

Risk and Capital Management



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Introduction

The object of the risk management report is to give the reader insight into the Jyske Bank Group's internal risk and capital management procedures and the regulatory capital requirements. First the report describes the Group's approach to risk and its risk organisation followed by a description of the risk and capital management procedures. The description introduces the risks to which the Group is exposed, dealing in detail with the following risks: 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.

Appendix 1 is a glossary with brief definitions of the main concepts used in the report. Appendix 2 sets out supplementary information and tables.

The year 2009

The year 2009 was very much affected by the adverse development of business trends. Negative economic growth, falling housing prices and rising unemployment affected the general risk situation, particularly credit risk. Therefore, in 2009 Jyske Bank focused on consolidation and risk circumstances in order to strengthen the Group's robustness and risk profile with a view to future developments.

The principal risks facing the Group at the beginning of 2009 were affected by the uncertainty in the financial markets. In respect of credit risk, Jyske Bank focused on reducing exposure to risky areas and obtaining further collateral in instances where the risk was particularly high. This effort more than offset the increase in risk that the development in credit risk and collateral values otherwise resulted in. At the end of 2009, the risk exposure of Jyske Bank was therefore lower than that at the beginning of the year and supported the development desired by Jyske Bank.

Of course the development in the Group's loan impairment charges and provisions for guarantees was also affected by the adverse economic development in Denmark, where particularly businesses have been under pressure. The effect on operations reflected this

trend and still increased in line with the development in the fourth quarter of 2008.

Market risk and counterparty risk were also affected by the turbulence in the fourth quarter 2008. In the course of 2009, market conditions normalised somewhat.

The macroeconomic situation over the coming years is still associated with great uncertainty. For the assessment of future capital requirements, a number of stress tests have been applied that analyse the capital requirement in the event of a deeper economic recession. On the basis of these stress test analyses and the development in 2009, among other things, Jyske Bank carried out a capital increase in November 2009. Even in the event of a continued serious macroeconomic recession, Jyske Bank will thanks to this capital increase, among other things, have a considerable capital buffer to offset extraordinarily large losses and yet maintain a solvency ratio that considerably exceeds the individual solvency requirement. In isolation the capital increase improved the solvency and core capital ratios by 1.2 percentage points. Therefore Jyske Bank chose not to raise capital under 'Bank Package II'.

At year-end 2009, the individual solvency requirement was calculated at 9.7%. The solvency requirement increased throughout 2009, reflecting the increased uncertainty linked to the economic situation in Denmark and the ensuing deterioration of the credit quality.

- EAD amounted to DKK 201.5bn against DKK 226.3bn in 2008.
- Risk-adjusted items amounted to DKK 100.4bn against DKK 105.6bn in 2008
- Economic capital amounted to DKK 5.4bn against DKK 6.8bn in 2008
- The capital base amounted to DKK 15.4bn against DKK 13.4bn in 2008.
- The solvency ratio came to 15.3% against 12.7% in 2008
- Tier 1 came to 13.5% against 11.0% in 2008
- A net amount of DKK 2.3bn was charged as write-offs, loan impairment charges and provisions for guarantees on defaulted and past due exposures against DKK 1.1bn in 2008.

Risk Management

Risk profile

Jyske Bank assumes risks on the basis of its strategic targets. To ensure efficient measurement, monitoring, reporting and management, the Group's risk profile is based on a mix of capital targets, risk policies and risk limits as well as quantitative targets, including solvency requirements, earnings and external ratings.

Jyske Bank utilises its own models for internal management. Being approved as an advanced bank with regard to credit risk, Jyske Bank may state the regulatory capital requirements on the basis of those models so that risk and capital management can be seen under one.

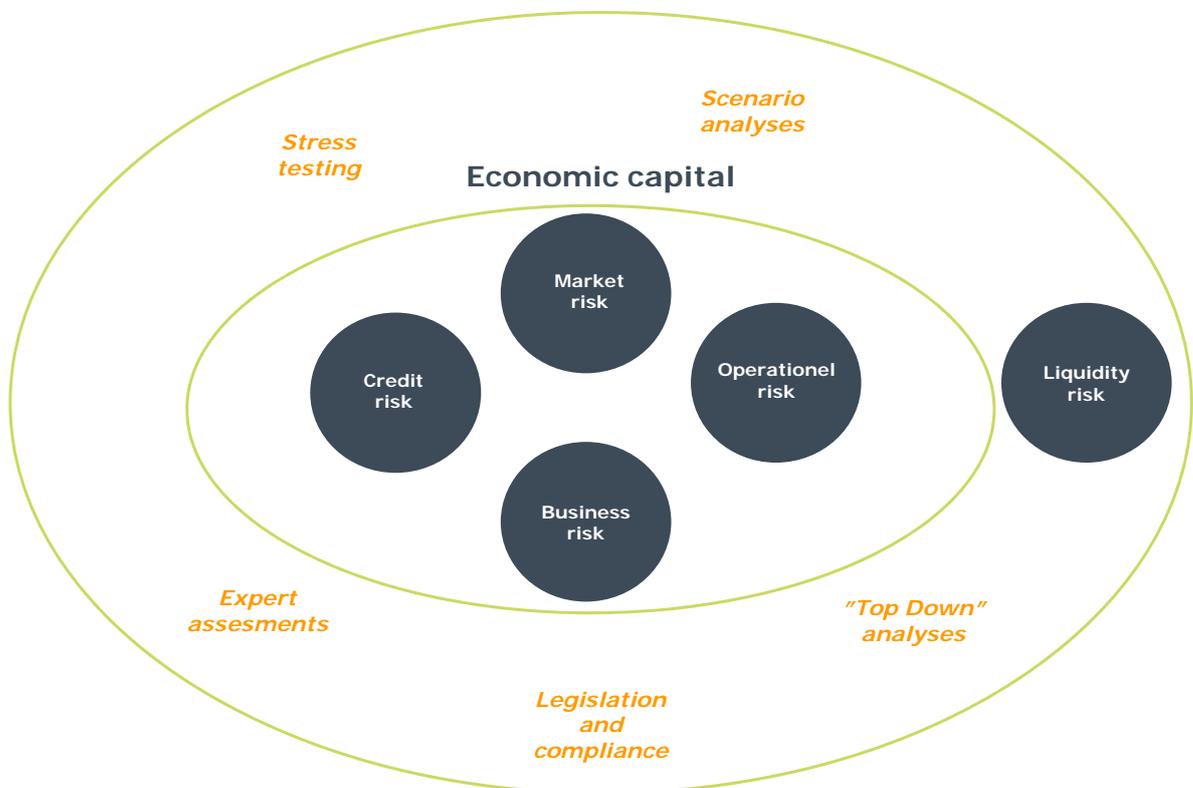
Based on overall risk policies and the risk profile, specific risk instructions have been prepared for the principal risk areas.

Economic Capital

Economic capital is the basis of Jyske Bank's risk and expresses the maximum loss that Jyske Bank is able to sustain over a given period at a certain level of probability. Economic capital is thus a Value at Risk setup (over a 1-year horizon) for those risk types to which the Group wishes to apply quantitative modeling.

Economic capital includes quantification of the four main risk types to which the Group is exposed: credit risk, market risk, operational risk and business risk.

■ The risk universe at Jyske Bank



However, the risks extend beyond the next twelve months, and also there are elements which the VaR setup does not take into account. To get an overview of the Group's aggregate risk profile, the principles for determining economic capital are therefore supplemented with macroeconomic stress tests, partial sensitivity analyses, top-down analyses, expert assessments etc. and finally liquidity risk, which together offer the overall picture of risk.

Day-to-day risk management reflects the risk management set-up for ongoing measuring, monitoring and reporting. The underlying quantitative models are reviewed, validated and improved on a regular basis.

Distribution of responsibilities

The Supervisory Board lays down and regularly reviews the overall policies, guidelines and principles for risk and capital management and regularly receives reports on exposure and the utilisation of allocated risk limits.

Finance & Risk Management is in charge of overall

financial and risk management as well as optimisation of capital allocation and, also, Finance & Risk Management submits risk management principles and policies to the Executive Board for approval by the Supervisory Board. Moreover, the unit is responsible for

- the recognition, measurement and reporting of external and internal Group financial management, including external reporting, as well as the implementation of adviser-oriented financial and risk-management tools;
- the implementation of risk-management principles and policies with a view to improving risk management and internal capital allocation;
- the 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 approved by the Supervisory Board.

Finance & Risk Management does not enter into transactions and does not assume credit, market or liquidity risks.

Jyske Bank's risk organisation



Day-to-day management of credit risk is undertaken by account managers as well as the central credit department, and 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 day-to-day management of operational risk is undertaken by the individual units of the organisation.

At quarterly meetings of the Risk Management Committee, 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, solvency requirement, and capital and liquidity reserves (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-estimate and validation of models.

Group market risk positions are assessed at monthly meetings of the Asset and Liability Committee. The main task of the Committee is to ensure that the Group's actual market risk profile coincides with the intended market risk profile.

Capital Management

The objective of capital management is to optimise the Group's capital structure given the adopted risk profile. The description below is based on the Group's overall capital management objectives and on the capital measurements used for the purpose.

Capital management objective

Jyske Bank's capital management objective is 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 sufficient to absorb heavy unexpected losses.

Moreover, capital planning aims at meeting the requirements for obtaining an AA rating. The Group regards a rating of at least A to be essential for the adopted business model.

As for earlier years, capital planning for 2010 is characterised by maximum consolidation and sustained optimisation of risk-adjusted items with due regard for the business strategy.

At the beginning of 2010, a core capital ratio of at least 11 and an overall solvency ratio of at least 13 are found to be consistent with the above-mentioned targets.

Capital

The development in Jyske Bank's solvency and core capital ratios is shown in the table below.

