JYSKE BANK

Risk and Capital Management 2017

Contents

Jyske Bank A/S
Vestergade 8-16
DK-8600 Silkeborg
Tel: +45 89 89 89 89
E-mail:
jyskebank@jyskebank.dk
www.jyskebank.dk
Business Reg. No.: 17 61 66 17
Prepress and printing:
Jyske Bank

Executive summary

The objective of this report is to offer the reader insight into Jyske Bank's internal risk and capital management procedures and the regulatory capital requirements. The report describes the capital and risk structure of the entire Jyske Bank Group (hereinafter called the Group or Jyske Bank).

Jyske Bank's long-term capital management objective after the implementation of new Basel recommendations is a capital ratio of 17.5% and a Common Equity Tier 1 capital ratio of 14%. At these levels, Jyske Bank meets the capital requirements including combined buffer requirements and will have an adequate strategic buffer. At end-2017, the Group met both of these targets with a Common Equity Tier 1 capital ratio of 16.4% and a capital ratio of 19.8%.

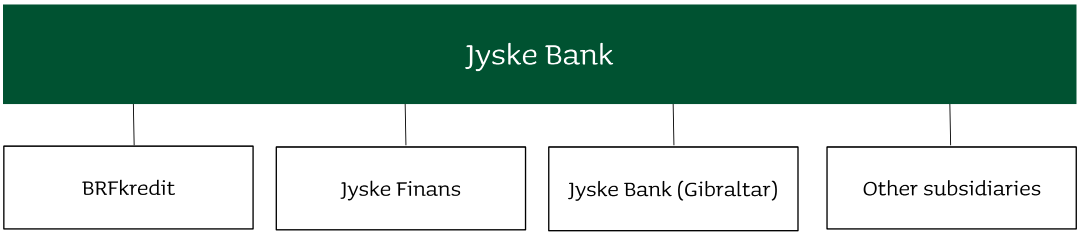
Jyske Bank will in the years to come keep the capital ratios above the long-term targets in order to meet the regulatory requirements under the revised Basel framework implemented on 1 January 2022. Based on the December 2017 Basel III reforms, Jyske Bank estimates that a total capital ratio approximately 3 percentage points above the target level is sufficient to fulfil the Group's long-term capital management objective under a fully phased-in revised Basel framework. Consequently, a total capital ratio 0.7 percentage points above the end-2017 level is required. Jyske Bank aims to be fully compliant with the Basel recommendations by 1 January 2022.

Furthermore, the Group aims to maintain a RAC ratio from S&P around 10.5%, to maintain the score "strong" in the "Capital & Earnings" category. The RAC of the Group will in 2018 be under pressure from new accounting standards (IFRS 9). RAC is 10.2% as of end-2017.

As long as the Group is on track towards fulfilling these goals, the aim is to keep a steady dividend payout and to use share buyback programs when retained earnings or the capital structure provide the possibility to do so.

- Capital ratio: 19.8% (2016: 18.3%)
- Common Equity Tier 1 capital ratio: 16.4% (2016: 16.5%)
- Capital base: DKK 37.3bn (2016: DKK 33.4bn).
- EAD: DKK 591.8bn (2016: DKK 559.8bn).
- REA: DKK 188.0bn (2016: DKK 182.2bn).
- Capital requirement ratio: 10.2% (2016: 10.0%)

Business model



The Jyske Bank Group is a financial group, in which Jyske Bank being the parent company conducts banking activities, and subsidiaries conduct other financial or accessory activities. The Group conducts mortgage-credit activities through BRFkredit.

The Jyske Bank Group's business model is to offer financial products and other related products and services to private individuals, businesses and institutions, primarily in Denmark. The Group’s foreign subsidiaries and branches can to some extent offer standard banking products to local businesses and private individuals.

The Group cooperates with other financial institutions about the delivery or distribution of the Group's products to the relevant businesses and/or their clients.

An important part of Jyske Bank's business model is to grant loans against collateral in real property. The Group's mortgage loans are primarily funded through the issue of covered bonds and secondarily through the issue of mortgage bonds, governed by the balance principle in Danish mortgage legislation. It is the aim of the Group to maintain an AAA rating of its covered bond issues.

Jyske Bank offers pension and life insurance products, investment and asset management products, payment services products as well as advisory services from sub-contractors, including jointly owned sector companies.

Jyske Bank's international subsidiary Jyske Bank Gibraltar offers ordinary banking services to local enterprises and personal clients.

Jyske Bank owns and operates accessory activities, including the leasing company Jyske Finans, which support the Group's business model and contribute to fulfilling the financial objectives of customers.

Jyske Bank assumes financial risks within established limits and to the extent the risk-adjusted return contributes to the Group's financial goal. It is to the greatest possible extent attempted to minimise operational risks considering the related costs.

Jyske Bank's financial risks consist mainly of credit risks. The Group will assume credit risks if, through individual credit processing, it can be substantiated that the debtor has the necessary ability to service debts and that it can be rendered sufficiently probable that the debtor has the intention to repay the credit granted. Failing that, the collateral must have sufficient value as well as stability of value, and it must be substantiated that the collateral can be realised and pay off the remaining credit. Finally, it is a requirement that the Group's earnings must match the associated credit risk and capital charge.

Moreover, Jyske Bank assumes market risks when the expected return more than matches the risk. The Group's market risk consists mainly of interest-rate risk. Market risks are managed on the basis of a portfolio approach across instruments and types of risk and hence in consideration of the correlation or lack of correlation for which there is empirical evidence and that is expressed through the risk measurement Value at Risk (VaR). To a lesser degree, the Group assumes option risks.

During periods with high market volatility, positions involving market risk are reduced to the extent necessary for the stated VaR to remain within an acceptable level.

As a consequence of the Group's activities, liquidity risk arises when there is a funding mismatch in the balance sheet because the loan portfolio has a longer duration than its average funding sources. Active liquidity management ensures that there is sufficient liquidity in the short and long term to meet the Group's payment obligations.

At any time, the total risks are adjusted to the Group's risk profile and capital structure according to the Group's capital management objective. This will ensure that Jyske Bank is a trustworthy, long-term business partner for its clients.

Risk management

Risk management is a key element in the Group's daily operations and is anchored in the Group Supervisory Board and the Group Executive Board.

Risk organisation

The Group Supervisory Board establishes the general principles for risk and capital management as well as for the Group's risk profile, and implements these in the Group by adopting a number of risk policies and instructions. Together with the Group Executive Board, the Group Supervisory Board is responsible for ensuring that the Group has an organisational structure that will ensure a distinct allocation of responsibility and include an appropriate separation of functions between development units, operating units and control units in the daily monitoring and management of the Group's risks. The Group Executive Board is responsible for the day-to-day risk management of the Group and will ensure that policies and instructions are operationalized and complied with.

The Group Executive Board has appointed a Group Chief Risk Officer, who is the director of Finance and Risk Management. The responsibilities include activities involving risks across areas of risk and organisational units. The unit is responsible for:

- proposals of risk policies and risk management principles to the Group Executive Board and the Group Supervisory Board;
- implementation of risk management principles and policies in order to improve risk management on an on-going basis;
- quantification of the Group's risk exposure as well as monitoring and reporting to ascertain that the Group's risk exposure does not exceed the limits defined by the Group Supervisory Board;
- recognition, measurement and financial reporting in the Group as well as the implementation of adviser-oriented financial and risk management tools.

To achieve efficient risk management in the mortgage credit business, the Group has appointed a Chief Risk Officer at BRFkredit in line with regulatory requirements. The risk officer and his employees form an integral part of the unit Finance and Risk Management to ensure that the Group Chief Risk Officer has a complete overview of the entire Group's risks.

The organisational structure of the Group, in which Finance and Risk Management is separate from the risk-taking units, will ensure that the unit is independent of business-oriented activities.

Day-to-day management of credit risk is undertaken by account managers as well as the Credit Division with due regard to credit policies and credit instructions.

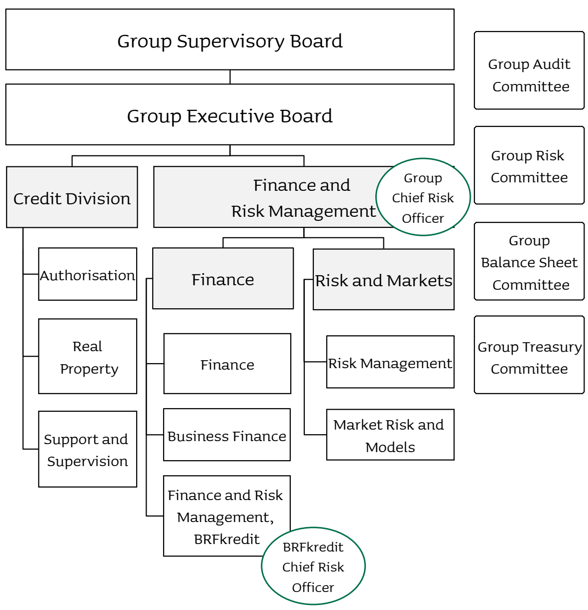
Jyske Bank has three business areas that manage market risk. Strategic market risk is managed by Group Treasury, and investments are in general based on a long-term view of the financial markets. Jyske Markets and BRFkredit manage short-term market risk as part of the servicing of clients' trades with financial instruments and in the mortgage credit business.

Similarly, the strategic liquidity risks are managed by Group Treasury, and the short-term operational liquidity risk is managed at Jyske Markets and BRFkredit.

The day-to-day management of operational risk is undertaken by the individual organisational units of the Group.

Risk management of the specific risks is described in detail in the chapters covering the individual risks.

GROUP RISK ORGANISATION



Several committees consider and process risk-related issues:

The Group Audit Committee oversees whether the Group's internal management and risk management systems function effectively. These tasks are carried out, for instance, through written and oral reporting to the committee and the committee's consideration of relevant audit reports.

The Group Risk Committee carries out the preliminary consideration of risk-related issues before the final consideration by the Group Supervisory Board. At quarterly meetings, subjects with relation to the following are discussed:

- the Group's risk profile and the implementation of this in the organisation;
- the Group's capital base as well as capital requirements;
- capital and liquidity buffers with related contingency plans including the Group recovery plan;
- material changes of the model set-up for risk management as well as re-estimation and validation of models;
- internal procedures for risk measurement and management;
- assessment of material products earnings and risk profiles;
- new legislation relating to capital structure or risk management;
- topics of strategic relevance for the Group's overall risk management.

The main task of the Group Treasury Committee is to ensure that the Group's actual market risk profile is in line with the intended risk profile and the assessment of market expectations. The participants at the monthly meetings are the members of the Group Executive Board responsible for Capital Markets and Finance and Risk Management, the member of the Executive Board for BRFkredit responsible for securities, the heads of Capital Markets and Group Treasury as well as risk-taking employees in Group Treasury and BRFkredit.

The Group's liquidity risk profile, balance-sheet development and financial structure are assessed by the Group Balance Sheet Committee, which at its quarterly meetings ensures a continuously adequate liquidity-risk profile and balance-sheet structure according to the general guidelines. The participants at the meetings are the members of the Group Executive Board responsible for Capital Markets and Retail & Commercial Banking, the member of the Executive Board for BRFkredit responsible for securities, the Group Chief Risk Officer, the heads of Retail & Commercial Banking, Capital Markets and Group Treasury as well as other key employees of Retail & Commercial Banking and employees in Group Treasury with responsibilities within liquidity, capital and balance sheet management.

Risk reporting

The Group Supervisory Board and the Group Executive Board receive regular reports on the risk development and the utilisation of the allocated risk limits and can therefore monitor whether the risk limits are adhered to and whether they are still appropriate for the Group.

Finance and Risk Management continuously focuses on securing a qualified basis for decisions for management and works on an on-going basis to optimise management reporting.

Risk reporting is submitted to the Group Supervisory Board, the Group Executive Board, the group supervisory board committees and relevant business areas, depending on the relevance of the contents of the reports.

Moreover, risk reporting is prepared for the supervisory boards and executive boards of the individual subsidiaries.

Internal risk management

In the Group's internal risk management, risk-adjusted target returns are used in the form of RAROC as a general management tool. RAROC calculations give an overview of the risk and profitability of the various activities of the Group. RAROC calculations are based on economic capital, and the development in the general credit quality of the portfolio, concentration risk and other capital elements are included in the assessment.

RAROC at division and business unit level forms an integral part of the reporting to the managements of business units, who determine activities for follow-up and any initiatives to reduce risk.

RAROC is also applied at client and product level to measure results, to assess profitability as well as for pricing new loans. RAROC calculations and the facilities for pricing are made available in profitability systems where employees and managers have access to current risk-adjusted profitability calculations at various levels. The profitability systems allow for expenses, including expenses relating to the financing of the loan.

The profitability systems take into account the composition of the Group's credit portfolio, which means that concentration effects and diversification effects are reflected directly in the profitability calculations of new loans. If loans are granted to clients in sectors, for instance, which are highly correlated with the market, this will result in higher capital requirements and therefore lower profitability.

Economic capital

Economic capital is a key element in the management of the Group's risk as well as in the day-to-day financial management. Economic capital is the capital required to cover the Group's unexpected loss one year into the future. One of the benefits of economic capital is an aggregate figure for all risk types.

A number of internal models are used for the calculation of economic capital. The models are based on a VaR setup over a 1-year horizon for those risk types to which the Group wishes to apply quantitative modelling. The various risks covered by economic capital make varied demands on the technical portfolio risk modelling. Various sub-models are used that are specifically designed to reflect the characteristics of individual risk types.

Remuneration

The purposes of the remuneration policy are to

- reward value-creating, competent and responsible conduct,
- support productivity and job satisfaction,
- promote sound and efficient risk management,
- prevent conflicts of interest and strengthen the liability to act in the best interest of the clients,
- ensure equal pay for equal work.

The policy applies to all companies in the Group. Jyske Bank has opted out of using direct bonus schemes with variable salaries. The Group's remuneration policy is available at www.investor.jyskebank.com/investorrelations/governance.

Reports from the Danish FSA

The Danish FSA conducts risk-related inspections at Jyske Bank. Jyske Bank has adjusted its risk management to the extent necessitated by the FSA's reports.

RISK-RELATED INSPECTION REPORTS FROM THE DANISH FSA IN 2017	
Inspection of BRFkredit	The BRFkredit management has not stipulated sufficiently clear limits to the extent of the imbalances between loans and bonds that BRFkredit may assume for loans without any direct bond match within the general balance principle. BRFkredit has stated that its management wishes to limit imbalances between such loans and bonds as much as possible through the use of derivative financial instruments and that BRFkredit will act on the basis of this wish. However, the risk profile may change within the framework in question, and there are shortcomings concerning the control and reporting of the funding being composed to achieve the requested low risk. Therefore, BRFkredit was ordered to ensure limitation as well as control and reporting of the use of the possibilities of imbalance inherent in the general balance principle. It is the assessment of the FSA that, in several areas, BRFkredit is not sufficiently in control of its IT security and also that the management reporting does not offer a true, fair and sufficient picture of the IT risk. BRFkredit is not in full compliance with the statutory requirements of the IT area. BRFkredit was ordered to improve its IT security and risk management, system and data access control, change management as well as disaster recovery/contingency planning. BRFkredit was ordered to improve the written general documentation of its liquidity policy, instructions to the executive board and the contingency plan/disaster recovery plan. Steps have been taken to improve all issues mentioned in the published report.
Thematic inspection of exposure to agriculture	The purpose of the inspection was to assess the quality of the bank's credit management, valuation methods, registration of OEI (objective evidence of impairment) and impairment calculations for agricultural loans. The FSA found that the bank's action plans for the individual clients were not forward-looking. Therefore, the bank was ordered to ensure that the action plans specify the forward-looking measures in relation to the agricultural clients. The inspection identified a number of areas in which Jyske Bank can initiate improvements. Such areas are the bank's assessment of agricultural clients' interest rate sensitivity, explanations of the reasons for the development in the entries in the clients' financial statements, the bank's assessment of the relationship between the number of animals and the size of the area of land and the quality of the bank's data on the clients. The bank has taken note of the order and the other comments.
Settlement of derivatives (theme)	The FSA found that Jyske Bank A/S' organisation and system support of the settlement of standardised derivatives are in compliance with the statutory requirements in the area. The FSA does, however, find that the bank's reporting on the settlement to the person in charge of the day-to-day operations in the area must be expanded, and the bank was ordered to do so. When examining the bank's day-to-day processes for the exchange of collateral in relation to trading in derivatives, the FSA found that the bank does not have specific guidelines for the follow-up on and on-going reporting of disputes in connection with the exchange of collateral. On that basis, an order to comply with this was issued to the bank. In addition, the bank was ordered to strengthen its organisational anchoring of the risk-reducing methods in order to establish clear procedures for the execution and control of such methods. Also, the bank was ordered to establish reporting on the compliance with risk-reducing methods. Finally, the bank was ordered to establish reporting to the person in charge of the area on the quality of the reporting to the bank's trade register. The bank has taken note of all the orders.
IT inspection	It is the assessment of the FSA that Jyske Bank has not established sufficient management and reporting in the area of IT security. This has resulted in the risk that the executive board and the supervisory board will not be informed to a sufficient degree of the actual IT risk picture. The FSA also assesses that Jyske Bank is not fully compliant with the statutory requirements of the IT area, including the bank's outsourcing of material IT activities. The FSA has ordered Jyske Bank to strengthen its IT security management and management reporting as well as to improve the on-going control and follow-up on the actual IT security implementation both at the bank and the IT suppliers. Moreover, the management's requirements and expectations of IT-security work, etc. must to a higher degree be specified and documented.

