

**Credit Opinion: Sydbank A/S**

Global Credit Research - 17 Feb 2012

Aabenraa, Denmark

**Ratings**

Category	Moody's Rating
Outlook	Rating(s) Under Review
Bank Deposits	*A2/*P-1
Bank Financial Strength	*C
Senior Unsecured	*A2
Subordinate MTN	*(P)Baa2
Jr Subordinate	*Baa2 (hyb)
Pref. Stock	*Baa3 (hyb)
Other Short Term	*(P)P-1

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

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**Key Indicators**

**Sydbank A/S (Consolidated Financials)[1]**

	[2]9-11	[2]12-10	[2]12-09	[2]12-08	[3]12-07	Avg.
Total Assets (DKK million)	143,866.0	150,843.0	157,821.0	156,094.0	132,323.0	[4]2.1
Total Assets (EUR million)	19,333.6	20,241.7	21,209.9	20,971.3	17,745.9	[4]2.2
Total Assets (USD million)	25,940.0	27,155.2	30,430.7	29,151.1	25,945.4	[4]0.0
Tangible Common Equity (DKK million)	10,302.2	10,309.2	9,316.0	7,306.2	6,951.5	[4]10.3
Tangible Common Equity (EUR million)	1,384.5	1,383.4	1,252.0	981.6	932.3	[4]10.4
Tangible Common Equity (USD million)	1,857.6	1,855.9	1,796.3	1,364.5	1,363.0	[4]8.0
Net Interest Margin (%)	2.2	2.1	2.2	1.9	1.7	[5]2.0
PPI / Avg RWA (%)	1.9	2.8	3.1	1.6	2.1	[6]2.3
Net Income / Avg RWA (%)	0.3	0.6	1.0	0.6	2.2	[6]0.6
(Market Funds - Liquid Assets) / Total Assets (%)	0.1	4.9	2.8	6.5	2.2	[5]3.3
Core Deposits / Average Gross Loans (%)	78.4	75.9	75.5	82.2	83.3	[5]79.0
Tier 1 Ratio (%)	14.7	14.3	13.1	9.7	8.9	[6]12.9
Tangible Common Equity / RWA (%)	14.2	14.0	12.0	8.8	8.5	[6]12.2

Cost / Income Ratio (%)	<b>66.9</b>	<b>56.0</b>	<b>53.8</b>	<b>67.4</b>	<b>57.0</b> [5] <b>60.2</b>
Problem Loans / Gross Loans (%)	<b>3.3</b>	<b>3.5</b>	<b>3.5</b>	<b>2.0</b>	<b>2.1</b> [5] <b>2.9</b>
Problem Loans / (Equity + Loan Loss Reserves) (%)	<b>21.7</b>	<b>24.8</b>	<b>27.9</b>	<b>22.7</b>	<b>22.1</b> [5] <b>23.8</b>

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel II & IFRS reporting periods have been used for average calculation

## Opinion

### RECENT CREDIT DEVELOPMENTS

On 15 February 2012, Moody's placed on review for downgrade Sydbank's C Financial Strength Rating and its A2 and Prime-1 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 centred 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 Sydbank A/S A2/Prime-1/C (review for downgrade). The C bank financial strength rating (BFSR), which maps to A3 on the long-term scale, reflects the Danish bank's strong regional franchise and satisfactory financial strength. However, the rating is constrained by Sydbank's high credit risk concentration and its reliance on interbank funding. The bank's overall profitability has weakened significantly over the past years - and the economic outlook in Denmark remains challenging.

The A2 long-term senior debt and deposit ratings incorporate the bank's BCA of A3 as well as a one notch uplift from systemic support.

### Credit Strengths

- Strong local brand and solid retail franchise in southern and central Jutland

- Adequate earnings from core banking operations
- Satisfactory capitalisation
- Co-operation agreements, which facilitates a wider product range

### **Credit Challenges**

- Preserving asset quality during the continued challenging economic environment
- Relatively high level of single-loan exposures and some industry concentration
- Enhancement and sustainability of fee & commission income
- Improvement in overall profitability
- On the funding side, reliance on interbank funding and increased pressure on funding markets following the implementation of Bank Package III

### **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.

### **Recent Results and Company Events**

At end-September 2011 Sydbank reported a pre-tax profit of DKK206 million, a 65% reduction from the corresponding period in the previous year. The reduction reflected market value adjustments, which fell significantly by DKK474 million to a loss of DKK39 million, compared with a profit of DKK 435 million at end-September 2010. Net interest income also dropped by 6% to DKK2.3 billion. Furthermore, the profit for the period was negatively affected by non-recurring items of DKK146 million representing, among others, severance pay for dismissed Danish employees (DKK 53 million), costs related to the winding-up of the bank's Swiss subsidiary (DKK 25 million), as well as a loss in connection with the sale of Value-Call S.A. in Luxembourg. Nevertheless, Moody's positively notes that loan loss provisions have declined by 22% year-on-year to DKK735 million.

