# Q1 2021

# Risk Report Addendum

## 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 Capital Needs (bekendtgørelse om opgørelse af risikoeksponeringer, kapitalgrundlag og solvensbehov).

Risk report addenda are prepared quarterly in conjunction with the publication of the Bank's capital 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 capital need

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

| | **Calculation of capital need at 31.03.2021** | Amount in TDKK | % |
|---|---|---|---|
| | Pillar I requirement (8 % of total risk exposure) | 1.850.722 | 8,00 |
| +1 | Earnings (capital for risk coverage as a result of weak earnings) | 0 | 0,00 |
| +2 | Growth in loans (capital to cover organic growth in business volume) | 0 | 0,00 |
| +3 | Credit risks, of which | | |
| | 4a Credit risks for large customers (2 % of own funds) with financial problems | 52.880 | 0,23 |
| | 4b Other credit risks | 210.582 | 0,91 |
| | 4c Single name concentration risk | 33.945 | 0,15 |
| | 4d Sector concentration risk | 69.988 | 0,30 |
| +4 | Market risk, of which | | |
| | 5a Interest rate risk | 18.876 | 0,08 |
| | 5b Spread risk | 120.000 | 0,52 |
| | 5c Equity risk | 0 | 0,00 |
| | 5d Exchange rate risk | 0 | 0,00 |
| +5 | Liquidity risk (capital for coverage of more expensive liquidity) | 0 | 0,00 |
| +6 | Operational risk (capital for coverage of operational risk in excess of Pillar I) | 100.000 | 0,43 |
| +7 | Leverage (capital for coverage of risks as a result of high gearing) | 0 | 0,00 |
| +8 | Regulatory maturity of capital instruments | 0 | 0,00 |
| + | Any additions as a result of regulatory requirements | 0 | 0,00 |
| | **Capital need, total** | 2.456.993 | 10,62 |

## 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 (OEI) credit quality category 1,
- Customers with material signs of weakness but without OEI, 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 52,880 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. A supplementary will be added in case of exposure towards risky sectors, where Vestjysk Bank has a higher concentration than other comparable banks.

Furthermore an assessment is performed on the need for a reservation of solvency due to the potential risk of a higher deduction for Non-Performing Exposures during the next 12 months.

For these exposures, the Bank has assessed that it will add a supplementary DKK 210,582 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 Capital 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 8.62 %. For these exposures, the Bank has assessed a supplement of DKK 33,945 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 to adequate own funds/capital requirement |
|---|---|
| HHI < 20 % | 0 |
| HHI > 20 % | $\sqrt{\frac{HHI - 0,2}{275}} * REA_{business} * (1 - SR_{business})$ |

Vestjysk Bank’s HHI has been calculated at 18.82 %, which according to the Financial Supervisory Authority’s guidelines does not apply for a supplement, but due to precautionary considerations a supplement of DKK 69,988 thousand has been taken.

### 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 18,876 thousand and spread risk of DKK 120,000 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 and outsourcing as well as the Bank's business model. Besides that, the bank also considers the history of operational risk within the bank. Based on the overall assessment of the Bank’s operational risks, a supplement of DKK 100,000 thousand has been calculated.

### 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

The assessment is that the current leverage ratio of 8.72 % 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.

### Regulatory requirements

There are no regulatory requirements that are considered to give rise to a supplement.

### Capital

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

| Excess capital coverage at 31.03.2021 | % |
|---|---|
| Own funds | 21.1 |
| Individual solvency need | 10.6 |
| Excess solvency need | 10.5 |
| Own funds | 21.1 |
| Aggregate capital requirements | 13.1 |
| Excess aggregate capital requirements | 8.0 |
| MREL-own funds | 21.9 |
| MREL requirements | 12.5 |
| Combined buffer requirements | 2.5 |
| Excess MREL requirements | 6.9 |

The excess solvency need has been calculated at 10.5 %, which with risk-weighted assets at DKK 23,134,031 thousand is a coverage at DKK 2,492,073 thousand.

The excess aggregate capital requirements have been calculated at 8.0 %, which with risk-weighted assets at DKK 23,134,031 thousand is a coverage at DKK 1,850,722 thousand.

The excess MREL requirements have been calculated at 6.9 % which with risk-weighted assets at DKK 23,134,031 thousand is a coverage at DKK 1,596,248 thousand.

## Concluding remarks

For supplementary disclosures relating to risk management, please see the Bank's complete 2020 Risk Report as well as its 2020 Annual Report posted at www.vestjyskbank.dk.

The risk report will be updated in conjunction with the publication of the 2021 Annual Report.


Farsø
Thyborøn
Lemvig
Skals
Struer
Viborg
Randers
Holstebro
Hadsten
Herning
Ringkøbing
Ikast
Aarhus
Videbæk
Hvide Sande
Brande
Skjern
Horsens
Give
Ølgod
Grindsted
Vejle
Heden-
sted
Juelsminde
Jelling
Billund
Esbjerg
Kolding
Løgumkloster
Rødekro
Tinglev