

Risk and Capital Management



Contents

INTRODUCTION	2
RISK ORGANISATION	3
CAPITAL MANAGEMENT	5
ECONOMIC CAPITAL	10
CREDIT RISK	13
MARKET RISK	23
LIQUIDITY RISK	29
OPERATIONAL RISK	33
APPENDIX 1: GLOSSARY	35
APPENDIX 2: SUPPLEMENTARY TABLES	38

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

Introduction

The object of the risk management report is to give the reader insight into Jyske Bank's internal risk and capital management procedures and the regulatory capital requirements.

The report describes initially the Group's risk organisation followed by a description of the risk and capital management procedures. The description introduces the risks to which the Group is exposed, 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.

The year 2011

In 2011, the Danish economy was again affected by a downturn, and the development in 2011 caused the financial activity to slow down further. Consumer and business confidence fell and the housing market was in a deadlock despite the historically low interest-rate levels. Uncertainty over jobs grew, and the government debt crisis in the euro zone caused renewed turmoil in the financial markets.

The economic slowdown led to low consumer spending and continued focus on consolidation and reduction of debt rather than consumption and investment.

At the beginning of 2011, Jyske Bank was well prepared to act in a pro-active way in the market place. In 2011, Jyske Bank could welcome a historically high number of new customers; and through selective acquisitions, Jyske Bank acted in a pro-active way to take advantage of the opportunities presented throughout the year.

Also, thanks to its financial strength, Jyske Bank was able to prepay a subordinate loan of nominally EUR 25m and buy back and cancel hybrid core capital of nominally EUR 50m.

The decline in Jyske Bank's solvency and core capital ratio must be viewed in the light of these initiatives, while at the same time more cautious principles for the assessment of credit quality in 2011 were applied.

However, at the beginning of 2012, the Jyske Bank Group's capital structure is still robust with a solvency ratio of 14.7% and a Core Tier 1 capital ratio excluding hybrid core capital of 12.1%. Hence, the Jyske Bank Group maintains a level above 12% for Core Tier 1 capital excluding hybrid core capital and still fulfils its aim of meeting the Swedish capital requirements of systemic banks.

EU stress tests in 2011 only confirmed, once again, that Jyske Bank's capital position and earnings relative to the overall risk exposure are very solid and resilient to even very extreme, negative events.

Upcoming legislation

The primary object of the upcoming renewal of the Capital Requirements Directive, CRD IV, is to increase the bank's overall resilience in crisis situations. Preliminary tests, e.g. the European quantitative impact study (QIS) and the stress tests, demonstrate that already now Jyske Bank is well prepared to meet the new requirements to be implemented as of 2013.

- Solvency ratio: 14.7% (2010: 15.8%).
- Tier 1: 13.3% (2010: 14.1%).
- Capital base: DKK 16.0bn (2010: DKK 16.1bn).
- EAD: DKK 257.7bn (2010: DKK 212.9bn).
- Risk-weighted assets: DKK 108.6bn (2010: DKK 101.6bn).
- Economic capital: DKK 8.5bn (2010: DKK 7.3bn).
- Individual solvency requirement: 10.0% (2010: 9.4%)

Risk Organisation

Based on the strategic targets, the Supervisory Board lays down risk policies and guidelines as well as principles for risk and capital management. The Executive Board is responsible for the day-to-day risk management and management of the Group. On an ongoing basis, the Supervisory Board and the Executive Board receive reports on exposure and the utilisation of allocated risk limits.

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

- presentation of risk policies and risk-management principles to the Executive Board and the Supervisory Board;
- implementation of risk-management principles and policies with a view to improving risk management and internal risk capital allocation;

- quantification of the Group's risk exposure as well as monitoring and reporting to ascertain that the Group's risk exposure does not exceed the limits defined by the Supervisory Board;
- recognition, measurement and financial reporting, including external reporting, as well as the implementation of adviser-oriented financial and risk-management tools.

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

Day-to-day management of credit risk is undertaken by account managers as well as the central credit department. 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 Group.

Risk organisation



Risk Organisation

Several committees consider and process risk-related issues.

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

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

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

The main task of the Group Treasury Committee is at monthly meetings to ensure that the Group's actual market risk profile is in line with the assessment of market expectations and the intended risk profile.

The Group's liquidity risk profile, balance-sheet development and financial structure are assessed by the Group Balance Sheet Committee, which at its quarterly meetings ensures a continuously adequate liquidity-risk profile and balance-sheet structure according to the general guidelines.

Capital Management

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

Capital management objective

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

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

Also for 2012, capital planning is characterised by maximum earnings and equity and sustained optimisation of risk weighted assets with due regard for the business strategy.

As a consequence of its expectations that Jyske Bank will be classified as a systemic risk bank, Jyske Bank's management decided in 2011 that it will in future aim at meeting the expected capital requirements of systemic risk banks until clarification has been reached in Denmark. At this point in time, Jyske Bank's Core Tier 1 capital ratio (excluding hybrid capital) meets the higher requirements of the Swedish systemic banks, i.e. a Core Tier 1 capital ratio of 10% in 2013 and 12% in 2015.

Capital

The development in the Group's solvency and core capital ratios is shown in the table below. It appears that the solvency and Core Tier 1 capital ratios are still solid and in line with Jyske Bank's capital-management objective.

Solvency and core capital ratios		
	2011	2010
Solvency ratio (%)	14,7	15,8
Core capital ratio incl. hybrid capital (%)	13,3	14,1
Core capital ratio excl. hybrid capital (%)	12,1	12,5

Capital base

The capital base consists of core capital and subordinated debt. The size of the core capital depends primarily on the year's profit.

The Core Tier 1 capital amounted at end-2011 to 82% against 79% in 2010. The higher proportion of Core Tier 1 capital in the capital base is in line with Jyske Bank's wish to achieve the highest quality possible of its capital base. In 2011 the capital base was reduced due to the prepayment of a subordinate loan of nominally EUR 25m as well as the buyback and cancellation of hybrid core capital of nominally EUR 50m.

Capital base		
DKKm	2011	2010
Share capital	648	648
Retained earnings	12,855	12,373
Minority shareholders	33	32
Intangible assets	-261	-240
Deferred tax assets	0	-2
Core capital exclusive of hybrid core capital	13,275	12,811
Hybrid core capital	1,292	1,644
Diff. between expected losses and impairment charges	-132	-102
Other deductions	-26	-46
Core capital	14,409	14,307
Subordinated debt (excluding hybrid core capital)	1,423	1,613
Revaluation reserve	310	299
Diff. between expected losses and impairment charges	-132	-102
Other deductions	-27	-46
Capital base	15,983	16,071
Risk-weighted assets	108,637	101,572

Minimum capital requirement

The minimum capital requirement reflects the regulatory capital requirements and is based on the risk types of credit, market and operational risk. Jyske Bank has been approved to apply the advanced internal rating-based approach (AIRB) to the measurement of credit risk. The approval extends to the application of advanced methods for determining the minimum capital requirement for the main part of the Group's credit portfolio.

Capital Management

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

Minimum capital requirement by risk type		
DKKm	2011	2010
Credit risk	6,635	6,152
Market risk	1,127	1,121
Operational risk	929	853
Minimum capital, pillar I	8,691	8,126
Capital requirement due to transitional rules	85	276
Total minimum capital requirement	8,776	8,402

The minimum capital requirement in relation to CRD is increased due to the transitional rules that are still applicable and that relate to the former capital adequacy rules.

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

ICAAP

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

The adequate capital base expresses Jyske Bank's own assessment of the capital requirement given the Group's risk profile. It is determined using Jyske Bank's internal models for measuring economic capital, which comprise the risk types for which the Group wishes to set capital aside: credit risk, market risk, operational risk and business risk.

Analyses are carried out for each risk type addressing qualitative as well as quantitative elements with regard to monitoring and ongoing quality assurance, including extensive evaluation of model assumptions.

The analyses also address the 17 regulatory items^[1], which according to the Danish Executive Order on capital adequacy must be assessed. These also comprise liquidity risk, for which the Group does not set capital aside but instead reduces through day-to-day liquidity management and contingency plans.

