Moody's Investors Service

Credit Opinion: Ringkjobing Landbobank A/s

Global Credit Research - 01 Oct 2009

Ringkobing, Denmark

Ratings

Category	Moody's Rating
Outlook	Negative
Bank Deposits	A1/P-1
Bank Financial Strength	C+

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Key Indicators

Ringkjobing Landbobank A/s

	[1]2009	2008	[2]2007	2006	2005	[3]Avg.
Total assets (DKK billion)	18.21	18.00	19.63	17.27	13.36	[4]19.04
Total assets (EUR billion)	2.45	2.42	2.63	2.32	1.79	--
Total capital (DKK billion)	2.66	2.48	2.25	2.19	1.72	[4]16.52
Return on average assets	1.28	1.30	1.93	2.82	2.32	2.18
Recurring earnings power [5]	2.67	2.21	2.46	3.29	3.12	2.94
Net interest margin	3.74	3.32	2.76	2.91	3.17	3.24
Cost/income ratio (%)	36.56	38.45	34.54	29.25	34.77	34.89
Problem loans % gross loans	2.99	2.36	1.89	2.14	3.29	2.86
Tier 1 ratio (%)	15.90	13.00	11.20	10.40	11.60	11.68

[1] As of June 30. [2] Statement period in which the bank switched to Basel II accounting framework. [3] The average calculations are based on Basel I and Basel II data where applicable. [4] Compound annual growth rate. [5] Preprovision income % average assets.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a C+ bank financial strength rating (BFSR) to Ringkjøbing Landbobank A/S, which translates into Baseline Credit Assessment (BCA) of A2. The rating reflects the Danish bank's good intrinsic financial strength and, in particular, its solid capitalisation. The BFSR is constrained by the bank's limited national market share, low level of geographic diversification, high credit risk concentrations and concentrations in financing niche sectors.

Moody's believes that the probability of systemic support for Ringkjøbing Landbobank in the event of need is moderate, given its good regional position, which results in a one-notch uplift in the deposit ratings to A1 from the A2 BCA. Thus the deposit rating of Ringkjøbing Landbobank incorporate three elements: (i) the bank's BFSR of C+; (ii) Moody's assessment of a moderate probability of systemic support (a component of Moody's Joint-Default Analysis (JDA) methodology); and (iii) the seniority of its deposits.

Credit Strengths

- Sound local brand in western Jutland region

- Good earnings from core operations

- High operating efficiency

- Solid capitalisation

Credit Challenges

- Maintaining profitability levels

- High borrower concentration

- Concentrated credit exposure to electricity production by wind turbines, agriculture and also to other niche sectors

- Reducing reliance on interbank funding

- Further integration and upgrade of risk management practices

- Preserving asset quality across the economic cycle

Rating Outlook

The outlook on the BFSR and long-term deposit rating is negative.

Moody's cautions that if credit-risk-related costs were to exceed its current expectations, coupled with less sustainable core earnings, this could lead to a reassessment of the BFSR and deposit rating. Therefore, both ratings carry a negative outlook.

We recently described the assumptions behind our scenario analysis in a Special Comment entitled "Moody's Approach to Estimating Nordic Banks' Credit Losses", published on 16 July 2009.

What Could Change the Rating - Up

At present, we do not view the bank's BFSR or long-term GLC deposit rating as enjoying upside pressure, as reflected by the negative outlook.

What Could Change the Rating - Down

The BFSR could be adversely affected if credit quality weakens to a greater extent than we assume in our base case, which would exert pressure on the bank's earnings and capitalisation. Also any weakening in the bank's market position or weakening earnings generation could have negative implications on the BFSR.

GLC deposit ratings could be downgraded if the bank's BFSR was downgraded, or if Moody's assessment of probability of systemic support was lowered, which is however viewed unlikely at the moment.

Recent Results and Company Events

On 8 September 2009, Moody's confirmed Ringkjøbing Landbobank's C+ BFSR and A1 deposit rating. The confirmation reflected the bank's current capital level - a Tier 1 ratio of 15.9% at the end of H1 2009 - which, under Moody's anticipated stress scenario, provides a satisfactory buffer against potential credit losses. the out look on the ratings was changed to negative.

