Credit Opinion: Ringkjobing Landbobank A/s

Ringkjobing Landbobank A/s

Denmark

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A1/P-1
Bank Financial Strength	C+

Contacts

Analyst	Phone
Eeva Antila/London	44.20.7772.5454
Janne Thomsen/London	
Reynold R. Leegerstee/London	
Cecilia Mattsson/London	

Key Indicators

Ringkjobing Landbobank A/s

	[1]2008	2007	2006	2005	2004	Avg.
Total assets (DKK billion)	18.00	19.63	17.27	13.36	9.46	[2]19.04
Total assets (EUR billion)	2.42	2.63	2.32	1.79	1.27	--
Total capital (DKK billion)	2.48	2.25	2.19	1.72	1.37	[2]16.52
Return on average assets	1.30	1.93	2.82	2.32	2.52	2.18
Recurring earnings power [3]	2.21	2.46	3.29	3.12	3.63	2.94
Net interest margin	3.31	2.75	2.87	3.12	4.03	3.22
Cost/income ratio (%)	38.45	34.54	29.25	34.77	37.42	34.89
Problem loans % gross loans	2.36	1.89	2.14	3.27	4.59	2.85
Tier 1 ratio (%)	13.00	11.20	10.40	11.60	12.20	11.68

[1] As of December 31. [2] Compound annual growth rate. [3] Preprovision income % average assets

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a C+ Bank Financial Strength Rating (BFSR) to Ringkjøbing Landbobank A/S, which translates into Baseline Credit Assessment (BCA) of A2. The rating reflects the Danish bank's strong intrinsic financial strength and sound regional presence. It also takes into account the challenges facing the bank, such as borrower concentration and exposure to selected niche sectors.

Ringkjøbing Landbobank is among the 15 largest banking groups in Denmark. Headquartered in Ringkøbing in western Denmark, the bank is a full-service regional bank, and has 14 branches and around 270 full-time employees. The bank's core operations concentrate on retail, SME and corporate banking as well as specialised/niche products, in particular financing of wind turbines and private banking.

Moody's believes that the probability of systemic support for Ringkjøbing Landbobank in case of need is moderate, given its strong regional franchise, which results in a one-notch uplift in the deposit ratings to A1/Prime-1 from the A2 BCA. Thus the deposit and debt ratings of Ringkjøbing Landbobank incorporate three elements: (1) the bank's BFSR of C+, (2) Moody's assessment of a moderate probability of systemic support (a component of Moody's Joint-Default Analysis (JDA) methodology), and (3) the seniority of its deposits and debt.

Credit Strengths

- Strong local brand in western Jutland region

- Good earnings from core operations

- High operating efficiency

- Solid capitalisation

Credit Challenges

- Maintaining profitability levels

- High borrower concentration

- Concentrated credit exposure to electricity production by wind turbines and also to other niche sectors

- Reducing reliance on interbank funding

- Further integration and upgrade of risk management practices

- Preserving asset quality across the economic cycle

Rating Outlook

All the ratings of Ringkjøbing Landbobank have a stable outlook.

What Could Change the Rating - Up

Given the bank's current rating profile and the macroeconomic environment in Denmark, an upgrade of the BFSR or the global local currency (GLC) deposit rating is unlikely.

What Could Change the Rating - Down

A downgrade of Ringkjøbing Landbobank's BFSR could be triggered by one or more of the following: any material franchise erosion, any problems in terms of asset quality, an increase in either market or credit risk appetite, or softening of financial fundamentals especially in terms of profitability.

The global local currency (GLC) deposit rating could be downgraded if the probability of systemic support were to decrease or if the BFSR were to be downgraded.

Recent Results and Company Events

Ringkjøbing Landbobank's pre-tax profit in 2008 decreased by 30% to DKK318 million (EUR 43 million). The result was adversely affected by an increase in loan loss provisions and negative value adjustments on the securities portfolio. The bank has not used the option to reclassify its securities holdings but calculates the portfolio at market value. Higher interest margins contributed positively to net interest income which increased by 20% but at the same time net fee and commission income decreased by over 20%. The bank has been able to retain its high cost efficiency, demonstrated by the cost-to-income ratio of below 40%. The result for 2008 also includes a profit of DKK33 million related to the sale of Totalkredit shares.

