



Vestjysk Bank
Risk report 2018

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 2018. 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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Vestjysk Bank A/S
Torvet 4-5, DK-7620 Lemvig
CVR 34631328
Registered office: Lemvig
Telephone (+45) 96 63 20 00
Fax (+45) 96 63 22 99
www.vestjyskbank.dk
vestjyskbank@vestjyskbank.dk

Read or download this report at www.vestjyskbank.dk

2. Risk management objectives and policy

Vestjysk Bank defines risk as any event that can exert a significant negative influence on the possibility of achieving the Bank's business goals. The Bank is exposed to various types of risk. These are controlled and monitored at different levels in the organization.

The Bank's risk exposure is a central consideration in all the transactions that the bank enters.

Vestjysk Bank's Board of Directors determines the overall framework and policies for risk and capital structure, according to which the Bank's Executive Board and other management manage the bank's risks. The Board of Directors receives regular reports on the development of risks and utilization of the allocated risk limits.

Organisation

The daily risk management is performed by Treasury, Finance, Markets, Credit and Middle Office. Independent monitoring is performing in Risk Management and Compliance.

The Credit Department handle credit-related control and risk management. Middle Office handles controlling of this area.

The Treasury 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. Middle Office handles controlling of this area.

Markets is responsible for market risks that can be attributed to customers. Middle Office handles controlling of this area.

Risk Management is responsible for monitoring 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.

Compliance is to contribute to ensuring that the Bank always complies with current legislation and orders issued by government agencies 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, for the Risk Officer to have the means to appropriately execute their 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 risks 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 Officer. The Risk Officer is charged with preparing a plan each year for the risk areas on which the function wishes to focus.

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

Risk of loss due to the market value of the Bank's financial assets or liabilities changing as a result of changes in market conditions.

Market risk management objectives and policies

It is the bank's policy that the total market risk must be low.

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 and to the Markets Director. The Markets Director may then entirely or partially delegate his or her authority to employees in the trade area.

The following risk are defined as market risk; are interest rate, foreign exchange, stock and other price risks, including commodities, which are affected by both general and specific market fluctuations. Market risk is a natural part of the Bank's risk profile because the Bank's liquid funds are placed in securities subject to market risk. The Bank also incurs market risk as a result of fixed-interest deposits and lending.

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 primarily 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 based on 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

Vestjysk Bank maintains segregation of duties. The established policies and instructions with respect to market risk are controlled by Middle Office 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 Markets Director 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

Credit risk

Definition

Risk of loss due to the fact that the counterparty cannot or will not fulfil its obligations and that any collateral does not adequately cover the obligations

Organisation

The Credit Department has the overall responsibility for:

- establishing and communicating the Bank's credit policy,
- credit approvals and establishing approval limits
- general management of exposures, incl. the handling of overdrafts and arrears
- reviewing commitments and preparing proposals for impairment charges and provision needs
- managing the credit area in compliance with the applicable rules and regulations
- implementing new legislation and rules within the credit area

Credit risk management objectives and policies

The Bank wants healthy exposures and the maintenance of an appropriate diversification of industries, geography and business areas.

To ensure an appropriate diversification of industries and customers, the Bank does not wish to have individual industries in business that make up more than 15% of the bank's total exposure. Likewise, the bank does not want exposures exceeding 10 per cent of the bank's capital base. Approved exposures, greater than the above 10%, must include an action plan for when and how to reduce the exposure below 10 percent. In this way, Vestjysk Bank strives to continuously ensure that individual exposures, including groups, do not pose a risk to the bank's existence.

The Bank has a long-term goal of a distribution between business and retail at the level of 70/30.

The Bank's ambition is to have an exposure strategy on all significant exposures, both retail and business.

Structure of the Bank's credit risk management

Vestjysk Bank has established full segregation of duties between the units approving credit risk and the units performing the necessary controls.

At Vestjysk Bank, credit approval authorities are 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. To ensure optimal credit assessments, approval authorities are delegated so that each branch manager's credit approval authorities are aligned with, whether the branch is a private- or commercial branch.

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.

When assessing credit exposures, Vestjysk Bank emphasizes that Vestjysk Bank has sufficient knowledge of the risk. When granting credit, the Bank must have sufficient insight into the customer's financial situation. Credit decisions generally must be based on the robustness of the customer's future earnings and liquidity and to a large extent based on collateral provided, which may fall in value. At the same time, the Bank's confidence in the customer, the company's respective management's credibility and competencies are highly emphasized.

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

All customers are credit risk classified and this is an important element in the Bank's management of credit risks.

All overdrafts with balance movements are examined by the relevant customer representative daily. The credit limit manager in each branch controls every day that all overdrafts are processed.

Identification of weak exposures and exposures, on which an assessment should be made as to whether an impairment loss should be made, must be timely and any impaired losses must be fair and true. Hazard signals must immediately lead to risk reduction initiatives. For all weak exposures and exposures on which impaired losses should be made, an operational action plan for the exposure must be prepared with the aim of effectively controlling the exposure.

