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

As at 5 February 2020

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 435-473.

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 30-41 of the bank's 2019 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 5 February 2020:

> "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 minimum 13.5% and a capital ratio of at least 17 %. The current capital ratio amount to 20.3 % which can be compared to the assessed solvency requirement of 9.3 % and a total capital requirement of 12.8 % inclusive a capital conversation buffer of 2.5 % and a counter cyclical buffer of 1.0%. Thereby the bank has a capital reserve of 7.5 %. Furthermore, the bank's goal is to operate with a minimum of MREL capital of 25%, which can be compared to the assessed MREL capital of 27.5%.

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	**Limits**	**The bank's performance on 31.12.2019**
Funding ratio	< 100%	0.7
Liquidity requirement ratio	> 100%	193.2%
Sum of large exposures	< 175% CET1	121.0%
Lending growth	≤ 20%	6.3%
Property exposure	< 25%	17.5 %

"

The bank's liquidity excess cover for each quarter in 2019 is as follows:

2019 In DKK 1,000	**March**	**June**	**September**	**December**
Liquidity buffer	8,296,610	10,310,150	10,759,628	9,889,573
Outgoing net cash flow	4,699,560	4,816,845	4,918,615	4,858,817
LCR (pct.)	177 %	214 %	219 %	204 %

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 118-122 of the 2019 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 124 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 44-46 of the bank's 2019 annual report.

The bank has appointed a risk committee under Section 80b (1) of the Financial Business Act. The risk committee held 7 meetings in 2019. The risk committee's tasks are described on the bank's website and on page 125 of the annual report.

A substantial amount of resources is spend to ensure proper risk reporting including reporting of legislative and managerial defined risk limits. The reporting to the management and other relevant stakeholders is based on pre-specified procedures. The board of directors receives an ongoing reporting of all significant areas of risk.

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 67 of the 2019 annual report.
A description of the subordinated capital contributions can be found on page 91 of the 2019 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 2019 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	30,824	138,133
Counterparty with 50 percent risk weight	35,058	76,095
Counterparty with 75 percent risk weight	25,455	28,393
Counterparty with 100 percent risk weight	73,346	90,660
Counterparty with 150 percent risk weight	7	7
Total	164,690	333,288

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

The bank informs as follows:

Overview of credit derivative hedges 31 December 2019 in DKK 1,000	Hedging purchased	Hedging sold
Credit Default Swaps (CDS)	0	0

The market value is DKK 0.

6.6 Internal models, CRR 439(i)

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

7 Capital buffers, CRR 440

The CRR-amendment introduced a counter cyclical capital buffer which can be activated during periods of time with an over normal lending growth. The intention with the counter cyclical capital buffer is to ensure the financial sector as a whole – despite of the business cycle - to have adequate amount of capital to retain the credit lending for companies and privates without pressing the solvency requirement.

The counter cyclical capital buffer is activated when the total lending growth is seen as a contributor to the systematic risk, and is deactivated during times of financial crisis. The buffer-level is set by the public authorities in the single EU-country. In Denmark the buffer-level is set by the Minister for Industry, Business and Financial Affairs after recommendations from The Systemic Risk Council on the basis of chosen indicators, among others the ratio between lending and GDP.

The current counter cyclical capital buffer-level in Denmark is 1.0 % and the bank has reserved the required capital for the counter cyclical capital buffer at the date of the balance sheet.
It is noticed that the counter cyclical buffer-level is set to 1.5 % from the 30th of June and the buffer will be increased to 2.0 % from the 30th of December 2020. The bank will continue to reserve capital to the counter cyclical capital buffer according to the level set by the Danish authorities.

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 and past due exposures:
Reference is made to the accounting policies on pages 70-80 of the annual report.