Based on the calculation of economic capital, it is also assessed whether there are considerable circumstances that have not been addressed by the calculation model or for which, by way of precaution, capital should be reserved. In that case, additional capital will be set aside. The addition addresses both the uncertainty relating to the individual circumstances and the model setup, and hence it takes place outside Jyske Bank's model setup for calculation of an adequate capital base.

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

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

Additional capital due to other circumstances relates to issues specific to Jyske Bank and issues which are general for the banking sector, such as a counter-cyclical buffer. Counter-cyclical buffers are accumulated in good times and are applied in bad times. The counter-cyclical buffer was reduced in the course of 2011 due to the weak economic development.

In line with the Danish Executive Order on capital adequacy, Jyske Bank's ability to generate a profit is also considered when assessing the adequate capital base. This means conceptionally that the adequate capital base mirrors the negative retained earnings/profit in an extreme situation.

The subsequent table shows the contribution from the individual types of risk to the adequate capital base and the individual solvency requirement.

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

Determination of individual solvency requirement				
DKKm	2011	% of RWA	2010	% of RWA
Credit risk	7,829	7.2	6,260	6.1
Market risk	982	0.9	1,087	1.1
Operational risk	573	0.5	598	0.6
Other	1,478	1.4	1,596	1.6
Total	10,862	10.0	9,541	9.4

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 individual solvency requirement is subject to the interim rules pertaining to AIRB institutions. At end-2011, the Group calculated an individual solvency requirement of 10.0%.

Individual solvency requirement and capital buffer

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

Individual solvency requirement and capital buffer				
DKKm	2011	% of RWA	2010	% of RWA
Capital base	15,983	14.7	16,071	15.8
a) Core capital (Tier 1)	14,409	13.3	14,307	14.1
- of which hybrid capital	1,292	1.2	1,644	1.6
b) Tier 2 capital	1,574	1.4	1,764	1.7
Adequate capital base	10,862	10.0	9,541	9.4
Capital buffer	5,121	4.7	6,530	6.4

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 5.2% higher for Jyske Bank A/S than for the Group, mainly because the parent company's loans, advances and guarantees to the subsidiaries carry weight in Jyske Bank's solvency calculation. Consequently, the parent company's individual solvency requirement was 9.5%.

Stress test

Stress-testing has proved a useful capital management tool, and it is therefore an important element in Jyske Bank's approach to projecting the adequate capital base and individual solvency requirement. Moreover, stress tests are suitable to assess the Group's capital-management objective in a future perspective.

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

An objective of the stress-test analyses is to gauge whether the future risk level of a certain scenario can be covered by capital, given the Group's earnings, capital policy and management objective as well as its risk measurement. The results of the stress-test analyses are also used, for instance, to assess whether the capital level and the quality of the capital suffice and consequently whether it is necessary to implement the Group's capital emergency plan. It is therefore crucial to determine the circumstances against which the Group wishes to hold capital. Another objective is to estimate the individual solvency requirement. In accordance with regulation, the estimate must at the least be based on stress tests based on a mild recession scenario.

Scenarios

The stress-test analyses rest on various macroeconomic scenarios. These include a scenario of the expected development as well as scenarios of various stages of recession in the Danish economy, including, for instance, the consequences of a collapse of the euro. The definition of recession scenarios rests on assessments of the areas deemed to be most at risk and on the circumstances that are of the highest importance for the Group's exposure to risk at the time. Examples of scenarios appear from the table.

Capital Management

Applied scenarios	2012 – 2014
Expected scenario	It is expected that the economic downturn will still result in low economic growth in 2012 and then moderate improvement of the Danish economy. It is expected that personal consumption and investments will generally pick up but that economic growth will be kept low due to lower exports and a higher unemployment rate.
Low-growth scenario	Sustained global economic crisis leading to a new and lengthy recession. Particularly steeply rising unemployment rates and very low personal consumption will cause the crisis to be long-lived.

Change in key macroeconomic variables (Denmark)	Expected scenario			Low-growth scenario		
	2012	2013	2014	2012	2013	2014
GDP	0.7%	1.4%	2.0%	-0.4%	0.3%	0.9%
Private consumption	0.6%	1.8%	2.0%	-0.7%	0.2%	0.6%
Unemployment rate (net)	4.3%	4.5%	4.2%	5.2%	6.5%	7.0%
House prices	-3.5%	2.0%	3.0%	-8.0%	-4.0%	-1.0%
Money-market rate (average for the year)	1.0%	1.15%	1.25%	0.8%	1.0%	1.1%
Bond yield (average for the year)	2.25%	2.5%	2.75%	1.75%	2.0%	2.25%

Processes and models

The scenarios play a key role in the projection of the consolidated profit, balance sheet and capital structure. Hence a broader overview is obtained of the Group's sensitivity to the economic development.

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

Processing of results

The low-growth scenario results in deterioration of the earnings capacity and in a higher level of risk. Either of these elements reduces the gap between the actual and the adequate capital base. In spite of the crisis, core earnings, and particularly the interest income, 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 a lengthy recession is 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 lengthy recession.

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

External stress testing

In the summer of 2011, Jyske Bank took part in the EBA's stress tests of major European banks. Unlike the internal stress testing, the scenarios had been defined by the EBA. The result was very satisfactory as Jyske Bank ranked seven out of the 90 European banks in the stress test.

Due to the government debt crisis and the turmoil in the euro zone, the EBA carried out a capital test in the autumn of 2011. The purpose of the capital test was to clarify the possible need for recapitalisation of the European banking sector. The EBA had stipulated a minimum Core Tier 1 Capital of 9%, and given Jyske Bank's calculated Core Tier 1 capital ratio of 12.3%, Jyske Bank had no problems passing the capital test.

New capital adequacy rules

The upcoming renewal of the Capital Requirements Directive, CRD IV, has by now been on the agenda both in Denmark and in Europe for quite some time. The main purpose of the rules is to strengthen the banks' general resilience in crisis situations.

Together with the rest of the Danish banking sector, Jyske Bank has actively participated in the ongoing hearing of the new rules. The rules strongly emphasise harmonisation ("single rule book") across the EU countries, which is a shift relative to the previous extensive application of national options.

Denmark has particularly focused on the implications for the Danish mortgage system. Full recognition of mortgage bonds is important in relation to the new liquidity standards, and in this crucial Danish area, the European standards deviate from the global standards. This is positive, as it seems to demonstrate that the strength of the Danish mortgage system is recognised.

Also, a key element of the CRD IV is a general wish on the part of legislators that banks will be required to hold more capital. This can be achieved through these measures, among others:

- improvement of the banks' capital by increasing the proportion of equity in the capital base;
- higher capital requirements in relation to counterparty risk;
- introduction of capital buffers that are to be accumulated in good times and function as buffers in bad times.

Even though the rules will not be implemented until 2013, regular tests, e.g. the European quantitative impact study and the above-mentioned stress tests, have demonstrated that already now Jyske Bank is well prepared to meet the new requirements.

Preliminary calculations show that, due to the new rules, Jyske Bank can foresee a minor decline in its solvency ratio. This will be caused primarily by the increased strain on capital from financial instruments (CVA capital requirements) as well as the changed requirements for institutions calculated according to the standard method (abolishment of the country method).

Moreover, the increased requirements to the loss-absorbing qualities of the capital posed by the new rules will have the result that Jyske Bank's Tier 1 and Tier 2 instruments will be phased out by 10% a year as of 2013, as in the long term they will not qualify as loss-absorbing in a 'going concern'.

Jyske Bank has defined internal capital targets and risk targets that are primarily based on CRD IV. In combination with the regular stress tests and the future implications for the liquidity buffer, this offers a valuable overview of Jyske Bank's resilience and hence its scope to act in respect of external circumstances as well as internal strategic decisions.

Economic Capital

- In 2011, economic capital rose by 17%, primarily due to the deterioration of credit quality and a more cautious measurement of the credit risk.
- Rising volatility in the financial markets reflects the rising market risk.
- The operational risk has increased due to the upcoming migration to a new IT platform at Bankdata.

Economic capital is a key element in the management of the Group's risk and capital structure as well as in the day-to-day financial management. Economic capital is the capital required to cover the Group's unexpected loss one year into the future. One of the benefits of economic capital is the fact that it comes up with an aggregate figure for all risk types, products and business units. It thus produces one unified risk measurement expressed in a single unit of value, and the capital will at any time reflect the Group's risk for the next year.

