

# Risk disclosure for Ringkjøbing Landbobank A/S

## Report on other disclosure requirements

As at 27 January 2016

This document contains Ringkjøbing Landbobank’s reporting under the CRR regulation’s provisions on Pillar III disclosures. The document is structured to follow the chronology of Articles 435-455.

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## **2 Risk management objectives and policies, CRR 435**

### **2.1 Policies for risk taking and management, CRR 435(a-d)**

Under CRR Article 435 banks must publish the following:

- a) Strategies and processes for risk management
- b) The structure and organisation of risk management
- c) The scope and nature of systems
- d) Policies for hedging and mitigation and procedures for monitoring the effectiveness of hedges and mitigants.

The relevant details for Ringkjøbing Landbobank can be found on pages 21-32 of the bank's 2015 annual report.

### **2.2 Declarations by the management body under CRR 435(1)(e-f)**

The bank's board of directors approved the following declarations at the board meeting on 27 January 2015:

“The board of directors judges that the bank's risk management arrangements are sufficient and provide assurance that the risk management systems put in place are adequate with regard to the bank's profile and strategy.

The board of directors also judges that the description below of the bank's overall risk profile associated with its business strategy, business concept and key ratios provides a relevant view of the bank's management of risk.

The board's judgment was made on the basis of the business concept adopted by the board, material and reports presented to the board by the bank's general management, internal auditor, the bank's risk manager and compliance manager, and on the basis of supplementary information and statements obtained by the board.

A review of the business concept and policies shows that the business concept's general requirements for the individual risk areas are reflected in the more specific limits set by the individual policies. A review of the board of directors' guidelines for the general management and powers conferred shows that the individual policies are reflected in the underlying guidelines for the general management and powers conferred, and that the actual risks are within the limits set by the individual policies and powers conferred. The board of directors judges on this basis that the business concept, policies, guidelines and the actual risks within the individual areas are consistent.

The bank's business strategy is based on the bank's vision and core values, i.e. that it wants to be a solid bank and an attractive partner with financial strength and strong professional expertise in banking. The bank also wants to be known as a customer-oriented adaptable bank with short, efficient chains of command and competent staff, all of which enable it to find solutions suited to the needs of the individual customer. The bank wants profitable earnings based on a pricing of the bank's products which reflects the risk and tying-up of capital undertaken by the bank, and on a comprehensive assessment of the scope of business with customers and counterparties. Regionally, the bank will operate as a full-service bank while

pursuing a strategy focusing on niche segments and customers with a high credit quality in the rest of the country.

The bank's goal is to operate with core tier 1 capital of approximately 15%, which currently represents excess cover of 6.0% relative to the calculated solvency requirement.

The risk appetite determined by the board of directors is managed via the limits specified in individual policies. The board of directors also addresses the limit values of the supervisory diamond for banks as per the table below, which shows the diamond's maximum allowable limit values and the bank's current performance on various limit values.

	The Supervisory Diamond for Banks	The bank's performance on 31.12.2015
Lending growth	20%	14.0%
Large exposures	125%	63.4%
Excess liquidity coverage	> 50%	99.7%
Funding ratio	< 1	0.8
Property exposure	< 25%	14.1%

”

### 2.3 Disclosure concerning governance arrangements etc., CRR 435(2)

Apart from the managerial position in the bank, the members of the board of directors also hold a number of other managerial positions which are shown on pages 103-104 of the 2015 annual report.

As required by financial legislation, the board's nomination committee regularly, and at least annually, judges whether its members collectively possess the required knowledge of and experience on the bank's risks to ensure proper operation. The nomination committee has made a list of the requirements for the board's competencies, which is available on the bank's website. The board's selection process for candidates is the responsibility of the nomination committee, whose tasks are described on the bank's website and on page 106 of the annual report.

The bank's board of directors and nomination committee have adopted a diversity policy under section 70(1-4) of the Danish Financial Business Act. The policy states that the bank wants a composition of the board of directors with diversity in the member's competencies and backgrounds, and extra emphasis is placed on the need for diversity with respect to differences in professional identity, work experience, gender and age. The current status can be found on page 41 of the bank's 2015 annual report.

