobank's opinion, the risk factors included in the model are adequate to cover all of the risk areas which the law requires the bank's management to take into account in determining the solvency requirement and the risks which management finds that the bank has assumed.

The board of directors and management must also assess whether the capital base is adequate to support any forthcoming activities. In Ringkjøbing Landbobank this determination is a part of the general assessment of the solvency requirement. Management therefore makes an annual assessment of how the expectations regarding growth affect the computation of the solvency requirement.

Re point 4b

The table below shows the bank's risk-weighted assets and capital required for each individual exposure category.

Risk-weighted exposures as of 31 December 2012

1,000 DKK	**Risk-weighted exposure**	**Capital req. (8% of the exposure)**
Central governments or central banks	0	0
Regional or local authorities	0	0
Public entities	0	0
Multilateral development banks	0	0
International organisations	0	0
Institutions	198,056	15,844
Commercial enterprises etc.	7,270,573	581,646
Retail clients	2,999,880	239,990
Exposures secured by mortgage in real estate	727,773	58,222
Exposures with arrears or overdrafts	145,272	11,622
Covered bonds	0	0
Short-term institutional and commercial exposures etc.	0	0
Collective investment schemes	0	0
Exposures in other items, including assets without counterparties	52,297	4,184

Re point 4c

Ringkjøbing Landbobank does not use an internal model to compute the credit risk. The disclosure requirement therefore does not apply to the bank.

Re point 4d
The table below shows the bank's capital adequacy requirement with respect to market risk

Risk-weighted items with market risk as of 31 December 2012

1,000 DKK	**Risk-weighted Items**	**Capital requirement (8% of exposure)**
Weighted items with market risk	1,219,599	97,568
Instruments of debt	1,155,150	92,412
Shares	41,593	3,327
Collective investment schemes	22,857	1,829
Exchange rate risk	0	0
Commodity risk	0	0
Internal models	0	0

Re point 4e
The bank uses the basic indicator method to compute its capital adequacy requirement with respect to the operational risk. The capital adequacy requirement with respect to the operational risk as of 31 December 2012 was calculated at tDKK 118,680 (8% of tDKK 1,483,497).

5. Adequate capital base and individual solvency requirement, points 5-10

Regarding a statement on the adequate capital base and the individual solvency requirement please be referred to a separate prepared statement, which also can be found on this web page.

6. Counterparty risk – derivatives, point 11

Re point 11a

Ringkjøbing Landbobank uses the mark-to-market (market value) method for counterparty risk to compute the bank's exposure for derivatives covered by the definition in Annex 17 of the capital adequacy regulation and for credit derivatives within the trading portfolio.

Determination of the value of the exposure by the market value method for counterparty risk is derived from the procedure below:

1) Contracts are computed at market value to find the actual cost of re-acquisition for all contracts with a positive value.
2) The contracts' nominal principals or the underlying values are multiplied by percentages fixed by the Danish Financial Supervisory Authority to obtain a figure for the potential future credit exposure. Swaps based on two variable interest rates in the same currency are excepted, as only the current cost of re-acquisition needs to be calculated.
3) The exposure value is the sum of the current costs of re-acquisition and the potential future credit exposures.

Capital equivalent to 8% of the positive market value of the derivatives is held in connection with the bank's determination of the adequate capital base.

Account is taken of the calculated exposure value in the bank's granting process and in the ordinary monitoring of its commitments in order to ensure that this value does not exceed the credit limit granted to the counterparty.

Re point 11b

Frameworks for financial contracts are handled and granted under the bank's normal credit assessment principles with respect to commitments with clients in classes G and H (commercial enterprises and retail clients).

Re point 11c

The bank does not use internal models to compute the counterparty risk (EPE models). The disclosure requirement therefore does not apply to the bank.

Re point 11d

The information is not judged to be relevant to Ringkjøbing Landbobank. Information on these points is therefore not given.

Re points 11e-f
The bank advises as follows:

End 2012 - in 1,000 DKK	**Positive gross market value of financial contracts after netting**
Counterparty with risk weight 20%	140,002
Counterparty with risk weight 75%	65,836
Counterparty with risk wt. 100%	49,812
Counterparty with risk wt. 150%	0

Re point 11g
The bank does not use credit derivatives to cover that part of the credit risk which concerns the counterparty. Information on this point is therefore not given.