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

Overview on 31 December 2019 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	Exposures with particular high risk	Collective investment undertakings	Exposures in other items, including assets without counterparties
Public authorities	-	10	-	-	-	-	-	17	-	-	-	-	-	-
Agriculture, hunting, forestry and fishing	-	-	-	-	-	-	3,628	1,826	121	1,069	-	-	-	-
Industry and raw materials extraction	-	-	-	-	-	-	1,133	565	52	328	-	-	-	-
Building and civil engineering	-	-	-	-	-	-	957	743	109	98	-	459	-	-
Energy supplies	-	-	-	-	-	-	3,564	578	19	20	-	-	-	-
Trade	-	-	-	-	-	-	1,755	1,058	168	102	-	-	-	-
Transport, hotels and restaurants	-	-	-	-	-	-	409	292	47	52	-	-	-	-
Information and communication	-	-	-	-	-	-	36	204	42	29	-	-	-	-
Financing and insurance	3,385	-	-	-	-	393	4,985	892	103	88	-	-	-	439
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real property	-	-	-	-	-	-	5,416	1,519	1,602	271		1,094	-	-
Other sectors	-	-	-	-	-	-	2,146	1,978	5632	91	1,249	-	-	-
Total corporates	3,385	10	-	-	-	393	24,030	9,654	2,795	2,149	1,249	1,553	-	439
Private customers	-	-	-	-	-	-	1,541	15,034	5,650	408	-	-	-	-
Total	**3,385**	**10**	**-**	**-**	**-**	**393**	**25,571**	**24,705**	**8,445**	**2,557**	**1,249**	**1,553**	**-**	**439**
Sum														**68,308**

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.

Average values for 2019 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	Exposures with particular high risk	Collective investment undertakings	Exposures in other items, including assets without counterparties
Public authorities	-	10	-	-	-	-	-	17	-	-	-	-	-	-
Agriculture, hunting, forestry and fishing	-	-	-	-	-	-	3,534	1,708	182	1,285	-	-	-	-
Industry and raw materials extraction	-	-	-	-	-	-	1,120	576	61	299	-	-	-	3
Building and civil engineering	-	-	-	-	-	-	3,406	417	19	30	-	-	-	-
Energy supplies	-	-	-	-	-	-	1,055	742	115	103	-	403	-	-
Trade	-	-	-	-	-	-	1,580	1,032	174	124	-	-	-	-
Transport, hotels and restaurants	-	-	-	-	-	-	436	307	73	62	-	-	-	-
Information and communication	-	-	-	-	-	-	38	204	36	12	-	-	-	-
Financing and insurance	3,380	-	-	-	-	471	4,501	967	453	69	-	17	-	411
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real property	-	-	-	-	-	-	4,962	1,508	1,641	274	-	681	-	-
Other sectors	-	-	-	-	-	-	1,855	2,029	477	124	1,374	25	-	-
Total corporates	3,380	-	-	-	-	471	22,486	9,491	3,231	2,381	1,374	1,126	-	414
Private customers	-	-	-	-	-	-	2,019	15,241	4,912	476	-	-	-	-
Total	**3,380**	**10**	**-**	**-**	**-**	**471**	**24,505**	**24,748**	**8,143**	**2,858**	**1,374**	**1,126**	**-**	**414**
Sum														**67,029**

9.3 Geographic location of exposures, CRR 442(d)

More than 90% 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 2019 in DKK million	**Demand**	**0-3 months**	**3 months-1 year**	**1-5 years**	**More than 5 years**	**Total**
Central governments or central banks	899	2,486				**3,385**
Regional or local authorities	10					**10**
Public sector entities						
Multilateral development banks						
International organisations						
Institutions	152	215	26			**393**
Corporates etc.	5,207	1,036	9,884	3,333	6,111	**25,571**
Retail customers	7,306	952	7,000	3,214	6,232	**24,705**
Exposures secured by mortgages on real property	581	81	388	736	6,660	**8,445**
Exposures on which there are arrears or overdrafts	631	84	840	337	665	**2,557**
Shares					1,249	**1,249**
Short-term exposure to institutions and corporates etc.						
Collective investment undertakings						
Exposures in other items, including assets without counterparties	409		30			**439**
Exposures with particular high risk	434	211	867	6	35	**1,553**
Total						**68,308**

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)

Loans, guarantees and unutilized credit facilities by credit quality, sector and industry and IRFS 9 stages (before impairments and provisions)

Overview on 31 December 2019 in DKK 1,000	Stage 1	Stage 2	Stage 3	Credit impaired on initial recognition	Total	Total impairments etc.
1.0 Public authorities	40,152	125	429	0	40,706	241
2.1 Agriculture, forestry and fishing	4,348,095	1,487,263	722,958	297,129	6,855,445	832,829
2.2 Industry and raw materials extraction	1,538,984	480,242	147,643	3,899	2,170,768	92,318
2.3 Energy supply	4,330,847	121,186	17,280	8,481	4,477,794	26,009
2.4 Building and construction	2,001,258	267,108	41,366	36,759	2,346,491	45,663
2.5 Trade	2,791,568	227,985	102,816	26,107	3,148,476	94,830
2.6 Transport, hotels and restaurants	886,766	72,249	35,372	15,328	1,009,715	41,215
2.7 Information and communication	259,175	30,531	26,586	2,558	318,850	10,767
2.8 Finance and insurance	5,067,558	183,675	40,719	499	5,292,451	24,278
2.9 Real property	9,055,221	656,506	267,771	63,809	10,043,307	195,466
2.10 Other business customers	4,934,323	340,538	108,610	31,753	5,415,224	137,651
3.0 Privat individuals	21,154,650	1,295,944	319,320	185,510	22,955,424	530,378
Total	56,408,597	5,163,352	1,830,870	671,832	64,074,651	2,031,645
Total in percent	88%	8%	3%	1%	100%	
Impairments and provisions	136,729	404,006	983,477	507,433	2,031,645	

