Vestjysk Bank
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 capital need at 30.09.2017	Amount in TDKK	%
1	Pillar I requirement	1,227,235	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	56,944	0.37
	4b Other credit risks	210,956	1.37
	4c Single name concentration risk	27,002	0.18
	4d Sector concentration risk	71,167	0.46
+5	Market risk, of which		
	5a Interest rate risk	27,060	0.18
	5b Equity risk	0	0.00
0	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 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	1,620,365	10.56

Commentary on capital need

Pillar I requirement (8 % of total risk exposure)

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 56,944 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 210,956 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 11 %. For these exposures, the Bank has assessed a supplement of DKK 27,002 thousand.

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 for 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)

Vestjysk Bank's HHI index is calculated at 20.09%, so a supplement of DKK 71,167 thousand has been added.

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 27,060 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

An assessment has been made as to whether the bank will have challenges replacing the capital in question which cannot be included in the next year. It is estimated that the bank will not have any challenges to replace the capital in question, so there is no supplement.

Statutory requirements

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

Capital

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

Excess capital Coverage at 30 September 2017	**TDKK**	**%**
Common equity tier 1 capital	2,272,292	14.81
Common equity tier 1 capital requirement	1,213,196	7.91
Excess common equity tier 1 capital	1,059,096	6.90
Own funds/solvency ration	2,871,648	18.72
Adequate own funds/capital need	1,620,365	10.56
Excess own funds/solvency coverage	1,251,283	8.16

The excess of common equity tier 1 capital has been calculated at 6.90 %, or DKK 1,059,096 thousand.

The excess capital coverage has been calculated at 8.16 %, or DKK 1,251,283 thousand.

Concluding remarks

For supplementary disclosures relating to risk management, please see the Bank's complete 2016 Risk Report as well as its 2016 Annual Report posted at www.vestjyskbank.dk.

The risk report will be updated in conjunction with the publication of the 2017 Annual Report.


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