For the calculation of economic capital, a number of internal models are applied. The models are based on a VaR setup (over a 1-year horizon) for those risk types to which the Group wishes to apply quantitative modelling: credit risk, market risk, operational risk and business risk. It is continuously considered whether other risks should be quantified in the economic capital. The risks already included in the capital are tested and validated to ensure that risk is at all times reflected accurately.

Each main type comprises various other risk types. Credit risk includes concentration risk, migration risk as well as counterparty risk, among other things, and market risk covers interest-rate, currency, commodity and equity risk. Under operational risk control risks are dealt with, and business risk deals with the Group's reputational risk.

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

RAROC

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

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

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 pricing are made available in profitability systems where employees and managers have access to current risk-adjusted profitability calculations at various levels.

The profitability systems take into account the composition of the Group's credit portfolio, which means that concentration effects and diversification effects are reflected directly in the profitability calculations of new loans. If the Group grants loans to 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.

Development in economic capital

Group economic capital at the end of 2011 was calculated at DKK 8.5bn against DKK 7.3bn at end-2010, i.e. up by 17%.

Economic capital by risk type (99.9%, non-diversified)				
	2011		2010	
	DKKm	%	DKKm	%
Credit risk	6,046	71	4,849	67
Market risk	1,051	12	878	12
Operational risk	676	8	598	8
Business risk	712	8	941	13
Total	8,485	100	7,266	100

The increase in the credit risk can primarily be attributed to the deterioration of credit quality and a more cautious measurement of the credit risk. The credit risk now also includes the risk of loss due to Jyske Bank's participation in the Deposit Guarantee Fund.

The increase in the market risk is primarily driven by the development of economic capital for the equity portfolio, which is affected most by higher volatilities in the financial markets caused by the government debt crisis. The effects from the heightened level of volatility are limited by the almost unchanged market risks relative to 2010, and the market risk from the interest-rate portfolio has even been reduced.

The Group's operational risk increased over the period due to the current process of moving large parts of Jyske Bank's IT development to Bankdata.

The fall in the business risk relative to 2010 can mainly be attributed to the fact that as of the third quarter of 2011, the Deposit Guarantee Fund is recognised as a credit risk rather than a business risk. A small proportion of the fall can be attributed to the fact that this year Jyske Bank has applied a new model for the calculation of economic capital for business risk; it is assessed that this new model is an improvement in respect of giving a true and fair view of the Group's capital requirements. Rising margins on loans and advances in the second half of 2011 caused earnings to become more vulnerable to fluctuations in the business volume and thus increased the risk.

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

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.

Credit risk

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

In 2011, the Group implemented a new credit portfolio model: CreditRisk+. The CreditRisk+ model was originally developed by Credit Suisse to calculate economic capital for credit risk. The model is based on a portfolio approach for the measurement of credit risk that allows for the size of the exposure, the granularity of the portfolio, the customer's credit quality, the uncertainty related to the customer's standing as well as customer's systemic risk. Moreover, Jyske Bank's setup allows for the term and repayment profile of the individual exposure. This does, however, take place outside the model in a set-up derived from the CRD rules.

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

The change in model has not resulted in any material changes in the overall capital level.

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

Economic Capital

Market risk

To quantify and monitor the risk on its market risk positions, the Group uses a Value-at-Risk approach based on an internally-developed model.

VaR expresses the maximum loss that the Group is able to sustain over a given period at a certain level of probability.

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

Business risk

In 2011, Jyske Bank applied a new, own-developed model for the calculation of economic capital for business risk. The model is based on the Jyske Bank Group's past earnings capacity and provides a picture of risk on the basis of the environment that Jyske Bank operates in at the given time. The model involves risk factors that are presumed to affect the general business conditions in the sector and at the same time it allows for the possibility that the Group's position in the market may change.

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

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

Credit Risk

- In 2011, the credit portfolio was still affected adversely by the economic development.
- The total exposure was increased by 21% and the value of the collaterals provided was increased by 29%.
- The minimum capital for credit risk was increased by 8% in 2011.

Credit risk is managed on the basis of the Group's credit risk models which include PD, LGD and EAD modelling. The models are used for various purposes, 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 exposures are presented to the Supervisory Board for approval. The Supervisory Board delegates limits to the members of the Executive Board.

Credit risk is managed through Jyske Bank's credit policy whose objective is to keep Group risk at an acceptable level in relation to the capital base and business volume of the Group, given the general trend in the Danish economy. 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.

Granting and monitoring of credit risk

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

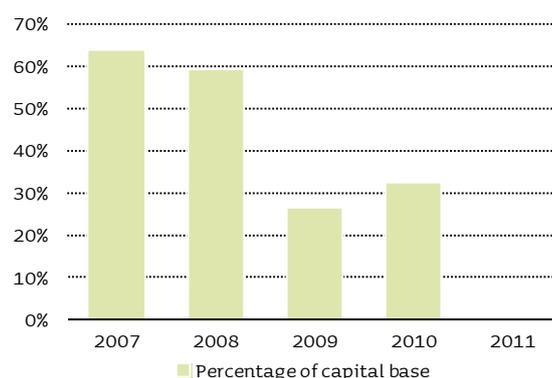
A central element in the assessment of the creditworthiness of corporate customers is their ability to service debt out of cash flow from operations in combination with their financial strength. For personal customers, factors such as net income, expenses and assets are important.

All the Group's credit risk positions are monitored by two departments, Capital and Risk as well as Credit Risk Supervision, which are departments 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 commitments are reviewed. Moreover, risk monitoring includes qualitative as well as quantitative control of data used in risk and RAROC calculations.

Large exposures

Large exposures are monitored on a regular basis in accordance with the Executive Order on Large Exposures, including exposures larger than 10% of Group capital base. Currently the Group has no exposures that exceed 10% as compared with 32.5% at end-2010. The decline can primarily be attributed to new legislation.



The credit-rating process

Credit procedures are adjusted to match the level of risk on individual exposures. The key element is the customer's credit quality, referred to as credit rating, as this expresses the probability of the customer defaulting over the coming year (PD). 'Default' occurs when an obligor is considered unlikely to meet his obligations to the Group. By far the most 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 form the basis in the internal credit rating of the customer.

Many factors are relevant for the calculation of a customer's PD. Specific factors relating to the customer are considered, but factors relating to the situation of the customer are also taken into account. The calculation of PD therefore takes into account financial data, changes in transaction data, management and market circumstances, industrial assessments, etc. Also included are specific warning signals in relation to the 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 basically calibrated to the long-term level of default rates measured back to the mid-eighties before the beginning of latest major recession. Moreover, adjustments relative to the actual development of the default rate are made quarterly.

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

Credit exposure

Credit exposures are quantified by means of EAD. EAD reflects the exposure at default in the event of the 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, while a few product types are based on expert models.

For fixed-term loans the only element of uncertainty is the time until possible default. Uncertainty is higher, however, for credit facilities under which the 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 exposure.

Guarantees and credit commitments are special products inasmuch as a certain event must take place before they are utilised. It is therefore material to assess the probability and the extent of utilisation of the product in the event of the 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. In respect of guarantees, there is a sufficient body of data for statistical modelling.

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, minimum capital, etc. broken down on a number of characteristics.

The Group's risk-weighted assets and the total minimum capital were increased by 8% relative to 2010. At the same time, total exposures rose by just above 21%. The large increase in exposures can be attributed to the higher volume of repo transactions and higher exposures to financial products.

Jyske Bank's exposure by determination method is shown in the table below. The proportion of exposures assessed according to the AIRB approach was almost maintained since in the course of 2011, the proportion fell marginally to 70% against 72% at end-2010. The development was affected by the increased business volume with institutions under the standard approach and increased exposure to corporate customers under the AIRB approach.