	Moreover, the FSA has ordered Jyske Bank to establish a sufficient method for IT risk management, covering both the bank and the performance of tasks at IT suppliers to whom such tasks are outsourced. Among other things, improved documentation must be established of the correlation between IT risks and preventive controls and security measures that form the basis of the bank's IT security management. Moreover, Jyske Bank must ensure that sufficient requirements of roles and allocation of responsibility in connection with the IT security work are established. Jyske Bank has also been ordered to ensure that the bank's internal business procedures and requirements according to the Executive Order on outsourcing significant areas of activity will be complied with to a sufficient degree. In addition, the FSA has ordered Jyske Bank to improve its requirements of change management, including sufficient follow-up and control of changes to its production systems, separation of duties as well as access to confidential data. Jyske Bank has been ordered to ensure that sufficient assessments of risks and consequences are prepared as a basis of disaster recovery/contingency objectives and disaster recovery/contingency plans. Moreover, Jyske Bank must improve requirements and business procedures for the coordination of disaster recovery/contingency measures at the bank and at material outsourcing suppliers. Business procedures and requirements of tests of disaster recovery/contingency plans must be strengthened, and moreover it must be ensured that disaster recovery/contingency plans and relevant test scenarios are tested to a sufficient degree. Also, the FSA has ordered Jyske Bank to improve the management of access and rights to systems and data. At the same time, it must be ensured that adequate requirements for IT security logging are defined on the basis of risk assessment. Notice has been taken of all the orders and add-ons have been made to the pillar 2 requirement.
Credit area - controls	The purpose of the inspection was to assess the tasks, methods, independence, resources and planning of the independent credit control as well as the quality of the work performed. The purpose was also to assess the work of the compliance function and the internal audit department in connection with the performance of controls in the credit area. At the inspection, the FSA established that the bank did not have general business procedures for the controls and the planning hereof. Also, the bank did not have any documentation of the risk assessment which should be used for the planning of the bank's independent credit controls. Moreover, the control of the bank's compliance with the credit policy and of the correct establishment of loans was not fully satisfactory. Consequently, the bank was ordered to ensure that sufficient business procedures were established, to document its risk assessment and to have sufficient certainty of its assessment of the credit processes. The bank has taken note of the orders.
Credit area - granting loans to corporate clients	The FSA found that the bank's risk tolerance when granting loans to corporate clients was generally in line with that of the average of other major banks and hence also affected by intensifying competition for clients. The bank must focus on improving its basis of loan granting. This especially applies to the bank's loans to medium-sized corporate enterprises. The inspection did not give rise to any orders, and the bank's risk tolerance is in line with the average of the major banks covered by the inspection.

Supervisory diamond

The supervisory diamond defines a number of special risk areas including specified limits that institutions should generally not exceed. The supervisory diamond limits applicable to Jyske Bank A/S and BRFkredit a/s are shown below.

THE SUPERVISORY DIAMOND FOR JYSKE BANK A/S

	2017	2016
Sum of large exposures < 125% of the adjusted capital base	0%	0%
Increase in loans and advances < 20% annually	2%	6%
Exposures to property administration and property transactions < 25% of total loans and advances	9%	8%
Stable funding < 1	0.56	0.58
Liquidity surplus > 50%	228%	213%

At end-2017, Jyske Bank A/S met all the benchmarks of the supervisory diamond.

THE SUPERVISORY DIAMOND FOR BRFKREDIT a/s

	2017	2016
Concentration risk < 100%	47.5%	65.3%
Increase in loans and advances < 15% annually in the segment:		
Owner-occupied homes and vacation homes	11.7%	15.7%
Residential rental property	6.6%	6.7%
Agriculture	-	-
Other sectors	5.2%	6.7%
Borrower's interest-rate risk < 25%		
Residential property	20.8%	24.5%
Interest-only schemes < 10%		
Owner-occupied homes and vacation homes	7.9%	8.3%
Loans with frequent interest-rate fixing:		
Refinancing (annually) < 25%	19.9%	16.2%
Refinancing (quarterly) < 12.5%	4.7%	10.3%

At end-2017, BRFkredit a/s met all the benchmarks of the supervisory diamond.

Disclosure

The 2017 report on risk and capital management serves as the Group's main medium for disclosure of the information required in CRR. In addition to the report a number of tables on www.investor.jyskebank.com/investorrelations/capitalstructure provide further details on a number of areas as per the transparency requirements from the CRR and the EBA guidelines on disclosures requirements under Part Eight of Regulation (EU) No 575/2013. The Group assesses the need for more frequent disclosure on an ongoing basis with a view to the materiality of the information.

Capital management

The objective of capital management is to optimise the Group's capital structure given the risk profile.

Jyske Bank's long-term capital management objective after the implementation of new Basel recommendations is a capital ratio of 17.5% and a Common Equity Tier 1 capital ratio of 14%. At these levels, Jyske Bank meets the capital requirements including combined buffer requirements and will have an adequate strategic buffer. At end-2017, the Group met both of these targets with a Common Equity Tier 1 capital ratio of 16.4% and a capital ratio of 19.8%.

The CRR implies the phasing in of increasing capital requirements over the coming years as shown in the table below.

CAPITAL RATIOS AND REQUIREMENTS

	Total capital		CET1	
%	**2017**	**2019+**	**2017**	**2019+**
Requirements				
Pillar 1	8.0	8.0	4.5	4.5
O-SII buffer	0.9	1.5	0.9	1.5
Pillar 2	2.2	2.2	1.2	1.2
Capital conservation buffer	1.3	2.5	1.3	2.5
Countercyclical buffer	0.0	0.5	0.0	0.5
Total	**12.4**	**14.7**	**7.9**	**10.2**
Current and *target* levels	**19.8**	***17.5***	**16.4**	***14.0***

In 2017, Jyske Bank was reconfirmed to be a systemically important financial institution (O-SII). Consequently, the Group was subject to an additional capital buffer requirement of 0.9% throughout 2017. The requirement will increase to 1.2% in 2018. When fully phased in, the requirement will amount to 1.5% for the Group, cf. the table.

The Pillar 2 requirement of 2.2% is not statutory but institution specific. Jyske Bank estimates that the requirement will be in the range of 2.2% to 2.5% over the coming years.

The Danish countercyclical buffer is currently not activated. As of December 2017 the Systemic Risk Council recommended a countercyclical buffer of 0.5% from 31 March 2019. Jyske Bank is also subject to countercyclical buffers in the foreign countries in which the Group has exposures. Due to Jyske Bank's low level of foreign exposures, the contribution to the countercyclical buffer from foreign countries is insignificant. Consequently, Jyske Bank expects a countercyclical buffer of 0.5% by end-2019.

Jyske Bank will in the years to come keep the capital ratios above the long-term targets in order to meet the regulatory requirements under the revised Basel framework implemented on 1 January 2022. Based on the December 2017 Basel III reforms, Jyske Bank estimates that a total capital ratio approximately 3 percentage points above the target level is sufficient to fulfil the Group's long-term capital management objective under a fully phased-in revised Basel framework. Consequently, a total capital ratio 0.7 percentage points above the end-2017 level is required. Jyske Bank aims to be fully compliant with the Basel recommendations by 1 January 2022.

Furthermore, the Group aims to maintain a RAC ratio from S&P around 10.5%, to maintain the score "strong" in the "Capital & Earnings" category. The RAC of the Group will in 2018 be under pressure from new accounting standards (IFRS 9). RAC is 10.2% as of end-2017.

As long as the Group is on track towards fulfilling these goals, the aim is to keep a steady dividend payout and to use share buyback programs when retained earnings or the capital structure provide the possibility to do so.

Capital management

Capital base

At end-2017, the Common Equity Tier 1 capital amounted to 82% of the capital base against 90% at end-2016. The capital base is stated in the subsequent table[1].

CAPITAL BASE		
DKKm	2017	2016
Equity	32,023	31,038
Intangible assets	-23	-71
Deferred tax assets relating to intangible assets	3	15
Cautious valuation	-271	-268
Diff. between expected losses and impairment charges	-174	-89
Share-buyback programme	-281	-
Expected dividend	-522	-499
Other deductions	-14	-31
Common Equity Tier 1 capital	**30,741**	**30,095**
Additional Tier 1 capital	3,209	2,250
Other deductions	-27	-69
Tier 1 capital	**33,932**	**32,276**
Tier 2 capital	3,631	1,298
Other deductions	-248	-220
Capital base	**37,306**	**33,354**
Risk Exposure Amount	**187,998**	**182,195**

Following the issues of AT1 and Tier 2 capital in 2017, the capital structure of the Group is now considered cost efficient. Through 2018, only minor adjustments in AT1 and Tier 2 are expected.

Jyske Bank is conducting a share buy-back programme applicable during the period 1 March 2017 – 28 March 2018. During this period of time, Jyske Bank will buy back shares to a maximum value of DKK 1.5bn.

It is the intention of the Supervisory Board that, at the Annual General Meeting in March 2018, a motion is made for the distribution of ordinary dividend of DKK 5.85 per share for the financial year 2017.

Situations may arise necessitating a transfer of capital between the companies in the Group. The only limitation preventing a quick transfer of capital from subsidiaries to the parent company is the circumstance that BRFkredit and Jyske Bank Gibraltar are subject to CRR. Therefore, the transfer of capital must take place subject to the capital requirements of the individual subsidiaries. There are no obstacles for a quick repayment of claims between parent company and subsidiaries.

Leverage ratio

The leverage ratio is a risk-neutral measure for the maximum extent of the balance-sheet leverage and is calculated as recommended by The Basel Committee as Tier 1 capital relative to the Group's total non-weighted exposures. The EU has suggested a binding leverage ratio requirement of minimum 3%. The implementation date of this requirement is not confirmed yet, but the Group navigates as if the requirement already applies.

The Group Supervisory Board has adopted a policy for maximum leverage. To ensure a satisfactory development of the balance sheet, the Group's balance sheet is considered in two sub-portfolios as it is assessed that the Group's banking and mortgage activities have different adequate leverage levels. The banking activities of the Group involve a higher risk in respect of liquidity and capital than do the Group's mortgage activities, and therefore a higher acceptable leverage is applied to the mortgage activities than to the banking activities.

At end-2017, the leverage ratio for the Group was at 5.4%[2]. In spite of the strategic focus on home loans, which causes an increase in the leverage ratio balance, the leverage ratio in the Group remained stable over the past year due to consolidation and issuance of Tier 1 capital.

LEVERAGE RATIO		
%	2017	2016
Jyske Bank Group	5.4	5.4

ICAAP and capital requirement

Jyske Bank's ICAAP (Internal Capital Adequacy Assessment Process) forms the basis of the assessment of the Group's capital structure and hence the determination of the Group's capital requirement. The assessment is based on the current relation between the Group's risk profile and capital structure as well as forward-looking considerations that may affect this. Stress tests are used to model the micro- and macroeconomic factors to which Jyske Bank is exposed.

[1] The capital base is specified in further detail according to the requirements as per the CRR on www.investor.jyskebank.com/investorrelations/capitalstructure.

[2] The leverage ratio is specified in further detail according to the requirements as per the CRR on www.investor.jyskebank.com/investorrelations/capitalstructure.

Capital requirement

The capital requirement expresses the Pillar 1 regulatory requirements of 8% of the total risk exposure amount with additions for above normal risk under Pillar 2. It thus expresses Jyske Bank's own assessment of the capital requirement given the Group's risk profile and reflects the Group's own data, experience and management.

Jyske Bank is approved to apply the advanced internal rating-based approach (AIRB) to the measurement of credit risk. The approval extends to the application of advanced methods for calculation of the capital requirement for the main part of the Group's credit portfolio.

The capital requirements for market risk and operational risk are calculated according to the standardised approaches.

The development of the capital requirements for credit risk, market risk and operational risk is outlined in the table below and described in the chapters covering the individual risks.

CAPITAL REQUIREMENTS BY RISK TYPE

DKKm	2017	% of REA	2016	% of REA
Pillar 1				
Credit risk	11,992	6.4	11,246	6.2
Market risk	1,708	0.9	1,967	1.1
Operational risk	1,339	0.7	1,363	0.7
Capital requirement, Pillar 1	15,040	8.0	14,576	8.0
Pillar 2				
Credit risk	2,607	1.4	2,383	1.3
Market risk	826	0.4	821	0.5
Operational risk	694	0.4	435	0.2
Other	23	0.0	66	0.0
Capital requirement, Pillar 2	4,150	2.2	3,705	2.0
Total	**19,190**	**10.2**	**18,281**	**10.0**
Capital requirement according to the transitional provisions	19,244	10.2	18,571	10.2

Both Pillar 1 and Pillar 2 requirements increased by around DKK 450m during 2017. As a result, the capital requirement is therefore DKK 900m higher at end-2017 compared to end-2016, excluding regulatory buffers. The capital requirement according to the transitional provisions are higher than the total capital requirement excluding the combined buffer requirement as of end-2017. However, from 1 January 2018 the capital requirement according to the transitional provisions no longer applies.

Jyske Bank applies an 8+ setup when determining the capital requirement. Throughout the ICAAP, analyses are carried out for each risk type, addressing qualitative as well as quantitative elements with regard to monitoring and ongoing quality assurance, including evaluation of model assumptions. The analyses cover relevant risk factors within each risk type in accordance with current legislation.

With respect to credit risk, a precautionary buffer is 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. Moreover, capital additions are made for concentration risk and for the uncertainty relating to the determination of maturities for corporate clients with poor credit quality. Precautionary additions are made to allow for uncertainty in the credit models.

To address the risk of an adverse development in the interest rate spread on Danish covered bonds, a market risk capital addition is made on the basis of a stress scenario.

A capital addition is 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.

The calculation of capital for operational risk is based on the REA value of operational risk with an addition for higher than normal risk. Capital additions are made for the uncertainty relating to the outcome of pending court cases.

Group recovery plan

The recovery and resolution of credit institutions and investment firms' directive (BRRD) requires financial institutions to draw up recovery plans, which should be used in the unlikely event that the institution should be in serious financial trouble. The Jyske Bank Group is designed to facilitate the continuity of the Group's critical business processes in the event of significant financial stress.

The recovery plan contains a number of recovery options that can be undertaken. These have been tested against different stress scenarios to ensure that the Group is able to recover under different circumstances.

The recovery options can be divided into three different types of recovery options:

- Recovery options aiming to improve the capital ratio of the Group.
- Recovery options aiming to improve the liquidity of the Group.
- Recovery options for which the focus is to improve the profitability by reducing the cost base of the Group either through disposal or cost reductions.

The recovery plan includes recovery indicators, which are quantitative and qualitative indicators that monitor the development in capital, liquidity, profitability and asset quality of the Group as well as relevant macro-economic and market-based indicators. The indicators serve as potential warnings to allow early identification of an adverse development in the Group. As an integrated part of risk management of the Group, the indicators are monitored and reported quarterly to the Group Supervisory Board, the Group Executive Board and the Group Risk Committee, who will consider and act upon adverse developments.