The bank has appointed a risk committee under Section 80b(1) of the Financial Business Act. The risk committee held six meetings in 2015. The risk committee's tasks are described on the bank's website and on page 107 of the annual report.

### **3 Scope of application, CRR 436**

The CRR regulation applies to Ringkjøbing Landbobank A/S. The company has no subsidiaries.

### **4 Capital base, CRR 437**

Reference is made to the capital adequacy statement on page 65 of the 2015 annual report. A description of the subordinated capital contributions can be found on page 79 of the 2015 annual report.

### **5 Capital requirements, CRR 438**

See the report “Risk disclosure for Ringkjøbing Landbobank A/S – Quarterly report on the adequacy of the capital base and individual solvency requirement”.

### **6 Exposure to counterparty credit risk, CRR 439**

#### **6.1 Method, CRR 439(a)**

Counterparty credit risk is the risk of losses resulting from a counterparty defaulting on its obligations under a financial contract before the final settlement of the transaction’s cash flows.

With respect to solvency, the bank uses the mark-to-market method, which follows the requirement of Article 274 of the CRR regulation.

The exposure value is determined as follows by the mark-to-market method for counterparty credit risk:

1. Current market values are attached to all contracts to determine the current replacement cost of all contracts with positive values.
2. In order to determine the potential future credit exposure, the notional amounts or underlying values, as applicable, are multiplied by the percentages fixed in the CRR.
3. The sum of current replacement cost and potential future credit exposure is the exposure value.

The bank’s credit approval process and commitment monitoring in general take into account the calculated exposure value, thus ensuring that this value does not exceed the credit limit approved for the counterparty.

No extra capital has been allocated for hedging of counterparty risk in connection with the bank’s determination of the adequacy of the capital base and solvency requirement except for what is included in the capital base requirement of 8 percent, which is the minimum capital base under the 8+ model which is used by the bank to calculate the adequacy of the capital base and solvency requirement.

## 6.2 Policies for collateral and credit reserves, CRR 439(b)

The limits to financial contracts for commitments with customers in the exposure classes corporate and retail customers are treated in accordance with the bank's standard credit rating principles.

## 6.3 Policies concerning wrong-way and rating-dependent collateral, CRR 439(c-d)

This is not judged to be relevant for Ringkjøbing Landbobank, which does not use this type of collateral.

## 6.4 Counterparty risk in accordance with the mark-to-market method, CRR 439(e-f)

The table below shows the bank's counterparty risk in accordance with the mark-to-market method distributed on risk weights:

Overview on 31 December 2015 DKK 1,000	Gross positive fair value of financial contracts	Total exposure value of counterparty risk calculated using the mark-to-market method before down-weighting of risk
Counterparty with 0 percent risk weight	0	0
Counterparty with 20 percent risk weight	12,117	38,372
Counterparty with 50 percent risk weight	1,650	8,695
Counterparty with 75 percent risk weight	29,656	35,227
Counterparty with 100 percent risk weight	82,657	101,560
Total	126,080	183,854

## 6.5 Credit derivative hedges, CRR 439(g-h)

The bank informs as follows:

Overview of credit derivative hedges 31 December 2015 in DKK 1,000	Hedging purchased	Hedging sold
Credit Default Swaps (CDS)	0	0

The market value is DKK 0.

## 6.6 Internal models, CRR 439(i)

The bank does not use internal models and the point is judged not to be relevant.

## 7 Capital buffers, CRR 440

The bank is not currently subject to a countercyclical capital buffer.

## 8 Indicators of systemic importance, CRR 441

Ringkjøbing Landbobank is not systemically important, and this article is therefore not relevant for the bank.

## **9 Credit risk adjustments, CRR 442**

### **9.1 Definition of past due and impaired exposures, and approaches adopted for measuring impairment charges, Article 442(a-b)**

#### **Impaired exposures:**

The bank makes impairment charges for loans under the rules of the Danish Executive Order on the Preparation of Financial Statements once there is an objective indication of impairment which will affect expected future payments. The impairment charge is the difference between the book value and present value of the expected future payments.