Ringkjøbing Landbobank reported pre-tax income of DKK155 million for H1 2009, compared with DKK263 million for the same period of 2008. Net income from interest and fees improved by 9% from the previous year, reflecting higher net interest income. However, the costs related to Bank Package I and increased loan loss provisions had an adverse effect on the result. Loan loss provisions represented 28% of pre-provision income and the problem loan ratio stood at 3.0% at end-H1 2009.

Tier 1 and total capital ratios, as calculated under Basel II's standardised approach, were at 15.9% and 19.6%, respectively and showed an improvement from 13.0% and 16.3% at YE2008.

Recent Events

In January 2009, the Danish government announced the second support package to the financial sector. The package comprises the recapitalisation of the financial sector and the extension of the guarantee scheme for the issuance of medium-term loans maturing at the latest on 31 December 2013. Ringkjøbing Landbobank did not apply for the capital injection.

In October 2008, the Danish government announced the first support package to the banks, which was put in place in co-operation with the Danish banking sector. The guarantee scheme covers deposits and the claims of senior unsecured creditors and is effective for a two-year period until 30 September 2010. The participating banks will cover first loss under the scheme up to DKK35 billion (DKK15 billion in monthly guarantee commissions, plus up to DKK20 billion under a guarantee). Ringkjøbing Landbobank is covered by the scheme and its share of the guarantee commission is DKK115 million for the two-year period. In addition, the bank's maximum share of the guarantee is DKK156 million. The adverse effect on the bank's H1 2009 result was DKK45 million - DKK27 million in guarantee commissions and DKK18 million as a provision/write-down for liabilities under the guarantee. The support package has been helpful from the liquidity point of view, but we note that it will weigh on the profitability of the participating banks for the two-year period and is a temporary measure. The banks are not allowed to distribute dividends for the financial years of 2008 and 2009.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Ringkjøbing Landbobank's currently assigned ratings are as follows:

Bank Financial Strength Rating

Ringkjøbing Landbobank's C+ BFSR is primarily underpinned by the bank's sound financial fundamentals - in particular, its solid capitalisation, which is among the highest in Denmark. Other strengths are the bank's high operating efficiency and good core profitability. The BFSR is constrained by the bank's limited national market share, low level of geographic diversification, high credit risk concentrations and concentrations in financing niche sectors.

As a point of reference, the assigned rating of C+ is in line with the outcome of Moody's bank financial strength scorecard.

Qualitative Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

Ringkjøbing Landbobank is a regional bank and among the 15 largest banks in Denmark in terms of total assets. Headquartered in Ringkøbing, its main region of operation is central and western Jutland. The bank holds a market share of over 40% for both corporate and retail lending in western part of Jutland. Overall, the bank enjoys a well-established market position in its region, but lacks geographic diversification - Ringkjøbing Landbobank's country-wide market share in retail lending is estimated to be close to 1%. In addition, Moody's notes that, although the area in which the bank operates is the largest local government area in Denmark in terms of size, the population is sparse and competitive pressure is strong, although less so at the moment.

Ringkjøbing is a full-service bank, with a total of 14 branches including the headquarters and 263 full-time employees in H1 2009. The bank's core operations can be divided into following two business areas:

(i) Banking in the local area of central and western Jutland, where it serves private and business customers, and banking in the central Jutland towns of Herning, Holstebro and Viborg, where it serves private customers and, to a lesser extent, business customers; and

(ii) Banking in niche areas concentrating on the financing of wind turbines, private banking/asset management, the financing of doctors in private practices, first-priority financing of lending properties, primarily in Germany, and the financing of purchases of vacation homes, outside Denmark.