Commitments exhibiting weakness are flagged and commitments with objective evidence of impairment are handled almost exclusively by the branch managers, Credit Department, the Credit Director, the Credit Committee and the Executive Board. Cautious loss and risk estimates are prepared for commitments with objective evidence of impairment. Cases involving distressed corporate client commitments are handled by the individual branches and Special engagements 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 Legal department.

Risk reporting and measurement of credit risk

Annually, review of commitments is conducted according to established criteria pre-approved by the bank's board of directors. Review of commitments has in 2018 included:

- Samples of selected sectors
- Samples of new and existing retail customers
- All foreign assets with exposure above DKK 2 million

The Credit Department has conducted the actual review of commitments and the conclusions have been submitted to the Board of Directors, whom also has conducted an individual review of all larger commitments. Middle Office reports quarterly developments as well as the status of the credit risks to the Executive Board and the Board of Directors.

The report includes:

- Overview of significant commitments
- Overdraft statistics
- Distribution by sector, including developments by individual sector groups
- Geographical distribution, including development on geographical areas
- Distribution of collaterals
- Migration of customers' risk classification
- Trends in impairment and provisions
- 100 largest weak flagged commitments
- Development of loans and guarantees

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 2018, 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 exposures 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.

It is the bank's goal that the operational risks are continuously limited, considering the costs associated with this.

To minimise the Bank's dependency on individuals and to ensure that transactions, etc. are entered 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 has established a system to identify, register, categorise, report on and file the risks that may affect the Bank on a daily basis.

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

Liquidity risk

Definition

Risk of loss as a result of the Bank's inability to meet its payment obligations drawing on its normal liquidity reserves.

Liquidity risk management objectives and policies

The Bank has a cautious liquidity policy, which places a number of requirements on the size and composition of the liquidity reserve, and on Vestjysk Bank's overall financing structure.

The liquidity reserve must be so robust that under the Bank's basic stress scenario there is sufficient liquidity to maintain a LCR fraction of 100 percent month by month for a 12-month period. The Bank's basic stress scenario must contain a standard LCR stress situation for the first 30 days, as well as additional stress elements that are relevant to the Bank.

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 always has sufficient liquidity at its disposal in Danish kroner as well as foreign currencies.

The Bank is seeking 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 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.

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 LCR-guidelines and the supervisory diamond's current liquidity requirements. The general liquidity risk is determined based on the rules on liquidity coverage ratio set out in EU's regulations and LCR-guidelines. The assessment of the general liquidity risk is based on, among other things, budgets, historical and statistical materials as well as future receipts and payments from concluded transactions.

The Bank maintains segregation of duties between the units exposing the Bank to liquidity risk and the units maintaining the necessary controls. The Bank monitors on an ongoing basis all major sources of finance, including their maturity and counterparty distribution.

In accordance with the LCR regulation, the LCR requirement is fully phased in at 1 January 2018.

At 31 December 2018, the Bank's Liquidity Coverage Ratio (LCR) stood at 195.3 %.

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 as well as included in the monthly Board of Directors' report.

Systems and controls for managing liquidity risk

The Bank is performing stress tests as a part of the liquidity management, based on three different scenarios.

The development in Vestjysk Bank's overall liquidity figures can be seen in the table below, which describes the quarterly developments in Vestjysk Bank's liquidity buffer, outgoing net cash flows and the LCR figures calculated therefrom.

Quarterly average for 2018	LCR values in DKK million. Kr.	Net outflow in DKK million kr.	LCR in pct.
1. quarter 2018	3,847	1,559	248%
2. quarter 2018	3,925	1,574	249%
3. quarter 2018	4,016	1,638	247%
4. quarter 2018	3,985	1,788	223%

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

Vestjysk Bank wants to be an economic partner, who with the customers in focus, advises private and business customers locally and regionally through its branches in selected destinations in Jutland.

Good relations with the Bank's stakeholders – shareholders, customers, suppliers, employees and thus the communities in which the Bank operates – are considered the basis for the Bank's continued well-being and development opportunities.

This is reflected in the bank's values – Presence, Simplicity and Action, which are part of all aspects of the organization as a natural part of the way Vestjysk Bank operates its business.

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

Vestjysk Bank maintains segregation of duties between the units exposing the Bank to business risk and the units maintaining the necessary controls. 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 monitors 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

Risk of loss due to the Bank not having sufficient capital to meet the capital base requirement and the solvency need.

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 2018 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 present 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 core values of being an economic partner, which advises retail and business customers locally and regionally.

Vestjysk Bank seeks solid core earnings through continuous efficiency measures and focuses, through its credit management, on ensuring quality in its lending portfolio measured in terms of both credit quality and profitability. Vestjysk Bank seeks to maintain robust liquidity through controlled development of its deposits and lending. Vestjysk Bank aims to be an attractive partner in relation to both retail and business customers.

