2013
Risk and Capital Management

JYSKE BANK

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

Introduction

The object of the risk management report is to offer the reader insight into Jyske Bank's internal risk and capital management procedures and the regulatory capital requirements. Initially the report describes the Group's risk organisation, followed by a description of the risk and capital management procedures. The description introduces the risks to which the Group is exposed, and of these the following risks are elaborated on: credit risk, market risk, liquidity risk and operational risk.

As will be evident, advanced risk management and a strong capital base are essential to the Group, and therefore risk management is an integral part of the Group's day-to-day operations and its strategic decision-making.

The year 2013

For several years, the Danish economy has been characterised by stagnation, and economic growth has been low. At this point in time, it seems that the year 2013 will turn out to be the year when the Danish economy moved out of the deadlock - even though only to a limited extent. Jyske Bank expects that 2014 will show relatively modest growth, yet nevertheless this is a situation where rising prices in the housing market in major urban areas, stabilisation of the labour market and the employment situation and also continued growth in public investments that may generate optimism leading to higher consumer spending and early growth in investments rather than strong consolidation and savings.

At end-2013, Jyske Bank's solvency ratio was at 16.0%. Throughout 2013, the solvency ratio was affected by a number of initiatives. The most important ones were the acquisition of Spar Lolland and the redemption of supplementary capital in the amount of DKK 1.1bn. Both these events had an adverse effect on the capital structure. On the other hand, the extensive strengthening of earnings and equity improved the solvency ratio throughout 2013.

The strengthening contributed to the now record high Core Tier 1 capital ratio of 15.3% at end-2013. Hence the capital structure is most robust and will be able to pass very tough stress tests. The high level of Core Tier 1 capital supports the increased legal requirements to be introduced in 2014.

Hence Jyske Bank is well prepared and still has considerable scope to pursue its acquisition strategy.

It is expected that in 2014 Jyske Bank will be designated a systemically important financial institution (SIFI). Among other things, this will require an additional capital buffer, which will - when fully phased in - amount to 1.5 percentage points. Just as the SIFI requirements are phased in gradually until 2019, a number of new capital buffers will, in connection with the new EU Capital Requirements Regulation (CRR), be introduced gradually until 2019.

At end-2013, Jyske Bank reiterated its capital target of a Core Tier 1 capital ratio of at least 12%.

In the autumn of 2013, the Danish FSA inspected Jyske Bank in order to assess its credit management, solvency requirement, impairment charges and use of AIRB models. The FSA concluded that generally Jyske Bank's credit management was good, the AIRB models functioned well and the impairment charges were sufficient. However, in the view of the FSA, a few elements should have been recognised more conservatively. Therefore the solvency requirement includes an addition of 0.2 percentage point at end-2013.

Upcoming legislation

Jyske Bank expects that on the whole CRD IV and CRR will result in practically unchanged risk-weighted assets as well as a minor increase in the capital base. Hence, the overall solvency effect will offhand be positive in the range of 0 - 0.5 percentage point. As the subordinated loan capital will mature over the coming years, this will reduce the effect on the solvency ratio and therefore the long-term effect is expected to be immaterial.

- Solvency ratio: 16.0% (2012: 17.3%)
- Core Tier 1 capital ratio: 15.3% (2012: 14.2)
- Capital base: DKK 17.8bn (2012: DKK 18.6bn)
- EAD: DKK 241.1bn (2012: DKK 230.4bn)
- Risk-weighted assets: DKK 111.3bn (2012: DKK 107.6bn)
- Economic capital: DKK 8.4bn (2012: DKK 8.1bn).
- Individual solvency requirement: 9.8% (2012: 10.2%

Risk organisation

Based on the strategic targets, the Supervisory Board lays down risk policies and guidelines as well as principles for risk and capital management. The Executive Board is responsible for the day-to-day risk management and management of the Group.

The Supervisory Board and the 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. Risk management as well as monitoring is based on the most essential risk areas for the Group:

- Credit risk, including counterparty risk
- Market risk
- Liquidity risk
- Operational risk

Finance and Risk Management is in charge of the overall risk management as well as optimisation of capital allocation, and the director of the unit has been appointed chief risk officer of Jyske Bank. The unit is responsible for:

- presentation of risk policies and risk-management principles to the Executive Board and the Supervisory Board
- implementation of risk-management principles and policies with a view to improving risk management and internal risk capital allocation
- 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 Supervisory Board
- recognition, measurement and financial reporting in the Group as well as the implementation of adviser-oriented financial and risk-management tools

Finance and Risk Management is independent of business-oriented activities.

Day-to-day management of credit risk is undertaken by account managers as well as the central credit department with due regard to credit policies and credit instructions. The management of market risk – including liquidity risk - is undertaken by Treasury. Investments are in general based on macroeconomic principles and are thus of a long-term nature. The short-term operational liquidity is managed in Markets. The day-to-day management of operational risk is undertaken by the individual units of the Group.

Jyske Bank's values support a risk culture implying that, by applying common sense, employees assume risk within the established risk limits and authorisations. Through value-based management, the employees feel the importance of complying with current rules and accept that certain control measures are necessary and appropriate. Employees are encouraged to work on new ideas and constructive criticism, and errors will be handled openly with the primary focus on seeing them as learning experiences.

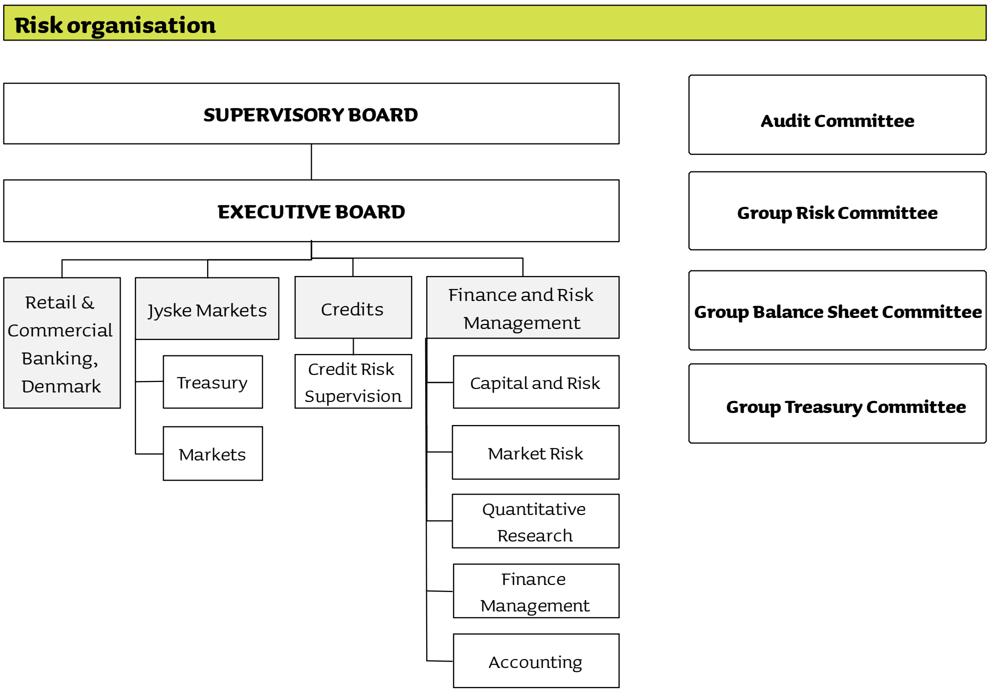
Several committees consider and process risk-related issues.

The Audit Committee is required by law, and the members are selected among the members of the Supervisory Board. The tasks of the Audit Committee include monitoring and assessing the efficiency of the Group's internal control and risk-management systems. These tasks are carried out, amongst other things, through written and oral reporting to the committee as well as the committee's consideration of the relevant audit reports.

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

- regulatory requirements for capital-adequacy calculation
- internal procedures for risk measurement and management
- the Group's capital base, individual solvency requirement, and capital and liquidity buffer and related contingency plans
- allocation of risk capital to business units and risk types
- material changes of the model set-up for risk management, and the annual re-estimation and validation of models.

Risk organisation



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

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 Executive Board responsible for Jyske Markets and Retail & Commercial Banking, Denmark, the directors of Retail & Commercial Banking, Denmark, Jyske Markets and Treasury as well as other key employees at Retail & Commercial Banking, Denmark and Treasury.

Capital management

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

Capital-management objective and planning

Jyske Bank's capital-management objective as well as its risk appetite is based on its ability to reach a solvency ratio sufficient for the Group to continue its lending activities during a period of difficult business conditions. The available capital must be such that regulatory and internal capital requirements are met during such a period, and it must be possible to weather heavy unexpected losses.

The Group's capital planning aims in the long term at meeting the requirements for obtaining an AA rating. The Group regards a rating of at least the A level to be essential and focuses therefore on initiatives supporting the achievement of such a rating.

The capital planning is subject to two overall considerations:

- optimisation of the Group's risk and maximisation of earnings;
- taking advantage of the situation in the market to acquire portfolios with an acceptable risk.

It is expected that in 2014 Jyske Bank will be designated a systemically important financial institution (SIFI). Among other things, this entails a requirement of an additional capital buffer, which fully phased in in 2019 will amount to 1.5 percentage points. Just as the SIFI requirements are phased in gradually until 2019, a number of new capital buffers will, in connection with CRR, gradually be introduced until 2019.

At end-2013, Jyske Bank reiterated its capital target of a Core Tier 1 capital ratio of at least 12%.

Capital

The development in the Group's solvency and Core Tier 1 capital ratios is shown in table 1. At end-2013, the solvency and Core Tier 1 capital ratios were at a very adequate level relative to Jyske Bank's objective.

The overall solvency ratio fell due to the early repayment of a subordinated loan in the amount DKK 1.1bn as well as the deduction of financial equities representing equity interests in excess of 10% (DLR).

To this must be added the positive strengthening, which was also the reason for the increase in the Core Tier 1 capital ratio.

Table 1
Solvency and Core Tier 1 capital ratios

	2013	2012
Solvency ratio (%)	16.0	17.3
Core Tier 1 capital ratio incl. hybrid capital (%)	15.9	15.3
Core Tier 1 capital ratio excl. hybrid capital (%)	15.3	14.2

Capital base

At end-2013, the Core tier 1 capital amounted to 96% of the capital base against 82% at end-2012. The high proportion of Core Tier 1 capital in the capital base is in line with Jyske Bank's wish to achieve the highest quality possible of its capital base.

Table 2
Capital base

DKKm	2013	2012
Share capital	713	713
Retained earnings	16,372	14,548
Non-controlling interest	33	36
Intangible assets	-71	-40
Core capital exclusive of hybrid core capital	**17,047**	**15,257**
Hybrid core capital	1,303	1,296
Diff. between expected losses and impairment charges	-55	0
Deduction for equity investments above 10%	-550	-28
Other deductions	-3	-44
Core capital	**17,742**	**16,481**
Subordinated debt (excluding hybrid core capital)	336	1,428
Revaluation reserve	361	344
Diff. between expected losses and impairment charges	-55	422
Deduction for equity investments above 10%	-550	-28
Other deductions	-3	-44
Capital base	**17,831**	**18,603**
Risk-weighted assets	**111,276**	**107,636**

Minimum capital requirement

Determination of the minimum capital requirement expresses the regulatory capital requirements and rests on the risk types credit, market and operational risk.

Capital management

Jyske Bank has been 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 determining the minimum capital requirement for the main part of the Group's credit portfolio.

The minimum capital for market risk is assessed according to the standard approach and operational risk according to the standard indicator approach.

Table 3
Minimum capital requirement by risk type

DKKm	2013	2012
Credit risk	6,488	6,558
Market risk	1,415	1,079
Operational risk	999	974
Minimum capital requirement, Tier I	8,902	8,611
Capital requirement, transitional rules	79	0
Total minimum capital requirement	**8,981**	**8,611**

Due to the transitional rules that are still applicable and that relate to the former capital adequacy rules, the minimum capital requirement increased modestly by DKK 79m in 2013, but in 2012 they did not give rise to any increase.

The development of the minimum capital for credit risk, market risk and operational risk is outlined in table 3 and described in the chapters on the individual risks.

Leverage ratio

CRD IV introduces a leverage ratio as a non-risk sensitive target for the extent of the balance sheet leverage in a financial enterprise. The leverage ratio must be calculated on a monthly basis and be reported to the FSA every quarter. At a meeting in January 2014 at the Bank for International Settlement, it was decided that the leverage ratio must be a 'hard' capital requirement as a supplement to the current solvency rules and capital requirements as of 1 January 2018. This is subsequently to be implemented in European legislation.

It has not yet been established what the final leverage target will be, but currently a preliminary target has been set at 3%, corresponding to a maximum leverage of 33 times equity. Jyske Bank meets this target by a solid margin.

ICAAP and individual solvency requirement

Jyske Bank's ICAAP (Internal Capital Adequacy Assessment Process) forms the basis of the assessment of Jyske Bank's capital structure and hence the determination of the Group's adequate capital base as well as its individual solvency 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.

Adequate capital base according to internal method

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

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 extensive evaluation of model assumptions. The analyses cover relevant risk factors[1] within each risk type in accordance with the Danish Executive Order on capital adequacy.

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

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

[1] An outline of the mapping of the 17 regulatory items relating to Jyske Bank's risk categories is shown in Appendix 2.

The FSA's inspection of the AIRB area in autumn 2013 resulted in an increase in the adequate capital base, primarily due to uncertainty in respect of determination of maturity for corporate clients with poor credit quality that were included in the Group's solvency requirement from the third quarter of 2013.

The additional capital for market risk relates to circumstances which are not addressed by the applicable model.

Additional capital due to other circumstances relates to issues specific to Jyske Bank and issues which generally apply to the banking sector, such as a counter-cyclical buffer. Counter-cyclical buffers are accumulated in good times and are applied in bad times.

