



**Q2 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) and the Capital Requirements Regulation (CRR2).

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. Risk metrics are published semi-annually according to CRR2. 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.

## Capital

The capital is calculated below.

Amount in TDKK	30 June 2021	31 March 2021
Shareholders' equity	5,049,475	4,875,854
Tier 1 Capital	-300,700	-305,293
Interest Tier 1 Capital	-6,267	-
Prudent valuation	-10,069	-10,068
Intangible assets	-109,729	-116,908
Deferred tax assets	-166,853	-166,853
Investments in the sector	-283,125	-303,267
Non Performing Exposures (NPE-deduction)	-79,186	-
<b>Common equity tier 1 capital</b>	<b>4,093,546</b>	<b>3,973,435</b>
Additional tier 1 capital	300,700	300,700
<b>Tier 1 capital</b>	<b>4,394,246</b>	<b>4,274,135</b>
Tier 2 capital	596,884	596,452
<b>Total capital</b>	<b>4,991,130</b>	<b>4,870,587</b>
MREL-capital	377,970	199,222
<b>MREL – total capital</b>	<b>5,369,100</b>	<b>5,069,809</b>

The MREL – total capital has increased from 31 March 2021 to 30 June 2021 due to an increase in shareholders equity and MREL-capital.

## Risk exposures

Risk exposures are distributed across the risk areas below.

Amount in TDKK	30 June 2021	31 March 2021
Credit risk	19,686,818	20,079,886
Market risk	1,467,823	1,392,104
Operational risk	1,662,041	1,662,041
<b>Total risk exposure</b>	<b>22,816,682</b>	<b>23,134,031</b>

The total risk exposure has decreased from 31 March 2021 to 30 June 2021 primarily due to a decrease in credit risk exposure.

## 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	30 June 2021		31 March 2021	
	Amount in TDKK	%	Amount in TDKK	%
Pillar I requirement (8 % of total risk exposure)	1,825,335	8.00	1,850,722	8.00
+1 Earnings (capital for risk coverage as a result of weak earnings)	0	0.00	0	0.00
+2 Growth in loans (capital to cover organic growth in business volume)	0	0.00	0	0.00
+3 Credit risks, of which				
4a Credit risks for large customers (2 % of own funds) with financial problems	30,231	0.13	52,880	0.23
4b Other credit risks	209,826	0.92	210,582	0.91
4c Single name concentration risk	34,300	0.15	33,945	0.15
4d Sector concentration risk	64,403	0.28	69,988	0.30
+4 Market risk, of which				
5a Interest rate risk	21,533	0.09	18,876	0.08
5b Spread risk	120,000	0.53	120,000	0.52
5c Equity risk	0	0.00	0	0.00
5d Exchange rate risk	0	0.00	0	0.00
+5 Liquidity risk (capital for coverage of more expensive liquidity)	0	0.00	0	0.00
+6 Operational risk (capital for coverage of operational risk in excess of Pillar I)	100,000	0.44	100,000	0.43
+7 Leverage (capital for coverage of risks as a result of high gearing)	0	0.00	0	0.00
+8 Regulatory maturity of capital instruments	0	0.00	0	0.00
+9 Any additions as a result of regulatory requirements	0	0.00	0	0.00
<b>Capital need, total</b>	<b>2,405,628</b>	<b>10.54</b>	<b>2,456,993</b>	<b>10.62</b>

## 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 30,231 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 209,826 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 8.87 %. For these exposures, the Bank has assessed a supplement of DKK 34,300 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 19.04 %, which according to the Financial Supervisory Authority's guidelines does not apply for a supplement, but due to precautionary considerations a supplement of DKK 64,403 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 21,533 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 8.59 % 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 coverage

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

<b>Excess capital coverage</b>	<b>30 June 2021</b>	<b>31 March 21</b>
	%	%
Common equity tier 1 capital ratio	17.9	17.2
Common equity tier 1 capital need	9.3	10.3
<b>Excess common equity tier 1 capital</b>	<b>8.6</b>	<b>6.9</b>
Own funds	21.9	21.1
Individual solvency need	10.5	10.6
<b>Excess solvency need</b>	<b>11.4</b>	<b>10.5</b>
Own funds	21.9	21.1
Aggregate capital requirements	13.0	13.1
<b>Excess aggregate capital requirements</b>	<b>8.9</b>	<b>8.0</b>
MREL-capital ratio	23.5	21.9
MREL requirements	12.4	12.5
Combined buffer requirements	2.5	2.5
<b>Excess MREL requirements</b>	<b>8.6</b>	<b>6.9</b>

The capital coverage has generally increased from 31 March 2021 to 30 June 2021.

## Key Metrics

Amount in TDKK		a	b
		30 June 2021	31 March 2021
<b>Available own funds (amounts)</b>			
1	Common Equity Tier 1 (CET1) capital	4,093,546	3,973,437
2	Tier 1 capital	4,394,246	4,274,137
3	Total capital	4,991,129	4,870,589
<b>Risk-weighted exposure amounts</b>			
4	Total risk exposure amount	22,816,682	23,134,031
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>			
5	Common Equity Tier 1 ratio (%)	17.9 %	17.2 %
6	Tier 1 ratio (%)	19.3 %	18.5 %
7	Total capital ratio (%)	21.9 %	21.1 %
<b>Additional own funds requirements to address risk other than risk of excessive leverage (as a percentage of risk-weighted exposure amount)</b>			
EU 7a	Additional own funds requirements to address risk other than the risk of excessive leverage (%)	1.4 %	1.5 %
EU 7b	of which: to be made up of CET1 capital (percentage points)	0.5 %	0.5 %
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	0.6 %	0.7 %
EU 7d	Total SREP own funds requirements (%)	10.5 %	10.6 %
<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>			
8	Capital conversation buffer (%)	2.5 %	2.5 %

EU 8a	Conversation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.0 %	0.0 %
9	Institution specific countercyclical capital buffer (%)	0.0 %	0.0 %
EU 9a	Systemic risk buffer (%)	0.0 %	0.0 %
10	Global Systemically Important Institution Buffer (%)	0.0 %	0.0 %
EU 10a	Other Systemically Important Institution Buffer (%)	0.0 %	0.0 %
11	Combined buffer requirements (%)	2.5 %	2.5 %
EU 11a	Overall capital requirements (%)	13.0 %	13.1 %
12	CET1 available after meeting the total SREP own funds requirements	9.5 %	8.7 %
<b>Leverage ratio</b>			
13	Total exposure measure	51,145,123	49,003,795
14	Leverage ratio (%)	8.6 %	8.7 %
<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>			
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.0 %	0.0 %
EU 14b	of which: to be made up to CET1 capital (percentage points)	0.0 %	0.0 %
EU 14c	Total SREP leverage ratio requirements (%)	0.0 %	0.0 %
<b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)</b>			
EU 14d	Leverage ratio buffer requirements (%)	0.0 %	0.0 %
EU 14e	Overall leverage ratio requirements (%)	3.0 %	0.0 %
<b>Liquidity Coverage Ratio</b>			
15	Total high-quality liquid assets (HQLA) (Weighted value-average)	11,990,683	10,411,620
EU 16a	Cash outflows – Total weighted value	4,334,973	4,206,047
EU 16b	Cash inflows – Total weighted value	226,777	226,222
16	Total net cash outflows (adjusted value)	4,108,196	3,979,825
17	Liquidity coverage ratio (%)	291.9 %	261.6 %
<b>Net Stable Funding Ratio</b>			
18	Total available stable funding	35,477,139	34,865,972
19	Total required stable funding	25,997,829	29,355,951
20	NSFR ratio (%)	136.5 %	118.8 %

## 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](http://www.vestjyskbank.dk).

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



■ [vestjyskbank.dk](http://vestjyskbank.dk)

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