The bank makes an individual assessment of all loans which are significant or on the watch list. An objective indication of impairment is considered to have occurred if one or more of the following criteria are met:

- the borrower has considerable financial difficulties,
- the borrower fails to observe agreed payment obligations,
- the bank grants the borrower a relaxation of terms which would not have been considered were it not for the borrower's financial difficulties, or
- the borrower is likely to go bankrupt or be subject to other types of financial restructuring.

The bank makes an assessment of groups of loans which are not written down individually. The group assessment is based on a macroeconomic segmentation model where the classification of loans into homogeneous groups of credit risk is based on a breakdown of loans into sectors and industries. For each group, a statistical relationship has been determined between a number of explanatory macroeconomic variables (unemployment, housing prices, number of bankruptcies, interest rate etc.) and actual losses. Changes in the explanatory macroeconomic variables thus express the occurrence of an objective indication of impairment which will affect expected future payment flows.

#### **Past due exposures:**

These are defined on the basis of the concept of past due: Past due means that a counterparty's account has been in arrears or overdrawn for more than 90 days by an amount which is considered material. A past due situation exists when the counterparty fails to make payments as they fall due or fails to repay debt at an agreed date, or when an advised credit limit for overdraft facilities and similar is exceeded.

The past due amount must be material. Material means that the total past due amount on the counterparty's commitment to the bank is more than DKK 1,000.

Reference is also made to the accounting policies on pages 68-71 of the annual report.

## 9.2 Total amount of exposures before down-weighting, CRR 442(c)

<b>Overview on 31 December 2015 DKK million</b>	Central governments or central banks	Regional or local authorities	Public sector entities	Multilateral development banks	International organisations	Institutions	Corporates etc.	Retail customers	Exposures secured by mortgages on real property	Exposures on which there are arrears or overdrafts	Shares	Short-term exposure to institutions and corporates etc.	Collective investment undertakings	Exposures in other items, including assets without counterparties
Public authorities								0	1					
Agriculture, hunting, forestry and fishing							1,571	883	248	368				
Industry and raw materials extraction							580	181	57	14				
Building and civil engineering							245	235	63	22		66		
Energy supplies							3,529	429	36	27				
Trade							647	368	136	22				
Transport, hotels and restaurants							266	67	35	22				
Information and communication							5	67	2	2				
Financing and insurance	635					348	2,810	324	52	6	257			-169
Credit institutions														
Real property							1,490	405	907	137	0	262		6
Other sectors						0	521	1,101	214	39		150		
Total corporates	635					348	11,664	4,060	1,751	659	257	478		163
Private customers						3	937	4,846	991	264	0	0		0
<b>Total</b>	<b>635</b>					<b>351</b>	<b>12,601</b>	<b>8,906</b>	<b>2,742</b>	<b>923</b>	<b>257</b>	<b>478</b>		<b>-163</b>
<b>Sum</b>														<b>26,730</b>

<b>Average values for 2015 DKK million</b>	Central governments or central banks	Regional or local authorities	Public sector entities	Multilateral development banks	International organisations	Institutions	Corporates etc.	Retail customers	Exposures secured by mortgages on real property	Exposures on which there are arrears or overdrafts	Shares	Short-term exposure to institutions and corporates etc.	Collective investment undertakings	Exposures in other items, including assets without counterparties
Public authorities	-	-	-	-	-	-	-	-	1	-	-	-	-	-
Agriculture, hunting, forestry and fishing	-	-	-	-	-	-	1,480	895	232	427	-	-	-	-
Industry and raw materials extraction	-	-	-	-	-	-	508	186	55	18	-	-	-	-
Building and civil engineering	-	-	-	-	-	-	240	219	60	17	-	-	26	-
Energy supplies	-	-	-	-	-	-	3081	357	33	20	-	-	-	-
Trade	-	-	-	-	-	-	557	359	110	23	-	-	-	-
Transport, hotels and restaurants	-	-	-	-	-	-	208	64	35	27	-	-	-	-
Information and communication	-	-	-	-	-	-	7	68	4	1	-	-	-	-
Financing and insurance	929	-	-	-	-	397	2,559	326	49	9	0	-	-73	-69
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real property	-	-	-	-	-	-	1,211	421	488	166	-	-	119	-
Other sectors	-	-	-	-	-	-	796	1,069	175	92	254	-	38	1
Total corporates	929	-	-	-	-	397	10,647	3,964	1,241	800	254	-	110	-68
Private customers	-	-	-	-	-	5	1,358	5,146	875	294	0	-	8	22
<b>Total</b>	929	-	-	-	-	402	12,005	9,110	2,116	1,094	254	-	118	-46
<b>Sum</b>	<b>25,982</b>													

### 9.3 Geographic location of exposures, CRR 442(d)

More than 90% (91%) of the bank's exposures are located in Denmark and no further details are given.

