# Risk disclosure for Ringkjøbing Landbobank A/S
# Report on other disclosure requirements

As at 28 January 2015

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.

## 1 Contents

# 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 20-31 of the bank's 2014 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 28 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 6.1% 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 31.12.2014 |
|---|---|---|
| Lending growth | 20% | 7.8% |
| Large exposures | 125% | 47.8% |
| Excess liquidity coverage | > 50% | 140.7% |
| Funding ratio | < 1 | 0.8 |
| Property exposure | < 25% | 11.6% |

"

## 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 99-100 of the 2014 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 102 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 38 of the bank's 2014 annual report.

The bank has appointed a risk committee under Section 80b(1) of the Financial Business Act. The risk committee held five meetings in 2014. The risk committee's tasks are described on the bank's website and on page 103 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 61 of the 2014 annual report.
A description of the subordinated capital contributions can be found on page 75 of the 2014 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 2014<br>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 | 27,174 | 79,843 |
| Counterparty with 50 percent risk weight | 5,863 | 8,602 |
| Counterparty with 75 percent risk weight | 43,763 | 44,663 |
| Counterparty with 100 percent risk weight | 61,254 | 63,461 |
| Total | 138,054 | 196,569 |

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

The bank informs as follows:

| Overview of credit derivative hedges<br>31 December 2014<br>in DKK 1,000 | Hedging purchased | Hedging sold |
|---|---|---|
| Credit Default Swaps (CDS) | 0 | 74,386 |

The market value is tDKK 638.

### 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 65-66 of the annual report.

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

| **Overview on 31 December 2014 DKK million** | 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 | | | | | | | 1,576 | 940 | 204 | 407 | | | | |
| Industry and raw materials extraction | | | | | | | 397 | 184 | 55 | 25 | | | | |
| Building and civil engineering | | | | | | | 228 | 174 | 44 | 16 | | | | |
| Energy supplies | | | | | | | 3,129 | 215 | 30 | 12 | | | | |
| Trade | | | | | | | 228 | 371 | 87 | 46 | | | | |
| Transport, hotels and restaurants | | | | | | | 158 | 65 | 33 | 17 | | | | |
| Information and communication | | | | | | | 10 | 58 | 3 | 0 | | | | |
| Financing and insurance | 241 | | | | | 366 | 2,555 | 265 | 114 | 27 | | | | |
| Credit institutions | | | | | | | | | | | | | | |
| Real property | | | | | | 6 | 1,134 | 393 | 331 | 172 | | | | |
| Other sectors | | | | | | 0 | 707 | 1,159 | 131 | 50 | 250 | | | 125 |
| Total corporates | 241 | | | | | 372 | 10,411 | 3,824 | 1,032 | 773 | 250 | | | 125 |
| Private customers | | | | | | 8 | 1,232 | 5,157 | 638 | 262 | 0 | | | 0 |
| **Total** | **241** | | | | | **380** | **11,644** | **8,981** | **1,670** | **1,035** | **250** | | | **125** |
| **Sum** | | | | | | | | | | | | | | **24,326** |

| **Average values for 2014 DKK million** | 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 | - | - | - | - | - |
| Agriculture, hunting, forestry and fishing | - | - | - | - | - | - | 1,263 | 954 | 178 | 504 | - | - | - | - |
| Industry and raw materials extraction | - | - | - | - | - | - | 355 | 174 | 42 | 63 | - | - | - | - |
| Building and civil engineering | - | - | - | - | - | - | 156 | 191 | 38 | 45 | - | - | - | - |
| Energy supplies | - | - | - | - | - | - | 2,923 | 239 | 27 | 68 | - | - | - | - |
| Trade | - | - | - | - | - | - | 367 | 364 | 74 | 43 | - | - | - | - |
| Transport, hotels and restaurants | - | - | - | - | - | - | 142 | 64 | 30 | 24 | - | - | - | - |
| Information and communication | | | | | | | 4 | 51 | 3 | 0 | - | - | - | - |
| Financing and insurance | - | - | - | - | - | 375 | 2,038 | 247 | 65 | 23 | 42 | - | - | 83 |
| Credit institutions | | | | | | - | - | - | - | - | - | - | - | - |
| Real property | 276 | - | - | - | - | 6 | 1,018 | 389 | 290 | 179 | - | - | - | - |
| Other sectors | - | - | - | - | - | - | 805 | 1,092 | 118 | 71 | 148 | - | - | 42 |
| Total corporates | 276 | - | - | - | - | 381 | 9,071 | 3,764 | 866 | 1,020 | 190 | - | - | 125 |
| Private customers | - | - | - | - | - | 6 | 775 | 5,279 | 646 | 361 | 0 | | | |
| **Total** | 276 | - | - | - | - | 387 | 9,846 | 9,043 | 1,512 | 1,381 | 190 | | | 125 |
| **Sum** | | | | | | | | | | | | | | **22,758** |

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

More than 90% (93%) 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 2014 in DKK million** | **Demand** | **0-3 months** | **3 months-1 year** | **1-5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Central governments or central banks | 381 | | | | | **381** |
| Regional or local authorities | | | | | | |
| Public sector entities | | | | | | |
| Multilateral development banks | | | | | | |
| International organisations | | | | | | |
| Institutions | 190 | 88 | 68 | 0 | 1 | **347** |
| Corporates etc. | 1,906 | 1,004 | 1,838 | 2,523 | 4,372 | **11,643** |
| Retail customers | 2,947 | 275 | 1,551 | 1,556 | 2,652 | **8,981** |
| Exposures secured by mortgages on real property | 181 | 20 | 170 | 481 | 744 | **1,596** |
| Exposures on which there are arrears or overdrafts | 146 | 26 | 264 | 231 | 370 | **1,037** |
| Shares | | | | | 250 | **250** |
| Short-term exposure to institutions and corporates etc. | | | | | | |
| Collective investment undertakings | | | | | | |
| Exposures in other items, including assets without counterparties | 117 | | 8 | | | **125** |
| **Total** | **5,868** | **1,413** | **3,899** | **4,791** | **8,389** | |
| **Sum** | | | | | | **24,326** |

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 2014 – 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 | 1 | | | |
| Agriculture, hunting, forestry and fishing | 21,328 | 427,623 | 312,683 | -9,823 |
| Industry and raw materials extraction | 315 | 15,433 | 12,163 | -1,207 |
| Energy supplies | 3 | 7,541 | 4,686 | -1,213 |
| Building and civil engineering | 160 | 18,107 | 11,059 | -6,395 |
| Trade | 2,457 | 25,443 | 16,992 | 485 |
| Transport, hotels and restaurants | 345 | 17,736 | 13,601 | -2,765 |
| Information and communication | 488 | 1,673 | 1,526 | 781 |
| Financing and insurance | 17,914 | 1,841 | 1,546 | -194 |
| Real property | 13,138 | 185,869 | 85,980 | 26,113 |
| Other sectors | 4,953 | 73,077 | 47,871 | 1,409 |
| Total corporates | 61,101 | 774,343 | 508,107 | 7,191 |
| Private customers | 24,805 | 322,994 | 193,024 | 15,302 |
| **Total** | **85,907** | **1,097,337** | **701,131** | **22,493** |
| Interest on the impaired part of loans | | | | -44,221 |
| Received on previously written off debts | | | | -8,705 |
| Impairment charges for loans and other amounts owed | | | | **-30,433** |

*) 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 93% 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 2014 – 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 | 736,513 | 4,256 | 112,652 | | | 0 |
| Movements during the year | | | | | | |
| 1. Exchange rate adjustment | | | | | | |
| 2. Impairment charges/provisions during the year | 179,129 | 2,261 | 113,620 | | | 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 | 174,736 | 2,469 | 0 | | | |
| 4. Other movements | | | | | | |
| 5. Value adjustment of assets taken over | | | | | | |
| 6. Previous individual impairment charges/provisions finally lost (written off) | 39,775 | 53 | | | | 0 |
| Accumulated impairment charges/provisions end of period for loans and losses on guarantees | 701,131 | 3,995 | 226,272 | | | 0 |
| Sum of loans and losses on guarantees for which individual impairment charges/provisions have been made (calculated before impairment charges/provisions) | 1,097,337 | 24,224 | 14,167,573 | | | 0 |

# 10 Unencumbered assets, CRR 443

Pending the technical standards from EBA.

# 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 2014. DKK 1,000 | Exposure value before risk weighting | Exposure value after weighting with credit quality steps |
|---|---|---|
| Exposures to institutions | 55,042 | 15,124 |

## 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 2014** | | **Exposure in DKK 1,000** | **Capital base requirements (8% of the exposure)** |
|---|---|---|---|
| Items with position risk: | Instruments of debt | 1,415,982 | 113,279 |
| | Shares etc. (incl. collective investment undertakings) | 37,824 | 3,026 |
| | Commodities | 0 | 0 |
| Items with | foreign exchange position | 10,409 | 0 |

## 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 1,567 million at the end of 2014, which means a capital base requirement of DKK 125 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 2014 (DKK 1,000)**

| | |
|---|---|
| Portfolio beginning of period | 191,625 |
| Additions, purchases | 78,328 |
| Additions, reclassification | 0 |
| Unrealised gains/losses | 2,261 |
| Realised gains/losses | 15,114 |
| Disposals, sales | 46,406 |
| Portfolio end of period | 240,923 |

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 24 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 817 on 31 December 2014.
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 2014 annual report:
Remuneration policy: page 37
Remuneration committee: page 101

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 70-71 of the 2014 annual report.
We also advise that:

- Only cash payments are made[1]
- No deferred remuneration is used
- No severance payments have been made to management employees or risk takers.

# 18 Leverage, CRR 451

The provision does not apply to the 2014 annual report.

# 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.

[1] However two employees have company cars.

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 2014 – 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. | 1,625,025 |
| Exposures to retail customers | 573,219 |
| Exposures secured by mortgages on real property | 1,459 |
| Exposures on which there are arrears or overdrafts | 40,871 |
| Securitisation positions | 0 |
| Short-term exposures to institutions and corporates etc. | 0 |
| Exposures to collective investment undertakings | 0 |
| **Total** | **2,240,574** |

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

The bank uses guarantees and credit derivaties 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 2014 – 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. | 54,771 |
| Exposures to retail customers | 7,709 |
| Exposures secured by mortgages on real property | 0 |
| Exposures on which there are arrears or overdrafts | 3,935 |
| Securitisation positions | 0 |
| Short-term exposures to institutions and corporates etc. | 0 |
| Exposures to collective investment undertakings | 0 |
| **Total** | **66,415** |

## 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.