Around 34% of the bank's loan portfolio is to private customers, almost 15% to agriculture and the rest is to corporates. Moody's views earnings driven by corporate and specialised lending as less predictable in the long term than earnings from retail-based lending. Nonetheless, we consider that the overall stability of Ringkjøbing Landbobank's core earnings is satisfactory and is in line with that of its domestic peers. However, we note that compared with regional banks in many other countries, Danish banks have a lower proportion of retail loans on their balance sheets, reflecting the fact that retail mortgages are largely transferred to mortgage credit institutions.

A franchise value score of D+ reflects our view of the bank's regional presence, moderate nationwide position and satisfactory earnings stability.

Factor 2: Risk Positioning

Trend: Neutral

Ringkjøbing Landbobank operates in accordance with the general guidelines set forth by the NASDAQ OMX Copenhagen. The bank is owned by over 18,500 shareholders (most of which are customers), with Denmark's largest pension fund, ATP, being its largest shareholder, with a stake of over 5%. As of YE2008, approximately 75% of the share capital was owned by private investors, approximately 20% was owned by Danish institutional investors and foreign institutional investors owned approximately 5%. Under the bank's Articles of Association, "a shareholding of up to and including a nominal value of DKK500 carries one vote, and shareholdings exceeding that level carry two votes". These limitations would make a hostile takeover extremely difficult; however, this protection has not led to a relaxed management style.

The board of directors, which consists of six members, does not have sub-committees, but from 2009 it will assume the responsibilities of the audit committee. We note that the bank does not publish the board members' or management's shareholdings in the bank. Loans to the board of directors and the board of managers represented less than 1% of Tier 1 capital at YE2008. The executive general manager and the general manager have been with the bank for several years.

The bank reports according to the Danish Financial Business Act and the accounts are audited by PricewaterhouseCoopers. We view the information in the annual and quarterly accounts as satisfactory.

The bank has an independent Chief Risk Manager, and risk management practices are adequate for the level and type of risk in the bank; however, the risk systems and procedures lack the sophistication of many other regional players in the Nordic region. In addition, the bank operates in - and is supportive to - its small operating region, therefore it has relatively large customer exposures in comparison with its European peers. The 20 largest exposures represented about 130% of Tier 1 capital in 2008 - the ratio has decreased slightly from the previous year.

Moody's notes that concentrations are mitigated by collateral, but cautions that collateral values have been affected by the economic downturn. There is also some industry concentration in the loan portfolio, but we note that several of these exposures would not be deemed corporate exposures under the Basel II framework. Specialised lending, including financing for wind turbines and investment credit represents approximately 28% of the loan portfolio. Lending for wind turbines carries state guarantees. The bank has over 20 years' experience in the financing of wind turbines and, to date, no losses have been incurred. Agricultural loans represent around 15% of the loan book and include loans to cattle farming, pig farming and mink farming. We also note that the exposure to real estate-related sectors is relatively small - 6% of the loan portfolio.

Loans to private customers account for around 34% of Ringkjøbing Landbobank's loan portfolio. In common with most Danish regional and local banks, Ringkjøbing Landbobank can transfer its mortgage loans to the specialised mortgage lenders Totalkredit/Nykredit and DLR. Prior to this, mortgages were guaranteed for eight years by the originating bank for loan-to-value ratios over 60%. However, Ringkjøbing Landbobank has converted this guarantee to an agreement with Totalkredit in which loan losses are set off by commissions earned by the bank. It is important to note that the agreement is limited to the setting-off of commissions and the new agreement is not limited to eight years per loan, but will remain in place until the loan matures. Due to the agreement, the guarantees to Totalkredit have decreased significantly and amounted to only DKK116 million at YE2008 (DKK1.2 billion at YE2007).

The bank's liquid assets (including cash and central bank, due from banks and securities) were DKK4.8 billion at end-H1 2009 and accounted for 26% of total assets. In addition, the bank has committed credit facilities worth DKK1.1 billion from European banks of which DKK1.0 billion is currently not used. Also, as a part of the government's support package, the Danish Central Bank has granted the bank a facility of DKK800 million until 30 September 2010.