### 9.4 Distribution by industry etc., CRR 442(e)

See CRR 442(c) above.

### 9.5 Residual maturity breakdown of all exposures, CRR 442(f)

Overview on 31 December 2015 in DKK million	Demand	0-3 months	3 months-1 year	1-5 years	More than 5 years	Total
Central governments or central banks	505	130				635
Regional or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions	225	47	78	1	0	351
Corporates etc.	2,551	934	2,082	2,717	4,317	12,601
Retail customers	3,182	384	1,600	1,547	2,193	8,906
Exposures secured by mortgages on real property	212	40	196	451	1,843	2,742
Exposures on which there are arrears or overdrafts	129	20	116	287	370	922
Shares					257	257
Short-term exposure to institutions and corporates etc.						
Collective investment undertakings						
Exposures in other items, including assets without counterparties	-167		0		4	-163
Exposures with particular high risk	181		251		46	478
<b>Total</b>	<b>6,818</b>	<b>1,555</b>	<b>4,323</b>	<b>5,003</b>	<b>9,030</b>	<b>26,729</b>

It should be noted that the figures in the table above cannot be immediately deduced from the bank's annual report because the above overview contains components other than the bank's loans and guarantees portfolio.

## 9.6 Past due and impaired exposures, CRR 442(g)

Overview for 2015 – in DKK 1,000	Past due exposures (more than 90 days)	Impaired exposures	Impairment charges/provisions end of year (individual)	Charges for value adjustments and impairment during the period *)
Public authorities				
Agriculture, hunting, forestry and fishing	23,133	447,479	332,628	77,285
Industry and raw materials extraction	688	10,026	7,983	-3,080
Energy supplies	12,495	10,745	8,435	3,779
Building and civil engineering	10,240	15,573	6,542	-2,402
Trade	2,120	20,786	12,900	-1,980
Transport, hotels and restaurants	946	16,999	14,129	4,686
Information and communication	153	4,046	2,675	1,469
Financing and insurance	262	949	931	-405
Real property	1,395	146,813	60,315	-20,164
Other sectors	5,966	59,289	38,049	-5,766
Total corporates	57,398	732,705	484,587	53,422
Private customers	28,146	305,917	179,963	8,010
<b>Total</b>	<b>85,544</b>	<b>1,038,622</b>	<b>664,550</b>	<b>61,432</b>
Interest on the impaired part of loans				-38,435
Received on previously written off debts				-9,280
Impairment charges for loans and other amounts owed				<b>13,717</b>

\*) Charges are calculated as: Individual impairment charges/provisions end of year (current year) less impairment charges/provisions end of year (previous year) plus finally lost (written off) for the year.

## 9.7 Geographic distribution of past due and impaired exposures, CRR 442(h)

No further details are given since 91% of the bank's exposures are located in Denmark.

## 9.8 Changes to the specific and general credit risk adjustments for impaired exposures, CRR 442(i)

Overview for 2015 – in DKK 1,000	Individual impairment charges/provisions		Group impairment charges/provisions		Impairment charges/provisions for amounts owed by credit institutions and other items with credit risks	
	Loans	Losses on guarantees	Loans	Losses on guarantees	Loans	Losses on guarantees
Cumulative impairment charges/provisions beginning of period for loans and losses on guarantees	701,13	3,995	226,272			0
Movements during the year						
1. Exchange rate adjustment						
2. Impairment charges/provisions during the year	149,057	5,152	46,650			0
3. Reversal of impairment charges/provisions made in previous financial years where there is no longer an objective indication of impairment or where the impairment is reduced	121,034	3,586	0			
4. Other movements						
5. Value adjustment of assets taken over						
6. Previous individual impairment charges/provisions finally lost (written off)	64,604	83				0
Accumulated impairment charges/provisions end of period for loans and losses on guarantees	664,550	5,478	272,922			0
Sum of loans and losses on guarantees for which individual impairment charges/provisions have been made (calculated before impairment charges/provisions)	1,038,622	6,312	16,239,543			0