The recovery plan contains a detailed mapping of business lines, departments and functions within the Jyske Bank Group enabling the Danish FSA to get a complete picture of all the activities within Jyske Bank.

Stress test

Stress testing is an important element in Jyske Bank's approach to project the capital base and relevant capital requirements. Moreover, stress tests are suitable to assess the Group's capital management objective in a forward-looking perspective.

Stress testing is used in a number of respects. Stress testing characterised as sensitivity analyses of the impact on the risk measurement from various parameters is applied as is extensive scenario-based stress-testing of the importance of cyclical changes. Furthermore, reverse stress testing is carried out in order to test the Group's capacity for loss.

An objective of the stress test analyses is to gauge whether the future risk level of a certain scenario can be covered by excess capital, given the Group's earnings, capital policy and management objective as well as its risk profile. The results of the stress test analyses are also used, for instance, to assess whether the capital level and the quality of the capital suffice, and consequently whether it is necessary to implement measures from the Group's recovery plan.

Scenarios

The stress test analyses rest on various macroeconomic scenarios. These include a scenario of the expected development as well as scenarios of various stages of recession in the Danish economy. The definition of recession scenarios rests on assessments of the areas deemed to be most at risk and on the circumstances that are of the highest importance for the Group's exposure to risk at the time. Expected consequences of future regulation are also taken into account. Examples of scenarios applied appear below.

Processes and models

The scenarios play a key role in the projection of the consolidated profit, balance sheet and capital structure. The scenario projections are based on model-based calculations as well as expert assessments.

Interaction of the methods is ensured, as past experience from the model-based approach is combined with considerations about Jyske Bank's current business structure and risk profile. The scenario projections offer a broader overview of the Group's sensitivity to the economic development.

Reverse stress testing is applied as an important supplement in order to put the regular stress tests into perspective. Reverse stress testing enables a better understanding of the current and potential vulnerabilities of the Group, as well as circumstances under which the Group's business model would become unviable.

Processing of results

The stress scenario results in deterioration of the earnings capacity and in a higher level of risk. Both of these elements reduce the capital buffer compared to the expected scenario.

Despite the large impairment charges under the stress scenario, the outcome of the analyses of the stress scenario shows that both the capital base and the capital ratio will remain at a satisfactory level even under a very severe stress scenario.

APPLIED SCENARIOS	2018 – 2020
Expected scenario	The expected scenario describes the most likely scenario for the Danish economy. The recovery in the Danish economy will continue in the coming years but with a lower growth rate. Low interest rates, optimism and slowly declining savings will help drive demand growth. However, labour shortages will gradually reduce growth opportunities and global economic growth will also slow down, which will affect Danish exports. Employment will rise towards a slowdown in the labour market by the end of 2019. House prices are increasing gradually throughout the period.
Stress scenario	The stress scenario implies that the economy slides into a deep recession. A significant weakening of the confidence among Danish enterprises and households will result in a decrease in private consumption and the housing market will be affected by steep price drops. Another setback in the global economy will also reduce demand, leading to falling exports. Interest rates are expected to remain at the current low levels.

DEVELOPMENT IN KEY MACROECONOMIC VARIABLES (DENMARK)	Expected scenario			Stress scenario		
	2018	2019	2020	2018	2019	2020
GDP	1.7%	1.3%	1.1%	-4.5%	-1.7%	2.0%
Private consumption	1.7%	1.7%	1.4%	-3.4%	-1.9%	2.9%
Unemployment rate (gross)	4.0%	3.9%	3.8%	5.8%	9.6%	8.9%
House prices	4.6%	2.3%	1.1%	-12.5%	-7.7%	2.9%
Money-market rate (average for the year)	-0.2%	-0.2%	-0.2%	-0.3%	-0.3%	-0.2%
Bond yield (average for the year)	0.5%	0.5%	0.5%	-0.2%	0.0%	0.3%

External stress tests

Stress testing financial institutions is becoming an increasingly important aspect of both national and international authorities' efforts to ensure integrity of the financial markets and stability of the financial system.

The Group participates in external stress testing exercises facilitated by the Danish FSA as well as by the EBA. The Danish FSA conducts annual macroeconomic stress testing exercises, and a large EBA stress testing exercise is conducted at least every second year. The results of the 2018 EBA exercise are to be published by November 2018.

New legislation

Currently, there is a high number of new regulatory requirements or revisions of existing regulatory requirements, which are being processed both in the Basel Committee and within the European Union's legislative system. Below is a short description of the regulatory changes, which are expected to impact Jyske Bank the most in the coming years.

The EU recovery and resolution directive, BRRD, sets minimum requirements for own funds and eligible liabilities (MREL). MREL is the EU version of the TLAC (Total Loss Absorbency Capacity) from the Financial Stability Board in Basel. Both concepts were introduced to ensure that financial institutions in financial trouble could be liquidated without losses for taxpayers and governments. Both concepts aim at making sure that financial institutions have sufficient liabilities that can be converted into new equity in the event of a situation where the institution cannot survive without new equity. This process is often referred to as a bail-in situation where subordinated lenders will have their loans converted into equity in the distressed credit institution or where the subordinated debt will be written off. The Danish FSA had announced that the MREL requirement would be announced during 2017. However, Jyske Bank has not received the final MREL requirement at the time of writing this, but Jyske Bank has received information about the method which has been chosen by the Danish FSA for determining the MREL requirements. The single most important part of this method is the fact that senior debt issued before 1 January 2018 will count towards the fulfilment of the MREL requirement until 31 December 2021. This fact means that Jyske Bank is highly likely to fulfil its future MREL requirements already today.

Further, Jyske Bank does not envision that it will be in need of any significant amount of neither capital, nor subordinated loans or senior debt due to the MREL requirements. However, the current senior debt will over the four-year phase-in period have to be replaced by subordinated bail-inable senior debt. This replacement of senior debt will take place as the current senior debt matures. Mortgage credit institutions are exempt from the MREL requirement, but instead they have to hold a debt buffer of 2% of the total non-weighted loans. The debt buffer is currently being phased in.

New capital requirement regulation by the EU

CRD IV/CRR is the comprehensive set of rules that implements the Basel III recommendations in Europe. The general purpose of CRR was to strengthen the capital structure of the European financial institutions and to ensure a level playing field among European financial institutions. The CRR is currently under revision, and the main changes will be the introduction of the fundamentally revised requirements for the calculation of capital requirements in the trading book (FRTB). Jyske Bank is carefully monitoring the implementation process, which is currently ongoing in the EU. It is expected that the revised CRR will be finalised during 2018, and the new trading book requirements will be applicable from 2021 although with a 2- or 3-year phase-in period. The new FRTB requirements have already necessitated changes to the current definition of the banking book exposures and the trading book exposures used in Jyske Bank. Another significant change to CRR will be the introduction of the Net Stable Funding Ratio (NSFR), which is a ratio with the purpose of ensuring that credit institutions meet certain minimum requirements in relation to their long-term funding of loans and other assets. The European Commission has proposed to make the NSFR a binding requirement from 2021.

New recommendations from BIS

In December 2017, the Bank for International Settlements (BIS) finalised what has often been referred to as the new Basel IV requirements. Despite the fact that the recommendations are now finalised by the Basel Committee, there are still a number of unanswered questions, which are of great importance for Jyske Bank, especially regarding the calculation of mortgage lending values (MLV). During 2018, Jyske Bank expects to participate in quantitative impact studies from both the EBA and the Danish FSA, and it is expected that these studies will reduce the uncertainty regarding the final impact of the new Basel recommendations.

The “Basel IV package” which was released on 7 December includes:

- Limitations on the use of the internal rating based method for calculation of own funds requirements for credit risk. The Basel Committee has recommended introducing certain limitations on the use of internal models for so called low-default portfolios. Furthermore, the most significant recommendation is the introduction of a so-called input floor, which is a minimum requirement on the estimated loss given default (LGD) used in advanced models. The LGD input floor is a requirement, which will particularly increase the own funds requirements for low risk mortgage loans.
- The new standardised approach for the determination of credit risk has also been finalised. The new standardised approach will only be of indirect importance to Jyske Bank, as the Group has been approved to use the advanced approach for credit risk. However, due to the so-called output floor, which is a requirement applying to all banks using advanced methods like Jyske Bank, the new standardised approach will have an impact on all banks. Especially banks with low risk portfolios like the BRFkredit mortgage banking unit within Jyske Bank will be particularly impacted by the output floor. Despite the fact that the output floor has now been fixed at 72.5% it is still too early to estimate, with full certainty, what the exact impact will be. Mainly due to the uncertainties regarding the MLV as mentioned above, but also because the implementation in EU legislation is still pending. Jyske Bank has pointed out towards the Danish Minister of Industry, Business and Financial Affairs that a review of the pillar 2 requirements in Denmark should go hand in hand with the EU implementation of the new Basel recommendations.
- A new method for calculation of operational risks was also released by the Basel Committee. Early estimates have so far not shown any significant effects from this new method.
- Finally, the Basel Committee also released a discussion paper regarding the treatment of sovereign risk. Up until today sovereign risk has not played an important role in Jyske Bank’s balance sheet, however, with the suggested changes to the financing of Danish social housing based on state guarantees, sovereign risk could increase significantly and the suggested new recommendations could therefore have a significant impact on the risk weights for state-guaranteed exposures. Given that it is only a discussion paper, it is too early to tell what the outcome will be.

Overall, Jyske Bank is in a robust position to meet all future, known regulatory requirements. Jyske Bank monitors closely the international work on the completion of further capital requirement initiatives to ensure, with due care and diligence, that the Group can meet all new requirements well before their implementation deadlines.

Credit risk

Jyske Bank's Group Supervisory Board lays down the overall guidelines for credit granting within the Group, and the largest exposures are presented to the Group Supervisory Board for approval. The Group Supervisory Board delegates limits to the members of the Group Executive Board.

Credit risk is managed through Jyske Bank's credit policy with the objective to keep group risk at an acceptable level in relation to the capital base and business volume of the Group, given the general trend in the Danish economy. Client transactions with the Group must generate a satisfactory long-term return according to RAROC principles.

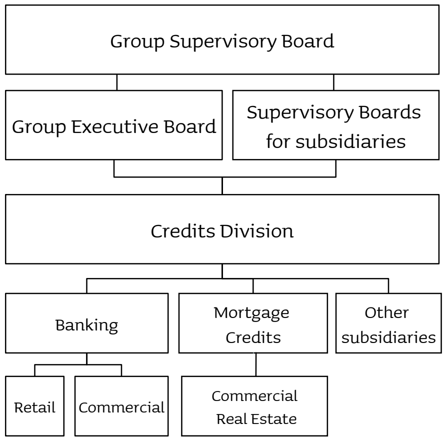
Specific credit policies have been formulated for all areas in which the Group undertakes credit risk, and credit risk levels and desirable types of business have been identified. The policies are regularly adjusted to meet current requirements and adapted to the management tools available to relationship managers and the monitoring functions.

Credit risk is managed on the basis of the Group's credit risk models which are used for various purposes, for instance in connection with the advisory services offered to the Group's clients, and in management reporting.

Limits and authorisation

Jyske Bank attaches great importance to its decentralised credit-authorisation process. The limit structure is in line with the hierarchy below, where for each level it is clearly stated which amounts, instances and segments are covered by the limit. The main principle is that regularly occurring credit cases can be authorised decentrally, whereas credit-related decisions for major or more complicated cases are authorised centrally.

LIMIT STRUCTURE



Limits are delegated to relationship managers individually. Decisions about applications over and above the limits delegated to relationship managers are made by the Credit Division. Credit-related decisions above the limits of the Credit Division are made by the Group Executive Board for credit cases at Jyske Bank A/S, whereas the supervisory boards of the individual subsidiaries authorise cases involving clients of the subsidiaries. The Group Executive Board is represented in the supervisory boards of the subsidiaries.

The credit process and monitoring

Together with policies and business procedures, the credit processes form the basis ensuring that the granting of credit is based on sound risk taking and prudent loss minimisation.

The basis of each authorisation of credit is the client's ability to repay the loan. A central element in the assessment of the creditworthiness of corporate clients is their ability to service debt out of cash flows from operations in combination with their financial strength. In respect of personal clients, their debt servicing ability, as reflected in budgets and disposable income, is decisive.

The extent of data and analyses depends on the client's financial situation and the complexity of the case and may therefore vary from case to case.

The provision of collateral is a material element in credit granting in order to minimise the Group's future losses.

Monitoring of the credit risk positions of the Group is carried out by two departments: Risk Management and Credit Risk Supervision. Both of these departments are separated from client-oriented functions.

Large exposures

Large exposures are monitored on a regular basis in accordance with CRR, including exposures larger than 10% of the Group's capital base. At end-2017, no exposures exceeded 10% of the capital base. Three exposures amounted to between 5% and 7.5% of the capital base and no exposures were between 7.5% and 10% of the capital base.

Risk models

The Group applies the advanced approach to calculate the own funds requirement for the majority of the Group's credit portfolio. The Group makes exceptions for exposures to governments and public sector entities, central banks and institutions, which are consequently processed according to the standardised approach.

In the credit modelling, key parameters are the client's probability of default as well as the extent of the client's exposure and collateral provided at the time of default.

Credit assessment and PD

Credit procedures are adjusted to match the level of risk on individual exposures. The key element is the client's credit quality, referred to as credit rating, as this expresses the probability of the client defaulting during the coming year (PD). 'Default' occurs when an obligor is considered unlikely to meet his obligations to the Group. By far, most clients are awarded a PD on the basis of statistical credit scoring models developed internally in the Group. Very large enterprises and enterprises within special sectors are, however, awarded a PD on the basis of an assessment by an independent expert. Examples are financing companies, financial institutions and governments. In those cases, external ratings, if available, will primarily form the basis of the internal credit rating of the client.

Many factors are relevant for the calculation of a client's PD. Specific factors relating to the client are considered, but factors relating to the situation of the client are also taken into account. The calculation of PD therefore takes into account financial data, changes in transaction data, management and market circumstances, industrial assessments etc. Also included are specific warning signals in relation to the client's credit quality, payment profile and loss history.

In order to reach the best possible overview of client credit quality, PD is mapped into internal credit ratings at Jyske Bank. Jyske Bank's credit ratings are on a scale from 1 to 14, 1 being the highest credit quality (the lowest PD) and 14 the lowest credit quality (the highest PD). The scale is constant over time so that clients migrate up or down depending on their PD. PD-levels relative to the actual development of the default rate are monitored quarterly. Necessary adjustments are made partially relative to the long-term average.

At BRFkredit, the PD is translated into 9 rating classes, where rating class 9 designates clients in default. Work is undergoing to harmonise credit rating models and the amounts of rating classes in the Group.

The subsequent table shows the mapping between credit ratings, PD and external ratings at end-2017.

INTERNAL RATINGS AND PD BAND

JB Credit rating	BRFkredit Credit rating	PD band (%)	External rating equivalence
1		0.00 - 0.10	Aaa-A3
2	1	0.10 - 0.15	Baa1
3		0.15 - 0.22	Baa2
4		0.22 - 0.33	Baa3
5	2	0.33 - 0.48	Ba1
6		0.48 - 0.70	Ba2
7	3	0.70 - 1.02	Ba3
8		1.02 - 1.48	B1
9	4	1.48 - 2.15	B1-B2
10	5	2.15 - 3.13	B2
11		3.13 - 4.59	B3
12	6	4.59 - 6.79	Caa1
13		6.79 - 10.21	Caa2
14	7 and 8	10.21 - 20.0	Caa3/Ca / C

Note: BRFkredit's rating class 8 includes PDs above 20%.

The Group's internal credit ratings and the mapped BRFkredit credit ratings aim to assess the credit risk in a one-year perspective, while external ratings (Aaa - C) aim to assess the credit risk in a longer perspective.

The mapping between the internal credit ratings, BRFkredit credit rating and the external credit ratings is based on the currently observed default frequency for companies rated by BRFkredit and Moody's. The mapping between JB credit rating, BRFkredit credit rating and external ratings is therefore dynamic. Observations are made on at least quarterly basis to determine whether changes are to be made in the mapping.

If the credit rating calculated by the model is considered to be inadequate, independent credit experts may review the credit rating of corporate clients at the request of the relevant account manager.

Credit exposure

Credit exposures are quantified by means of EAD. EAD reflects the exposure at default in the event of the client defaulting in the course of the next twelve months. A client’s overall EAD depends on client-specific factors and the specific products held by the client. For most product types, EAD is calculated on the basis of statistical models, while a few product types are based on expert models.

For loans with a fixed principal, the only element of uncertainty is the time until possible default. Uncertainty is higher, however, for credit facilities. In those cases the amount drawn by the client at the time of loss is decisive. This can be modelled by means of client-specific factors and the circumstances surrounding the exposure.

Guarantees and credit commitments are special products inasmuch as a certain event must take place before they are utilised. It is therefore material to assess the probability and the extent of utilisation of the product in the event of the client defaulting within the next twelve months. In this regard, the EAD parameters are based mainly on expert assessments: the Group has recorded very few default events over time, so the available data are too meagre for statistical modelling as such. In respect of guarantees, there is a sufficient amount of data for statistical modelling.

In respect of financial instruments, EAD is measured according to the market-value method for regulatory calculation, while for internal management purposes, the more advanced EPE method is used.

Collateral

With the objective of limiting credit risk, the need to demand collateral will be considered for each exposure on its merits. As a main rule, clients are required to provide full or partial collateral for their exposures. The Group's mortgage loans are always secured by mortgages on immovable property, and also in a number of cases, guarantees are provided by third parties in connection with cooperation with other financial institutions. In connection with loans for social housing, guarantees are provided by municipalities and the government.

Collateral received is a main element of the Group’s assessment of Loss Given Default (LGD). LGD is the part of the Group's total exposure to a client which the Group expects to lose in the event of the client defaulting within the next twelve months. A client's LGD depends on specific factors concerning the client, but also on the commitment and the collateral provided. Overall, LGD also depends on Jyske Banks ability to collect receivables and liquidate collateral.

The models relating to real property and vehicles include on-going updating of the collateral value, taking into account, among other things, market-related changes in value, ranking of the loan and wear and tear. The on-going updating of the values of real property will also ensure compliance with the requirements relating to the monitoring of LTV limits of the covered bonds according to the rules on possible, further supplementary capital.

In the calculation of the own funds requirement, LGD estimates are used which reflect the expected loss rates of the Group in the event of an economic downturn. The levels of loss have been calibrated to the period at the end of the 1980s and the beginning of the 1990s.

Overall development in exposures and REA

The Group's risk-weighted exposure amount (REA) for credit risk increased by 7% in 2017, which is the result of an increase by 7% related to the AIRB approach and a 4% increase related to the standardised approach. Overall the exposures increased by 6%. The increased exposure level is primarily associated with the increased volume of fully collateralised mortgage loans.

EAD AND RISK-WEIGHTED EXPOSURE FOR CREDIT RISK

DKKm	2017	2016	Change
EAD	591,838	559,827	6%
REA for credit risk	148,654	138,923	7%

Note: The risk-weighted exposure amount does not include CVA risk, which at end-2017 amounted to DKK 1,252m compared to DKK 1,654m at end-2016.

The following tables and associated assessments show the breakdown of exposures, collateral and risk-weighted exposure amount according to the standardised approach and the AIRB approach.

Breakdown of development for standardised approach

For the standardised approach, the development in exposures (-7%) is primarily attributed to the following factors:

- Increase in exposures related to central banks (DKK 18.5bn) as a result of an active decision to place funds in ECB instead of investing in Danish mortgage bonds.
- Decrease in exposures related to institutions (DKK 26bn) where repurchase transactions have been moved to the AIRB approach over the year. The decrease in financial collateral is related to this as well.

Both of the developments described have little REA impact as central bank exposures are 0% risk weighted, and repurchase transactions have very low risk weights because of the high collateralisation levels associated with these transactions.

The overall REA development relating to the standardised approach can be attributed to the following factors:

- An overall reduction in the business volume relating to derivatives reduces REA for institutions by DKK 685m.
- REA related to the equity exposure class increased in 2017 because of increased holdings as well as higher stock values (DKK 930m).
- The treatment of immovable property exposures related to defaulted clients has been adjusted during the year consequently increasing REA (DKK 683m).

The Group's average risk weight according to the standardised approach increased from 17.9% to 20.1% throughout 2017, which relates to the previously described factors.

BREAKDOWN OF COLLATERAL BY EXPOSURE TYPE ACCORDING TO THE STANDARDISED APPROACH				
DKKm	**Exposure**	**Financial collateral**	**REA 2017**	**REA 2016**
Central governments or central banks	23,477	75	-	-
Regional governments or local authorities	12,060	4,413	-	0
Public sector entities	265	190	15	12
Multilateral development banks	7,009	6,412	-	-
International organisations	-	-	-	-
Institutions	20,815	8,263	3,704	4,501
Corporates	4,027	2,133	1,657	1,648
Retail	1,199	830	276	230
Secured by mortgages on immovable property	2,016	-	697	716
In default	1,280	80	1,388	705
Exposures associated with particularly high risk	0	0	-	-
Institutions with a short-term credit assessment	-	-	-	170
Covered bonds	2,099	-	210	231
Equity	3,485	-	7,657	6,727
Total 2017	**77,733**	**22,396**	**15,604**	
Total 2016	83,447	42,853		14,939

Note: Exposures to central banks, central governments and government units are risk-weighted by 0%, and therefore financial collateral does not provide any credit risk mitigating effect for these counterparties. The risk weighting for defaulted clients are highly correlated with the level of provisions associated. According to the standardised approach, real property collateral equals the exposure class secured by mortgages on immovable property and is therefore not shown explicitly.

Breakdown of development for AIRB approach

Exposures treated on the AIRB approach increased by DKK 36bn during 2017. Associated REA increased by DKK 7bn.

The increase in the Retail exposure class (DKK 11bn) is primarily related to the continuous sales of home loans in Jyske Bank A/S, which were subsequently transferred to BRFkredit a/s and jointly funded with BRFkredit. The REA development for these exposures is relatively moderate as the level of collateralisation is high on these loans.

For Corporate clients the exposure development is related to the following factors:

- Increased mortgage lending to corporate clients in BRFkredit (DKK 10bn), which is associated with an increase in real property collaterals. Associated REA increases by DKK 4.8bn of which DKK 1.4bn can be attributed to impairment harmonisation of joint clients in the Group.
- Increased amount of repurchase transactions resulting from the previously described move over the year from the standardised approach (DKK 17bn) to the AIRB approach with an associated increase in financial collaterals. Besides this, other repurchase agreements treated on the AIRB approach decreased over the year (DKK 6bn). The REA effect of the development in repurchase agreements is low because of the high associated collateralisation.
- A decrease in exposures relating to financial instruments (DKK 9bn), associated with a relatively high REA decrease (DKK 3.2bn), which can be attributed to a significant improvement in average credit quality in the derivatives portfolio.
- Exposures relating to core banking products (accounts and commitments) in Jyske Bank A/S increased by DKK 13bn over the year. This is mainly a result of increased exposures to large corporate clients; but the general corporate portfolio also increases in volume. Associated REA to the described development is an increase of DKK 4.5bn over the year.

Overall REA for the AIRB portfolio has increased by DKK 8.8bn compared to end-2016, which is primarily related to the Corporate exposure class (DKK 7bn).

The Group's average risk weight according to the AIRB approach decreased from 25.0% to 24.9% over the year.

BREAKDOWN OF COLLATERAL BY COLLATERAL TYPE FOR EXPOSURE ACCORDING TO THE AIRB APPROACH								
		Collateral						
DKKm	Exposure	Real property collateral	Financial Collateral	Physical collateral	Other funded collateral	Guarantee collateral	REA 2017	REA 2016
Corporates, total	285,335	152,858	46,564	9,570	13	2,427	84,319	77,340
Large corporate clients	*206,459*	*146,920*	*20,983*	*2,696*	*5*	*430*	*57,520*	*51,299*
Specialised lending	*959*	-	-	-	-	-	*711*	*326*
SME corporates	*77,917*	*5,937*	*25,580*	*6,874*	*9*	*1,996*	*26,088*	*25,716*
Retail, total	219,647	186,591	1,358	5,750	11	54	41,506	39,728
Real property, personal	*187,348*	*181,764*	-	-	-	-	*32,665*	*29,463*
Real property, SMEs	*7,570*	*4,828*	-	-	-	-	*1,941*	*2,392*
Other retail, private	*17,524*	-	*907*	*4,205*	*3*	*27*	*4,632*	*5,310*
Other retail, SMEs	*7,205*	-	*451*	*1,545*	*8*	*26*	*2,268*	*2,563*
Total 2017	**504,982**	**339,449**	**47,921**	**15,320**	**25**	**2,480**	**125,825**	
Total 2016	468,620	313,736	45,503	13,658	10	2,618		117,068

Note: The above does not include collateral of DKK 0.5bn at end-2017 recognised with a direct substitution impact, where exposures are transferred to other counterparties. The table does not include securitisations and other non credit-obligation assets.

Loan impairment charges and provisions for guarantees

Jyske Bank evaluates all loans and advances for impairment. Objective evidence of impairment is identified if one or more of the following events have occurred:

- The borrower is facing considerable financial difficulties;
- The borrower is in breach of contract;
- The borrower is granted easier terms that would not be considered if the borrower was not facing financial difficulties;
- The borrower will go bankrupt or undergo some other financial restructuring.

On an on-going basis - and at least quarterly - the Group assesses whether objective evidence of impairment charges relating to the Group's clients have emerged.

Risk categories

The Group divides exposures with objective evidence of impairment into up to three categories: exposures with low, high and full risk. The latter two risk categories consist of defaulted clients.

Impairment process

Significant loans and advances as well as loans and advances for which loss has been identified are evaluated individually for impairment, and other loans and advances subject to uniform characteristics (credit quality) are reviewed collectively. Where on the basis of actual events, objective evidence of impairment is found, and those events affect the size of expected future payments, an impairment charge is made.

Loan impairment charges - individual exposures

If the borrower cannot or only to a limited extent is able to make payments on the loan independently of the assets that have been provided as collateral for the loan, the impairment charge is recognised as the difference between the carrying amount of the loan and the fair value of the collateral less all expenses.

For other clients, impairment is recognised as the difference between the carrying amount before impairment and the present value of expected future payments. The estimated future cash flow for significant loans and advances is based on an assessment of the likely outcome.

Loan impairment charges – collective recognition
Jyske Bank (exclusive of BRFkredit) calculates collective loan impairment in a rating-based impairment set-up, where all clients not treated individually are grouped for collective impairment on the basis of their credit ratings and the risk categories they belong to. Jyske Bank's models for calculating collective impairment use adjusted loss parameters developed for use in the Group's economic-capital model.

In connection with exposures, for which indications of objective evidence of impairment have occurred, the calculation of impairment is based on the experience from the individually calculated impairments.

For other exposures, a net approach is used when calculating collective impairment at Jyske Bank. For each impairment group, impairment is calculated on the basis of the net decrease in future cash flows since establishment.

Objective evidence of collective impairment is recognised when observable data for a segment indicate a decrease in the future payments from that segment. In those cases, collective impairments are calculated as the discounted expected net loss on that segment.

BRFkredit evaluates loans which are not individually impaired in a statistical model. Statistical impairments are calculated according to a segmentation model where an initial segmentation is made with a view to dividing the portfolio into groups with similar credit characteristics. A review for impairment of the respective segments is primarily made on the basis of an arrears model and, alternatively, against the background of an assessment of whether the trend in various macrovariables has provided an objective indication of impairment.

Moreover, in the Group a management's estimate is made to determine whether the impairment charges according to the above-mentioned guidelines are sufficient, and further impairment charges are recognised if necessary.

Provisions for guarantees and other liabilities
A provision is made when it is considered likely that a commitment will cause a drain on the Group's resources, and the liability can be measured reliably.

The Group's provisions for guarantees and other liabilities include guarantees in favour of business partners and guarantees provided at the request of clients of the Group.

On the basis of historical loss experience, the Group makes an estimate of the costs involved in meeting claims under guarantees or costs caused by clients defaulting on their obligations under transactions involving derivatives. The estimate includes an assessment of the risk associated with relevant types of guarantees and the current risk of loss on uniform segments of clients.

Provisions equal the estimated loss.

New regulations
On 1 January 2018, new impairment rules, based on IFRS 9, replaced the existing rules, IAS 39. The new impairment rules under IFRS 9 will change the impairment model from the existing incurred-loss model to a model based on expected loss. The quantitative impact from the new impairment requirements on total allowances and provisions is an increase of DKK 1-1.2bn.

Due to its strong capital base Jyske Bank does not apply for using the optionally 5-year phase-in period in accordance with EU capital requirements adopted in 2017. Consequently, the reduction in shareholder equity from the implementation of IFRS 9 totalled, net of taxes, DKK 0.7-1 bn at 1 January 2018.

The annual report 2017 provides more information on the implementation of IFRS 9 in Jyske Bank.

Trend in loan impairment charges and provisions for guarantees
The total balance of loan impairment charges and provisions for guarantees stood at DKK 5.2bn at end-2017 (2016: DKK 6.0bn). The breakdown of the loan impairment charges by individually and collectively assessed loans appears from the following table. Moreover, the discount balance from acquired assets at end-2017 amounts to DKK 0.5bn against DKK 0.9bn at end-2016. Hence, the total balance of impairment charges and provisions inclusive of discount amounts to DKK 5.7bn (2016: DKK 6.9bn).

Provisions for financial instruments are recognised in the item value adjustments, and as the negative market value of financial instruments is included in the statement of EAD, the balance of these value adjustments is also shown in the table below. At end-2017, the balance of value adjustments amounted to DKK 81m (2016: DKK 216m).

IMPAIRMENT CHARGES AND PROVISIONS FOR GUARANTEES		
DKKm	**2017**	**2016**
Balance of impairment charges for individually-assessed loans and advances	3,782	4,291
Balance of impairment charges for collectively-assessed loans and advances	1,034	1,227
Balance of provisions for guarantees and liabilities	342	434
Balance of loan impairment charges and provisions for guarantees	**5,157**	**5,952**
Balance of discounts	499	879
Balance of loan impairment charges and provisions for guarantees incl. balance of discounts	**5,656**	**6,831**
Balance of value adjustments	81	216
Balance of loan impairment charges and provisions for guarantees incl. balance of discounts and balance of value adjustments	**5,738**	**7,047**

In 2017, the development in loan impairment charges and provisions for guarantees amounted to DKK 178m (2016: DKK -202m) and Jyske Bank recognised as interest income DKK 274m (2016: DKK 350m) from the discount balance. Hence, the total net effect recognised in the income statement came to DKK 452m (2016: DKK 148m).

The effect from value adjustments on financial instruments came to DKK 134m in 2017 (2016: DKK 243m).

NET EFFECT FROM IMPAIRMENT CHARGES, ETC.		
DKKm	**2017**	**2016**
Loan impairment charges and provisions for the year	175	29
Recognised as a loss, not covered by loan impairment charges/provisions	-318	-453
Recoveries	322	222
Loan impairment charges and provisions for guarantees	**178**	**-202**
Recognised discount for assets taken over	274	350
Net effect on income statement	**452**	**148**
Value adjustments for financial instruments	134	243
Net effect on income statement, inclusive of value adjustments	**586**	**391**

IMPAIRED AND PAST DUE EXPOSURES BROKEN DOWN BY SECTOR

DKKm	EAD for impaired exposures	EAD for past due exposures	EAD, both past due and impaired	Balance of loan impairment charges and provisions for guarantees incl. discounts and value adjustment	Net effect from impairment charges and provisions for guarantees
Banks and mortgage credit institutions	-	-	-	-	-
Construction	636	1	1	99	25
Energy supply	337	-	-	37	-6
Real property	7,127	1,502	1,502	1,311	461
Finance and insurance	1,361	235	196	767	88
Manufacturing, mining, etc.	1,380	1	-	204	12
Commerce	2,120	3	3	180	-40
Information and communication	147	-	-	29	40
Agriculture, hunting, forestry and fishing	4,288	21	21	1,151	189
Transport, hotels and restaurants	1,004	1	1	90	-4
Public authorities	-	-	-	-	-
Other sectors	871	35	32	247	34
Personal clients	4,584	1,147	1,072	1,624	-213
Total 2017	**23,854**	**2,946**	**2,827**	**5,738**	**586**
Total 2016	29,750	2,938	2,443	7,047	391

EAD for past due exposures amounted to DKK 2,946m of which DKK 2,827m are impaired at end-2017. Individual assessment of credit risk implies that the full amount of past-due exposures is not considered to be impaired.