The bank's funding structure is divided on the basis of customer deposits, representing around 60% of total external funding, interbank funding around 30% and long-term market funding including subordinated debt the rest. Of the interbank funding, around 75% (excluding central banks) matures after one year and we note that the level of interbank funding with a maturity of less than one year has been decreasing. The bank has satisfactory liquidity management, evidenced by a positive figure over a 12-month period when taking into account outflows and inflows in the form of scheduled payments, no access to the capital market and including liquid assets, a repoable securities portfolio and undrawn committed back-up lines. Under this stress scenario, the loan portfolio remains unchanged. The bank established an EMTN programme amounting to EUR 2 billion in 2008.

Moody's will continue to monitor the bank's efforts to diversify its funding sources and shift its funding structure towards more long-term funding. The government support schemes have been helpful in terms of liquidity - senior claims are covered by the two-year guarantee scheme until 30 September 2010 and the banks can issue medium-term loans with a state guarantee maturing by year-end 2013 at the latest. We note that these schemes are intended to be temporary. Therefore, we will closely follow the liquidity and funding positions of the Danish banks as these support schemes approach expiry.

The bank started developing and using a Value at Risk (VaR) model in 2007. Its total VaR, a statistical measurement of market risk, with a 10-day holding period and 99% confidence interval, varied from possible losses of DKK5.4 million to DKK25.2 million in 2008 (0.3%-1.3% of Tier 1 capital). Although, according to the bank's own calculations, the market risk is low, in Moody's opinion the bank's VaR measure lacks a track record and also has some limitations and we therefore take a conservative view with regard to this measure. We also note that the diversification gain due to spreading the risk across various asset classes is somewhat high, which considerably reduces the bank's VaR. The bank's total interest rate risk in relation to 100 bps change in interest rates was around 1.2% of Tier 1 capital at YE2008. The share holdings are mainly related to a number of sector companies, which are considered strategic investments (around 10% of Tier 1 capital). The portfolio of listed shares amounted to DKK19 million at H1 2009, which is less than 1% of Tier 1 capital. The bank's currency risk is limited.

The score for risk positioning is C and is constrained by high credit risk concentration.

Factor 3: Regulatory Environment

This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control. Refer to Moody's current Banking System Outlook on Denmark for an analysis of the country's regulatory environment.

Factor 4: Operating Environment

Trend: Neutral

This factor is common to all Danish banks. Moody's assigns an A score for the overall operating environment, which includes economic stability, integrity and corruption, and the legal system. Refer to Moody's current Banking System Outlook on Denmark for an analysis of the country's operating environment.

Quantitative Factors (50%)

Factor 5: Profitability

Trend: Weakening

Ringkjøbing Landbobank reported pre-tax income of DKK155 million in H1 2009, compared with DKK263 million for the same period of 2008. Net interest income developed favourably thanks to margin increases in the corporate loan book. Fee and commission income, however, continued to decline due to lower volumes in securities trading and asset management.

In contrast to the satisfactory income from core operations, the following factors adversely affected profitability in H1 2009: (i) loan loss provisions that accounted for 28% of pre-provision income; (ii) lower value adjustments; and (iii) the costs related to Bank Package I - the total cost including monthly guarantee commission and provision for the guarantee amounted to DKK45 million in H1 2009 or 29% of pre-tax income.

The bank's risk-adjusted profitability - measured by pre-provision income as a percentage of average risk-weighted assets - improved to 3.4% in H1 2009, compared with 2.6% in 2008 and 2.9% in 2007 and compares well with that of its peers.

Net interest income is the most important component of earnings, representing over 80% of operating income in 2008. As a result of lower competition, the bank has been able to increase margins on loans - the net interest margin was 3.7% in H1 2009 compared with 3.3% in 2008 and 2.8% in 2007. In recent years, Ringkjøbing Landbobank's profitability has also been supported by the sale of niche products, which have relatively low overhead costs. In the near future, we expect competition to remain sluggish, which is likely to support margin levels, although we believe that the room for margin increases is decreasing. In the longer run, sluggish or even negative loan growth is likely to exert pressure on net interest income.