Change in EAD and RWA with credit risk		
DKKm	2011	2010
EAD	274,515	212,915
RWA	82,935	76,895

Minimum capital by exposure category		
DKKm	2011	2010
Exposure category		
Central governments	2	0
Institutions	340	267
Corporate customers	4,366	3,862
Retail, total	1,427	1,436
1) Real property, personal	195	229
2) Real property, SMEs	261	243
3) Revolving credits	83	69
4) Other retail exposure, personal customers	523	514
5) Other retail exposure, SMEs	365	381
Equities	68	57
Securitisations	105	254
Assets without counterparties	327	274
Total	6,635	6,152

Exposure by determination method						
Exposure category	2011				2010	
	AIRB		Standard		AIRB	Standard
	DKKm	%	DKKm	%	%	%
Central governments	0	0	12,298	16	0	20
Institutions	0	0	51,725	66	0	59
Corporate customers	118,162	66	6,720	8	58	12
Retail, total	54,457	30	6,980	9	38	8
1) Real property, personal	16,807	9	0	0	12	0
2) Real property, SMEs	7,532	4	0	0	5	0
3) Revolving credits	8,600	5	0	0	6	0
4) Other retail exposure, personal	12,702	7	6,554	8	9	8
5) Other retail exposure, SMEs	8,816	5	426	1	6	1
Equities	0	0	842	1	0	1
Securitisations	2,423	2	0	0	2	0
Assets without counterparties	4,089	2	0	0	2	0
Total	179,131	100	78,565	100	100	100

Corporate-customer exposure by credit rating



In respect of retail customers (personal customer and SMEs), a marginal negative migration has taken place. This trend can very much be attributed to the economic development. By far the majority of the portfolio is still of satisfactory quality.

The charts comprise the units and companies in the Group for which Jyske Bank has been approved to apply advanced models. The charts are exclusive of exposures to defaulted customers classified by Jyske Bank as representing high or full risk. Exposure to those customers accounted for 4.6% (2010: 5.1%) of Jyske Bank's aggregate AIRB exposure.

The proportion of exposures with a time to maturity of less than one year has increased to 70% against 66% in 2010.

The 21% increase in the overall exposure can be attributed to several opposite movements when looking at the development at sector level. Exposures to corporate customers increased by 31% (DKK 46bn). Of these, exposures to banks increased by 50% (DKK 17.3bn) and exposures to financing and insurance by 69% (DKK 23.0bn). Furthermore, exposures to other sectors increased by 23% (DKK 2.9bn).

The total exposures to retail customers fell by almost 3% (DKK 1.6bn). The fall was primarily seen in the exposure to personal customers with mortgages of DKK 2.0bn and in the exposures to agriculture classified under retail with DKK 0.6bn. On the other hand, exposures to personal customers categorised as other sectors increased by almost DKK 1bn.

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

Retail-customer exposure by credit rating



The charts above show exposures by credit rating. With respect to corporate customers, the development was affected by an increase in exposure to credit rating 1 in the amount of DKK 15.7bn and an increase in exposure to credit rating 4 in the amount of DKK 13.3bn, and in both cases the increases can be attributed to a few individual exposures. It is assessed that the risk is low as to a great extent the increase relates to repo transactions. If these large individual exposures are disregarded, the trend is still negative in respect of corporate customers.

Exposure by time to maturity				
DKKm	< 1 year	1-5 years	> 5 years	Total
Governments and public authorities	11,063	1,214	21	12,298
Institutions	48,037	3,599	90	51,726
Corporate customers	101,859	13,630	9,393	124,882
Retail	19,045	17,507	24,885	61,437
Equities	0	0	842	842
Securitisations	31	228	2,164	2,423
Assets without counterparties	0	0	4,088	4,088
Total 2011	180,035	36,178	41,483	257,696
Total 2010	139,070	32,795	41,050	212,915
Breakdown 2011	70%	14%	16%	100%
Breakdown 2010	66%	15%	18%	100%

Exposure broken down by sector exclusive of retail								
DKKm	Governments and public authorities	Institutions	Corporate customers	Equities	Assets without counterparties	Securitisations	Total 2011	Total 2010
Governments	8,488	0	0	0	0	0	8,488	6,290
Public authorities	3,365	0	3,199	0	0	0	6,564	6,816
Banks	0	51,725	0	0	0	108	51,833	34,489
Agriculture, hunt, forestry, fishing	0	0	8,196	0	0	0	8,196	7,950
Manufacturing etc.	0	0	14,562	0	0	0	14,562	15,243
Energy supply	18	0	2,944	0	0	0	2,962	2,955
Construction	0	0	2,382	0	0	0	2,382	2,584
Commerce	0	0	10,021	0	0	0	10,021	9,606
Transport, hotels and restaurants	98	0	4,274	0	0	0	4,372	4,020
Information and communication	0	0	685	0	0	0	685	830
Finance and insurance	218	0	54,226	0	0	2,294	56,738	33,670
Real property	0	0	13,868	0	0	0	13,868	12,769
Other sectors	111	0	10,526	842	4,088	21	15,588	12,649
Total 2011	12,298	51,725	124,883	842	4,088	2,423	196,259	149,871
Total 2010	11,812	34,838	95,485	717	3,424	3,595	149,871	

Exposure broken down by sector, retail							
DKKm	Real property, personal	Real property, SMEs	Revolving credits	Other, personal	Other, SMEs	Total 2011	Total 2010
Agriculture, hunt, forestry, fishing	0	1,904	0	0	2,144	4,048	4,631
Manufacturing etc.	0	86	0	9	317	412	485
Energy supply	0	43	0	5	130	178	432
Construction	0	156	0	14	657	827	767
Commerce	0	437	0	21	915	1,373	1,490
Transport, hotels and restaurants	0	159	0	206	729	1,094	930
Information and communication	0	11	0	4	61	76	67
Finance and insurance	0	0	0	4	196	200	329
Real property	0	413	0	0	364	777	1,276
Other sectors	0	223	0	1,312	900	2,435	1,572
Personal customers	16,807	4,100	8,600	17,681	2,829	50,017	51,066
Total 2011	16,807	7,532	8,600	19,256	9,242	61,437	63,045
Total 2010	18,806	7,749	8,827	17,812	9,850	63,045	

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 exposures. Collateral received is therefore a main element of the Group's assessment of Loss Given Default (LGD). LGD is the part of the Group's total exposure to a 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 commitment and the collateral provided. Overall, LGD also depends on Jyske Bank's ability to collect receivables and liquidate collateral.

The modelling of LGD at Jyske Bank is divided into two main areas: The part of the account that is secured by collateral and the unsecured part. With unsecured debt, the proportion of a 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. For the secured debt, the expected proceeds from liquidation of collateral are estimated. Here the type of collateral held by Jyske Bank is decisive as well as the liquidity of the assets. With comparatively rare assets Jyske Bank obtains an expert estimate of the proceeds, whereas statistical estimates are used for more frequent asset classes such as vehicles, real property and securities.

The models relating to real property and vehicles include on-going updating of the collateral value, taking into account, among other things, market-related changes in value, and wear and tear. Listed securities are measured daily.

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

The values in the table express the expected realisation value less costs of collection and costs of selling the relevant assets. The value of the collateral provided increased by 29% (DKK 30.4bn). The development can primarily be attributed to an increase in securities, cash, etc. of 53%, equalling DKK 27.4bn, and a 21% increase in the value of personal property, equalling DKK 2.0bn. Also, the value of guarantees increased by DKK 2.5bn, i.e. a 50% increase. The increase in collaterals in the form of securities reflects the increased volume of repo transactions. The increased collateral in the form of guarantees can be attributed to one individual exposure guaranteed by the Danish government.

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

Collateral by type		
DKKm	2011	2010
Securities, cash balance, etc.	78,953	51,592
Real property	34,814	35,182
Personal property	11,229	9,246
Securities, cash balances, etc, with other financial institutions	22	31
Guarantees	7,484	4,988
Other collateral	2,370	3,371
Total	134,872	104,410

Exposure secured by guarantees				
DKKm	2011		2010	
Exposure category	EAD partial cover	EAD full cover	EAD partial cover	EAD full cover
Central governments	10	85	6	17
Institutions	0	13	0	2
Corporate customers	12,207	35,009	9,883	32,104
Retail	1,776	1,221	2,342	1,590
Total	13,993	36,328	12,231	33,713

Loan impairment charges and provisions for guarantees

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

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

Risk categories

Jyske Bank's risk exposures are broken down into three categories: low-, high- and full-risk exposures. The two last-mentioned risk categories represent defaulted 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 commitments. The net increase is used in the calculation of collective impairment at Jyske Bank, and for each impairment group, impairment is calculated on the basis of the net decrease in future cash flows since establishment.

