

# Ringkjøbing Landbobank A/S - Risk Information

## Statement on adequate capital base and individual solvency requirement

(as of 3 February 2010)

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

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

## **1. Adequate capital base ad individual solvency requirement**

The statutory information concerning calculation of Ringkjøbing Landbobank's adequate capital base and individual solvency requirement is given below.

## 2. Description of solvency requirement model etc., point 5

### **Re point 5a**

The bank's board of directors discusses determination of the solvency requirement at least every quarter. The discussions are based on a memorandum/documentation which the bank's board of managers is responsible for preparing.

The memorandum/documentation contains proposals on the size of the solvency requirement, including proposals for selection of stress variables, stress levels, any risk areas and expectations regarding growth. Following the discussion, the board of directors makes a decision on the calculation of the solvency requirement by the bank to cover its risks under Sections 124 (1) and (4) of the Danish Financial Business Act.

At least once a year, the board of directors also discusses the method of calculating the bank's solvency requirement in depth, including which risk areas and stress levels should be taken into account when calculating the required solvency.

### **Re point 5b**

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 1.0% elsewhere. Foreign exchange risk: <ul style="list-style-type: none"> <li>• EUR: Foreign exchange indicator 1 x 2.25%</li> <li>• Other currencies: Foreign exchange indicator 1 x 12%.</li> </ul> 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: 12%

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	<p><u>Including:</u></p> <ul style="list-style-type: none"> <li>Customers with financial problems</li> <li>Major commitments</li> <li>Commercial concentration</li> <li>Geographic concentration</li> <li>Concentration of guarantees</li> </ul>
Additional capital to cover market risks	
Capital to cover operational risks	
Additional capital to cover other circumstances	<p><u>Including:</u></p> <ul style="list-style-type: none"> <li>Strategic risks</li> <li>Risks to reputation</li> <li>Risks in relation to the bank's size</li> <li>Property risks</li> <li>Procuring of capital</li> <li>Liquidity risks</li> <li>Settlement risks</li> <li>Other matters</li> </ul>

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.

### 3. Breakdown of the solvency requirement in risk categories / Commentation on the solvency requirement / Solvency per centage and capital base, points 6-9

*Ringkjøbing Landbobank's adequate capital base and solvency requirement classified by risk area*

Risk area	Adequate capital base tDKK	Solvency requirement %
Credit risks	803,179	5.90%
Market risks	87,579	0.64%
Operational risks	105,823	0.78%
Other circumstances	-290,898	-2.14%
Addition because of statutory requirements	383,576	2.82%
<b>Total</b>	<b>1,089,259</b>	<b>8.00%</b>

*Ringkjøbing Landbobank's excess cover in relation to capital / solvency:*

Capital base after deductions	tDKK 2,746,694
Adequate capital base	tDKK 1,089,254
Excess solvency in DKK	tDKK 1,657,440
Solvency ratio (%)	20.2%
Solvency requirement (%)	8.0%
<b>Excess solvency in percentage point</b>	<b>12,2%</b>

Additional comments:

Required solvency and excess solvency margin:

The bank has calculated its excess solvency margin at 12.2 percentage points on the basis of a required solvency of 8% and an actual solvency of 20.2%. The excess solvency is considered highly satisfactory and it is helping to create a solid and robust foundation for the bank's continuing development.

Credit risks:

The credit risk is the biggest risk area in the calculation of the solvency requirement, and the bank therefore also has a high level of focus on this area. Most of the capital within the area of credit risks derives from the general stress test and from customers with financial problems.

Market risks:

The capital allocated to market risk primarily concerns the risk on shares, the counterparty risk on derivatives and the interest rate risk and a smaller amount on foreign exchange risk.

Operational risks:

This category includes capital to cover the risk of losses because of inappropriate or defective internal procedures, human error and systematic errors or resulting from external events, including legal risks.

Other circumstances:

Other circumstances are included in the solvency requirement as a deduction. This is because even under the most stringent stress tests, the bank will gain a significant earning from the actual running of the activities. Particular attention is drawn to Ringkjøbing Landbobank's low rate of costs. The low rate of costs thus assists in the creation of the foundation for the robustness in the bank's results, which is thus also reflected in the calculation of the individual solvency requirement.

Reference is also made to the description of the model used to calculate required solvency (under point 5b) for a more detailed description of the risks assigned to the various categories.

Addition because of statutory requirements:

It is noted that Ringkjøbing Landbobank is covered by the statutory requirement in the Danish Financial Business Act, Section 124 (2, 1), ie. that the solvency as a minimum should be 8%.

#### **4. The individual calculated solvency requirement, point 10**

It is noted that the bank's internally calculated solvency requirement before additions (in accordance with statutory requirements) is below 8%. The bank therefore reports its solvency requirement at the statutory 8%.