The bank scores B for profitability based on two-year average ratios including 2008 and 2007, which are calculated by using Basel II risk-weighted assets. We see a weakening trend given the challenging economic outlook, which is likely to increase loan loss provisions. We also note the costs related to the Danish banking package and slower growth in core operations.

Factor 6: Liquidity

Trend: Neutral

At end-H1 2009, 26% of the bank's total assets are in liquid assets. In addition, as with most Danish regional and local banks, Ringkjøbing Landbobank can secure its mortgage loan financing via the specialised mortgage lenders Totalkredit/Nykredit and DLR. The loan funding by the specialised mortgage lender will not show on the bank's balance sheet as they are transferred to the mortgage lenders.

The bank's funding structure in H1 2009 was divided between customer deposits (61% of average total funding), interbank funding (32%) and other market funding (7%). The interbank funding (excluding central bank) was divided into money market operations and bilateral credits maturing within one year (25% of interbank funding) and bilateral credits with a maturity of over one year (75%).

Customer deposits increased by 10% in H1 2009 whereas gross loans decreased by 6%. The ratio of deposits in relation to gross loans was 74%.

The bank is currently working on diversifying its funding profile. Moody's will continue to monitor Ringkjøbing Landbobank's existing funding trends, especially considering the volatility of interbank funds. We also recognise that the government's measures to support the banking sector have been helpful in terms of liquidity (discussed in more detail under the Recent Results and Company Events and Risk Positioning sections, above).

Moody's views a score of C- as appropriate for the bank's liquidity.

Factor 7: Capital Adequacy

Trend: Neutral

Moody's expects that Danish banks will experience deterioration in asset quality over the coming quarters which is likely to lead to higher credit-related write-downs, exerting adverse pressure on banks' capitalisation. The anticipated deterioration in asset quality mainly relates to the more challenging outlook for the Danish corporate sector and exposures to volatile segments such as commercial real estate and agriculture as well as SMEs. The high indebtedness of Danish households could also result in increased pressure on the quality of retail loans, particularly when unsecured. To reflect these expectations, we perform scenario analysis to capture the potential impact on capital. The assumptions behind our scenario analysis are described in more detail in a Special Comment entitled "Moody's Approach to Estimating Nordic Banks' Credit Losses".

Ringkjøbing Landbobank's capital adequacy ratios are solid and improved in H1 2009 as a result of a decrease in risk-weighted assets, mainly reflecting a decrease in the loan portfolio and guarantees as well as satisfactory earnings. Under Moody's anticipated stress scenario, the current capital level provides the bank with a satisfactory buffer against potential credit losses. Like other Danish bank participating in the Danish guarantee scheme, Ringkjøbing Landbobank will not pay dividends for the financial years of 2008 and 2009. The capitalisation of the bank has also been supported by a DKK200 million subordinated loan issued in H1 2008, a DKK300 million subordinated loan issued in 2006 and a DKK200 million hybrid core capital loan issued in 2005.

The total capital and Tier 1 ratios were 19.6% and 15.9%, respectively, at end-H1 2009, compared with 16.3% and 13.0% at YE2008. The Tier 1 ratio without hybrid capital was 14.4% at end-H1 2009. Excess capital above the 8% minimum requirement for the total capital ratio amounted to DKK1.6 billion or over 10% of gross loans at end-H1 2009.

Under the new capital adequacy rules of the Basel II framework, Ringkjøbing Landbobank has experienced relief on its risk-weighted assets due to (i) the lower risk weight of retail customers, (ii) the lower risk weight of loans with collateral in private homes and (iii) security in financial collaterals (credit-risk-reducing method - financial collateral). The bank is applying the standardised method for calculating capital requirements for credit risk and therefore the decrease in risk-weighted assets under Basel II has been less than for banks using more advanced methods, although there could also be less volatility in the downturn. It has also used its option to end the agreement with Totalkredit on providing loss guarantees, which led to a further reduction in the bank's risk-weighted assets in 2008.

The bank scores A for capital adequacy.