Objective evidence of collective impairment is deemed present when data are observed for a segment which indicates a decrease in the future payments from that segment. In those cases, collective impairment is calculated as the discounted expected net loss on that segment.

Provisions for guarantees and other liabilities

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

Jyske Bank's provisions for guarantees and other liabilities include guarantees in favour of business partners or provided at the request of 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.

Trend in loan impairment charges and provisions for guarantees

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

For defaulted exposures, the balance of loan impairment charges and provisions for guarantees amounted to DKK 3.1bn at end-2011 (2010: DKK 3.2bn).

In 2011, an amount of DKK 1.2bn was charged as write-offs, loan impairment charges and provisions for guarantees on defaulted and past due exposures, against DKK 1.8bn in 2010. Hence the trend was falling. To a higher degree than was previously the case, the impact is seen because of losses, which indicates that the higher risk concerns customers already defined as having an indication of impairment.

The Group's total EAD, loan impairment charges and provisions on defaulted and past due exposures				
DKKm	2011		2010	
Exposure category	EAD	Impairment charges and provisions	EAD	Impairment charges and provisions
Central governments	12,298	0	11,812	0
Institutions	51,725	0	34,838	0
Corporate customers	124,882	2,263	95,485	2,362
Retail	61,437	793	63,045	827
Equities	842	0	717	0
Securitisations	2,423	0	3,595	0
Assets without counterparties	4,089	0	3,424	0
Total	257,696	3,056	212,916	3,189

Sector breakdown of defaulted and past due exposures				
DKKm	EAD on defaulted and past due exposures	Impairment charges and provisions	Operating item for the year	Losses recorded
Agriculture, hunting, forestry, fishing, etc.	1,116	597	47	240
Manufacturing and raw material extraction	422	139	-106	174
Energy supply	66	11	7	18
Construction	412	154	5	68
Commerce	628	266	-14	123
Transport, hotels and restaurants	214	64	-38	40
Information and communication	64	21	-5	10
Finance and insurance	1,155	500	-175	332
Real property	1,580	645	168	144
Other sectors	376	147	-112	50
Personal customers	2,183	512	89	155
Total 2011	8,216	3,056	-134	1,353
Total 2010	8,004	3,189	866	955

NB: The operating item over the year by sector refers to exposures subject to individual impairment in accordance with IFRS, which are considered defaulted in the calculation of the Group's capital requirements. The operating item for the Group's other provisions/loan impairment charges was for the year DKK 261m, so the total operating item for loan impairment charges and provisions for the full year was DKK 1,480m.

High-risk sectors are (impairment ratio stated in brackets): agriculture, hunting, forestry and fishing industry (4.9%); construction (4.8%); and real property (4.4%).

Impairment charges are still low for personal customers (1% of exposure), but for the group of personal customers, defaulted exposures have increased considerably (41%). Following these, the sectors real property, for which defaulted exposures rose by 19%, and agriculture, hunting, forestry and fishing, for which defaulted exposures rose by 16% relative to 2010.

Due to the economic trend, the recent year saw sustained difficult conditions for businesses with activities relating to agriculture and real property, and therefore it is no surprise that also in 2011 the

sectors, inclusive of construction suffered relatively large losses relative to the exposures of the sectors. In 2011 the losses amounted to 2.0% (agriculture, hunting, forestry, fishing industry), 2.1% (construction) and 1.0% (real property) relative to the sectors exposure.

In 2011, 83% (2010: 87%) of the impairment charges recognised for defaulted and past due exposures referred to corporate customers, while 17% referred to personal customers (2010: 13%).

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

Re-estimation and validation of credit-risk models

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

The purpose of stability testing is to monitor whether the estimated parameters of the models are stable over time. The identification of structural breaks and systematic parameter changes is an important aspect when the models are applied to such long-time horizons as are involved in credit risk.

The purpose of back-testing is to compare a model's predictions with what actually happened.

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

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

Estimated and observed parameter values 2011

	Corporate customers	Qualified revolving retail exposures	Retail exposures secured against real property	Other retail exposures	Total
Expected losses					
Realised	0,77%	0,27%	0,39%	0,74%	0,66%
Estimated	0,79%	0,39%	0,39%	0,73%	0,67%
PD					
Realised	3,66%	0,60%	0,85%	1,21%	0,96%
Estimated	3,08%	0,72%	0,94%	1,49%	1,12%
LGD					
Realised	32%	45%	16%	36%	37%
Estimated	40%	60%	27%	47%	44%

NB: The figures concern AIRB customers with Jyske Bank A/S not defaulted at the beginning of the year. Realised losses comprise impairment charges and write-offs on customers defaulting over the year. Expected losses have been calculated as a proportion of EAD. PD and LGD are averages based on the number of customers.

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 large 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. To reduce settlement risk, all transactions will to the extent possible take place through CLS (Continuous Linked Settlement), through some other form of clearing centre, or under individual netting agreements.

Jyske Bank calculates its daily exposure to individual counterparties within the Group's counterparty risk management systems, and these exposures are included in credit risk management in line with other credit exposures. Counterparties are granted lines in accordance with the instructions in force after risk assessment of the individual counterparty; the current utilisation is calculated from the customer's exposure to individual risks. The lines granted are reviewed at least once a year or in case of a change in the creditworthiness of the respective counterparty.

Risk reduction

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 and large corporate customers will most often be bilateral, 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		
DKKm	2011	2010
Derivatives with positive market value	31,619	21,623
Netting	21,963	15,881
Exposure after netting	9,656	5,742
Collateral received	3,759	2,432
Exposure after netting and collateral	5,897	3,310

Jyske Bank is preparing for the statutory requirements that a number of OTC products must be traded via a central counterparty clearing house (CCP).

Counterparty risk and calculation of capital

Capital must be set aside for counterparty risk on derivatives in accordance with regulatory requirements (the Capital Requirements 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	2011	2010
Exposure to governments	382	75
Exposure to institutions	5,292	5,762
Exposure to corporate customers	9,513	5,048
Exposure to retail customers	733	589
Total	15,920	11,474

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

Market Risk

- At end-2011, Jyske Bank's market risk expressed as Value at Risk had increased due to the rising market volatilities caused by the government debt crisis.
- The exposure to underlying market risks is, on the other hand, almost unchanged relative to last year; throughout 2011, there have, however, been major fluctuations in Jyske Bank's interest-rate risk.

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.

<i>Interest-rate exposure:</i>	the risk of loss caused by changing interest rates
<i>Exchange-rate risk:</i>	the risk of loss caused by changing exchange rates
<i>Equity risk:</i>	the risk of loss caused by changing equity prices
<i>Commodity risk:</i>	the risk of loss caused by changing commodity prices
<i>Volatility risk:</i>	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 market risk policy and relevant guidelines stating its risk profile for the area of market risk. The policy is specified in a number of limits delegated to the Executive Board.

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

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

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

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 Group Treasury Committee. The meetings are attended by several members of the Executive Board and by representatives from Jyske Markets.

Monitoring and reporting

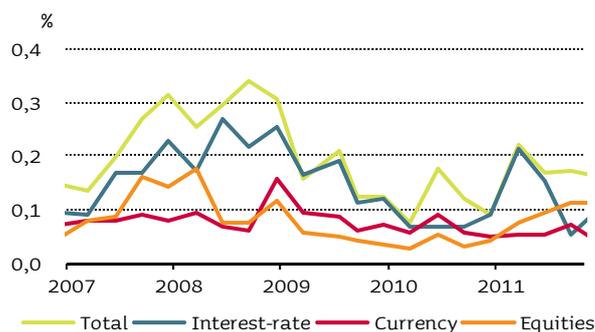
All risk positions are monitored daily. The Executive Board is notified immediately of any positions which exceed the pre-determined limits or are in conflict with the risk management policy. The Supervisory Board and Internal Audit are notified immediately if positions exceed the overall authority of 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 VaR was DKK 21m at end-2011. The exposure is above the level at end-2010, but in a historical perspective, the level is not high. The increase took place in the beginning of the first quarter of 2011, and subsequently VaR was at a fairly stable level throughout 2011. The strong increase in the first quarter of 2011 could be attributed to the increase in Jyske Bank's interest-rate risk.

