Vestjysk Bank
Risk Report 2015

vestjyskBANK

Introduction

The present Risk Report was prepared in accordance with the Capital Requirements Regulation (CRR) and the provisions set out in Danish Executive Order on Calculation of Risk Exposures, Own Funds and Solvency Need and covers the disclosure requirements (Pillar III), with which banks are required to comply with respect to the publication of risk disclosures. Reporting in accordance with the disclosure requirements take place annually in connection with the presentation of the annual financial statements, while the individual capital need is published quarterly. Unless otherwise indicated, the disclosures provided in this Risk Report pertain to 2015. The disclosures have not been audited by internal or external auditors.

The report is posted at Vestjysk Bank's website. The Bank also provides disclosures related to Bank's risks and risk management in the Annual Report. The numbering of disclosures in the Risk Report follows the chronology of articles 435–455 of the CRR.

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2. Risk management objectives and policy

Vestjysk Bank defines risk as any event that may have a material adverse impact on the Bank's ability to reach its business objectives. The Bank is exposed to various types of risk, which are monitored and managed at various levels in the organisation.

Vestjysk Bank's risk policy is cautious, and its ambition is always to maintain an asset portfolio of superior quality in order to ensure that future decisions are based on a solid foundation.

The Bank's risk exposure is a central consideration in all the Bank's transactions with customers and trading partners as well as those performed on its own account. The Bank does not enter into transactions without considering which risks it will incur as a result of the transaction.

The Bank's general policy within the area is detailed in Vestjysk Bank's business model.

Organisation
Vestjysk Bank maintains a functional division between units that are transacting business with clients, and are otherwise exposing the Bank to risks, and units concerned with general risk and capital management functions; these are controlled by a separate unit.

The day-to-day risk management is performed by the Finance Department, Markets & Advisory Services, the Credit Department and the Credit Secretariat. The Risk Management Department performs independent monitoring.

The Credit Department and the Credit Secretariat handle credit-related control and risk management.

The Finance Department is responsible for the Bank's market risk, liquidity and its own holdings of securities. This is where the Bank's liquidity and interest rate and foreign exchange rate positions are managed.

Markets & Advisory Services is responsible for market risks that can be attributed to customers. Back office-Markets handles controlling of this area.

Risk Management is responsible for the Bank's operational risk. Moreover, Risk Management is charged with ensuring that general risk management at Vestjysk Bank takes place in an appropriate manner, and that it provides an overview of Vestjysk Bank's risks and the overall risk profile.

The Finance Department on an ongoing basis monitors own funds and capital structure, including the individual capital need.

The Bank maintains a Compliance function. This function is designed to ensure that the Bank complies with current legislation and orders issued by government agencies at all times and that the Bank has sufficient and current procedures in place.

Moreover, the Bank's risk management is handled by its Risk Committee and Audit Committee. Both committees are compulsory and are made up by members of the Board of Directors. The Audit Committee's duties include examining accounting and audit-related matters as well as monitoring the Bank's internal control and risk management systems. The Risk Committee's duties include advising the Board of Directors on the Bank's general present and future risk profile and strategy and to assist the Board of Directors with ensuring that the Board of Directors' risk strategy is correctly implemented.

As required by law, the Bank has established a risk management function and appointed a general manager with specific responsibility for the risk management function as the Bank's Risk Officer. Organisationally, it has been ensured that the Risk Officer is sufficiently independent of the Bank's functions, in order for the Risk Officer to have the means to appropriately execute his duties. As needed, and at least once annually, the risk management function prepares a report to the Board of Directors on the Bank's risk management. The Risk Officer may express opinions and concerns and warn the Board of Directors, to the extent relevant, when specific risk exposures affect or may affect the Bank. The Risk Officer moreover assists the Risk Committee by providing it with information.

A brief has been drafted by the Executive Board for the risk management function. The Risk Officer is charged with preparing a plan each year for the risk areas on which the function wishes to focus. The plan is subject to the approval of the Executive Board.

Vestjysk Bank divides risk into the following categories:

- Market Risk
- Credit risk
- Operational Risk
- Liquidity risk
- Business risk, etc.
- Own funds risk

Market risk

Definition
Market risk is defined as the risk of losses resulting from changes in the market value of assets or liabilities related to changes in market conditions.

Market risk management objectives and policies
Among other things, the Bank's market risks are managed by setting limits for a number of risk targets, which, in aggregate, covers the level of the individual risk types. The framework for the Bank's overall market risk is defined by the Bank's Board of Directors and delegated as a framework to the Executive Board. The Executive Board delegates risk limits to the Bank's treasury function and to the head of investments. The head of investments may then entirely or partially delegate his or her authority to employees in the trade area.

Market risk comprises interest rate, foreign exchange, commodity and equity risk, which are affected by both general and specific market fluctuations. Market risk is a natural part of the Bank's risk profile, since client trading in securities and foreign currencies are of major significance to the Bank's total earnings and are thereby part of the Bank's core activities. Also, the Bank's liquidity is invested in securities exposed to market risk.

In specific areas, the Bank uses derivative financial instruments to hedge and manage market risks. The Bank's customers also use derivative financial instruments. Derivative financial instruments are included in the determination of the Bank's market risk for the underlying risk areas.

Structure of the Bank's market risk management

The Bank's investment portfolio is characterised by exclusively containing equity securities in other enterprises with which the Bank has a strategic and long-term collaboration. The purchase and sale of equity investments are strategic decisions performed on the basis of decisions made by the Executive Board. The Bank has determined that it is only the Bank's strategic equity investments that will not be included in the trading book.

Risk reporting and measurement of market risk

The Board of Directors is briefed regularly on risk developments and how the allocated risk framework is being used.

The Executive Board receives daily reports on developments in material market risks as well as cases where the framework provided by the Board of Directors to the Executive Board has been exceeded.

Trades to and from the trading book are monitored daily. Cases where the framework has been exceeded are reported to the Board of Directors. Applied prices and rates are monitored on an ongoing basis and the prices of unlisted securities are verified quarterly.

Systems and controls for managing market risk

Controlling of established policies and instructions with respect to market risk is handled by the Finance Department and Back office-Markets in respect of the following tasks:

- Daily follow-up on compliance with the Board of Directors' instructions to the Executive Board;
- Daily follow-up on compliance with the Executive Board's delegated instructions to the head of investments and Treasury;
- Price verification in relation to market prices for trading in securities and financial instruments;
- Ongoing assessment and reporting of potential risks related to the Bank's trading in securities and financial instruments;
- Assessment of risk of new products subject to market risk.

Credit risk

Definition

Risk of loss as a result of customers' full or partial default.

Organisation

The credit area is organised with:

A **credit department** with general responsibility for

- establishing and communicating the Bank's credit policy,
- credit approvals and establishing approval limits,
- general management of commitments, incl. the handling of overdrafts and arrears,
- preparing pricing policies in the area,
- reviewing commitments and preparing proposals for impairment charges and provision needs.

A **credit secretariat** with general responsibility for

- managing the credit area in compliance with the applicable rules and regulations,
- performing independent controls and reporting within the credit area,

- implementing new legislation and rules within the credit area,
- the administrative management of the Bank's impairment charges and provisions.

Credit risk management objectives and policies

The Bank focuses on its credit risks being soundly diversified on the asset mass, including customer types, geographic location, sector, commitment credit quality as well as the types of collateral accepted.

Certain sectors are not permitted to constitute a disproportionally high credit risk. The strategy for portfolio allocation is reassessed annually for sectors. The Bank is reluctant to extend credit to enterprises in sectors with which it has little experience in assessing risk, and our requirements are stricter when extending credit to enterprises operating within sectors considered weak or cyclical in nature.

For the corporate customer segment, the Bank primarily caters to small and medium-sized enterprises.

Vestjysk Bank's policy is that it, in principle, will not accept commitments that represent more than 10% of its own funds. Approved commitments greater than the 10% specified above must be accompanied by an action plan for when and how the amount can be reduced to fit within by the 10% rule.

The Bank does not proactively engage in loan-financed securities investments.

As a general rule, commitments classified as weak in terms of credit may only be raised against the provision of full collateral.

Structure of the Bank's credit risk management

At Vestjysk Bank, credit approval authority is based on a cautious delegation policy. The authority issued by the Board of Directors to the Executive Board are delegated to the Credit Director, who in turn delegates authority to individual employees.