Moreover, additional capital was included for Spar Lolland, which will migrate to the Bankdata platform in 2014 and is therefore not yet included in economic capital.

Finally, Jyske Bank's ability to generate a profit is also considered when assessing the adequate capital base. On the whole, this means that the adequate capital base mirrors the negative retained earnings/profit in a most extreme situation.

Adequate capital base according to 8+ approach

The FSA assesses an institution's adequate capital base on the basis of the so-called 8+ approach. This approach is based on assumption that the minimum requirement of 8% of risk-weighted assets will cover the institute's ordinary risks. In a number of respects, benchmarks are defined for the assessment of whether additional capital in excess of 8% is necessary, and also in some respects methods are stated for the calculation of the additional capital.

With a view to assessing Jyske Bank's adequate capital base calculated on the basis of Jyske Bank's models, Jyske Bank calculates the capital base using the 8+ approach.

At end-2013, the approach prompted additional capital in respect of the credit risk on major clients with financial problems as well as minor additions relating to the concentration of credits relating to individual accounts, market risk as well as liquidity risk.

Individual solvency requirement and capital buffer

The individual solvency requirement for Jyske Bank is determined as the higher one of the requirements based on Jyske Bank's internal method, the FSA's 8+ approach as well as statutory limits. In addition to the minimum capital requirement, the individual solvency requirement is subject to the transitional rules pertaining to AIRB institutions. At end-2013, the Group calculated an individual solvency requirement of 9.8%.

Table 4 shows the contribution from the individual types of risk to the adequate capital base and the individual solvency requirement.

Table 4
Determination of individual solvency requirement

DKKm	**2013**	**% of RWA**	**2012**	**% of RWA**
Credit risk	8,894	8.0	8,404	7.8
Market risk	770	0.7	735	0.7
Operational risk	506	0.4	554	0.5
Other collateral	783	0.7	1,273	1.2
Total	**10,953**	**9.8**	**10,966**	**10.2**

The capital buffer plus earnings from operations denote the maximum sustainable loss without additional capital. Jyske Bank's large proportion of core capital (excluding hybrid core capital) cements the quality of the total capital.

Table 5
Individual solvency requirement and capital buffer

DKKm	**2013**	**% of RWA**	**2012**	**% of RWA**
Capital base	17,831	16.0	18,603	17.3
a) Core capital (Tier 1)	17,742	15.9	16,481	15.3
- of which hybrid capital	1,303	1.2	*1,296*	*1.2*
- of which hybrid capital after deductions	695	*0.6*	*1,224*	*1.1*
b) Tier 2 capital	89	0.1	2,122	2.0
Adequate capital base	10,953	9.8	10,966	10.2
Capital buffer	**6,878**	**6.2**	**7,637**	**7.1**

Solvency requirement, Jyske Bank A/S

The adequate capital base of the parent company, Jyske Bank A/S, is conservatively set to be identical to that of the Group if the parent company is liable for all the risks of the subsidiaries. Calculations made to determine any requirement of additional economic capital revealed that there was no need for additional capital for the subsidiaries.

Capital management

The measurement of risk-weighted assets under CRD showed these items to be 0.1 percentage point higher for Jyske Bank A/S than for the Group.

The solvency requirement for the parent company is determined by scaling the Group's adequate capital base according to the ratio of the risk-weighted assets in the parent company and in the Group. Hence the solvency requirement of the parent company becomes identical to that of the Group, i.e. 9.8%.

Stress test

Stress testing is an important element in Jyske Bank's approach to projecting the adequate capital base and individual solvency requirement. Moreover, stress tests are suitable to assess the Group's capital-management objective in a future 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 with a view to testing 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 capital, given the Group's earnings, capital policy and management objective as well as its risk measurement. 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 the Group's capital contingency plan. It is therefore crucial to determine the circumstances against which the Group wishes to hold capital. Another objective is to estimate the individual solvency requirement. In accordance with regulation, the estimate must at the least be made following stress tests based on a mild recession scenario.

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. Examples of scenarios applied appear from table 6 and 7.

Table 6

Applied scenarios	**2014 - 2016**
Expected scenario	The expected scenario is a gradual return to the long-term GDP growth level in the Danish economy. The scenario implies slow growth in consumer spending, a stable unemployment rate as well as slight increases in house prices and interest rates.
Stress scenario	The stress scenario implies that the economy slides into a deep recession. The parameters are generally affected by falling GDP and steeply increasing unemployment. The interest rate levels are assumed to be unchanged from the expected scenario.

Table 7
Change in key macroeconomic variables (Denmark)

	Expected scenario			**Stress scenario**		
	2014	2015	2016	2014	2015	2016
GDP	1.4%	1.6%	1.8%	-4.4%	-0.8%	1.9%
Private consumption	0.6%	1.4%	1.6%	-3.8%	-0.6%	1.4%
Unemployment rate (gross)	5.1%	5.0%	4.8%	7.1%	9.8%	9.8%
House prices	1.5%	2.5%	2.0%	-10.9%	-10.0%	3.0%
Money-market rate (average for the year)	0.3%	0.8%	1.3%	0.3%	0.8%	1.3%
Bond yield (average for the year)	2.3%	2.8%	3.0%	2.3%	2.8%	3.0%

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. Hence 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.

Contrary to regular stress tests, reverse stress testing is not based on a scenario; instead it assesses how strong an economic downturn the Group can withstand, in respect of its solvency. Hence, reverse stress testing puts regular stress testing into perspective.

Processing of results

The stress scenario results in deterioration of the earnings capacity and in a higher level of risk. Either of these elements reduces the gap between the actual and the adequate capital base in relation to the expected scenario.

In spite of recent years' crisis, core earnings, and particularly the interest income, showed robust development and were able to absorb large loan impairment charges and provisions for guarantees. This also applies in future. Hence one of the results of the analyses of the stress scenario is that the increased level of impairment charges can be offset by core earnings, and therefore it will not be necessary to draw on the Group's capital. The stress scenario defined indicates a small positive profit, even in the worst year. Also, the stress-test analyses show that the Group's capital structure and capital level will remain satisfactory even in the event of a lengthy recession.

In addition to the scenario-based stress testing, partial sensitivity analyses are performed of the impact on the capital level from extraordinary, negative events. Even under the stress scenario, the capital buffer will suffice to absorb extraordinary events, which goes to emphasise the Group's strong capital position.

External stress testing

Stress testing of banks is used to an increasing degree, both nationally as well as internationally. In addition to the stress testing applied internally, Jyske Bank also participates in stress testing facilitated by the FSA, and the European Banking Authority (EBA) and the International Monetary Fund. The most recent European testing was a follow-up to the capital test in 2011; this follow-up took place in June 2012. Once again Jyske Bank's position among the best capitalised banks in the test was confirmed. The EBA expects to conduct the next stress test in autumn 2014.

In addition, Jyske Bank participates regularly in a number of further surveys conducted by the EBA: reports about consistency of risk-weighting, publication of capital and risk-related circumstances to expedite market transparency (EBA Transparency Exercise) as well as capital preservation exercises addressing solvency conditions under the new CRD IV rules. The results achieved by Jyske Bank in the market transparency exercise were published on the EBA's and the FSA' websites on 16 December 2013.

Changes to financial regulation

The new CRR rules took effect as of 1 January 2014, and currently the CRD IV directive is being implemented into Danish legislation so that is should take full effect as of 31 March 2014. Moreover, the legislation on the so-called SIFI (systemically important financial institutions) is also being implemented in Denmark. CRD IV and in particular the CRR legislation will entail a large number of changes applying to banks in Europe, hence also Jyske Bank. It applies to all the rules that they are to reduce the risk of another financial crisis.

The Core Tier 1 requirements of the banks are raised from 2% to 4.5%. To this must be added a number of buffer requirements (capital conservation buffer, counter-cyclical capital buffer and a systemic-risk buffer for SIFIs so the total capital requirement comes to 14.5% if the counter-cyclical buffer is set at 2.5%. To this must also be added any individual additions under Pillar II. Today Jyske Bank's Core Tier 1 capital ratio amounts to 15.3% and the total solvency ratio to 16.0%.

Capital management

During the implementation of the new rules, a large number of transitional provisions will apply and therefore the full implementation of CRD IV and CRR will not be completed until 2023. Provided that the counter-cyclical buffer has not been implemented, Jyske Bank already now meets all known future capital requirements.

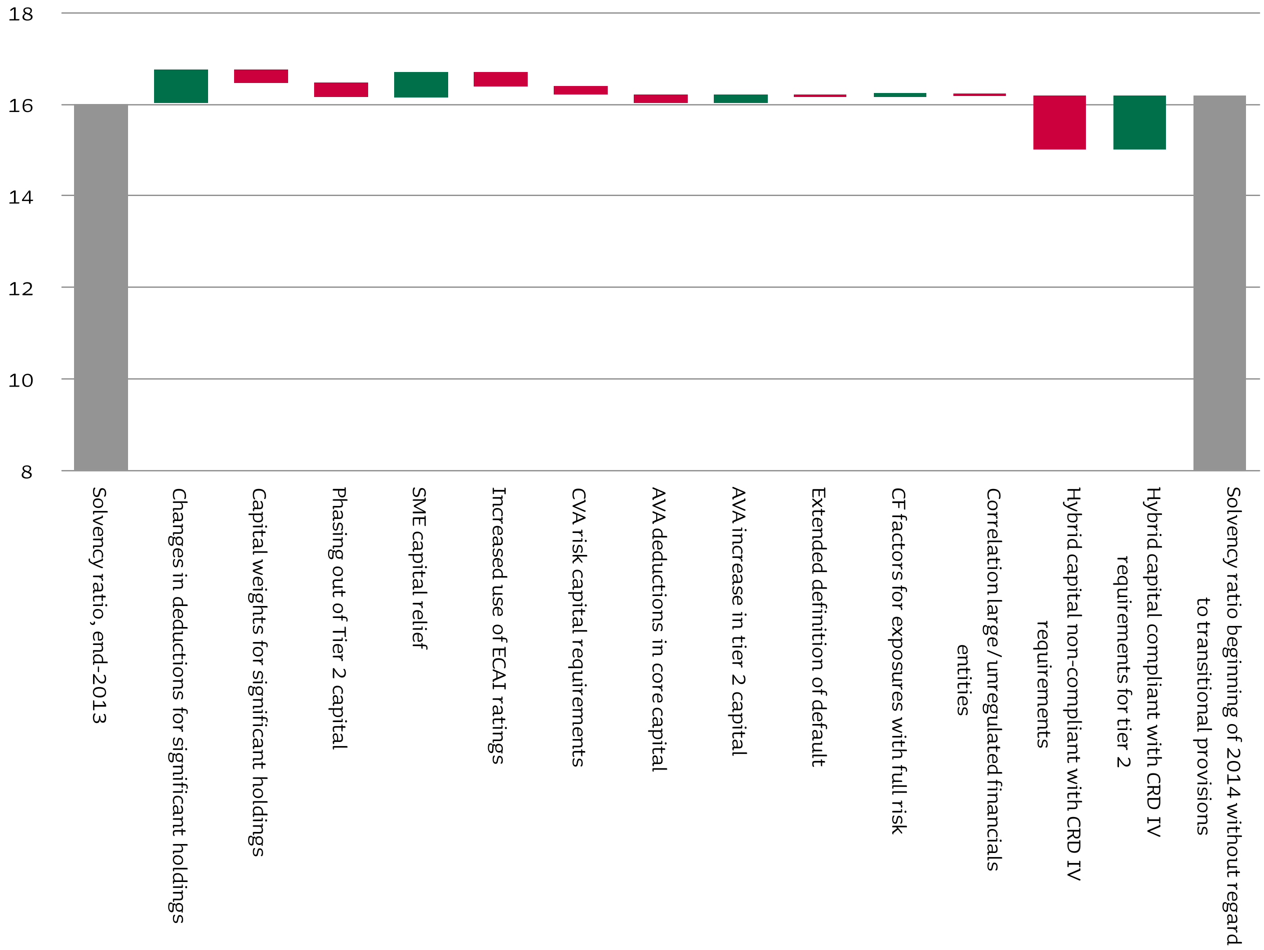
Specifically, the new rules imply that when calculating the capital, an additional value adjustment is used for assets recognised at fair value. Moreover, a number of changes will take place in respect of the solvency-related implications of Jyske Bank's investments in other financial enterprises. For Jyske Bank these changes will mean an increase in the Group's capital base and a minor increase in the risk-weighted assets.

On the asset side, an addition to the risk-weighted assets will be introduced for the so-called CVA risk relating to Jyske Bank's derivatives portfolio with financial counterparties. Moreover, the rules governing exposures to other financial institutions will be tightened so the creditworthiness of the individual financial institution will be decisive when calculating the risk-weighted assets. This will imply an increase in the Group's risk-weighted assets. Finally, CRD IV and CRR now include a capital relief for small and medium-sized enterprises.

Jyske Bank expects that on the whole CRD IV and CRR will result in practically unchanged risk-weighted assets as well as a minor increase in the capital base. Hence, the overall solvency effect will offhand be positive in the range of 0 - 0.5 percentage point.

The most important changes and the expected consequences for Jyske Bank are elaborated on in the following and illustrated in the chart, yet without taking transitional provisions into consideration.