Value-at-Risk as a percentage of equity



As appears from the chart, the development of the underlying market risks varied. While VaR for the interest-rate portfolio has historically dominated in market risk, this situation changed in 2011 when the interest-rate risk was reduced strongly. Instead, Jyske Bank's equity portfolio dominated the development of VaR due to the significant increases in the volatilities in the equity markets, which were at a high level for most of 2011. The underlying equity portfolio only increased modestly in 2011.

Jyske Bank's interest-rate risk changed considerably in 2011, which – as stated – is reflected in VaR. After an increase in the first quarter of 2011, the interest-rate risk fell due to falling interest rates, particularly in August, and was at end-2011 higher, yet still at a low level in a historical perspective. In addition to the core business in the form of deposits and loans, the interest-rate risk was dominated by exposures to Danish and international mortgage bonds as well as covered bonds with short and medium maturities.

As stated, Jyske Bank's overall equity exposure increased only modestly in 2011, and so did the currency exposure.

The underlying equity and currency portfolios were characterised by being well-diversified, and at end-2011 both market risks were at moderate levels relative to Jyske Bank's desired risk profile. The strategic commodity portfolio was closed in 2011.

Naturally Jyske Bank's portfolio of value-based credit risk was affected by the debt crisis in 2011 due to the downgrades of securities as well as the rescue packages for Greece. The holding of Greek government bonds now amounts to DKK 181m and is hence only a marginal part of the total portfolio, which overall has maintained the credit quality within the allocated limits.

The portfolio of Credit Default Swaps (CDS) grew in 2011 and at end-2011 it consisted of seven sold CDS's with a nominal value of DKK 1,400m. The underlying exposures are distributed on individual credits as well as portfolios of credits.

Minimum capital for market risk

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

At end-2011, Jyske Bank's minimum capital for market risk was almost at the same level as last year. A few shifts took place within the individual market risks as the capital for debt instruments fell and the capital for equities increased. The decline in respect of debt instruments can primarily be attributed to the reduction of Jyske Bank's interest-rate risk, whereas the increase in capital for Jyske Bank's equity positions primarily can be attributed to the principal change in the Capital Requirements Directive as now the specific risk on equities has a risk weight charge of 100% instead of 50%.

Minimum capital requirement, market risk				
DKKm	2011		2010	
Risk type	Risk-weighted assets	Min. capital	Risk-weighted assets	Min. capital
Debt instruments	12,166	973	12,557	1,004
Equities, etc.	987	79	395	32
Commodities	0	0	8	1
Currency position	938	75	1,049	84
Total	14,091	1,127	14,009	1,121

Market risk types

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

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.

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

Jyske Bank has developed an advanced risk-management model that adjusts the risk key figures for mortgage bonds for the built-in option element of the bonds. Therefore callable mortgage bonds are included in the interest-rate risk with the option-adjusted duration. Risk management of the Group's portfolio of mortgage bonds is supplemented with limits for and measurement of OAS (option-adjusted spread) positions.

Interest-rate risk 1 is supplemented with a further risk measurement, interest-rate risk 2, which takes into account risks attached to spread transactions between 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

Jyske Bank's currency risk indicators are calculated on the basis of Currency indicator 1 in accordance with the Danish Executive Order on the Presentation of Financial Statements laid down by the Danish 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.

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

Equity 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.

Besides equity risk a and b, the Group applies limits to individual exposures to shares with the objective of limiting concentration risk.

The own securities portfolio of Jyske Bank shares and financial-sector shares etc. are not included in equity risks a and b.

Shares not held for trading

The shares not included in the trading portfolio 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	2011	2010	Unrealised gain	Realised gain
Total	958	761	70	0

The portfolio rose in 2011, which can be attributed to positive value adjustments as well as a few new positions.

Market Risk

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

Commodity risk

Commodity risk is measured as a risk a and a risk b.

Commodity risk a is calculated 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 applying only to contracts for the same underlying commodity with the same due date.

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 risk measurements and must therefore be managed separately.

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

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

Securitisations

Jyske Bank's activities within securitisation are linked to investment in tranches issued by other institutions and legal entities. Thus the Group 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 primarily of AAA-rated senior tranches

- CLOs/CDOs:
 - senior tranches rated AAA or AA
 - mezzanine tranches with a wide rating spread. The portfolio has gradually been redeemed.

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

Exposure type for securitisations (2011)				
DKKm	European	US	Other	Total
RMBSS	3,090	0	10	3,100
CLO	1,163	222	0	1,385
ABS and CDO	209	83	58	350
Total 2011	4,462	305	68	4,835
Total 2010	4,662	521	102	5,285

The decline in the portfolio of securitisations can be attributed to ongoing redemptions without any subsequent corresponding reinvestments.

The debt crisis gave rise to downgrades of a few tranches in which investment was made without changing the fact that the majority of the Group's exposures to securitisation is in the form of AAA-rated senior tranches, which appears from the table below. The main underlying investments of the tranches are US and European bank and housing loans.

Breakdown of ratings (Standard & Poor's / Moody's)		
DKKm	2011	2010
AAA / Aaa	3,491	4,179
AA / Aa	926	605
A / A	98	58
BBB / Baa	95	99
BB / Ba	49	27
Lower or no rating	176	317
Total	4,835	5,285

Minimum capital for securitisations

Both the AIRB method for credit risk and the standard method for market risk 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 total minimum capital for securitisations fell in 2011, which could be attributed to the above-mentioned redemptions that were not reinvested. The minimum capital according to risk weights appear from the subsequent table.

Minimum capital requirement, securitisations					
DKKm	2011		2010		
Risk weighting	Non-weighted items	Min. capital	Non-weighted items	Min. capital	
< 20 %	4,444	32	3,236	32	
≤ 20 % < 50 %	94	2	1,642	26	
≤ 50 % < 100 %	6	0	10	0	
≤ 100 % < 1.250 %	138	24	129	11	
1.250%	153	153	306	306	
Total	4,835	211	5,323	375	
Of which in the trading portfolio	2,411	106	1,728	133	

Value at Risk

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

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

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

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

Back-testing

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

Jyske Bank has applied VaR in its risk calculations since 2001. Historically the back test has on average shown 2 outliers annually within a band of 1-3 outliers. In 2011, the model was challenged in connection with the modelling of the equity risk, which gave rise to a larger number of outliers than what the model has shown historically. Backtesting did not, however, show that the model systematically underestimates the risk on equities, and therefore Jyske Bank awaits the backtesting for 2012 with a view to assessing a possible adjustment of the model.

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 table below shows a sensitivity analysis of the Group's existing balance sheet. The table shows the earnings impact for the Group from the stated negative development in prices and rates. The sensitivity analyses are based on 'other things being equal' observations and do not take into account changes in the balance sheet due to changes in the market development.

The sensitivity analysis for 2011 reflects essentially the development of Jyske Bank's market risk, as Jyske Bank's sensitivity to the stated interest-rate changes fell relative to 2010. The sensitivity to changes in the equity markets increased, whereas the sensitivity to changes in the currency exchange markets fell marginally.

Market Risk

Sensitivity analyses

Earnings impact

DKKm	2011	2010
Risk variable		
A 1 percentage-point increase in interest rates	-141	-216
A negative 0.5 percentage-point change in interest rates	-177	-194
A general 10% fall in equity prices	-26	-20
A negative 2% change in equity prices	-26	-15
A negative 5% change % in commodity prices	0	-1
A negative 5% change in exchange rates*	-84	-87

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. Equity risk was calculated for the trading portfolio.

*EUR are not included in the calculation

Liquidity Risk

- In 2011, Jyske Bank has maintained a solid and satisfactory liquidity risk profile with excess coverage in respect of the stress-based internally delegated limits and guidelines.
- In 2011, the capital markets were characterised by nervousness and considerable widening of credit spreads due to the government debt crisis.
- In May 2011, Jyske Bank A/S made a public issue of bonds in the amount of EUR 500m with a maturity of 2.5 years.