In order to ensure optimal credit assessments, approval powers are delegated so that each branch manager has the authority to approve credit in consideration of, among other things, the size of the branch, his or her level of experience as well as the relevant operational area.

Commitments that exceed the branch manager's approval authority are transferred for review by the Credit Department. Depending on the amount of the commitment, the credit inquiry will be approved by the Credit Department, the Credit Director, the Credit Committee, the Executive Board or, ultimately, the Board of Directors. Throughout the branch network, the delegated approval powers are structured so that both all business customer commitments and major retail customer commitments are reviewed by at least two persons.

In performing credit analyses of business commitments, Vestjysk Bank takes into account whether the customer's business concept is sound and sustainable and whether the customer is in possession of the requisite competencies. An important component in the Bank's credit analyses is reviewing the customer's financial statements and budgets.

For credit analyses of retail customers, the customer's discretionary funds and assets are the decisive factors.

All the Bank's customers are rated according to the credit risk they present. This segmentation is constantly reassessed and is a component in the Bank's pricing structure in order to ensure that prices and risks remain balanced.

The Bank pays close attention to the sector distribution of exposures. Exposures to real estate and agriculture are markedly higher than for the other sectors. The Bank has a goal of reducing its exposures in these two segments as they represent a disproportionately high risk to the Bank. Similarly, the Bank carefully monitors developments in commitments by risk classes.

All overdrafts with balance movements are examined by the relevant customer representative daily. The credit limit manager in the branch processes all overdrafts once a month. The Credit Department is notified of all daily overdrafts in excess of DKK 100,000.

The Bank closely monitors warning signs in its daily handling of commitments. Commitments exhibiting weakness are flagged and commitments for which direct impairment charges/provisions have been made due to objective evidence of impairment are handled almost exclusively by the Credit Department, the Credit Director, the Credit Committee and the Executive Board. Commitments exhibiting weakness are monitored closely. Action plans as well as cautious loss and risk estimates are drawn up for commitments for which impairment charges/provisions have been made; these are, at a minimum, reassessed quarterly. Cases involving distressed corporate client commitments are handled by the individual branches in close consultation with the Credit Department and the Bank's legal function. All collection proceedings involving retail customers are handled by collection officers at the Credit Secretariat.

A number of organisational changes were implemented in 2015: Establishment of a central agricultural centre in Holstebro, establishment of centralised production in Ringkøbing and centralised customer servicing in Herning. Also, the Task Force department was changed to a department for special commitments, still referring directly to the Credit Director.

Risk reporting and measurement of credit risk
The Credit Department reviews all major corporate commitments annually for re-approval. Moreover, all commitments in excess of 2% of the Bank's own funds and all commitments exhibiting signs of weakness and all commitments in excess of DKK 25 million.

Such reviews include assessments of financial statements and budgets and, for commitments exhibiting weakness, also the drafting of action plans.

In the same manner, individual branches review all other commitments with an emphasis on identifying commitments that are or may be about to exhibit signs of weakness. The Credit Secretariat quarterly reports developments as well as the status of credit-related risks to the Executive Board and the Board of Directors.

The report includes:

- An overview of major commitments;
- Overdraft statistics;
- A briefing on major overdrafts;
- Distribution by sector, including developments by individual sector groups;
- Migration of customers' risk classification;
- Trends in impairment and provisions.

Once a year, the Board of Directors is presented with the largest commitments, major commitments exhibiting signs of weakness as well as other select commitments.

Approaches to hedging and mitigating risk
In the Capital Requirements Regulation (CRR), special requirements for banks that apply the credit risk mitigation rules. Meeting these requirements is a precondition for the Bank's ability to reduce the risk weight of exposures secured by financial collateral and properties.

In 2015, as in previous years, Vestjysk Bank measured credit risk applying the standardised approach.

Systems and controls for managing credit risk
In addition to daily and periodical credit risk management and control systems, the Bank has created a system for flagging commitments exhibiting signs of weakness.

Operational risk

Definition
Operational risk is defined as the risk of losses associated with internal and external conditions resulting from inadequate or failed internal processes, human or system errors as well as external events, including legal risk.

Operational risk management policy and objectives
The policy defines the types of events considered to be operational risks and identifies registration and reporting requirements.

The Bank's goal is for operational risks to be continually limited taking into account associated costs.

In order to minimise the Bank's dependency on individuals and to ensure that transactions, etc. are entered into in accordance with the Bank's adopted policy, the Bank has written operational procedures in place for all major areas. The Bank also has IT contingency plans in place to limit losses in case of failing IT systems or other similar crises.

Systems and controls for managing operational risk
The Bank is constantly developing tools to identify, monitor and manage daily risks to which the Bank is exposed.

Risk Management retains coordinating and general responsibility for operational risks. Risk Management submits quarterly reports to the Executive Board and Board of Directors on operational risks.

Liquidity risk

Definition
Liquidity risk is defined as the risk of losses due to the Bank's inability to meet its payment obligations using its normal liquidity reserves.

Liquidity risk management objectives and policies
Measured in relation to statutory requirements, the Bank's objective is to maintain an excess liquidity coverage of at least 50%, in order to comply with the excess liquidity requirements set out by the Supervisory Diamond and to ensure that there is sufficient liquidity to cover ongoing liquidity need fluctuations. It is also the Bank's objective that all customer deposits should predominantly finance customer lending to minimise the Bank's dependence on external funding.

The general purpose of the Bank’s liquidity management is

- to monitor and manage the development of the Bank’s short-term and long-term liquidity,
- to ensure that the Bank has sufficient liquidity at its disposal at all times in Danish kroner as well as foreign currencies.

The Bank is seeking to have in place a healthy balance sheet structure that, while focusing on good liquidity, modifies the Bank’s business volume in step with the general economic conditions. The liquidity must be sound and sufficiently cautious and support the selected business model. The Bank's liquidity policy is that at least 90% of the funding designated for pure funding purposes is to be constituted by deposits. The Bank is also seeking to maintain a healthy balance between savings products with and without restrictions.

The liquidity need is planned in both the long and the short term for the purpose of ensuring a sufficient and stable level of liquidity preparedness. The Bank primarily seeks to produce liquidity through its depositors by offering attractive deposit products. Additional liquidity needs are covered by raising loans from Danmarks Nationalbank. The money markets are used to offset daily fluctuations in liquidity.

Structure of the Bank’s liquidity risk management
The Board of Directors determines the size of the desired risk profile and adopts liquidity goals through its liquidity policy and adopted liquidity preparedness plan. The Executive Board is responsible for complying with the targets/framework set out in the mandate granted by the Executive Board.

The Bank’s immediate liquidity preparedness is determined applying the guidelines set out in section 152 of the Danish Financial Business Act. The general liquidity risk is determined based on budgets, historical and statistical materials as well as future receipts and payments from concluded transactions.

The Bank on an ongoing basis monitors all major financing sources, including their maturity, distribution on counterparties, geographical locations, etc. and emphasises solid, general.

Effective as of 1 October 2015, the Bank must comply with new requirements in the form of the Liquidity Coverage Ratio (LCR) standards under the Basel III rules. The Bank is very mindful of these issues and has implemented these in the Bank's liquidity management at an early stage. At the end of 2015, the Bank’s LCR ratio stood at 260%, relative to the LCR ratio requirement of 60%.

In accordance with the LCR regulation, the LCR requirement is being gradually phased in, with 60% at 1 October 2015, 70% at 1 January 2016, 80% at 1 January 2017 and 100% at 1 January 2018. The Bank’s liquidity projections indicate that the Bank will meet the fully phased-in LCR requirements with a large buffer.

Liquidity risk reporting and measurement
The Bank performs continuous assessments of future liquidity need and reports to the Board of Directors on a monthly basis. Among other things, the model ensures that the Bank has adequate liquidity in relation to its risk profile, strategy and earnings forecast.

The Bank’s liquidity management is based on statutory requirements as well as the mandate granted by its Executive Board. These management parameters are all determined and included in the Bank’s statement and are also reported daily to the Executive Board and senior executives as well as included in the monthly Board of Directors’ report.

Systems and controls for managing liquidity risk

The Bank employs a stress-testing model which is based on the stress-testing model approved by the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (Lokale Pengeinstitutter).

Business risk

Definition

Business risk is defined as the risk of losses caused by changes in external conditions or events that harm the Bank's reputation or earnings.

Business risk management objectives and policies

Focusing on building and maintaining strong relationships with all its stakeholders—shareholders, customers, suppliers, employees and thereby also the local communities where the Bank operates—is considered the foundation for Vestjysk Bank's continued success and its opportunities for growth.

This is reflected in the Bank's mission and vision, which seek to promote the common good rather than individual interests. The Bank's core values are a natural part of the manner in which Vestjysk Bank carries out its activities.

For the purpose of ensuring that its employees' competencies always correspond to what is required by an enterprise of Vestjysk Bank's size, the Bank's policy is for its employees to continually develop their skills through further training.

Structure of the Bank's business risk management

The Bank has a permanent procedure in place for approving new products to ensure that the Bank does not offer products that have not been appropriately approved.

For the purpose of ensuring the best possible product offerings to its customers as well as optimal support for the Bank, the Bank collaborates with a well-established network of competent partners. Here, the Bank is well represented in various collaboration forums, which provides Vestjysk Bank with a great degree of influence.

The Bank is consistently seeking to ensure that its dependency on these partners is minimised.

Systems and controls for managing business risk

The compliance function ensures that business procedures are prepared for the central areas of financial laws and regulations. Thus, the procedures apply to proper conduct, investor protection, money laundering, processing of personal data, employee securities transactions , customer complaints, etc.

Own funds risk

Definition

Own funds risk is defined as the risk of losses due to the Bank not having sufficient capital to meet the capital requirements.

Own funds risk management objectives and policies

Management establishes a capital target that is included in the Bank's capital management.

Structure of the Bank’s own funds risk management

The Board of Directors sets the Bank’s capital target and criteria for determining its capital need. The Executive Board is responsible for complying with the targets/framework. The Bank’s own funds are determined in accordance with Danish Executive Order on the Calculation of Risk Exposures, Own Funds and Solvency Need and with the capital contingency plan that the Bank has drafted. The Finance Department monitors own funds and their structure on an ongoing basis.

Own funds risk reporting and measurement

Reports relating to the Bank’s capital are submitted to the Executive Board on an ad hoc basis, and to the Board of Directors on a monthly basis.

Management statements

At today's date, Vestjysk Bank's Board of Directors and the Executive Board approved the 2015 Risk Report.

It is the Board of Directors' assessment that Vestjysk Bank's risk management is adequate and provides assurance that the established risk management systems are sufficient in the context of Vestjysk Bank's profile and strategy.

Moreover, it is the Board of Directors’ assessment that the description set out below of Vestjysk Bank's general risk profile in relation to Vestjysk Bank's business model and key figures provides a relevant and adequate view of Vestjysk Bank's risk management.

The Board's assessment was made based on the business model adopted by the Board, the materials and reports presented to the Board by Vestjysk Bank’s Executive Board, its internal auditors, the Risk Officer and the Compliance Officer.

An examination of the Bank's business model and policies shows that the business model's general requirements for the individual risk areas are fully and adequately implemented through the individual policies' detailed limits. A review of the Board of Directors’ guidelines to the Executive Board and designated powers also shows that the established limits in the individual policies are fully and adequately implemented through the underlying guidelines to the Executive Board and designated powers and that the actual risks are within the limits established in the individual policies and in designated powers. Based on that, it is the Board of Directors’ assessment that there is correlation between the business model, policies, guidelines and the actual risks in the various areas.

Vestjysk Bank's business model is based on its vision and basic values to be, within its particular market, an attractive and reputable financial partner for retail and business customers. Vestjysk Bank seeks solid core earnings through continuous efficiency measures and maintains its focus on ensuring quality in its lending portfolio measured by credit quality as well as profitability. Vestjysk Bank seeks robust liquidity that supports its business model. Vestjysk Bank also seeks to be a recognised local and regional bank that creates value for customers and shareholders through a customer-customised concept.

It is Vestjysk Bank's objective to have an excess own funds/liquidity coverage ratio of at least 3% – but at a minimum of around DKK 450-500 million.

The Board of Directors has established limits in its various policies that reflect its maximum risk tolerance. Moreover, the Board of Directors adheres to the restrictions imposed by the Supervisory Diamond, as set out in the table below, which lists the Supervisory Diamond’s maximum allowed threshold values, and Vestjysk Bank's current figures for the various threshold values.

Realised values at 31 December 2015

Supervisory Diamond indicators	Realised Values
Sum of large exposures (< 125%)	35.1%
Lending growth (< 20%)	-9.4%
Property exposure (< 25%)	18.8%
Funding ratio (< 1)	0.66
Surplus liquidity in relation to statutory requirement (> 50%)	140.1%

Lemvig, 25 February 2016

Executive Board

……………………………………………
Jan Ulsø Madsen
Chief Executive Officer

……………………………………………
Michael Nelander Petersen
Managing Director

Board of Directors

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Vagn Thorsager
Chairman of the Board of Directors

……………………………………………
Lars Holst
Deputy Chairman of the Board of Directors

……………………………………………
Anders Bech

……………………………………………
Karina Boldsen

……………………………………………
Poul Hjulmand

……………………………………………
Bent Simonsen

……………………………………………
Jacob Møllgaard

……………………………………………
Malene Rønø

……………………………………………
Palle Hoffmann

Management systems

In addition to their membership of Vestjysk Bank's Board of Directors, the nine board members hold a number of other directorships. These are specified on pp. 26-29 of the 2015 Annual Report.

The Bank complies with the expertise requirements for board members set out in the financial legislation. In accordance with this, the Board of Directors regularly reviews whether its members collectively possess the requisite knowledge and experience about the Bank's risks to ensure the sound operation of the Bank. The Board of Directors has prepared an expertise profile for itself, which is available at the Bank's website. The Board of Directors' process for selecting candidates for the Board is described in the Nominating Committee's brief, which is available at the Bank's website.

Under section 70(1)(4) of the Danish Financial Business Act, the Bank's Board of Directors has adopted a policy for diversity, target figures and the under-represented sex. The Bank sees diversity as a strength that has the capacity to contribute positively to the Bank's growth, robustness as well to meet its established strategies and plans. Diversity in age, gender, experience and competencies are prioritised highly.

Vestjysk Bank seeks be an attractive workplace for both women and men and endeavours to provide women and men with equal opportunities to pursue careers and to attain and hold positions of leadership. For this, it is important that its executives have the proper competencies, irrespective of gender.

The gender composition among the Bank's board members elected at the annual general meeting is 83% men and 17% women in 2015. The Board of Directors endeavours to attract a higher share of female board members for election at the annual general meeting and its ambition is to reach a minimum of 30% from 2017.

Moreover, it is the Bank's objective to achieve an appropriate balance of men and women in management. At 1 October 2015, the gender distribution in management was as follows:

	Men	Women
Executive board	100%	
Executive group	81%	19%
Branch Managers	68%	32%
Group Managers	25%	75%

There will be special focus on expanding the share of female managers in the executive group from 19% to a minimum of 25% by 2017.

In the autumn of 2014, the Bank appointed a Risk Committee under section 80b(1) of the Danish Financial Business Act. In 2015, the Risk Committee held two meetings.

3. Scope of application

The Bank's disclosure requirements solely comprise Vestjysk Bank A/S as it does not have any subsidiaries. The purpose of the present report is to provide information about the risk and capital management in Vestjysk Bank A/S.

4. Own funds

4. a. Reconciliation of equity for accounting purposes and own funds calculated according to the capital adequacy rules

For reconciliation between the accounting-related equity and the own funds under the capital adequacy rules, please refer to the Statement of Changes in Equity and Note 29 of the 2015 Annual Report.

4. b-c. Main features of the capital instruments issued by the Bank

For a description of subordinated debt, please refer to Note 26 of the 2015 Annual Report.

4. d-e. Disclosure of calculation of own funds

Own funds are calculated in accordance with the provisions set out in the Capital Requirements Regulation (CRR). Own funds comprise common equity tier 1 items and subordinated debt in the form of additional tier 1 capital and tier 2 capital as well as filters and deductions. The calculation of own funds is shown in the table below.

Calculation of the Bank's own funds at 31 December 2015	*(DKK'000)*
Share capital	151,008
Retained earnings	573,583
Revaluation reserves	52,543
Reserves provided for in the Bank's Articles of Association	551,600
Common equity tier 1 capital before deductions	**1,328,734**
Intangible assets	-4,489
Prudent valuation	-4,151
Common equity tier 1 capital in financial sector entities in which the Bank does not have significant investments	0
Common equity tier 1 capital after deductions	**1,320,094**
Additional tier 1 capital	436,027
Additional tier 1 capital in financial sector entities in which the Bank does not have significant investments	0
Tier 1 capital after deductions	**1,756,121**
Tier 2 capital	335,091
Tier 2 capital in financial sector entities in which the Bank does not have significant investments	0
Own funds	**2,091,212**

4.f. Publication of capital ratios

The Bank publishes capital ratios established on the basis of the provisions set out in the Capital Requirement Regulation and the disclosure requirement is therefore not relevant to the Bank.

4. g. Common equity tier 1 capital and tier 1 capital requirements

The Bank's common equity tier 1 capital and tier 1 capital in relation to the required capital to comply with the minimum requirement of common equity tier 1 capital (4.5%) and tier 1 capital (6.0%) in the 8% requirement:

31 Dec. 2015 (DKK'000)	Actual amounts	Minimum requirements for risk-weighted exposures	Required amount for complying with minimum requirement	Excess amount
Common equity tier 1 capital	1,320,094	4.5%	753,242	566,852
Tier 1 capital	1,756,121	6.0%	1,004,323	751,798

4. h-i. Disclosure of own funds subject to the transitional regime
Vestjysk Bank uses the transitional regime in determining its own funds.

The transition rules set out a number of criteria with which capital instruments must comply in order to be included in own funds, and are therefore material to how capital instruments may be included in own funds.

The following capital instruments are covered by the transitional regime:

Type of capital	Starting value transitional regime at 31 December 2012 (DKK'000)	Inclusion factor (%)	Inclusion threshold (DKK'000)
Additional tier 1 capital			
DKK 100 million	107,573		
DKK 50 million	50,000		
Total	157,573	70	**110,301**
State-funded additional tier 1 capital	311,027	100	**311,027**

Inclusion of capital types in own funds:

Type of capital	Amount at 31 December 2015 (DKK'000)	Inclusion threshold (DKK'000)	Included in own funds (DKK'000)
Common equity tier 1 capital			
Common equity tier 1 capital before deductions not covered by transitional provisions			1,328,734
Common equity tier 1 capital after deductions not covered by transitional provisions			1,320,094
Additional tier 1 capital			
Additional tier 1 capital covered by transitional provisions	50,000	110,301	50,000
State-funded additional tier 1 capital covered by transitional provisions			311,027
Additional tier 1 capital not covered by transitional provisions			75,000
Additional tier 1 capital, total			436,027
Tier 2 capital			
Tier 2 capital not covered by transitional provisions			335,091

5. Capital requirements

5. a. Approach

Under the Capital Requirement Regulation and the Executive Order on the Calculation of Risk Exposures, Own Funds and Solvency Need, the Board of Directors and the Executive Board are tasked with establishing Vestjysk Bank's adequate own funds and individual capital need. In determining the Bank's capital need, the Bank's Management has decided to employ a template prepared by the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (Lokale Pengeinstitutter). Additionally, the Bank utilises the Financial Supervisory Authority's "Guidelines on Adequate Own Funds and Solvency Need for Credit Institutions etc." The model, process and approach are detailed in sections 6-11, Individual capital need.

5. b Statutory own funds requirement

The Financial Supervisory Authority has not stipulated a higher own funds requirement. The disclosure requirement is therefore not relevant.

5. c. Bank's risk-weighted exposures and capital requirements for individual exposure classes

Vestjysk Bank applies the standardised approach to credit risk in measuring risk-weighted exposures. The table below lists the Bank's risk-weighted exposures as well as the 8% capital requirement for each individual exposure class.

Risk-weighted credit risk exposures	**31 Dec. 2015 (DKK'000)**	**Capital requirement (DKK'000)**
Central government or central banks	0	0
Regional or local authorities	0	0
Public sector entities	0	0
Multilateral development banks	0	0
International organisations	0	0
Institutions	86,405	6,912
Corporates	5,150,748	412,060
Retail exposures	3,598,818	287,905
Exposures secured by mortgages on real property	843,919	67,514
Exposures in default	3,502,481	280,199
Exposures subject to particularly high risk	351,042	28,083
Exposures in the form of covered bonds	0	0
Items representing securitisation positions	0	0
Institutions and corporates with short-term credit assessments	0	0
Units or shares in collective investment undertakings ('CIUs')	0	0
Equity exposures	154,076	12,326
Other items	454,845	36,388
Risk-weighted credit risk exposures, total	**14,142,334**	**1,131,387**

5. d. Internal ratings-based approach

Vestjysk Bank does not apply an internal ratings-based approach to credit risk to calculate its risk-weighted exposures. The disclosure requirement is therefore not relevant to Vestjysk Bank.

5. e. Bank's own funds requirement for market risk and CVA

The tables below shows the Bank's own funds requirement for market risk and CVA at 31 December 2015.

Risk-weighted market risk exposures	31 Dec. 2015 (DKK'000)	Capital requirement (8% of exposure) (DKK'000)
Debt instruments	416,376	33,310
Equities	43,757	3,501
Foreign currency	0	0
Commodities	3,789	303
Risk-weighted market risk exposures, total	**463,922**	**37,114**

Risk-weighted exposure CVA	31 Dec. 2015 (DKK'000)	Capital requirement (8% of exposure) (DKK'000)
Risk-weighted exposure CVA	14,906	1,192
Risk-weighted exposure CVA, total	**14,906**	**1,192**

5. f. Own funds requirement for operational risk

Vestjysk Bank uses the basic indicator approach to calculate the own funds requirement for operational risks. The table below shows the Bank's own funds requirement for operational risk at 31 December 2015.

Risk-weighted operational risk exposure	31 Dec. 2015 (DKK'000)	Capital requirement (8% of exposure) (DKK'000)
Risk-weighted operational risk exposure	2,117,555	169,404
Weighted operational risk exposure, total	**2,117,555**	**169,404**

Summary of risk-weighted exposures and capital requirements

The table below lists the Bank's risk-weighted exposures at 31 December 2015.

Risk-weighted exposures	31 Dec. 2015 (DKK'000)	Capital requirement (8% of exposure) (DKK'000)
Credit risk	14,142,334	1,131,387
Market risk	463,922	37,114
CVA	14,906	1,192
Operational risk	2,117,555	169,404
Risk-weighted exposures, total	**16,738,717**	**1,339,097**

6. – 11. Individual capital need

6.a. Internal capital adequacy and capital need assessment process

Vestjysk Bank's Internal Capital Adequacy Assessment Process (ICAAP) is the Bank's basis for its determination of adequate own funds and capital need. In the ICAAP, the Bank identifies the risks to which Vestjysk Bank is exposed in order to assess its risk profile. Once the risks have been identified, it is assessed how these might be reduced through, e.g. business procedures, contingency plans, etc. Finally, the Bank assesses which risks should be managed by way of capital.

The solvency need is Vestjysk Bank's own assessment of its capital need as a result of the risks it incurs. The Bank's Board of Directors has discussions quarterly to determine its capital need. The discussions are based on the Executive Board's recommendation. The recommendation contains proposals regarding the amount of the capital need, including stress levels and growth outlooks. This also applies if the Financial Supervisory Authority's benchmarks are applied. Based on those discussions, the Board of Directors makes a decision on the determination of the Bank's capital need, which must be adequate to cover the risks of the Bank, cf. section 124(1) and (4) of the Danish Financial Business Act.

In addition to those discussions, the Board of Directors also meets once a year to discuss the method of determining the Bank's capital need, including relevant risk areas and benchmarks for calculating the capital need.

The capital need is determined using an 8+ approach, which comprises the types of risk that the Board of Directors has determined should be managed by way of capital: Credit risk, market risk, operational risk, other risks as well as additions related to statutory requirements. The assessment is based on the Bank's risk profile, capital structure as well as prospective considerations that may affect the assessment, including the budget.

6. b. Methods for determining adequate own funds and capital need

The Financial Supervisory Authority has issued a publication entitled "Guidelines on Adequate Own Funds and Solvency Need for Credit Institutions". In addition to that, the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (Lokale Pengeinstitutter) has issued a capital need model. Both the Financial Supervisory Authority's guidelines and the Association of Local Bank's capital need model used by Vestjysk Bank are based on the 8+ method, which is based on the 8% minimum requirement for risk-weighted exposures (Pillar I requirement) plus risks and conditions not fully reflected in the calculation of risk-weighted exposures.

Additionally, the Financial Supervisory Authority's guidelines establish benchmarks for when, in the Financial Supervisory Authority's assessment, Pillar I is not sufficient within the individual risk areas and as a result of which supplements should be added to the capital need. Furthermore, extensive methods for calculating supplemental amounts have been put in place within the individual risk areas.

The Financial Supervisory Authority establishes benchmarks in most areas. However, Vestjysk Bank still performs an assessment across all areas whether the indicated benchmarks take the Bank's risks sufficiently into account and whether, to the extent necessary, it has performed individual adjustments. For that purpose, Vestjysk Bank uses its own historical data.

In Vestjysk Bank's opinion, the risk factors included in the model cover all the risk areas that the Bank's Management should take into account under the law in setting its capital need as well as the risks that Management finds that Vestjysk Bank has assumed.
The Board of Directors and the Executive Board are furthermore required to assess whether the own funds is adequate to support future activities. This assessment forms part of Vestjysk Bank's general determination of the capital need.

7. Adequate own funds and capital need

The calculation of adequate own funds and individual capital need is distributed on the risk areas below.

Calculation of capital need at 31 December 2015	Amounts in	%
1 Pillar I requirement	1,339,097	8.00
+2 Earnings (capital to cover risk 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 risk, of which		
4a Credit risk for large customers (2% of own funds) with financial problems	296,954	1.77
4b Other credit risk	99,318	0.59
4c Single name concentration risk	15,016	0.09
4d Sector concentration risk		
+5 Market risk, of which		
5a Interest rate risk	34,259	0.20
5b Equity risk	0	0.00
5c Foreign exchange risk	0	0.00
+6 Liquidity risk (capital to cover more expensive liquidity)	0	0.00
+7 Operational risk (capital to cover operational risk in excess of Pillar I)	0	0.00
+8 Leverage (capital for coverage of risks as a result of high gearing)	0	0.00
+9 Regulatory maturity of capital instruments	0	0.00
+10 Any additions as a result of statutory requirements	0	0.00
Capital need, total	**1,784,645**	**10.66**

8. Commentary on capital need

Pillar I requirement (8% of risk-weighted exposures)
Vestjysk Bank is subject to the own funds requirement of a total capital ratio of 8% of total risk exposures, cf. Article 92(2)(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.

Credit risk
Credit risk covers the risk of losses from debtors or counterparties defaulting on their payment obligations, over and above what is covered by Pillar I, including major customers with financial problems, single name concentration risk and sector concentration risk.

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

- Customers with objective evidence of impairment (OEV) credit quality category 1,
- Customers with material signs of weakness but without OIV, credit quality category 2c.

Major exposures are exposures 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 exposures to customers in financial difficulty have to be settled due to default. For these exposures, the Bank has assessed that it will add a supplementary DKK 296,954 thousand.

Other credit risks
The Bank performs an assessment of whether special credit risks exist in the general credit portfolio (exposures below 2% of own funds) not adequately covered by the Pillar I requirement. For these exposures, the Bank has assessed that it will add a supplementary DKK 99,318 thousand.

Single name concentration risk
Single name concentration risk represents the risk associated with the size of exposures in the loan portfolio. The Bank determines the supplement for single name concentration risk based on the Financial Supervisory Authority’s "Guidelines on Adequate Own Funds and Solvency Need of Credit Institutions.” In accordance with these guidelines, a supplement must be added if the sum of the 20 largest exposures is greater than 4% of the commitment mass.

A supplement is required because the 20 largest exposures constitute 12%. For these exposures, the Bank has assessed a supplement of DKK 15,016 thousand for 2015.

Sector concentration risk
Sector concentration risk covers risk associated with exposures being distributed on relatively few industry segments. The Bank determines the supplement for sector concentration risk on the Financial Supervisory Authority’s "Guidelines on Adequate Own Funds and Solvency Need of Credit Institutions.” In accordance with these guidelines, the Bank must use the Herfindahl-Hirschman Index (HHI) to measure the degree of sector concentration risk. Based on the HHI, the supplement is calculated as set out in the following table.

HHI	Supplement to adequate own funds/capital requirement
HHI < 20%	0
20% < HHI < 25%	0.008*REAbusiness*(1-SRbusiness)
25% < HHI < 30%	0.016*REAbusiness*(1-SRbusiness)
30% < HHI < 40%	0.024*REAbusiness*(1-SRbusiness)
40% < HHI < 60%	0.032*REAbusiness*(1-SRbusiness)
60% < HHI < 100%	0.040*REAbusiness*(1-SRbusiness)

No supplement is required because Vestjysk Bank's HHI has been calculated at 19.43%.

Market risk

Market risk is the risk of losses because of potential changes in interest rates, equity prices and exchange rates, over and above what is covered in Pillar I. It is not based on Vestjysk Bank's current risk but on the maximum risk Vestjysk Bank may assume within the framework established by the Board of Directors for the Executive Board's authority to assume market risks under section 70 of the Danish Financial Business Act.

The Bank bases its assessment of whether all market risks are adequately covered by Pillar I on the Financial Supervisory Authority's indicative benchmarks for interest rate risk, equity risk and exchange risk. Based on these benchmarks as well as on an overall assessment of the Bank's market risks, the Bank has calculated a market risk supplement of DKK 34,259 thousand. The market risk supplement over and above the Pillar I requirement can be attributed to the interest rate risk on 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 inadequate or failed internal processes, human or system errors as well as external events, including legal risks, over and above what is covered by Pillar I.

In assessing operational risk supplements, the Bank considers these risk areas, including the Bank's organisation, IT security and IT operations as well as the Bank's business model. On that basis, over and above what is covered in Pillar I, it is the Bank's assessment that a supplement is not needed.

Other risks

The Bank has performed an assessment of whether reservation should be made to cover the risk of weak earnings, organic growth in business volume and 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 additional reservation of capital should be made to counter future credit losses on the Financial Supervisory Authority's relevant indicative benchmarks. The Bank assessed core earnings in relation to total loans and guarantees. It is the assessment that there is no need to make a reservation of capital to cover weak earnings.

Growth

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

Liquidity
The Bank has a high excess liquidity coverage. In assessing whether a reservation should be made as a result of costs of raising additional liquidity, the Bank bases its assessment on the Bank's stress testing of liquidity using a one-year scenario. It is the assessment that there is no need to make a reservation of capital for raising of liquidity.

Leverage
The assessment is that the current leverage ratio is appropriate, and there is therefore no need for a supplement.

Regulatory maturity of capital instruments
As the Bank has DKK 185 million in excess additional tier 1 capital at 31 December 2015 which cannot be used to cover capital requirements, the DKK 90 million that can no longer be included in own funds within the coming year does not give rise to a supplement to the solvency need.

9. Statutory requirements

The Financial Supervisory Authority has not established an individual solvency requirement for Vestjysk Bank.

10. Capital

The Bank's capital structure is detailed in the table below.

Excess capital coverage at 31 Dec. 2015	**(DKK'000)**	**(%)**
Common equity tier 1 capital	1,320,095	7.9
Common equity tier 1 capital requirement	1,198,881	7.2
Excess common equity tier 1 capital coverage	**121,213**	**0.7**
Own funds/solvency ratio	2,091,212	12.5
Adequate own funds/capital need	1,784,645	10.7
Excess own funds/solvency coverage	**306,567**	**1.8**

The excess capital coverage has been calculated at 1.8%, or DKK 306,567 thousand.

11. Internally calculated capital need

The Bank does not calculate any internal capital need in addition to the statutory capital need.

12. Exposure to counterparty risk

12. a. Method
Vestjysk Bank applies the mark-to-market approach to counterparty risk to determine the size of the exposure for derivative financial instruments covered by the definition in Part Three, Title II, Chapter 6 of the Capital Requirement Regulation.

The determination of the amount of the exposure by applying the mark-to-market approach to counterparty risk is detailed in the description below:

- 1. Contracts are determined at market value, in order to determine the current replacement cost of all contracts with positive values.
- 2. In order to arrive at figures for future credit exposure, the contracts' notional amounts or the underlying values are multiplied by the percentages established in article 274(2) of the Capital Requirement Regulation. Swaps based on two floating interest rates in the same currency are exempted, since only the current replacement cost is calculated.
- 3. The sum of current replacement costs and potential future credit exposures constitutes the exposure value.

For establishing the adequate own funds, capital is maintained corresponding to 8% of the positive market value of the derivatives.