Credit quality has softened somewhat and resulted in DKK77 million of writedowns compared to DKK11 million of writebacks in 2007. Gross loans decreased by 1% from year-end 2007.

Solid capitalisation demonstrated by the core Tier 1 ratio of 11.6% (excluding hybrids), the Tier 1 ratio of 13.0% (including hybrids) and the total capital ratio of 16.3% provides some buffer to absorb losses. Based on year-end 2008 figures the bank has excess capital amounting to DKK1.25 billion (above the regulatory solvency minimum of 8%) - about 9% of gross loans and about 50% of its top 20 exposures.

Deposits represent over 50% of total funding although we note that the proportion has been decreasing over the past years. At end-2008, liquid assets represented about 20% of the balance sheet.

In January 2009, the Danish government announced the second support package to the financial sector. The package comprises the recapitalisation of the financial sector and the extension of the guarantee scheme for the issuance of medium-term loans maturing at the latest on 31 December 2013. All solvent banks and mortgage credit institutions are eligible to participate; applications for the recapitalisation, which will be in the form of hybrid capital, must be submitted by 30 June 2009. Ringkjøbing Landbobank has not yet decided whether it will apply for the capital injection but does not see an immediate need for additional capital given the current solvency levels.

In October 2008, the Danish government announced the first support package to the banks which was put in place in co-operation with the Danish banking sector. The guarantee scheme covers deposits and the claims of senior unsecured creditors and is effective for a two-year period until 30 September 2010. The participating banks will cover first loss under the scheme up to DKK35 billion (DKK15 billion in monthly guarantee commissions + up to DKK20 billion under a guarantee). Ringkjøbing Landbobank is covered by the scheme and its share of the guarantee commission is about DKK120 million for the two-year period. In addition, the bank's maximum share of the guarantee is DKK170 million. The negative impact on the 2008 profit was DKK28 million - DKK16 million in guarantee commissions and DKK12 million as a provision/write-down for liabilities under the guarantee. The support package has been helpful from the liquidity point of view but we note that it will weigh on profitability of the participating banks for the two-year period. The banks are not allowed to distribute dividends for the financial years of 2008 and 2009.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Ringkjøbing Landbobank's currently assigned ratings are as follows:

Bank Financial Strength Rating

Ringkjøbing Landbobank's C+ BFSR is primarily underpinned by the bank's sound financial fundamentals - in particular, solid capitalisation which is among the highest in Denmark. Other strengths are high operating efficiency, good core profitability and the bank's sound regional position. The BFSR is constrained by the bank's limited national market share, low level of geographic diversification, high credit risk concentration, as well as concentrations in financing niche sectors.

As a point of reference, the assigned rating of C+ is in line with the outcome of Moody's bank financial strength scorecard.

Qualitative Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

Ringkjøbing Landbobank is a regional bank and among the 15 largest banking groups in Denmark in terms of total assets. Headquartered in Ringkøbing, its main region of operation is central and western Jutland. The bank holds a market share of over 40% for both corporate and retail lending in western Jutland. Overall, the bank enjoys a well-established market position in its region, but also lacks geographical diversification - Ringkjøbing Landbobank's country-wide market share in retail lending is estimated to be close to 1%. In addition, Moody's notes that, although the area in which the bank operates is the largest local government area in Denmark in terms of size, the population is sparse, and also competitive pressure is strong although less so at the moment.

Ringkjøbing is a full-service bank, with a total of 15 branches including the headquarter, and around 270 full-time employees at year-end 2008. The bank's core operations can be divided into following two business areas:

(i) Banking in the local area of central and western Jutland, for which it serves private and business customers, and banking in the central Jutland towns of Herning, Holstebro and Viborg, where it serves private customers and, to a lesser extent, business customers.

(ii) Banking in niche areas concentrating on financing of wind turbines, private banking/asset management, financing doctors in private practices, first-priority financing of lending properties, primarily in Germany, and financing purchases of vacation homes, outside Denmark.

Around 34% of the bank's loan portfolio is to private customers, almost 15% to agriculture and the rest is to corporates. Moody's views earnings driven by corporate and specialised lending as less predictable in the long term than earnings from retail-based lending. Nonetheless, we consider that the overall stability of Ringkjøbing Landbobank's core earnings is satisfactory and is in line with its domestic peers. However, we note that compared to regional banks in many other countries, Danish banks have a lower proportion of retail loans on their balance sheets, reflecting the fact that retail mortgages are largely transferred to mortgage credit institutions.

A franchise value score of D+ reflects our view of the bank's regional presence, moderate nationwide position and satisfactory earnings stability.

Factor 2: Risk Positioning

Trend: Neutral

Ringkjøbing Landbobank operates in accordance with the general guidelines set forth by the NASDAQ OMX Copenhagen. The bank is owned by over 18,500 shareholders (most of which are customers), with Denmark's largest pension fund, ATP, its largest shareholder, owning a stake of over 5%. As of year end 2008 approximately 75% of the share capital is owned by private investors, approximately 20% is owned by Danish institutional investors, and foreign institutional investors own approximately 5%. Under the bank's Articles of Association, "a shareholding of up to and including a nominal value of DKK500 carries one vote, and shareholdings exceeding that level carry two votes". These limitations would make a hostile takeover extremely difficult; however, this protection has not led to a relaxed management style.

The board of directors, which consists of six members, does not have sub-committees but from 2009 it will assume the responsibilities of the audit committee. We note that the bank does not publish the board members' or management's shareholdings in the bank. Loans to the board of directors and the board of managers, represents less than 1% of Tier 1 capital at year-end 2008. The executive general manager and the general manager have been with the bank for several years.

The bank reports according to the Danish Financial Business Act and the accounts are audited by PricewaterhouseCoopers. The information in the annual and quarterly accounts is viewed as satisfactory.

The bank has an independent Chief Risk Manager, and risk management practices are adequate for the level and type of risk in the bank; however, the risk systems and procedures lack the sophistication of many other regional players in the Nordic region. In addition, the bank operates in - and is supportive to - its small operating region, therefore it has relatively large customer exposures in comparison with its European peers. The 20 largest exposures represented about 130% of Tier 1 capital in 2008 - the ratio has decreased slightly from the previous year.

Moody's notes that concentrations are mitigated by collateral, but cautions that collateral values are affected by the economic downturn. There is also some industry concentration in the loan portfolio but we note that several of these exposures would not be deemed corporate exposures under the Basel II framework. Specialised lending, including financing for wind turbines and investment credit represents approximately 28% of the loan portfolio. Lending for wind turbines carries state guarantees. The bank has over 20 years' experience in the financing of wind turbines and, to date, no losses have been incurred. Agricultural loans represent about 15% of the loan book and include loans to cattle farming, pig farming and mink farming. We also note that the exposure to real estate related sectors is relatively small - 6% of the loan portfolio.

Loans to private customers account for around 34% of Ringkjøbing Landbobank's loan portfolio. In common with most Danish regional and local banks, Ringkjøbing Landbobank can transfer its mortgage loans to the specialised mortgage lenders Totalkredit/Nykredit and DLR. Prior to this, mortgages were guaranteed for eight years by the originating bank for loan-to-value ratios over 60%. However, effective from 1 April 2008, Ringkjøbing Landbobank has converted this guarantee to an agreement with Totalkredit in which loan losses will be set off by commissions earned by the bank. It is important to note that the agreement is limited to set-off of commissions and the new agreement is not limited to eight years per loan, but will remain in place until the loan matures. Due to the agreement, the guarantees to Totalkredit have decreased significantly and amounted to only DKK116 million at year-end 2008 (DKK1.2 billion at year-end 2007).

The bank's liquid assets (including cash and central bank, due from banks and securities) decreased to DKK3.6 billion at year-end 2008 compared to DKK5.3 billion at year-end 2007. At the same time, liquid assets as a percentage of total assets decreased to 20% from 27%. The bank has increased its bond holdings (mainly Danish mortgage bonds) but reduced receivables from the central bank. In addition, the bank has committed credit facilities worth DKK1.4 billion from European banks, which are not currently used. Also, as a part of the government's support package, the Danish Central Bank has granted the bank with a facility of DKK800 million until 30 September 2010.