Jyske Bank's solvency ratio and effect of CRR / CRD IV



- The most important change for Jyske Bank will be the introduction of a threshold for deductions in Common Equity Tier 1 in connection with the Group's significant holdings of CET1 capital in other financial institutions (CRR art. 48 (2) and CRR art. 470). This entails an improvement of the Group's solvency ratio by just above 0.7 percentage point.
- Also the new threshold entails that the Group's significant holdings of core capital in other financial institutions should be risk-weighted at 250% instead of being deducted. This entails a fall in the solvency ratio of 0.3 percentage point (CRR art. 178).
- Currently Jyske Bank has issued supplementary capital (Tier 2) in the nominal amount of DKK 336m, which is not in conformity with CRD IV, and consequently this capital must be phased out over a 10-year period. This entails a fall in the solvency ratio of 0.3 percentage point.
- In connection with the implementation of CRD IV, the EU wishes to support bank lending to small and medium-sized enterprises (SME). The risk weights for these loans are to be multiplied by a factor of 0.7619. As a result of this, the solvency ratio improves by just above 0.5 percentage point (CRR art. 501).
- New rules have been introduced for the use of so-called ECAI ratings (External Credit Assessment Institutions' Ratings). The new rules will primarily affect Jyske Bank's exposures to other financial institutions, where the institutions own ratings are primarily to be used in connection with the determination of risk-weighted assets. On the whole, this entails a fall in the solvency ratio of 0.3 percentage point (CRR art. 119 - 121).
- The CRD IV introduces a capital requirement for CVA risk (CRR art. 381 - 384). The CVA risk exposures arise from the derivatives portfolio with financial counterparties and result in higher risk-weighted assets, which reduce the solvency ratio by 0.2 percentage point.
- An additional value adjustment (AVA) is used for assets measured at fair value when calculating core capital (CRR art. 34 and 105). The adjustment entails a fall in the solvency ratio of 0.2 percentage point.
- The above additional value adjustment is included in the calculation of impairment charges from which the expected losses are to be deducted. The positive difference is added to the Tier 2 capital, which results in an increase in the solvency ratio of 0.2 percentage point (CRR art. 159).
- The CRR includes an extended definition of default entailing that the number of defaulted clients increases. This entails a fall in the solvency ratio of 0.1 percentage point (CRR art. 178).
- The CRR allows the use of own estimates for conversion factors for products classified as carrying full risk (CRR art. 151 (8)). This entails an improvement by 0.1 percentage point of the solvency ratio.
- Higher correlations are introduced for large financial institutions and so-called unregulated financial sector entities. This entails a fall in the solvency ratio of 0.04 percentage point.
- Currently Jyske Bank has issued hybrid capital (AT1) in the nominal amount of DKK 1,303m. These issues are not in conformity with CRD IV for AT1 capital (CRR art. 52). Seen in isolation, this will over a 10-year period lead to a fall in the solvency ratio of 1.2 percentage points.
- The hybrid capital issued by Jyske Bank, on the other hand, meets the CRD IV requirements of Tier 2 capital, and over a 10-year period the issues will change their status from AT1 to Tier 2 (CRR art. 63) and will, seen in isolation, increase the solvency ratio by 1.2 percentage points.

Therefore, on the whole, the implementation of CRD IV and CRR is expected to lead to an improvement of the solvency ratio by almost 0.2 percentage point when fully phased in. At the date of entry into force when a number of transitional provisions are in effect, an increase by 0.5 percentage point of the solvency ratio rate is expected.

Capital management

In connection with the implementation of CRD IV and CRR, the EBA has been commissioned to prepare a number of technical standards specifying methods for calculation and determination. Some of these technical standards have not yet been published or have only been published in draft versions. Therefore minor changes in regard to determination of solvency under CRD IV and CRR may still take place. Jyske Bank has determined the consequences in relation to solvency with due regard to all published technical standards.

Economic Capital

- In 2013 the economic capital rose by 3% to DKK 8.4bn as compared to the 4% reduction in 2012.
- The credit risk increased by almost 3% in 2013 in step with the increased exposure.
- Market risk increased by 17% due to the increased risk associated with the interest rate portfolio as well as changes in the portfolio of equities from the financial sector.
- Operational risks are practically unchanged (-1%).
- Business risk fell by almost 3%. The volatility in earnings has been reduced as it is to a lesser degree sensitive to fluctuations in the lending margin and the falling trading activity.

Economic capital is a key element in the management of the Group's risk and capital structure 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 the fact that it comes up with an aggregate figure for all risk types, products and business units. It thus produces one unified risk measurement expressed in a single unit of value, and the capital will reflect the Group's risk for the next year.

For the calculation of economic capital, a number of internal models are applied. 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: credit risk, market risk, operational risk and business risk. It is continuously considered whether other risks should be quantified in the economic capital. The risks already included in the capital are tested and validated to ensure that risk is at all times reflected accurately.

Each main type comprises various other risk types. Credit risk includes concentration risk, migration risk as well as counterparty risk, among other things, and market risk covers interest-rate, currency, commodity and equity risk.

Under operational risk, model and control risks are dealt with, and in addition to business and strategic risks, the business risk covers reputational risk.

For internal management purposes, a confidence level of 99.97% is applied, while for the calculation of the adequate capital base a confidence level of 99.9% is applied in accordance with the regulatory requirements. Internal management also incorporates correlation effects between the risk types.

RAROC

RAROC is the Group's main management tool for measuring risk-adjusted financial performance. RAROC calculations give an overview of the risk and profitability of the various activities of the Group. Developments in the general credit quality of the portfolio, concentration risk, collateral values etc. are included in the assessment.

Calculation of economic capital and 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. It is therefore essential that the Group is able to calculate economic capital at client and product level. 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 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 the Group grants loans to clients in sectors which are already strongly represented in the Group's credit portfolio, a higher economic capital and therefore lower profitability will, other things being equal, be assigned. Moreover, the systems incorporate fixed and variable costs as well as funding costs.

Economic Capital

Following the migration to Bankdata, the profitability system for the measurement of results is being redesigned and will be re-implemented in the first quarter of 2014.

Development in economic capital

Economic capital for the Group rose by 3% over the past year - from DKK 8.1bn at end-2012 to DKK 8.4bn at end-2013

Table 8
Economic capital by risk type (99.9%, non-diversified)

	2013		2012	
	DKKm	(%)	DKKm	(%)
Credit risk	6,257	75	6,101	75
Market risk	826	10	706	9
Operational risk	556	7	562	7
Business risk	751	9	772	9
Total	**8,390**	**100**	**8,141**	**100**

Credit risk for the Group rose by almost 3% in 2013.

- Exposure to domestic clients was practically unchanged over the past year. Towards the end of the year, the business volume relating to private clients rose, partially due to mortgage products. Fjordbank Mors is now included in the calculation of economic capital. The opposite effect is seen from the fact that exposure to interest-rate swaps has been reduced as interest rates rose throughout 2013. The value of the collateral has increased in step with the exposure, yet with a shift towards clients with ratings in the better range of the credit rating scale. The credit quality in terms of default probability has improved over the period. On the whole a slight reduction in economic capital for domestic clients has taken place.
- In respect of the own securities portfolio, credit risk has been reduced throughout 2013 as a result of the fact that at end-2013 the portfolio consisted of papers with a better rating than at end-2012.
- In respect of Jyske Finans, the increased business volume was reflected in an increase in economic capital.
- Economic capital for Private Banking was practically unchanged over the year. The business volume of the Private Banking units was reduced further throughout 2013, while at the same time the quality of the part of the portfolio that relates to property financing in Southern Europe deteriorated.
- Economic capital for Jyske Bank's exposure to The Guarantee Fund for Depositors and Investors rose after the take-over of Spar Lolland.
- Economic capital for the trading portfolio of Jyske Markets rose as the exposure had increased at end-2013 compared to the previous year.

Market risk increased in 2013. The increased risk relating to the interest rate portfolio due to adjustments of this portfolio accounts for half of the increase. The rest of the increase can be attributed to acquisitions and revaluation of the portfolio of equities from the financial sector.

Operational risks stabilised in 2013 after the decline in 2012. The employees have gradually grown accustomed to the new IT systems and work procedures.

The business risk was reduced by almost 3% in 2013; this reduction was caused by two factors:

- Now a minor part of the net fee income is generated in the form of market-related fees, which have historically proven to be most sensitive to falling trade values and falling market activity.
- Due to a minor decline in corporate loans, Jyske Bank is less sensitive to unexpected declines in the lending margin.

The calculation of economic capital does not take into account the effects from the acquisition of Spar Lolland. Instead, an addition to the adequate capital base was made.

Modelling of risk in economic capital

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.

Credit risk

To support the Group's objective of managing Group credit risk at portfolio level and of pricing at client level, Jyske Bank uses an advanced credit portfolio model across all business units and client segments.

The applied credit portfolio model, CreditRisk+, was originally developed by Credit Suisse to calculate economic capital for credit risk.

The model is based on a portfolio approach for the measurement of credit risk that allows for the size of the exposure, the granularity of the portfolio, the client's credit quality, the uncertainty related to the client's standing as well as the client's systematic risk. The term and repayment profile of the individual exposures are also included in Jyske Bank's model - yet outside the CreditRisk+ model, in a set-up that is derived from the CRD rules.

The CreditRisk+ model is based on assumptions of correlations similar to the factor models that are used by the other credit-risk models in the sector. Moreover, PD volatilities are used as important input parameters in the model. Because of the use of PD volatilities, the model explicitly allows for the uncertainty that will always exist in connection with a PD estimate for a given client.

All the credit exposure of the Group is included straight into the model's calculations, including guarantees, bonds and derivatives.

Market risk

To determine and monitor the economic capital in Jyske Bank's market-risk positions, a Value-at-Risk (VaR) approach is used. VaR expresses the maximum loss that Jyske Bank is able to sustain over a given period at a certain level of probability. The model is a parametric VaR based on an enhanced Risk Metrics model.

In addition to its trading portfolio, Jyske Bank holds a number of equity portfolios primarily relating to financial-sector shares within mortgage credit, financial infrastructure and payment services. The economic capital for these positions is calculated according to a method analogue to the PD/LGD method, known from the AIRB capital requirement rules.

Operational risk

Operational risk is monitored and managed, and capital is provided for it, on the basis of a scenario approach with focus on large exposures of material importance to the Group.

A portfolio model is used, which is based on Monte Carlo simulation, and the calculations use data from the scenario analyses in the form of assessments of frequency and severity of loss for each scenario. The model calculates the amount of economic capital to be held for each risk scenario. Capital is allocated to the business units according to an internally-developed allocation model.

Business risk

Jyske Bank applies an own-developed model for calculation of economic capital for business risk. The model is based on Jyske Bank's past earnings capacity and provides a picture of risk on the basis of the environment that Jyske Bank operates in at the given time. The model involves risk factors that are presumed to affect the general business conditions in the sector and at the same time it allows for the possibility that the Group's position in the market may change.

The model calculates the capital requirement on the basis of negative deviations in the business earnings. A number of specific events are described that may affect the various items, for instance a fall in the balance of loans and advances. The model simulates the probability of the events taking place as well as the magnitude of the 'blow' they will have on the item. The correlation between the events is based on underlying scenarios that may be of an internal as well as an external nature. Examples of scenarios are deteriorating economic trends, higher funding costs or unexpected interest-rate changes.

The specification and topicality of the scenarios are continuously being assessed through expert assessments and analyses.

Credit Risk

- The credit quality stabilised in 2013 and showed slightly positive indications.
- The overall exposure rose by almost 5% after the acquisition of Spar Lolland and due to increased exposure in the form of repo transactions and certificates of deposit. The value of the collateral provided increased a tad.
- The minimum capital for credit risk was reduced by a little more than 1% in 2013.

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

Credit policy and responsibility

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

Credit risk is managed through Jyske Bank's credit policy, of which the objective is 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 assumes credit risk, and credit risk levels and undesirable types of business have been identified. The policies are regularly adjusted to meet current requirements and adapted to the management tools available to account managers and the monitoring functions.

Authorisation and monitoring of credit risk

Jyske Bank attaches great importance to its decentralised credit-authorisation process. Limits are delegated to account managers individually on the basis of perceived competence and need. Decisions about applications over and above the limits delegated to account managers are made by the Credit Division.

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 private clients, debt servicing ability and debt repayment ability are decisive.

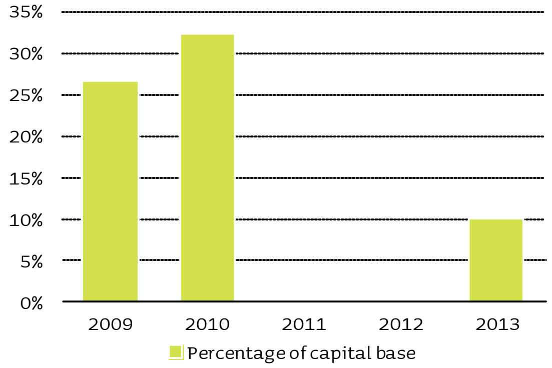
All the Group's credit risk positions are monitored by two departments, Capital and Risk as well as Credit Risk Supervision. Both of these are departments separate from client-oriented functions. The exposure of the Group by size, sector and geographical area is constantly monitored and analysed with a view to reducing the risk associated with specific high-risk sectors and geographical areas and ensuring satisfactory diversification of the portfolio.

Monitoring is executed by means of quantitative models: the credit quality of each department is monitored, and selected large commitments are reviewed. Moreover, risk monitoring includes qualitative as well as quantitative control of data used in risk and RAROC calculations.

Large exposures

Large exposures are monitored on a regular basis in accordance with the Executive Order on Large Exposures, including exposures larger than 10% of Group capital base. At end-2013, the Group had one exposure amounting to more than 10% of the capital base. This was an exposure to one large Danish financial group and amounted to 10.1%. Four exposures amounted to between 5% and 7.5% and one exposure between 7.5% and 10% of the capital base.

Sum of exposures in excess of 10 % of the capital base



The credit-rating process

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 over the coming year (PD). 'Default' occurs when an obligor is considered unlikely to meet his obligations to the Group. By far the 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 real property companies, financing companies, financial institutions and central governments. In those cases, external ratings, if available, will primarily form the basis in 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 danger 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. 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 is basically calibrated to the long-term level of default rates measured back to the mid-eighties before the beginning of the latest major recession. Moreover, adjustments relative to the actual development of the default rate are made quarterly.

The relationship between credit ratings, PD and external ratings at end-2013 is shown in table 9.

Table 9
Credit ratings, PD bands and external ratings

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

The Group's internal 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 and the external credit ratings is based on the currently observed default frequency for companies rated by Moody's. Therefore the mapping between the internal and the external credit ratings is dynamic, which is only natural, given the difference in rating systems. Observations are made on a monthly 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 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 fixed-term loans the only element of uncertainty is the time until possible default. Uncertainty is higher, however, for credit facilities under which the client may draw up to a maximum. 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 body 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 - for further details about both methods, please see the section on counterparty risk.

Development in credit exposure

In the following is shown Jyske Bank's credit exposure, minimum capital, etc. broken down on a number of characteristics.

On the whole, the Group’s risk-weighted assets for credit risk fell by a little more than 1% in 2013. At the same time, total exposures increased by almost 5%. The increased level of exposure can primarily be attributed to the increased volume of repo transactions (+16%) as well as the acquisition of Spar Lolland (DKK +6.5bn). To this must be added a considerable increase in the volume of certificates of deposit (DKK +5.2bn). Risk-weighted assets did not increase as much as the exposure as repo transactions took place on a covered basis, and certificates of deposits do not have an adverse effect on the solvency ratio.

Table 10
Change in EAD and RWA with credit risk

DKKm	**2013**	**2012**
EAD	241,092	230,383
RWA	81,105	81,976

In respect of the solvency ratio, the year 2013 was affected by various circumstances, the first of which was the acquisition of Spar Lolland. At end-2013, risk-weighted assets in Spar Lolland amounted to DKK 4.4bn. At end-2013, the exposure was measured according to the standard approach, but it is expected that the AIRB approach will be applied as of mid-2014 when a migration to Bankdata's IT platform will take place.

Table 11
Minimum capital by exposure category

DKKm	**2013**	**2012**
Exposure category		
Central governments	0	1
Institutions	320	278
Corporate clients	4,104	4,209
Retail, total	1,609	1,539
1) Real property, personal	167	203
2) Real property, SMEs	219	254
3) Revolving credits	82	88
4) Other retail exposure, private clients	722	558
5) Other retail exposure, SMEs	419	436
Equities	97	130
Securitisations	46	70
Assets without counterparties	312	331
Total	**6,488**	**6,558**

Following the capital increase and the acquisition of Spar Lolland, Jyske Bank has financial equities representing equity interests of more than 10%, which has the result that both direct and indirect equity interests must be deducted from the capital base. On the other hand, this development reduced the amount of equities outside the trading portfolio, which has an adverse effect on risk-weighted assets. Due to the coming into force of CRR and CRD IV, Jyske Bank's current equity interest in DLR will no longer be deducted from the capital base, but instead it will be included in the exposure category 'equities'. This will in 2014 lead to an improvement of the solvency ratio.

In the course of 2013, clients with Fjordbank Mors, which was acquired in 2012, were migrated to Bankdata's IT platform. Therefore data of clients with exposures totalling DKK 2.3bn can be processed on the basis of Jyske Bank's advanced credit setup, which improves Jyske Bank's risk management and solvency ratio.

Jyske Bank's exposure by determination method is shown in table 12. The proportion of the Group's exposures measured according to the AIRB approach fell in 2013 from 74% to 69%. This decline could primarily be attributed to the development of the exposure to repo transactions. As appears from tables 13 and 14, the exposure to repo transactions increased considerably on the standard approach (DKK +8.0bn) while, on the other hand, it falls on the AIRB approach (DKK -2.0bn). To this must be added the acquired banks, which represent a relative overweight on the standard approach (Spar Lolland) rather than the AIRB approach (Fjordbank Mors).

The development in the standard approach was also affected by the increased volume of certificates of deposit (DKK +5.2bn.).

Table 12
Exposure by determination method

	2013				**2012**	
Exposure category	AIRB		Standard		AIRB	Standard
	DKKm	(%)	DKKm	(%)	(%)	(%)
Central governments	0	0	17,869	24	0	22
Institutions	0	0	39,180	53	0	54
Corporate clients	106,340	64	6,151	8	65	10
Retail, total	55,780	33	9,403	13	32	11
1) Real property, personal	16,408	10	0	0	9	0
2) Real property, SMEs	6,861	4	0	0	4	0
3) Revolving credits	8,814	5	0	0	5	0
4) Other retail exposure, personal	13,780	8	8,999	12	8	10
5) Other retail exposure, SMEs	9,917	6	404	1	6	1
Equities	0	0	1,212	2	0	3
Securitisations	1,259	1	0	0	1	0
Assets without counterparties	3,898	2	0	0	2	0
Total	**167,277**	**100**	**73,815**	**100**	**100**	**100**

Table 13
Exposures to repo loans

	AIRB		**Standard**	
DKKm	EAD	Collateral	EAD	Collateral
Exposure category				
Central governments	0	0	2,458	2,439
Institutions	0	0	923	917
Corporate clients	17,805	17,646	0	0
Retail	0	0	0	0
Total 2013	**17,805**	**17,646**	**3,381**	**3,356**
Total 2012	11,717	11,686	1,761	1,742

Table 14
Exposures to repo deposits

	AIRB		**Standard**	
DKKm	EAD	Collateral	EAD	Collateral
Exposure category				
Central governments	0	0	206	202
Institutions	0	0	12,266	12,060
Corporate clients	9,879	9,867	0	0
Retail	106	106	0	0
Total 2013	**9,985**	**9,973**	**12,472**	**12,262**
Total 2012	18,039	17,948	6,112	6,004

Credit risk

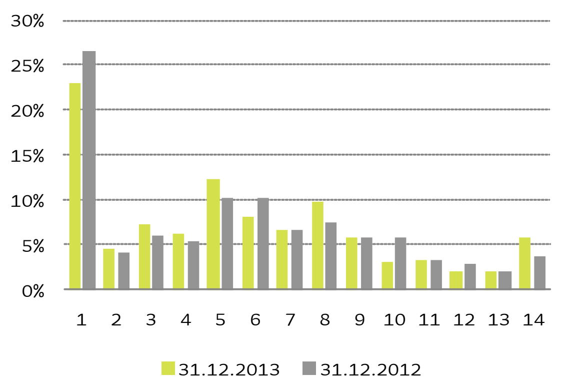
In the autumn of 2013, the Danish FSA inspected Jyske Bank in order to assess its credit management, solvency requirement, impairment charges and use of AIRB models. The FSA concluded that generally Jyske Bank's credit management was good and the AIRB models functioned well. However, in the view of the FSA, a few elements should have been recognised more conservatively. In line with the general announcement from the FSA to the Danish banking sector in respect of processing of clients for which objective evidence of impairment (OEI) had been established, Jyske Bank must rank its clients with OEI in the lowest rating category (so-called STY 14) or in the group of clients in default.

The majority of Jyske Bank's clients for which OEI had been established were already ranked in the poorest category or in the group of clients in default. The remaining clients had their credit rating adjusted; in respect of clients with their ratings determined by experts, the adjustment took place in the fourth quarter of 2013, and in respect of clients with statistically determined ratings, the adjustment took place in January 2014. The effect was strongest on the exposure category AIRB Corporate Clients.

The charts show exposures by credit rating.

In respect of corporate clients, it applied within a few credit-rating categories that a fairly low number of large accounts involving repo transactions changed the breakdown. The proportion of exposures in the poorest credit rating category increased as a consequence of the classification of the clients for which OEI had been established in the poorest credit rating category, which moved some exposures from other low-rated categories to the lowest category (STY 14).

Corporate-client exposure by credit rating

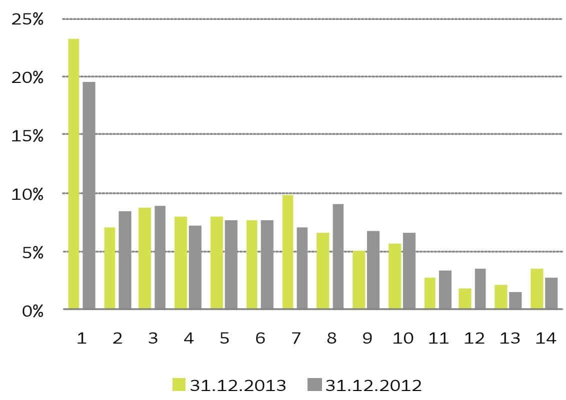


The breakdown of clients according to credit rating shows that over the year more clients have obtained a better profile than vice versa. Due to the decline in the number of exposures in the best credit rating category, the exposure-weighted rating average rises marginally relative to the previous year.

The proportion of exposures in the best credit rating categories (1-5) amounted to 51% (2012: 52%), and the decline can be attributed to the circumstances described above. The majority of new clients in 2013 are ranked in the middle credit rating categories, while only a small part is ranked in the poorest profiles. New clients are not ranked in the best credit rating categories due to the relatively limited knowledge of new clients compared to the knowledge of existing clients.

In respect of retail clients (private clients and SMEs), a positive migration has taken place in the portfolio towards better credit ratings. This trend can very much be attributed to the economic development. By far, the majority of the portfolio is of a satisfactory quality as 55% of the exposures have a credit rating between 1 and 5 (2012: 52%). This figure covers new clients, including clients from Fjordbank Mors, who - as expected - did not have quite as good a distribution on the credit rating scale. New clients were chiefly ranked in the middle credit rating categories, and also in respect of retail, only a minor part of the new clients was ranged in the poorest credit rating categories.

Retail-client exposure by credit rating



Both charts comprise the units and companies in the Group for which Jyske Bank has been approved to apply advanced models. The charts are exclusive of exposures to defaulted clients. Exposure to those clients accounted for 6.0% (2012: 5.5%) of Jyske Bank's aggregate AIRB exposure.

The proportion of exposures with a time to maturity of less than one year increased in 2013 and account for 69% against 65% in 2012, which is to be viewed in connection with the repo development.

The increase in the total exposures of 5% covers increase in respect of both corporate clients and retail clients. Overall, exposure to all non-retail clients increased by almost 4% (DKK 6.7bn). This development only related to a few sectors: banks, public authorities, governments as well as finance and insurance. On the whole, the exposure in the other sectors only increased modestly. In respect of the first-mentioned sectors, repo transactions and financial products fuelled the development.

The total exposures to retail clients increased by 6.6% (DKK 4.0bn). At sector level, mainly retail clients accounted for this development. A contributing factor to this development was the acquisition of Spar Lolland. In addition to this, minor adjustments took place in the remaining sectors.

Appendix 2 sets out supplementary tables of credit risk broken down in various respects.

Table 15
Exposure by time to maturity

DKKm	**< 1 year**	**1-5 years**	**> 5 years**	**Total**
Exposure category				
Central governments	17,025	821	23	17,869
Institutions	35,148	3,832	200	39,180
Corporate clients	90,150	16,633	5,708	112,491
Retail	23,101	21,959	20,123	65,183
Equities	0	0	1,212	1,212
Securitisations	11	0	1,248	1,259
Assets without counterparties	0	0	3,898	3,898
Total 2013	**165,435**	**43,245**	**32,412**	**241,092**
Total 2012	149,009	44,299	37,075	230,383
Breakdown 2013	**69%**	**18%**	**13%**	**100%**
Breakdown 2012	65%	19%	16%	100%

Table 16
Exposure broken down by sector exclusive of retail

DKKm	Governments and public authorities	Institu-tions	Corporate clients	Equities	Assets without counterpar-ties	Securiti-sations	Total 2013	Total 2012
Governments	7,210	0	0	0	0	0	**7,210**	7,048
Public authorities	9,869	0	507	0	0	0	**10,376**	8,818
Banks	0	38,856	0	0	0	70	**38,926**	31,807
Agriculture, hunting, forestry, fishing	0	0	8,717	0	0	0	**8,717**	8,286
Manufacturing, etc.	0	0	11,474	0	0	0	**11,474**	11,128
Energy supply	0	0	5,631	0	0	0	**5,631**	3,336
Construction	0	0	3,104	0	0	0	**3,104**	2,788
Commerce	0	0	11,228	0	0	0	**11,228**	10,651
Transport, hotels and restau-rants	15	0	4,823	0	0	0	**4,838**	4,453
Information and communica-tion	0	0	796	0	0	0	**796**	761
Finance and insurance	613	324	43,671	0	0	1,178	**45,786**	49,919
Real property	0	0	12,583	0	0	0	**12,583**	13,383
Other sectors	162	0	9,957	1,212	3,898	11	**15,240**	16,868
Total 2013	**17,869**	**39,180**	**112,491**	**1,212**	**3,898**	**1,259**	**175,909**	169,246
Total 2012	13,039	31,773	116,547	1,624	4,140	2,123	169,246	

Table 17
Exposure broken down by sector, retail

DKKm	Real property, personal	Real property, SMEs	Revolving credits	Other, personal	Other, SMEs	Total 2013	Total 2012
Agriculture, hunting, forestry, fishing	2	1,303	5	1	2,692	**4,003**	4,092
Manufacturing, etc.	0	82	0	0	363	**445**	435
Energy supply	0	234	0	0	280	**514**	276
Construction	0	155	1	4	715	**875**	832
Commerce	1	353	2	4	848	**1,208**	1,254
Transport, hotels and restaurants	0	140	1	0	753	**894**	943
Information and communication	0	12	1	0	53	**66**	59
Finance and insurance	0	0	0	2	256	**258**	224
Real property	2	405	2	3	411	**823**	838
Other sectors	0	197	3	832	837	**1,869**	2,434
Private clients	16,403	3,980	8,799	21,933	3,113	**54,228**	49,750
Total 2013	**16,408**	**6,861**	**8,814**	**22,779**	**10,321**	**65,183**	61,137
Total 2012	16,124	6,788	8,619	19,215	10,391	61,137	

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. Collateral received is therefore 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 Bank's ability to collect receivables and liquidate collateral.

