

CREDIT OPINION

4 October 2017

Update

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RATINGS

Ringkjøbing Landbobank A/S

| | |
|-------------------|--------------------------------|
| Domicile | Ringkøbing, Denmark |
| 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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Ringkjøbing Landbobank A/S

Update following rating affirmation, outlook remains stable

Summary

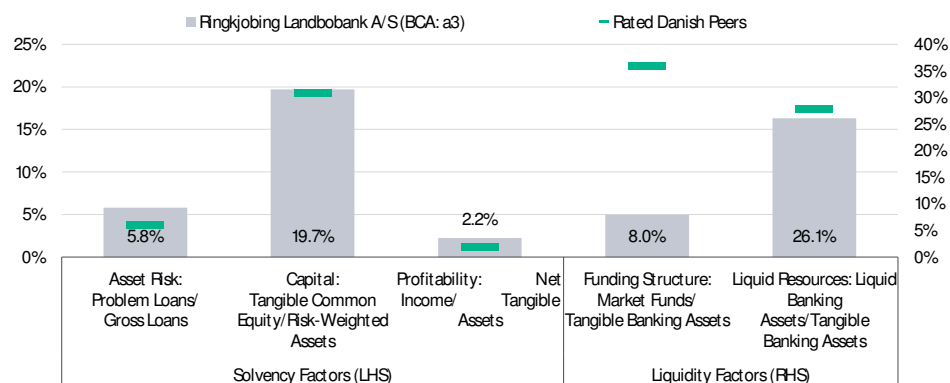
On 26 September 2017, we affirmed [Ringkjøbing Landbobank](#) (Ringkjøbing)'s long- and short-term deposit ratings at A1/P-1, as well as the bank's standalone baseline credit assessment (BCA) and Adjusted BCA at a3. Further, we affirmed Ringkjøbing's long-term Counterparty Risk Assessment (CR Assessment) at Aa3(cr) and short-term CR Assessment at P-1. In addition, we assigned, for the first time, A2 long-term issuer ratings and P-1 short-term issuer ratings to Ringkjøbing. The outlook on the bank's long-term issuer and deposit ratings is stable.

Ringkjøbing's long-term ratings reflect (1) the bank's a3 BCA and Adjusted BCA; (2) the results of our Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in the unlikely event of the bank's failure and its resolution under the European Banking Recovery and Resolution Directive, providing one notch of rating uplift to Ringkjøbing's issuer rating and two notches of rating uplift to Ringkjøbing's deposit ratings; and (3) our assumption of a "low" probability of government support, resulting in no additional rating uplift for Ringkjøbing's long-term ratings.

Ringkjøbing's a3 standalone BCA reflects its (1) high and resilient profitability, as demonstrated throughout the financial crisis; (2) its strong capitalisation; and (3) solid funding profile, reflecting ample deposits. However, the bank's BCA is constrained by its still elevated - but improving - problem loans and somewhat concentrated loan book by geography and industry.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Banking Financial Metrics

Credit strengths

- » Solid capital base and leverage ratio
- » Good earnings from core activities and high operating efficiency
- » Solid funding profile, reflecting sizeable deposit

Credit challenges

- » Still elevated - but improving - problem loans, as well as concentrated loan book by geography and industry

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 to 18 months, despite continued pressures 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 of loan and sector concentrations, leading to a lower susceptibility to adverse events; and (3) an improvement of the bank's liquidity.
- » Upward rating momentum for the long-term ratings of Ringkjøbing could 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 notching uplift under Moody's 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; and/or (3) an increase in the bank's reliance on market funding from the current low level.
- » Ringkjøbing's long-term ratings could be downgraded following (1) a downgrade of the bank's BCA; or (2) a significant decrease in the bank's junior deposits, leading to fewer notches of rating uplift under Moody's Advanced LGF analysis.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