## 10 Unencumbered assets, CRR 443

### Schedule A – Assets

Overview on 31 December 2015 - in 1000 DKK		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
		010	040	060	090
010	<b>Assets of the bank</b>	1.334.244		20.984.186	
030	Equity instruments	0	0	469.716	469.716
040	Debt securities	231.505	231.505	2.883.215	2.883.215
120	Other assets	0		383.908	

### Schedule B - Collateral received – off balance

Overview on 31 December 2015 - in 1000 DKK		Fair value of encumbered collateral	Fair value of non-encumbered collateral
		010	040
130	<b>Collateral received</b>	0	0
150	Equity instruments	0	0
160	Debt securities	0	0
230	Other assets	0	0
240	Own issued debt instruments	0	0

### Schedule C - Liabilities for encumbered assets

Overview on 31 December 2015 - in 1000 DKK		Corresponding liabilities, contingents liabilities or asset lending	Assets, received collateral and own debt instruments
		010	040
010	<b>Account value of selected financial liabilities</b>	240.070	0

Further description of received collateral is provided on page 84 in the annual report page 2015.

## 11 Use of ECAIs, CRR 444

The bank has appointed Standard & Poor’s Ratings Services as its external credit assessment institution (ECAI). The bank uses Bankdata as its data centre which receives external credit assessments from Standard & Poor’s Ratings Services via SIX Financial. A regular IT updating of the credit assessments from Standard & Poor’s Ratings Services is made. The data centre has converted Standard & Poor’s Ratings Services’ credit assessment categories to credit quality steps via the Danish Financial Supervisory Authority’s conversion table. Each individual credit quality step is given a weight to be applied to the exposures on the individual steps when calculating the risk-weighted items under the standardised approach for credit risk under Articles 111-134 of the CRR.

The table below shows the Danish FSA’s conversion of Standard & Poor’s Ratings Services’ credit assessment categories to credit quality steps for exposures to corporates, institutions, central governments and central banks.

Credit quality step	Standard & Poor’s credit rating categories	Exposure to corporates (companies)	Exposure to central governments or central banks
1	AAA to AA-	20%	0%
2	A+ to A-	50%	20%
3	BBB+ to BBB-	100%	50%
4	BB+ to BB-	100%	100%
5	B+ to B-	150%	100%
6	CCC+ and lower	150%	150%

## Exposure categories where ratings from Standard & Poor's Ratings Services are used

Exposure category on 31 December 2015. DKK 1,000	Exposure value before risk weighting	Exposure value after weighting with credit quality steps
Exposures to institutions	20.501	10.115

## 12 Exposure to market risk, CRR 445

The chart below shows the capital base requirements within the market risk area.

### Capital base requirements for market risk – specified by risk type

Statement of solvency risks in the market risk area on 31 December 2015		Exposure in DKK 1,000	Capital base requirements (8% of the exposure)
Items with position risk:	Instruments of debt	1,459,063	116,725
	Shares etc. (incl. collective investment undertakings)	58,922	4,714
	Commodities	0	0
Items with	Foreign exchange position	21,505	1,720

## 13 Operational risk, CRR 446

The bank is exposed to potential losses as a result of operational risks, which the bank defines as follows:

“Risk of losses resulting from inappropriate or defective internal procedures, human error and system error or resulting from external events including legal risks.”

The bank monitors and manages the operational risks to reduce the risk of operational events which entail considerable losses. Focus is mainly placed on the biggest risks with big potential losses.

The bank uses the basic indicator approach for computing the capital base requirements for the operational risks. The operational risk was DKK 1,759 million at the end of 2015, which means a capital base requirement of DKK 141 million. The bank assesses the capital requirement for operational risks on a regular basis. If the requirement is assessed to be higher than stated above, this will be taken into account in the computation of the adequacy of the capital base /solvency requirement.