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

No further details are given since 90% 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)

2019 In DKK 1,000	**Stage 1** DKK 1,000	**Stage 2** DKK 1,000	**Stage 3** DKK 1,000	**Total** DKK 1,000	**Impairment charges etc. taken to income statement** **DKK 1,000**
Impairment charges and provisions at the end of the previous financial year	182,963	287,175	1,570,269	2,040,407	-
Impairment charges and provisions for new exposures during the year, including new accounts for existing customers	45,424	62,994	237,441	345,859	345,859
Reversed impairment charges and provisions for repaid accounts	-41,510	-58,905	-123,638	-224,053	-24,053
Change in impairment charges and provisions at beginning of year for / from stage 1	80,160	-53,806	-26,354	0	0
Change in impairment charges and provisions at beginning of year for / from stage 2	-14,884	171,067	-156,183	0	0
Change in impairment charges and provisions at beginning of year for / from stage 3	-14,067	-7,405	21,472	0	0
Impairment charges and provisions during the year resulting from credit risk change	-101,357	2,886	170,066	71,595	71,595
Previously written down, now definitively lost	-	-	-202,163	-202,163	-
Lost, not previously written down	-	-	-	-	6,452
Received on receivables previously written off	-	-	-	-	-89,681
Total impairment charges and provisions	**136,729**	**404,006**	**1,490,910**	**2,031,645**	**110,172**

10 Unencumbered assets, CRR 443

Schedule A – Assets

Overview on 31 December 2019 In DKK 1,000		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
		010	040	060	090
010	**Assets of the bank**	1,486,745		51,454,149	
030	Equity instruments	0	0	4,007,906	40,007,906
040	Debt securities	180,113	180,113	8,164,872	8,164,872
050	of which: covered bonds	180,113	0	6,609,249	6,609,249
070	of which: issued by general governments	0	0	714,623	714,623
080	of which: issued by financial corporations	0	0	553,672	553,672
090	of which: issued by non-financial corporations	0	0	287,329	287,329
100	Loans	1,259,983	0	34,330,194	
120	Other assets	46,650		1,721,641	

Schedule B - Collateral received – off balance

Overview on 31 December 2019 In 1,000 DKK		Fair value of encumbered collateral or own issued debt instruments	Fair value of non-encumbered collateral or own issued debt instruments
		010	040
130	**Collateral received**	18.778	0
230	Other assets	18.778	0
250		1.467.967	0

Scedule C - Information about sources of encumbrance

Overview on 31 December 2019 In DKK 1,000		Corresponding liabilities, contingents liabilities or asset lending	Assets, received collateral and own issued debt instruments, except covered bonds and encumbered securities with security in assets
		010	030
010	**Account value of selected financial liabilities**	1,467,967	0

Further description of received collateral is provided on page 96-98 in the annual report 2019.

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 2019 in DKK 1,000	Exposure value before risk weighting	Exposure value after weighting with credit quality steps
Exposures to institutions	214,228	91,684

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 2019		Exposure in DKK 1,000	Capital base requirements (8% of the exposure)
Items with position risk:	• Instruments of debt	2,206,413	176,513
	• Shares etc. (incl. collective investment undertakings)	201,630	16,130
Items with:	• Commodities	0	0
	• Foreign exchange position	83,526	6,682

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 2,907 million at the end of 2019, which means a capital base requirement of DKK 233 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 bank'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 2019 (DKK 1,000)

Portfolio beginning of period	1,409,673
Additions, purchases	5,865
Additions, reclassification	1,559
Unrealised gains/losses	42,531
Realised gains/losses	49,544
Disposals, sales	272,918
Portfolio end of period	1,236,255

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 124 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 -449 on 31 December 2019.
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 scenarios given by the Danish FSA cf. "The guidance for sufficient capital foundation and solvency requirements for credit banks" appendix 4 ("Vejledning om tilstrækkeligt kapitalgrundlag og solvensbehov for kreditinstitutter").

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 2019 annual report:
Remuneration policy: Page 47
Remuneration committee: Page 123

Remuneration committee has held 2 meetings in 2019. 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 82-83 of the 2019 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 leverage ratio is calculated as the Tier 1 capital divided by the total unweighted exposures.

At the moment no maximum leverage ratio has been defined in the legislation, but in the proposal for a revision of CRR and CRD IV the EU commission has proposed 3% for all financial institutions corresponding to a maximum leverage of 33 times the core capital. The bank meets this requirement with a leverage ratio calculated at 10.7%. The surveillance of the leverage ratio is a part of the current risk management of the bank and it is reported to the board of directors on a regular basis.

[1] However four employees have company cars.

Summary reconciliation of accounting assets and leverage ratio exposures (DKK 1,000)

		Applicable amounts
1	Total assets as per published financial statement	52,940,894
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	
4	Adjustments for derivative financial instruments	-183,468
5	Adjustments for securities financing transactions "SFTs"	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	8,791,477
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	
7	Other adjustments	
8	**Total leverage ratio exposure**	**61,548,903**

Leverage ratio common disclosure (DKK 1,000)

On-balance sheet exposures (excluding derivatives and SFTs)		**CRR leverage ratio exposures**
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	48,710,154
2	(Asset amounts deducted in determining Tier 1 capital)	
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**48,710,154**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	182,618
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	150,670
EU-5a	Exposure determined under Original Exposure Method	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	

7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	**333,287**
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	26,476,404
18	(Adjustments for conversion to credit equivalent amounts)	17,684,927
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**8,791,477**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-1,049,838
Capital and total exposures		
20	Tier 1 capital	6,177,906

21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**56,785,080**
Leverage ratio		
22	**Leverage ratio**	**10.9%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (DKK 1,000)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	48,710,154
EU-2	Trading book exposures	6,905,319
EU-3	Banking book exposures, of which:	41,804,835
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	3,133,345
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	
EU-7	Institutions	151,285
EU-8	Secured by mortgages of immovable properties	6,260,027
EU-9	Retail exposures	10,358,544
EU-10	Corporate	17,010,749
EU-11	Exposures in default	1,612,550
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	3,278,334

19 The IRB approach for credit risk, CRR 452

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

20 Credit risk mitigation techniques, CRR 453

20.1 Netting, Article 453(a)

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

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

Reduction of the risk in the individual commitments by accepting collateral is an important component of the bank's credit risk management.
The most frequent forms of charges are mortgages on real property and personal property (wind turbines) and pledging of financial assets such as shares, bonds and investment certificates.
Via its policies and procedures for collateral, the bank gives priority to accepting the following main categories of financial collateral:

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

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

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

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

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

- Central governments
- Regional and local authorities
- Credit institutions

20.3 Main types of collateral, Article 453(c)

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

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

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

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

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 2019 – 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.	1,208,136
Exposures to retail customers	419,750
Exposures secured by mortgages on real property	0
Exposures on which there are arrears or overdrafts	20,601
Exposure with particularly high risk	10,591
Securitisation positions	0
Short-term exposures to institutions and corporates etc.	0
Exposures to collective investment undertakings	0
Total	**1,659,078**

20.7 Guarantees and credit derivatives, Article 453(g)

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

Credit risk mitigating guarantees distributed on exposure classes

Overview on 31 December 2019 – 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.	169,661
Exposures to retail customers	223,731
Exposures secured by mortgages on real property	11,367
Exposures on which there are arrears or overdrafts	3,035
Exposures with particularly high risk	5,161
Securitisation positions	0
Short-term exposures to institutions and corporates etc.	0
Exposures to collective investment undertakings	0
Total	**412,955**

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.

23 IFRS 9 transition scheme, CRR 473a

To address unintentional effects on the Tier 1 capital - and thereby the banks possibilities to support credit lending - a transitional for the IFRS 9 rules is established. By this way the negative effect on the banks capital ratios caused by the IRFS 9 impairment rules is phased in during a period of 5 years ending in 2022.
The amount which can be used during the transitional is the sum of a dynamic and a static part. The static part is calculated as the increase of the impairment charges from 31st of December 2017 to 1st of January 2018.
The bank has chosen only to use the static part - but not the dynamic part - of the transition. The static part amounts to million DKK 137 at the end of 2019.
Without the use of the transitional for the IFRS 9 impairments rules the capital ratios of the bank would decrease between 0.3 and 0.4%.