Agriculture, hunting, forestry and fishing make up the most risky sector for the Group in terms of balance of impairment charges as a percentage of total EAD and amounted to 10.2% end-2017 (end-2016: 13.3%). The sector has experienced minor improvements due to a temporary increase in sales prices, however, the situation is still expected to be critical due to lower price expectations going forward.

Real property accounts for the biggest absolute impairment charges. Balance of impairment charges as a percentage of total EAD amounted to 0.9% at end-2017 (end-2016: 1.5%). Improvements are observed due to higher prices of commercial properties.

The balance of impairment charges for personal clients as a percentage of total EAD is continuously low and amounted to 0.7% at end-2017 (end-2016: 0.8%).

Re-estimation and validation of models

On an on-going basis the credit risk models are adjusted to improve quality and to ensure compliance with current and future legislation. Therefore, whether based on statistical models or on expert opinions, the models behind the calculations of PD, LGD and EAD are validated at least annually. The validation includes stability testing and back-testing, and its objective is to reveal any areas which require special attention. Validation is carried out quantitatively as well as qualitatively.

Re-estimation and model improvements of the credit risk models are undertaken when needed due to the validation results, changing business requirements or significant changes in the legal requirements.

The purpose of stability testing is to monitor whether the estimated parameters of the models are stable over time. The identification of structural breaks and systematic parameter changes is an important aspect when the models are applied to such long-time horizons as are involved in credit risk. The purpose of back-testing is to compare a model's predictions with what actually happened.

The AIRB parameters used for the calculation of the own funds requirement are compared below to the corresponding realised figures. These various measurements are conceptually different and cannot be compared directly. For instance, the AIRB parameters for LGD are based on recession estimates. Also, the PD estimates are so-called hybrid parameters that are expected to be between the actual and the long-term default levels.

The figures relate to AIRB clients with Jyske Bank A/S. Following the merger of Jyske Bank and BRFkredit in 2014, the AIRB risk models will be adjusted over the coming years to cover both companies. The realised figures were lower than or at level with the estimated figures for PD, LGD and expected loss.

PD

	Exposure to corporates	Exposure to retail clients secured against real property	Other retail exposures	Total
2017				
Realised	1.70%	0.34%	0.54%	0.56%
Estimated	2.54%	0.83%	1.11%	1.12%
2016				
Realised	1.85%	0.47%	0.61%	0.65%
Estimated	2.96%	0.91%	1.18%	1.22%
2015				
Realised	3.08%	0.63%	1.07%	1.07%
Estimated	3.33%	0.76%	1.07%	1.13%
2014				
Realised	3.48%	0.57%	0.94%	0.84%
Estimated	2.69%	0.80%	1.43%	1.02%
2013				
Realised	3.05%	0.65%	0.92%	0.75%
Estimated	2.89%	0.86%	1.46%	1.06%
2012				
Realised	3.28%	0.72%	0.94%	0.86%
Estimated	3.13%	0.87%	1.42%	1.08%

EXPECTED LOSS

	Exposure to corporates	Exposure to retail clients secured against real property	Other retail exposures	Total
2017				
Realised	0.12%	0.06%	0.25%	0.12%
Estimated	0.47%	0.19%	0.74%	0.43%
2016				
Realised	0.19%	0.11%	0.40%	0.19%
Estimated	0.51%	0.24%	0.82%	0.49%
2015				
Realised	0.30%	0.11%	0.64%	0.29%
Estimated	0.65%	0.17%	0.68%	0.54%
2014				
Realised	0.48%	0.17%	0.42%	0.41%
Estimated	0.68%	0.28%	0.78%	0.60%
2013				
Realised	0.63%	0.22%	0.40%	0.52%
Estimated	0.58%	0.34%	0.79%	0.54%
2012				
Realised	0.60%	0.25%	0.56%	0.52%
Estimated	0.57%	0.30%	0.71%	0.53%

LGD

	Exposure to corporates	Exposure to retail clients secured against real property	Other retail exposures	Total
2017				
Realised	24%	20%	49%	39%
Estimated	40%	20%	49%	42%
2016				
Realised	26%	17%	47%	38%
Estimated	39%	23%	48%	42%
2015				
Realised	28%	16%	45%	38%
Estimated	40%	22%	48%	43%
2014				
Realised	27%	21%	38%	37%
Estimated	38%	22%	51%	44%
2013				
Realised	27%	15%	37%	37%
Estimated	37%	25%	49%	43%
2012				
Realised	30%	19%	36%	37%
Estimated	39%	25%	49%	43%

Counterparty credit risk

- The level of counterparty exposures has decreased during 2017, primarily due to weakening of the USD, whereas the level of potential future exposure is almost unchanged compared to end-2016.
- In March 2017 new rules for margin on non-centrally cleared derivatives became effective, making it mandatory for all financial counterparties to have agreements on collateral.

Counterparty credit risk is the risk of loss due to a counterparty failing to fulfil its obligations. Counterparty credit risk is generated when Jyske Bank trades derivatives or securities-financing instruments (STFs) with clients.

Jyske Bank calculates counterparty credit risk as the sum of market values and market risk on derivatives traded between the Group and the counterparty. Market risk on the Group's counterparties is measured for the risk types: interest-rate, equity, currency and commodity risk. The principles behind these are described in the section on market risk.

Policy and management

Jyske Bank's policy for managing counterparty credit risk distinguishes between small and large counterparties, where the latter include financial institutions. The basic principles for measuring risk for the two types of clients are identical, yet the management of risk on large counterparties is extended to include additional management parameters.

To manage and monitor large counterparty exposures, the Group calculates settlement risk. To reduce settlement risk, transactions will, to the extent possible, take place through a Continuous Linked Settlement (CLS) system. Jyske Bank is a third-party member of the CLS system in which settlement is based on the principle of "payment to payment", thus reducing the settlement risk of FX transactions made between participants of the system.

Jyske Bank calculates its daily exposure to individual counterparties within the Group's counterparty credit risk management systems. These exposures are included in credit risk management in line with other credit exposures. Counterparties are granted lines in accordance with the instructions in force after risk assessment of the individual counterparty.

The lines are reviewed at least once a year or in case of a change in the creditworthiness of the respective counterparty.

Risk reduction

For its transactions involving derivatives, the Group seeks to mitigate risk by:

- Clearing through a central counterparty (CCP).
- Requiring master netting agreements, which give the Group the right of netting market values of derivatives trades in case of counterparty default.
- Attaching collateral management agreements to the master agreements, which entitles the Group to additional collateral, in case the counterparty's debt to Jyske Bank exceeds an agreed amount.

The table below shows to which extent the Group clears derivatives through a CCP. Of the total amount of principals not centrally cleared in 2017, 96% was covered by a collateral agreement.

OTC DERIVATIVES (JYSKE BANK A/S)				
	2017		2016	
DKKm	Notional amount	Exposure after netting	Notional amount	Exposure after netting
CCP	914,711	10	825,773	0
Non-CCP	1,364,000	6,961	1,571,823	13,331
Total	**2,278,711**	**6,971**	**2,397,596**	**13,331**

In 2017, the share of derivatives cleared through CCPs, measured by notional amount, increased by 6% compared to 2016 and amounted to around 40% of the total derivative notional amount.

Agreements on collateral with financial counterparties and large corporate clients are mutual agreements, which means that Jyske Bank must pay margin for the counterparty if the market value in favour of the counterparty exceeds an agreed limit.

In March 2017, new rules on margin for non-centrally cleared OTC derivatives became effective, making it mandatory for all financial counterparties to have agreements on collateral covering all OTC derivatives. Jyske Bank does not trade with financial counterparties without having a collateral agreement in place.

A small proportion of the Group's bilateral agreements on provision of collateral includes rating-dependent parameters that trigger requirements for the further provision of collateral in the form of independent amounts. Jyske Bank will be affected if the Group's rating hits BBB-, in which case the requirement for further collateral is DKK 75m. A further downgrade to BB+ will not result in further collateral requirement.

The table below shows the Group's counterparty credit risk after netting and offsetting of collateral.

COUNTERPARTY CREDIT RISK		
DKKm	**2017**	**2016**
Gross exposure	31,849	48,133
Effect of netting	24,878	34,788
Exposure after netting	6,971	13,331
Effect of collateral	1,111	4,059
Exposure after netting and collateral	5,860	9,272

The Group's gross and net exposure decreased during 2017 primarily due to the weakening of USD against DKK.

Own funds requirements

Capital must be held for counterparty credit risk in accordance with CRR by using the so-called mark-to-market approach (CEM method) with attached netting method. The method involves the calculation of a credit equivalent corresponding to the positive market values after netting plus a weighting for the underlying instrument or commodity.

Group counterparty exposure at default according to the mark-to-market method is shown in the table below. The counterparty credit exposure at default decreased by DKK 8bn in 2017 primarily due to the weakening of USD. A large part of the exposure is covered by CSA agreements, and therefore the actual counterparty credit exposure is much lower than in the table. The own funds requirement for counterparty credit risk is reported as a part of the own funds requirement for credit risk.

EXPOSURES RELATING TO COUNTERPARTY RISK		
DKKm	**2017**	**2016**
Exposure to governments	56	59
Exposure to institutions	12,944	20,511
Exposure to corporate clients	4,581	5,236
Exposure to retail clients	92	97
Total	**17,673**	**25,903**

The counterparty credit risk at BRFkredit is modest, and at end-2017 it amounted to less than 1% of BRFkredit's total risk exposure, which level was unchanged relative to end-2016.

The Group's portfolio of Credit Default Swaps (CDS) is limited and the net nominal exposure amounted to DKK 441m at end-2017. Underlying exposures consist of individual government credits and credit indices.

Wrong-way risk

Wrong-way risk occurs when the exposure to a counterparty is negatively correlated with the credit quality of that counterparty. General wrong way risk (GWWR) occurs when the credit quality of a counterparty is correlated with specific macroeconomic factors that also affect the value of the derivative transaction. Specific wrong way risk (SWWR) arises when the exposure to a counterparty is positively correlated with the probability of default of that counterparty due to the type of transaction with the counterparty.

In the event of SWWR, there is a legal relationship between the counterparty and the issuer of the underlying OTC derivative or securities-financing transactions. An example is if the Group receives collateral from a counterparty which is issued by this very counterparty. It could be the case if the Group enters into repo transactions with a counterparty and the underlying paper is issued by the same counterparty. It is Jyske Bank's policy not to assume considerable SWWR, and the Group has procedures in place to monitor this.

CVA Risk Charge

Credit valuation adjustment (CVA) risk charge is a measure of the credit risk that the Group assumes when trading derivatives. The CVA calculation covers only the Group's exposure to financial counterparties as other clients are exempted by the CRR. In addition, the Group makes a pillar 2 add-on to cover the risk that the credit worthiness of non-financial counterparties deteriorates.

The level of CVA risk charge was unchanged throughout 2017.

Market risk

- Interest-rate risk and OAS risk from Danish mortgage bonds make up Jyske Bank's two primary market risks. Comparing end-2017 to end-2016 net interest-rate risk was reduced while the OAS risk was unchanged.
- During 2017 the focus has mainly been on macro-political events – especially central banks and announcements on quantitative easing (QE). The interest rates have been under pressure from low inflation expectations throughout the year, and because of this the interest-rate risk turned out to be marginally lower at end-2017 compared to end-2016.
- The activities of mortgage loans only contributed marginally to net-interest-risk due to risk-hedging.

Jyske Bank assumes market risk as a result of position-taking in the financial markets and general banking and mortgage banking operations.

Market risk is the risk that Jyske Bank will incur losses due to one or more of the risks stated below.

Certain financial instruments include elements of credit risk. This type of credit risk is managed and monitored in parallel with market risk.

Policy and responsibility

The Group Supervisory Board lays down the market risk policy and relevant limits stating the Group's risk profile for the area of market risk. The policy is implemented in a number of limits delegated to the Group Executive Board.

The limits are further restricted before being delegated to the three heads of Jyske Markets, Group Treasury and BRFkredit, respectively. Those three business units are the sole units of the Jyske Bank Group that may assume significant market risk.

The limits delegated to Jyske Markets and BRFkredit have been adjusted in such a way that they primarily support the daily trading volume and the clients' repayment and raising of mortgage loans. Strategic positions are mainly taken by Group Treasury as reflected by the limit delegated to the unit.

Operations in accordance with the respective limits are supported by detailed procedures.

The Group Treasury Committee follows market developments closely and is therefore able to adjust for any discrepancies between the Group's actual risk profile and its desired risk profile.

Monitoring and reporting

All risk positions are monitored daily. The Group Executive Board is notified immediately of any positions which exceed the pre-determined limits or are in conflict with the risk management policy. The Group Supervisory Board and Internal Audit are notified immediately if positions exceed the overall authority of the Group Executive Board.

The development of the market risk exposure of the various units is reported monthly to the Group Executive Board.

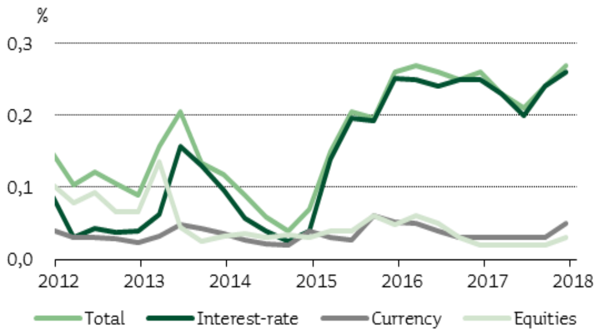
Monitoring and reporting of market risk take place through a risk-management system which is developed by Jyske Bank and integrated with Jyske Bank's trading systems as well as other systems for the handling of Jyske Bank's regular banking and mortgage operations.

Developments in market risk

The main focus in 2017 was the risk management relating to the increased portfolio of mortgage loans and the risk management in an environment of extremely low interest rates. Announcements from the central banks and the QE of the ECB have been under pressure from the ongoing low inflation expectations during the year. The result has been strong performance of the long mortgage bonds, which has resulted in a trade-off between holding these liquid securities versus decreasing the portfolio. Therefore, in general, risk from long mortgage bonds has been kept relatively low during 2017.

In terms of Value-at-Risk (VaR), Jyske Bank's estimated market risk was at DKK 79m at end-2017, practically unchanged from end-2016. During the first two quarters of 2017, however, VaR decreased significantly. The strategy was to keep risk levels low – especially the interest rate risk. In general, volatility in the financial markets was low waiting for possible monetary political announcements. Market activity rose again in the second half of 2017, and the level of VaR ended the year close to the level at end-2016.

Value-at-Risk as a percentage of equity



VaR is sustainable at a moderate level in a group risk perspective and relative to Jyske Bank's desired risk profile.

Jyske Bank's net interest-rate was reduced during 2017, but the reduction can mainly be attributed to the first half of the year. The development throughout the year was affected by the environments of extremely low interest-rates.

In addition to the core business in the form of deposits and loans, the interest-rate risk was dominated by exposures to Danish and international mortgage bonds with short and medium maturities. The Group's OAS exposure relating to Danish mortgage bonds is primarily found in the short-term segments.

In the first quarter of 2017, Jyske Bank's exposure to equities was reduced significantly. The portfolio of foreign currency risks ended the year close to the level at end-2016. Changes during the year are mainly caused by positioning in EUR/DKK. Both the underlying equity portfolio and the currency portfolio are characterised by being well-diversified, and at end-2017 both market risks were at moderate levels relative to Jyske Bank's desired risk profile.

Jyske Bank had a positive view on the market for securitisations in 2017. The investments made by Jyske Bank are in US and European CLOs and European RMBSs, and all investments are in the form of securitisations with a high credit quality and senior status.

Own funds requirements for market risk

For the calculations of the own funds requirements for market risk, the standardised approach is applied. The own funds requirement for market risk decreased in 2017. The reason was mainly the lower general risk in the portfolio of debt instruments. The reduction primarily took place in the first half of 2017 due to an active strategy to keep level of risk low.

OWN FUNDS REQUIREMENT FOR MARKET RISK

DKKm	2017		2016	
Risk type	REA	Own funds requirements	REA	Own funds requirements
Debt instruments	14,987	1,199	19,559	1,565
Shares, etc.	4,398	352	3,424	274
Commodities	-	-	-	-
Currency position	1,970	158	1,603	128
Total	**21,355**	**1,708**	**24,586**	**1,967**

Market risk types

Every market risk type has its own characteristics and is managed by means of individual risk measurements as well as through the Group's VaR model. To hedge market risk, derivatives are used. The management of those is supplemented by risk measurements developed in accordance with conventional option theory, i.e. by calculating the delta, gamma and vega risks of the positions.

The measurement of Jyske Bank's market risk takes into account all products; products in as well as outside the trading portfolio.

Interest-rate risk

Interest-rate risk is measured on the basis of duration measurements. This measurement is defined as the interest-rate risk resulting from a general rise in interest rates of 1 percentage point (Interest-rate risk 1). Duration expresses the percentage gain or loss generated by a simultaneous 1-percentage point shift in all yield curves.

Market risk

Interest-rate risk is calculated on the basis of agreed payments. Jyske Bank has no fixed-rate balances without an agreed due date. Certain loans are fixed-rate loans and can be prepaid. Interest-rate risk 1 is adjusted for this option element.

Jyske Bank has developed a risk-management model that adjusts the key-risk figures for mortgage bonds for the built-in option element of the bonds. Therefore, callable mortgage bonds are included in the interest-rate risk with the option-adjusted duration.

Risk management of the Group's portfolio of mortgage bonds is supplemented with limits for and measurement of OAS positions.

Interest-rate risk 1 is supplemented with further management tools, which take into account risks attached to having interest-rate positions in various instruments and currencies. These risks are determined through an independent risk measurement (Interest-rate risk 2) and by applying a management tool that determines the spread risk between product-specific yield curves.

Currency risk
Jyske Bank's currency risk indicators are calculated on the basis of Currency indicator 1 in accordance with the Danish Executive Order on the Presentation of Financial Statements laid down by the Danish FSA. Currency indicator 1 is calculated as the sum of the numerically higher of long or short positions in each currency, measured in DKK.

Currency indicator 1 does not take into account the fact that some currencies are more volatile and perhaps less liquid than others. For management purposes Jyske Bank therefore uses a weighted currency indicator 1 (Jyske Currency Indicator). VaR is furthermore used as a management instrument in respect of currency exposure.

Equity price risk
The daily measuring of equity price risk distinguishes between equities in- and outside the trading portfolio.

The exposure of the trading portfolio is measured on the basis of the physical equity holdings as well as equity-based instruments. The equity price risk is determined through risk measurements that indicate the maximum loss that Jyske Bank may incur in the event of simultaneous changes in the underlying equity prices of +/-10%.

Moreover, Jyske Bank limits individual exposures to equities in order to limit the concentration risk.

Sector shares etc. are not managed according to the principles applying to the trading portfolio but individual approval is granted.

Shares not held for trading
The shares not included in the trading portfolio are primarily financial sector shares relating to the ordinary operating activity of the Group.

SHARES NOT HELD FOR TRADING

DKKm	2017	2016	Unrealised gain	Realised gain
Total	3,119	2,776	297	0

The holding increased in 2017 primarily due to increased holdings and positive value adjustments.

Shares not held for trading form part of the basis for Jyske Bank's ordinary business activities. The shares are stated at fair value as described in the accounting policies set out in the Group's annual report. Unrealised capital gains/losses have influenced the operating income.

Commodity risk
Jyske Bank's exposure to commodities is modest, and the commodity risk is determined and limited according to two risk measurements. The first risk measurement determines Jyske Bank's net exposure to commodities and the other risk measurement determines Jyske Bank's gross exposure.

Exposure to credit risk on financial instruments
Exposure to credit risk on financial instruments relates to Jyske Bank's bond holdings. The credit element is not reflected in the interest risk measurements and must therefore be managed separately.

Jyske Bank manages its exposure to credit risk on financial instruments by limiting concentration risk expressed as the credit quality of the instruments as defined by ratings granted by recognised international rating agencies. On the basis of the credit quality of the instruments, concentration risk is calculated for rating classes and bond types. This means that there are different limits depending on whether the instrument is a government, a corporate bond or a securitisation.

Finally, a concentration risk limit has been defined geographically and for individual exposures.

Securitisations

Jyske Bank's activities within securitisation are linked to investment in tranches issued by other institutions and legal entities. Thus Jyske Bank acts neither as an issuer nor as an exposure provider. Investment is made in traditional securitisations and distributed on the following securitisation types:

- RMBS (Residential Mortgage Backed Securities), primarily consisting of AAA-rated senior tranches.
- CLOs / CDOs:
  - senior tranches rated AAA or AA
  - mezzanine tranches with a wide rating spread. The portfolio has gradually been reduced by redemptions.

No investments are made in re-securitisations.

The level of the underlying market and credit risks in securitisations is followed continuously and is analysed at least every quarter. The analyses are based on trustee reports and also information from rating agencies or other external sources.

The securitisation types and the geographical exposure of the underlying assets of the portfolio are shown in the table below, from which it appears that the exposure is concentrated in both USA and Europe.

EXPOSURE TYPES FOR SECURITISATIONS

DKKm	European	American	Other	Total 2017	Total 2016
RMBSs	978	-	-	978	1,321
CLO	428	1,322	591	2,341	3,274
ABS and CDO	-	1	-	1	68
Total 2017	**1,407**	**1,323**	**591**	**3,321**	4,663
Total 2016	1,681	2,114	868	4,663	

In 2017, Jyske Bank reduced the portfolio of securitizations, net, and primarily the portfolio of American CLOs decreased significantly. The fall was mainly caused by redemptions. Despite the portfolio reduction new investments of good credit quality and with senior status - as in accordance with the risk-management policy - were made in 2017.

It appears from the table below that the most important changes took place in top-rating securitisations. The main underlying investments of the tranches are US and European bank and housing loans.

BREAKDOWN OF RATINGS (Standard & Poor's / Moody's)

DKKm	2017	2016
AAA / Aaa	2,699	3,947
AA / Aa	502	577
A / A	120	134
BBB / Baa	-	-
BB / Ba	-	-
Lower or no rating	-	5
Total	**3,321**	**4,663**

Own funds requirements for securitisations

Both the AIRB approach for credit risk and the standardised approach for market risk are used for determining the own funds requirement for the portfolio of securitisations, because the portfolio breaks down into two sub-portfolios: one that is placed in and one outside the trading portfolio.

The own funds requirement for securitisations decreased in 2017. Despite of new investments in securitisations of good credit quality, redemptions in the portfolio more than equalled this which in net value caused the own funds requirements for securitisations to decrease in 2017. The own funds requirement according to risk weights appears below. Both sub-portfolios were characterised by high concentration in the low-risk weight ranges.

OWN FUNDS REQUIREMENT FOR SECURITISATIONS

DKKm	2017		2016	
Risk weight - ranges	Exposure	Own funds requirements	Exposure	Own funds requirements
< 20%	3,254	21	4,577	28
≤ 20% < 50%	67	1	81	2
≤ 50% < 100%	-	-	-	-
≤ 100% < 1,250%	-	-	-	-
1,25%	-	-	5	5
Total	**3,321**	**22**	**4,663**	**35**
Of which in the trading portfolio	1,263	10	3,672	23

Liquidity risk

- During 2017 the Group had a very high degree of excess coverage in terms of the stress-based internally delegated limits and guidelines.
- The composition of the Group's liquidity buffer changed during 2017, as the Groups position in Danish mortgage bonds was reduced and the Group's EUR deposits at the ECB increased significantly.
- After a significant reduction of the Group's mortgage related refinancing risk, the refinancing risk remained stable at a moderate level throughout 2017.
- Deposit and money market rates were persistently negative during 2017, keeping fixed term deposits at a structurally low level whereas demand deposits continued to increase.
- The international capital markets were very strong in 2017 and credit spreads tightened significantly across all asset classes throughout the year. The Group took advantage of the favorable market conditions in 2017 to issue five new EUR denominated public bonds in the primary market.

Liquidity risk occurs due to funding mismatch in the balance sheet. The Group's liquidity risk can primarily be attributed to its bank lending activities as the bank loan portfolio has a longer contractual duration than its average funding sources. The liquidity risk at BRFkredit is limited due to the adherence to the balance principle of the mortgage legislation for SDO issues (covered bonds).

Objective and overall setup

The Group Supervisory Board determines the liquidity profile expressed as the balance between the risk level and the Group's costs of managing liquidity risk. Jyske Bank's liquidity management must ensure adequate short- and long-term liquidity so the Group in due time can honour its payment obligations by having reasonable funding costs.

Organisation, management and monitoring

The Group Supervisory Board has adopted a liquidity policy which defines specific critical survival horizons for the Group during adverse stress scenarios. Based on these general guidelines, the Group Executive Board has defined specific operational limits for Jyske Markets as well as Group Treasury, which monitor and manage liquidity on a daily basis in accordance with the limits and liquidity policies adopted. Group liquidity management is conducted by Group Treasury at Jyske Bank A/S.

BRFkredit is subject to liquidity-related restrictions in respect of investment profile in the securities portfolio, repo borrowing as well as money-market placements outside the Group to ensure that transactions of BRFkredit are in line with statutory requirements as well as the internal guidelines at BRFkredit and at Group level.

Liquidity positions are monitored daily by Market Risk & Models for observance of the delegated limits. Liquidity positions that exceed the authorised limits are reported immediately according to the business procedure relating to market risks.

The Group's responsibility for issuing bonds in the capital market (senior debt as well as subordinated Tier 2 and AT1 capital) is centralised at Group Treasury. When necessary, liquidity or capital can be distributed from Jyske Bank A/S to BRFkredit and other financial subsidiaries. Jyske Bank provides liquidity commitment to Jyske Bank Gibraltar and Jyske Finans at an unsecured level. As a mortgage credit institution, BRFkredit must comply with mandatory overcollateralization within the scope of the privileged position of covered bond investors in a bankruptcy scenario. In a scenario with declining house prices BRFkredit may need to have liquidity injected into its capital centres from Jyske Bank to fund supplementary collateral and to ensure the capital centre's compliance with S&P's over-collateralisation requirements (OC requirements).

Group liquidity flows

Short-term liquidity management

Short-term operational liquidity is managed by Jyske Markets, which is active in the international money markets as a trader in all major currencies and related derivatives and as a market-maker in the Nordic inter-bank money markets. Jyske Markets has been granted specific limits for the maximum placement of longer-term deposits in the same markets. Short-term funding in these markets forms part of the overall Group limits for short-term funding within strategic liquidity management.

Strategic liquidity management

Strategic liquidity is managed by Group Treasury based on measurement of the Group's liquidity position in various stress scenarios. The asset side of the liquidity balance is broken down and grouped in order of liquidity whereas the financial liabilities are grouped according to expected run-off risk in various scenarios. The analyses apply scenario-specific expectations of client behaviour in those cases where contractual maturities are considered not to give a true and fair view of the actual maturities of deposits or loans. In relevant stress scenarios, the liquidity buffer is used to cover negative payment gaps.

Group Treasury is responsible for ensuring that the Group can at all times meet the critical survival horizons in the three scenarios used in strategic management:

Scenario 1 is a severe Jyske Bank-specific stress scenario which is monitored daily and is included as the key ratio in the limit structure. The scenario is a severe stress scenario with a short critical survival horizon of 90 days. The Group must hold a sufficient liquidity buffer to be able to withstand non-market access to a broad part of its price- and credit-sensitive funding sources. In addition to failure to obtain refinancing in the capital markets through inter-bank loans, CP and EMTN issues, run-off of all large demand and term deposits from the corporate and retail client segments is assumed.

Scenario 2 is a broad sector stress scenario which is monitored on a regular basis as part of the internal liquidity management. The scenario also includes a widespread, general capital and money market crisis that entails the situation that the Group cannot re-finance in the capital markets in the form of inter-bank loans, CP and EMTN issues. To some extent, the crisis spreads to personal and corporate clients and results, among other things, in drawdown by large corporate clients of unutilised lines and commitments. Jyske Bank also sees stagnation in deposit growth. The target is a horizon of six months, during which time basic banking activities must be maintained.

Scenario 3 is a capital market stress scenario which is monitored on a regular basis as part of the internal liquidity management. The scenario assumes a non-Jyske Bank-specific capital market crisis with a survival horizon of at least one year. The Group must be able to withstand run-off of money-market and capital-market funding in the form of funding in the interbank market as well as CP and EMTN issues. Based on the scenario of low economic growth in Denmark resulting in higher savings in the private sector, an unchanged volume of deposits as well as loans and advances is presumed.

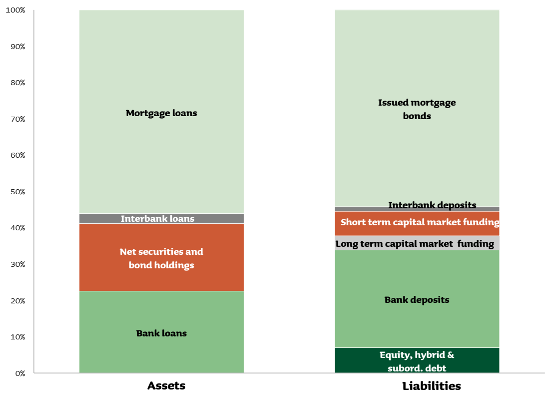
Liquidity contingency plan

The liquidity contingency plan comes into force if the Group can only meet the internally delegated limits at very high costs or is ultimately unable to do so within the critical horizons. The plan determines a broad range of initiatives that can be used to strengthen the Group's liquidity position.

In 2017, Jyske Bank had a very high degree of excess coverage in terms of the stress-based internally delegated limits and guidelines.

Group funding structure

From the perspective of liquidity risk, Jyske Bank's overall balance sheet structure is reflected in the following chart.



The chart shows how BRFkredit's mortgage activities are reflected in the Group balance sheet in the form of mortgage loans funded by issued covered bonds (SDOs).

In addition to mortgage bonds, the Group's primary source of funding is deposits from clients, and it has a sound and well-diversified client deposit base. As reflected in the chart, client deposits funded 119 % of the bank loans[3] at end-2017, against 116% the previous year. Interest rates remained in negative territory during 2017 and fixed term deposits are still at a structurally low level, whereas demand deposits have increased. Jyske Bank has since December 2016 priced deposits on demand from corporate and SME clients at negative interest rates to reflect the persistently negative interest rate environment and to avoid arbitrage between demand deposits and fixed term deposits.

The Group's deposit surplus contributes to the funding of the Group's net holdings of securities[4]. Other important funding sources are primarily short- and long-term bonds issued in the international capital markets. In addition, Jyske Markets funds its own wholesale-related activities by taking up unsecured loans in the wholesale fixed-term and interbank markets. Continuous activity in the above-mentioned markets enhances the possibility of refinancing short-term positions and is a natural part of the business of Jyske Markets.

The Group's liquidity buffer
Jyske Bank's liquidity buffer consists solely of assets which are not pledged as collateral or used in the day-to-day operations of the Group. Such assets may be sold immediately or pledged as collateral for loans and are therefore a swift and efficient source of liquidity. The procurement of secured funding does not depend on Jyske Bank's creditworthiness, but solely on the quality of the assets that can be offered as collateral. The measurement of the Group's liquidity buffer takes into account haircuts of the relevant assets.

Jyske Bank's holding of securities is divided into three groups in the internal liquidity management in order of liquidity:

1) **Ultra-liquid assets (intra-day liquidity)**
   Assets placed with the Danish Central Bank or the ECB with intra-day liquidity effect: Cash deposits at the ECB or the Danish Central Bank, certificates of deposit with the Danish Central Bank.
2) **Very liquid assets (central bank eligible)**
   Assets eligible for borrowing transactions in the Danish Central Bank or the ECB: Danish government and mortgage bonds and covered bonds, European covered bonds, RMBS and government bonds.
3) **Non-central bank eligible assets (not eligible at central banks):** Other negotiable securities with a longer realisation time frame. Securities in this group consist primarily of assets denominated in currencies other than DKK and EUR as well as Emerging Market bonds, corporate and structured bonds and equities.

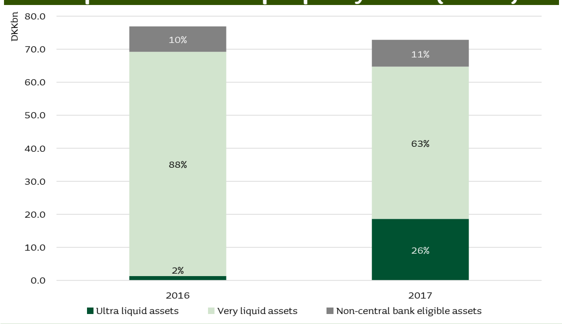
Jyske Bank has adopted a general policy for the size and quality of its liquidity buffer, which is adjusted to suit the Group's balance sheet composition and risk profile. In practice, the liquidity buffer policy implies that the liquidity buffer consists predominantly of assets from liquidity group 1 and 2. It is thus Jyske Bank's policy that it must be able to meet the limit of the survival horizon of stress scenario 1 merely by freeing assets from liquidity group 1 and 2.

At end-2017, Jyske Bank had a definite overweight of very liquid assets as illustrated by the below chart.

[3] Incl. of new home loan products on the balance sheet of Jyske Bank A/S.

[4] Repo holdings have been netted, i.e. repo has been deducted and repo reverse added. Adjustments have been made for loans with central banks.

Development in the Group Liquidity buffer (DKKbn)



The Groups holdings of Danish mortgage bonds was reduced during 2017. As the proceeds have predominantly been placed at the Groups deposit account with the ECB the share of ultra-liquid assets increased significantly during 2017.

The table below shows the development of Jyske Bank's liquidity buffer over a 12-month period under stress scenario 3. At end-2017, the Group's liquidity buffer amounted to DKK 73bn against DKK 77bn at end-2016. The reserve consists mainly of Danish mortgage bonds and covered bonds. DKK 65bn of the buffer is eligible at either the Danish Central Bank or the ECB.

Liquidity reserve and run-off	2017	2016	Index 17/16
Beginning of period	72.8	76.9	95
3 months	54.2	55.1	98
6 months	49.6	45.5	109
9 months	47.8	42.3	113
12 months	42.8	37.3	115
24 months	42.0	31.9	131

Capital markets & funding activities

Maintaining a diversified investor base ensures strong access to the international capital markets which is of high strategic importance to the Group to manage the Groups long-term liquidity risk profile. The objective is met partly through ongoing debt IR activities as well as via bond issuance activities.

Although there have been periods of geopolitical volatility during 2017, it has not put a damper on the overall positive dynamics in the international capital markets. The ECB's monetary policy and debt-purchase programs have ensured a persistent very large amount of liquidity in the market. Combined with a relatively limited supply of new bonds, credit spreads on both SDOs, senior debt, supplementary capital (Tier 2) and AT1 capital have tightened continuously and as at end-2017 credit spreads remain at low levels. The largest absolute credit spread tightening was seen in capital instruments, where 2017 provided the lowest credit spreads since 2007.

During 2017 the Group issued five new public bonds in the EUR market. The high level of issuance activity cemented the Group's strong access to the international capital markets.

Type	EURm	Value date	Maturity date	Issuer call date	EUR coupon and/or creditspread
Tier 2	300	05-04-2017	05-04-2029	05-04-2024	2.25% (EUR m/s + 1.8%)
Senior debt	500	02-06-2017	02-06-2020	-	3M Euribor + 0.35%
Covered bond	500	30-08-2017	01-07-2024	-	0.375% (EUR m/s +0.02%)
AT1	150	21-09-2017	perpetual	21-09-2027	4.75%
Senior debt	500	01-12-2017	01-12-2022	-	3M Euribor + 0.30%

*) On the Tier 2 and AT1 bonds the coupon/creditspread is until the call date

At end-2017, senior unsecured debt issued under the EMTN programme amounted to DKK 15.8bn against DKK 18.3bn at end-2016. Outstanding issues of subordinated Tier 2 notes amounted to DKK 3.3bn compared to DKK 1.1bn at end-2016.

At end-2017, outstanding bonds under the CP programme amounted to DKK 16bn (EUR 2.2bn) against DKK 27.6bn (EUR 3.7bn) at end-2016. The weighted residual maturity of the CP outstandings as of end-2017 was 5 months compared to 4 months at end-2016. The decline in the outstandings during 2017 is primarily related to a client-driven reduction of the Group's reverse repo loans and the increase in the deposit base. Although the Group's need for short senior funding was reduced during 2017, it remains of strategic importance for the Group to maintain liquidity in the CP programme.

Group refinancing risk

Refinancing risk is the risk of a financial institution not being able to refinance maturing deposits, senior debt, covered bonds or other liabilities, or the risk that the refinancing cost will be so high that it will adversely affect net interest income.

The refinancing risk of deposits and senior unsecured funding at Jyske Bank is addressed, monitored and managed via the Group's internal limits and the integration of stress scenarios in daily liquidity risk management. The Group's refinancing risk measured by volume is dominated by BRFkredit's mortgage bonds.

Liquidity risk

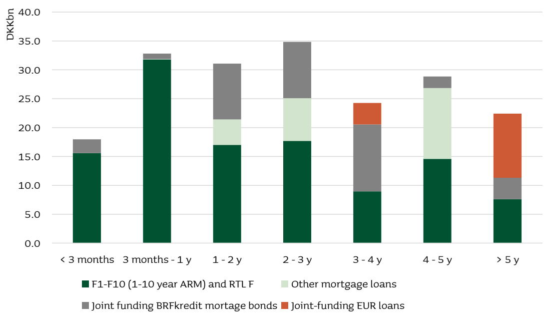
Refinancing risk covered bonds

Through BRFkredit the Group is a major issuer in the Danish market for SDOs and has a high dependency on secured capital market funding on a covered bond basis. BRFkredit funds the majority of Jyske Bank's home loan products under the joint funding agreement between BRFkredit and Jyske Bank in addition to their own direct mortgage lending activities.

BRFkredit's outstanding volume of SDOs increased from DKK 272.7bn at end-2016 to DKK 299.5bn at end-2017. The refinancing risk from mortgage activities has remained moderate during 2017 following a significant reduction during 2016, ensuring Group compliance with the (expected) NSFR as well as the Danish FSA's supervisory diamond.

Long fixed rate convertible SDOs have no refinancing risk. The proportion of SDOs with refinancing risk amounts to DKK 192.2bn and 64% of BRFkredit's total outstanding volume of SDOs. The maturity profile for SDOs with refinancing risk, as of end-2017, is illustrated in the chart below.

Maturity profile for SDOs with refinancing risk (DKKbn)



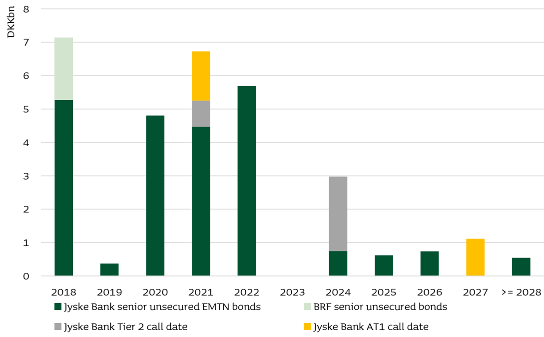
Refinancing of senior debt and capital instruments

Refinancing risk at Jyske Bank A/S is related to the wholesale fixed term market, the interbank market, the CP and senior unsecured bond markets. In addition, refinancing of the Group's capital instruments according to the Group's capital targets and capital policy must also be addressed. Furthermore, monitoring and assessing the structure and quality of the deposit base is imperative to assess the overall need for longer dated funding to hedge overall refinancing risk.

The Jyske Bank Group has a high quality deposit base with a high proportion of small deposits from SMEs and private individuals.

The run-off of wholesale fixed term deposits, interbank deposits, CP and EMTN issues is monitored and managed via the internal stress scenario 1. In addition, the Group has limits on the maximum funding in each separate short term funding market and a rolling 12-month guideline on the maximum amount of senior debt maturing within a 12-month horizon.

The run-off profile of the Group's senior unsecured debt and the issuer call date profile of outstanding Basel III compliant capital instruments as of end-2017 is illustrated in the chart below.



By end-2017, in the course of the ordinary management of the run-off profile, the Group has bought back EMTN issues with a shorter time to maturity in the amount of DKK 1,861m.

MREL & issuance of senior non preferred bonds

In the autumn of 2017, the Danish FSA announced that senior unsecured debt issued before 1 January 2018 can be included in the Group's MREL from the entering into force of the MREL requirement on 1 January 2019 until the end of 2021 ("grandfathering").

The Danish FSA requires that the Group must meet the MREL requirement with contractually subordinated debt (senior non-preferred "SNP") from 1 January 2022. The Group therefore expects that over the years 2018-2021 there will be a gradual replacement of the Group's current senior unsecured bonds (senior preferred "SP") with the new asset class SNP.

Debt buffer requirement at BRFkredit

As part of the Danish BRRD framework, mortgage credit institutions are required to establish a debt buffer equal to 2% of their total (unweighted) mortgage lending to facilitate a more flexible resolution process. The debt buffer requirement will gradually be implemented from 2016 until 2020, with 60% in

2017, 80% in 2018, 90% in 2019 and the full 100% in 2020, representing 2% of total (unweighted) mortgage lending.

As illustrated in the table below BRFkredit fully complies with the debt buffer requirement based on its high capitalisation.

Debt buffer in BRFkredit	Requirement (%)	Requirement (DKKbn)	Capital availabe to fullfill the requirement (DKKbn)
2016	0.60%	1.641	7.411
2017	1.20%	3.709	7.723

Capital available is the capital not used to comply with the minimum capital requirement from the Danish FSA, and senior debt. BRFkredit will at any given time have adequate access to capital and funding to fulfil the debt buffer requirement.

Funding plans

The Group's funding plans in the international capital markets will in the coming years include an annual SNP benchmark bond (EUR 500 million) and an SDO benchmark bond in EUR from BRFkredit.

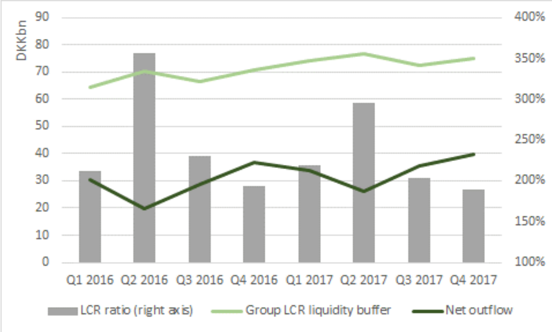
Liquidity risk legislation and supervisory diamond

The critical survival horizon for the Group's stress scenario 1 remains a key short term limit and part of overall liquidity risk management, but from 2017 an adjusted version of the LCR on a daily basis has also been part of the limit structure to achieve unambiguousness in the monitoring and in the limits set.

As of end-2017, the Group's LCR was 189% compared to 193% as of end-2016. The composition of the Group's LCR buffer net of haircuts as of end-2017 is shown below:

Group LCR buffer Asset classes	DKKbn	%
Level 1a	38.4	51
Level 1b	33.0	44
Level 2a+2b	3.3	4
Total	74.8	100

The development in the Group's LCR liquidity buffer, the net LCR outflow and the LCR ratio on a quarterly basis is illustrated in the graph below.



Currently the Group's minimum target for the LCR is a Group LCR of 150%, with some flexibility regarding the actual composition of the buffer. The primary focus in the management of the Group's LCR buffer is on the total amount of LCR eligible Level 1 and Level 2 assets whereas the split between Level 1a and other eligible LCR assets is of secondary importance as far as overall compliance is achieved.

As a Danish O-SII, Jyske Bank has been instructed to comply with a modified LCR requirement in EUR. The modification consists of three essential elements:

1) There is no cap on the amount of EUR Level 1b and Level 2 assets.
2) There is no limit to the recognition of inflow from derivatives in EUR.
3) There is no requirement to keep EUR reserves for potential cash outflow from derivatives.

The regulatory requirement came into force on 1 October 2016 (by 60%) and was fully phased in by October 2017. Jyske Bank is fully compliant with a substantial buffer to the 100% requirement as of end-2017.

From 30 June 2018, the Group must also comply with the Danish Financial Supervisory Authority's new liquidity ratio, in the supervisory diamond. The ratio is a simplified version of LCR. The liquidity reserve has no minimum requirement for the proportion of 1a assets and holdings of own SDOs are included, but the survival horizon is extended to 90 days. At the end of 2017, the Group's ratio could be calculated at 145.5 % and the Group thus already complies with the new requirement.

It is expected that the Net Stable Funding Ratio will be a statutory requirement within the coming years. In the first draft of the NSFR from the EU

Commission late 2016, Danish mortgage bonds governed by the "extension trigger" are recognised as "closely related to the loans" which means that NSFR compliance at BRFkredit will be easier to achieve. At group level Jyske Bank was fully NSFR compliant throughout 2017 with the current tougher Basel recommendations and the Group NSFR as of end-2017 was 103.6 % compared to 102.3% end of 2016.

Funding in the supervisory diamond

The benchmark of the supervisory diamond for mortgage credit institutions relating to loans with short-term funding must be met as of 2020. To comply with the benchmark, the proportion of loans that is re-financed per quarter must be less than 12.5% of the total loan portfolio, and annually the proportion must amount to less than 25% of the loan portfolio.

Compliance with the funding requirements of the supervisory diamond was reached at end-2016.

Loans with frequent interest-rate fixing	Benchmark	2017	2016
- refinancing (annually)*	< 25 %	19.9 %	16.2 %
- refinancing (quarterly)	< 12.5 %	4.7 %	10.3 %

*) *Last 12 months*

Asset encumbrance

Asset encumbrance is a natural and inevitable part of the Group's daily activities. However, a large asset encumbrance on the Group's assets will entail a structural subordination of the Group's unsecured creditors. To ensure that the Group at all times has access to unsecured funding, a policy has been established to ensure that asset encumbrance is not extended to any inexpedient extent.

At Jyske Bank, the following types of asset encumbrance of material extent have been identified. The primary sources of asset encumbrance stem from the following:

- Issuance of covered bonds
- Periodical short term funding in central banks (Danmarks Nationalbank and the ECB)
- Repo financing
- Derivatives and clearing activities

ASSET ENCUMBRANCE		
DKKbn	**2017**	**2016**
Total encumbered assets	368.6	332.9
- *of which: derivatives collateral*	6.6	12.5
- *of which: REPO*	29.5	32.3
- *of which: Central Bank funding*	0	0
- *of which: covered bonds-issuance*	324.5	273.2
- *of which: other assets*	0	0
Total assets	**597.4%**	**586.7%**
Encumbrance ratio	**61.7%**	**56.7%**

As the amounts in the above table[5] suggest, the issuance of covered bonds is by far the most substantial source of encumbrance. Encumbrance occurs through BRFkredit both as mortgages provided directly by BRFkredit and as mortgages provided by Jyske Bank with a subsequent joint funding. Issuance of covered bonds is a long-term and strategically important instrument to ensure stable and attractive funding.

The Group does not wish to be structurally dependent on funding its activities from central banks and liquidity management is performed at a prudent level trying to avoid such funding. On the other hand, in case of larger unexpected flows, periodic short term borrowing cannot be ruled out and is regarded as a natural tool for borrowing of last resort.

Participation in the repo market for institutional clients and other financial institutions forms an integral part of the business model of Jyske Markets. It is the policy that such repo transactions are covered by collateral agreements (CSA) so the Group does not assume credit risk through such transactions. Repo transactions are solely carried out on liquid assets where the market price can be observed in the market. Also, repo transactions are included as a natural element of the management of the Group's liquidity buffer. Even though repo transactions form an important element in Jyske Markets, these can fairly quickly be scaled up or down.

Derivatives and clearing activities involve asset encumbrance via agreements on provision of financial collateral. The Group strives to ensure that collateral is primarily received and given through cash but includes also provision of collateral in the form of bonds.

[5] Asset encumbrance is specified in further detail according to the requirements as per the CRR on www.investor.jyske-bank.com/investorrelations/capitalstructure.

Credit ratings

The Jyske Bank Group is rated by Standard & Poor's (S&P). Since 2011 Jyske Banks senior rating has been A- with a stable outlook. BRFkredit has the same rating as Jyske Bank. The rating of subordinated Tier 2 capital is BBB, and the rating of AT1 capital is BB+ as the Tier 2 rating and the AT1 are notched down by two and four notches, respectively from the SACP.

In January 2018, S&P published an updated rating report on Jyske Bank.

S&P's rating reflects S&P's expectation that the Group can maintain a Risk Adjusted Capital Ratio ("RAC") above 10% over the next two years. The rating is supported by S & P's recognition of the flexibility in the Group's capital adjustment policy.

S&P considers Jyske Bank to have great flexibility to reduce dividends and share buybacks if it will be necessary to support the Group's rating. In addition, the rating reflects that S&P recognizes the Group's efforts to improve long-term stability of earnings through successful growth in the bank's mortgage products, resulting in an increased diversification in the loan portfolio and a general reduction of the risk profile.

All new mortgage loans at BRFkredit and the majority of Jyske Bank's new home loans are funded through the issuance of mortgage bonds from BRFkredit's Capital Centre E (SDO), which is rated AAA. It is a key objective of the Group to maintain S&P's AAA rating for BRFkredit's capital centres.

The capital requirement to maintain the AAA rating for BRFkredit's capital centres is assessed continuously by S&P, among other things on the basis of BRFkredit's issuer rating as well as the growth and composition of the loan portfolio at the capital centres. At end-2017, the capital requirement from S&P totalled DKK 11.3bn against DKK 10.8bn at end-2016.

Standard & Poor's ratings

Jyske Bank issuer rating profile	
Senior unsecured	A-
Short Term debt	A-2
Stand Alone Credit Profile	A-
Outlook	Stable

BRFkredit mortgage bond ratings	
CRD-compliant covered bonds from Capital Centre E	AAA
UCITS-compliant mortgage bonds from Capital Centre B and the General Capital Centre	AAA

Operational risk

- The overall level of operational risk was unchanged in the past year.
- The Danish FSA conducted an IT inspection in 2016 that resulted in an extraordinary add-on to the pillar 2 requirements in 2017.
- Operational risk is at an acceptable level and subject to continuous managerial attention.

Jyske Bank is exposed to potential losses as a result of operational risk, including inexpedient processes, human errors, IT errors as well as fraud. Operational risk relates to all internal processes and can therefore not be eliminated. The Group monitors and actively manages operational risk to reduce the risk of operational events resulting in material loss and damage to reputation.

Policy

Jyske Bank's Group Supervisory Board sets out a policy for operational risk which states the framework for identification, assessment, monitoring and management of the operational risk as well as the Group's risk profile for the area.

The purpose of the policy is to keep operational risk at an acceptable level with respect to the Group's overall objectives and the cost associated with reducing the risks. Therefore, the Group Supervisory Board has laid down a number of principles for the set-up and management of the Group where, among other things, attention must be paid to sufficient resources, IT support of material work processes, due separation of functions as well as stable development and operational processes.

In the policy, the Group Supervisory Board has determined an upper limit to how many large risks the Group may assume. This limit was not breached throughout 2017.

Risk identification and assessment

In the internal risk management, scenario analysis supports the reduction of risk and a higher awareness about operational risks in the organisation.

Scenario analyses chart the Group's largest operational risks by analysing central processes and events that could cause loss. An assessment of the effectiveness of the control environment will reveal risks that are insufficiently covered by existing controls. The scenario analyses propose ways in which operational risks can be reduced.

Jyske Bank analyses all risk scenarios that may cause direct or indirect loss of more than DKK 5m or which could materially damage the Group's reputation. The scenarios have been identified in cooperation with management, with reference to internal and external events.

The risk scenarios cover all business areas in the Group and a broad range of risks such as the provision of incorrect advice, trading errors, errors in models as well as errors in internal and external reporting. Also, the risk of fraud is analysed. Operational risks at important business partners are included in the scenario analysis, including errors in IT development or IT failure. The scenario analyses are prepared in cooperation with the external parties.

Management and monitoring

Developments in operational risk are monitored to ensure the best possible basis for risk management. Monitoring is based on continuous dialogue with management to ensure that all the material operational risks of the Group are reflected in the risk scenarios. Risk scenarios, risk exposure and control environment are evaluated annually in cooperation with the business units.

In addition to the monitoring of potential risks in the form of the risk scenarios, registration takes place in the Group of all operational errors or incidents that caused losses or gains in excess of DKK 5,000. Near misses of significant amounts are also registered. Each registration includes information about the incident, for instance about product, work process and cause of error. Data are used for analysis and reporting with a view to optimising processes and reducing future losses.

The Group Executive Board and the relevant business unit directors are in charge of operational risk management. This management is an integral part of daily operations through policies and controls established with the purpose of securing the best possible processing environment. On the basis of scenario analysis and quarterly reporting of the Group's operational risks, management considers the Group's risk exposure on an ongoing basis and decides whether to introduce initiatives to reduce operational risks.

The Group Executive Board and the Group Supervisory Board receive a quarterly report that describes the development of the Group's operational risks accompanied by error statistics from the error registry. The number and development of large risks in the Group are also reported.

Development in operational risk

The overall level of operational risk was unchanged in the past year. The Danish FSA conducted an IT inspection at Jyske Bank in 2016. The FSA had remarks to the bank's identification, evaluation and reporting on IT-security-related risks. Several of these issues have been addressed and as a result, the cooperation between the risk organization and the IT security department has been extended. The IT organization is currently working on several of the remaining issues. The inspection led to an extraordinary add-on to the pillar 2 capital requirement.

Bankdata, which provides IT solutions to Jyske Bank, is working with new capital market IT solutions. This increases the operational risk while the project lasts. A large number of critical systems used for trading, position management, risk management and settling are changed during this project. Once implemented, the new IT solutions are expected to decrease the operational risk.

The threat from cyber risk is continuously increasing with threats that are still more advanced and the growing dependency on digitalization. Jyske Bank, JN Data and Bankdata are focusing on maintaining the protection against cyber-attacks along with the detection and response capabilities.

Jyske Bank still experiences many attempts of external fraud, of which the greater part is prevented through an extensive control environment and vigilance on the part of the employees. Despite the focused efforts, it is impossible to eliminate the risk completely.

In 2017, Jyske Bank experienced one incident of internal fraud. This episode has triggered a number of system changes to achieve a higher level of transparency.

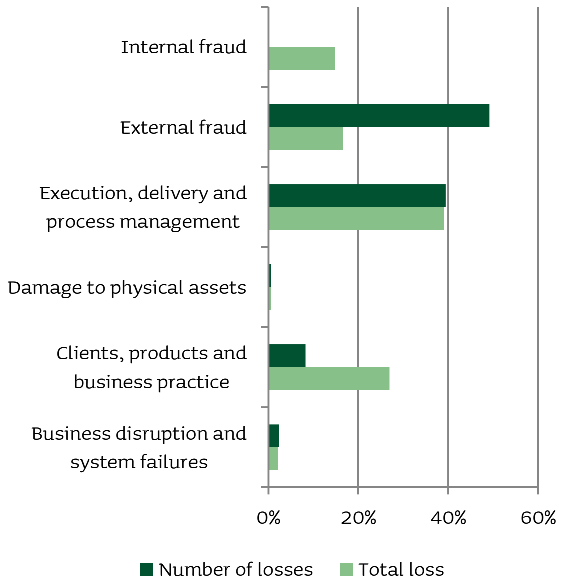
Breakdown of losses

The breakdown of operational losses registered in 2017 by category shows that a good part of the errors occur due to manual errors when executing orders and agreements. Continuous follow-up takes place to determine whether particularly inexpedient work processes cause many errors.

The errors that were generally most expensive related to advisory services rendered to clients as well as the development and administration of the Group's products.

External fraud accounts for half of the incidents in 2017 and can to a great extent be ascribed to payment card fraud. The majority of the losses are, however, of a limited size.

Breakdown of losses



The specification of errors only includes direct losses that are recognised separately, for instance, compensation to clients, loss of means and extra expenses. Therefore, a category such as business disruption and system failures ranks low on the list as such incidents will primarily result in loss of working hours.

Operational risk

Own funds requirement for operational risk

The own funds requirement for Jyske Bank is determined by means of the standardised approach. At end-2017, the overall own funds requirement for the Group amounted to DKK 1,339m against DKK 1,363m at end-2016. The marginal decrease in the own funds requirement is partly due to the former sale of companies in the Jyske Bank Group and a slight decrease in net income in the three years covered by the calculation.

Appendix: Definitions

ABS	Asset Backed Security. A general term for claims whose value is determined by a pool of specified underlying assets such as a certain type of loan.
AIRB	The Advanced Internal Rating Based approach. A method under the CRR for determining the minimum own funds requirement to cover credit risk.
ARM	Adjustable-Rate Mortgage.
AT1 capital	Additional Tier 1 capital.
Back-testing	An ex-post comparison of forecast and realised values with the object of assessing the absolute precision of the relevant models.
Balance principle	The balance principle means that the borrowers' payments of interest and instalments match the payments on the bonds issued to fund the mortgage loan.
Benchmarking	A management tool used for comparing the accuracy of the model under review with the accuracy of alternative models.
BIS	Bank for International Settlements, an international organisation which fosters international monetary and financial cooperation and serves as a bank for central banks.
BRRD	Bank Recovery and Resolution Directive, a common approach within the EU to the recovery and resolution of banks and investment firms.
Calibration	Adjustment of a given model to bring it to an intended level.
Capital base	The capital base consists of CET1, AT1 and Tier 2 capital; it must at all times be higher than the capital requirement.
Capital centre	Covered bonds and mortgage bonds are issued by capital centres with separate individual own funds requirements. At BRFkredit, covered bonds (SDO) are issued at Capital Centre E and traditional mortgage bonds (RO) at Capital Centre B.
Capital conservation buffer	A capital requirement of 2.5% of the total risk exposure. The buffer is being phased in gradually. To be accumulated as protection against crisis.
Capital ratio (%)	The capital base divided by the total risk exposure.
Capital requirement	The capital requirement expresses the Pillar 1 regulatory requirments of 8% of the total risk exposure amount with additions for above normal risk under Pillar 2.
CDO	Collateralised Debt Obligations. Bonds whose value is determined by the value of pools of underlying claims which are typically not commercial loans or real property.
CLO	Collaterized Loan Obligation. An asset-backed security backed by the receivables on loans.

CLS	Continuous Linked Settlement. A settlement system linking "payment to payment", which reduces the settlement risk of FX transactions made between participants of the CLS system. Jyske Bank is a third-party member.
Commodity risk	The risk of loss caused by changing commodity prices.
Common Equity Tier 1 capital	Equity less a number of deductions.
Countercyclical buffer	A capital requirement of up to 2.5% of the total risk exposure. This is determined by the authorities taking into account the current economic situation.
Counterparty credit risk	The risk of loss due to a counterparty failing to fulfil his obligations.
Country risk	The risk of loss caused by the economic and political conditions in a given country.
CP	Commercial Paper. Short-term debt instruments (which may be, but are not necessarily, zero-coupon instruments) with maturities up to a year.
CRD IV	The Capital Requirements Directive is an EU directive, which through the Danish Financial Business Act, was implemented directly in Danish legislation with effect as of 1 April 2014.
Credit risk	The risk of loss caused by clients' or counter-parties' failure to meet their payment obligations. Credit risk extends to loans and advances, committed credit facilities and guarantees, market values of derivatives and equity investments.
CRR	The Capital requirements regulation is an EU regulation that lays down the rules for capital requirements of credit institutions.
CSA	Credit support annex. An annex to an ISDA contract, under which Jyske Bank is entitled to collateral if a counterparty's negative market values exceed an agreed maximum. Jyske Bank must put up margin for the counterparty if the market value in favour of the counterparty exceeds an agreed limit.
Currency risk	The risk of loss caused by changing exchange rates.
CVA Risk Charge	Credit Value Adjustment risk charge. The potential net loss that may occur in the portfolio of derivatives if in the future the credit quality among counterparties deteriorates.
Default	An exposure is termed 'defaulted' if the borrower is expected not to meet all his obligations towards the Group (high and full risk).
Defaulted exposures	Defaulted clients and past due exposures.
EAD	Exposure At Default. The estimated exposure, should the client default in the course of the next twelve months.
EBA	European Banking Authority.
ECB	European Central Bank.

Economic capital	The capital required to cover the Group's unexpected loss one year into the future. Economic capital covers credit risk, market risk and business risk.
EMTN	European Medium Term Notes. Typically with maturities of between two and ten years.
EPE	Expected Positive Exposure. A method for estimating EAD for derivatives.
Equity price risk	The risk of loss caused by changing equity prices.
ICAAP	Internal Capital Adequacy Assessment Process. The process assessing the capital requirement.
IFRS	International Financial Reporting Standards.
ILAAP	Internal Liquidity Adequacy Assessment Process. The Group's own determination and assessment of liquidity position and liquidity risk.
Impaired exposures	Exposures for which impairment charges have been made individually.
Interest-rate risk	The risk of loss caused by changing market rates.
ISDA	International Swap and Derivative Association. The Association has formulated standardised agreements to be entered with a counterparty. Under such agreements Jyske Bank has the right to apply netting to derivatives transactions.
JB credit rating	A rating on a scale from 1 to 14, where 1 is the highest credit quality (the lowest PD) and 14 the lowest credit quality (the highest PD).
Joint funding	A financial institution may fund loans secured against real property through covered bonds issued by another financial institution or mortgage credit institution.
Leverage ratio	The leverage ratio is Tier 1 capital relative to the Group's total non-weighted exposures.
LGD	Loss Given Default. The proportion of a given exposure which is expected to be lost if the client defaults in the course of the next twelve months.
Liquidity risk	The risk of Jyske Bank not being able to generate or obtain sufficient liquidity at a reasonable price to meet its payment obligations or ultimately being unable to meet its obligations as they fall due.
Market risk	The risk of loss caused by a change in the market value of the Group's assets and liabilities caused by price changes in the financial markets.
MREL	Minimum requirements for own funds and eligible liabilities.
O-SII	Other systemically important institutions, the systemic importance classification of Jyske Bank.
OAS risk	Option Adjusted Spread, the interest rate spread defined as the risk premium related to investing in a mortgage bond compared to the equivalent swap-rate. The risk premium can be related to credit risk, illiquidity and for convertible bonds the conversion right.

Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Own funds requirements	The own funds requirement is the amount of capital that the Group must hold to maintain its banking licence. The determination is based on statutory formulas which prescribe how the total risk exposure must be measured. The own funds requirement is 8% of this.
PD	Probability of Default. The probability of a given client defaulting within the next twelve months.
Pillar 2	The part of the Group's capital requirements that exceeds the own funds requirements.
RAC	Risk-adjusted capital.
REA	Risk Exposure Amount or Risk-weighted Exposure Amount.
Retail	In relation to the CRD, the ‘Retail’ category covers personal clients and small and medium-sized enterprises. The latter must meet certain criteria to rank as retail clients.
Risk category	Jyske Bank's exposures at risk are broken down into three categories: low (1), high (2) and full (3) risk. Risk categories 2 and 3 are termed defaulted. The risk categories are also applied in the Group's set-up for impairment recognition.
Risk-weighted exposure amount	The risk-weighted exposure amount or the risk exposure amount is calculated according to the capital requirements regulation.
RMBS	Residential Mortgage Backed Securities.
RW	Risk weighting according to the capital requirement regulations in force. Risk weightings are applied to the assets to reach the risk-weighted exposure amount.
SACP	Stand-alone credit profile.
Settlement risk	The risk of loss caused by the non-fulfilment of payment obligations agreed between Jyske Bank and its counterparties.
SDO	CRD-compliant covered bonds. Loans secured against real property.
SSB	Senior Secured Bonds. Capital instrument used to meet the requirement of supplementary collateral.
Supplementary collateral	For loans funded through the issue of covered bonds, supplementary collateral must be provided if LTV exceeds the loan-to-value limit as individual loans must at all times comply with the established loan-to-value limits for the type of real property in question.
Tier 1 capital	The sum of Common Equity Tier 1 capital and additional Tier 1 capital.
Trustee report	A status report from the securitisation's trustee describing the underlying loan portfolio of the securitisation and the development of this to be used by investors, among others.
VaR	Value at Risk expresses the anticipated maximum risk of loss over a given period based on historical price and correlation developments.