In the Bank's credit approval process and in the general monitoring of commitments, the Bank takes into account the calculated exposure value so that it is ensured that it does not exceed the authorised credit limit for the counterparty.

12. b. Policies
Commitments involving commercial enterprises and retail customers, the Bank processes and authorises limits for financial contracts using its regular credit assessment principles.

12. c. EPE models
The Bank does not apply internal models for determining counterparty risk (EPE models). This disclosure requirement is therefore not relevant to the Bank.

12. d. Downgrade in credit rating
The disclosures are not assessed to be relevant to Vestjysk Bank and are therefore not provided for these items.

12. e-f. Gross positive fair value of financial contracts after netting
The gross positive fair value of financial contracts after netting, cf. article 273(8) of the Capital Requirement Regulation, stood at DKK 66,534 thousand. The Bank does not use netting in determining counterparty risk for financial contracts. The value of the Bank's total counterparty risk determined using the mark-to-market approach for counterparty risk, cf. article 274 of the Capital Requirement Regulation, is DKK 98,920 thousand.

Moreover, the Bank has included a CVA supplement that increases the risk-weighted exposures by DKK 14,906 thousand. This supplement is a special requirement for OTC derivatives to cover the risk of losses resulting from value adjustments in case of a deterioration of a counterparty's credit quality.

12. g-h. Credit derivatives
The Bank does not use credit derivatives to hedge the portion of credit risk relating to counterparties. Therefore, no disclosures are provided for this item.

12. i. Internal models
The Bank is not permitted to apply internal models to determine counterparty risk. Therefore, no disclosures are provided for this item.

13. Capital buffers

The Bank predominantly has credit exposures in Denmark. The current Danish countercyclical capital buffer rate is 0%. The Bank has therefore not made any reservation of capital for the countercyclical capital buffer.

14. Indicators of global systemic importance

Vestjysk Bank has not been identified as a global, systemically important institution. The disclosure requirement is therefore not relevant.

15. Credit risk adjustments

15. a. Definition for accounting purposes of defaulted and impaired debts
The Bank complies with the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. and applies the accounting definitions of defaulted and impaired debts as set out in sections 51–54 of the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

The Bank complies with the provisions set out in IAS 39, which are assessed to be compatible with the definition of defaulted and impaired debts set out in the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

15. b. Applied approaches and methods for determining specific and general credit risk adjustments The Bank performs impairment writedowns of loans under the provisions in the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc., under the provisions of IAS 39 when objective evidence of impairment has occurred, which affects the expected future payments. The impairment constitutes the difference between the book value and the present value of expected future payments.

The Bank makes an individual assessment of all major and credit quality-flagged loans. Objective evidence of impairment is considered to have occurred if one of more of the following criteria are met:

- Borrower is in major financial difficulties;
- Borrower is in breach of contract;
- The Bank grants borrower relief from terms and conditions, interest payments and instalments which would not have been considered if not for the borrower's financial difficulties, or
- It is probable that the Borrower will enter into bankruptcy or other financial reconstruction.

The Bank makes a collective assessment of all loans that are not individually impaired. The collective assessment is performed based on a macroeconomic segmentation model where the division into homogeneous groups according to credit risk is based on loans distributed by sector and industry. for each group, a statistical correlation is established between a number of explanatory macroeconomic variables and recorded losses. Thus, it is changes in the explanatory macroeconomic variables that express that objective evidence of impairment has arisen that affects the expected future cash flows.

15. c. Exposures after impairment writedowns
Vestjysk Bank's total value of unweighted credit exposures after impairment totalled DKK 23,088,161 thousand at 31 December 2015.

Average value of exposures over the course of 2015 by exposure classes:

Risk-weighted credit risk exposures	**Average values for 2015 (DKK'000)**
Central government or central banks	0
Regional or local authorities	0
Public sector entities	0
Multilateral development banks	0
International organisations	0
Institutions	96,951
Corporates	5,466,974
Retail exposures	3,672,464
Exposures secured by mortgages on real property	867,886
Exposures in default	3,645,601
Exposures subject to particularly high risk	345,819
Exposures in the form of covered bonds	0
Items representing securitisation positions	0
Institutions and corporates with short-term credit assessments	0
Units or shares in collective investment undertakings ('CIUs')	0
Equity exposures	154,019
Other items	424,639
Risk-weighted credit risk exposures, total	**14,674,353**

15. d. Geographic distribution of exposures

The geographic distribution of the exposures has been omitted, since more than 97% of the Bank's exposures are in Denmark.

15. e. Exposures distributed by sector

Sector distribution of credit risk for on- and off-statement of financial position exposures distributed on exposure classes at 31 Dec. 2015:

Amounts in DKK'000	Central governments or central banks	Regional or local authorities	Institutions	Corporate exposures	Retail exposures	Exposures secured by mortgages on real property	Exposures in default	Particularly high risk	Equity instruments	Other items
Public authorities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Business										
Agriculture, hunting, forestry and fishery	0	0	0	1,519,318	991,722	99,761	1,258,866	0	0	0
Manufacturing industry and raw materials	0	0	0	410,067	191,911	39,622	66,283	0	0	0
Energy supply	0	0	0	799,875	86,288	10,525	187,711	0	0	0
Construction and civil	0	0	0	404,333	299,445	59,402	59,339	4,510	0	0
Trade	0	0	0	849,596	548,451	144,253	111,123	0	0	0
Transportation, hotels and restaurant businesses	0	20,370	0	203,180	218,817	212,569	144,425	32,066	0	0
Information and communications	0	0	0	5,987	77,606	9,171	352	0	1,234	0
Credit and financing institutes and insurance	528,989	0	369,625	719,966	126,376	23,744	276,063	1,070	152,842	0
Real estate	0	0	0	1,465,281	376,335	542,871	980,263	278,259	0	0
Other business	0	0	0	276,014	676,487	133,146	58,244	0	0	0
Business, total	**528,989**	**20,370**	**369,625**	**6,653,616**	**3,593,439**	**1,275,064**	**3,142,668**	**315,905**	**154,076**	**0**
Retail	**0**	**0**	**0**	**342,761**	**4,999,861**	**1,012,719**	**124,578**	**0**	**0**	**0**
Other items	0	0	0	0	0	0	0	0	0	554,490
Total	**528,989**	**20,370**	**369,625**	**6,996,377**	**8,593,300**	**2,287,783**	**3,267,246**	**315,905**	**154,076**	**554,490**

15. f. Distribution of exposures by residual maturity

Distribution of on-statement of financial position exposures at 31 Dec. 2015:

Amounts in DKK'000	On demand	0 - 3 months	3 months - 1 year	1 - 5 years	More than 5 years	Undefined term to maturity	Total
Central governments and central banks	306,989	222,000	0	0	0	0	**528,989**
Regional or local authorities	20,370	0	0	0	0	0	**20,370**
Institutions	288,959	23,723	49,337	4,080	3,524	0	**369,623**
Corporates	1,676,758	2,109,454	564,064	1,654,531	991,568	0	**6,996,375**
Retail exposures	1,096,522	2,680,261	785,275	2,687,683	1,343,561	0	**8,593,302**
Exposures secured by	401,531	706,230	194,254	659,860	325,909	0	**2,287,784**
Exposures in default	756,600	1,065,027	208,431	723,091	514,097	0	**3,267,246**
Exposures subject to	203,249	14,968	50,674	1,400	45,544	70	**315,905**
Equity instruments	0	0	0	0	0	154,076	**154,076**
Other items	554,490	0	0	0	0	0	**554,490**
Total	**5,305,469**	**6,821,663**	**1,852,034**	**5,730,645**	**3,224,205**	**154,146**	**23,088,161**

15. g. Impaired debts and impairment writedowns by sector

Impaired loans and guarantee debtors subdivided into debts in default and impaired debts, impairment charges/provisions as well as expenses relating to value adjustments and impairment, both individual and collective, are distributed on sectors as follows:

Amounts in DKK'000	Debt in default	Loans and guarantees subject to impairment/provisions	Impairment/provisions, 31 Dec.	Value adjustments and impairment recognised for the year
Public authorities	0	0	0	0
Business:				
Agriculture, hunting, forestry and fishery	432,323	3,854,582	1,258,104	249,044
Manufacturing industry and raw material	44,814	439,839	64,220	-3,298
Energy supply	77,960	314,800	91,630	4,208
Construction and civil engineering contractors	68,985	291,434	53,381	7,609
Trade	172,867	862,030	193,742	11,042
Transportation, hotels and restaurant businesses	170,401	502,399	176,430	9,996
Information and communications	2,074	40,884	3,407	-405
Credit and financing institutes and insurance	321,293	784,142	382,956	44,384
Real estate	297,714	2,765,378	442,673	18,008
Other business	124,166	606,206	121,214	-2,194
Business, total	1,712,597	10,461,694	2,787,757	338,394
Retail	240,903	3,089,885	320,342	31,668
Total	1,953,500	13,551,579	3,108,099	370,062

15. h. Geographic distribution of defaulted and impaired debts

The geographic distribution of the exposures has been omitted, since more than 97% of the Bank's exposures are in Denmark.

15. i. Reconciliation of changes in specific and general credit risk adjustments for impaired debts
Movements of impaired debts as a result of value adjustments and impairment

Amounts in DKK'000	Individual impairment/provisions		Collective impairment/provisions	
	Loans	Guarantee debtors	Loans	Guarantee debtors
Accumulated impairment/provisions, 1 Jan. 2015	3,423,412	24,903	116,069	0
Movements for the year:				
1. Foreign exchange adjustment	0	0	0	0
2. Impairment/provisions for the year	501,758	11,034	42,766	0
3. Reversals of impairment/provisions in previous financial years for which there is no longer objective evidence of impairment or where the impairment has been reduced	143,534	18,782	68,700	0
4. Other movements	81,415	0	3,577	0
5. Value adjustment of acquired assets	0	0	0	0
6. Final loss (written off) of amounts previously subject to individual impairment/provisions	865,819	0	0	0
Accumulated impairment/provisions for loans and guarantee debtors at 31 Dec	2,997,232	17,155	93,712	0
Sum of loans and guarantee debtors subject to individual impairment/provisions (measured before impairment/provisions)	6,188,275	266,395	9,050,409	0
Losses not subject to previous individual impairment/provisions)	55,816	0	0	0
Amounts received on previously written-off debts	10,296	0	0	0

There are no impairment/provisions on receivables from credit institutions and other items subject to credit risk

16. Encumbered and unencumbered assets

16.a. Extent of encumbered and unencumbered assets

Disclosure of the Bank's encumbered and unencumbered assets at 31 Dec. 2015:

Amounts in DKK'000		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Reporting institution's assets**	53,477	-	21,620,290	-
030	Equity instruments	-	-	174,643	177,776
040	Debt instruments	-	-	3,819,053	3,819,053
120	Other assets	15,369	-	3,793,064	-

16.b. Received Collateral

Disclosure of the Bank's received collateral at 31 Dec. 2015:

Amounts in DKK'000		Fair value of received encumbered collateral or own issued debt instruments	Fair value of received collateral or own fixed income instruments issued and available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	545	-
150	Equity instruments	-	-
160	Debt instruments	-	-
230	Other received collateral	545	-
240	**Own debt instruments issued apart from own covered bonds or ABSs**	-	-

16. c. Liabilities related To encumbered assets and received collateral

Sources of encumbrance at 31 December 2015:

Amounts in DKK'000	Matching liabilities, contingent liabilities or securities lent	Assets, received collateral and own issued debt instruments, other than encumbered covered bonds and ABSs
	010	030
010 Carrying amount of selected financial liabilities	78,128	855

16. d. Effect of business model on the level of encumbrance and the importance of the encumbrance to the financing model

The Bank's policy is that unencumbered assets may be used as collateral in the Bank's liquidity reserve in agreements with the Bank's derivative counterparts. Moreover, unencumbered assets may be used as collateral in Danmarks Nationalbank and when entering into repos.

The Bank may not use unencumbered assets as collateral in other contexts.

17. Use of ECAIs

Vestjysk Bank has designated Standard & Poor's Ratings Services as its external credit assessment institution (ECAI). The Bank uses Bankernes EDB Central (BEC) as its data centre, which receives external credit assessments from Standard & Poor's Ratings Services via SIX Financial. Regular IT updates are performed of the credit ratings by Standard & Poor's Ratings Services.

BEC has converted Standard & Poor's Ratings Services' credit assessment classes to credit quality steps by means of the FSA conversion table. The individual credit quality steps are associated with a weighting with which the exposures at the various credit quality steps are to be weighted when calculating the risk-weighted exposures under the standard method for credit risk under article 111-134 of the Capital Requirement Regulation.

The table below shows the FSA's conversion of Standard & Poor’s Ratings Services’ credit ratings classes to credit quality steps for exposures to businesses, institutions, central governments and central banks.

Credit quality steps	**Standard & Poor’s credit assessment classes**	**Exposures to business enterprises (enterprises)**	**Central government 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 less	150%	150%

The Bank has used credit ratings from Standard & Poor’s Ratings Services for the following exposure classes:

	Exposure value before risk weighting (DKK’000)	**Exposure value after weighting with credit quality steps (DKK’000)**
Exposures to institutions	61,187	28,822
Total	**61,187**	**28,822**

18. Exposure to market risk

The Capital Requirement Regulation requires that enterprises disclose the own funds requirements for a number of risks measured under the market risk area. The following lists the solvency requirements for the relevant risks.

Risk-weighted market risk exposure	**31 Dec. 2015 (DKK’000)**	**Capital requirement (8% of exposure) (DKK’000)**
Debt instruments	416,377	33,110
Equity instruments	43,757	3,501
Foreign currency	0	0
Commodities	3,789	303
Risk-weighted market risk exposures, total	**463,922**	**37,114**

19. Operational risk

Under the Capital Requirement Regulation, banks are required to cover operational risks. The capital requirement for operational risk is to cover the “risk of losses resulting from inadequate or failed internal processes, human or system errors as well as external events, including legal risks”.

The Bank applies the basic indicator approach, cf. article 315 of the Capital Requirement Regulation to calculate the capital requirements for operational risk. Under this approach, the own funds requirement for operational risk is calculated as 15% of the Bank’s average “core earnings” for the past three years. The core earnings are the sum of net interest income and non-interest related net income.

20. Exposures in equities, etc. not included in the trading book

In collaboration with other banks, Vestjysk Bank has acquired equities in a number of sector companies. The purpose of these sector companies is to support banking activities within mortgage credit, payment intermediation, IT, investment funds, etc. Vestjysk Bank has no plans of selling these equities and they are therefore not considered to be included in the trading book.

In several of the sector companies, the equities are reallocated in such a manner that the interests held by the banks always reflect the individual bank's business volume with the sector company. Reallocation typically occurs based on the sector company’s net asset value. Vestjysk Bank adjusts the carrying amount of these equities quarterly, every six months or yearly, depending on the frequency of new data from the individual sector company. Continuous adjustments are made through profit or loss in accordance with the rules.

In other sector companies, the equities are not reallocated but are typically measures based on the most recent, known trade or, alternatively, based on a recognised valuation approach. Adjustments to the carrying amount of the equities in these companies are also made through profit or loss.

The table below shows the Bank’s exposures in equities not included in the trading book.

Amounts in DKK’000 at 31 Dec. 2015	Exposure 31 Dec. 2014	Realised gains or losses in 2015	Non-realised gains or losses in 2015	Exposure 31 Dec. 2015
Equities etc. not included in trading book	162,765	1,361	5,499	154,146

21. Exposure to interest rate risk on positions not included in the trading book

Interest rate risk is measured as the expected capital loss on interest rate positions that would follow from an immediate 1 percentage point increase or decrease in all interest rates.

Vestjysk Bank’s interest rate risk arises in connection with fixed-rate loans, debt securities, deposits, subordinated debt and issued bonds. Financial derivatives are used only to a limited extent to hedge the Bank’s interest rate risk. Interest rate risk represents the largest share of the Bank’s market risk and is reported monthly to the Board of Directors and Executive Board. In periods of interest rate volatility, reporting is performed as needed.

Vestjysk Bank’s interest rate risk for positions not included in the trading book is listed in the table below:

Amounts in DKK’000 at 31 Dec. 2015	Long positions	Short positions	Interest rate risk
Items recognised in the statement of financial position	-340,012	4,992,598	-94,244
Positions with limited or hedged interest rate risk	-15,501,567	16,557,420	0
Not included in trading book, total	**-15,841,579**	**21,550,018**	**-94,244**

22. Exposure to securitisation positions

Vestjysk Bank does not use securitisations. The disclosure requirement is therefore not relevant to the Bank.

23. Remuneration Policy

Vestjysk Bank's Board of Directors has adopted a remuneration policy that was approved at the Bank's annual general meeting. The remuneration policy covers the Board of Directors and the Executive Board as well as major stakeholders. Neither the Bank’s Supervisory nor Executive Board members receive remuneration in the form of variable pay, shares, share options or other forms of incentive pay. In addition, no defined benefit plans are provided.

In exceptional cases, the Bank's major risk takers may receive bonuses or one-time remuneration based on heavy workloads and/or completion of projects, provided that the Board of Directors upon recommendation by the Executive Board believes that the conditions in Executive Order no. 122 (2012 on remuneration policies and disclosure requirements for remuneration in financial enterprises and financial holding companies) have been met in the specific instance.

In exceptional cases, agreements may be entered into with risk takers relating to retention bonuses, in order to ensure the continued employment for a specific period. Disbursement of bonus/one-time remuneration and retention bonuses for major risk takers may, at a maximum, constitute 25% of the annual salary on an individual basis. The total disbursement of bonuses/one-time remuneration and retention bonuses to major risk-takers may not exceed a total annual amount of DKK 500,000. No bonuses are provided for achieved sales results. Major risk takers are not remunerated with shares, share options or other forms of incentive-based remuneration.

For the drafting of its remuneration policy, Vestjysk Bank has sought to promote and encourage remuneration practices that are in accordance with and promote healthy and efficient risk management that discourages excessive risk taking. The remuneration policy is designed to conform with the Bank’s business strategy, values and long-term goals, including a sound business model. The remuneration policy must be consistent with the principles of the protection of customers and investors in relation to banking operations and contain measures that can prevent conflicts of interest as well as be based on the prevailing market conditions while taking into consideration the duties and responsibilities at hand.

The Bank's Remuneration Committee appointed by the Board of Directors for the purpose of drafting resolutions in respect of remuneration, including remuneration policies and other related decisions that may influence the Bank’s risk management. The Remuneration Committee consists of Vagn Thorsager, Chairman of the Board of Directors, Lars Holst, Deputy Chairman, as well as one employee representative. In 2015, the committee held three meetings.

The Bank's remuneration of the Management and major risk takers is listed in the table below.

2015	(DKK'000)
Board of Directors	
Number	9
Fixed remuneration	1,650
Executive Board, total	
Number	2
Contractual remuneration	5,299
Other employees with major influence on the Bank's risk profile	
Number	16
Fixed remuneration	13,016

No one in the Bank received remuneration that exceeded EUR 1 million in 2015.

24. Leverage

The leverage ratio is calculated as tier 1 capital relative to the institution's unweighted exposures.

CRR/CRD IV prescribe that institutions must publish their leverage ratio at 1 January 2015, but do not set out any specific qualitative requirements. At present, no statutory maximum leverage ratio requirement has been introduced, but the matter must be resolved at EU level no later than in 2016.

For now, the Basel Committee has issued an indicative leverage ratio requirement of 3%, equalling a maximum leverage of 33 times the tier 1 capital.

The leverage ratio is monitored as part of the institution's general risk monitoring and reported to the Board of Directors on a regular basis.

Leverage ratio at 31 December 2015	*(DKK'000)*
Total assets as reported in the financial statements excluding derivatives	21,047,521
Derivatives (carrying amount)	66,534
Derivatives (supplement, mark-to-market method)	32,788
Undrawn credit facilities, guarantees and loan offers	3,537,560
Deductions from tier 1 capital (sector equities, etc.)	-10,257
Total exposures for the calculation of leverage ratio	**24,674,147**
Tier 1 capital under transitional regime	**1,756,121**
Tier 1 capital under fully phased-in CRR rules	**1,395,095**
Leverage ratio under transitional regime	**7.12%**
Leverage ratio under fully phased-in CRR rules	**5.65%**

Vestjysk Bank has set an internal threshold of 3%. This internal threshold is in accordance with the Basel Committee's proposal that the leverage ratio must be greater than 3%.

Excess coverage of 135% relative to this is assessed to be satisfactory.

25. Using the Internal Ratings-Based (IRB) approach to determine credit risk

The Bank does not use the IRB approach, cf. item 5.d.

26. Use of credit risk mitigation techniques

26. a. Netting

Vestjysk Bank uses neither on- nor off-balance sheet netting.

26. b. Policies and processes for collateral valuation and management

The Bank holds a charge on financed asset for most of its business commitments, which is the reason the most common types of collateral are mortgages secured in real property, ships, wind turbines, motor vehicles, movable property, securities as well as floating charges. Owner's sureties and personal insurance also constitute a large share of the collateral held by the Bank.

For the majority of retail customer commitments it is also the case that the Bank holds a charge in financed asset—which is the reason the most common types of collateral are mortgages secured in real property and in motor vehicles.

The Bank continuously performs assessments of pledged collateral. Valuation is made based on the fair value of the asset, less the margin for covering costs of realisation, selling period costs as well as rebates. For precautionary and practical reasons, some collateral is assessed not to have any value; the determination of the Bank's collateral is therefore not necessarily an expression of the actual value of the collateral.

In its policies and procedures, Vestjysk Bank has prioritised obtaining financial collateral within the following main areas/types:

- Deposited funds
- Bonds/debt instruments—issued by governments as well as rated and un-rated credit institutions, etc.
- Shares – included or not included in a main index
- Unit trust certificates

The Bank's procedures ensure continuous, daily monitoring of the realisation values of the collateral. The monitoring is performed by computer and is therefore performed automatically. The Bank's agreements with customers for collateral in securities ensure that the Bank has the capacity to realise the securities at its discretion.

Thus, the Bank maintains standard procedures for the management and valuation of the financial collateral, which means that the Bank maintains proper credit protection for its loans. The relevant procedures are an integral part of the general risk monitoring performed by the Bank's credit department.

26. c. Main types of collateral

Vestjysk Bank uses the financial collateral comprehensive method to mitigate credit risk. This means that the Bank can reduce the capital charge of a commitment when accepting certain types of financial collateral.

In article 198 of the Capital Requirement Regulation, it is specified which types of financial collateral banks are permitted to accept under the comprehensive credit risk mitigating approach. In that regard, it should be noted that only financial collateral issued by an enterprise or country with a particularly high rating may be used.

Taking into account the limitations specified in Capital Requirement Regulation, financial collateral normally accepted by the Bank can be divided into the following main types:

- Deposited funds
- Bonds/debt instruments—issued by governments as well as rated and un-rated credit institutions, etc.
- Shares – included or not included in a main index
- Unit trust certificates

26. d. Main types of guarantor and credit derivative counterparties

To mitigate credit risk, the Bank makes limited use of guarantees issued by the following types of counterparties:

- Central governments
- Regional and local authorities
- Credit institutions

The Bank does not use credit derivatives to mitigate credit risk.

26. e. Information about market or credit risk concentrations within the credit risk mitigation taken

It is the Bank's policy to avoid major risk concentrations for collateral. The Bank therefore regularly follows up on concentrations of risk for specific types of collateral.

See Note 35 of the 2015 Annual Report for a list of collateral distributed by type.

26. f-g. Financial collateral used for credit protection

In accordance with the provisions set out in the Capital Requirement Regulation, the Bank uses financial collateral as well as guarantees for credit protection. The table below shows individual credit risk mitigation distributed by type of exposure:

Risk-weighted credit risk exposures	Financial collateral (DKK'000)	Guarantees (DKK'000)
Central governments and central banks	0	0
Regional or local authorities	0	0
Public sector entities	0	0
Multilateral development banks	0	0
International organisations	0	0
Institutions	0	0
Corporates	105,408	0
Retail exposures	153,841	0
Exposures secured by mortgages on real property	9,044	0
Exposures in default	19,668	0
Exposures subject to particularly high risk	27,520	0
Exposures in form of covered bonds	0	0
Items representing securitisation positions	0	0
Institutions and corporates with short-term credit assessment	0	0
Units or shares in collective investment undertakings ('CIUs')	0	0
Equity instruments	0	0
Other items	0	0
Total	**315,481**	**0**

27. Disclosures of advanced measurement approaches to determining operational risk

Vestjysk Bank applies the basic indicator approach to determine operational risk. This disclosure requirement is therefore not relevant to the Bank.

28. Internal market risk models

Vestjysk Bank does not use internal VaR models to determine risk relating to trading book positions.


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