Re point 11h
The bank does not use credit derivatives to cover that part of the credit risk which concerns the counterparty. Information on this point is therefore not given.

Re point 11i
Ringkjøbing Landbobank does not have permission to use internal models to compute the counterparty risk. Information on this point is therefore not given.

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7. Credit risk and risk of dilution, point 12

Re point 6a

With respect to point 12a of Annex 20 of the capital adequacy regulation and given that Ringkjøbing Landbobank follows the regulation on financial reports for credit institutions and stockbrokers etc. (the accounts regulation), reference is made to

with respect to the <u>definition of claims with reduced value</u> (debtors on which individual write-downs have been made, including debtors removed from a group and individually assessed and written down), to Section 52(3) of the accounts regulation:

Section 52(3)	If there is an objective indication of reduction in value under subparagraph 2 and the events in question have an effect on the size of the expected future payments from the loan or debt which can be measured reliably, the loan or debt shall be written down by the difference between the book value before the write-down and the current value of the expected future payments from the loan or debt.

with respect to the <u>definition of bad debts</u> under point 12g(1), reference is made to points 20 and 21 (items in arrears) of Annex 3 of the capital adequacy regulation.

20. "Arrears" shall be understood to mean that a counterparty has been in arrears or overdrawn by an amount which is deemed to be significant for over 90 days. Arrears exist when the counterparty fails to make payments as they fall due or to discharge its debt at the agreed time, or when a notified credit limit for overdrafts and similar is exceeded.
21. Arrears shall be significant when the total amount in arrears on the counterparty's commitment under Section 5(1:16) of the finance act exceeds DKK 1,000 to the company, its parent company and its subsidiaries.

Re point 6b

The total value of the exposures after write-downs and before taking account of the effects of the credit risk reduction is DKK 20,367 million.

Re point 6c

The bank advises as follows:

Average 2012 - in million DKK	**Average weighted amount 2012**
Central governments or central banks	
Regional or local authorities	
Public entities	
Multilateral development banks	
International organisations	
Institutions	229
Commercial enterprises etc.	7,340
Retail clients	3,067
Exposures secured by mortgage in real estate	681
Exposures with arrears or overdrafts	196
Covered bonds	
Short-term institutional and commercial exposures etc.	
Collective investment schemes	
Exposures in other items, including assets without counterparties	84
Total	**11,597**

Re point 12d
As the bank has 95% or more of its exposures in Denmark, the information in question is omitted.

Re point 12e
The bank advises as follows with respect to the classification of credit categories by sector (before weighting and deduction for securities, which lower the weighting):

End 2011 In million DKK	Central governments or central banks	Regional or local authorities	Public entities	Multilateral development banks	International organisations	Institutions	Commercial enterprises etc.	Retail clients	Exposures secured by mortgage in real estate	Exposures with arrears or overdrafts	Covered Bonds	Short-term institutional and commercial exposures etc.	Collective invest-ment schemes	Exposures in other items, including assets without counterparties
Public authorities	772						13	11						
Agriculture, hunting, forestry and Fishing							1,490	786	237	1				
Industry and raw materials extraction							265	122	19	1				
Building and construction							84	144	34	23				
Energy supply							2,571	103	115	4				
Trade							500	283	60	4				
Transport, hotels and restaurants							188	59	26	4				
Information and communication							12	31	2	0				
Financing and insurance							2,302	106	79	4				
Credit institutions						487								
Real estate							823	292	300	17				
Other							761	868	239	20				168
Total business							9,009	2,805	1,111	78				168
Private							980	4,167	746	44				0
Total	**772**					**487**	**9,989**	**6,972**	**1,857**	**122**				**168**
Total														**20,367**

It should be noted that the figures in the above table cannot be immediately derived from the bank's annual report as components other than the bank's loans and guarantee portfolio are included in the above summary.

Re point 12f

The bank advises as follows with respect to the classification of the credit exposures' terms to maturity (before weighting and deduction for securities, which lower the weighting):

End 2012 - million DKK	Demand	0 – 3 months	3 mths – 1 yr	1 – 5 years	Over 5 years	Total
Central governments or central banks	596	176				**772**
Regional or local authorities						
Public entities						
Multilateral development banks						
International organisations						
Institutions	135	190	32	4	126	**487**
Commercial enterprises etc.	2,493	450	2,131	1,998	2,917	**9,989**
Retail clients	2,439	236	697	1,519	2,081	**6,972**
Exposures secured by mortgage in real estate	303	52	134	595	773	**1,857**
Exposures with arrears or overdrafts	21	13	17	37	34	**122**
Covered bonds						
Short-term institutional and commercial exposures etc.						
Collective investment schemes						
Exposures in other items, including assets without counterparties	168					**168**
Total	**6,155**	**1,117**	**3,011**	**4,153**	**5,931**	
Total						**20,367**

It should be noted that the figures in the above table cannot be immediately derived from the bank's annual report as components other than the bank's loans and guarantee portfolio are included in the above summary.

Re point 12g

The bank advises as follows with respect to claims with reduced value and write-downs by sector:

2012 - 1,000 DKK	Bad debts exposure(above 90 days)	Loans and guarantee debtors on which write-downs/provisions have been made	Write-downs/ provisions at the end of the year	Amounts booked as costs concerning value adjustments and write-downs during the period*
Public authorities				
Agriculture, hunting, forestry and fishing	1,354	388,433	290,516	92,217
Industry and raw materials extraction	1,019	21,806	15,640	8,578
Energy supply	4,216	2,311	1,018	430
Building and construction	22,880	34,458	21,420	8,599
Trade	4,228	20,873	14,391	-2,810
Transport, hotels and restaurants	4,326	23,663	16,828	-363
Information and communication	0	628	367	-691
Financing and insurance	3,533	7,085	5,783	-23,873
Real estate	17,237	90,567	45,989	48,384
Other	19,668	57,618	47,082	12,926
Total business	78,461	647,442	459,034	143,397
Private	43,453	308,353	184,451	72,262
Total	**121,914**	**955,795**	**643,485**	**215,659**
Interest concerning the written down part of loans				-41,685
Income on previous written off debtors				-17,130
Write-downs on loans and other debtors				**156,844**

* Amounts booked as costs calculated as: write-downs/provisions end of year (current year) less write-downs/provisions end of year (previous year) plus finally lost (written off)

Re point 12h
As the bank has 95% or more of its exposures in Denmark, the information in question is omitted.

Re point 12i
Movements on claims with reduced value consequent upon value adjustments and write-downs are as follows:

2012 - 1,000 DKK	**Individual write-downs/provisions**		**Group-wise write-downs/provisions**		**Write-downs/provisions on moneys owed by credit institutions and other items with credit risk**	
	Loans	Guarantee debtors	Loans	Guarantee debtors	Loans	Guarantee debtors
Cumulative write-downs/provisions beginning of period on loans and guarantee debtors	577,352	5,038	67,466			0
Events during the year						
1. Foreign exchange adjustment						
2. Write-downs/provisions during the year	243,459	10,009	47,410			0
3. Reversal of write-downs/provisions made in previous financial years where there is no longer an objective indication of reduction in value or the reduction in value was reduced	124,433	3,835	0			
4. Other events						
5. Adjustment to value of assets taken over						
6. Finally lost (written off) previously individually written down/provision made	63,849	254				0
Cumulative write-downs/provisions end of period on loans and guarantee debtors	632,529	10,958	114,876			0
Total loans and guarantee debtors on which individual write-downs/provisions were made (computed before write-downs/provisions)	955,795	3,835	11,908,553			0

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8. Credit rating agencies, point 13

Data from credit rating agencies is not currently used. The requirement therefore does not apply to the bank.

9. Information on computation of credit risk under the IRB method, point 14

Ringkjøbing Landbobank uses the standard method. The requirement therefore does not apply to the bank.

10. Market risk / Risks related to the trading portfolio, point 15

Re points 10a-c and f
Computation of the solvency requirements for the respective risks:

Statement of solvency risks in the market risks area - end 2012		**Weighted amount 1,000 DKK**	**Capital requirement (8% of exposure)**
Items with ranking risk:	Instruments of debt	1,155,150	92,412
	Shares etc. (including collective investment schemes)	64,450	5,156
	Raw materials	0	0
Items with	Foreign exchange position	16,838	0

The individual amounts are weighted with the percentage weights specified in the tables.

Re point 10d
Counterparty risk - positive market value tDKK 255,631. The amount is included as a credit risk under the individual commitment classes.

Re point 10e
The bank has no items with delivery risk etc. The requirement therefore does not apply to the bank

Re point 10g
Not relevant.

11. Information on internal models (VaR models), point 16

Ringkjøbing Landbobank does NOT use internal models (VaR models) to compute risks in the bank's trading portfolio and therewith in the bank's capital adequacy computation.

To supplement the bank's internal management of market risks, the bank has a mathematical/statistical model to compute market. The model is used to compute Value at Risk (VaR), which is regularly reported to the bank's management.

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12. Operational risk, point 17

Banks are required under the Capital Adequacy Regulation to cover operational risks with respect to capital. The capital requirement for the operational risks must cover: “Risk of loss resulting from inappropriate or defective internal procedures, human error and systematic errors or resulting from external events, including legal risks”.

Ringkjøbing Landbobank uses the basic indicator method as per Annex 18 of the Capital Adequacy Regulation to compute the capital required for the operational risks. The capital required for the operational risks is thus computed at: 15% of the average “basic income” over the last three years. The basic income is the sum of net interest income and non-interest-related net income.

Ringkjøbing Landbobank does, however, regularly assess the capital required for the operational risks. If the capital required is judged to be higher than specified above, due account will be taken under the bank’s computation of its capital adequacy requirement.

13. Exposures in shares etc. not included in the trading portfolio, point 18

In cooperation with other banks, Ringkjøbing Landbobank has acquired shares in a number of sector companies. The object of these companies is to support the bank's business within mortgage credit, transaction of payments, IT, investment activities etc. Ringkjøbing Landbobank does not intend to sell these shares as participation in these companies is considered necessary to operate a local bank. The shares are therefore deemed not to be included in the trading portfolio.

The shares in several of the sector companies are redistributed such that the banks' ownership interests always reflect the individual bank's volume of business with the sector company. Redistribution is typically based on the sector company's intrinsic value. Ringkjøbing Landbobank regulates the book value of these shares on this basis quarterly, half-yearly or annually, depending on the frequency of new information from the individual company. The ongoing regulation is booked in accordance with the rules on the profit and loss account.

The shares in other sector companies are not redistributed but valued, typically on the basis of the latest known trade, or the value is calculated on the basis of a recognised method of valuation. Adjustments to the book value of the shares in these companies are also made in the profit and loss account.

Re points 18 b-d
The bank advises as follows:

1,000 DKK		
Type	**Exposure as of 31 Dec. 2012**	**Effect on operations in 2012**
Sector shares	229,541	-24,398

14. Exposures to interest risk in positions outside the trading portfolio, point 19

Re points 19a-b

The bank advises as follows:

1,000 DKK	**Interest rate risk - end 2012**
Positions	
Balance sheet items (included in the calculation of the interest rate risk)	-4,147
Positions with limited or covered interest rate risk	3,028
Positions with special interest formulas	0
Total outside the trading portfolio	-1,119

The bank advises as follows on the computation of the interest rate risk:

The risk is computed for each *instrument of debt* as per the Capital Adequacy Regulation as

$$\mathbf{RR = NP_{(mv)} * V_{(mod)}}$$

where

RR = the interest rate risk expressed as the change in the market value of the net position resulting from a one percentage point increase in the interest rate,

$\mathbf{NP_{(mv)}}$ = the market value of the net position on the date of computation, and

$\mathbf{V_{(mod)}}$ = the net position's modified term.

"**0.01**" means that the interest rate risk is calculated for a general change of one percentage point in the rate.

15. Information on securitisations, point 20

Ringkjøbing Landbobank does not use securitisations. The requirement therefore does not apply to the bank.

16. Information on computation of credit risk in IRB institutions, point 21

Ringkjøbing Landbobank uses the standard method. The requirement therefore does not apply to the bank.

17. Information on the credit risk-reducing methods, point 22

Re point 22a
Ringkjøbing Landbobank uses neither balance sheet netting nor netting after balance sheet date.

Re point 22b
Via its policies and procedures on guarantees, Ringkjøbing Landbobank has prioritised receipt of financial security within the following main areas/categories:

- Deposit funds
- Bonds/instruments of debt - issued by states and by rated and non-rated credit institutions etc.
- Shares - within and outside a main index
- Investment association certificates.

The bank's procedures ensure ongoing daily monitoring of the guarantees' realisation values. The monitoring is IT-based and thus automatic. The bank's agreements with customers on guarantees in securities ensure that the bank will be able to realise the securities if it so wishes.

The bank thus has fixed procedures for management and valuation of the financial guarantees. The bank thus has responsible protection of its loans. The procedures in question are an integral part of the ordinary monitoring of risk undertaken by the bank's credit department.

Re point 22c
Ringkjøbing Landbobank uses the financial collateral comprehensive method as a credit risk-reducing technique. The bank can thus reduce the impact of a commitment on capital when a pledge is taken in certain financial securities.

Annex 7, points 57-60 of the Capital Adequacy Regulation specify the financial securities which banks can use under the financial collateral comprehensive method as credit risk-reducing method. It should be noted that the Regulation requires that the financial securities used must be issued by a company or country with a particularly good rating.

With respect to the delimitations in Annex 7 of the Capital Adequacy Regulation, the financial security which the bank normally receives can be divided into the following main categories:

- Deposit funds
- Bonds/instruments of debt - issued by states and by rated and non-rated credit institutions etc.
- Shares - within and outside a main index
- Investment association certificates.

Re point 22d
The bank uses guarantees issued by the following types of counterparties to a modest extent as credit risk-reducing means:

- Central governments
- Regional and local authorities
- Credit institutions

The bank does not use credit derivatives to reduce risks.

Re point 22e
The bank's policies etc. for investment credits apply certain requirements regarding the spread of its investments. There will thus also be a spread in the credit risk concentration concerning financial securities.

Re point 22f
In accordance with the rules in the Capital Adequacy Regulation, the bank uses financial securities to cover its credit risk.

For each individual exposure category, the table below shows the cover provided by the security, i.e. the fully adjusted size of the securities within each individual exposure category:

End 2012- 1,000 DKK	**Exposure**
Exposures to central governments or central banks	0
Exposures to regional or local authorities	0
Exposures to public entities	0
Exposures to multilateral development banks	0
Exposures to international organisations	0
Exposures to institutions	**0**
Exposures to commercial enterprises etc.	**992,620**
Exposures to retail clients	**413,423**
Exposures secured by mortgage in real estate	**2,966**
Exposures with arrears or overdrafts	**4,056**
Securitisation positions	0
Short-term institutional and commercial exposures etc.	0
Exposures to collective investment schemes	0
Total	**1,413,065**

Re point 22g

In accordance with the rules in the Capital Adequacy Regulation, the bank uses guarantees and credit derivatives to cover its credit risk.

The table below shows the total exposure covered by guarantees or credit derivatives within each exposure category.

End 2012 - 1,000 DKK	**Exposure**
Exposures to central governments or central banks	0
Exposures to regional or local authorities	0
Exposures to public entities	0
Exposures to multilateral development banks	0
Exposures to international organisations	0
Exposures to institutions	0
Exposures to commercial enterprises etc.	89,774
Exposures to retail clients	12,802
Exposures secured by mortgage in real estate	**0**
Exposures with arrears or overdrafts	**0**
Securitisation positions	0
Short-term institutional and commercial exposures etc.	0
Exposures to collective investment schemes	0
Total	**102,576**

18. Information on advanced methods of measurement to compute operational risk, point 23

The bank uses the basic indicator method to compute operational risk. The requirement therefore does not apply to the bank.