Solvency ratio and core capital ratio

	2009	2008
Solvency ratio	15.3	12.7
Core capital ratio including hybrid capital	13.5	11.0
Core capital ratio excluding hybrid capital	11.9	9.5

As evident from the table, Jyske Bank has increased its capital base over the year under review, which is in line with the Group's capital management objective. The improved solvency position reflects a growing capital base and a decline in risk-adjusted items. The latter effect is mainly attributable to a fall of 11% in Exposure at Default (EAD). As apparent from the table below, risk-weighted items (RWA) declined by less than did EAD, which may be due to impaired credit quality and haircuts.

Change in EAD and RWA involving credit risk

DKKm	2009	2008	Change
EAD	201,546	226,307	-10.9%
RWA	78,879	86,489	-8.8%

In the autumn of 2009, Jyske Bank made a capital increase which in isolation improved the solvency and core capital ratios by 1.2 percentage points. Therefore Jyske Bank chose not to raise capital under 'Bank Package II' (state-funded capital injections).

Capital base

The capital base consists of core capital and supplementary capital. The size of the core capital depends, among other things, on the year's profit, on the subordinated loan capital and the Group's dividend and share buy-back policies. The Group's solvency ratio is expressed as the capital base as a percentage of risk-adjusted assets.

The consolidation basis for accounting objectives meets the provisions about consolidation laid down in S.12 of the Danish Financial Business Act. Fast transfer of capital resources or repayment of claims between the parent and its subsidiaries can be made, to the extent allowed by the solvency and liquidity situation of the subsidiaries.

Minimum capital requirement

Determination of the minimum capital requirement rests on the risk types credit, market and operational risk. Jyske Bank's minimum capital requirement is shown in the table in the next column.

Credit risk accounts for the bulk of the regulatory capital requirement. Jyske Bank has been approved to apply the advanced internal rating-based method (AIRB) to the measurement of credit risk. The approval extends to the application of advanced methods for determining the minimum capital requirement for the bulk of the Group's credit portfolio. Exposure breaks down into the categories set out in the table at the bottom of the next column.

The aggregate minimum capital requirement has fallen considerably thanks to a general decrease in loans and advances. This fall should be seen as the result of a general reduction of the exposure to corporate and institutional customers due to the current financial situation and to a general adjustment of customer exposures.

The bulk of Jyske Bank's credit exposure is measured according to the AIRB method (69%), while the rest is measured according to the standard method (31%), cf. the chart overleaf. Out of the exposure measured according to the standard approach, 72% refers to exposure to central governments and institutions.

Capital base

DKKm	2009	2008
Share capital	648	540
Retained earnings	11,556	9,864
Minority shareholders	37	45
Intangible assets	-262	-284
Deferred tax assets	-8	-41
Core capital excluding hybrid core capital	11,971	10,124
Hybrid core capital	1,584	1,643
Diff. between expected loss and impairment charges	-2	-121
Deduction for investments above 10%	-26	-27
Deduction for delivery risk	-2	0
Core capital	13,525	11,619
Subordinated debt (excluding hybrid core capital)	1,610	1,639
Revaluation reserves	281	279
Diff. between expected loss and impairment charges	-2	-121
Deduction for investments above 10%	-26	-27
Deduction for delivery risk	-2	0
Capital base	15,386	13,389

Minimum capital requirement by risk type

DKKm	2009	2008
Credit risk	6,311	6,919
Market risk	920	722
Operational risk	803	803
Total	8,034	8,444

NB: for operational risk a change in the method of determination left the minimum capital requirement unchanged in comparison with end-2008.

Minimum capital requirement by exposure category, credit (CRD)

DKKm	2009	2008
Exposure category		
Central governments	2	0
Institutions	252	343
Corporate customers	4,139	4,713
Retail, total	1,394	1,440
1) Real property, personal	175	235
2) Real property, SMEs	203	190
3) Revolving credits	64	48
4) Other retail exposure, personal	573	628
5) Other retail exposure, SMEs	379	339
Equities	50	37
Securitisations	197	120
Assets without counterparties	276	266
Total	6,310	6,919

NB: 8% of risk-weighted items

Exposure by determination method

DKKm	2009				2008	
	AIRB		Standard		AIRB	Standard
Exposure category	DKKm	%	DKKm	%	%	%
Central governments	0	0	13,975	22	0	20
Institutions	0	0	31,078	49	0	50
Corporate customers	76,585	56	11,010	18	59	19
Retail, total	55,455	40	6,123	10	37	11
1) Real property, personal	17,192	12	0	0	15	0
2) Real property, SMEs	8,248	6	0	0	6	0
3) Revolving credits	9,122	7	0	0	4	0
4) Other retail exposure, personal	13,820	10	4,529	7	8	9
5) Other retail exposure, SMEs	7,073	5	1,594	3	4	2
Equities	0	0	625	1	0	0
Securitisations	3,242	2	0	0	2	0
Assets without counterparties	3,453	2	0	0	2	0
Total	138,735	100	62,811	100	100	100

The application of the advanced approach for measuring credit risk means that the capital requirement reflects those credit risks that apply specifically to Jyske Bank's credit portfolio. In 2009, Jyske Bank's credit portfolio had a relatively high proportion of

retail customers, and relatively extensive collateral had been provided. The composition of Jyske Bank's credit portfolios is described in detail in the section about credit risk.

Exposure by credit rating

DKKm - 2009	EAD	Undrawn	Average LGD%	Average RW
Rating class				
Corporate Customers				
a) 1-5	31,787	11,571	50	0.37
b) 6-10	33,567	7,435	41	0.65
c) 11-14	5,989	674	37	1.00
Corporate customers, total	71,343	19,680		
Retail				
a) 1-5	38,657	3,191	34	0.12
b) 6-10	13,147	1,079	39	0.44
c) 11-14	2,108	98	39	0.87
Retail total	53,912	4,368		
Total	125,255	24,048		

DKKm - 2008	EAD	Undrawn	Average LGD%	Average RW
Rating class				
Corporate Customers				
a) 1-5	47,330	16,251	42	0.30
b) 6-10	34,788	7,166	42	0.70
c) 11-14	5,230	680	35	0.94
Corporate customers, total	87,348	24,097		
Retail				
a) 1-5	42,609	3,357	33	0.13
b) 6-10	11,296	780	40	0.45
c) 11-14	1,350	65	40	0.99
Retail total	55,255	4,202		
Total	142,603	28,299		

NB: the creditworthiness of Jyske Bank's performing customers is rated on a scale from 1 to 14.

From the tables it is evident that Jyske Bank's exposure fell throughout 2009. Moreover, the general economic development caused credit quality, particu-

larly that of the corporate customer segment, to deteriorate. Exposure to the best rating classes (1-5) decreased. This also reflects the fact that exposure to a number of customers with low ratings was adjusted after consulting the individual customers. Moreover, Jyske Bank focused on reducing exposure to low-margin customers who are relatively more numerous among those with low credit ratings.

The proportion of retail customers with a rating between 1 and 5 also fell slightly in 2009, but the level is still satisfactory (72%). For additional statements of exposure we refer to Appendix 2.

It has been agreed with the Danish Financial Supervisory Authority to implement the AIRB approach gradually to the credit portfolio of the subsidiary Jyske Finans, which accounts for 5.0% (in terms of EAD) of the Jyske Bank Group's exposure. In 2009, the AIRB method started to be applied to Jyske Finans's retail-customer portfolio. For the rest of the portfolio, implementation is expected to be completed in the course of 2010.

Market risk is measured according to the standard approach for determining the minimum capital re-

quirement and operational risk according to the standard indicator approach. Additional internal advanced methods have been prepared for determining both of these risk types. These methods are used, inter alia, for determining the adequate capital base and the solvency requirement.

The aggregate minimum capital requirement for market risk has increased significantly since end-2008. As shown in the table, the change was mainly caused by an increase of the minimum capital requirement for debt instruments due to the higher exposure to mortgage bonds.

Both the AIRB method and the standard method are used for determining the minimum capital requirement for the portfolio of securitisations, because the portfolio breaks down into an investment portfolio and a trading portfolio, the investment portfolio being the heavier of the two.

The minimum capital required was higher than last year due to downgrades of the portfolio of CLOs/CDOs.

Minimum capital requirement, market risk

DKKm	2009		2008	
	Risk-weighted items	Min. capital requirement	Risk-weighted items	Min. capital requirement
Debt instruments	9,705	776	7,650	612
Equities etc.	340	27	279	22
Commodities	35	3	80	6
Option premiums	0	0	0	0
Currency position	1,426	114	1,020	82
Total	11,506	920	9,029	722

Minimum capital requirement, securitisations

DKKm	2009		2008	
	Unweighted items	Min. capital requirement	Unweighted items	Min. capital requirement
< 20 %	2,911	28	2,199	19
20-49%	50	1	44	1
50-99%	12	1	190	9
100-650%	198	25	239	55
1250%	202	210	74	74
Total	3,373	264	2,746	158
Of which held in the trading portfolio	132	67	156	40

Jyske Bank's ICAAP

Jyske Bank's ICAAP collects validations, measurements and assessments with the object of determining Jyske Bank's adequate capital base and individual solvency requirement¹. Jyske Bank's ICAAP provides a well-documented overview over current and future risks and their correlation. Jyske Bank's ICAAP includes a number of existing and newly-developed stress tests whose object is to model the micro- and macroeconomic factors to which Jyske Bank is exposed.

Every year the Group in general and the Executive Board in particular will select focus areas on the basis of the risks which apply to a certain year or are of special interest for reasons specific to Jyske Bank, e.g. portfolio mix. The analyses undertaken in 2009 with regard to Jyske Bank's ICAAP were chosen with the objective of assessing circumstances which were expected to affect Jyske Bank's solvency requirement in 2009 and for several years thereafter.

The objective of the analyses performed for each risk type is to address qualitative as well as quantitative elements with regard to monitoring and quality assurance, including extensive evaluation of model assumptions.