The bank's funding structure is divided on the basis of customer deposits, representing about 57% of total external funding, interbank funding (37%) and long-term market funding including subordinated debt (6%). Of the interbank funding, about 70% matures after one year and we note that the level of interbank funding with a maturity of less than one year has been decreasing. The bank has satisfactory liquidity management, evidenced by a positive figure over a 12 month period when taking into account outflows and inflows in the form of scheduled payments, no access to the capital market and including liquid assets, a repoable securities portfolio and undrawn committed back-up lines. Under this stress scenario, the loan portfolio remains unchanged. The bank established an EMTN programme amounting to EUR 2 billion in 2008.

Moody's will continue to monitor the bank's efforts to diversify funding sources and shift its funding structure towards more long-term funding. The government support schemes have been helpful in terms of liquidity - senior claims are covered by the two-year guarantee scheme until 30 September 2010 and the banks can issue medium-term loans with a state guarantee maturing by year-end 2013 at the latest. We note that these schemes are intended to be temporary. Therefore we will closely follow liquidity and funding positions of the Danish banks as these support schemes approach expiry.

The bank started developing and using a Value at Risk (VaR) model in 2007. Its total VaR, a statistical measurement of market risk, with a 10-day holding period and 99% confidence interval, varied from possible losses of DKK5.4 million to DKK25.2 million in 2008 (0.3 - 1.3% of Tier 1 capital). Although according to the bank's own calculations the market risk is low, in Moody's opinion the bank's VaR measure lacks a track record and also has some limitations and we therefore take a conservative view with regard to this measure. We also note that the diversification gain due to spreading the risk across various asset classes is somewhat high, which considerably reduces the bank's VaR. The bank's total interest rate risk in relation to 100 bps change in interest rates was about 1.2% of Tier 1 capital at year-end 2008. The share holdings are mainly related to a number of sector companies which are considered strategic investments (about 10% of Tier 1 capital). The portfolio of listed shares amounted to DKK33 million at year-end 2008 which is less than 2% of Tier 1 capital. The bank's currency risk is limited.

The score for risk positioning is C and is constrained by high credit risk concentration.

Factor 3: Regulatory Environment

This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control. Refer to Moody's current Banking System Outlook on Denmark for an analysis of the country's regulatory environment.

Factor 4: Operating Environment

Trend: Neutral

This factor is common to all Danish banks. Moody's assigns an A score for the overall operating environment, which includes economic stability, integrity and corruption, and the legal system. Refer to Moody's current Banking System Outlook on Denmark for an analysis of the country's operating environment.

Quantitative Factors (50%)

Factor 5: Profitability

Trend: Weakening

Ringkjøbing Landbobank's core earnings before write-downs for 2008 increased by 8% to DKK497 million. On the one hand, net interest income increased by 20% and was driven by higher lending margins whereas gross loans were reduced by 1%. On the other hand, fee and commission income decreased by over 20% due to lower volumes in securities trading and asset management.

In contrast to satisfactory income from core operations, the following factors affected the profitability negatively in 2008: (1) writedowns (DKK77 million) on the loan portfolio compared to writebacks (DKK11 million) in 2007. The increase in loan loss provisions in H2 2008 was, however, relatively smaller than for some other regional Danish banks; (2) negative value adjustment on the securities portfolio which is calculated at fair value and the bank has decided against reclassifying its holdings; and (3) the costs related to the Danish banking package - total cost including monthly guarantee commission since October 2008 and provision for the guarantee amounted close to 10% of pre-tax profit in 2008.

It is also important to note that the bonus agreement connected to the sale of Totalkredit shares had a positive impact on the 2008 result by DKK33 million. This was the last and final nonrecurring revenue in relation to the sale of Totalkredit.

At year-end 2008, the bank's risk-adjusted profitability - measured by pre-provision income as a percentage of average risk-weighted assets - stood at 2.6% compared to 2.9% in 2007 and 3.4% in 2006. However, it still compares well to that of its peers. Net interest income is the most important component of earnings, representing over 80% of operating income in 2008. As a result of less competition, the bank has been able to increase margins on loans - net interest margin was 3.3% in 2008 compared to 2.8% in 2007. In recent years, Ringkjøbing Landbobank's profitability has also been supported by the sale of niche products which have relatively low overhead costs. In the near future we expect competition to remain sluggish which is likely to support margin levels. However, significantly slower loan growth will result in decelerating growth in net interest income.

