Jyske Bank Group

Solvency requirement
First quarter of 2015

SOLVENCY REQUIREMENT Q1 2015

To comply with Danish financial legislation, this report discloses the solvency requirement of the Jyske Bank Group for the first quarter of 2015.

The report serves as a quarterly follow-up to the publication “Risk and Capital Management 2014” which was published along with the annual report of the Group in February 2015.

Jyske Bank applies its own, internal model to determine the individual solvency requirement and the following table presents the solvency requirement grouped by risk category.

Solvency requirement Jyske Bank Group		
DKKm/pct.		
	Solvency requirement	**Pct. of REA**
Credit risk	15,287	8.5
Market risk	1,747	1.0
Operational risk	1,043	0.6
Other	1,026	0.6
Individual solvency requirement	**19,104**	**10.7**
Individual solvency requirement + SIFI buffer	**19,640**	**11.0**
Solvency requirement according to the 8+ method	18,646	10.4
Capital requirement incl. transitional provisions	16,714	9.3
Capital base	29,206	16.3
Capital buffer	9,566	5.3

The individual solvency requirement makes up 10.7% of REA, which is higher than the solvency requirement according to the 8+ method as used by the Danish FSA and the legislative capital requirement incl. transitional provisions.

To complete the solvency requirement a SIFI-buffer of 0.3% must be added to the individual solvency requirement resulting in a solvency requirement of the Group of 11.0%. Given a capital ratio of 16.3%, the Group had a capital buffer of 5.3% at the end of first quarter of 2015.

The individual solvency requirement expresses Jyske Bank's assessment of the capital requirement given the Group's risk profile. Measurement of the individual solvency requirement rests on the Group’s internal models for measuring economic capital, which comprise the risk types for which the Group wishes to set capital aside: credit risk, market risk, operational risk and business risk. In this way, the Group's data, experience and management are reflected.

Based on the calculation of economic capital, it is assessed whether any considerable circumstances have not been addressed by the calculation model or for which, by way of precaution, funding is desirable. In that case, additional capital will be set aside. The additional capital addresses the uncertainty relating to specific circumstances and the model setup.

In respect of credit risk, a precautionary buffer will be added in connection with weak exposures. This buffer is calculated on the basis of an extra cautious assessment of elements forming part of the measurement of these exposures.

To cover any potential future CVA losses, capital additions are made for future deterioration of credit quality among counterparties as this issue is not covered by the economic capital model.

As the fair value of the held-to-maturity bonds exceeds the amount recognised, a deduction is calculated in the individual solvency requirement.

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According to the CRR, the difference between the accounting-related provisions and value adjustments, on the one hand, and the expected loss on the AIRB portfolio calculated by the model, on the other, is added. The currently positive difference can primarily be ascribed to the clarification of the impairment rules resulting in an increase in the indication of impairment. The rules have not, per se, affected the Group’s risk, but as the Group's solvency takes the current accounting principles into consideration, corrections are made for this in the individual solvency requirement.

The capital additions for market risk relate to circumstances that are not addressed by the applicable model as well as circumstances relating to the uncertainty in the model.

Capital additions are made to allow for additional expenses relating to the provision of unsecured capital market funding and money market funding from professional counterparties under a stress scenario.

Capital additions are made for the uncertainty relating to the outcome of pending court cases.

As a forerunner to the CRR counter-cyclical buffer, capital additions are made in good times and are applied in bad times. This capital addition is phased out as the counter-cyclical buffer is phased in.

Capital additions are made for BRFkredit, which is not yet included in economic capital. The capital addition is identical to BRFkredit's solvency requirement adjusted for inter-company eliminations. BRFkredit applies the 8+ method when determining the institution's solvency requirement.

A precautionary addition is made to allow for uncertainty in the general assessment of the individual solvency requirement.

Finally, the Group’s ability to generate a profit is also considered when assessing the individual solvency requirement. The reason is that on-going earnings are the first line of defence against investors suffering losses. On the whole, the individual solvency requirement base mirrors the negative retained earnings/profit in a most extreme situation.