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

Objective and overall setup

The 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 give access to a highly diversified and professional funding base;
4. maintenance of a considerable buffer of highly liquid securities reflecting the run-off risk of more volatile price and credit sensitive funding sources. The liquidity buffer ensures that Jyske Bank can eliminate the effect of an adverse liquidity situation.

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

- gap analysis of future cash flows;
- stress tests integrated in the limit structure;
- 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 and 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.

Short-term liquidity management

Short-term operational liquidity is managed by Trading and 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 and 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 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 of part of the balance sheet 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 buffer is used to cover negative payment gaps.

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

Scenario 1 – is a severe Jyske Bank-specific stress scenario which is monitored daily and is included as the key ratio in the limit structure. The scenario is a severe stress scenario with a short critical survival horizon of 35 days: the Group must hold a sufficient liquidity buffer to be able to withstand non-market access to a broad part of its price- and credit-sensitive funding sources. In addition to failure to obtain refinancing in the capital markets (the inter-bank market, CP and EMTN issues), run-off of all large demand and term deposits from the corporate and retail customer segments is assumed.

Scenario 2 – is a broad sector stress scenario which is monitored on a regular basis as part of the internal liquidity management. The scenario presupposes a broad general capital and money-market crisis which to a certain extent affects retail and corporate 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 – is a capital market stress scenario which is monitored on a regular basis as part of the internal liquidity management. The scenario presupposes a non-Jyske Bank-specific capital market crisis with a survival horizon of at least one year. The Group must be able to withstand run-off of money-market and capital-market funding in the form of funding in the interbank market as well as EMTN and CP. Based on the scenario of low economic growth in Denmark resulting in higher savings in the private sector, an unchanged volume of deposits as well as loans and advances is presumed.

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

Liquidity contingency plan

The liquidity contingency plan comes into force if the Group can only meet the internally delegated limits at very high costs or is ultimately unable to do so within the critical horizons. The contingency plan stipulates a detailed set of management reports, and it determines a broad range of initiatives that might strengthen the Group's liquidity position. During 2011, Jyske Bank had a solid and satisfactory liquidity risk profile with excess coverage in respect of the stress-based internally delegated limits and guidelines.

The Group's liquidity buffer

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

Jyske Bank's holding of securities is divided into 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 buffer, which is adjusted to suit the Group's balance sheet composition and risk profile. In practice, the liquidity buffer policy implies that the liquidity buffer consists predominantly of assets from liquidity groups 1 and 2. It is thus Jyske Bank's policy that it must be able to meet the limit of the survival horizon of stress scenario 1 merely by freeing assets from liquidity groups 1 and 2.

Liquidity buffer and run-off (DKKbn)	2011	2010
Beginning of period	38.1	58.7
3 months	16.7	30.6
6 months	13.6	20.4
9 months	12.6	18.9
12 months	12.3	17.4

The table shows the development of Jyske Bank's liquidity buffer over a 12-month period under stress scenario 3. At end-2011, the Group's liquidity buffer amounted to DKK 38bn against DKK 59bn at end-2010. Certificates of deposit with the Danish central bank amounted to DKK 6bn at end-2011 against DKK 5bn at end-2010. The remainder of the buffer consisted mainly of Danish mortgage bonds and covered bonds; and DKK 37bn of the buffer is eligible at either the Danish central bank or the ECB.

At end-2011, the liquidity ratio according to S.152(1)(2) of the Danish Financial Business Act was 19.8%, corresponding to a liquidity surplus of 98%; at end-2010 the surplus was 180%.

Funding

The Group's primary source of funding is deposits from customers, and it has a sound and well-diversified customer deposit base. At end-2011, deposits funded 93% of the loan portfolio, which was five percentage points higher than the level at end-2010.

Funding via the inter-bank and wholesale fixed-term markets is obtained through Trading and Research as part of the short-term operational liquidity management. In addition, Trading and 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 liquidity risk profile, two different capital market programmes are utilised to ensure maximum flexibility with regard to maturity, currency, interest rate (fixed/floating) and investor base.

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

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

Since the programme was launched in 2006, Jyske Bank has managed to build strong investor recognition of the Group's CP programme both in and outside France. At end-2011, the outstanding under the CP programme amounted to DKK 13bn (EUR 1.7bn).

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-2011, the outstandings under the programme amounted to DKK 25.0bn (USD 4.6bn) under the programme. The primary investor segment for EMTN bonds is well diversified throughout Europe. Efforts are continuously being made to maintain the investor base and to increase capital-market investors' awareness of Jyske Bank with a view to supporting the Group's access to long-term funding in the international capital markets. Jyske Bank is regularly active in the market for private placement, and on an as-needed basis also large public issues of so-called benchmark bonds are made.

In 2011, and particularly as of the middle of the second quarter, the capital markets were characterised by nervousness and considerable widening of credit spreads due to the government debt crisis.

Liquidity Risk

Jyske Bank issued its most recent benchmark bond in May 2011, when based on an order book of almost EUR 900m from 99 different investors, floating-rate bonds in the amount of EUR 500m with a maturity of 2.5 years were issued.

The issue was made immediately before the senior debt market really froze and remained frozen for the remainder of 2011 – except for a brief period in September – October 2011.

At end-2011, Jyske Bank had four outstanding benchmark issues.

Benchmark issues		
Original loan period		Maturity
7 years	EUR 650m	04.04.2012
7 years	EUR 555m	06.06.2013
2.5 years	EUR 500m	25.11.2013
7 years	EUR 600m	31.03.2014

New Danish Central Bank facility

In December 2011, the Danish Central Bank announced that it will to its monetary tools add a temporary 3-year loan facility for the banks and mortgage banks. In 2011, the Danish Central Bank also expanded its collateral base so it also includes lending with good credit quality.

Jyske Bank does not expect to use the new Danish Central Bank Facility of borrowing against loans of good credit quality, nor does Jyske Bank include this facility in its liquidity buffer.

The possibility of raising liquidity via the facility is however an integrated part of Jyske Bank's liquidity contingency plan.

New liquidity risk legislation

Since 2007, Jyske Bank's internal liquidity risk management has been based on stress scenarios that were considerably stricter than the statutory liquidity requirements. In 2010 the Basel Committee issued proposals for new liquidity risk ratios to be implemented in 2015 with respect to the stress-based Liquidity Coverage Ratio (LCR) and most likely in 2018 with respect to the Net Stable Funding Ratio (NSFR). Focus is on minimisation of the mismatch in the banks' balance sheets. So far no clarification has been reached in respect of the two new key ratios in relation to the treatment of Danish mortgage bonds and covered bonds. Provided that mortgage bonds and covered bonds can be included in the so-called Level 1 Buffer, internal calculations indicate a fair excess coverage in respect of the LCR ratio, whereas the NSFR is currently below 1. Most likely the current level will increase over the coming years due to the ongoing strengthening of earnings and equity.

Credit ratings

The Group's credit ratings are material to the price of funding and capital as well as to the funding flexibility in the form of access to a broad investor base. At end-2011, the Group had an A- rating with Standard & Poor's and an A2 rating with Moody's.

Moody's and Standard & Poor's credit ratings			
	Long term	Short term	Individual
Moody's			
2001	A1 (stable outlook)	P-1	B-
2007	Aa2 (stable outlook)	P-1	B-
2008	Aa2 (stable outlook)	P-1	B-
2009	A1 (stable outlook)	P-1	C+ (negative outlook)
2010	A1 (stable outlook)	P-1	C+ (negative outlook)
2011	A1 (negative watch)	P-1	C+ (negative outlook)
As of 19.05.2011	A2 (stable outlook)	P-1	C (Stable outlook)
Standard & Poor's			
2006	A (positive outlook)	A-1	-
2007	A+ (stable outlook)	A-1	-
2008	A+ (stable outlook)	A-1	-
2009	A (negative outlook)	A-1	-
2010	A (negative outlook)	A-1	-
2011	A (negative outlook)	A-1	-
As of 01.12.2011	A- (stable outlook)	A-2	bbb+ (stable outlook)

Operational Risk

- In 2011, the Group's operational risk increased due to Jyske Bank's decision to migrate its IT development to Bankdata.