The group's Tier 1 ratio stood at 14.7% at end-September 2011 (14.3% at YE 2010), comfortably above the solvency ratio requirement of 9.6% at end-September 2011 (unchanged from YE 2010).

Sydbank announced in February 2012 a new funding tool allowing the bank to fund part of its new origination of private client bank loans through covered bonds issued by BRFKredit (unrated). This provides Sydbank with a flexible long-term funding alternative at a time when access to unsecured

markets remains restricted.

## **DETAILED RATING CONSIDERATIONS**

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

### **Bank Financial Strength Rating**

Moody's assigns a C BFSR to Sydbank. The assigned BFSR is one notch below the C+ outcome of Moody's bank financial strength scorecard. 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".

#### Qualitative Rating Factors (50%)

##### Factor 1: Franchise Value

Trend: Neutral

Sydbank's franchise value is underpinned by its position as the fourth-largest banking group in Denmark, reportedly serving around 390,000 customers, including approximately 32,000 corporate clients. Its core business consists of corporate, investment and private banking, with a focus on private individuals and small and medium-sized enterprises (SMEs) through a network of 102 branches in Denmark. It also has three branches in northern Germany and a subsidiary bank in Switzerland. While the bank has a national presence, its heartland is southern and central Jutland, Funen and the greater Copenhagen area, where most of its branch network is based.

Moody's views Sydbank's well-established regional presence as an important factor underpinning its ratings. The bank reports a market share of 6-9% depending on customer segment and type of business, with the majority of its customers being based in Jutland. Moody's estimates the bank's nationwide market share just below 4% in total lending when including the mortgage lending market.

Internationally, the bank operates three branches in Northern Germany (Flensburg, Hamburg and Kiel). It also operates a wholly owned subsidiary Sydbank (Schweiz) AG in Switzerland, which is in the process of transferring half of its clients to Nordea International Private Banking in Switzerland as part of the reorganization announced on 11 October 2011. As of 1 January 2012, Sydbank has also taken over two private banking branches from Griess & Heissel Bankiers AG in Berlin and Wiesbaden.

The bank continues to subscribe to an open architecture model, providing its customers with alternatives across a full range of banking services and third party pension and life products. Co-operation agreements include the primary mortgage credit institutions Totalkredit and DLR Kredit.

The C score for franchise value 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.

##### Factor 2: Risk Positioning

Trend: Neutral

Sydbank has 143,000 shareholders, and each of its shares carries one vote at the annual general meeting, with the maximum number of votes per shareholder restricted to 5,000. These limitations would make a hostile takeover expensive - and thus highly unlikely. At YE 2010, two shareholders owned more than 5% of the shares, Nykredit (a Danish mortgage credit institution) and ATP (a Danish pension fund), whose holdings fell to 4.9% in early 2011.

The board of directors consists of 10 members, of which four are employee representatives. The group's executive management has two members, and the chief executive officer, although new to the position, has been with the bank for a number of years. The bank has good risk management processes and uses the internal ratings-based (IRB) approach to determine credit risk related to retail and corporate exposures under Basel II. However, high credit risk concentration remains a constraining factor for the risk management score.

Interest rate risk (in relation to 100 bps change in interest rates) represented approximately 1% of Tier 1 capital at year-end 2010. The bank's currency risk is limited and is mainly denominated in euros. Its equity risk consists of listed and unlisted shares, as well as holdings in associates. The combined figure was DKK2.2 billion at end-2010. A stress-test scenario of a 25% decline in equity prices corresponds to around 5% of tier 1 capital. In our view, Sydbank's market risk appetite is therefore limited.

Overall, Sydbank scores C for risk positioning which will be reassessed during the review due to continued pressures on the bank's risk operations and infrastructures from a potential further deterioration in commercial real estate markets and the persistent fragility in financial markets

### Factor 3: Regulatory Environment

This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, whether they demonstrate enforcement power, and whether they adhere to global standards of best practice for risk control. Please refer to Moody's analysis of Denmark's regulatory environment in the latest Banking System Profile, published in December 2010.

