

Risk information for Ringkjøbing Landbobank A/S

Statement on adequate capital base and individual solvency requirement

(as of 22 October 2014)

Please note that the statement is structured such that it follows the respective points in Annex 20 of the Capital Adequacy Regulation.

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Please note that the bank has prepared two statements concerning risk information: one on other risk information and one on the adequate capital base and the individual solvency requirement (this statement).

1. Capital adequacy requirement and the adequate capital base, point 4

Re point 4a

Regular reporting to the bank's management and board of directors ensures that approved policies and lines etc. are observed. The reporting to the bank's board of directors includes quarterly reports and compliance with statutory and internal provisions on specified capital and placing. On the basis of the bank's ICAAP (see point 5), including an assessment of the bank's risk profile, a paper for determination of the bank's solvency requirement is prepared and discussed with the bank's board of directors each quarter.

Re point 4b

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

Risk-weighted exposures

DKK 1,000	Risk-weighted exposures	Capital adequacy requirement (8% of the exposure)
Central governments or central banks	0	0
Regional or local authorities	0	0
Public entities	140	11
Multilateral development banks	-	0
International organisations	-	0
Institutions	130,611	10,449
Commercial enterprises etc.	6,727,590	538,207
Retail clients	3,431,641	274,531
Exposures secured by mortgage in real estate	561,719	44,938
Exposures with arrears or overdrafts	1,332,172	102,507
Covered bonds		
Short-term institutional and commercial exposures etc.	-	-
Collective investment schemes	-	-
Exposures in other items, including assets without counterparties	228,250	18,260
Central governments or central banks	-	-

Re point 4c

Ringkjøbing Landbobank does not use internal models to calculate the credit risk, so this point is not relevant to the bank.

Re point 4d

The table below shows the bank's solvency requirement for market risks.

Risk-weighted items with market risk

DKK 1,000	Risk-weighted items	Capital requirement (8% of the exposure)
Weighted items with market risk	1,313,043	105,043
Instruments of debt	1,226,222	98,098
Shares	44,968	3,597
Collective investment schemes	21,476	1,718
Exchange rate risk	20,645	1,652
Commodity risk	0	0
Internal models	0	0

Re point 4e

The bank uses the basic indicator method to calculate the solvency requirement for the operational risk. The solvency requirement with respect to the operational risk as of 30 October 2014 was calculated at tDKK 125,390 (8% of tDKK 1,567,369).

2. ICAAP and the 8+ method, point 5

The bank's internal process for assessment and calculation of the solvency requirement (ICAAP - Internal Capital Adequacy Assessment Process) is the starting point for determination of the bank's adequate capital base and solvency requirement.

The risks to which Ringkjøbing Landbobank is exposed when assessing the risk profile are identified in the ICAAP. 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 solvency requirement is Ringkjøbing Landbobank'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 determination of the solvency requirement. The discussions are based on a recommendation from the bank's management. The recommendation contains proposals on the size of the solvency requirement, which is based on a review of the bank's risk profile and expectations concerning growth. This also applies even though the Financial Supervisory Authority's benchmarks are used. On the basis of the discussions, the board of directors makes a decision on calculation of the bank's solvency requirement which adequately covers the bank's risks (Section 124(2 and 4) of the Financial Activities Act).

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

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.

Re point 5b

The Financial Services Authority has issued "Guideline on adequate capital base and solvency requirement for credit institutions." The Local Banks Association has also issued a solvency requirement model. Both the FSA's guideline and the Local Banks Association's solvency requirement model, on which Ringkjøbing Landbobank basis its calculations, are based on the 8+ method, where the basis is a minimum requirement of 8% of the risk-weighted items (the column 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, column 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, Ringkjøbing Landbobank assesses whether the specified benchmarks take account of the bank's risks to an adequate degree in all areas, and the bank has made individual adaptations to the requisite extent.

Ringkjøbing Landbobank follows the template below when calculating its solvency requirement:

	DKK 1,000	%
1) The column I requirement (8% of the risk-weighted items)		8
+2) Earnings (capital for risk cover 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 cover operational risks over and above column I)		
+8) Possible supplement under statutory requirements		

Ringkjøbing Landbobank believes that the risk factors included in the model are adequate for all the risk areas required by law which the bank's management must take into account when fixing the solvency requirement and the risks which management finds that Ringkjøbing Landbobank has assumed.

The board of directors and management must also assess whether the capital base is adequate to support forthcoming activities. This assessment is a part of Ringkjøbing Landbobank's general determination of its solvency requirement.

3. The adequate capital base by risk categories and statutory requirements,/Comment on the solvency requirement/Statutory requirements/Capital adequacy ratio and Capital base, points 6 - 9

Solvency requirement by risk areas:

Risk area	Adequate capital base (million DKK)	Capital adequacy requirement (%)
Credit risks	61	0.4%
Market risks	6	0.0%
Operational risks	0	0.0%
Other risks	44	0.3%
Statutory supplement	1,226	8.0%
Total	1,337	8.7%

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

Capital base after deduction	2.853
Adequate capital base	1.337
Excess solvency	1.516
Capital adequacy ratio	18,6%
Capital adequacy requirement	8,7%
Excess solvency, percent	9,9%

Credit risks: Risk of losses because debtors or counterparties commit a breach of their payment obligations, over and above the cover in column 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 column I. The basis is not in the bank's current risks, but on the contrary in 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 Section 70 of the Act on Financial Activities.

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 column I.

Other matters: Possible capital for risk cover 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 column I under Section 124(2:1) of the Act on Financial Activities and possible supplement in relation to the situations where requirements under the Act on Financial Activities 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.