Method and assumptions

The adequate capital base is determined using Jyske Bank's internal models for measuring economic capital. In addition to economic capital the 17 regulatory items are evaluated which, according to Appendix 1 of the Danish Executive Order on capital adequacy, are to be evaluated in connection with determination of the adequate capital base.

On a regular basis it is checked that the 17 regulatory items are evaluated for determination of the adequate capital base, and that the measurement of economic capital is at all times adequate and accurate.

Individual solvency requirement

Jyske Bank reserves additional capital for circumstances which are not addressed under economic capital. The additional capital relates mainly to credit risk, which accounts for about 70%. For credit risk, the biggest additional amount relates to large weak exposures. The amount of additional capital is calcu-

lated on the basis of extra cautious assessment of circumstances which are taken into account in the measurement of these exposures and which are subject to high uncertainty because of the prevailing macroeconomic situation.

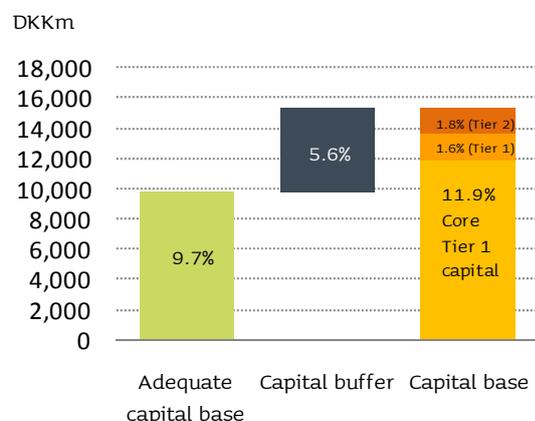
The additional capital for market risk relates to circumstances which are not addressed in the applicable VaR calculation. Additional capital due to other circumstances relates to topics specific to Jyske Bank and topics which are general for the banking sector.

Determination of individual solvency requirement

DKKm	2009	% of RWA
Credit risk	6,810	6.8
Market risk	960	0.9
Operational risk	569	0.6
Other	1,403	1
Total	9,742	9.7

The individual solvency requirement is determined partly by the internal measurement of the adequate capital base indicated above, partly by regulation. In addition to the minimum capital requirement (a solvency ratio of 8%), the solvency requirement is limited by the interim rules pertaining to AIRB institutions. At 31 December 2009, Jyske Bank calculated the internal solvency requirement to be 9.7%. Jyske Bank was not subject to regulatory limits. Consequently the Group's individual solvency requirement was 9.7%.

Solvency requirement and capital buffer



¹ The solvency requirement expresses the adequate capital base in relation to risk-weighted items (RWA).

The capital buffer plus earnings from operations denote the maximum sustainable loss without additional capital. In that connection, the capital structure is important, i.e., the distribution of the capital base on core capital and supplementary capital. Jyske Bank's large proportion of core capital (excluding hybrid core capital) cements the quality of the capital.

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, when 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 requirement of additional capital for the subsidiaries. The measurement of risk-weighted items under CRD showed these items to be 5.5% higher for Jyske Bank A/S than for the Group, mainly because the parent company's loans and advances to the subsidiaries carry weight in Jyske Bank's solvency calculation. Consequently, the parent company's solvency requirement was 9.2%.

Stress-testing and assessment of the need for a buffer to meet cyclical changes

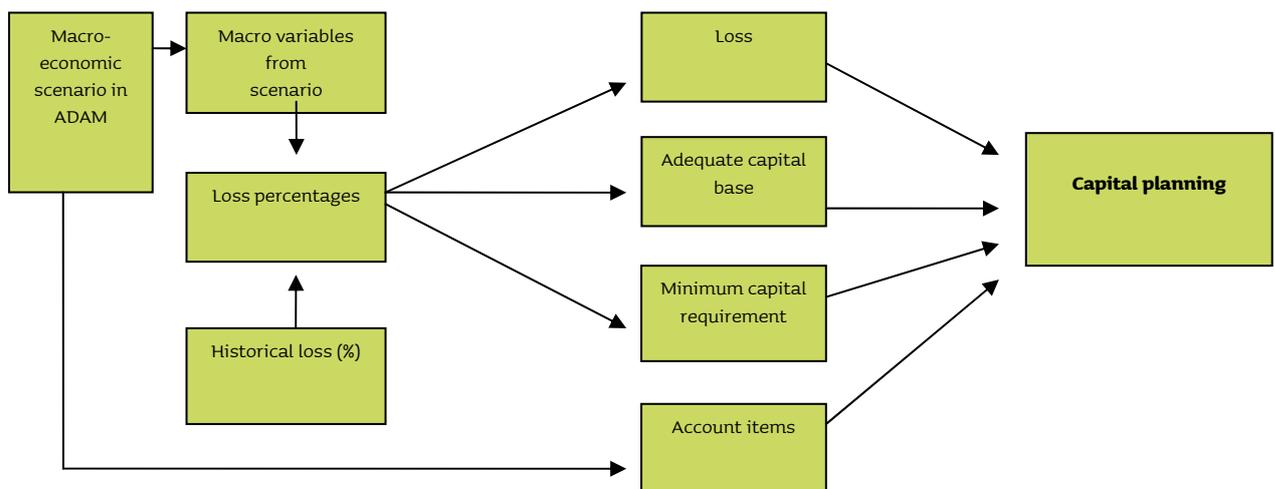
During the current economic situation, stress-testing has proved a useful capital management tool, and it is therefore an important element in Jyske Bank's

determination of the adequate capital base and solvency requirement.

Stress-testing is used in a number of respects. Stress-testing characterised as sensitivity analyses of the impact on the risk measurement of various parameters is applied as is extensive scenario-based stress-testing of, e.g., the importance of cyclical changes. Exactly scenario-based stress-testing forms the basis for determining whether a capital buffer in addition to the adequate capital base is necessary. Stress-testing is also used intensively in capital planning analyses.

The processes involved in scenario-based stress-testing are illustrated in the chart below. Projections of macroeconomic indicators are made on the basis of the macroeconomic model ADAM (Statistics Denmark). Moreover, Jyske Bank has developed a number of models which translate developments in macroeconomic indicators into consequences for loss, earnings and balance-sheet items.

Model of scenario-based stress-testing



The stress-test analyses rest on various macroeconomic scenarios. These often reflect 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.

The stress-test scenarios have been divided into two types:

1. recession scenarios used for evaluation of whether a buffer in addition to the adequate capital base is required for meeting cyclical changes;
2. deep-recession scenarios used for determining the Group's capital target for the short and long term.

One 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 objective as well as its risk measurement. It is therefore crucial to determine the circumstances against which the Group wishes to hold capital. Another objective is to estimate the required solvency. In accordance with regulation, the estimate must at the least be based on a stress test based on a mild recession scenario. The regulatory recession scenario is defined at Jyske Bank as a year of zero GDP growth within a projected horizon of 3-4 years. The Danish economy is currently in deep recession characterised by a considerable fall in activities. The Danish economy is thus in a much harsher recession than the scenario envisaged under current legislation for determining the adequate capital base.

Scenarios applied by Jyske Bank

	2010 – 2012	Objective
Expected scenario	Stabilisation of the Danish economy with slow recovery. Consumer spending and investment expected to grow only slowly, but unemployment expected to increase until end-2011.	Buffer in addition to the adequate capital base to meet the effects of cyclical changes
Deep and lengthy recession	Sustained economic crisis leading to a deep and lengthy recession. The crisis hitting Denmark harder than the rest of the world. The scenario is in every respect harsher than the expected scenario. Such an adverse scenario is estimated to exist once every 25 years.	Capital planning

The table below shows changes in GDP growth, unemployment and house prices used in the applied stress-test scenarios. The stress scenarios applied featured a considerable decrease in activities with ensuing much higher unemployment and lower asset prices. Jyske Bank takes a conservative view on capital planning as reflected in Jyske Bank's choice of scenario. Several of the central macroeconomic indicators were projected in a more negative way than used in the Danish central bank's scenario for stress-testing the Danish banking sector.

When the scenarios have been determined, a number of macroeconomic variables are used for projecting loss percentages. Loss percentages are projected at sector level, taking into account the fact that sectors are affected differently depending on the scenario used. The projected loss percentages are then translated to micro level, and our customers are awarded projected Probability of Default (PD) and Loss Given Default (LGD) values according to their respective sectors. PDs and LGDs are used for the projection of the adequate capital base and the minimum capital requirement for 3-4 years. Finally, the account items

are projected in accordance with the specified macro scenario.

The stress-test scenarios typically point to a higher adequate capital base as a natural consequence of the expected credit quality deterioration in a stress situation.

The scenario of deep recession results in deterioration of the consolidation capacity and in a higher solvency requirement. Either of these elements reduces the gap between capital supply and capital demand. In spite of the crisis, core earnings before loan impairment charges and provisions for guarantees showed robust development and a capability for absorbing large loan impairment charges and provisions for guarantees. One result of the stress-test analyses based on deep and lengthy recession is to show that the higher need for impairment charges can to a large extent be met by core earnings. Finally, the stress-test analyses show the Group's capital structure and capital level to remain satisfactory even in the event of a deep and lengthy recession.

Change in central macroeconomic variables

	Expected scenario			Deep and lengthy recession		
	2009	2010	2011	2009	2010	2011
GDP growth	-4.8%	1.1%	1.5%	-5.2%	-1.7%	0.5%
Unemployment rate	4.8%	6.1%	6.7%	5.2%	7.5%	8.6%
House prices	-14.6%	-2.9%	2.0%	-15.0%	-9.2%	-3.1%

NB: the above scenarios were determined in early December 2009.

Economic Capital



• Economic capital reflects the minimum capital required to support the current risk target at a 12-month horizon. For the Group, economic capital covers 99.97% of unexpected losses over a 12-month horizon, corresponding to the level of an AA-rated bank.

Economic capital is the core element in the management of the Group's risk and capital structure and is a central element of day-to-day risk management

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, which takes into consideration correlation effects. It thus produces one unified risk measurement expressed in a single unit of value.

Since 2002 when economic capital and RAROC principles were introduced in the Group as management tools, amendments have continuously been made to address the changed risk circumstances and developments in that respect. The main point is that at all times the capital reflects the Group's risk for the next year.

Jyske Bank's risk universe

Jyske Bank pursues the objective that the economic capital must accommodate all material risks. Jyske Bank's risk universe is therefore assessed continuously, and it is considered whether additional risks should be quantified in the economic capital. Moreover, those risks which are expressed in the capital are tested and validated to ensure that risk is at all times reflected accurately.

Economic capital includes quantification of the four main risk types to which the Group is exposed: credit risk, market risk, operational risk and business risk. 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 control risks are dealt with, and business risk also deals with the Group's reputational risk.

Diversification is taken into account within individual risk types and between risk types. However, the calculation of the Group's adequate capital base does not take into account diversification between risk types.

RAROC

RAROC is the Group's main management tool for measuring risk-adjusted financial performance.

Jyske Bank uses RAROC-based methodology at all levels, from assessment of single transactions to assessment at customer, branch, division, business unit and Group level.

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 assessed carefully in this regard.

Economic capital and RAROC at division and business unit level are calculated quarterly and reported to the Risk Committee and to the managements of business units, who determine activities for follow-up and any initiatives to reduce risk. If Group risk changes materially, this is reported immediately to the Executive Board or the Risk Committee.

RAROC is also applied at customer 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 customer and product level.

RAROC calculations and the facilities for price fixing 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 customers 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. The funding costs depend, among other things, on the maturity of individual loans.

Development in economic capital

Group economic capital at the end of 2009 was calculated at USD 5.4bn against DKK 6.8bn at the end of 2008, down by 23%. The decline was mainly driven by significant decreases in credit risk and market risk, which were high at the end of 2008. Of the capital, 70% concerned credit risk, 12% market risk, 6% operational risk and 12% business risk.

Economic capital (diversified) by risk type

Risk type	2009		2008	
	DKKm	%	DKKm	%
Credit risk	3,826	70	4,988	74
Market risk	640	12	891	13
Operational risk	311	6	288	4
Business risk	664	12	589	9
Total	5,441	100	6,756	100

Despite the fact that the adverse business trend very much affected credit risk in 2009, economic capital for credit risk at Jyske Bank fell from DKK 5.0bn at year-end 2008 to DKK 3.8bn at year-end 2009. This can primarily be attributed to three factors. First, as a direct consequence of the business trends Jyske Bank focused on the reduction of exposure to risky customers or counterparties as well as on obtaining further collateral in the areas where exposure is particularly high. This focus more than offset the increase in economic capital that the development in credit quality and collateral values otherwise resulted in. Moreover, economic capital for credit risk fell due to a marked fall in counterparty risk. At year-end 2008, volatility in the financial market was at a historically very high level, which in the course of the first six months of 2009 normalised and resulted in reduced exposure to financial counterparties as compared to the situation at year-end 2008. Finally, 2009 saw extensive loan impairment charges and provisions for loss on guarantees or write-offs, which per se also reduced economic capital for credit risk.

The Group's economic capital for market risk fell from DKK 891m at year-end 2008 to DKK 640m at year-end 2009, equalling a decline of 28%. This decline can be attributed to the return to normal volatility levels following the historically high level in the fourth quarter of 2008. Assuming unchanged volatility, the Group's positions involving interest-rate risk increased in 2009 but were still at a moderate level.

The Group operational risks increased from DKK 288m to DKK 311m at year-end 2009; this increase was primarily fuelled by stronger focus on liability for advisory services provided as well as lower diversification to other risk types. On the other hand, the return to more normal market conditions reduced the risk.

For management purposes, capital for reputational risk was in 2009 moved from operational risk to business risk. The increase in business risk can primarily be attributed to this adjustment.

Modelling of risk types in relation to economic capital

The various risks covered by economic capital make varied demands on the technical portfolio risk modelling. The system which makes the calculations therefore features various sub-models specifically designed to reflect the characteristics of individual risk types.

The Group's credit portfolio model is handled by means of "Moody's KMV's Portfolio Manager", which is fully integrated in the Group with respect to data as well as calculations. For market, risk a parametric VaR setup is used which, like operational risk and business risk, is based on internally-developed models.

The various models are described below and under the individual risk sections later in this report.

Credit risk

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

The model is based on a Merton set-up with customer credit quality measured as the ratio between the value of a customer's assets and liabilities relative to asset value volatility. 'Default' occurs if the value of assets is lower than the value of the liabilities.

The model quantifies capital for default risk as well as for the risk of loss of value due to deteriorating customer credit quality. The latter risk is called migration risk and expresses the probable migration of customer credit quality until maturity of the assets in the portfolio.

All the credit exposure of the Group is included straight into the model's calculations, including guarantees, bonds and derivatives. For derivatives whose future credit exposure is stochastic, a set-up for determining the expected positive exposure (EPE) is used.

The portfolio model takes into account the specific characteristics of individual customers and exposures. The basic elements in that respect are PD, LGD, EAD, maturity, expected cash flow profiles and uncertainty about loss given default. The correlation between the customers in the portfolio is modelled by means of a factor model using information about customers' activities in countries and sectors as well as sensitivity to general systematic risk.

The loss distribution is addressed by Monte Carlo simulation. Based on the simulated loss distribution, economic capital is determined and allocated to each facility of the portfolio.

Market risk

The Group uses Value at Risk to quantify and monitor the risk on its market risk positions.

Value at Risk expresses the maximum loss that the Group is able to sustain over a given period at a certain level of probability. For economic capital a horizon of one year and a probability of 99.97% are used.

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 is based on the assumption of independent risk scenarios ensured in the scenario definitions. 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 calculates economic capital in connection with business risk on the basis of an internally developed model.

There is a risk of unexpected loss of earnings. Losses may be caused by various events, for instance new legislation and keener competition which damages business or causes the business foundation to dwindle or disappear.

Economic capital is calculated on the basis of a mapping of Group activities against benchmark companies whose activities extend only to business risk. Assuming that the capital held by those benchmark companies reflects the risk assumed by the units, the corresponding economic capital for business risk is calculated for the Group.

Jyske Bank has commenced the development of a new model for the calculation and management of business risk. The model involves the Bank's own financial figures as well as relevant market and economic circumstances. Hence we achieve an assessment of risk that, for one thing, is anchored in the Bank's historical earnings power and, for another, reflects the current economic trend.

Credit Risk



• Credit risk is the risk of loss caused by customers' or counterparties' failure to meet their payment obligations towards the Group. Credit risk extends to loans and advances, committed credit facilities and guarantees, market values of derivatives, and equity investments.

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 intensively for various purposes, e.g. in connection with the advisory services offered to Jyske Bank's customers, 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 commitments 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 whose objective is to keep Group losses at an acceptable level in relation to the capital base and business volume of the Group, given the general trend in the Danish economy. Customer 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.

A central element in the assessment of the creditworthiness of corporate customers is their ability to service debt out of cash flow from operations in combination with their financial strength. For personal customers, factors such as net income, expenses and assets are important.

Granting and monitoring of credit risk

Jyske Bank attaches great importance to its decentralised credit-granting process. Lending limits have been delegated to account managers so that the majority of decisions are made decentrally. Limits are delegated to account managers individually on the basis of perceived competence and requirement. Decisions about applications over and above the limits granted to account managers are made by the Credit Department.

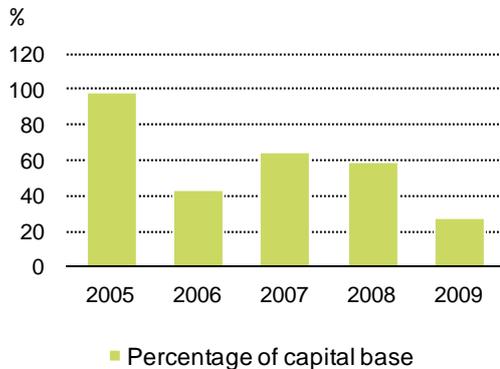
All the Group's credit risk positions are monitored by Credit Risk, which is a function separate from customer-oriented functions. The exposure of the Group by size, sector and geographical area is constantly monitored and analysed with a view to reducing the risk associated with specific high-risk sectors 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 exposures 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 S.145 of the Danish Financial Business Act, and exposures larger than 10% of the Group's capital base are monitored on a regular basis. Under the Act, the sum of exposures which individually exceed 10% of the Group's capital base may not exceed 800% of the capital base. Currently the ratio is 26.7 (58.9 at end-2008), and the development bears out the Group's desire to reduce the number of large exposures. The Group had two exposures which exceeded 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. PD and credit rating are central elements of the credit-granting procedure.

PD reflects the probability of a customer defaulting in the course of the next twelve months. 'Default' occurs when an obligor is considered unlikely to meet his obligations to the Group. By far the most customers 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 be taken into account in the internal credit rating of the customer. Jyske Bank has therefore developed its own mapping between external ratings and the Group's own ratings, which takes into account differences in risk methodologies and definitions.

Many factors are relevant for the calculation of a customer's PD. Specific factors are considered, but we also take into account economic factors external to the customer. 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 customer's credit requirement, his payment profile and history.

In order to reach the best possible overview of customer 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 customers migrate up or down depending on their PD. PD is calibrated to the long-term level of default rates measured back to the mid-eighties when the latest major recession began.

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 (exposure at default). EAD reflects the exposure at default in the event of the customer defaulting in the course of the next twelve months. A customer's overall EAD depends on customer-specific factors and the specific products held by the customer. For most product types, EAD is calculated on the basis of statistical models, but a few product types are based on expert models.

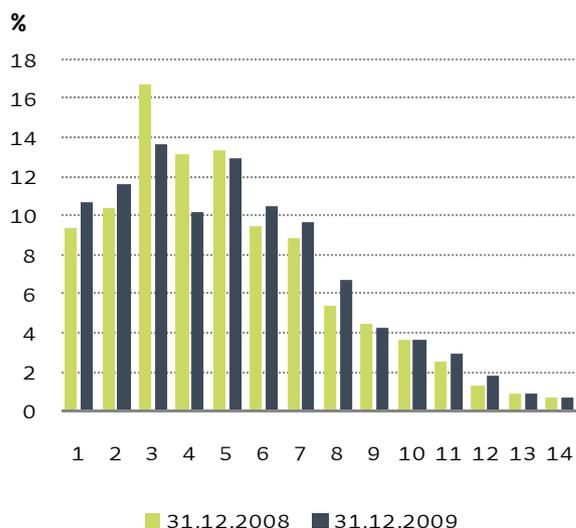
For fixed-term loans the only element of uncertainty is the time until possible default. Uncertainty is higher, however, for credit facilities under which the customer may draw up to a maximum. In those cases the amount drawn by the customer at the time of loss is decisive. This can be modelled by means of customer-specific factors and the circumstances surrounding the exposures.

Guarantees and credit commitments are special products in that 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 customer 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.

For derivatives, EAD is calculated according to the EPE method – cf. the section about counterparty risk.

In the following is shown Jyske Bank's credit exposure in terms of EAD broken down on a number of characteristics.

Exposure by credit rating



The distribution of the portfolio showed wide fluctuations over the year under review, and particularly the Group's corporate customers were affected by the trend of the Danish economy, which influenced the distribution. The Group's retail customers, by contrast, maintained a comparatively stable level, almost 80% of the retail customers being rated between 1 and 5.

The chart is for Jyske Bank and is exclusive of exposures to banks and central governments, whose rating is typically 1 or 2. EAD for defaulted customers classified by Jyske Bank as representing high or full risk is not distributed on the 14 rating classes. Exposure to those customers accounted for 5.4% (2008: 1.8%) of Jyske Bank's aggregate exposure. The unrated part of exposures (not shown) at Jyske Bank accounted for 3.1% (2008: 4.0%).

Average exposure by credit rating

DKKm	2009	2008
Exposure category		
Central governments	14,080	14,584
Institutions	32,808	26,581
Corporate customers	89,803	114,575
Retail, total	62,054	66,678
1) Real property, personal	19,271	21,625
2) Real property, SMEs	8,336	10,289
3) Revolving credits	7,520	5,914
4) Other retail exposure, personal	18,484	19,506
5) Other retail exposure, SMEs	8,443	9,344
Equities	504	420
Securitisations	2,936	648
Assets without counterparties	3,473	3,267
Total	205,658	226,753

Overall, exposures were reduced throughout 2009 by almost DKK 25bn, corresponding to 11%. Average figures show a less strong development, since reduction took place gradually and most sweepingly during Q4 2009. The change in average exposure was most pronounced for the two largest exposure categories, corporate exposures, which were reduced by 22%, and retail exposures, which were reduced by 7%. The fall in corporate exposures was mainly due to the Group's focus on reducing both risky exposures and exposures with low profit margins in order to adapt the Group's balance to the prevailing economic trend.

Using average figures, exposures to institutions increased by 23%. But a comparison of end-2008 with end-2009 figures shows a reduction of almost DKK 6bn (16%).

The percentage of loans and advances with more than five years to maturity increased. The increase was to all intents and purposes due to the Group's securitisation activities, because the increase of this category was mainly accounted for by assets with a long time to maturity. The other exposure categories showed only minor shifts in the remaining time to maturity. The proportion of exposures to retail customers with more than five years to maturity also increased marginally.

Exposure by time to maturity

DKKm	< 1 year	1-5 years	> 5 years	Total
Exposure category				
Central governments	13,738	215	22	13,975
Institutions	28,469	2,389	220	31,078
Corporate customers	68,563	11,821	7,211	87,595
Retail	22,397	13,292	25,889	61,578
Equities	0	0	625	625
Securitisations	0	341	2,901	3,242
Assets without counterparties	0	0	3,453	3,453
Total 2009	133,167	28,058	40,321	201,546
Total 2008	151,976	35,170	39,161	226,307
Breakdown 2009	67%	14%	19%	100%
Breakdown 2008	68%	16%	16%	100%

Exposure broken down by sector exclusive of retail

DKKm	Central governments and public authorities	Institutions	Corporate customers	Equities	Assets without counterparties	Securitisatio	Total
Central governments	9,069	0	0	0	0	0	9,069
Public authorities	4,723	0	833	0	0	0	5,556
Banks	0	30,872	2	0	0	3,220	34,094
Agriculture, forestry etc.	0	0	5,269	0	0	0	5,269
Fishing industry	0	0	1,493	0	0	0	1,493
Manufacturing and mining, etc.	4	0	15,662	0	0	0	15,666
Construction	0	0	3,029	0	0	0	3,029
Commerce and hotel	0	0	10,106	0	0	0	10,106
Transport	4	0	3,715	0	0	0	3,719
Finance and insurance	43	205	26,950	0	0	0	27,198
Property admin. and service	12	1	17,177	0	0	0	17,190
Other sectors	120	0	3,359	625	3,453	22	7,579
Total 2009	13,975	31,078	87,595	625	3,453	3,242	139,969
Total 2008	14,756	36,849	103,999	458	3,330	2,592	161,984

Exposure broken down by sector (retail)

DKKm	Real property, personal	Real property, SMEs	Revolving credits	Other, personal	Other, SMEs	Total
Central governments	0	0	0	0	0	0
Public authorities	0	0	0	0	0	0
Banks	0	0	0	0	0	0
Agriculture, forestry etc.	1	2,601	0	0	2,290	4,892
Fishing industry	0	13	0	0	40	53
Manufacturing and mining, etc.	0	195	0	0	538	733
Construction	0	177	0	0	422	599
Commerce and hotel	0	625	0	0	902	1,527
Transport	0	91	0	0	366	457
Finance and insurance	0	0	0	7	344	351
Property admin. and service	1	962	1	0	870	1,834
Other sectors	0	179	0	506	374	1,059
Private customers	17,190	3,405	9,121	17,836	2,521	50,073
Total 2009	17,192	8,248	9,122	18,349	8,667	61,578
Total 2008	22,922	8,453	19,265	7,776	7,776	64,323

The sector breakdown of the portfolio was affected by the reduction by almost DKK 25bn of exposures, corresponding to about 11%. Changes were seen in the exposure categories corporate customers (7%), institutions (3%) and retail customers (1%).

The reduction within the exposure category corporate customers was mainly within property administration and service.

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

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 customers.

The Group's policy for managing counterparty risk distinguishes between small and big counterparties. The latter group includes financial institutions. The basic principles for measuring risk for the two customer 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. This risk is generated in connection with settlement of derivatives transactions if one party performs under a contract and the other party fails to perform. To reduce settlement risk, all transactions will as far as possible take place through CLS (Continuous Linked Settlement), through some 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 customer'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.

Contractual basis

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 negative market value of the counterparty (debt to Jyske Bank) exceed an agreed maximum
- CLS, in which case settlement risk is eliminated, clearing being effected through a third party which guarantees settlement.

Agreements with financial counterparties will most often be reciprocal, 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

Counterparty risk on derivatives and the calculation of economic capital

Capital must be set aside for counterparty risk on derivatives in accordance with regulatory requirements (the Capital Requirement Directive) as well as 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 the table below.

Counterparty risk by sector

DKKm	2009	2008
Exposure to central governments	124	46
Exposure to institutions	3,914	7,973
Exposure to corporate customers	5,269	5,174
Exposure to retail customers	630	744
Total	9,937	13,937

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. Naturally, netting is taken into account in those measurements.

Collateral

With the objective of limiting credit risk, the need for demanding collateral will be considered for each exposure on its merits. As a main rule, customers are required to provide full or partial collateral for their commitments. 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 customer which the Group expects to lose in the event of the customer defaulting within the next twelve months. A customer's LGD depends on specific factors concerning the customer, but also on the total 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: secured and unsecured debt. With unsecured debt, the proportion of a customer's unsecured debt which the Group will be able to collect is estimated. Customer-specific circumstances and other circumstances with regard to the commitment are

decisive for LGD. With secured debt, the expected proceeds from liquidation of collateral is 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 economic capital we use LGD estimates which reflect the Group's long-term loss rates. In the calculation of the minimum capital requirement, LGD estimates are used which reflect the expected loss rates in the event of an economic slowdown.

LGD estimates are based on the value of the collateral received. The value of the collateral which reduces credit risk is set out below.

The values in the table express the expected realisation value less costs of collection and costs of selling the relevant asset. Despite the 11% reduction of the exposure, the value of the collateral received fell by only 3%, which overall reduced the Group's risk.

In addition to the above values, collateral has been received for DKK 4,9m (2008: DKK 4.0bn) under a number of other guarantee types.

The proportion of the Group's exposure covered by guarantees is set out on the next page. The values stated are the exposures for which guarantees have been received and are not to be confused with the realisation value of the guarantees in question.

Collateral by type

DKKm	2009	2008
Securities, cash balances etc.	35,432	35,927
Real property	34,273	37,433
Instruments of assignment	0	0
Personal property	6,343	3,592
Leases	0	0
Securities, cash balances etc. with other financial institutions	33	179
Guarantees	5,879	7,350
Other collateral	0	0
Total	81,960	84,481

Exposure secured by guarantees

DKKm	2009		2008	
	EAD partial cover	EAD full cover	EAD partial cover	EAD full cover
Exposure category				
Central governments	0	0	0	0
Institutions	0	1	0	11
Corporate customers	7,887	29,782	9,739	28,882
Retail	2,409	1,559	2,081	950
Equities	0	0	0	0
Securitisations	0	0	0	0
Assets without counterparties	0	0	0	0
Total	10,296	31,342	11,820	29,843

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 once 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. It is important to adjust for the fact that it is often necessary to compare long-term estimates with short-term realisations. For example, PD for a given credit rating category is calibrated to a long-term level, whereas realisations are measured for the short term (1-year horizon). It is therefore important at what time in the business cycle the short-term realisations are measured.

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

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 the need of risk codes to be applied to the Group's customers.

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 customers who are no longer deemed capable of meeting their payment obligations towards the Group in full. 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. 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 customers 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.

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 exposures. 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 indicate 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 an exposure 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 customers 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 customers 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 customers.

Provisions are made for the estimated loss.

Write-offs

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

Total impairment balance and provisions stood at DKK 3.4m at end-2009. In accordance with IFRS, the balance of loan impairment charges and provisions for guarantees was calculated on the basis of credit exposures with objective evidence of impairment including exposures assessed collectively. The impairment process includes exposures which are not defaulted or past due; the loan impairment charges and provisions for loss on guarantees for defaulted exposures were DKK 2.5bn (2008: DKK 1.2bn) as will be evident from the tables below.

Total impairment balance and provisions for guarantees thus grew considerably in 2009 in step with the adverse influence on the Group's customer portfolio of the economic slowdown.

Under core earnings, a net amount of DKK 2.3bn was charged as write-offs, loan impairment charges and provisions for guarantees on defaulted and past due exposures against DKK 1.1bn in 2008.

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

DKKm	2009		2008	
	EAD	Impairment charges and provisions	EAD	Impairment charges and provisions
Exposure category				
Central governments	13,975	0	14,756	0
Institutions	31,078	0	36,849	0
Corporate customers	87,595	1,978	103,999	931
Retail	61,578	520	64,323	238
Equities	625	0	458	0
Securitisations	3,242	0	2,592	0
Assets without counterparties	3,453	0	3,330	0
Total	201,546	2,498	226,307	1,169

Sector breakdown of defaulted and past due exposures

DKKm	EAD on defaulted and past due claims	Value adjustment/impairment charges	Operating item for the year	Losses recorded
Exposure category				
Central governments	0	0	0	0
Public authorities	11	0	0	0
Banks	0	0	0	42
Agriculture, forestry etc.	473	200	150	11
Fishing industry	25	3	-11	5
Manufacturing and mining, etc.	468	149	60	92
Construction	440	157	69	51
Commerce and hotel	790	274	140	174
Transport	142	73	37	2
Finance and insurance	1,588	575	73	120
Property admin. and service	1,810	507	528	232
Other sectors	340	156	101	16
Private	1,421	404	205	188
Total 2009	7,508	2,498	1,352	933
Total 2008	3,645	1,169	487	662

NB: the total operating item of individual impairment charges and write-offs accounted for DKK 2,285m.

From 2008 to 2009 the sectors property administration and service, financing and farming showed strong growth. The requirement for impairment charges was higher for the farming sector than for other sectors.

In 2009, 85% of the impairment charges recognised for defaulted and past due exposures referred to corporate customers, while 15% referred to retail customers.

Geographical breakdown is shown in Appendix 2, which also sets out information about country distribution, undrawn commitments etc. for defaulted and past due exposures.

Market Risk



• Market risk is the risk of loss as a consequence of a change in the market value of the Group's assets and liabilities caused by price changes in the financial markets.

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. The measurement of Jyske Bank's market risk takes into account all products which involve one or more of the risks mentioned below.

Interest-rate exposure: the risk of loss caused by changing interest rates.

Currency risk: the risk of loss caused by changing exchange rates.

Equity 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.

Policy and responsibility

The Supervisory Board of Jyske Bank lays down the overall guidelines for market risk and delegates authority to the Executive Board. The guidelines support the overall strategic framework of the Supervisory Board's risk profile for market risk. The authority is further limited before being delegated to the heads of Treasury and Trading & Research. Those two units are the sole units of Jyske Bank that may assume significant market risk.

The limits delegated to Trading & Research are such that they mainly support the daily trading volume.

Strategic positions are mainly taken by Treasury as reflected by the limits delegated to the unit.

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

To be able to follow market developments closely and adjust for any discrepancies between the Group's actual risk profile and its desired risk profile, monthly meetings are held by the Liquidity Committee. The meetings are attended by the responsible members of the Executive Board and by representatives from Treasury and Trading & Research.

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.

Developments in market risk

Jyske Bank's market risk expressed as Value at Risk (VaR) at end-2009 was DKK 16m and had fallen from DKK 33m at end-2008. The fall was mainly due to falling volatilities in the financial markets.

Interest-rate risk is Jyske Bank's principal market risk and was dominated by exposure to mortgage bonds with short and medium time to maturity. Exposure to interest-rate risk remained stable for most of 2009, but grew towards the end of the year.

Exposure to other market risk types – equity, commodity and FX risk was kept at moderate levels throughout 2009. Equity risk in particular was at a historical low because of uncertainty about companies' earnings prospects.

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 which cannot solely be managed under the risk measurements mentioned above. Examples of these are non-linear products such as currency and interest-rate options. The management of those is therefore supplemented by risk measurements developed in accordance with conventional option theory.

Interest-rate risk

Interest-rate risk is measured daily on the basis of duration measurements. This measurement is defined as the interest-rate risk resulting from a general rise in interest rates of one percentage point (Interest-rate risk 1). Duration expresses the percentage gain or loss generated by a simultaneous one-percentage point shift in all yield curves. The calculation is based on the entire portfolio of interest-related instruments held by Jyske Bank.

Interest-rate risk is calculated on the basis of agreed payments. The customer and the Group are assumed to make the agreed contractual payments, though certain fixed-rate loans can be prepaid. Interest-rate risk 1 is adjusted for this option element. Jyske Bank accepts no fixed-rate balances without an agreed due date.

Because of Jyske Bank's exposure to Danish mortgage bonds, an advanced risk management model has been developed, which takes into account the prepayment option. Danish mortgage bonds are widely issued with an embedded option of prepayment at par. Consequently, standard risk indicators such as duration are not optimal unless adjusted for this embedded prepayment option. Risk management of the Group's portfolio of mortgage bonds is supplemented with limits for and measurement of OAS (option-adjusted spread) positions.

In addition to Interest-rate risk 1, Jyske Bank calculates Interest-rate risk 2, which is specific for the Group. This is because Interest-rate risk 1 is in several respects deemed to be too simplistic. For instance, Interest-rate risk 1 does not take into account risk attached to spread transactions involving interest-rate positions in various instruments and currencies. Interest-rate risk 2 is calculated as Interest-rate risk 1 plus an addition for yield curve risks, volatility risks, country risks, and basis risks.

Currency risk

Currency risk is calculated in accordance with the Danish Executive Order on the Presentation of Financial Statements laid down by the Danish Financial Supervisory Authority. Currency indicator 1 is calculated as the sum of the numerically higher of long or short positions in each currency, measured in DKK. Exposures in respect of indicator 1 are reported to the authorities on a quarterly basis.

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).

Equity risk

Equity risk is measured as a risk A and a risk B.

Equity risk A is put at 10% of net equity exposure, net exposure being calculated as positive exposure less negative exposure. Equity risk A is therefore an indication of the loss/gain in the event of a 10% change in global equity prices.

Equity risk B is put at 10% of the numerical equity exposure. This risk measurement thus expresses the gross exposure, as it shows the loss at a 10% negative price change on total positive exposure and a simultaneous 10% positive price change on total negative exposure.

Jyske Bank shares and other financial-sector shares are not included in equity risks A and B. Besides equity risk A and B, the Jyske Bank Group applies limits to individual exposures to shares with the objective of limiting concentration risk. There is also a limit to the proportion of Jyske Bank shares held.

Shares not held for trading

The shares not included in the trading portfolio are not included under equity risks A and B. Those shares are primarily financial-sector shares relating to the ordinary operating activities of the Group. There are no plans of a resale.

Shares not held for trading

DKKm	2009	2008	Unrealised gain
Total	704.1	507.2	154.1

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 of the year.

Commodity risk

Commodity risk is measured as a risk A and a risk B. Commodity risk A is measured as the net commodity exposure, net exposure being calculated as positive exposure less negative exposure. There is thus a right of set-off across commodity types and due dates.

Commodity risk B is measured as the aggregate numerical commodity exposure. This risk measurement thus states gross exposure; the right of set-off applies only to contracts for the same underlying commodity with the same due date.

Derivatives and embedded options

The use of derivatives plays an important role in market risk calculation and management, both to the Group's customers and the Group itself. Market risk on these instruments is included in the Group's measurement of market risk.

The risk on non-linear derivatives and products with embedded options cannot be stated adequately by means of the risk measurements mentioned above. The instruments involved are primarily interest-rate and currency options and mortgage bonds. Instead the delta, gamma and/or vega risks of those positions are calculated.

Exposure to credit risk on financial instruments

Exposure to credit risk on financial instruments relates to the Group's bond holdings. The credit element is not reflected in the interest-rate risk measurements and must therefore be managed apart.

Jyske Bank manages its exposure to credit risk on financial instruments by means of a pre-defined concentration risk limit 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 relevant instrument is a government or corporate bond or a structured bond (CLO/CDO). Finally, a concentration risk limit has been defined for individual exposures.

Securitisations

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

- RMBS (Residential Mortgage Backed Securities): consist solely of AAA-rated senior tranches.
- CLOs/CDOs:
 - senior tranches with original AAA rating – a few of them are now AA-rated
 - mezzanine tranches with a wide rating spread.

The securitisation types and the geographical exposure of the underlying assets of the portfolio are shown in the table below, which shows that the exposure is concentrated on the European continent.

Exposure type 2009

DKKm	European	USA	Other	Total
RMBSs	1,520	14		1,534
CLOs	1,127	417	42	1,586
Other: ABSs og CDOs	1	164	88	253
Total	2,648	595	130	3,373

More than two thirds of the Group's securitisation exposure is in AAA-rated senior tranches, as evidenced by the table below. The main underlying investments of the tranches are US and European bank and housing loans.

Breakdown of ratings

DKKm	2009
AAA	2,321
AA	537
A	50
BBB	133
BB	77
Lower or no rating	255
Total	3,373

Value at Risk

The measurement and monitoring of market risk is based on the Value-at-Risk model. Value at Risk 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 approach has been modified to reflect the embedded prepayment risk involved in Danish mortgage bonds.

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 market value adjustments exceeding the DEaR value. There is a statistical chance of 2-3 days in the course of the year when the Group's market value 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. Back-testing is conducted and reported for 99% DEaR.

Jyske Bank has applied VaR in its risk calculations since 2001. Since then there has been an average of 2 outliers annually within a band of 1-3 outliers, which substantiates the validity of Jyske Bank's VaR model.

Scenario-based stress-testing

For its monthly paper for the Liquidity Committee, Treasury prepares scenario-based stress tests of its positions. However, these tests do not have any direct influence on the calculation of the economic capital and are not applied directly in the limit structure.

Sensitivity analyses

Jyske Bank extensively holds offsetting positions across markets. The worst-case scenario is one where the prices of all long (positive) positions decline, while the prices of short (negative) positions increase. The effect on the Income Statement of such a negative price trend, calculated at a negative interest-rate change of 0.5 percentage point, is shown in the table below. The table also shows the Group's sensitivity to a one percentage point rise in the interest-rate level as well as its sensitivity to a global 10% fall in equity prices. The sensitivity analyses are based on other things being equal.

Sensitivity analyses

DKKm	Effect on Income Statement
Risk variable	
A 1 percentage point increase in interest rates*	-266
A negative change of 0.5 percentage point	-218
A general 10% fall in equity prices	-166
A negative 5% change in equity prices	-24
A negative 5% change in commodity prices	-1
A negative 5% change in exchange rates**	-104

NB: this is a mild stress scenario. 'Negative' means that the prices of long positions fall, while those of short positions rise.

All calculated per currency.

*The scenario corresponds to the Group's 'Interest-rate risk 1'.

**Amounts in EUR are not included in the calculation

Liquidity Risk



• Liquidity risk is 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.

Liquidity risk is caused by funding mismatches in the balance sheet, since the average duration of Jyske Bank's loan portfolio is generally longer than the average duration of its funding sources. 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 overall objective of Jyske Bank's liquidity management is to ensure adequate short- and long-term liquidity for the timely fulfilment of Jyske Bank's payment obligations at reasonable funding costs. The fulfilment of this overall objective is ensured by compliance with 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 at international rating agencies;
3. active participation in the international money markets and access to international capital markets through capital market programmes which ensures a highly diversified and professional funding base;
4. maintenance of a considerable buffer of highly liquid securities adapted to the run-off risk of the Group's 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;
- 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 pre-set limits, the Executive Board has defined specific operational limits for Jyske Markets whose organisational units Trading & Research and Treasury 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 according to the market-risk procedure, see the description regarding market risk.

Short-term liquidity management

Short-term operational liquidity is managed by Trading & Research, 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. Trading & Research has been granted specific limits for short-term funding in the interbank and wholesale fixed-term markets and for the maximum placement of longer-term deposits in the same markets.

Strategic liquidity management

Strategic liquidity management at Treasury is based on measurement of the Group's liquidity position in various stress scenarios. The financial 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 basically build on the contractual maturity of each individual payment, but they make allowance for the fact that the actual maturities can deviate from the contractual maturities. The analyses

therefore apply scenario-specific expectations of customer 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 reserves are used as a buffer to cover negative payment gaps.

The purpose of integrating stress scenarios 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 material part of its normal funding sources.

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 – severe Jyske Bank-specific stress scenario which is monitored daily

A severe Jyske Bank-specific stress scenario with a short critical survival horizon of four weeks: the Group must hold sufficient reserves 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 (the inter-bank market, CP and EMTN issues), we assume run-off of all large demand and term deposits made by the corporate and retail customer segments.

Scenario 2 - broad sector stress scenario which is monitored on a regular basis

A broad general capital and money-market crisis which to a certain extent affects retail and corporate customers and results in drawdown by large corporate customers 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 – mild sector stress scenario which is monitored on a regular basis (called the Moody's scenario)

A mild 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, while at the same time funding normal growth of the loan portfolio.

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 might strengthen the Group's liquidity position.

In the course of 2009, Jyske Bank at no time had any difficulty in meeting the stress-based internally delegated limits and guidelines.

The Group's liquidity reserve

Jyske Bank's liquidity reserve consists solely of assets which are not pledged as collateral or used in the day-to-day operations of the Group. Such assets can 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 reserve takes into account haircuts of the relevant assets.

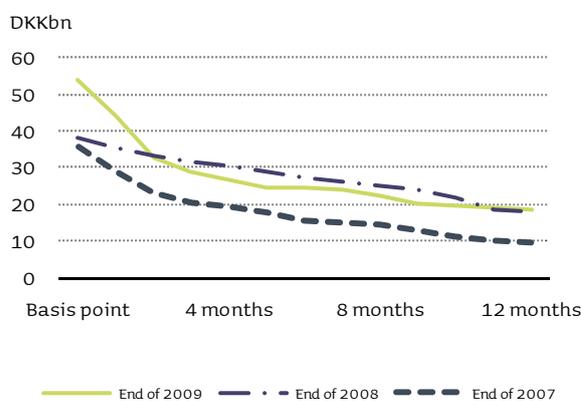
Jyske Bank's holding of securities is divided into five groups in order of liquidity:

1. ultra-liquid assets - DKK-denominated assets 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 - EUR-denominated assets which can be used in repo transactions with the European Central Bank: European mortgage bonds, government bonds, and senior financial instruments;
3. liquid assets: identical to very liquid assets, but denominated in currencies other than EUR;
4. other liquid assets: other high-quality liquid bonds;
5. relatively illiquid assets: emerging-market bonds, corporate and structured bonds, and shares.

Jyske Bank has adopted a general policy for the size and quality of its liquidity reserve, which is adjusted to suit the Group's balance sheet composition and risk profile.

In practice, the liquidity reserve policy implies that the reserve consists predominantly of assets from 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; this includes utilisation of Jyske Bank's unutilised syndicated loan facility of EUR 500m.

Liquidity position and run-off



At end-2009 the Group's liquidity reserve amounted to almost DKK 54bn inclusive of the Group's unutilised syndicated loan facility of EUR 500m - at end-2008 the reserve was DKK 38m. Certificates of deposit with the Danish central bank amounted to about DKK 8bn; and the remainder of the reserve consisted of Danish mortgage bonds and covered bonds.

The Group's liquidity reserve according to S.152(1)(2) of the Danish Financial Business Act was high throughout the year. At end-2009, the liquidity ratio was 27.3%, corresponding to a liquidity surplus of 172.9%; at end-2008 the surplus was 99.9%.

Funding

Jyske Bank's primary source of funding is deposits from customers. The Group has a sound and well-diversified customer deposit base, and at end-December 2009 deposits funded 86% of the loan portfolio against 82% at end-2008.

Funding via the inter-bank and wholesale fixed-term markets is obtained through Trading & Research as

part of the short-term operational liquidity management. In addition, Trading & Research 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 Trading and Research.

Capital market funding

To manage the long-term strategic 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.

Capital market 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 our short- and medium-term liquidity procurement so as to meet the Group's liquidity requirement. Funding under the programme may have a term of up to one year, but will typically have a term of 3-6 months.

Since the programme was launched, Jyske Bank has generated wide investor recognition of the Group's CP programme. In October 2009, the limit of the CP programme was raised from EUR 3bn to EUR 5bn. Jyske Bank's utilisation of the programme has increased significantly from mid-2009, as the Bank has been able to borrow at very favourable interest. At end-2009, liquidity procured under the CP programme amounted to DKK 26.1bn (EUR 3.5bn).

Outstanding CP programme



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-2009, the Group had issued notes for a total of DKK 23.9bn (USD 4.6bn) under the programme. The primary investor segment for bonds issued under the Bank's EMTN programme is well diversified throughout Europe. The Group works continuously to maintain its investor base and to increase investor awareness of Jyske Bank well in advance of a possible need to raise funds. Thanks to its robust liquidity profile and the development in its balance sheet during 2009, Jyske Bank had no need for additional long-term funding via the EMTN programme in 2009. At end-2009, Jyske Bank had four outstanding benchmark issues:

Benchmark issues

Loan period	Currency	Size (bn)	Maturity
5 years	USD	500	06.06.2011
7 years	EUR	650	04.04.2012
7 years	EUR	500	06.06.2013
7 years	EUR	600	31.03.2014

Credit ratings

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

In February 2009, Standard & Poor's lowered Jyske Bank's long-term rating from A+ to A. The short-term rating was left unchanged at A-1, but still with nega-

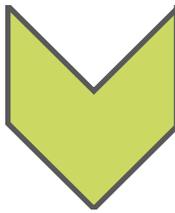
tive outlook. Standard & Poor's acknowledged Jyske Bank's strong capital position as a factor that supported the Group's rating. The new long-term rating indicates that Jyske Bank's financial strength is still high.

In September 2009, Moody's lowered the ratings of Jyske Bank and of numerous other Scandinavian banks under reference to the general economic situation and the risk of loan losses. Jyske Bank's individual rating, its financial strength, was lowered by one notch, from B- to C+ (with negative outlook). Nevertheless, Jyske Bank's rating for financial strength remains the highest rating awarded in the Danish banking sector. Jyske Bank's long-term credit rating was lowered by two notches from Aa2 to A1 (with stable outlook). The short-term rating was left unchanged.