### 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 (in accordance with World Bank guidance). Please refer to Moody's analysis of Denmark's operating environment in the latest Banking System Profile, published in November 2011. However, we consider that the operating environment has worsened for many European banks and during the review we will reassess the implications of the projected deterioration of the macroeconomic environment for banks operating in the Danish market.

### Quantitative Rating Factors (50%)

#### Factor 5: Profitability

Trend: Weakening

In 2010, Sydbank reported audited pre-tax profits of DKK 558 million, down 44% year-on-year as a result of increased impairment changes and lower positive market valuation adjustments. Risk-weighted recurring earnings power (pre-provision income in relation to risk-weighted assets) decreased to 2.8% from 3.0% in 2009.

Net interest income is the most important component of earnings, representing around two-thirds of operating income. Net interest income decreased 5% year-on-year to DKK 3.2 billion, as a result of a 4% decrease in gross loans and higher funding costs. Fee and commission income increased 19% year-on-year, largely driven by increased demand for asset management services, while market value adjustments of the investment portfolio decreased by 37% to DKK 420 million, pushing overall operating income down 5% year-on-year.

Total operating expenses remained largely unchanged year-on-year, however loan impairment charges

increased 14% year-on-year to DKK 1.6 billion and accounted for 74% of pre-provision income.

The score for profitability is D+ and is calculated according to Basel II risk-weighted assets.

We assign a weakening trend to the bank's profitability score to reflect our expectations of continued subdued lending growth, increased funding costs, and the expectation of increased competition, although these negative effects will be somewhat mitigated by the expiry of costs associated with Banking Package I (costing the bank DKK 384 million in 2010). Due to the continued challenging economic environment and its potential effect on asset quality, we also expect problem loans to continue increasing, and a subsequently continued need for elevated loan loss provisions.

#### Factor 6: Liquidity

Trend: Weakening

Although the bank's reliance on interbank funding remains high (having reduced from 34% of total funding at year-end 2009 to 28% at Q1 2011), Moody's notes that it is offset by the size of its securities portfolio, with liquid assets amounting to 30% of total assets as of year-end 2010. The bank's deposit base represents about 50% of funding. We positively note that the bank did not use government guaranteed funding, but expect increased pressure on the bank's funding profile following the implementation of Bank Package III.

Moody's notes that Sydbank, in common with other regional and local banks, funds its retail and commercial mortgage loans through Totalkredit/Nykredit and DLR.

The bank scores C- for liquidity, with a weakening trend reflecting the expected deterioration of Danish funding markets post Bank Package III. 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.

#### Factor 7: Capital Adequacy

Trend: Neutral

At year-end 2010, the Tier 1 and total capital ratios were 14.3% and 15.4%, respectively, up from 15.2% and 13.1% as of year-end 2009. The individual solvency requirement for the bank is 9.6%, which as of year-end 2010 meant the bank had a capital cushion exceeding its individual requirement of DKK 4.3 billion (equivalent to 2.7% of total credit exposures). The bank has a stated internal capital target of 13.4%.

The bank applies the advanced IRB approach for credit risk in the retail portfolio and applies the foundation IRB approach for the corporate portfolio. Basel II has had a positive impact on the capital ratios, but we do not expect the bank to release capital, as there are some concentrations in its loan book.

Considering Sydbank's risk profile and internal capital-generation capability, we continue to view its economic capital as satisfactory. The bank therefore scores A for capital adequacy. We nonetheless expect the weaker macro-economic environment in Denmark will put further pressure on the bank's profitability and ultimately on capital adequacy.

#### Factor 8: Efficiency

Trend: Neutral

Sydbank's cost-to-income ratio stood at 56% in 2010, which is higher than in 2009 (54%) but in line with the five year average.

Sydbank is reshaping its branch coverage in Denmark and is currently focusing on improving its work processes and as a result closed eight small branches in 2010. However, in Moody's opinion, the bank's relatively small size may make it difficult to improve the level of costs, as it will be difficult to achieve economies of scale.

In common with other Danish banks, Sydbank has had to bear the costs of participating in the Danish government guarantee scheme and support mechanism. For 2010, the total cost including the monthly guarantee commission and provision for the guarantee amounted to DKK384 million.

The score for cost efficiency is C.

#### Factor 9: Asset Quality

Trend: Weakening

At year-end 2010, Sydbank's problem loans (measured as gross loans subject to individual impairments) represented 3.5% of its gross loans, unchanged year-on-year. Moody's notes that although Sydbank's problem loan ratio is higher than many of its international peers, it is among the lowest of the rated Danish banks.

Around 35% of Sydbank's loan portfolio is to retail customers (mortgage loans financed by Totalkredit/Nykredit or DLR Kredit do not appear on Sydbank's balance sheet). Sydbank provides a guarantee on losses on loans transferred to DLR Kredit, whereas losses on loans transferred to Totalkredit/Nykredit are deducted from the fees paid by these mortgage credit institutions.

Typical for Nordic, and in particular regional banks, Sydbank displays high credit risk concentration. To assess borrower concentration Moody's compares the sum of the top 20 largest exposures to the Tier 1 capital or pre-provision income - whichever provides the highest ratio. Measured at the worse of the ratio to earnings and Tier 1, Sydbank is in the "D" concentration bucket. There is also some industry concentration in the loan book - property-related exposures account for 13% of loans and credit, and finance & insurance exposures for 17%. The exposure to agriculture accounts for 7% of loans and guarantees. Overall, corporate lending accounts for around 65% of the loan portfolio.

The overall macroeconomic situation in Denmark remains weak, putting pressure on the corporate and retail sectors. This situation supports our expectation of a weakening trend for Sydbank's asset quality in the near/medium term.

The score for this factor is C, with a weakening trend.

#### Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a GLC deposit rating of A2 (on review for downgrade) to Sydbank. The rating receives a one-notch uplift from the A3 BCA, based on Moody's assessment of a moderate probability of systemic support in the event of a stress situation and the Aaa local currency deposit ceiling of Denmark.

#### Notching Considerations

The ratings for the bank's hybrid obligations are notched off the BCA according to "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt" published on 17 November 2009.

#### Foreign Currency Deposit Rating

Sydbank's A2 foreign currency deposit rating (on review for downgrade) is unconstrained given that Denmark has a country ceiling of Aaa.

#### Foreign Currency Debt Rating

Sydbank's A2 foreign currency debt rating (on review for downgrade) is unconstrained given that Denmark has a country ceiling of Aaa.

## **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

### Sydbank A/S

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
<b>Qualitative Factors (50%)</b>						<b>C+</b>	
<b>Factor: Franchise Value</b>						<b>C</b>	<b>Neutral</b>
<b>Market Share and Sustainability</b>			x				
<b>Geographical Diversification</b>			x				
<b>Earnings Stability</b>			x				
<b>Earnings Diversification [2]</b>							
<b>Factor: Risk Positioning</b>						<b>C</b>	<b>Neutral</b>
<b>Corporate Governance [2]</b>							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
<b>Controls and Risk Management</b>		x					
- Risk Management			x				
- Controls	x						
<b>Financial Reporting Transparency</b>		x					
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information			x				
<b>Credit Risk Concentration</b>							
- Borrower Concentration				x			
- Industry Concentration		x					
<b>Liquidity Management</b>							
<b>Market Risk Appetite</b>	x						
<b>Factor: Operating Environment</b>						<b>A-</b>	<b>Neutral</b>

Economic Stability		x					
Integrity and Corruption	x						
Legal System	x						
<b>Financial Factors (50%)</b>						<b>C</b>	
<b>Factor: Profitability</b>						<b>D+</b>	<b>Weakening</b>
PPI / Average RWA - Basel II			2.46%				
Net Income / Average RWA - Basel II				0.72%			
<b>Factor: Liquidity</b>						<b>C-</b>	<b>Weakening</b>
(Mkt funds-Liquid Assets) / Total Assets				10.81%			
Liquidity Management			x				
<b>Factor: Capital Adequacy</b>						<b>A</b>	<b>Neutral</b>
Tier 1 Ratio - Basel II	12.36%						
Tangible Common Equity / RWA - Basel II	11.56%						
<b>Factor: Efficiency</b>						<b>C</b>	<b>Neutral</b>
Cost / Income Ratio			59.17%				
<b>Factor: Asset Quality</b>						<b>C</b>	<b>Weakening</b>
Problem Loans / Gross Loans			3.02%				
Problem Loans / (Equity + LLR)			25.10%				
Lowest Combined Score (15%)						<b>C-</b>	
<i>Economic Insolvency Override</i>						<b>Neutral</b>	
<b>Aggregate Score</b>						<b>C+</b>	
<b>Assigned BFSR</b>						<b>C</b>	

[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



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