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

| | 6-17 ² | 12-16 ² | 12-15 ² | 12-14 ² | 12-13 ³ | CAGR/Avg. ⁴ |
|--|-------------------|--------------------|--------------------|--------------------|--------------------|------------------------|
| Total Assets (DKK million) | 25,474 | 24,258 | 22,384 | 21,238 | 19,583 | 7.8 ⁵ |
| Total Assets (EUR million) | 3,426 | 3,262 | 2,999 | 2,852 | 2,625 | 7.9 ⁵ |
| Total Assets (USD million) | 3,908 | 3,441 | 3,258 | 3,451 | 3,617 | 2.2 ⁵ |
| Tangible Common Equity (DKK million) | 3,619 | 3,554 | 3,294 | 3,098 | 2,901 | 6.5 ⁵ |
| Tangible Common Equity (EUR million) | 487 | 478 | 441 | 416 | 389 | 6.6 ⁵ |
| Tangible Common Equity (USD million) | 555 | 504 | 480 | 504 | 536 | 1.0 ⁵ |
| Problem Loans / Gross Loans (%) | - | 5.0 | 5.7 | 6.7 | 8.1 | 6.4 ⁶ |
| Tangible Common Equity / Risk Weighted Assets (%) | 19.7 | 19.4 | 18.9 | 19.5 | 19.5 | 19.4 ⁷ |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | - | 20.4 | 24.5 | 27.3 | 31.6 | 25.9 ⁶ |
| Net Interest Margin (%) | 2.5 | 2.9 | 2.9 | 3.1 | 3.4 | 3.0 ⁶ |
| PPI / Average RWA (%) | 4.4 | 4.0 | 3.9 | 4.4 | 4.1 | 4.2 ⁷ |
| Net Income / Tangible Assets (%) | 2.5 | 2.2 | 2.0 | 2.1 | 1.8 | 2.1 ⁶ |
| Cost / Income Ratio (%) | 28.2 | 31.0 | 32.1 | 30.7 | 31.7 | 30.8 ⁶ |
| Market Funds / Tangible Banking Assets (%) | 7.6 | 8.0 | 7.3 | 10.3 | 10.4 | 8.7 ⁶ |
| Liquid Banking Assets / Tangible Banking Assets (%) | 23.7 | 26.1 | 20.7 | 25.0 | 27.4 | 24.6 ⁶ |
| Gross Loans / Due to Customers (%) | 103.9 | 100.5 | 107.4 | 106.4 | 104.1 | 104.5 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 funding of wind turbines and private banking. As of end-June 2017, it reported a total assets of DKK25.5 billion (around €3.4 billion), operated through a network of 6 branches and had around 270 full-time employees.

Detailed Credit Considerations

Elevated problem loans with high geographic and sector concentrations

Our assigned ba1 Asset Risk score indicates that asset risk remains a relative weakness for Ringkjøbing, reflecting the continued elevated level of problem loans, both relative to pre-crisis levels and to similarly highly rated peers across Europe, a key weakness for the bank.

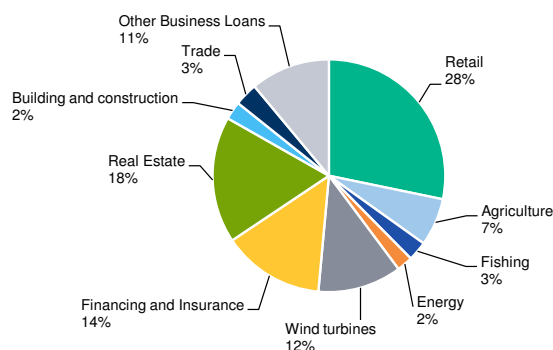
However, the trend in asset quality has been positive with problem loans (defined as gross loans subject to individual impairment) decreasing to 5.0% in 2016 from 5.7% in 2015. The improvement largely reflects a reduction in problem loans, which declined to DKK962 million at end-2016 from DKK1,125 million in 2015, based on Moody's calculations. We believe that the positive trend in Ringkjøbing's asset quality has continued during the period January to June 2017. The bank's coverage ratio (measured as total loan loss reserves as a percentage of problem loans) improved to 102% at end-2016 from 90% in 2015, the highest coverage ratio among rated Danish banks, mainly due to a very high level of generic loan loss reserves. We believe that Ringkjøbing has allocated considerable provisions for its agriculture exposure, which still exhibit still weak asset quality.

Ringkjøbing's loan book exhibits high geographic and sector concentrations, as around 40% of the bank's lending was to customers within the core region of western and central Jutland at end-2016, while only 10% of lending was to foreign customers located outside Denmark. At end-June 2017, the bank's highest sector concentrations related to the energy sector (14% of loans and guarantees), real estate (18%), and agriculture/fishing (10%). Overall, corporate loans accounted for around 72% of the bank's credit exposure, while retail loans (excluding those loans transferred to mortgage credit institutions) represented only 28%.

Our assigned asset risk score also takes into account the bank's unseasoned loan portfolio, reflecting significant loan growth of around 52% between 2012 and 1H2017. While outstanding loans (excluding guarantees) only increased by 2.6% during 2016, growth picked up again during 1H2017, increasing the bank's gross loan portfolio by 8.7% to DKK20.0 billion compared with year-end 2016.

Exhibit 3

Breakdown of Ringkjøbing's loan portfolio by sector at end-June 2017



Source: Moody's, company reports

Given Ringkjøbing's narrow banking franchise, the bank exhibits relatively large customer concentrations in comparison with other European peers as measured by its top 20 largest exposures relative to Tier 1 capital. We note that a majority of the 20 largest exposures are outside the core area of central and western Jutland and therefore not concentrated locally and that a significant share of the large exposures are to highly rated Danish mortgage bonds. At end June 2017, Ringkjøbing had reduced large credit exposures, to 13.4% of the bank's capital, compared with 29.5% at end-2016 and 63.4% at end-2015.

Solid capital base and high leverage ratios

Our assigned aa3 Capital score strongly supports Ringkjøbing's standalone credit profile, reflecting its high capital with ample buffers in excess of regulatory minima. At end-June 2017, Ringkjøbing's reported Common Equity Tier 1 (CET1) ratio increased to 17.2% compared to 16.9% at end-2016 (2015: 17.1%).

The bank's buffer in excess of its 9.0% individual solvency requirement at end-June 2017, which includes the FSA's Pillar 1 and Pillar 2 components, remained above seven percentage points, making capital a relative strength for the bank. Ringkjøbing mainly applies the standardized approach to calculate credit related risk-weighted assets. Therefore, the bank's risk density, measured as risk-weighted assets (RWA) compared with total assets, is relatively high at 72% at end-June 2017 (2016: 76%), rendering the bank less sensitive to potential amendments in regulatory methods to calculating RWA, including floor requirements. We note that the bank's high profitability and strong track record point to a high capacity to generate capital internally. We expect that the bank will sustain strong capital buffers over the foreseeable future.

At 14.2% at end-June 2017, Ringkjøbing's leverage ratio (measured as equity to assets) was one of the highest among Nordic and international banks (which typically ranges between 4%-10% on average), further underpinning our favorable capital assessment.

Good earnings and high operating efficiency

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 case of need. During the first six months of 2017, Ringkjøbing reported a continued improving trend, as underpinned by an annualized return on assets (ROA) of 2.5% (compared with 2.2% in 2016 and 2.0% in 2015).

We expect that the benign operating environment in Denmark will further support Ringkjøbing's earnings, as impairment charges are likely to further decline from an already very low level. During the first half of 2017, the bank's impairment charges as a percentage of core earnings have declined to 2.9% from 7.8% in 2016 and 10.2% in 2015 (2014: 16.7%).

Ringkjøbing remains one of Denmark's most efficient banks, with a 28% cost-to-income ratio in the first half of 2017 and 31% in 2016 (measured as operating income divided by operating expenses). In our view, the bank's lean and low-cost business model remains a key driver for its high risk-adjusted profitability compared with that of regional peers and its ability to further grow its lending activities raises Ringkjøbing's leeway to cope with the challenges from low interest rates.

During the first six months of 2017, Ringkjøbing reported an increase of pre-tax profits by 19.6% to DKK391 million, compared with DKK327 million in the same period last year. The increase in the half-year result has mostly been driven as a result of the increase in core earnings, a reduction in impairment charges and a positive contribution from fair value gains of its investment securities, which included DKK514 million in shares.

Solid funding profile and adequate liquidity

Ringkjøbing's solid funding profile strongly supports the bank's BCA. At end-June 2017, deposits accounted for around 76% of assets, almost unchanged compared with 2016 and 2015. The bank's very low dependence on confidence-sensitive wholesale funding is also underpinned by a balanced loan-to-deposit ratio of 104% at end-June 2017, compared with 101% in 2016 (2015: 107%). These strengths are reflected in our assigned a1 Funding Structure score.

Market funding, which accounted for 7.6% of the bank's tangible banking assets at end-June 2017 compared with 8.0% in 2016, has been relatively stable since 2011. As with most Danish regional and local banks, Ringkjøbing can secure its mortgage loan financing via the specialised mortgage lenders, like for example Totalkredit or DLR. Loans transferred and funded by the specialised mortgage lenders will not show on the Ringkjøbing's balance sheet.

We consider Ringkjøbing's liquidity adequate compared with its lending driven business model, as well as its high 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. At end-June 2017, liquid banking assets accounted for around 24% of assets, a small decrease from 26% at end-2016, while the bank reported a liquidity coverage ratio (LCR) of 192% (2016: 185) over the same time. Ringkjøbing's LCR is comfortably above the 100% minimum requirement, set by the Danish FSA, which applies to systemically important financial institutions in Denmark (although Ringkjøbing is not a systemically important financial institution).

Support and structural considerations

Loss-given-failure

Ringkjøbing Landbobank is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an Operational Resolution Regime. We apply our advanced Loss Given Failure (LGF) analysis to Ringkjøbing's liabilities, considering the risks faced by the different debt deposit classes across its liability structure at failure. We assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits and a 5% run-off in preferred deposits. These are in line with our standard 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 from which these ratings are notched. Issuer ratings are opinions of the bank's ability to honor senior unsecured debt and debt-like obligations.

Government support

The implementation of the EU BRRD has caused us to reconsider the potential for government support to benefit certain creditors. We continue to consider the probability of government support for Ringkjøbing to be low and hence do not assign any systemic support to the bank's ratings.

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 suffered in the event of default, 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 Assessments are 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 rating 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 4

Ringkjøbing 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 | 5.8% | baa2 | ← → | ba1 | Sector concentration | Loan growth |
| Capital | | | | | | |
| TCE / RWA | 19.7% | 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 | 8.0% | a1 | ← → | a1 | Market funding quality | Deposit quality |
| Liquid Resources | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | 26.1% | a3 | ← → | baa2 | Stock of liquid assets | |
| 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 | 4,774 | 18.7% | 6,739 | 26.5% |
| Deposits | 19,267 | 75.6% | 17,302 | 67.9% |
| Preferred deposits | 14,258 | 56.0% | 13,545 | 53.2% |
| Junior Deposits | 5,009 | 19.7% | 3,757 | 14.7% |
| Senior unsecured bank debt | 297 | 1.2% | 297 | 1.2% |
| Dated subordinated bank debt | 372 | 1.5% | 372 | 1.5% |
| Equity | 764 | 3.0% | 764 | 3.0% |
| Total Tangible Banking Assets | 25,474 | 100% | 25,474 | 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 | 20.4% | 20.4% | 20.4% | 20.4% | 3 | 3 | 3 | 3 | 0 | aa3 (cr) |
| Deposits | 20.4% | 4.5% | 20.4% | 5.6% | 2 | 2 | 2 | 2 | 0 | a1 |
| Senior unsecured bank debt | 20.4% | 4.5% | 5.6% | 4.5% | 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 5

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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