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

For internal risk management and calculation of economic capital, Jyske Bank has chosen to apply a scenario-based method of analysis. 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 40-45 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:

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

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.

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

Operational Risk

Development in 2011

Economic capital for operational risk increased by 13% since end-2010.

Jyske Bank's decision to migrate its IT development to Bankdata increases the operational risks of the Group considerably. The migration project is extensive and complex and therefore it involves considerable project risk. In connection with the migration, the employees are to be trained in the use of new systems and work processes, which will increase the risk of errors. Throughout the entire migration period, the Group has heavy focus on maintaining an adequate and satisfactory control environment.

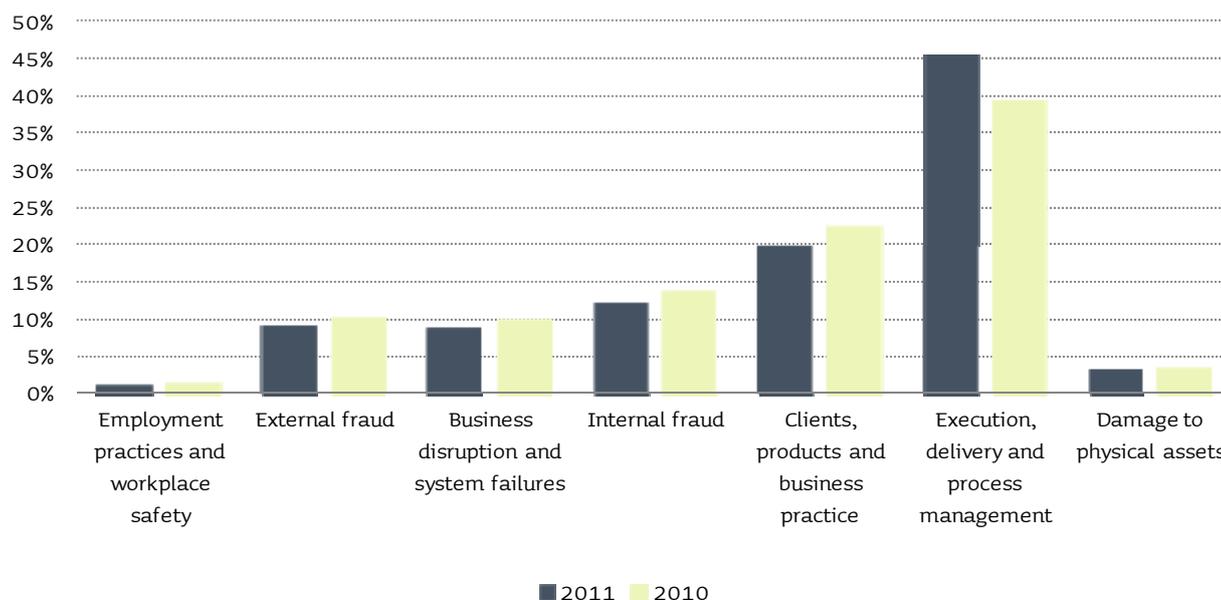
The consequences of a possible collapse of the euro were in 2011 incorporated in the assessment of operational risks.

Below the distribution of Jyske Bank's economic capital for operational risk according to the Basel categories is shown. The majority of the capital is driven by scenarios under the category of "Execution, delivery and process management". This category includes scenarios such as project risk, model errors and manual errors, and the primary reason for the increase is the project risk linked to the migration to Bankdata. The second largest category for Jyske Bank is "customers, product and business practices", which includes risk scenarios relating to errors in product development and erroneous advice to customers. The third largest category is "internal fraud", which in addition to fraud involving the Group's funds committed by employees also include insider trading and physical or logical sabotage.

Minimum capital for operational risk

For the calculation of minimum capital for operational risk, the standard indicator approach is applied. The minimum capital rose to DKK 929m at end-2011 from DKK 853m at end-2010; this increase reflects the rising net income over the three years covered by the calculation.

Economic capital for operational risk, Basel categories



Appendix 1: Glossary

ABS	Asset Backed Security. A general term for claims whose value is determined by a pool of specified underlying assets such as a certain type of loan
<i>Advanced IRB approach</i>	See AIRB.
<i>Adequate capital base</i>	The Group's own assessment of its capital requirements due to the risks assumed by the Group.
AIRB	The Advanced Internal Rating Based approach. A method under the capital requirement directive for determining the minimum capital requirement to cover credit risk.
<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>Capital base</i>	The capital available to the Group; it must at all times be higher than the adequate capital base and the minimum capital requirement.
CDO	Collateralised Debt Obligations. Bonds whose value is determined by the value of pools of underlying claims which are typically not commercial loans or real property.
CEBS	The Committee of European Banking Supervisors; among other things this committee contributes to the consistent implementation of EU directives.
CLO	Collateralised Loan Obligation. Bonds whose value is determined by the value of pools of underlying commercial loans.
CLS	Continuous Linked Settlement. A settlement system linking "payment to payment", which reduces the settlement risk of FX transactions made between participants of the CLS system. Jyske Bank is a third-party member.
<i>Commodity risk</i>	The risk of loss caused by changing commodity prices.
<i>Counterparty risk</i>	The risk of loss due to a counterparty failing to fulfil his obligations.
<i>Country risk</i>	The risk of loss caused by the economic and political conditions in a given country.
CP	Commercial Paper. Short-term debt instruments which may be, but are not necessarily, zero-coupon instruments with maturities up to a year.
CRD	The Capital Requirements Directive.

Appendix 1: Glossary

<i>Credit risk</i>	The risk of loss caused by customers' or counter-parties' failure to meet their payment obligations. Credit risk extends to loans and advances, committed credit facilities and guarantees, market values of derivatives and equity investments.
CSA	Credit support Annex - an annex to an ISDA contract, under which Jyske Bank is entitled to collateral if a counterparty's negative market values exceed an agreed maximum.
<i>Currency risk</i>	The risk of loss caused by changing exchange rates.
DEaR	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>Defaulted exposures</i>	Defaulted customers and past due exposures.
EAD	Exposure At Default. The estimated exposure, should the customer default in the course of the next twelve months.
EBA	European Banking Authority.
EMTN	European Medium Term Notes. Typically with maturities of between two and seven years.
EPE	Expected Positive Exposure - a method for estimating EAD for derivatives.
<i>Equity risk</i>	The risk of loss caused by changing equity prices.
Fil	<i>Lov om Finansiell Virksomhed</i> (the Danish Financial Business Act).
ICAAP	Internal Capital Adequacy Assessment Process.
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.
<i>JB credit rating</i>	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.
<i>Liquidity risk</i>	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.
<i>Market risk</i>	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.
<i>Monte Carlo simulation</i>	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.
<i>Operational risk</i>	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
<i>Past Due</i>	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>PD volatility</i>	The volatility of the PDs, which reflects the uncertainty associated with the level of the PDs.
RAROC	Risk Adjusted Return on Capital.
<i>Retail</i>	In relation to the CRD, the 'Retail' category covers personal 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.
RMBS	Residential Mortgage Backed Securities.
RW	Risk weighting according to the capital requirement regulations in force. Risk weightings are applied to the assets to reach the risk-weighted assets (RWA).
RWA	Risk-weighted assets according to the capital requirement regulations in force. Jyske Bank's capital base must correspond to at least 8% of this amount.
<i>Settlement risk</i>	The risk of loss caused by the non-fulfilment of payment obligations agreed between Jyske Bank and its counterparties
<i>Solvency ratio (%)</i>	Capital base divided by risk-weighted items.
VaR	Value at Risk expresses the anticipated maximum risk of loss over a period based on historical price and correlation developments.
<i>Value added</i>	A risk-adjusted earnings measurement where earnings are reduced by expenses for the expected loss and economic capital.

Appendix 2: Supplementary tables

Appendix 2: Supplementary tables

Specification of exposure by credit rating (2011)				
DKKm	EAD	Undrawn	Average LGD %	Average RW
Credit rating				
Corporate customers				
a) Ratings 1-5	67,759	43,634	21	0.16
b) Ratings 6-10	32,189	7,004	39	0.69
c) