MOODY'S
INVESTORS SERVICE

CREDIT OPINION
20 March 2018

Update

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RATINGS

Ringkjobing Landbobank A/S

Domicile	Ringkobing, Denmark
Long Term Debt	Not Assigned
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Ringkjobing Landbobank A/S

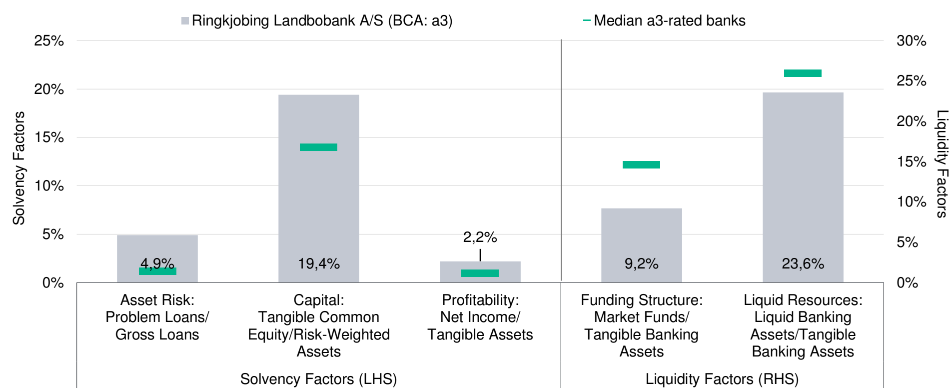
Update to credit analysis

Summary

We assign A1 long-term deposit ratings and A2 issuer ratings to Ringkjøbing Landbobank A/S (Ringkjøbing), both with a stable outlook. The deposit ratings incorporate two notches of rating uplift, and the issuer rating one notch of uplift, from the bank's a3 standalone Baseline Credit Assessment (BCA) based on our Advanced Loss Given Failure (LGF) analysis. LGF takes into account the risks faced by different debt and deposit classes across the liability structure should the bank enter into resolution. The bank's ratings do not benefit from government support uplift based on our assessment of a low probability of support. We also assign Prime-1 short-term deposit and issuer ratings and a Counterparty Risk Assessment (CR Assessment) of Aa3(cr)/Prime-1(cr) to Ringkjøbing.

Ringkjøbing's a3 standalone BCA reflects its (1) strong capitalisation, with a 16.5% reported common equity Tier 1 (CET1) ratio as of end-2017 and a 14.8% shareholders' equity-to-total assets ratio; (2) high and resilient profitability, as demonstrated throughout an entire economic cycle; and (3) solid funding profile, reflecting ample deposits and low reliance on market funding. However, the bank's BCA is constrained by elevated asset risks from a somewhat concentrated loan book by borrower, geography and industry.

Exhibit 1
Rating Scorecard - Key financial ratios



These represent our Banks methodology scorecard ratios, whereby asset risk and profitability reflect the weaker of either the three-year average and the latest annual figure. Capital ratio is the latest reported figure. Funding structure and liquid resource ratios reflect the latest fiscal year-end figures.

Source: Moody's Investors Service

Credit strengths

» Solid capital base and leverage ratio

» High profitability and strong operating efficiency

» Stable funding profile and adequate liquidity

Credit challenges

» Elevated asset risks from credit concentrations, although, problem loan levels are coming down

» Pressure on net interest margins, in light of the low interest rate environment

Rating outlook

Ringkjøbing's long-term deposit and issuer ratings carry a stable outlook, reflecting our expectation that the bank will be able to sustain its credit profile, which will be supported by the benign domestic operating environment over the next 12-18 months, despite continued pressure from the persistent low interest rate environment on the bank's earnings.

Factors that could lead to an upgrade

» Upward pressure on Ringkjøbing's ratings could develop from (1) further improvement in asset-quality metrics, especially in relation to agricultural lending; (2) a significant reduction in loan and sector concentrations, leading to lower susceptibility to adverse events; and (3) an improvement in the bank's liquidity.

» Upward rating momentum for the long-term ratings of Ringkjøbing could also develop as a result of a change in the bank's funding structure, such as the issuance of higher volumes of senior unsecured debt or subordinated debt that would result in additional notching uplift under our LGF framework.

Factors that could lead to a downgrade

» Downward pressure on Ringkjøbing's ratings could emerge from (1) a deterioration in asset quality or capital metrics; (2) a persistent weakening of the bank's recurring earnings power and operating efficiency; or (3) an increase in the bank's reliance on market funding from the current low level.

» Ringkjøbing's long-term ratings could also be downgraded following a significant decrease in the bank's junior deposits, leading to fewer notches of rating uplift under our Advanced LGF analysis.

Key indicators

Exhibit 2

Ringkjobing Landbobank A/S (Consolidated Financials) [1]

	12-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[3]	CAGR/Avg.[4]
Total Assets (DKK million)	25,796	24,258	22,384	21,238	19,583	7.1[5]
Total Assets (EUR million)	3,465	3,262	2,999	2,852	2,625	7.2[5]
Total Assets (USD million)	4,160	3,441	3,258	3,451	3,617	3.6[5]
Tangible Common Equity (DKK million)	3,817	3,554	3,294	3,098	2,901	7.1[5]
Tangible Common Equity (EUR million)	513	478	441	416	389	7.2[5]
Tangible Common Equity (USD million)	616	504	479	504	536	3.5[5]
Problem Loans / Gross Loans (%)	4.1	5.0	5.7	6.7	8.1	5.9[6]
Tangible Common Equity / Risk Weighted Assets (%)	19.4	19.4	18.9	19.5	19.5	19.3[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.7	20.4	24.5	27.3	31.6	24.3[6]
Net Interest Margin (%)	2.5	2.9	2.9	3.1	3.4	3.0[6]
PPI / Average RWA (%)	4.0	4.0	3.9	4.4	4.1	4.1[7]
Net Income / Tangible Assets (%)	2.3	2.2	2.0	2.1	1.8	2.1[6]
Cost / Income Ratio (%)	31.0	31.0	32.1	30.7	31.7	31.3[6]
Market Funds / Tangible Banking Assets (%)	9.2	8.0	7.3	10.3	10.4	9.0[6]
Liquid Banking Assets / Tangible Banking Assets (%)	23.6	26.1	20.7	25.0	27.4	24.6[6]
Gross Loans / Due to Customers (%)	106.1	100.5	107.4	106.4	104.1	104.9[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; LOCAL GAAP [3] Basel II; LOCAL GAAP [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

Profile

Ringkjøbing is a Danish regional and niche bank, with operations primarily in central and western Jutland. The bank provides retail and commercial banking products and services; financing for private medical practices and dentists; funding of wind turbines and solar panels; and private banking. As of 31 December 2017, the bank reported a consolidated asset base of DKK26 billion (€3.5 billion), operated through a network of 10 branches, and had around 270 full-time employees.

Ringkjøbing was established in 1886. Its shares are listed on the NASDAQ Copenhagen Stock Exchange (Ticker: RILBA). As of 31 December 2017, the bank's largest shareholder was Parvus Asset Management Europe Limited, which owned 9.4% of its total share capital.

For further information on the bank's profile, see Ringkjobing Landbobank A/S : Key Facts and Statistics, 19 December 2017.

Detailed credit considerations

Elevated asset risks from credit concentrations

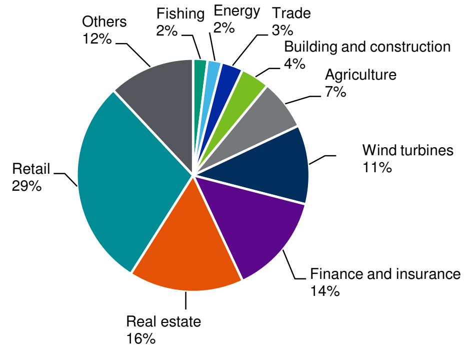
Our assigned ba1 Asset Risk score indicates that this remains a relative weakness for the bank's rating level, reflecting elevated risks from credit concentrations. Problem loan levels also remain relatively high but they are well provisioned.

Ringkjøbing's loan book exhibits relatively high geographic and sector concentrations, as around 33% of the bank's lending was to customers within the core region of western and central Jutland at end-2017, while only 9% of lending was to customers located outside Denmark. As of year-end 2017, the bank's highest sector concentrations related to real estate (16% of loans and guarantees, see Exhibit 3), finance and insurance (14%), wind turbines (11%), and agriculture and fishing (9%). Overall, corporate loans accounted for 71% of the bank's credit exposure, while retail loans (excluding those transferred to mortgage credit institutions) represented only 29%. We also consider risks relating to the bank's unseasoned loan portfolio, reflecting significant growth by a compound annual rate of 8% between end-2014 and end-2017. Growth picked up in 2017, and the bank's gross loan portfolio grew by 10% to DKK20.3 billion.

Exhibit 3

Ringkjøbing maintains some concentrations to specific sectors

Loan portfolio breakdown by sector as of year-end 2017



Sources: Moody's Investor Service, company reports

Our assigned Asset Risk score also takes into account Ringkjøbing's relatively large customer concentrations in comparison with that of other European peers, given its narrow banking franchise. Top 20 largest exposures were equivalent to 136% of its CET1 capital as of year-end-2017, against an 175% limit imposed by the Danish Financial Supervisory Authority (FSA). A majority of the 20 largest exposures are outside the core area of central and western Jutland and, therefore, not concentrated locally.

The trend in asset quality has been positive, with problem loans (defined as loans subject to individual impairment) decreasing to 4.1% in 2017 from 5.0% in 2016. The improvement largely reflects a reduction in problem loans, which declined to DKK836 million as of year-end 2017 from DKK913 million in 2016. The bank's coverage ratio (measured as total loan-loss reserves as a percentage of problem loans) improved to 110% as of year-end 2017 from 102% in 2016, one the highest coverage ratio among rated Danish banks, mainly because of a very high level of general loan-loss reserves. We believe Ringkjøbing has allocated considerable provisions for its agriculture exposure, which exhibits still-weak asset quality.

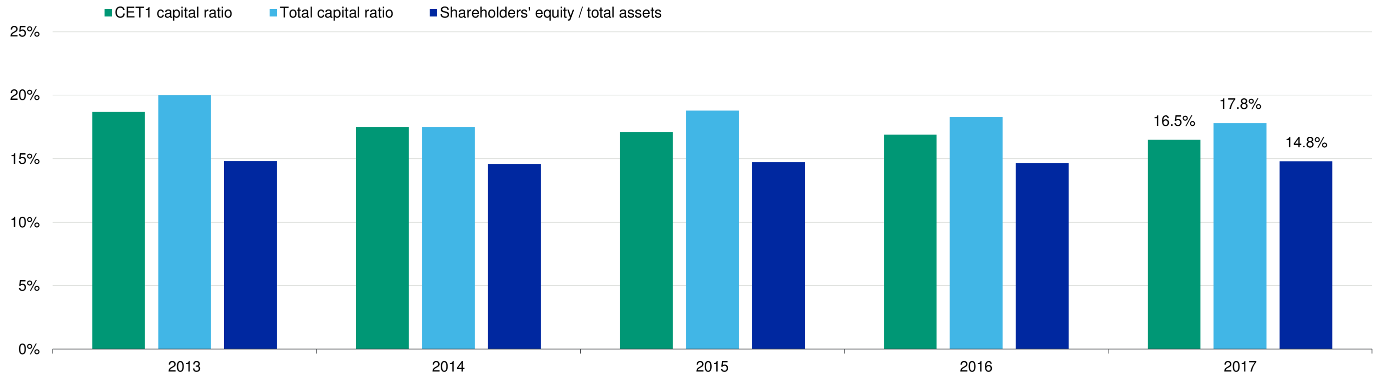
Solid capital base and high leverage ratios

Our assigned aa3 Capital score supports Ringkjøbing's standalone credit profile, reflecting bank's solid capitalisation, which is well in excess of regulatory minima. We expect the bank to sustain its high capital buffers in the foreseeable future given its strong track record and high capacity to generate capital internally.

As of year-end 2017, Ringkjøbing's reported CET1 capital ratio was 16.5%, from 16.9% as of year-end 2016 (see Exhibit 4). The bank's total capital ratio was 17.8% as of year-end 2017, well above the 10.3% regulatory requirement for the same period, which includes both the FSA's pillar 1 and pillar 2 components, and a 1.3% capital conservation buffer (the latter will increase to 2.5% by 2019). An additional 0.5% countercyclical buffer will also apply for all banks in Denmark from 31 March 2019.

Exhibit 4

Ringkjøbing's capitalisation remains solid



Source: Moody's Investors Service

Ringkjøbing mainly applies the standardised approach to calculate credit-related risk-weighted assets (RWAs). Therefore, the bank's risk density, measured as the ratio of RWAs to total assets, was relatively high at 76% as of year-end 2017 (2016: 76%), rendering the bank less sensitive to potential amendments in regulatory methods to calculating RWAs, including floor requirements. Also, the bank's shareholders' equity-to-total assets was 14.8% as of year-end 2017, one of the highest such ratios among those of Nordic and international banks (which are typically within 4%-10% on average), further underpinning our favourable capital assessment.

Finally, according to the bank, the expected effect of the new IFRS 9 impairment rules will translate to around DKK60 million in additional impairment charges, which is equivalent (post tax) to about 1.2% of the bank's equity as of 1 January 2018. Ringkjøbing has decided to take advantage of the transition programme offered to banks and will phase-in the full effect on its capital over five years.

High profitability and strong operating efficiency, despite pressure on net interest margins

Our assigned aa3 Profitability score reflects Ringkjøbing's strong earnings track record and high profitability, which provides ample capacity to absorb losses through internal capital generation. In 2017, Ringkjøbing reported a continued improving trend, as underpinned by net income to tangible assets of 2.3%, compared with 2.2% in 2016 and 2.1% in 2015.

In 2017, Ringkjøbing reported an 11% increase in pretax profit to DKK735 million compared with DKK661 million for the same period a year earlier. The growth in profits was mostly driven by a reduction in impairment charges and a positive contribution from fair value gains of its investment securities, and despite a reduction in net interest income by 6% as margins contracted to 2.5% in 2017 from 2.9% in 2016.

We, however, expect the benign operating environment in Denmark to continue to support Ringkjøbing's profitability, despite the low interest environment and pressure on margins, because impairment charges are likely to remain low. In 2017, credit costs for the bank were only 0.05%, from 0.26% in 2016, and consumed 1% of pre-provision income.

Ringkjøbing remains one of Denmark's most efficient banks, with a cost-to-income ratio of 31% in 2017 (2016: 31%). In our view, the bank's lean business model remains a key driver of its high profitability compared with that of regional peers, and its ability to further grow its lending activities raises Ringkjøbing's capacity to cope with the challenges arising from low interest rates.

Stable funding profile and adequate liquidity

Ringkjøbing's stable funding profile supports the bank's BCA. As of year-end 2017, customer deposits accounted for 74% of assets, almost unchanged from year-end 2016. Furthermore, the bank's reliance on confidence-sensitive market funding remained low at 9% of tangible banking assets as of the end of 2017. This level of market funding reliance has also remained broadly stable over the past five years. These strengths are reflected in our assigned a1 Funding Structure score.

As with most Danish banks, Ringkjøbing can secure financing for retail mortgages through specialised mortgage lenders, for example, Totalkredit or DLR. Loans funded by these specialised mortgage lenders are transferred to these institutions and do not appear on Ringkjøbing's balance sheet.

We consider Ringkjøbing's liquidity adequate compared with its lending-driven business model, as well as its large and stable deposit base. This view is reflected in our assigned baa2 score for Liquid Resources, which also takes into account that some of the bank's financial securities are pledged for clearing purpose. As of year-end 2017, liquid banking assets accounted for around 24% of assets, a small decrease from 26% as of year-end 2016, while the bank reported a solid liquidity coverage ratio of 193% (2016: 185%) over the same period. Ringkjøbing's liquidity coverage ratio is comfortably above the 100% minimum requirement, set by the Danish FSA, which applies to all financial institutions in Denmark as of 1 January 2018.

Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to system-wide trends and market shares from the central bank. Bank specific figures originate from banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions published on 13 June 2017.

Support and structural considerations

Loss Given Failure analysis

Ringkjøbing operates in Denmark and is subject to the EU Bank Resolution and Recovery Directive (BRRD), which we consider an operational resolution regime. In accordance with our methodology we therefore apply our Advanced LGF analysis to Ringkjøbing's liabilities, considering the risks faced by different debt and deposit classes across the liability structure should the bank enter resolution.

In our LGF analysis we use our standard assumptions and assume residual tangible common equity of 3%, losses post-failure of 8% of tangible banking assets, a 25% runoff in “junior” wholesale deposits, and a 5% run-off in preferred deposits. We assign a 25% probability to deposits being preferred to senior unsecured debt.

Under these assumptions, for Ringkjøbing's A1 rated deposits, our LGF analysis indicates a very low loss-given-failure, leading to a two-notch uplift from the bank's a3 Adjusted BCA from which these ratings are notched.

For Ringkjøbing's A2 issuer rating, our LGF analysis indicates low loss-given-failure, leading to one notch of rating uplift from the bank's a3 Adjusted BCA. Issuer ratings are opinions of the bank's ability to honour senior unsecured debt and debt-like obligations.

Government support considerations

We do not incorporate any government support uplift on Ringkjøbing’s ratings because we consider the probability of government support, in case of need, to be low. Our government support assumptions are driven by the implementation of the EU's BRRD in Denmark.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Ringkjøbing's CR Assessment is positioned at Aa3(cr)/Prime-1(cr)

For Ringkjøbing, our LGF analysis indicates an extremely low loss given failure for the CR Assessment, leading to three notches of uplift from the bank's a3 Adjusted BCA.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard 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 methodology and scorecard factors

Exhibit 5

Ringkjobing Landbobank A/S

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.9%	baa1	←→	ba1	Sector concentration	Loan growth
Capital						
TCE / RWA	19.4%	aa2	↓↓	aa3	Expected trend	
Profitability						
Net Income / Tangible Assets	2.2%	aa2	↓	aa3	Expected trend	
Combined Solvency Score		a1		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	9.2%	a1	←→	a1	Market funding quality	Deposit quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	23.6%	baa1	←→	baa2	Asset encumbrance	
Combined Liquidity Score		a2		a3		
Financial Profile				a3		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA range				a2-baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet	**in-scope (DKK million)**	**% in-scope**	**at-failure (DKK million)**	**% at-failure**
Other liabilities	5,165	20.0%	7,114	27.6%
Deposits	19,110	74.1%	17,161	66.5%
Preferred deposits	14,141	54.8%	13,434	52.1%
Junior Deposits	4,969	19.3%	3,727	14.4%
Senior unsecured bank debt	375	1.5%	375	1.5%
Dated subordinated bank debt	372	1.4%	372	1.4%
Equity	774	3.0%	774	3.0%
Total Tangible Banking Assets	25,796	100%	25,796	100%

Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Assessment	20.3%	20.3%	20.3%	20.3%	3	3	3	3	0	aa3 (cr)
Deposits	20.3%	4.4%	20.3%	5.9%	2	2	2	2	0	a1
Senior unsecured bank debt	20.3%	4.4%	5.9%	4.4%	2	-1	1	1	0	a2

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3 (cr)	--
Deposits	2	0	a1	0	A1	A1
Senior unsecured bank debt	1	0	a2	0	A2	A2

Source: Moody's Financial Metrics

Ratings

Exhibit 6

Category	Moody's Rating
RINGKJOBING LANDBOBANK A/S	
Outlook	Stable
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A2
ST Issuer Rating	P-1

Source: Moody's Investors Service

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