**14 Exposures in shares not included in the trading book, CRR 447**

The bank has acquired shares in a number of sector companies in partnership with other banks. These sector companies’ object is to support the banks’s business within mortgage credit, provision of money transmission, IT, investment funds etc. The bank does not intend to sell these shares as participation in these sector companies is considered necessary for running a bank. The shares are thus not considered to be included in the trading book.

These unlisted securities and other ownership interests (including level 3 assets) are included at fair value, computed on the basis of the transaction price in an exchange between independent parties. If no current market data exist, the fair value is determined on the basis of published announcements of financial results, or alternatively a yield model is used which is based on payment flows and other available information.

The management actively considers the fair value computations.

All regular value adjustments to listed and unlisted securities are entered in the income statement under the item “Market value adjustments”.

**Shares not included in the trading book (sector companies) on 31 December 2015 (DKK 1,000)**

Portfolio beginning of period	240,923
Additions, purchases	1,713
Additions, reclassification	0
Unrealised gains/losses	19,138
Realised gains/losses	2,487
Disposals, sales	6,744
Portfolio end of period	257,517

Because unrealised gains/losses are included in the income statement, they are also included in the tier 1 capital.

The effect on the profit before tax of a 10 percent change in the market value calculated for shares not included in the trading book is DKK 26 million (calculated as 10% of the portfolio at the end of the period).

**15 Interest rate risk on positions not included in the trading book, CRR 448**

The bank’s interest rate risk not included in the trading book consists primarily of interest rate risk on fixed-rate loans and deposits. The interest rate risk is calculated on the basis of a duration measure, defined as a general change of 1 percentage point in the interest rate. The interest rate risk is computed regularly via the bank’s risk management systems. The total interest rate risk not included in the trading book was calculated at tDKK 19,419 on 31 December 2015.

Whether the bank’s total interest rate risk means that additional funds should be allocated is also assessed in the bank’s solvency requirement process. These calculations stress the interest rate risk not included in the trading book by a 2 percentage point interest rate change combined with a tilt in the yield curve.

## 16 Exposure to securitisation positions, CRR 449

Ringkjøbing Landbobank does not use securitisation, so this disclosure requirement is not relevant to the bank.

## 17 Remuneration policy, CRR 450

### 17.1 Remuneration policy etc., Article 450(a-f)

Reference is made to the 2015 annual report:

Remuneration policy: page 40

Remuneration committee: page 105

The board of directors and general management do not receive variable remuneration. We also advise that the bank does not pay result-based performance remuneration, but effort-remuneration is paid within the framework of the applicable collective agreement.

### 17.2 Quantitative information on remuneration and distribution of payroll cost, Article 450(g-j)

Reference is made to pages 74 of the 2015 annual report.

We also advise that:

- Only cash payments are made<sup>1</sup>
- No deferred remuneration is used
- No severance payments have been made to management employees or risk takers.

## 18 Leverage, CRR 451

The leverageratio is calculated as the Tier 1 capital divided by the total unweighted exposures.

### Information regarding leverage ratio on 31 December 2015 (DKK 1,000)

Total exposure	25,332,798
Tier 1 capital before phase in of CRR	2,979,137
Tier 1 capital after phase in of CRR	2,979,137
Leverage ratio before phase in of CRR	11.8%
Leverage ratio after phase in of CRR	11.8%

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<sup>1</sup> However two employees have company cars.

## **19 The IRB approach for credit risk, CRR 452**

Ringkjøbing Landbobank does not use the IRB approach, so this disclosure requirement is not relevant to the bank.

## **20 Credit risk mitigation techniques, CRR 453**

### **20.1 Netting, Article 453(a)**

The bank uses neither on- nor off-balance sheet netting.

### **20.2 Policies and processes for collateral, Article 453(b)**

Reduction of the risk in the individual commitments by accepting collateral is an important component of the bank's credit risk management.

The most frequent forms of charges are mortgages on real property and personal property (wind turbines) and pledging of financial assets such as shares, bonds and investment certificates.

Via its policies and procedures for collateral, the bank gives priority to accepting the following main categories of financial collateral:

- Deposited funds
- Bonds/instruments of debt – issued by governments and by rated and unrated credit institutions and others.
- Shares – included or not included in a main index
- Investment fund certificates

The bank's credit policy and procedures ensure regular monitoring of collateral values and that valuation of the collateral takes due account of the realisable values of collateral.

The bank's agreements with customers on collateral ensure that the bank can obtain access to realising properties and securities in the event of the customers' defaulting on their payment obligations to the bank.

The bank thus has procedures in place for administration and valuation of the financial collateral, which mean that the bank's loans are adequately credit protected. The procedures in question are an integral part of the ordinary risk monitoring conducted by the bank's credit department.

As a supplement to the above, the bank obtains guarantees and surety for some commitments. Guarantees are issued to a modest extent by the following types of counterparties:

- Central governments
- Regional and local authorities
- Credit institutions

**20.3 Main types of collateral, Article 453(c)**

The bank uses the financial collateral comprehensive method as its credit risk mitigation technique for computing its capital ratio. This means that the bank can reduce a commitment’s strain on the capital by accepting certain financial items as collateral.

The CRR specifies which items are eligible to the banks as collateral under the financial collateral comprehensive method. It should be noted here that only financial collateral issued by a company or a country with a particularly good rating may be used.

Under the limitations of the CRR, the bank normally obtains the following main categories of financial collateral:

- Deposited funds
- Bonds/instruments of debt – issued by governments and by rated and unrated credit institutions and others.
- Shares – included or not included in a main index
- Investment fund certificates

**20.4 Guarantors and credit derivative counterparties, Article 453(d)**

The bank uses guarantees as credit risk mitigation techniques issued by the following types of counterparties for computing the risk-weighted items:

- Central governments
- Regional and local authorities
- Credit institutions

**20.5 Market risk concentrations for collateral, Article 453(e)**

The bank’s policies for investment credits specify certain requirements for diversification of the investments, and the credit risk concentration will thus also be diversified for financial collateral.

**20.6 Collateral, Article 453(f)**

The bank uses financial collateral for credit risk hedging in accordance with CRR rules. The chart below shows the collateral’s coverage for each separate exposure class, i.e. the fully adjusted amount of collateral within each separate exposure class.

**Credit risk mitigating financial collateral distributed on exposure classes**

Overview on 31 December 2015 – in DKK 1,000	Exposure
Exposures to central governments or central banks	0
Exposures to regional or local authorities	0
Exposures to public sector entities	0
Exposures to multilateral development banks	0

Exposures to international organisations	0
Exposures to institutions	0
Exposures to corporates etc.	1,854,489
Exposures to retail customers	626,850
Exposures secured by mortgages on real property	1,605
Exposures on which there are arrears or overdrafts	31,899
Exposure with particular high risk	14,887
Securitisation positions	0
Short-term exposures to institutions and corporates etc.	0
Exposures to collective investment undertakings	0
<b>Total</b>	<b>2,529,730</b>

## 20.7 Guarantees and credit derivatives, Article 453(g)

The bank uses guarantees and credit derivatives for credit risk hedging in accordance with CRR rules. The chart below shows the total exposure within each exposure class which is hedged by guarantees or credit derivatives.

### Credit risk mitigating guarantees distributed on exposure classes

Overview on 31 December 2015 – in DKK 1,000	Exposure
Exposures to central governments or central banks	0
Exposures to regional or local authorities	0
Exposures to public sector entities	0
Exposures to multilateral development banks	0
Exposures to international organisations	0
Exposures to institutions	0
Exposures to corporates etc.	86,465
Exposures to retail customers	7,000
Exposures secured by mortgages on real property	0
Exposures on which there are arrears or overdrafts	17,974
Securitisation positions	0
Short-term exposures to institutions and corporates etc.	0
Exposures to collective investment undertakings	0
<b>Total</b>	<b>111,439</b>

## 21 The advanced measurement approach to operational risk, CRR 454

The bank uses the basic indicator approach for computing the operational risk, so this disclosure requirement is not relevant for the bank.

## 22 Internal market risk models, CRR 455

Ringkjøbing Landbobank does not use internal models for market risk, so this requirement is not relevant for the bank.