The modelling of LGD at Jyske Bank is divided into two main areas: The part of the account that is secured by collateral and the unsecured part. With unsecured debt, the proportion of a client's unsecured debt which the Group will be able to collect is estimated. Client-specific circumstances and other circumstances with regard to the commitment are decisive for LGD. For the secured debt, the expected proceeds from liquidation of collateral are estimated. Here the type of collateral held by Jyske Bank is decisive as well as the liquidity of the assets. With comparatively rare assets Jyske Bank obtains an expert estimate of the proceeds, whereas statistical estimates are used for more frequent asset classes such as vehicles, real property and securities.

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, and wear and tear. Listed securities are measured daily.

In the calculation of the minimum capital requirement, LGD estimates are used which reflect the expected loss rates of the Group in the event of an economic slowdown. LGD estimates are based on the value of the collateral provided. The value of the collateral which reduces credit risk is set out in table 18.

The values in the table express the expected realisation value less costs of collection and costs of selling the relevant assets. The value of the collateral provided rose by 8.1% (DKK +8.4bn). The largest increase was seen in respect of securities, cash balances, etc. due to an increase in repo transactions (DKK +6bn) and a reduction in securities in Private Banking (DKK -1bn).

Collateral in the form of real property rose by 8.1%, corresponding to almost DKK 2.5bn, which could primarily be attributed to new clients following the acquisition of Spar Lolland and secondarily to the development of real property prices. The opposite effect was, however, seen from the negative development of real property prices in Southern Europe that were provided as collateral in Private Banking.

Collateral in the form of personal property rose by 13.5%, corresponding to DKK 1.5bn after the increase in collateral provided to Jyske Finans (DKK +1bn) and in the form of fishing vessels (DKK +0.3bn) and general claims on all assets (DKK +0.1bn).

The decline in the collateral value for guarantees could be attributed to a change in the calculation methods. Hence the effect was measured at end-2013 on the basis of a substitution approach through which the exposure was transferred to the guarantee-providing counterparty. Compared to the previously applied collateral /LGD approach, this only had a minor effect on risk-weighted assets.

Table 18
Collateral by type

DKKm	2013	2012
Securities, cash balance, etc.	59,379	54,640
Real property	32,583	30,132
Personal property	12,739	11,222
Securities, cash balances, etc, with other financial institutions	20	20
Guarantees (financial institutions)	3,131	3,152
Other guarantees	3,661	4,179
Other collateral	808	559
Total	**112,321**	**103,906**

Loan impairment charges and provisions for guarantees

Jyske Banks recognises impairment of loans and advances where events indicate objective evidence of impairment which will affect the size of anticipated future payments.

On an ongoing basis - and at least quarterly - account managers assess whether objective evidence of impairment charges relating to the Group's clients have emerged.

Risk categories

Jyske Bank's risk exposures are broken down into three categories: low-, high- and full-risk exposures. The two last-mentioned risk categories represent defaulted clients who are no longer deemed capable of fully meeting their payment obligations towards the Group. The risk categories are used in the Group's process for assessing impairment.

Loan impairment charges - individual exposures

Jyske Bank divides individual loan impairment into two: impairment of significant and of non-significant loans and advances.

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.

In respect of other clients, impairment is recognised as the difference between the carrying amount before impairment and the present value of anticipated 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

Collective loan impairment is calculated 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. For the purpose of calculating impairment, the parameters have been adjusted in a number of respects to comply with IFRS.

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

For other exposures, the calculation of impairment is based on the net deterioration of the credit quality at portfolio level since the time of establishment of the relevant commitments. The net increase is used in the calculation of collective impairment at Jyske Bank, and 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 deemed present when data are observed for a segment which indicates a decrease in the future payments from that segment. In those cases, collective impairment is calculated as the discounted expected net loss on that segment.

Provisions for guarantees and other liabilities

A provision is made when it is deemed likely that a commitment will cause a drain on the Group's resources, and the liability can be measured reliably.

Jyske Bank's provisions for guarantees and other liabilities include guarantees in favour of business partners or provided at the request of clients of the Group, derivatives, and undrawn credit commitments.

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 guidelines on impairment charges and provisions

In December 2013, the FSA submitted for consultation new guidelines for Appendix 10 of the Danish Executive Order on the Presentation of Financial Statements. It is assessed that the new guidelines will not have any financial consequences for Jyske Bank as, in essence, the Group already meets the new guidelines in all important respects.

In the autumn of 2013, the Danish FSA inspected Jyske Bank in order to assess Jyske Bank's impairment charges. The FSA concluded that the Group's impairment charges were sufficient and made in accordance with the rules.

Trend in loan impairment charges and provisions for guarantees

When a loss is deemed unavoidable, the estimated loss is written off.

The total balance of loan impairment charges and provisions for guarantees stood at DKK 4.7bn at end-2013 (2012: DKK 4.7bn). The breakdown of the loan impairment charges by individually and collectively assessed loans appears from Table 19. For past due and defaulted exposures, the balance of loan impairment charges and provisions for guarantees amounted to DKK 3.6bn at end-2013 (2012: DKK 3.3bn). Hence, in 2013, impairment charges and provisions for defaulted exposures accounted for a larger proportion of the total balance than in 2012.

Table 19
Loan impairment charges and provisions for guarantees and losses

DKKm	**2013**	**2012**
Loan impairment charges for individually-assessed loans and advances	3,386	3,181
Of which significant loans and advances	2,691	2,493
Of which non-significant loans and advances	695	688
Loan impairment charges for collectively assessed loans and advances	863	943
Provisions for guarantees and liabilities	444	537
Loan impairment charges and provisions for guarantees, total	**4,693**	**4,661**

In 2013, an amount of DKK 1,493m was charged as write-offs, loan impairment charges and provisions for guarantees on defaulted and past due exposures, which amount was at level with 2012. For 2013, the operating item for the Group's other loan impairment charges and provisions came to negative DKK 115m, while amounts received under recoveries and interest-rate adjustment reduce the impact by DKK 128m and 103m, respectively. Hence the total effect on the income statement came to DKK 1,147m in 2013 against DKK 1,840m in 2012 as illustrated in table 20.

Table 20
Effect on income statement

DKKm	**2013**	**2012**
Change in balance of loan impairment charges	47	790
Loss on loans, advances, guarantees and liabilities, etc.	1,331	1,227
Recoveries	-128	-60
Interest-rate adjustment	-103	-117
Net effect on income statement	**1,147**	**1,840**

Table 21
The Group's total EAD, loan impairment charges and provisions on defaulted and past due exposures

DKKm	**2013**		**2012**	
Exposure category	EAD	Impairment charges and provisions for guarantees	EAD	Impairment charges and provisions for guarantees
Central governments	17,869	0	13,039	0
Institutions	39,180	0	31,773	0
Corporate clients	112,491	2,983	116,546	2,652
Retail	65,183	637	61,138	696
Equities	1,212	0	1,624	0
Securitisations	1,259	0	2,123	0
Assets without counterparties	3,898	0	4,140	0
Total	**241,092**	**3,620**	**230,383**	**3,348**

Credit risk

High-risk sectors are (impairment ratio stated in brackets): real property (7.9%), agriculture, hunting, forestry and fishing industry (5.4%) as well as building and construction (2.4%). Under agriculture, hunting, forestry, fishing industry, the impairment charges' proportion of the exposure was distributed by 7.2% for agriculture, hunting and forestry, while the proportion was 0.0% for fishing industry.

Impairment charges are still low for private clients (1% of exposure). Defaulted exposures for private clients were unchanged in the course of 2013.

In 2013, defaulted exposures in the sectors transport, real property and agriculture, etc. rose by 22%, 20% and 7%, respectively as compared to 2012. On the other hand, there were improvements within commerce (-25%) as well as building and construction (-8%). In 2013, the economic development still posed challenges to the branches real property and agriculture.

In 2013, 85% (2012: 82%) of the balance of impairment charges recognised for defaulted and past due exposures related to corporate clients, while 15% referred to private clients (2012: 17%).

The improvement in respect of actual losses from 2012 to 2013 relates primarily to (improvement in DKKm): manufacturing (DKK 74m), private clients (DKK 71m) and real property (DKK 37m). Relative to the exposure, the highest losses were seen in these sectors: agriculture, etc. (2.0%), real property (1.5%) as well as information and communication (1.4%).

The geographical distribution as well as information about undrawn commitments, etc. for defaulted exposures appear from Appendix 2.

Table 22
Sector breakdown of defaulted and past due exposures

DKKm	EAD on defaulted and past due exposures	Loan impairment charges and provisions for guarantees	Operating item for the year inclusive of losses	Losses recorded
Exposure category				
Agriculture, hunting, forestry, fishing	1,505	691	209	259
Manufacturing, etc.	412	128	84	121
Energy supply	68	22	11	0
Construction	252	96	46	47
Commerce	564	206	93	164
Transport, hotels and restaurants	194	73	71	37
Information and communication	33	14	19	12
Finance and insurance	1,451	680	287	135
Real property	2,404	1,064	434	204
Other sectors	438	101	47	71
Private clients	2,536	545	192	237
Total 2013	**9,857**	**3,620**	**1,493**	**1,287**
Total 2012	9,357	3,348	1,503	1,081

NB: The operating item over the year by sector refers to exposures subject to individual impairment in accordance with IFRS and is considered defaulted in the calculation of the Group's capital requirements.

Re-estimation and validation of credit-risk models

Whether based on statistical models or on expert opinions, the models behind the calculations of PD, LGD and EAD are as a minimum re-estimated and validated annually. The re-estimation ensures that the models will continue to reflect the latest changes in data so that they yield as exact and updated information as possible. The validation includes stability testing, back-testing and benchmarking, and its objective is to reveal any areas which require special attention.

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.

External models are used for benchmarking. Alternatively, internally-developed benchmarks are used for testing and monitoring the models.

The AIRB parameters used for the calculation of minimum capital are compared below to the corresponding realised figures. These various measurements are conceptually different and cannot be compared directly. For instance, the AIRB parameter for LGD is based on recession estimates, which explains that the realised LGD levels are lower than corresponding estimates.

Table 23
PD

	Corporate clients	Qualified, revolving retail exposures	Retail exposures secured against real property	Other retail exposures	Total
2013					
Realised	3.05%	0.43%	0.65%	0.92%	0.75%
Estimated	2.89%	0.72%	0.86%	1.46%	1.06%
2012					
Realised	3.28%	0.54%	0.72%	0.94%	0.86%
Estimated	3.13%	0.71%	0.87%	1.42%	1.08%
2011					
Realised	3.66%	0.60%	0.84%	1.21%	0.99%
Estimated	3.08%	0.72%	0.94%	1.49%	1.10%

Table 24
Expected losses

	Corporate clients	Qualified, revolving retail exposures	Retail exposures secured against real property	Other retail exposures	Total
2013					
Realised	0.63%	0.17%	0.22%	0.40%	0.52%
Estimated	0.58%	0.37%	0.34%	0.79%	0.54%
2012					
Realised	0.60%	0.24%	0.25%	0.56%	0.52%
Estimated	0.57%	0.35%	0.30%	0.71%	0.53%
2011					
Realised	0.80%	0.27%	0.31%	0.61%	0.65%
Estimated	0.79%	0.39%	0.38%	0.73%	0.67%

Table 25 LGD	Corporate clients	Qualified, revolving retail exposures	Retail exposures secured against real property	Other retail exposures	Total
2013					
Realised	27%	58%	15%	37%	37%
Estimated	37%	59%	25%	49%	43%
2012					
Realised	30%	54%	19%	36%	37%
Estimated	39%	58%	25%	49%	43%
2011					
Realised	35%	51%	19%	36%	38%
Estimated	40%	60%	26%	47%	44%

NB: The figures concern AIRB clients with Jyske Bank A/S not defaulted at the beginning of the year. In this connection, the currently expected loss is applied as realised in respect of the defaulted clients who are not settled as a loss. This is consistent with the methods specified in the future reporting framework COREP. Expected losses have been calculated as a proportion of EAD. PD and LGD are averages based on the number of clients.

Counterparty risk

Counterparty risk is the risk of loss due to a counterparty failing to fulfil his obligations. Counterparty risk is generated when the Group trades derivatives with clients.

Jyske Bank's policy for managing counterparty risk distinguishes between small and large counterparties. The latter group includes financial institutions. The basic principles for measuring risk for the two client types are identical, yet the management of risk on large counterparties has been extended with additional management parameters.

Counterparty risk is calculated as the sum of the market value and the 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 for these are described in the section about market risk.

To manage and monitor large counterparty exposures, the Group also calculates settlement risk. To reduce settlement risk, all transactions will to the extent possible take place through CLS, through some other form of clearing centre, or under individual netting agreements.

Jyske Bank calculates its daily exposure to individual counterparties within the Group's counterparty risk management systems, and 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 current utilisation is calculated from the client's exposure to individual risks. The lines awarded are reviewed at least once a year or in case of a change in the creditworthiness of the respective counterparty.

Risk reduction

In 2013, Jyske Bank focused on compliance with the new requirements in the European Market Infrastructure Regulation (EMIR) in respect of risk reduction, including

- Clearing obligations in respect of OTC contracts
- Portfolio reconciliation and calculation of market values
- Reporting to Trade Repositories

In 2013, Jyske Bank became ready to trade the OTC products for which the clearing obligation commences on 1 July 2014. Now the Group is indirectly a member of London Clearing House via selected clearing brokers. Jyske Bank expects that in the first quarter of 2014 it will clear a larger proportion of the Group's existing portfolio of clearing-qualified interest-rate swaps and in this way achieve a capital reduction.

Jyske Bank has acceded to the ISDA protocol "Portfolio Reconciliation and Dispute Resolution", as a "Sending Entity". This means that Jyske Bank is under the obligation to send portfolio statements to the Group's counterparties. Jyske Bank calculates daily new market values for all trades, and for small clients these statements are available electronically.
Hence Jyske Bank is ready to comply with the new EMIR requirements.

For its lines for transactions involving derivatives, the Group endeavours to reduce risk by means of:

- ISDA, GMRA or other agreement which gives the Group the right of netting market values of derivatives trades
- GMRA, CSA or other agreement which entitles Jyske Bank to additional collateral, should the counterparty's debt to Jyske Bank exceed an agreed maximum
- CLS, in which case settlement risk is eliminated, as clearing is effected through a third party who guarantees settlement.

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

Where only short-term derivatives are traded (term up to six months), agreement about additional margin may be waived after individual assessment.

Table 26
Counterparty risk

DKKm	2013	2012
Derivatives with positive market value	25,813	32,669
Netting	20,236	25,863
Exposure after netting	5,577	6,806
Collateral received	1,686	1,843
Exposure after netting and collateral	3,891	4,963

Counterparty risk and calculation of capital
Capital must be set aside for counterparty risk on derivatives in accordance with regulatory requirements (the Danish Executive Order on capital adequacy) and in connection with internal risk management (Jyske Bank's economic capital model).

The regulatory minimum capital is calculated according to the mark-to-market approach 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 according to the mark-to-market method is shown in table 27.

Table 27
Counterparty risk by sector

DKKm	2013	2012
Exposure to governments	699	783
Exposure to institutions	6,123	5,921
Exposure to corporate clients	4,581	5,461
Exposure to retail clients	575	899
Total	**11,978**	**13,065**

Within the Group's internal risk management, another and more nuanced setup is used. Derivatives are complex because their future cash flow profile is unknown. The model used has the basic objective of estimating future cash flow and exposure profiles, given market values and the volatility of counterparty products. The method is called the EPE (Expected Positive Exposure) method. Netting is taken into account in those measurements.

Market risk

- Jyske Bank's market risk expressed as Value at Risk (VaR) rose relative to 2012, which in a historic perspective was characterised by a low level.
- Of Jyske Bank's underlying market risks, particularly the interest-rate risk contributed to the increase due to the increased exposure through Danish and foreign mortgage bonds of a particularly high credit quality.

Jyske Bank assumes market risk as a result of position-taking in the financial markets and general banking operations such as deposit-taking and lending. Market risk is the risk that Jyske Bank will incur losses due to one or more of the risks stated below.

Interest-rate exposure:	the risk of loss caused by changing interest rates
Exchange-rate risk:	the risk of loss caused by changing exchange rates
Equity price risk:	the risk of loss caused by changing equity prices
Commodity risk:	the risk of loss caused by changing commodity prices
Volatility risk:	the risk of loss caused by changing volatilities.

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

Jyske Bank's exposure to market risk is supported by a broad organisational base covering the entire value chain.

Policy and responsibility

The Supervisory Board of Jyske Bank lays down the market risk policy and relevant guidelines stating its risk profile for the area of market risk. The policy is specified in a number of limits delegated to the Executive Board.

The limits are further limited before being delegated to the heads of Treasury and Markets. Those two units are the sole units of Jyske Bank that may assume significant market risk.

The limits delegated to Markets are such that they mainly support the daily trading volume. Strategic positions are mainly taken by Treasury as reflected by the limit delegated to the unit.

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

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

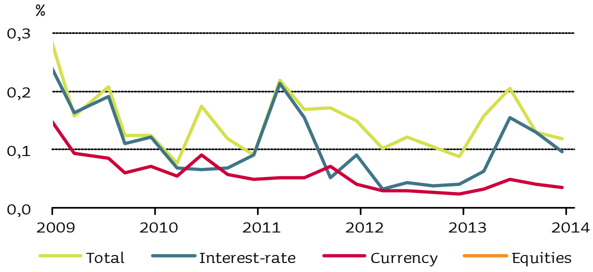
The utilisation ratios of the units' limits are reported monthly to the Executive Board and the Supervisory Board.

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 operations.

Developments in market risk

In terms of Value-at-Risk (VaR), Jyske Bank's market risk came to DKK 21m at end-2013, and therefore, on the whole, the exposure increased in 2013. In a historical perspective, the increase is rather an indication that the exposure is back at an average level, as the exposure in 2012 was particularly low.

Value-at-Risk as a percentage of equity



In the course of 2013, there was a shift in the dominant risk factors. While in the first quarter of 2013, volatilities in particular the Danish equity market dominated the development, Jyske Bank's market risk profile was characterised by active positioning in the interest-rate markets over the rest of 2013. To some extent, the increase in the second quarter of 2013 can be attributed to a change in Jyske Bank's mortgage credit model where the impact of the mortgage credit institutions' administration margins was adjusted.

In 2013, Jyske Bank took advantage of the interest-rate development actively to adjust portfolios to the interest-rate risk, which resulted in an increased net interest-rate risk. The change is not fully reflected in VaR as the interest-rate risk in the short end of the interest-rate segment was increased, primarily due to the increased exposure to Danish mortgage bonds. Even though the interest-rate exposure increased, Jyske Bank's risk profile in the interest-rate markets is still within the desired risk profile.

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 as well as covered bonds with short and medium maturities.

Throughout 2013, Jyske Bank's exposure to other market risks was stable. Changes were made in the underlying equity and currency portfolios, resulting in minor fluctuations in the risk exposure.

The underlying equity portfolio as well as the currency portfolio were characterised by being well-diversified, and at end-2013 both market risks were at moderate levels relative to Jyske Bank’s desired risk profile.

In 2012, a small strategic commodity portfolio was established and this was maintained unchanged throughout 2013.

The stabilisation of the economic situation in Southern Europe was reflected in Jyske Bank's bond portfolio inasmuch as credit quality improved. In 2013, focus was on bonds with home loans as the underlying assets in the form of mortgage bonds and residential mortgage backed securities (RMBS). Jyske Bank primarily increased exposure in European issues of a high credit quality.

The portfolio of Credit Default Swaps (CDSs) was reduced in 2013, and now it consists of 6 CDSs, of which the 5 are sold CDS’s and one is a bought CDS. The total nominal exposure was similarly reduced and amounted to DKK 600m. Underlying exposures are individual credits and consist primarily of exposures to governments.

Minimum capital for market risk

For the calculation of the minimum capital for market risk, the standard approach is applied.

The minimum capital for market risk increased in 2013. The reason for this was Jyske Bank's increased exposure to Danish mortgage bonds, which affected the risk-weighted assets for debt instruments. This was supplemented by a minor increase in the equity price risk, which could be attributed to minor shifts in the equity portfolio.

Table 28
Minimum capital requirement, market risk

DKKm	2013		2012	
Risk type	Risk-weighted assets	Min. capital	Risk-weighted assets	Min. capital
Debt instruments	14,955	1,196	11,141	892
Equities, etc.	1,590	127	1,249	100
Commodities	33	3	39	3
Currency position	1,109	89	1,054	84
Total	**17,687**	**1,415**	**13,483**	**1,079**

Market risk

Market risk types

Jyske Bank handles several types of market risk every day. Every 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.

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 an advanced risk-management model that adjusts the risk key 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 (option-adjusted spread) positions.

Interest-rate risk 1 is supplemented with a further risk measurement, which takes into account risks attached to spread transactions between interest-rate positions in various instruments and currencies. This risk measurement is calculated as Interest-rate risk 1 plus an addition for yield curve risks, volatility risks, country risks, and basis risks.

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 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 though 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.

The portfolio of Jyske Bank's own shares as well as sector shares, etc. is 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.

Table 29
Shares not held for trading

DKKm	2013	2012	Unrealised gain	Realised gain
Total	1,254	1,063	34	-9

The portfolio rose in 2013, which can be attributed to positive value adjustments as well as a few new positions.

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 simple risk measurements.

The one 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 awarded 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 the Group acts neither as an issuer nor as an exposure provider. Investment is mainly made in traditional securitisations and distributed on the following securitisation types:

- RMBS (Residential Mortgage Backed Securities): consist primarily 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 redeemed.

The securitisation types and the geographical exposure of the underlying assets of the portfolio are shown in table 30, from which it appears that the exposure is concentrated in Europe.

Table 30
Exposure type for securitisations

DKKm	Europe	US	Other	Total
RMBSs	3,931	4	5	3,941
CLO	1,073	421	96	1,589
ABS and CDO	162	11	12	186
Total 2013	**5,166**	**436**	**113**	**5,716**
Total 2012	4,710	430	42	5,182

In 2013, Jyske Bank pursued an active investment strategy in respect of RMBS's, resulting in increased exposure to these. Moreover, other minor investments were made as parts of the portfolio of securitisations were redeemed.

The risk policy for securitisations still makes unchanged demands of high credit quality in new investments. This is reflected in table 31 showing a considerable change in securitisations with top ratings.

The main underlying investments of the tranches are US and European bank and housing loans.

Table 31
Breakdown of ratings (Standard & Poor's / Moody's)

DKKm	2013	2012
AAA / Aaa	4,105	3,677
AA / Aa	830	843
A /A	593	361
BBB / Baa	104	134
BB/Ba	0	25
Lower or no rating	84	142
Total	**5,716**	**5,182**

Minimum capital for securitisations

Both the AIRB approach for credit risk and the standard approach for market risk are used for determining the minimum capital 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.

Market risk

Despite the increased exposure, the minimum capital for securitisations fell in 2013, and the reason for this is that the above-mentioned increase of the exposure primarily took place within high-grade senior issues.

The minimum capital according to risk weights appear from table 32.

Both sub-portfolios were characterised by high concentration in the low risk weights.

Table 32
Minimum capital requirement, securitisations

DKKm	2013		2012	
Risk weight - ranges	Non-weighted items	Min. capital	Non-weighted items	Min. capital
< 20%	5,331	39	4,784	34
≤ 20% < 50%	221	4	121	2
≤ 50 % < 100 %	11	1	34	2
≤ 100 % < 1,250 %	93	22	124	14
1,250%	60	60	119	119
Total	**5,716**	**126**	**5,182**	**171**
Of which in the trading portfolio	4,456	80	3,059	106

Value at Risk

Jyske Bank has developed a Value-At-Risk model for the measurement and monitoring of market risk. VaR expresses the maximum risk of loss over a period based on historical price and correlation developments of individual business types. Risk limits for VaR have been defined and delegated.

The model is a parametric VaR based on an enhanced Risk Metrics model. Volatilities and covariances in the model are estimated on the basis of data going back six months. The data are weighted so that the latest observations carry the highest weight. The VaR model has been modified to reflect the embedded prepayment risk involved in Danish mortgage bonds.

The model is used as input for the calculation of Jyske Bank's economic capital as well as adequate capital base, including Jyske Bank's individual solvency requirement. Moreover, the model is used in the day-to-day risk management of market risk that is limited by risk limits.

VaR is calculated with a time frame of one day and with 99% probability and is defined as Daily Earnings at Risk (DEaR). A DEaR of 99% indicates a 1% probability of a day's actual value adjustments exceeding the DEaR value. There is a statistical chance of 2-3 days in the course of the year when Jyske Bank's market adjustments exceed the DEaR estimated by the VaR model. Such an occurrence is termed an outlier.

Back-testing

To assess the accuracy of the VaR model, daily back-testing is conducted at which VaR is compared with the actual daily market value adjustment of market risk-related positions.

Jyske Bank has applied VaR in its risk calculations since 2001. Historically the back test has on average shown 2 outliers annually within a band of 1-3 outliers. In 2013, the model was challenged in connection with the modelling of the interest-rate risk, which resulted in a larger number of outliers than what the model has shown historically. In 2014, Jyske Bank will analyse possible initiatives to improve modelling of interest-rate risk.

In 2013, the VaR model was improved in respect of modelling of equity price risk so the systematic risk is measured more accurately.

Liquidity risk

- The takeover of Spar Lolland practically eliminated the deposit deficit and increased the solid surplus in the stress-based internal limits and guidelines.
- The injection of liquidity from the ECB together with a limited offer of new senior debt resulted in a significant narrowing of the credit spreads in the course of 2013. At end-2013, the credit spreads were at the lowest level since the financial crisis really took off in the autumn of 2008.
- In 2013, through private placements under the EMTN programme, Jyske Bank issued bonds amounting to EUR 440m with a weighted average maturity of almost 4 years.

Liquidity risk is caused by funding mismatches in the balance sheet, as the average maturity of Jyske Bank's loan portfolio is generally longer than the average duration of its funding. Jyske Bank's Supervisory Board determines the liquidity profile expressed as the balance between the risk level and Jyske Bank's costs of managing liquidity risk.

Objective and overall setup

The objective of Jyske Bank's liquidity management is to ensure adequate short- and long-term liquidity for the fulfilment of Jyske Bank's payment obligations. This is ensured through the following sub-objectives and policies:

1. a strong and stable deposit basis which ensures stable long-term funding of the Group's lending activities;
2. high credit ratings by international rating agencies;
3. active participation in the international money markets and access to international capital markets through capital market programmes which give access to a diversified and professional funding base;
4. maintenance of a considerable buffer of highly liquid securities reflecting the run-off risk of more volatile price and credit sensitive funding sources. The liquidity buffer ensures that Jyske Bank can eliminate the effect of an adverse liquidity situation.

In line with the guidelines of the Basel Committee, the Group's liquidity management is built on

- gap analysis of future cash flows;
- stress tests integrated in the limit structure;
- a liquidity contingency plan.

Management and monitoring

The Supervisory Board has adopted a liquidity policy which, among other things, defines a specific critical survival horizon for the Group during an adverse stress scenario. On the basis of these general limits, the Executive Board has defined specific operational limits for Markets as well as Treasury, which monitor and manage liquidity on a daily basis in accordance with the limits and liquidity policies adopted.

Liquidity positions are monitored daily by the department Market Risk 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.

Short-term liquidity management

Short-term operational liquidity is managed by 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 Scandinavian inter-bank money markets. Markets has been granted specific limits for the maximum placement of longer-term deposits in the same markets. Short-term funding in these markets form part of the overall Group limits for short-term funding within strategic liquidity management.

Liquidity risk

Strategic liquidity management
Strategic liquidity management at Treasury is 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 side is grouped according to expected run-off risk in various scenarios.

The analyses are based on the contractual maturity of each individual payment, but they make allowance for the fact that the actual maturities of part of the balance sheet deviate from the contractual maturities. The analyses therefore apply scenario-specific expectations of client behaviour in those cases where contractual maturities are not considered 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.

Treasury is responsible for ensuring that the Group can at all times meet the critical survival horizon 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 35 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 presupposes a broad general capital and money-market crisis which to a certain extent affects retail and corporate clients and results in drawdown by large corporate clients of unutilised lines and commitments. At the same time, growth in deposits is assumed to stagnate and the possibilities of obtaining refinancing in the international capital markets to dry out. 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 presupposes 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 EMTN and CP. 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.

The purpose of integrating stress scenario 1 into the limit structure of delegated authority is to ensure that the Group can at all times meet its obligations and pursue its operations for a specific time horizon, in case a crisis occurs during which the Group is unable to use a substantial part of its normal funding sources.

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 contingency plan stipulates a detailed set of management reports, and it determines a broad range of initiatives that can be used to strengthen the Group's liquidity position.

In 2013, Jyske Bank had a very high degree of excess coverage in respect of the stress-based internally delegated limits and guidelines.

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 order of liquidity:

1. **ultra-liquid assets denominated in DKK**, which can be used in repo transactions with the Danish central bank: certificates of deposit with the Danish central bank, Danish government and mortgage bonds and covered bonds;
2. **very liquid assets denominated in EUR**, which can be used in repo transactions with the European Central Bank: European mortgage bonds, government bonds, and senior financial instruments;
3. **Assets on which loans cannot be raised with central banks.** Other negotiable securities with a realisation time frame longer than groups 1 and 2. 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 shares.

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 groups 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 groups 1 and 2.

At end-2013, Jyske Bank had a definite overweight of ultra-liquid assets as illustrated by the chart.

Securities holding in order of liquidity

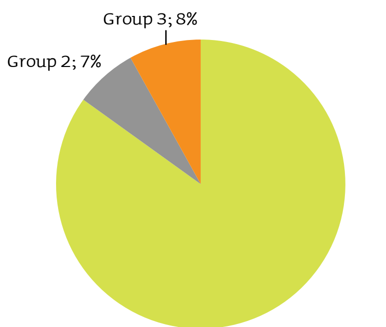


Table 33 shows the development of Jyske Bank's liquidity buffer over a 12-month period under stress scenario 3. At end-2013, the Group's liquidity buffer amounted to DKK 50bn against DKK 43bn at end-2012. The reserve consisted mainly of Danish mortgage bonds and covered bonds. DKK 45bn of the buffer is eligible at either the Danish central bank or the ECB.

Table 33
Liquidity buffer and run-off

(DKKbn)	2013	2012
Beginning of period	49.9	43.0
3 months	30.1	24.6
6 months	29.5	18.3
9 months	28.2	16.9
12 months	26.9	12.2

At end-2013, the liquidity ratio according to S.152(1)(2) of the Danish Financial Business Act was 25.1%, corresponding to a liquidity surplus of 151%; at end-2012 the surplus was 127%.

Funding

The Group's primary source of funding is deposits from clients, and it has a sound and well-diversified client deposit base. At end-2013, bank deposits funded 104% of bank loans and advances against 92% at end-2012. The funding through bank deposits rose, partially due to the takeover of Spar Lolland, partially due to the considerable growth in deposits throughout 2013.

Funding via the inter-bank and wholesale fixed-term markets is obtained through Markets as part of the short-term operational liquidity management. In addition, Markets funds its own wholesale-related activities by taking up unsecured loans in the wholesale fixed-term and inter-bank 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 Markets.

Capital market funding

To manage the long-term strategic liquidity risk profile, two different capital market programmes are utilised to ensure maximum flexibility with regard to maturity, currency, interest rate (fixed/floating) and investor base.

Table 34 Capital markets programmes	
	Limit
French commercial Paper (CP)	EUR 5bn
European Medium Term Note (EMTN)	USD 8bn

The French-regulated CP programme ensures diversification and depth in the Group's short- and medium-term liquidity management so as to comply with the limit structure of the Group. Funding under the programme may have a term of up to one year, but will typically have a term of 3 months.

Since the programme was launched in 2006, Jyske Bank has managed to build strong investor recognition of the Group's CP programme both in and outside France. At end-2013, liquidity procured under the CP programme amounted to DKK 10.7bn (EUR 1.4bn).

For long-term funding in the international capital markets, the Group has utilised a Euro Medium Term Note Programme (EMTN) since 1999. The typical maturity of senior debt is between two and ten years. At end-2013, senior issues under the programme amounted to DKK 18.5bn (USD 3.4bn).

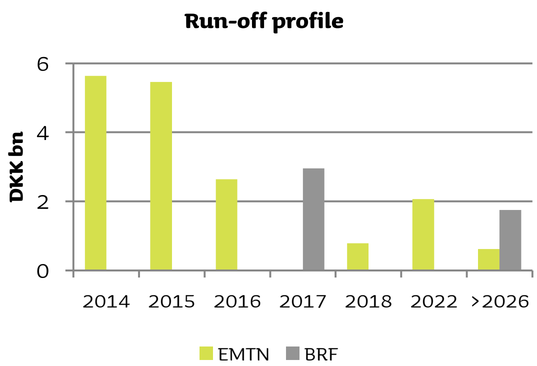
The primary investor segment for EMTN bonds is well diversified throughout Europe. Efforts are continuously being made to maintain the investor base and to increase capital-market investors' awareness of Jyske Bank with a view to supporting the Group's access to long-term funding in the international capital markets. Jyske Bank is regularly active in the market for private placement, and on an as-needed basis also large public issues of so-called benchmark bonds are made.

In 2013, the capital markets were characterised by increasing stability and a generally positive sentiment. The injection of liquidity by the ECB at end-2012 and early 2013 did - in combination with the banks' reduced balance sheets and the slowing demand for credit in Europe - result in a limited offer of new senior bonds. The dynamics of supply and demand benefited issuers of senior debt and, particularly in the first half of the year, it led to a significant narrowing of credit spreads. The ECB's rhetoric in respect of sustained low interest rate levels also caused investors to leave the less attractive cash positions and supported investments in senior issues with longer maturities and issues from more peripheral EU countries.

In 2013, Jyske Bank took advantage of the improved market conditions to issue bonds amounting to EUR 440m through private placements under the EMTN programme at attractive prices. The average weighted time to maturity for the year's issues is just above 4 years, individual times to maturity varying from 2¼ to 8½ years.

In 2012, Jyske Bank entered into an agreement with BRFkredit on joint funding of new mortgage loans as well as the part of Jyske Bank's existing mortgage loans that meet the requirements of covered bond funding. Funding takes place via covered bond issues through BRFkredit's capital centre. At end-2013, funding amounted to DKK 4.7bn, against DKK 3bn at end-2012.

The run-off profile of Jyske Bank's own senior debt and Jyske Bank's funding via issues of covered bonds through BRKkredit's capital centre is illustrated by the chart below.



At end-2013, in the course of the ordinary management of the run-off profile, Jyske Bank bought back EMTN issues with a shorter time to maturity in the amount of almost DKK 1.5bn.

New liquidity risk legislation

Since 2007, Jyske Bank's internal liquidity risk management has been based on stress scenarios that were considerably stricter than the statutory liquidity requirements.

Over the past year, the Basel Committee has worked further to determine the new liquidity ratios.

The stress-based Liquidity Coverage Ratio (LCR) will be phased in gradually from 60% implementation in 2015 to 100% implementations in 2019. Moreover, the guidelines give a broader definition of which assets that can be included in the so-called Level 2 buffer as well as a reduction of the risk runoff for some sources of funding.

The calibration of the Net Stable Funding Ratio (NSFR) was submitted for consultation in early 2014. It is expected that in the course of 2014 it will be clarified whether the NSFR will be a legal requirement as of 2018 as originally planned.

The final clarification in respect of the categorisation of covered bonds including Danish mortgage bonds in the two new ratios must be finalised in 2014. A quantitative analysis conducted by the EBA in November 2013 concluded that covered bonds including Danish mortgage bonds are as liquid as government bonds. Even though - in purely quantitative terms - the bonds meet the requirements for inclusion in the so-called highly liquid Level 1 buffer, the EBA decided nevertheless in December 2013 to maintain the original Basel III guidelines. Therefore, in its recommendation to the European Commission, the EBA did not recommend inclusion of covered bonds in the Level 1 buffer.

It is expected that the European Commission will make its final decision on the categorisation of covered bonds by the end of June 2014.

The broad political agreement on the regulation of Danish systemically important financial institutions as of the autumn of 2013 covered the implementation of CRD IV in Danish legislation, including a requirement that Danish systemically important financial institutions should meet the LCR ratio 100% in January 2015. This requirement presupposes, however, that the European Commission decides to include covered bonds in the Level 1 buffer.

Provided that Danish mortgage bonds can be included in the Level 1 Buffer, internal calculations indicate that Jyske Bank has a slight excess coverage in respect of the LCR ratio, whereas the NSFR is currently below the future statutory level. Most likely the current level will improve over the coming years due to the ongoing strengthening of earnings and equity. Thanks to the cooperation with BRFkredit on the financing of mortgage lending, the maturity mismatch will be reduced considerably in the balance sheets over the next years, and therefore, all other things being equal, the Group's NSFR will improve.

Credit ratings

The Group's credit ratings are material to the price of funding and capital as well as to the funding flexibility in the form of access to a broad investor base.

In the course of S&P's rating review of Nordic banks with focus on funding structure and liquidity risk, Jyske Bank's rating by Standard & Poor's was in July 2013 confirmed at an unchanged level with stable outlook. Jyske Bank's funding structure and liquidity profile was pointed out as 'better than those of comparable institutions', which can primarily be ascribed to Jyske Bank's high degree of funding through deposits, the limited maturity mismatch in its balance sheet and the limited dependence on short-term sources of funding.

To be of value, a rating should be forward-looking and have a low degree of cyclicality. To a high degree, Moody's rating methodology is based on quantitative analyses based on retrospective information. Moreover, for a number of years, Moody's has had a negative view of Denmark, and the agency's most recent sector report from July 2013 did not give rise to hopes of any changes in this respect. Due to Jyske Bank's strong capital position and because Jyske Bank was named a Danish systemically important financial institution, it was in August 2013 decided that for the time being one rating is sufficient for the Group. Notice was given to terminate the rating agreement with Moody's as of end-November 2013.

Table 35
Moody's and Standard & Poor's credit ratings

	Long term		Short term	Individual	
Moody's					
2001	A1	(stable outlook)	P-1	B-	
2007	Aa2	(stable outlook)	P-1	B-	
2008	Aa2	(stable outlook)	P-1	B-	
2009	A1	(stable outlook)	P-1	C+	(negative outlook)
2010	A1	(stable outlook)	P-1	C+	(negative outlook)
2011	A2	(stable outlook)	P-1	C-	(stable outlook)
2012	Baa1	(stable outlook)	P-2	C-	(stable outlook)
2013	***Rating agreement has been terminated***				
Standard & Poor's					
2006	A	(positive outlook)	A-1		-
2007	A+	(stable outlook)	A-1		-
2008	A+	(stable outlook)	A-1		-
2009	A	(negative outlook)	A-1		-
2010	A	(negative outlook)	A-1		-
2011	A-	(stable outlook)	A-2	bbb+	(stable outlook)
2012	A-	(stable outlook)	A-2	bbb+	(stable outlook)
2013	**A-**	**(stable outlook)**	**A-2**	**bbb+**	**(stable outlook)**

Operational risk

- The Group's operational risk is practically at an unchanged level in the current situation after a year during which the employees have become accustomed to new IT systems and new work processes but are now in the midst of a major organisational restructuring.

Jyske Bank is exposed to potential losses as a result of operational risks, including inexpedient processes, human errors, IT errors as well as fraud. Operational risk relates to all internal processes and can therefore not be eliminated. To reduce the risk of operational events resulting in considerable losses and harmful effects to its image, Jyske Bank actively monitors and manages operational risks. Focus is mainly on the Group's largest exposures involving high potential losses.

Policy

Jyske Bank's 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 Supervisory Board's risk targets for the area.

Jyske Bank applies the standard indicator approach to calculate the regulatory minimum capital, but in its internal risk management Jyske Bank has incorporated the scenario analysis from the advanced approach, which to a marked degree promotes risk reduction and an enhanced consciousness about operational risks in the organisation.

Risk identification and assessment

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 are 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 rests on the following elements:

- on-going dialogue with management to ensure that all the material operational risks of the Group are reflected in the risk scenarios;
- evaluation of existing risk scenarios, risk exposure and control environments in co-operation with the business units;
- losses exceeding DKK 5,000 caused by operational errors or events are registered, monitored, analysed and reported regularly for the purpose of optimising processes and reducing future losses.

The 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 object of securing the best possible processing environment. On the basis of scenario analyses and regular 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.

Every year the Executive Board and the Supervisory Board receive a comprehensive report that describes the development of the Group's operational risks accompanied by error statistics from the error registry.

Operational risk

Development in economic capital
Based on the scenario analyses, the economic capital for operational risk is calculated.

At end-2013, the economic capital for operational risk was at practically the same level as at end-2012. After a little more than a year after the conversion, Jyske Bank's employees are well experienced in the new IT systems and work processes. The conversion of the former Fjordbank Mors to Bankdata's platform has been completed, and the conversion in relation to Spar Lolland is proceeding according to plan.

The branch network is right now undergoing an organisational restructuring through which branches are specialised as corporate client or private client branches. This situation maintains the operational risk at a higher level in the branch network and in the support organisation where the new distribution of responsibilities is to be incorporated, but it is expected that in the long term this will reduce the risk of advisory errors as professionalism is being strengthened.

Large parts of Jyske Bank's IT development and operations are outsourced to Bankdata and JN Data, but the ensuing operational risks rest with Jyske Bank. It is assessed that Bankdata's setup for IT development will support stable operations. The close cooperation between Bankdata and Jyske Bank promotes the wish for an efficient product and IT development, but at end-2013 the project risk is still at a relatively high level and will be so until the modes of cooperation have been fully incorporated.

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 difficult to eliminate the risk, particularly because communication between clients and account managers to an increasing degree takes place electronically.

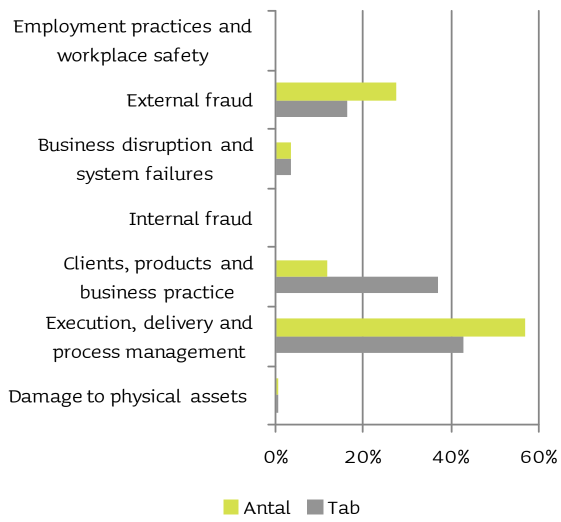
Below the breakdown of Jyske Bank's economic capital for operational risk according to the Basel categories is shown. The majority of the capital is held for the risk in the category of "Execution, delivery and process management". This category includes risk scenarios such as project risk, model errors and manual errors.

The second largest category for Jyske Bank is "clients, product and business practices", which includes risk of errors in product development and erroneous advice to clients.

Economic Capital

Breakdown of losses
The breakdown of operational losses registered in 2013 by Basel categories shows that most errors take place due to manual errors when executing orders and agreements. Continuous follow-up takes place to determine whether particularly inexpedient work processes cause many errors. In 2013 after the conversion to new IT systems, there was a period with a higher number of errors that could partially be ascribed to the employees being under time pressure, but now the level has been reduced again.

Breakdown of losses



The errors that on average were most expensive related to advisory services rendered to clients as well as the development and administration of Jyske Bank's products.

External fraud accounts for about a quarter of the incidents in 2013 and can to a great extent be ascribed to payment card fraud. The majority of the losses are, however, of a limited size.

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 breakdowns and system errors' ranks low on the list as such incidents will primarily result in loss of working hours.

Minimum capital for operational risk

The minimum capital determined through the standard indicator approach rose to DKK 999m at end-2013 from DKK 974m at end-2012; this increase reflects the rising net income over the three years covered by the calculation.

Appendix 1: Glossary

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
Adequate capital base	The Group's own assessment of its capital requirements due to the risks assumed by the Group.
AIRB	The Advanced Internal Rating Based approach. A method under the capital requirement directive for determining the minimum capital requirement to cover credit risk.
Back-testing	An ex-post comparison of forecast and realised values with the object of assessing the absolute precision of the relevant models.
Benchmarking	A management tool used for comparing the accuracy of the model under review with the accuracy of alternative models.
Business risk	The risk of unexpected fluctuations in earnings capacity or level of expenses, for instance due to falling trading activity, falling deposits or loans and advances or reductions in prices.
Calibration	Adjustment of a given model to bring it to an intended level.
Capital base	The capital base consists of core capital and subordinated debt; it must at all times be higher than the adequate capital base and the minimum capital requirement.
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.
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.
Counterparty 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	The Capital Requirement Directive.
CRD IV	It is expected that the Capital Requirements Directive will be implemented in Danish legislation as of 31 March 2014. CRD IV and CRR are to implement the Basel III agreement in the EU.

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	Capital Requirement Regulation - a regulation that is implemented directly and takes effect as of 1 January 2014.
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.
Currency risk	The risk of loss caused by changing exchange rates.
DEaR	Daily Earnings at Risk.
Default	An exposure is termed 'defaulted' if the borrower is expected not to meet all his obligations towards the Group (risk categories 2 and 3 - 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. European Banking Authority.
ECB	European Central Bank
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.
FiL	Lov om Finansiel Virksomhed (the Danish Financial Business Act).
GMRA	Global Master Repo Agreement. A standardised agreement entered with a counterparty to a repo agreement. The agreement stipulates the trading conditions between the parties, including the right to demand additional margin if the value of the bond put up as collateral falls.
ICAAP	Internal Capital Adequacy Assessment Process.
IFRS	International Financial Reporting Standards. International Financial Reporting Standards.
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 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).

Appendix 1: Glossary

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.
Minimum capital requirement	The minimum capital requirement is the amount of capital that the Group must hold to maintain its banking licence. Determination of the minimum capital requirement is based on regulatory formulas which prescribe how risk-adjusted items must be measured. The minimum capital requirement is 8% of the risk-adjusted items.
Monte Carlo simulation	A method for analysing models which are too complex for analytical solution. A large number of potential scenarios are simulated, resulting in a precise and detailed description of a range of outcomes.
OAS	Options-Adjusted Spread. A measure of the yield premium of a mortgage bond over a given benchmark such as, e.g., the swap yield curve.
OEI	Objective Evidence of Impairment. A concept applied in the measurement of impairment charges under IFRS.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Past Due	Exposures which have been in default for 90 days or longer.
PD	Probability of Default. The probability of a given client defaulting within the next twelve months.
PD volatility	The volatility of the PDs, which reflects the uncertainty associated with the level of the PDs.
RAROC	Risk Adjusted Return on Capital. Risk Adjusted Return on Capital.
Retail	In relation to the CRD, the ‘Retail’ category covers private 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.
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 assets (RWA).
RWA	Risk-weighted assets according to the capital requirement regulations in force. Jyske Bank's capital base must correspond to at least 8% of this amount.

Settlement risk	The risk of loss caused by the non-fulfilment of payment obligations agreed between Jyske Bank and its counterparties.
SIFI	Systemically important financial institutions
Solvency ratio (%)	Capital base divided by risk-weighted assets.
VaR	Value at Risk expresses the anticipated maximum risk of loss over a period based on historical price and correlation developments.

Appendix 2: Supplementary tables

Specification of exposure by credit rating (2013)				
DKKm	**EAD**	**Undrawn**	**Average LGD %**	**Average RW**
Credit rating				
Corporate clients				
a) Ratings 1-5	51,105	26,357	27	0.19
b) Ratings 6-10	36,580	9,411	30	0.50
c) Ratings 11-14	12,212	1,862	35	1.33
Corporate clients, total	**99,897**	**37,630**		
Retail				
a) Ratings 1-5	29,747	2,757	28	0.09
b) Ratings 6-10	18,761	1,530	34	0.39
c) Ratings 11-14	5,509	269	34	0.80
Retail, total	**54,017**	**4,556**		
Total	**153,914**	**42,186**		

Specification of exposure by credit rating (2012)				
DKKm	**EAD**	**Undrawn**	**Average LGD %**	**Average RW**
Credit rating				
Corporate clients				
a) Ratings 1-5	54,625	32,868	21	0.17
b) Ratings 6-10	37,325	10,157	35	0.63
c) Ratings 11-14	12,326	1,709	35	1.13
Corporate clients, total	**104,276**	**44,734**		
Retail				
a) Ratings 1-5	27,340	2,266	29	0.09
b) Ratings 6-10	19,587	1,580	35	0.42
c) Ratings 11-14	5,889	374	35	0.84
Retail, total	**52,816**	**4,220**		
Total	**157,092**	**48,954**		

Specification of exposure (defaulted and past due) to counterparties (2013)				
DKKm	**EAD**	**Undrawn**	**Average LGD %**	**Average RW**
Exposure category				
Central governments	0	0	0	0.00
Corporate clients	7,121	801	44	0.46
Retail	2,736	130	25	0.78
Total	**9,857**	**931**		

Specification of exposure (defaulted and past due) to counterparties (2012)				
DKKm	**EAD**	**Undrawn**	**Average LGD %**	**Average RW**
Exposure category				
Central governments	1	0	0	1.32
Corporate clients	6,785	602	42	0.43
Retail	2,571	135	26	0.68
Total	**9,357**	**737**		

Specification of exposure to unrated counterparties and counterparties under the standard approach (2013)				
DKKm	**EAD**	**Undrawn**	**Average LGD %**	**Average RW**
Exposure category				
Central governments	17,869	3,442	0	0.00
Institutions	39,180	19,663	0	0.10
Corporate clients	5,474	407	0	0.47
Retail	8,429	269	0	0.28
Equities	1,212	0	0	1.00
Securitisations	1,259	0	0	0.00
Assets without counterparties	3,898	0	0	1.00
Total	**77,321**	**23,781**		

Specification of exposure to unrated counterparties and counterparties under the standard approach (2012)				
DKKm	**EAD**	**Undrawn**	**Average LGD %**	**Average RW**
Exposure category				
Central governments	13,038	1,844	0	0.00
Institutions	31,773	13,212	0	0.11
Corporate clients	5,085	798	0	0.46
Retail	6,151	533	0	0.29
Equities	1,624	0	0	1.00
Securitisations	2,122	0	0	0.00
Assets without counterparties	4,140	0	0	1.00
Total	**63,933**	**16,387**		

Geographical break-down of exposure								
DKKm	**Denmark (zone A)**	**The EU (zone A)**	**Other European zone-A countries**	**USA + Canada (zone A)**	**Other zone-A coun-tries**	**South America**	**Rest of the world**	**Total**
Exposure category								
Central governments	17,493	4	371	0	0	0	1	17,869
Institutions	18,624	14,201	5,406	831	43	1	74	39,180
Corporate clients	102,374	8,005	1,560	69	23	5	456	112,492
Retail, total	58,960	4,078	854	166	37	678	409	65,182
1) Real property, personal	16,073	212	46	28	5	10	33	16,407
2) Real property, SMEs	6,819	34	3	2	0	1	2	6,861
3) Revolving credits	8,732	41	15	8	2	2	15	8,815
4) Other retail exposure, personal	17,270	3,549	789	117	30	665	358	22,778
5) Other retail exposure, SMEs	10,066	242	1	11	0	0	1	10,321
Equities	1,212	0	0	0	0	0	0	1,212
Securitisations	0	1,165	0	89	5	0	0	1,259
Assets without counterparties	3,771	120	7	0	0	0	0	3,898
Total 2013	**202,434**	**27,573**	**8,198**	**1,155**	**108**	**684**	**940**	**241,092**
Total 2012	203,788	19,615	3,348	1,803	128	722	979	230,383

The above geographical breakdown of exposure also applies generally to the geographical breakdown of exposures in default and past due. However, the value adjustment for exposure abroad is proportionately smaller, since exposure abroad is widely covered by collateral.

Appendix 2: Supplementary tables

Geographical breakdown of defaulted and past due exposure		
DKKm	EAD for defaulted and past due exposures	Value adjustment / impairment charges
Denmark (zone A)	8,361	3,491
The EU (zone A)	1,359	121
Other European zone-A countries	101	5
USA + Canada (zone A)	22	3
Rest of the world	14	1
Total 2013	**9,857**	**3,620**
Total 2012	9,357	3,348

Exposure to specialised lending distributed on risk weightings		
DKKm	**2013**	**2012**
	Term to maturity > 2½ years	Term to maturity > 2½ years
Risk weighting 70%	10	15
Risk weighting 115%	68	68
Risk weighting 250%	12	46
Defaulted exposures (risk weighting 0%)	60	85
Total	**150**	**214**

Exposure secured by guarantees				
DKKm	**2013**		**2012**	
Exposure category	EAD partial cover	EAD full cover	EAD partial cover	EAD full cover
Central governments	3,669	7	49	10
Institutions	16	0	24	0
Corporate clients	3,612	40,118	7,641	39,591
Retail	1,931	745	1,651	838
Total	**9,228**	**40,870**	**9,365**	**40,439**

Average exposure by credit rating		
DKKm	**2013**	**2012**
Exposure category		
Central governments	12,587	7,800
Institutions	34,888	43,431
Corporate clients	113,856	118,735
Retail, total	64,079	61,212
1) Real property, personal	15,888	16,153
2) Real property, SMEs	6,512	6,828
3) Revolving credits	8,676	8,583
4) Other retail exposure, private clients	22,599	19,670
5) Other retail exposure, SMEs	10,404	9,978
Equities	1,199	1,086
Securitisations	1,582	2,165
Assets without counterparties	4,102	4,290
Total	**232,293**	**238,719**

Mapping of risk elements assessed in ICAAP					
Circumstances	Credit risk	Market risk	Operational risk	Liquidity risk	Business risk
General	•	•	•	•	•
Earnings					•
Growth	•				•
Credit risks	•				
Market risks		•			
Concentration risks	•	•			
Group risks					•
Liquidity risks				•	
Operational risks			•		
Control risks			•		
Business size					•
Settlement risks	•		•		
Strategic risks					•
Reputational risks					•
Interest rate risks outside the trading portfolio		•			
External risks	•				•
Other circumstances	•	•	•	•	•