Moody's and Standard & Poor's credit ratings

	Long-term debt	Short-term debt	Individual
Moody's			
1993	A3	P-2	-
1997	A2	P-1	C+
1999	A1	P-1	C+
2001	A1	P-1	B-
2007	Aa2	P-1	B-
2008	Aa2	P-1	B-
2009	A1	P-1	C+
Standard & Poor's			
2006	A	A-1	-
2007	A+	A-1	-
2008	A+	A-1	-
2009	A	A-1	-

Operational Risk



Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Jyske Bank monitors and actively manages operational risk to reduce the risk of operational events resulting in material loss. Focus is mainly on the Group's largest exposures involving high potential losses.

Risk identification and assessment

Jyske Bank has adopted a scenario-based method of analysis. Analyses are prepared by a function under Finance and Risk Management that is separate from customer-oriented functions.

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 which are insufficiently covered by existing controls. The scenario analyses propose ways in which operational risks can be reduced, and they are therefore efficient tools which management and the responsible units can use in risk management.

All risk scenarios which may cause direct or indirect loss of more than DKK 5m or which could materially damage the Group's reputation are analysed. The scenarios are identified in cooperation with management, with reference to internal and external events.

Currently 50-60 scenarios have been defined, which cover all the Group's business areas. The scenarios cover a broad range of risks such as the provision of incorrect advice, trading errors, errors in models or in internal and external reporting. Also the risk of fraud is analysed. Operational risks at important business partners are also covered, including the risk of discontinuation of IT operations at JN Data.

Management and monitoring

Developments in operational risk are monitored on a regular basis to ensure the best possible basis for risk

management, including the determination of the appropriate economic capital. Monitoring rests on the following elements:

- ongoing 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 experts from the business units;
- monitoring of risk indicators which reflect developments in individual risk scenarios;
- 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.

Extraordinary evaluations of existing risk scenarios are made at the request of management or when deemed relevant because of extraordinary internal or external events.

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

In addition to in-depth scenario reports, management receives six-monthly evaluations of the risk scenarios accompanied by error statistics and a description of relevant internal and external events.

Appendix 1: Glossary

<i>ABS</i>	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
<i>ADAM</i>	The macroeconomic model of Statistics Denmark
<i>Advanced IRB approach</i>	See AIRB.
<i>AIRB</i>	The Advanced Internal Rating Based approach. A method under the capital requirement directive for determining the minimum capital requirement to cover credit risk
<i>Back-testing</i>	An ex-post comparison of forecast and realised values with the object of assessing the absolute precision of the relevant models
<i>Benchmarking</i>	A management tool used for comparing the accuracy of the model under review with the accuracy of alternative models.
<i>Calibration</i>	Adjustment of a given model to bring it to an intended level
<i>CDO</i>	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
<i>CLO</i>	Collateralised Loan Obligations. Bonds whose value is determined by the value of pools of underlying commercial loans
<i>CLS</i>	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
<i>Commodity risk</i>	The risk of loss caused by changing commodity prices
<i>Country risk</i>	The risk of loss caused by the economic and political conditions in a given country
<i>CP</i>	Commercial Paper. Short-term debt instruments which may be, but are not necessarily, zero-coupon instruments with maturities up to a year
<i>CRD</i>	Capital Requirement Directive
<i>CSA</i>	Credit Support Annex. Annex to an ISDA contract, under which Jyske Bank is entitled to collateral if a counterparty's negative market values exceed an agreed maximum
<i>Currency risk</i>	The risk of loss caused by changing exchange rates
<i>DEaR</i>	Daily Earnings at Risk
<i>Default</i>	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).
<i>EAD</i>	Exposure At Default. The estimated exposure, should the customer default in the course of

	the next twelve months.
EMTN	European Medium Term Notes. Medium-term notes typically with maturities of between two and seven years
EPE	Expected Positive Exposure. A method for estimating EAD for derivatives.
Equity risk	The risk of loss caused by changing equity prices.
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 collateral if the value of the bond put up as collateral falls
ICAAP	Internal Capital Adequacy Assessment Process. The process applied to determine the adequate capital base
IFRS	International Financial Reporting Standards
Interest-rate risk	The risk of loss caused by changing interest rates
ISDA	International Swap and Derivative Association. The Association has formulated standardised agreements to be entered with a counterparty. Under such agreements Jyske Bank has the right to apply netting to derivatives transactions
JB credit rating	A rating on a scale from 1 to 14, where 1 is the highest credit quality (the lowest PD) and 14 the lowest credit quality (the highest PD)
LGD	Loss Given Default. The proportion of a given exposure which is expected to be lost if the customer defaults in the course of the next twelve months
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
Merton setup	A method under which customer credit quality is measured as the ratio between the value of a customer's assets and liabilities relative to asset value volatility. Default occurs if the value of the assets is lower than the value of the liabilities.
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
Past Due	Exposures which have been in default for 90 days or longer
PD	Probability of Default. The probability of a given customer defaulting within the next twelve months

<i>RAROC</i>	Risk Adjusted Return on Capital.
<i>Retail</i>	In relation to the CRD, the 'Retail' category covers private customers and small and medium-sized enterprises. The latter must meet certain criteria to rank as retail customers
<i>Risk category</i>	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
<i>RMBS</i>	Residential Mortgage Backed Securities
<i>RW</i>	Risk weighting according to the capital requirement regulations in force. Risk weightings are applied to the assets to reach the risk-weighted items (RWA)
<i>RWA</i>	Risk-weighted items calculated in accordance with the capital requirement regulations in force. Jyske Bank's capital base must correspond to at least 8% of this amount
<i>Settlement risk</i>	The risk of loss caused by the non-fulfilment of payment obligations agreed between Jyske Bank and its counterparties
<i>Value added</i>	A risk-adjusted earnings measurement where earnings are reduced by expenses for the expected loss and economic capital
<i>VaR</i>	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 to unrated counterparties and counterparties under the standard approach (2009)

DKKm - 2009	EAD	Undrawn	Average LGD%	Average RW
Exposure category				
Central governments	13,963	2,141	0	0.01
Institutions	31,078	11,666	0	0.10
Corporate customers	10,562	1,089	0	0.68
Retail customers	5,860	29	0	0.42
Equities	625	0	0	1.00
Securitisations	3,242	0	0	0.76
Assets without counterparties	3,453	0	0	1.00
Total	68,783	14,925		

■ Specification of exposure to unrated counterparties and counterparties under the standard approach (2008)

DKKm - 2008	EAD	Undrawn	Average LGD%	Average RW
Exposure category				
Central governments	14,756	77	0	0.00
Institutions	36,849	11,083	0	0.12
Corporate customers	13,993	996	0	0.80
Retail customers	9,011	47	0	0.55
Equities	458	0	0	1.00
Securitisations	2,592	0	0	0.58
Assets without counterparties	3,330	0	0	1.00
Total	80,989	12,203		

Specification of exposure (defaulted and past due) to counterparties (2009)

DKKm - 2009	EAD	Undrawn	Average LGD%	Average RW
Exposure category				
Central governments	12	0	0	17.63
Institutions	0	0	0	0.00
Corporate customers	5,691	250	39	0.86
Retail customers	1,805	50	38	1.46
Equities	0	0	0	0.00
Securitisations	0	0	0	0.00
Assets without counterparties	0	0	0	0.00
Total	7,508	300		

Specification of exposure (defaulted and past due) to counterparties (2008)

DKKm - 2008	EAD	Undrawn	Average LGD%	Average RW
Exposure category				
Central governments	0	0	0	0.36
Institutions	0	0	0	0.00
Corporate customers	2,658	62	39	1.67
Retail customers	987	38	35	1.94
Equities	0	0	0	0.00
Securitisations	0	0	0	0.00
Assets without counterparties	0	0	0	0.00
Total	3,645	100		

Geographical break-down of exposure

DKKm	Denmark (zone A)	The EU (zone A)	Other European zone A countries	The US + Canada (zone A)	Other zone A countries	South America	Rest of the world	Total
Exposure category								
Central governments	13,899	2	74	0	0	0	0	13,975
Institutions	24,672	4,461	1,090	630	68	0	157	31,078
Corporate customers	79,171	5,974	1,320	149	28	125	828	87,595
Retail customers, total	55,811	4,784	531	191	39	33	189	61,578
1) Real property, personal	16,611	419	89	16	6	22	29	17,192
2) Real property, SMEs	8,229	11	0	4	0	0	4	8,248
3) Revolving credits	9,041	53	10	6	1	1	10	9,122
4) Other retail exposure, personal	13,544	4,026	431	165	32	10	141	18,349
5) Other retail exposure, SMEs	8,386	275	1	0	0	0	5	8,667
Equities	625	0	0	0	0	0	0	625
Securitisations	0	2,838	0	354	15	0	35	3,242
Assets without counterparties	3,319	120	14	0	0	0	0	3,453
Total 2009	177,497	18,179	3,029	1,324	150	158	1,209	201,546
Total 2008	194,979	23,853	2,828	2,529	328	51	1,739	226,307

The above geographical breakdown of exposure also applies to the geographical breakdown of defaulted exposures. However, the value adjustment for exposure abroad is proportionately smaller, since exposure abroad is widely covered by collateral.

Geographical breakdown of defaulted and past due exposure

DKKm	EAD on default customers	Value adjustment/ impairment charges
Denmark (zone A)	6,984	2,443
The EU (zone A)	511	47
Other European zone A countries	4	1
The US + Canada (Zone A)	7	5
Other zone A countries	0	0
South America	0	0
Rest of the world	2	2
Total 2009	7,508	2,498
Total 2008	3,645	1,169

■ Exposure to specialised lending distributed on risk weightings

DKKm	2009	2008
	Term to maturity > 2½ years	Term to maturity > 2½ years
Risk weighting 50%	0	2
Risk weighting 70%	51	136
Risk weighting 90%	0	0
Risk weighting 115%	32	59
Risk weighting 250%	3	6
Defaulted exposures (risk weighting 0)	89	0
Total	175	203