It is Vestjysk Bank's objective to have an excess own funds/liquidity coverage ratio of at least 4 percentage points.

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 2018

Supervisory Diamond indicators	Realised Values
Sum of the 20 largest exposures (< 175%)	116.4%
Lending growth (< 20%)	-5.6%
Property exposure (< 25%)	13.0%
Funding ratio (< 1)	0.53
Liquidity requirement (> 100%)	223.7%

Lemvig, 21 February 2018

Executive Board

.....
Jan Ulsø Madsen
Chief Executive Officer

.....
Michael Nelander Petersen
Managing Director

Board of Directors

.....
Vagn Thorsager
Chairman of the Board of Directors

.....
Lars Holst
*Deputy Chairman of the Board of
Directors*

.....
Bent Simonsen

.....
Bolette van Ingen Bro

.....
Claus Okholm

.....
Karina Boldsen

.....
Jacob Møllgaard

.....
Martin Sand Thomsen

.....
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. 27-29 of the 2018 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 to 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 67 % men and 33 % women in 2018.

Moreover, it is the Bank's objective to achieve an appropriate balance of men and women in management. At 1 December 2018, the gender distribution in management was as follows:

	Men	Women
Executive board	100%	
Management level 1	71.5%	28.5%
Management level 2	52.5%	47.5%
Management level 3	0%	100%

In 2018, Vestjysk Bank reached its target of expanding the share of female managers in the executive group to at least 25 per cent. New management positions in organisational units emerging from organisational changes were filled by competent female managers.

The Bank has appointed a Risk Committee pursuant to section 80b(1) of the Danish Financial Business Act. In 2018, the Risk Committee held one meeting.

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 27 of the 2018 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 25 of the 2018 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 2018		<i>(DKK'000)</i>
Share capital		895,982
Retained earnings		0
Revaluation reserves		846,678
Reserves provided for in the Bank's Articles of Association		616,163
Common equity tier 1 capital before deductions		2,358,823
Intangible assets		-466
Prudent valuation		-3,599
Common equity tier 1 capital in units in the financial sector, where the bank does not have significant exposures		-57,159
Deferred tax assets relating to loss carry-forwards		-57,201
Common equity tier 1 capital after deductions		2,240,398
Additional tier 1 capital		230,000
Tier 1 capital after deductions		2,470,398
Tier 2 capital		332,658
Own funds		2,803,056

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:

	Actual amounts	Minimum requirements for risk-weighted exposures	Required amount for complying with minimum requirement	Excess amount
31 Dec. 2018 (DKK'000)				
Common equity tier 1 capital	2,240,398	4.5 pct.	640,178	1,600,220
Tier 1 capital after deductions	2,470,398	6.0 pct.	853,570	1,616,828

4. h-i. Disclosure of own funds subject to the transitional regime

Vestjysk Bank does not use the transitional regime in determining its own funds. The disclosure requirement is therefore not relevant.

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.

	31 Dec. 2018 (DKK'000)	Capital requirement (DKK'000)
Risk-weighted credit risk exposures		
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	83,574	6,686
Corporates	4,445,805	355,664
Retail exposures	3,619,865	289,589
Exposures secured by mortgages on real property	956,681	76,534
Exposures in default	1,854,814	148,385
Exposures subject to particularly high risk	191,945	15,356
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	551,545	44,124
Other items	419,540	33,563
Risk-weighted credit risk exposures, total	12,123,769	969,901

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 show the Bank's own funds requirement for market risk and CVA at 31 December 2018.

	31 Dec. 2018 (DKK'000)	Capital requirement (8% of exposure) (DKK'000)
Risk-weighted market risk exposures		
Debt instruments	223,707	17,897
Equities	45,268	3,621
Collective investment arrangements	2,766	221
Foreign currency	0	0
Risk-weighted market risk exposures, total	271,741	21,739

	31 Dec. 2018 (DKK'000)	Capital requirement (8% of exposure) (DKK'000)
Risk-weighted exposure CVA		
Risk-weighted exposure CVA	2,809	225
Risk-weighted exposure CVA, total	2,809	225

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 2018.

	31 Dec. 2018 (DKK'000)	Capital requirement (8% of exposure) (DKK'000)
Risk-weighted operational risk exposure		
Risk-weighted operational risk exposure	1,827,851	146,228
Weighted operational risk exposure, total	1,827,851	146,228

5. g. Summary of risk-weighted exposures and capital requirements

The table below lists the Bank's risk-weighted exposures at 31 December 2018.

	31 Dec. 2018 (DKK'000)	Capital requirement (8% of exposure) (DKK'000)
Risk-weighted exposures		
Credit risk	12,123,769	969,901
Market risk	271,741	21,739
CVA	2,809	225
Operational risk	1,827,851	146,228
Risk-weighted exposures, total	14,226,170	1,138,094

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 capital need is Vestjysk Bank's own assessment of its need for capital 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 and the Executive Board determine the Bank's capital need, which must be adequate to cover the Bank's risks, 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. In addition to this, the Board of Directors and the Executive Board must assess whether the Bank's total capital is adequate to support future activities. This assessment is part of Vestjysk Bank's general process of determining its 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 2018	Amounts in DKK'000	%
1 Pillar I requirement	1,138,094	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	91,105	0.64
4b Other credit risk	68,457	0.48
4c Single name concentration risk	27,249	0.19
4d Sector concentration risk	0	0.00
+5 Market risk, of which		
5a Interest rate risk	12,259	0.09
5b Spread risk	33,180	0.23
5c Equity risk	0	0.00
5d 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	210,013	1.48
Capital need, total	1,580,356	11.11

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 (OIV) 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 91,105 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 68,457 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 exposure mass.

A supplement is required because the 20 largest exposures constitute 12.08%. For these exposures, the Bank has assessed a supplement of DKK 27,249 thousand for 2018.

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
HHI > 20 %	$\sqrt{\frac{HHI - 0,2}{275}} * REA_{erhverv} * (1 - SR_{erhverv})$

Vestjysk Bank's HHI has been calculated at 19.44 %. The Bank has therefore not taken a supplement.

Market risk

Market risk is the risk that the value of a portfolio of financial instruments will deteriorate as a result of exchange and price changes in the financial markets. 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, spread risk, equity risk and exchange risk.

Based on these benchmarks as well as on an overall assessment of the Bank's market risks, a supplement has been calculated for interest rate risk of DKK 12,259 thousand and spread risk of DKK 33,180 thousand. 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.

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's liquidity coverage ratio and liquidity ratio in accordance with the Supervisory Diamond are high. Vestjysk Bank's liquidity buffer is assessed to be satisfactory, overall. Also, Vestjysk Bank's liquidity risk level is assessed to be acceptably low. It is the assessment that there is no need to make a reservation of capital for the purpose of raising liquidity.

Leverage

An assessment has been made of whether the leverage ratio is too low and whether the Bank's leverage is thus too high. The current leverage ratio of 9.82 % is assessed to be appropriate, and there is therefore no need for a supplement.

Regulatory maturity of capital instruments

The Bank has assessed whether it would have difficulty in replacing the capital that will not be eligible for inclusion in total capital in the coming year. The assessment was that the Bank would not have difficulty in replacing the capital in question, and consequently no supplement was made.

9. Statutory requirements

A supplement is taken due to the bank's largest exposure of DKK 210,013 thousand.

10. Capital

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

Excess capital coverage at 31 Dec. 2018	(DKK'000)	(%)
Common equity tier 1 capital	2,240,398	15.75
Common equity tier 1 capital requirement	1,284,942	9.03
Excess common equity tier 1 capital coverage	955,456	6.72
Own funds	2,803,056	19.70
Adequate own funds	1,580,356	11.11
Excess own funds	1,222,700	8.59

The excess common equity tier 1 capital coverage has been calculated at 6.72 %, or DKK 955,456 thousand.

The excess capital coverage has been calculated at 8.59 %, or DKK 1,222,700 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 exposures, 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

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

12. c. Downgrade in credit rating

The disclosures are not assessed to be relevant to Vestjysk Bank and are therefore not provided for these items.

12. d-e. 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 16,857 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 33,890 thousand.

Moreover, the Bank has included a CVA supplement that increases the risk-weighted exposures by DKK 2,809 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. f-g. 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. h. Internal models

The Bank is not permitted to apply internal models to determine counterparty risk (EPE-models), therefore no disclosures are provided for this item.

13. Capital buffers

In light of the financial crisis, the CRR regulation introduced a requirement for a capital conservation buffer and a countercyclical capital buffer in addition to the 8% solvency requirement. These capital buffers must be made up of common equity tier 1 capital. The capital conservation buffer is a permanent buffer that will be phased in over the period 2016 to 2019. The fully phased-in buffer requirement will be 2.5%. In 2018, the buffer requirement is 1.875 %.

The countercyclical capital buffer will be enforced only in periods of above-normal credit growth. The purpose is to ensure that credit institutions during periods of economic growth accumulate a sufficient capital base to absorb losses in stressed periods.

The countercyclical buffer should be built up when aggregate growth in credit is judged to be associated with a build-up of system-wide risk and drawn down during stressed periods. The buffer rate is set by the authorities of the individual EU member states. In Denmark, the buffer rate is fixed by the Ministry of Industry, Business and Financial Affairs on the basis of selected indicators, and at present no rate has been fixed. The current countercyclical capital buffer rate is in 2018 0 percent and is increased with effect from 31 March 2019 to 0.5 percent and further to 1 percent from 30 September 2019. Vestjysk Bank therefore has no capital reserved for the countercyclical capital buffer for Danish exposures at the balance sheet date. In the future, Vestjysk Bank will reserve capital in accordance with the established limits.