The bank scores B for profitability based on two-year average ratios including 2008 and 2007 which are calculated by using Basel II risk-weighted assets. We have assigned weakening trend given the challenging economic outlook which is likely to increase loan loss provisions. We also note the costs related to the Danish banking package and slower growth in core operations.

Factor 6: Liquidity

Trend: Neutral

About 20% of the bank's total assets are in liquid assets. In addition, as with most Danish regional and local banks, Ringkjøbing Landbobank can secure its mortgage loan financing via the specialised mortgage lenders Totalkredit/Nykredit and DLR. The loans funding by the specialised mortgage lender will not show on the banks balance sheet as they are transferred to the mortgage lenders.

The bank's funding structure at year-end 2008 is divided between customer deposits (57% of total funding), interbank funding (37%) and long-term market funding (6%). The interbank funding (excluding central bank) can be further divided into money market operations and bilateral credits maturing within 1 year (28% of interbank funding) and bilateral credits with a maturity over 1 year (72%).

Deposits and loans remained almost stable in comparison with the previous years - in 2007 deposit growth was 30% compared to loan growth of 10% but in 2006 deposits increased only by 12% compared to loan growth of 26%. The loans-to-deposits ratio is relatively high at 1.6.

The bank is currently working on diversifying its funding profile. Moody's will continue to monitor the existing funding trends of Ringkjøbing Landbobank, especially considering the volatility of interbank funds. We also recognise that the government's measures to support the banking sector have been helpful in terms of liquidity (discussed in more detail under Recent Events and Risk Positioning).

Moody's views a score of C- as appropriate for the bank's liquidity.

Factor 7: Capital Adequacy

Trend: Neutral

The bank's capital adequacy ratios are solid and improved in 2008 as a result of decrease in risk-weighted assets reflecting mainly decrease in guarantees and satisfactory earnings. Like other Danish bank participating in the Danish guarantee scheme, Ringkjøbing Landbobank will not pay dividend for the financial years of 2008 and 2009. The capitalisation of the bank has also been supported by a DKK200 million subordinated loan issued in H1 2008, a DKK300 million subordinated loan issued in 2006 and a DKK200 million hybrid core capital loan issued in 2005.

The total capital and Tier 1 ratios were 16.3% and 13.0%, respectively at year-end 2008, compared to 13.0% and 11.2% at year-end 2007. The Tier 1 ratio without hybrid capital was 11.6% at year-end 2008. Excess capital above the 8% minimum requirement for the total capital ratio amounts to DKK1.25 billion or almost 9% of gross loans at year-end 2008.

Under the new capital adequacy rules of the Basel II framework, Ringkjøbing Landbobank has experienced a relief in its risk-weighted assets due to (a) a lower risk weight of retail customers, (b) a lower risk weight of loans with collateral in private homes and (c) security in financial collaterals (credit risk reducing method - financial collateral). The bank is applying standardised method in calculating capital requirement for credit risk and therefore the decrease in risk-weighted assets under Basel II has been less than in banks using more advanced methods but there could also be less volatility in the downturn. It has also used its option to end the agreement with Totalkredit on providing loss guarantees which has led to a further reduction in the bank's risk-weighted assets in 2008.

The second banking package, implemented by the Danish government in January 2009, includes the possibility for the banks to apply for a capital injection from the government which would be in the form of hybrid capital. The government expects the participating institutions to have Tier 1 ratios of a minimum of 12% after the capital injection. Ringkjøbing Landbobank has not yet decided whether to apply but given the current capital levels it might not use to option.

The bank scores A for capital adequacy.

Factor 8: Efficiency

Trend: Weakening

Ringkjøbing Landbobank's cost efficiency is one of the best in Denmark. Its cost-to-income ratio (operating income / operating expenses) was 38% in 2008 and 35% in 2007. A slight decline in efficiency was due to a combination of lower operating income as a result of negative value adjustments and lower fee and commission income as well as costs related to the guarantee commission of the first banking package. Furthermore, operating expenses as a percentage of average assets was 1.4% at year-end 2008, also one of the best levels among Danish banks.

The bank scores A for efficiency but we have assigned a weakening trend due to challenges facing operating income especially in terms of fee and commission income and costs related to the guarantee.

Factor 9: Asset Quality

Trend: Weakening

Ringkjøbing Landbobank's provisions for loan losses on the income statement represented 0.5% of gross loans in 2008 compared to writebacks in the previous three years. Problem loan ratio (measured as accumulated individual writedowns) hit its lowest point in 2007 and increased to 2.4% in 2008 (1.9% in 2007). The ratio is somewhat higher than the average for regional banks in the Nordic region but we note that the bank has a rather conservative approach to impairments and the level of loans with suspended calculation of interest has remained very low at DKK22 million at year-end 2008 corresponding to 0.2% of gross loans. We also note that total loan loss reserve is relatively high, amounting to 2.5% of gross loans.

It is comforting that the bank's loan growth has slowed down significantly (-1% in 2008, +10% in 2007 and +26% in 2006). However, Moody's will continue to monitor the effect of previous years' rapid loan growth on the bank's asset quality, since many of the loans are less seasoned.

Going forward, we view Ringkjøbing Landbobank's ability to control sector- and single-name concentration as an important rating driver, combined with success in preventing loan growth from impairing the asset quality. We note that Ringkjøbing Landbobank's exposure to the Danish real estate market is more limited than that of many other Danish regional banks but the bank's exposure to e.g. agricultural sector (about 15% of loans) could face some challenges in the economic slowdown.

The score of C+ is appropriate for the bank's current asset quality but the weakening trend reflects uncertainty in the Danish economy as well as unseasoned loan portfolio and some concentration risks.

Global Local Currency Deposit Rating (Joint Default Analysis)

Ringkjøbing Landbobank's long-term global local currency (GLC) deposit and debt ratings are at the A1 level. These incorporate the following main elements: (1) its A2 Baseline Credit Assessment (BCA), and (2) Moody's opinion on the probability of systemic support for this bank.

In light of its position in the Danish market, Moody's believes that the probability of systemic support for Ringkjøbing Landbobank in the event of a financial crisis is moderate.

Under Moody's joint default analysis (JDA) methodology, the above-mentioned considerations result in a one-notch uplift in the deposit ratings to A1 from the A2 BCA. Moody's assigns a GLC deposit rating of A1 for Ringkjøbing Landbobank.

Foreign Currency Deposit Rating

The foreign currency deposit ratings of Ringkjøbing Landbobank are unconstrained given that Denmark, in common with other EU members, has a country ceiling of Aaa. The foreign currency deposit ratings of Ringkjøbing Landbobank are A1.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model 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 Factors

Ringkjobing Landbobank A/s

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C**	
Factor: Franchise Value						**D+**	**Neutral**
Market Share and Sustainability			**x**				
Geographical Diversification					**x**		
Earnings Stability			**x**				
Earnings Diversification [2]							
Factor: Risk Positioning						**C**	**Neutral**
Corporate Governance [2]							
- Ownership and Organizational Complexity	--	--	--	--	--		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management		**x**					
- Risk Management			x				

- Controls	x						
Financial Reporting Transparency		x					
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information			x				
Credit Risk Concentration	**--**	**--**	**--**	**--**	**--**		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			**x**				
Market Risk Appetite		**x**					
Factor: Operating Environment						**A**	**Neutral**
Economic Stability	**x**						
Integrity and Corruption	**x**						
Legal System	**x**						
Financial Factors (50%)						**B-**	
Factor: Profitability						**B**	**Weakening**
PPP % Avg RWA - Basel II		2.84%					
Net Income % Avg RWA - Basel II		1.96%					
Factor: Liquidity						**C-**	**Neutral**
(Mkt funds-Liquid Assets) % Total Assets				17.20%			
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 ratio (%) - Basel II	12.10%						
Tangible Common Equity / RWA - Basel II	11.11%						
Factor: Efficiency						**A**	**Weakening**
Cost/income ratio	34.08%						
Factor: Asset Quality						**C+**	**Weakening**
Problem Loans % Gross Loans			2.13%				
Problem Loans % (Equity + LLR)		12.96%					
Lowest Combined Score (15%)						**C-**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**C+**	
Assigned BFSR						**C+**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information
[2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral