MOODY'S
INVESTORS SERVICE

CREDIT OPINION
23 May 2018

Update

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RATINGS

Ringkjobing Landbobank A/S

Domicile	Ringkobing, Denmark
Long Term Debt	Not Assigned
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Ringkjobing Landbobank A/S

Update following rating affirmation, outlook remains stable

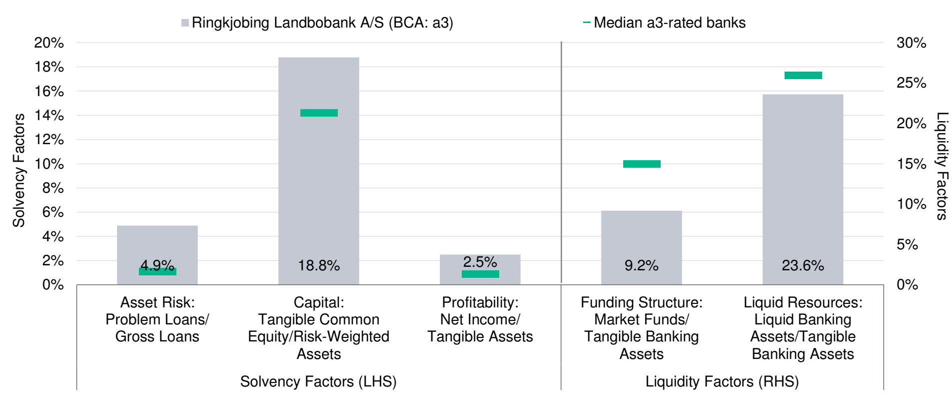
Summary

Ringkjøbing Landbobank A/S' (Ringkjøbing) A1 deposit rating incorporates two notches of rating uplift, and the A2 issuer rating one notch of uplift, from the bank's a3 Baseline Credit Assessment (BCA) based on our Advanced Loss Given Failure (LGF) analysis. LGF takes into account the risks faced by different debt and deposit classes across the liability structure should the bank enter into resolution. Ringkjøbing's short-term deposit and issuer ratings are P-1 and its Counterparty Risk Assessment (CR Assessment) is Aa3(cr)/Prime-1(cr).

Ringkjøbing's a3 standalone BCA reflects its (1) strong capitalisation, with a 16.1% reported common equity Tier 1 (CET1) ratio as of end-March 2018 and a 14.0% shareholders' equity-to-total assets ratio; (2) high and resilient profitability, as demonstrated throughout an entire economic cycle; and (3) solid funding profile, reflecting ample deposits and low reliance on market funding. However, the bank's BCA is constrained by elevated asset risks from a somewhat concentrated loan book by borrower, geography and industry.

Furthermore, we expect that Ringkjobing's credit profile will remain broadly unchanged following a proposed merger with Nordjyske Bank A/S (Nordjyske - unrated), despite the slightly weaker profile of Nordjyske, because despite reductions the merged bank will maintain robust capitalisation and profitability, while weaker initial asset quality of Nordjyske will be partly offset by increased loan book diversification.

Exhibit 1
Rating Scorecard - Key financial ratios



These represent our Banks methodology scorecard ratios, whereby asset risk and profitability reflect the weaker of either the three-year average and the latest annual figure. Capital ratio is the latest reported figure. Funding structure and liquid resource ratios reflect the latest fiscal year-end figures.

Source: Moody's Investors Service

Credit strengths

» Solid capital base and leverage ratio

» High profitability and strong operating efficiency

» Stable funding profile and adequate liquidity

Credit challenges

» Elevated asset risks from credit concentrations, although, problem loan levels are coming down

» Pressure on net interest margins, in light of the low interest rate environment

Outlook

Ringkjøbing's long-term deposit and issuer ratings carry a stable outlook, reflecting our views that following the proposed merger 1) the bank's still strong capacity to generate capital internally can allow it to rebuild its regulatory capital buffers; 2) although Nordjyske had higher through-the-cycle credit losses than Ringkjobing, we expect that as a merged entity, future losses would be lower as Ringkjobing will apply its own underwriting standards going forward; 3) if the bank is successful in managing execution risks, it could also stand to benefit from potential cross-selling opportunities to Nordjyske's clientele, particularly from its niches such as lending to health professionals and their practices, and private banking.

