Q3 2014

vestjyskBANK
Risk report Addendum

vestjyskBANK

Introduction

The present risk report addendum has been prepared in accordance with the provisions set out in the Danish Executive Order on the Determination of Risk Exposures, Capital Resources and Solvency Needs (bekendtgørelse om opgørelse af risikoeksponeringer, kapitalgrundlag og solvensbehov).

Risk report addenda are prepared quarterly in conjunction with the publication of the Bank's solvency need and are posted to the Bank's website. Complete risk reports are published once annually in conjunction with the publication of the Bank's annual report for the previous year. In our assessment, both the published information and the frequency of publication are appropriate in relation to the Bank's risk exposures. The disclosures have not been audited by internal or external auditors.

Adequate own funds and individual solvency need

Adequate own funds and individual solvency need are distributed across the risk areas below.

	Calculation of solvency need at 30 September 2014	Amount in TDKK	%
1	Column I requirement (8 % of total risk exposure)	1,480,703	8.00
+2	Earnings (capital for risk coverage as a result of weak earnings)	0	0.00
+3	Growth in loans (capital to cover organic growth in business volume)	0	0.00
+4	Credit risks, of which		
	4a Credit risks for large customers (2 % of own funds) with financial problems	376,742	2,04
	4b Other credit risks	59,044	0.32
	4c Concentration risk of individual commitments	16,872	0.09
	4d Concentration risk by industry segments	59,943	0.32
+5	Market risk, of which		
	5a Interest rate risk	6,643	0.04
	5b Equity risk	0	0.00
	5c Exchange rate risk	0	0.00
+6	Liquidity risk (capital for coverage of more expensive liquidity)	0	0.00
+7	Operational risk (capital for coverage of operational risk in addition to Column I)	0	0.00
+8	Any supplementary items as a result of statutory requirements	0	0.00
	Total capital need/solvency need	**1,999,946**	**10.81**

Commentary on solvency need

Column I requirement (8 % of total risk exposure)

vestjyskBANK is subject to the requirement set out in Article 92(1) (c) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms that solvency, at a minimum, constitute 8 % of total risk exposure.

Credit risk

Credit risk covers the risk of losses from debtors or counterparties defaulting on their payment obligations, apart from what is covered by Column I, including large customers with financial problems, concentration risk across individual commitments and industry segments.

Large customers with financial problems

For large customers with financial problems, assessments are made based on the cautiously estimated loss for the individual commitment. Customers with financial problems comprise the following:

- Customers with objective indication of value impairment, credit quality category 1,
- Customers with material signs of weakness but without objective indication of value impairment, credit quality category 2c.

Large commitments are commitments constituting at least 2 % of own funds.

The cautiously estimated loss represents the “net loss” that, based on a cautious and prospective assessment, may be lost if major commitments with customers with financial problems have to be settled due to payment default. The Bank has calculated a supplement of TDKK 376,742.

Other credit risks

The Bank performs an assessment of whether special credit risks exist in the general credit portfolio (commitments below 2 % of own funds) not covered by the Column I requirement. For these commitments, the Bank has assessed that it will add a supplementary TDKK 59,044.

Concentration risk across individual commitments

Concentration risk across individual commitments represents the risk associated with the distribution across commitment amounts in the loan portfolio. The Bank determines the supplementary amount for concentration risk across individual commitments based on the Financial Supervisory Authority’s "Guidelines on Adequate Capital Base and Solvency Needs of Credit Institutions.” In accordance with these guidelines, amounts must be added if the sum of the 20 largest commitments is greater than 4 percent of the commitment mass.

A supplement is required because the 20 largest commitments constitute 13 percent. The Bank has calculated a supplement of TDKK 16,872.

Concentration risk by industry segments

The concentration risk by industry segments covers risk associated with commitments' distributed across relatively few industry segments. The Bank determines the supplementary amount for concentration risk across industry segments on the Financial Supervisory Authority’s "Guidelines on Adequate Capital Base and Solvency Needs of Credit Institutions.” In accordance with these guidelines, the Bank uses the Herfindahl-Hirschman Index (HHI) to measure the degree of concentration across industry segments. Based on the HHI, the supplement is calculated as set out in the table on below.

HHI	Supplement for adequate own funds/solvency need
HHI < 20 %	0
20 % < HHI < 25 %	0.008*RWAbusiness*(1-SRbusiness)
25 % < HHI < 30 %	0.016*RWAbusiness*(1-SRbusiness)
30 % < HHI < 40 %	0.024*RWAbusiness*(1-SRbusiness)
40 % < HHI < 60 %	0.032*RWAbusiness*(1-SRbusiness)
60 % < HHI < 100 %	0.040*RWAbusiness*(1-SRbusiness)

vestjyskBANK’s HHI has been calculated at 20.30% and a supplement is added. The bank has calculated a supplement of TDKK 59,943.

Market risk

The market risk is the risk of losses because of potential changes in interest rates, equity prices as well as foreign exchange rates, apart from what is covered in Column I. It is not based on vestjyskBANK’s current risk but on the maximum risk vestjyskBANK may assume within the limits established by the Supervisory Board for the Executive Board’s powers to assume market risks under section 70 of the Danish Financial Business Act.

The Bank bases its assessment on whether all market risks have been adequately covered by Column I on the Financial Supervisory Authority’s indicative benchmarks for interest rate risk, equity risk and foreign exchange rate risk. Based on these benchmarks as well as on an overall assessment of the Bank's market risks, it is the Bank's assessment that a supplement of TDKK 6,643 is required for market risks. Apart from the Column I requirement, the supplement for market risk can be attributed to the interest rate risk for the Bank's fixed-rate deposits and subordinated debt. Market risk is primarily calculated by means of stress testing.

Operational risk

Operational risk comprises risk of losses resulting from inappropriate or defective internal procedures, human or system-related errors as well as external events, including legal risks, in addition to what is covered by Column I.

In assessing supplements for operational risks, the Bank considers these risk areas, including the Bank's organisation, cyber security and IT operations as well as the Bank's business model. On that basis, apart from what is covered in Column I, it is the Bank’s assessment that a supplement is not needed.

Other risks

The Bank has performed an assessment of whether capital provisions should be made for hedging the risk of weak earnings, of organic growth in business volume and of more expensive liquidity from professional investors. It is the assessment that there is no need to make capital provisions for covering other risks.

Earnings

The Bank has based its assessment of whether extra capital provisions should be made to counter prospective credit losses on the Financial Supervisory Authority's relevant indicative benchmarks. The Bank performed its assessment of core earnings in relation to total loans and guarantees. It is the assessment that there is no need to make capital provisions for covering weak earnings.

Growth

The Bank has based its assessment of whether extra capital provisions should be made for a growth in loans on the Financial Supervisory Authority's relative indicative benchmarks. It is the assessment that there is no need to make capital provisions for covering a growth in loans.

Liquidity

The Bank has a high liquidity surplus. In assessing whether capital provisions should be made as a result of additional costs related to raising liquidity, the Bank bases its estimate on the Bank's stress testing of liquidity for a one-year term. It is the assessment that there is no need to make capital provisions for raising liquidity.

Statutory requirements

The Financial Supervisory Authority has not established individual solvency requirements for vestjyskBANK.

Own funds and solvency ratio

The Bank’s own funds and solvency ratio, is detailed in the table below.

Own funds and solvency ratio at 30 September 2014

	TDKK	%
Own funds/solvency ratio	2,130,697	11.5
Adequate own funds/solvency need	1,999,946	10.8
Solvency surplus	**130,751**	**0.7**

The solvency surplus was calculated at 0.7 %, or TDKK 130,751. At 30 June 2014 the solvency shortfall was calculated at 0.3 %, or TDKK 57,958.

Concluding remarks

For supplementary disclosures relating to risk management, please see the Bank's complete 2013 Risk Report as well as its 2013 Annual Report posted at www.vestjyskbank.dk.

The risk report will be updated in conjunction with the publication of the 2014 Annual Report.


Thisted
Thyborøn
Lemvig
Struer
Viborg
Randers
Region Holstebro
Hadsten
Region Ringkøbing
Region Herning
Ikast
Aarhus Havnegade
Videbæk
Silkeborg
Region Aarhus Åboulevarden
Hvide Sande
Skjern
Horsens
Esbjerg
Kolding