Factor 8: Efficiency

Trend: Weakening

Ringkjøbing Landbobank's cost efficiency is one of the best in Denmark. Its cost-to-income ratio (operating income/operating expenses) was 37% in H1 2009, 38% in 2008 and 35% in 2007. The improvement in efficiency results from higher operating income and stable operating costs. Furthermore, operating expenses as a percentage of average assets was 1.5% at H1 2009.

The bank scores A for efficiency, but we see a weakening trend due to the challenges facing operating income especially in terms of fee and commission income, lower business volumes and costs related to Bank Package I.

Factor 9: Asset Quality

Trend: Weakening

Ringkjøbing Landbobank's problem loan ratio (measured as accumulated individual writedowns) reached a low 1.9% at YE2007, but increased to 3.0% by end-H1 2009. The ratio is somewhat higher than the average for banks in the Nordic region, but we note that the bank has a rather conservative approach to impairments. However, we also note that the level of loans with suspended calculation of interest increased to DKK78 million at end-June 2009 from DKK22 million at YE2008, corresponding to 0.6% of gross loans.

The bank's loan growth has slowed significantly (-6% in H1 2009, -1% in 2008, +10% in 2007 and +26% in 2006). However, Moody's will continue to monitor the effect of rapid loan growth of previous years on the bank's asset quality, since many of the loans are unseasoned.

Going forward, we view Ringkjøbing Landbobank's ability to control sector- and single-name concentration as an important rating driver, combined with ability to prevent loan growth from impairing asset quality. We note that Ringkjøbing Landbobank's exposure to the Danish real estate market is more limited than that of many other Danish regional banks. However, it does have exposures to the real estate market in Germany and its exposure to the agricultural sector (around 15% of loans) could prove problematic during the economic slowdown in light of the generally high debt levels of Danish farmers as well as the weak prices of many agricultural products.

The score of C+ is appropriate for the bank's current asset quality, but the weakening trend reflects uncertainty in the Danish economy as well as the unseasoned loan portfolio and some concentration risks.

Global Local Currency Deposit Rating (Joint Default Analysis)

Ringkjøbing Landbobank's long-term GLC deposit rating is A1, with negative outlook. The rating incorporates the following main elements: (i) its A2 BCA; and (ii) Moody's assessment of a moderate probability of systemic support for this bank in the event of a financial crisis. The support assessment results in a one-notch uplift for the long-term GLC deposit rating from the BCA

Foreign Currency Deposit Rating

Ringkjøbing Landbobank's A1 foreign currency deposit ratings are unconstrained given that Denmark, in common with other EU members, has a country ceiling of Aaa.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Ringkjobing Landbobank A/s

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C	
Factor: Franchise Value						D+	Neutral
Market Share and Sustainability			x				
Geographical Diversification					x		
Earnings Stability			x				
Earnings Diversification [2]							
Factor: Risk Positioning						C	Neutral
Corporate Governance [2]							
- Ownership and Organizational Complexity	--	--	--	--	--		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management		x					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency		x					
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information			x				
Credit Risk Concentration	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			x				
Market Risk Appetite		x					
Factor: Operating Environment						A	Neutral
Economic Stability	x						
Integrity and Corruption	x						
Legal System	x						
Financial Factors (50%)						B-	
Factor: Profitability						B	Weakening
PPP % Avg RWA - Basel II		2.84%					
Net Income % Avg RWA - Basel II		1.96%					
Factor: Liquidity						C-	Neutral
(Mkt funds-Liquid Assets) % Total Assets				17.20%			
Liquidity Management			x				
Factor: Capital Adequacy						A	Neutral
Tier 1 ratio (%) - Basel II	12.10%						
Tangible Common Equity / RWA - Basel II	11.11%						
Factor: Efficiency						A	Weakening
Cost/income ratio	34.08%						
Factor: Asset Quality						C+	Weakening
Problem Loans % Gross Loans			2.13%				
Problem Loans % (Equity + LLR)		12.96%					
Lowest Combined Score (15%)						C-	

Economic Insolvency Override						**Neutral**	
Aggregate Score						**C+**	
Assigned BFSR						**C+**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

Moody's Investors Service

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