The institution-specific countercyclical capital buffer is 0.00354 %. At a total risk exposure amount of DKK 14,226,170 thousand, the institution-specific countercyclical capital buffer requirement is DKK 503 thousand.

The requirement is due to the Bank's exposures in Sweden, Great Britain, Norway, Lithuania, Iceland and Slovakia, which have enforced a countercyclical capital buffer.

The geographical distribution of credit exposures at 31 December 2018 is shown in the table below. Exposures calculated based on internal models and securitisation exposures are not included, as these are not used by Vestjysk Bank.

Amounts in DKK'000	General credit exposures	Trading book exposure	Own funds requirements			Own funds requirement weights	Countercyclical capital buffer rate
			Of which: General credit exposure	Of which: Trading book exposures	Total		
	Exposure value for SA	Sum of long and short position of trading book					
Denmark	14,863,476	3,546,231	943,259	14,807	958,066	0.9786	0.0000
Germany	187,600	3,570	14,214	286	14,500	0.0148	0.0000
Sweden	11,595	2,598	1,207	208	1,415	0.0014	0.0200
Great Britain	3,790	579	211	46	257	0.0003	0.0100
Norway	2,875	504	147	40	187	0.0002	0.0200
Lithuania	50	0	3	0	3	0.0000	0.0050
Iceland	10	0	1	0	1	0.0000	0.0125
Slovakia	0	0	0	0	0	0.0000	0.0125
Rest	67,911	4,809	4,173	385	4,558	0.0047	0.0000

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 assets

The Bank apply the general provisions in IFRS 9, which are incorporated into the Danish Executive Order on Financial Reports and supplemented by special Danish rules on impairment in Annex 10 of the Danish Executive Order that complete the general principles of IFRS 9.

The Bank apply the Danish Executive Order on Financial Reports' definitions of stage 1, 2, and 3, which can be found in section 51-52 of the Executive Order and is considered compatible with the provisions of IFRS 9.

The definitions of these stages are as followed:

- Stage 3 are exposures defined as being impaired

- Stage 2 are exposures with significant increase in the credit risk
- Stage 1 are exposures without significant increase in the credit risk

The definition of credit impaired assets and default applied by Vestjysk Bank in the measurement of the expected credit loss and for transition to stage 3 is in accordance with the definition applied for internal risk management purposes, and the definition is aligned with the definition of default in the Capital Requirements Regulation's (CRR). This implies that an exposure which are deemed to be in default for regulatory purposes will always be placed in stage 3.

The Bank has translated the following into non-performing and receivables, respectively:

- Non-performing receivables are primarily defined as exposures where the customer has been granted interest-rate reductions because of the customer's financial difficulties, exposures to debt collection or where the exposure has been in arrears/overdrafts for more than 90 days with an amount that is considered significant.
- Impaired receivables are defined as exposures that are not included in non-performing receivables, where the customer is in significant financial difficulties, which is the case when changes in the customer's earnings ratio, capital/assets or liquidity conditions leads to a significant risk that the customer cannot fulfill its obligations to Vestjysk Bank or other creditors. Additionally, it is exposures where there is a significant increase in credit risk while there are significant signs of weakness. Thus, exposures in stage 3 and the weakest part of stage 2, that are not included in non-performing loans, are impaired.

A more detailed description of the accounting policies can be found in note 1 in the annual report.

15. b. Applied approaches and methods for determining specific and general credit risk adjustments

The impaired losses on exposures are in line with the rules in the Executive Order and IFRS 9, when a credit loss can be expected. The expected loss is calculated as a function of PD (probability of default), EAD (exposure at default) and LGD (loss given default) and incorporating forward-looking information reflecting Management's expectations to future developments.

The Bank makes an individual assessment of all credit-impaired exposures (stage 3). An exposure is defined as being impaired and as being in default when meets at least one of the following criteria:

- Vestjysk Bank assesses that the borrower will not be able to honour his or her obligations as agreed
- There has occurred objective indication of impairment
- The exposure is more than 90 days past due/overdrawn by an amount considered to be substantial

The assessment of the change in credit risk assumes a significant increase in credit risk relative to the initial recognition (stage 2) in the following situations:

- A 100 per cent increase in the expected lifetime PD of the financial asset and a 0.5 percentage point increase in the 12-month PD, where the 12-month PD was below 1.0 per cent at initial recognition.
- A 100 per cent increase in the expected lifetime PD of the financial asset or a 2.0 percentage point increase in the 12-month PD, where the 12-month PD was 1.0 per cent or higher at initial recognition.
- If a financial asset is more than 30 days past due, the credit risk will be considered to have increased significantly as well.

The calculation of impaired losses on exposures in stage 1 and 2 are made on a portfolio-based calculation model, whereas calculation of impairment losses is made on the remaining part of the exposures (stage 3) by means of a manual individual assessment based on three scenarios (basic scenario, an upside scenario and a downside scenario) including the likelihood of the scenarios.

15. c. Exposures after impaired losses

Vestjysk Bank's total exposures after impaired losses totalled DKK 22,657,218 thousand at 31 December 2018.

Average value of exposures over the course of 2018 by exposure classes:

Risk-weighted credit risk exposures	Average values for 2018 (DKK'000)
Exposures to central government or central banks	0
Exposures to regional or local authorities	0
Exposures to public sector entities	0
Exposures to multilateral development banks	0
Exposures to international organisations	0
Exposures to institutions	67,290
Exposures to corporates	4,653,335
Retail exposures	3,382,782
Exposures secured by mortgages on real property	1,055,380
Exposures in default	1,953,722
Exposures subject to particularly high risk	151,518
Exposures in the form of covered bonds	0
Exposures to items representing securitisation positions	0
Exposures to institutions and corporates with short-term credit assessments	0
Exposures to units or shares in collective investment undertakings ('CIUs')	0
Equity exposures	499,913
Other items	385,746
Risk-weighted credit risk exposures, total	12,149,687

15. d. Geographic distribution of exposures

The geographic distribution of the exposures has been omitted, since more than 98 % 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. 2018:

Amounts in DKK'000	Exposures to central governments or central banks	Exposures to regional or local authorities	Exposures to institutions	Exposures to corporates	Retail exposures	Exposures secured by mortgage on real property	Exposures in default	Particularly high-risk exposures	Equity exposures	Other items
Public authorities	0	0	0	0	0	0	0	0	0	0
Business										
Agriculture, hunting, forestry and fishery	0	0	0	1,450,333	1,072,594	169,176	801,984	0	0	0
Manufacturing industry and raw materials	0	0	0	465,161	207,921	33,399	59,311	0	0	0
Energy supply	0	0	0	286,412	149,049	10,342	91,501	0	0	0
Construction and civil engineering	0	0	0	408,104	357,886	53,199	22,648	106,956	0	0
Trade	0	0	0	970,250	621,874	73,880	73,397	0	0	0
Transportation, hotels and restaurant businesses	0	25,432	0	221,079	199,932	103,645	139,465	20,000	0	0
Information and communications	0	0	0	29,976	53,580	12,101	655	0	469	0
Credit and financing institutes and insurance	815,745	0	236,864	890,812	192,315	85,696	52,146	2,510	333,547	0
Real estate	0	0	0	1,224,127	353,461	300,257	390,630	256,620	0	0
Other business	0	0	0	252,608	659,550	120,483	43,427	0	25,531	0
Business, total	815,745	25,432	236,864	6,198,862	3,868,162	962,177	1,675,163	386,086	359,547	0
Retail	0	0	0	312,929	5,577,242	1,669,347	59,908	0	0	0
Other items	0	0	0	0	0	0	0	0	0	509,754
Total	815,745	25,432	236,864	6,511,791	9,445,404	2,631,524	1,735,071	386,086	359,547	509,754

15. f. Distribution of exposures by residual maturity

Distribution of statement of financial position (on- and off-balance) exposures at 31 Dec. 2018:

	On demand	0 - 3 months	3 months - 1 year	1 - 5 years	More than 5 years	Undefined term to maturity	Total
Amounts in DKK'000							
Exposures to central governments or central banks	328,719	487,026	0	0	0	0	815,745
Exposures to regional or local authorities	25,403	0	0	0	30	0	25,432
Exposures to institutions	219,271	12,598	2,631	2,029	336	0	236,865
Exposures to corporates	1,048,341	1,783,068	673,844	1,852,366	1,154,171	0	6,511,791
Retail exposures	1,057,263	2,698,822	1,019,209	2,937,105	1,733,006	0	9,445,405
Exposures secured by mortgages on real property	291,022	754,027	284,024	820,657	481,794	0	2,631,524
Exposures in default	191,844	496,985	187,412	540,982	317,849	0	1,735,071
Particularly high-risk exposures	165,809	0	23,804	190,398	6,066	0	386,086
Equity exposures	0	0	0	0	0	359,546	359,546
Other items	509,753	0	0	0	0	0	509,753
Total	3,837,424	6,232,525	2,190,923	6,343,538	3,693,253	359,546	22,657,218

15. g. Loans and guarantees that are credit impaired or with significant signs of weakness

Lending and guarantee debtors, which are credit impaired or with significant signs of weakness with subdivision of non-performing and receivables, which are impaired, impaired losses/provisions and amounts expensed, are broken into sectors as follows:

Amounts in DKK'000	Loans and guarantees – credit impaired (IFRS 9 stage 3) or with significant signs of weakness (IFRS 9 stage 2 with significant signs of weakness)			
	Non-performing receivables	Impaired receivables	Impaired losses/provisions at year-end	Amount expensed
Public authorities	0	0	0	0
Business				
Agriculture, hunting, forestry and fishery	486.938	2.084.945	1.142.163	195.280
Manufacturing industry and raw materials	23.668	182.737	72.476	11.650
Energy supply	66.344	152.772	116.989	-11.995
Construction and civil engineering	25.835	136.493	42.754	-5.343
Trade	71.423	342.988	132.142	925
Transportation, hotels and restaurant businesses	103.823	289.963	172.531	6.541
Information and communications	2.425	12.279	3.868	-439
Credit and financing institutes and insurance	154.419	301.422	203.327	3.118
Real estate	141.296	1.193.143	363.708	36.705
Other business	51.499	265.463	98.002	-5.707
Business, Total	1.127.670	4.962.205	2.347.961	230.737
Retail	151.685	449.526	254.806	-8.282
Total	1.279.355	5.411.731	2.602.767	222.454

15. h. Geographic distribution of defaulted and impaired debts

The geographic distribution of the exposures has been omitted, since more than 98% of the Bank's exposures are in Denmark.

15. i. Reconciliation of movements in impaired losses and provisions

Movements of impaired debts as a result of value adjustments and impairment

Amounts in DKK'000	Impaired losses/provisions		Provisions for losses on unutilized credit commitment
	Loans	Guarantees	Unused credit commitments
Accumulated impairment/provisions, 1 Jan. 2018 after IFRS 9	3,236,823	31,430	35,811
Movements for the year:			
1. Foreign exchange adjustment	0	0	0
2. Impaired losses/provisions for the year	684,380	20,337	40,735
3. Reversals of impaired losses/provisions in previous financial years for which there is no longer objective evidence of impairment or where the impairment has been reduced	534,874	15,718	19,742
4. Other movements	61,079	0	0
5. Value adjustment of acquired assets	0	0	0
6. Final loss (written off) of amounts previously subject to individual impairment/provisions	832,580	3,235	10,200
Accumulated impairment/provisions for loans and guarantee debtors at 31 Dec	2,614,828	32,814	46,604
Losses not subject to previous individual impairment/provisions)	8,515,323	436,535	417,847
Amounts received on previously written-off debts	19,953	0	0
Contracted on previously written-off claims	9,209	0	0

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. 2018 stated in median values:

Amounts in DKK'000	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	10	40	60	90
10 Reporting institution's assets	36,763	0	21,330,919	0
30 Equity instruments	0	0	430,611	430,611
40 Debt instruments	0	0	3,195,399	3,195,399
50 of which: covered bonds	0	0	2,998,355	2,998,355
60 of which: ABSs	0	0	0	0
70 of which: issued by public administration	0	0	0	0
80 of which: issued by financial enterprises	0	0	3,195,399	3,195,399
90 of which: issued by non-financial enterprise	0	0	0	0
120 Other assets	36,763	0	17,749,619	0

16. b. Received Collateral

Disclosure of the Bank's received collateral at 31 Dec. 2018 stated in median values:

Amounts in DKK'000	Fair value of encumbered accepted collateral or own issued debt securities	Fair value of accepted collateral or own issued debt securities that may be subject to encumbrance
	010	40
130 Collateral received by the reporting institution	0	0
140 Loans on demand	0	0
150 Equity instruments	0	0
160 Debt securities	0	0
170 of which: covered bonds	0	0
180 of which: ABSs	0	0
190 of which: issued by public administration	0	0
200 of which: issued by financial enterprises	0	0
210 of which: issued by non-financial enterprise	0	0
220 Loans and advances apart from loans on demand	0	0
230 Other accepted collateral	0	0
240 Own issued debt securities apart from own covered bonds or ABSs	0	0
241 Own covered bonds and ABSs, issued and not yet charged	0	0
250 Total assets, accepted collateral and own issued debt securities	37,473	0

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

Sources of encumbrance at 31 December 2018 stated in median values:

Amounts in DKK'000	Matching liabilities, contingent liabilities or securities lent	Assets, accepted collateral and own issued debt securities apart from covered bonds and encumbered ABSs
	010	030
010 Carrying amount of selected financial liabilities	30,505	0

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	51,211	25,380
Total	51,211	25,380

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.

	31 Dec. 2018 (DKK'000)	Capital requirement (8% of exposure) (DKK'000)
Risk-weighted market risk exposure		
Debt instruments	223,707	17,897
Equity instruments	45,268	3,621
Collective investment arrangements	2,766	221
Foreign currency	0	0
Risk-weighted market risk exposures, total	271,741	21,739

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 measured 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. 2018	Exposure 31. Dec. 2018	Realised gains or losses in 2018	Non-realised gains or losses in 2018	Exposure 31. Dec. 2018
Equities etc. not included in trading book	251,638	1,043	43,294	415,002

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. 2018	Long positions	Short positions	Interest rate risk
Items recognised in the statement of financial position	-78,947	1,294,997	-16,316
Positions with limited or hedged interest rate risk	-11,381,437	17,017,968	0
Positions with special interest rate formulas	0	0	0
Not included in trading book, total	-11,460,385	18,312,965	-16,316

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.

The Bank's major risk takers can in exceptional cases, be paid with gratuities/one-time allowance on the basis of heavy workload and/or completion of projects, provided the Board of Directors, on the recommendation of the Executive Board, considers that the terms of Order No. 1582/2016 on pay policy and remuneration of banks are met in the particular case.

In exceptional cases, agreements may be entered 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.

Insofar as major risk takers or other employees whose activities have a significant impact on the bank's risk profile are remunerated with variable pay, then payment will be made in accordance with applicable legislation.

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 2018, the committee held 2 meetings.

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

2018	(DKK'000)
Board of Directors	
Number	9
Fixed remuneration	1,916
Executive Board, total	
Number	2
Contractual remuneration	6,473
Other employees with major influence on the Bank's risk profile	
Number	14
Fixed remuneration	13,057

No one in the Bank received remuneration that exceeded EUR 1 million in 2018.

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. 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.

Vestjysk Bank's leverage ratio has been calculated at 9.82 % at 31 December 2018.

In order to counter the risk of excessive leverage, Vestjysk Bank has set up procedures and methods to identify, manage and monitor the Bank's leverage risk. An internal threshold has been set up if the leverage ratio falls below 6, the Board of Directors must be notified. The internal threshold is in accordance with the Basel Committee's proposal that the leverage ratio must be greater than 3 %.

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.

Reconciliation of accounting assets to leverage ratio exposures - overview		Amount
1	Total assets as per published financial statements	21,198,212
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	17,315
5	Adjustment for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	4,048,465
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-118,894
8	Leverage ratio total exposure measure	25,145,098

Leverage ratio common disclosure		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	21,181,355
2	(Asset amounts deducted in determining Tier 1 capital)	-188,894
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	21,062,461

Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	16,857
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	17,315
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivatives exposures (sum of lines 4 to 10)	34,172
SFT-exposures		
12	Gross assets entered into through SFTs (without netting) adjusted for accounting transactions relating to sales	0
13	(Cash debts (netted amounts) deriving from gross assets entered into through SFTs)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Exemption for SFTs: Counterparty credit risk exposure, cf. art. 429b (4) and art. 222 of Regulation (EU) No 575/2013	0
15	Exposures relating to agent transactions	0
EU-15a	(Excluded CCP leg of client-cleared SFT exposures)	0
16	Total exposure to securities financing transactions (sum of rows 12-15a)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	9,659,982
18	(Adjustments for conversion to credit equivalent amounts)	-5,611,517
19	Other off-balance sheet exposures (sum of row 17 and 18)	4,048,465
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(On- and off-balance sheet intra-group exposures (individual basis) excluded in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-19b	(On- and off-balance sheet exposures excluded in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
Capital and total exposure measure		
20	Tier 1 capital	2,470,398
21	Leverage ratio total exposure measure (sum of row 3, 11, 16, 19, EU-19a and EU-19b)	25,145,098
Leverage ratio		
22	Leverage ratio	9.82%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transition
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	21,181,355
EU-2	Trading book exposures	8,233,970
EU-3	Banking book exposures, of which:	12,947,384
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	826,328
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	0
EU-7	Institutions	133,434
EU-8	Secured by mortgages of immovable properties	864,981
EU-9	Retail exposures	4,483,667
EU-10	Corporate	4,213,004
EU-11	Exposures in default	1,430,970
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	995,000

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 exposures, 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 exposures, 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. A number of exposures are hedged with more collateral than the size of the exposure. The excess collateral is not included in the statement of collateral for loans, unutilized credit commitments and guarantees that are credit-impaired at the balance sheet date (stage 3)

The bank aims for a spread in the type of collateral and in addition to mortgage on real estate, significant risk concentrations on collateral must be avoided.

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 an exposure 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 36 of the 2018 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:

Financial collateral and guarantees at 31 December 2018	Financial collateral (DKK'000)	Guarantees (DKK'000)
Exposures to central government or central banks	0	0
Exposures to regional or local authorities	0	0
Exposures to public sector entities	0	0
Exposures to multilateral development banks	0	0
Exposures to international organisations	0	0
Exposures to institutions	0	0
Exposures to corporates	78,542	10,943
Retail exposures	99,933	2,839
Exposures secured by mortgages on real property	5,829	0
Exposures in default	5,851	6,700
Particularly high-risk exposures	4,905	0
Exposures in the form of covered bonds	0	0
Items representing securitisation positions	0	0
Exposures to institutions and corporates with short-term credit assessments	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0
Equity exposures	0	0
Other items	0	0
Total	195,061	20,481

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.

28. IFRS 9 transitional arrangement

Capital Requirements Regulation (CRR) includes a five-year phasing in of the impact of IFRS 9 impaired losses on the bank's own funds. Vestjysk Bank has decided not to use the transition scheme and Vestjysk Bank's own funds, capital ratios and leverage ratio already reflect the full effect of IFRS 9.



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Vestjysk Bank A/S, Torvet 4-5, DK-7620 Lemvig, CVR 34631328

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