MOODY'S
INVESTORS SERVICE

Credit Opinion: Ringkjobing Landbobank A/s

Global Credit Research - 25 Apr 2012

Ringkobing, Denmark

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Bank Deposits	*A3/*P-2
Bank Financial Strength	*C

* Placed under review for possible downgrade on February 15, 2012

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Key Indicators

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

	[2]**12-11**	[2]**12-10**	[2]**12-09**	[2]**12-08**	[2]**12-07**	**Avg.**
Total Assets (DKK million)	**17,549.0**	**18,247.2**	**17,928.0**	**18,001.8**	**19,633.7**	[3]**-2.8**
Total Assets (EUR million)	**2,361.2**	**2,448.6**	**2,409.4**	**2,418.5**	**2,633.1**	[3]**-2.7**
Total Assets (USD million)	**3,065.1**	**3,284.9**	**3,456.8**	**3,361.9**	**3,849.7**	[3]**-5.5**
Tangible Common Equity (DKK million)	**2,582.9**	**2,487.2**	**2,105.6**	**1,834.6**	**1,828.4**	[3]**9.0**
Tangible Common Equity (EUR million)	**347.5**	**333.8**	**283.0**	**246.5**	**245.2**	[3]**9.1**
Tangible Common Equity (USD million)	**451.1**	**447.7**	**406.0**	**342.6**	**358.5**	[3]**5.9**
Net Interest Margin (%)	**3.4**	**3.3**	**3.4**	**3.0**	**2.5**	[4]**3.1**
PPI / Avg RWA (%)	**3.8**	**3.8**	**3.7**	**2.6**	**2.8**	[5]**3.3**
Net Income / Avg RWA (%)	**2.2**	**1.9**	**1.7**	**1.5**	**2.2**	[5]**1.9**
(Market Funds - Liquid Assets) / Total Assets (%)	**-14.6**	**-5.7**	**-1.6**	**16.6**	**15.7**	[4]**2.1**
Core Deposits / Average Gross Loans (%)	**93.2**	**86.2**	**82.3**	**62.8**	**66.7**	[4]**78.2**
Tier 1 Ratio (%)	**19.8**	**18.6**	**16.6**	**13.0**	**11.2**	[5]**15.8**
Tangible Common Equity / RWA (%)	**19.6**	**18.9**	**15.5**	**12.1**	**11.3**	[5]**15.5**
Cost / Income Ratio (%)	**33.5**	**35.6**	**36.2**	**38.3**	**34.4**	[4]**35.6**
Problem Loans / Gross Loans (%)	**6.2**	**6.2**	**5.0**	**3.8**	**--**	[4]**5.3**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**25.9**	**28.1**	**26.1**	**24.7**	**--**	[4]**26.2**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; LOCAL GAAP [3] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [4] LOCAL GAAP reporting periods have been used for average calculation [5] Basel II & LOCAL GAAP reporting periods have been used for average calculation

Opinion

RECENT CREDIT DEVELOPMENTS

On 15 February 2012, Moody's placed on review for downgrade Ringkjøbing Landbobank's C/a3 Financial Strength Rating and its A3 and Prime-2 long-term and short-term ratings. This follows Moody's announcement on the same day to place a number of European banks on review for downgrade, reflecting the multiple challenges we consider these banks face, notably (1) a weakening macroeconomic environment; (2) costly and constrained market funding; and (3) pressure on profits. These challenges may lead us to reduce our assessment of several important rating factors, notably economic stability, franchise value, risk positioning, liquidity, profitability and capital. Our current expectation is that the bank's senior debt rating may be lowered by up to three notches.

In particular, we expect that Danish sector performance will continue to be negatively affected by the country's operating environment through sluggish economic activity, stagnating credit growth and falling property prices. Danish financial institutions are also subject to funding pressure as a result of needing to refinance their government-guaranteed debt maturing in 2012-13 and weakened asset quality, which continues to lead to elevated loan impairments and depressed net profits. Given this operating environment, we remain concerned about asset quality in the coming year, specifically in real estate, lending to small- and medium-sized enterprises, agriculture, and potentially household lending. Sector efficiency has weakened, and profitability has been hit by the lack of credit turnover and higher provisioning.

As a consequence, like other European banks, Danish face immediate pressures centered on their ability to retain the confidence of investors. For more details please see our reports "Why Global Bank Ratings Are Likely To Decline In 2012", "Euro Area Debt Crisis Weakens Bank Credit Profiles" and "European Banks: How Moody's Approach Reflects Evolving Challenges", published on January 19, 2012.

SUMMARY RATING RATIONALE

Moody's rates Ringkjøbing Landbobank A/S A3/Prime-2/C (on review for downgrade). The C standalone bank financial strength rating (BFSR), which maps to a3 on the long-term scale, reflects the bank's good intrinsic financial strength and, in particular, its solid capitalisation and good profitability. However, the rating is constrained by the bank's limited national market share, low level of geographic diversification, high credit risk concentrations and concentrations in financing niche sectors. Ringkjøbing's A3 long-term global local currency (GLC) deposit rating does not include systemic support uplift.

Rating Drivers

- Sound local brand in western Jutland region

- Good earnings from core operations and high operating efficiency

- Improved deposit funding though generally adverse funding environment following Bank Package III

- Somewhat concentrated loan book by geography and industry, but further integration and upgrade of risk management practices, systems and procedures

Rating Outlook

The BFSR, long-term and short-term deposit ratings are on review for downgrade. During the review we will consider the impact on the bank's standalone creditworthiness of weakening fundamentals, notably economic stability, franchise value, risk positioning, liquidity, profitability and capital, in the context of the current environment.

What Could Change the Rating - Up

The bank's BFSR and long-term ratings are on review for downgrade. At present and over the immediate rating horizon, we therefore do not see any meaningful upwards rating pressure on the bank's standalone rating, and also on the bank's deposit ratings.

What Could Change the Rating - Down

The BFSR and deposit rating could be downgraded following our review which will re-assess the impact of a further deteriorating of the Danish operating environment on profits, as well as considering the bank's economic stability, franchise value and risk positioning in the current environment.

DETAILED RATING CONSIDERATIONS

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

Bank Financial Strength Rating

During the review period Moody's will reassess the bank's strengths and weaknesses under the BFSR scorecard, in line with the recently published reports referenced under "Recent Credit Developments".

Sound Local Brand In Jutland, Moderate Nationwide Presence

Ringkjøbing Landbobank is a regional bank and among the 15 largest banks in Denmark in terms of total assets. Headquartered in Ringkøbing, its main region of operation is central and western Jutland. The bank reports a market share of about 50% for both corporate and retail lending in the western part of Jutland. Overall, the bank enjoys a well-established market position in its region, but lacks geographic diversification - we estimate Ringkjøbing Landbobank's country-wide market share in lending to be around 1%.

Ringkjøbing is a full-service bank, with a total of 12 branches including the headquarters and 252 full-time employees on average for the year 2011. The bank's core operations can be divided into following two business areas:

(i) Banking in the local area of central and western Jutland, where 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; and

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

Our view of the bank's regional presence, moderate nationwide position and satisfactory earnings stability may be undermined by pressures on asset quality and profitability coupled with a deteriorating macroeconomic environment as explained above. Franchise value will be one of the factors on which we will focus over the review period, particularly with a view to the longer-term sustainability of the franchise and of core earnings stability.

Good Earnings From Core Operations And High Operating Efficiency

Ringkjøbing Landbobank reported at end-December 2011 a pre-provision profit of DKK 517 million (after standard adjustments) which is largely unchanged from last year. The bank's risk adjusted profitability - measured by pre-provision income as a percentage of average risk-weighted assets - remained largely unchanged year-on-year at 3.9%, compared with 2.6% in 2008 and 2.8% in 2009 and compares well with that of its peers.

Core earnings (as represented by net interest and fee income) accounted for over 90% of operating income in 2011 and was largely unchanged year-on-year. Net income from interest amounted to DKK 613 million, up 3% year-on-year, mainly as a result of increased interest margin and increase in deposit figures. Fee and commission income was down 7% to DKK 158 million compared to last year due to fewer transactions within trading and asset management.

Total operating expenses and depreciation (excluding the costs for the first Danish government support package) amounted to DKK 248 million at year-end 2011, up 4% from last year, but overall profitability was boosted by a 7% decrease in loan impairment provisions (excluding provisions under the Danish support package) to DKK 129 million. Loan loss impairments accounts for 25% of pre-provision income.

Ringkjøbing Landbobank's cost efficiency is one of the best in Denmark. Its cost-to-income ratio (operating income/operating expenses) was 34% in 2011 (after standard adjustments), down from 36% the year before.

Given that the economic environment remains challenging and its potential impact on asset quality, we also expect that the need for loan loss provisions will remain elevated in the near future and thereby maintain pressure on the bank's net earnings.

Improved Deposit Funding Though Generally Adverse Funding Environment Following Bank Package III.

At YE2011 the bank has 25% of assets 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 Nykredit/Totalkredit and DLR. The loan funding by the specialised mortgage lender will not show on the bank's balance sheet as the mortgage loans are transferred to the mortgage lenders.

Over the past 5 years customer deposits have increased almost 40%, while after a period of high growth in 2006-2007, lending declined and over the 5 year period has only increased 7%. As a result the ratio of deposits to gross loans has steadily grown from around 55% in 2006 to 93% in 2011. In December 2009, the bank gained approval to issue up to DKK 5 billion 3 year government guaranteed debt under the Act on Financial Stability, also known as `Bank Package II', but the bank did not exercise this option.

At YE 2011, the breakdown of the bank's funding structure was 73% deposit and 20% market funded, mostly through short and medium term inter-bank funds.

Moody's will continue to monitor Ringkjøbing Landbobank's existing funding trends, especially considering the volatility of interbank funds, and taking the expected deterioration of Danish funding markets post Bank Package III in consideration. The review will assess the impact of the additional pressures that the bank may face as a result of the persistent fragility of investor confidence.

Loan Book Concentration and Risk Management

Problem loans (defined as gross loans subject to individual impairment) accounted for 6.2% of gross loans at YE2011, unchanged from last year. Ringkjobing reported a coverage ratio (loan loss reserves % problem loans) of 77%, up from 66% in 2010, reflecting one of the highest coverage ratios of the rated Danish banks.

Approximately 28% of the bank's loan and guarantee portfolio reflects private customers, around 22% to wind turbines (of which 14% is outside of Denmark), almost 11% to agriculture and the remainder to other corporates. Moody's notes that the bank has allocated considerable provisions for write-downs on agriculture in particular.

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 that of its domestic peers. However, we note that compared with 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, which also leads to many bank exposures only benefiting from second priority claims on collateral.

During the financial crisis the loan growth has slowed significantly (3.1% in 2011, +0.8% in 2010, -6.1% in 2009, -1.7% in 2008), but Moody's remain cautious about the asset quality of loans granted during the peak of the economic cycle in 2006 and 2007 (the bank's loan book increased 26% in 2006 and 10% in 2007).

Ringkjobing Landbobank operates in - and is supportive to - its small operating region, therefore it has relatively large customer exposures in comparison with its European peers. To assess borrower concentration Moody's compares the sum of the top 20 largest exposures with the Tier 1 capital or pre-provision income - whichever provides the highest ratio. Measured as the worse of the ratios in relation to earnings and Tier 1, the bank is in the worst concentration bucket, though a third of the Top 20 largest exposures is related to highly rated Danish mortgage bonds. At year-end 2011 Ringkjobing had total large exposures of 11.8% when excluding two large exposures to financials being terminated in 2012, compared with 10.2% in 2010.

Going forward, we view Ringkjøbing Landbobank's ability to control sector- and single-name concentration as an important rating driver. We note that Ringkjøbing Landbobank's exposure to the Danish real estate market is more limited than that of many other Danish regional banks. However, it does have some exposures to the real estate market in Germany and its exposure to the agricultural sector could prove problematic during the economic slowdown in light of the generally high debt levels of Danish farmers.

Ringkjobing's Tier 1 ratio and total capital were 19.8% and 21.4% respectively at YE 2011, changed from 18.6% and 22.4% from YE 2010 and substantially higher than the 8% individual solvency requirement. The bank had a capital cushion exceeding its individual requirement of 13.4% (DKK 1.8 billion (equivalent to 9.7% of total credit exposures), and under Moody's anticipated stress scenario, the current capital level provides the bank with a satisfactory buffer against potential credit losses. The Tier 1 ratio without hybrid capital was 18.3% at YE 2011.

Nonetheless, Moody's assigns a weakening trend to Ringkjobing's asset quality score reflecting uncertainty in the Danish economy as well as the unseasoned loan portfolio and some concentration risks.

With regards to its risk management, the bank has an independent Chief Risk Manager, and established risk management systems and procedures which, while they reflect the smaller size of the bank and relatively lower complexity of exposures, lack the sophistication of other regional players in the Nordic region.

Global Local Currency Deposit Rating (Joint Default Analysis)

Ringkjøbing Landbobank's long-term GLC deposit rating is A3 (on review for downgrade), with stable outlook. The rating is equal to the bank's a3 BCA and does not include systemic support uplift.

Foreign Currency Deposit Rating

Ringkjøbing Landbobank's A3 foreign currency deposit ratings are unconstrained given that Denmark, in common with other EU members, has a country ceiling of Aaa.

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 Ratings

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	**--**	**--**	**--**	**--**	**--**		
- Risk Management	--	--	--	--	--		
- Controls	--	--	--	--	--		
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**
PPI / Average RWA - Basel II	3.78%						
Net Income / Average RWA - Basel II		1.93%					
Factor: Liquidity						**C+**	**Weakening**
(Mkt funds-Liquid Assets) / Total Assets		-7.31%					
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio - Basel II	18.33%						
Tangible Common Equity / RWA - Basel II	17.99%						
Factor: Efficiency						**A**	**Weakening**
Cost / Income Ratio	35.11%						
Factor: Asset Quality						**D+**	**Weakening**
Problem Loans / Gross Loans				5.82%			
Problem Loans / (Equity + LLR)			26.70%				
Lowest Combined Score (15%)						**D+**	
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

commitments, or debt or debt-like securities. In such a case, “MIS” in the foregoing statements shall be deemed to be replaced with “MJKK”. MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.