The stable outlook also reflects our expectation that the bank will be able to sustain its credit profile, which will be supported by the benign domestic operating environment over the next 12-18 months, despite continued pressure from the persistent low interest rate environment on the bank's earnings.

Factors that could lead to an upgrade

» Upward pressure on Ringkjobing's ratings could develop from (1) a seasoning of the bank's portfolio with low losses and a further significant reduction in concentrations, particularly to volatile sectors, leading to lower susceptibility to adverse events; (2) an improvement in asset-quality metrics, especially in relation to agricultural lending; and (3) a substantial improvement in the bank's liquidity.

» Upward rating momentum for the long-term ratings of Ringkjøbing could also develop as a result of a change in the bank's funding structure, such as the issuance of higher volumes of senior unsecured debt or subordinated debt that would result in additional notching uplift under our LGF framework.

Factors that could lead to a downgrade

» Downward pressure on Ringkjobing's ratings could emerge from (1) a further weakening in capital metrics below current expectations after the potential merger, or if the bank's capital buffers do not rise in line with any increase in regulatory capital requirements; (2) higher through-the-cycle losses, compared to the low levels experienced in the past for Ringkjobing, or, an increase in credit concentrations to single borrowers or higher risk sectors; (3) a persistent weakening of the bank's recurring earnings power and operating efficiency, for example from a failure to extract cost synergies following the proposed merger; or (4) an increase in the bank's reliance on market funding from the current low level.

» Ringkjobing's long-term ratings could also be downgraded following a significant decrease in the bank's junior deposits or senior and subordinated debt, leading to fewer notches of rating uplift under our Advanced LGF analysis.

Key indicators

Exhibit 2

Ringkjobing Landbobank A/S (Consolidated Financials) [1]

	3-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (DKK million)	27,004	25,796	24,258	22,384	21,238	7.7[4]
Total Assets (EUR million)	3,623	3,465	3,262	2,999	2,852	7.6[4]
Total Assets (USD million)	4,455	4,160	3,441	3,258	3,451	8.2[4]
Tangible Common Equity (DKK million)	3,785	3,817	3,554	3,294	3,098	6.3[4]
Tangible Common Equity (EUR million)	508	513	478	441	416	6.3[4]
Tangible Common Equity (USD million)	624	616	504	479	504	6.8[4]
Problem Loans / Gross Loans (%)	-	4.1	5.0	5.7	6.7	5.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.8	19.4	19.4	18.9	19.5	19.2[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	-	17.7	20.4	24.5	27.3	22.5[5]
Net Interest Margin (%)	2.4	2.5	2.9	2.9	3.1	2.8[5]
PPI / Average RWA (%)	4.9	4.0	4.0	3.9	4.4	4.2[6]
Net Income / Tangible Assets (%)	3.3	2.3	2.2	2.0	2.1	2.4[5]
Cost / Income Ratio (%)	25.4	31.0	31.0	32.1	30.7	30.0[5]
Market Funds / Tangible Banking Assets (%)	11.4	9.2	8.0	7.3	10.3	9.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	24.8	23.6	26.1	20.7	25.0	24.1[5]
Gross Loans / Due to Customers (%)	106.9	106.1	100.5	107.4	106.4	105.4[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; LOCAL GAAP [3] May include rounding differences due to scale of reported amounts [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

Profile

Ringkjøbing is a Danish regional and niche bank, with operations primarily in central and western Jutland. The bank provides retail and commercial banking products and services; financing for private medical practices and dentists; funding of wind turbines and solar panels; and private banking. As of 31 March 2018, the bank reported a consolidated asset base of DKK27 billion (€3.6 billion), operated through a network of 10 branches, and had 277 full-time employees.

Ringkjøbing was established in 1886. Its shares are listed on the NASDAQ Copenhagen Stock Exchange (Ticker: RILBA). As of 31 December 2017, the bank's largest shareholder was Parvus Asset Management Europe Limited, which owned 9.4% of its total share capital.

For further information on the bank's profile, see Ringkjobing Landbobank A/S : Key Facts and Statistics, 19 December 2017.

Detailed credit considerations

Resilient credit profile following proposed merger

On 18 April 2018, Ringkjobing and Nordjyske announced a merger agreement between the two banks. Under the agreement, Ringkjobing will absorb Nordjyske's assets and liabilities, and will be the surviving legal entity. The merger requires formal approval by relevant authorities and the banks' shareholders, with extraordinary general meetings to be held in June 2018.

We estimate that the bank's pro-forma tangible common equity to risk-weighted assets ratio will decline to a still robust 16% after the merger, and that common equity tier 1 (CET1) will decrease by around 150 basis points to about 14.5%, still above the bank's previously communicated minimum capital target of around 14% and well above regulatory requirements. We also expect that the bank's still strong capacity to generate capital internally can allow it to rebuild its regulatory capital buffers.

The bank's problem loan ratio will rise to an estimated pro-forma 8%, from 4% as of year-end 2017, mainly as a result of Nordjyske's exposure to the troubled agriculture sector (11% of Nordjyske's loans and guarantees as of year-end 2017). However, this increase will be partly mitigated by a material reduction in credit concentrations. Exposure to the real estate sector will remain high however for the merged entity. These drivers lead us to assign an Asset Risk score of ba2. Over the longer-term, although Nordjyske had higher through-the-cycle credit losses than Ringkjobing, we expect that as a merged entity, future losses would be lower as Ringkjobing will apply its own underwriting standards going forward.

We expect profitability to remain relatively strong with a net income to tangible assets of about 1.8% for 2018-19, albeit at a slightly more modest level when compared with a net income ratio of 2.3% in 2017, leading us to assign a forward-looking Profitability score of a1. The bank's cost-to-income ratio is expected to rise to around 40% in 2018, from the very cost efficient 31% in 2017, which the synergies extracted from the merger should gradually improve over time. Ringkjobing estimates one-off merger costs at DKK125 million in 2018, while the bank expects aggregate cost synergies of DKK100 million in 2019 and 2020.

We also point out that the merger entails execution risks, especially given the similar size of the two entities (Ringkjobing had total assets of DKK27.0 billion in March 2018 and Nordjyske DKK20.3 billion); however, the two banks have similar cultures, and both banks use the same key product suppliers, such as Bankdata for IT solutions and Totalkredit for mortgage lending, partly mitigating these risks.

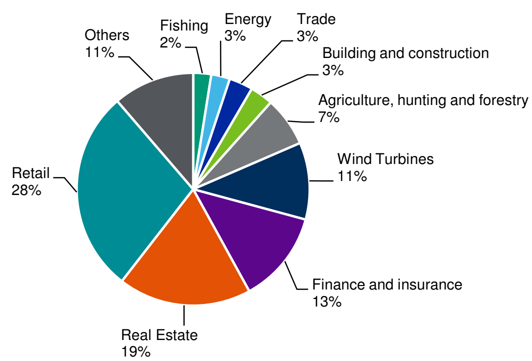
The above discussed the potential impact on key metrics following the merger, the below analysis deals with Ringkjobing's credit profile as it stood prior to this merger.

Elevated asset risks from credit concentrations

Our Asset Risk score indicates that this remains a relative weakness for the bank's rating level, reflecting elevated risks from credit concentrations. Problem loan levels were well provisioned, however, and asset quality had been on an improving trend.

Ringkjøbing's loan book exhibits relatively high geographic and sector concentrations, as around 33% of the bank's lending was to customers within the core region of western and central Jutland at end-2017, while only 9% of lending was to customers located outside Denmark. In terms of sector concentrations, as of end-March 2018, the bank's exposure to the cyclical real estate sector made up 19% of loans and guarantees (see Exhibit 3), while the challenged agriculture sector made up 7%. Overall, corporate loans accounted for 72% of the bank's credit exposure, while retail loans (excluding those transferred to mortgage credit institutions) represented only 28%. We also consider risks relating to the bank's unseasoned loan portfolio, reflecting significant growth by a compound annual rate of 8% between end-2014 and end-2017. Growth picked up in 2017 and the bank's gross loan portfolio grew by 10%.

Exhibit 3
Ringkjøbing maintains some concentrations to specific sectors
Loan portfolio breakdown by sector as of March 2018



Sources: Moody's Investors Service, company reports

Our assigned Asset Risk score also takes into account Ringkjøbing's relatively large customer concentrations in comparison with that of other European peers, given its narrow banking franchise. Top 20 largest exposures were equivalent to 138% of its CET1 capital as of end-March 2018, against an 175% limit imposed by the Danish Financial Supervisory Authority (FSA). A majority of the 20 largest exposures are outside the core area of central and western Jutland and, therefore, not concentrated locally.

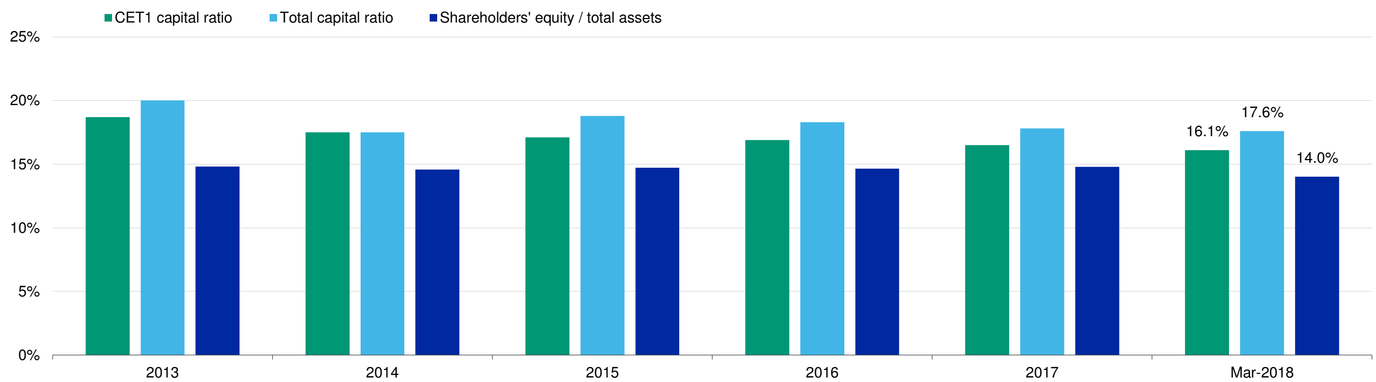
The trend in asset quality has been positive, with problem loans (defined as loans subject to individual impairment) decreasing to 4.1% in 2017 from 5.0% in 2016. The improvement largely reflects a reduction in problem loans, which declined to DKK836 million as of year-end 2017 from DKK913 million in 2016. The bank's coverage ratio (measured as total loan-loss reserves as a percentage of problem loans) improved to 110% as of year-end 2017 from 102% in 2016, one the highest coverage ratio among rated Danish banks, mainly because of a very high level of general loan-loss reserves. We believe Ringkjøbing has allocated considerable provisions for its agriculture exposure, which exhibits still-weak asset quality.

Solid capital base and leverage ratio

Our assigned aa3 Capital score supports Ringkjøbing's standalone credit profile, reflecting the bank's solid capitalisation, which is well in excess of regulatory minima. We expect the bank to sustain its high capital buffers in the foreseeable future given its strong track record and high capacity to generate capital internally.

As of end-March 2018, Ringkjøbing's reported CET1 capital ratio was 16.1% (including current period profits), from 16.5% as of year-end 2017 (see Exhibit 4). The bank's total capital ratio was 17.6% as of end-March 2018. Both of these metrics are well above the bank's fully loaded requirements that will rise to 8.5% for the CET1 ratio and to 12% for the total capital ratio by 2019 and include both the Danish Financial Supervisory Authority's (FSA) pillar 1 and pillar 2 components (the latter is 1% for Ringkjøbing), a 2.5% capital conservation buffer, and an additional 0.5% countercyclical buffer will also apply for all banks in Denmark from 31 March 2019.

Exhibit 4
Ringkjøbing's capitalisation remains solid



Source: Moody's Investors Service

Ringkjøbing applies the standardised approach to calculate credit-related risk-weighted assets (RWAs). Therefore, the bank's risk density, measured as the ratio of RWAs to total assets, was relatively high at 74% as of end-March 2018, rendering the bank's capital metrics less sensitive to potential amendments in regulatory methods to calculating RWAs, including floor requirements. Also, the bank's shareholders' equity-to-total assets was 14.0% as of end-March 2018, one of the highest such ratios among those of Nordic and international banks (which are typically within 4%-10% on average), further underpinning our favourable capital assessment.

Finally, new IFRS 9 impairment rules implemented at the beginning of 2018 translated to DKK59 million (pre tax) in additional impairment charges, which was equivalent (post tax) to about 1.2% of the bank's equity. The bank has decided to apply the transitional rules and phase in the negative impact on its regulatory capital over five years.

High profitability and strong operating efficiency, despite pressure on net interest margins

Our assigned Profitability score reflects Ringkjøbing's strong earnings track record and high profitability, which provides ample capacity to absorb losses through internal capital generation. In 2017, Ringkjøbing reported a continued improving trend, as underpinned by net income to tangible assets of 2.3%, compared with 2.2% in 2016.

For Q1 2018, Ringkjøbing reported an 36% increase in pretax profit to DKK269 million compared with DKK198 million for the same period a year earlier. The growth in profits was mostly driven by a reversal in impairment charges and a positive contribution from fair value gains of its investment securities. This improvement is despite a continued reduction in margins to 2.4% in the first three months of the year, from 2.5% in 2017 and 2.9% in 2016 in light of the low interest rate environment.

We, however, expect the benign operating environment in Denmark to continue to support Ringkjøbing's profitability, despite the low interest environment and pressure on margins, because impairment charges are likely to remain low. As mentioned, in Q1 2018, the bank had reversed impairment charges as credit quality improved while credit costs for the bank were only 0.05% in 2017, from 0.26% in 2016, and had consumed 1% of pre-provision income.

Ringkjøbing remained one of Denmark's most efficient banks, with a reported cost-to-income ratio of 31% in 2017. In our view, the bank's lean business model remains a key driver of its high profitability compared with that of regional peers, and its ability to further grow its lending activities raises Ringkjøbing's capacity to cope with the challenges arising from low interest rates.

Stable funding profile and adequate liquidity

Ringkjøbing's stable funding profile supports the bank's BCA. As of end-March 2018, customer deposits accounted for 72% of assets. Furthermore, the bank's reliance on more confidence-sensitive market funding remained low at 11% of tangible banking assets as of end-March 2018. This level of market funding reliance has slightly increased over the past five years, however remaining at a low level. These strengths are reflected in our assigned a1 Funding Structure score.

As with most Danish banks, Ringkjøbing can secure financing for retail mortgages through specialised mortgage lenders, for example, Totalkredit or DLR. Loans funded by these specialised mortgage lenders are transferred to these institutions and do not appear on Ringkjøbing's balance sheet.

We consider Ringkjøbing's liquidity adequate compared with its lending-driven business model, as well as its large and stable deposit base. This view is reflected in our assigned baa2 score for Liquid Resources, which also takes into account that some of the bank's financial securities are pledged for clearing purpose. As of end-March 2018, liquid banking assets accounted for around 25% of assets, a small increase from 24% as of year-end 2017, while the bank reported a solid liquidity coverage ratio of 256% (2017: 193%) over the same period. Ringkjøbing's liquidity coverage ratio is comfortably above the 100% minimum requirement, set by the Danish FSA, which applies to all financial institutions in Denmark as of 1 January 2018.

Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to system-wide trends and market shares from the central bank. Bank specific figures originate from banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions published on 13 June 2017.

Support and structural considerations

Loss Given Failure analysis

Ringkjøbing operates in Denmark and is subject to the EU Bank Resolution and Recovery Directive (BRRD), which we consider an operational resolution regime. In accordance with our methodology we therefore apply our Advanced LGF analysis to Ringkjøbing's liabilities, considering the risks faced by different debt and deposit classes across the liability structure should the bank enter resolution.

In our Advanced LGF analysis we use our standard assumptions and assume residual tangible common equity of 3%, losses post-failure of 8% of tangible banking assets, a 25% runoff in “junior” wholesale deposits, and a 5% run-off in preferred deposits. We assign a 25% probability to deposits being preferred to senior unsecured debt.

Under these assumptions, for Ringkjøbing's A1 rated deposits, our LGF analysis indicates a very low loss-given-failure, leading to a two-notch uplift from the bank's a3 Adjusted BCA from which these ratings are notched.

For Ringkjøbing's A2 issuer rating, our LGF analysis indicates low loss-given-failure, leading to one notch of rating uplift from the bank's a3 Adjusted BCA. Issuer ratings are opinions of the bank's ability to honour senior unsecured debt and debt-like obligations.

Our Advanced LGF analysis of the merged bank's volume of deposits, senior and subordinated liabilities, including a DKK800 million Tier 2 issuance as part of the merger, also indicates the above mentioned losses-given-failure.

Government support considerations

We do not incorporate any government support uplift on Ringkjøbing's ratings because we consider the probability of government support, in case of need, to be low. Our government support assumptions are driven by the implementation of the EU's BRRD in Denmark.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Ringkjøbing's CR Assessment is positioned at Aa3(cr)/Prime-1(cr)

For Ringkjøbing, our LGF analysis indicates an extremely low loss given failure for the CR Assessment, leading to three notches of uplift from the bank's a3 Adjusted BCA.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Ringkjobing Landbobank A/S

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.9%	baa1	↓↓	ba2	Sector concentration	Loan growth
Capital						
TCE / RWA	18.8%	aa2	↓↓	aa3	Expected trend	
Profitability						
Net Income / Tangible Assets	2.5%	aa2	↓↓	a1	Expected trend	Earnings quality
Combined Solvency Score		a1		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	9.2%	a1	←→	a1	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	23.6%	baa1	↓	baa2	Asset encumbrance	
Combined Liquidity Score		a2		a3		
Financial Profile				a3		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA range				a2-baa1		
Assigned BCA				a3		
Affiliate Support notching				0		
Adjusted BCA				a3		

Balance Sheet	in-scope (DKK million)	% in-scope	at-failure (DKK million)	% at-failure
Other liabilities	5,188	19.2%	7,201	26.7%
Deposits	19,734	73.1%	17,721	65.6%
Preferred deposits	14,603	54.1%	13,873	51.4%
Junior Deposits	5,131	19.0%	3,848	14.3%
Senior unsecured bank debt	899	3.3%	899	3.3%
Dated subordinated bank debt	373	1.4%	373	1.4%
Equity	810	3.0%	810	3.0%
Total Tangible Banking Assets	27,004	100%	27,004	100%

Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Assessment	22.0%	22.0%	22.0%	22.0%	3	3	3	3	0	aa3 (cr)
Deposits	22.0%	4.4%	22.0%	7.7%	2	2	2	2	0	a1
Senior unsecured bank debt	22.0%	4.4%	7.7%	4.4%	2	-1	1	1	0	a2

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	3	0	aa3 (cr)	0	Aa3 (cr)	--
Deposits	2	0	a1	0	A1	A1
Senior unsecured bank debt	1	0	a2	0	A2	A2

Source: Moody's Financial Metrics

Ratings

Exhibit 6

Category	Moody's Rating
RINGKJOBING LANDBOBANK A/S	
Outlook	Stable
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A2
ST Issuer Rating	P-1

Source: Moody's Investors Service

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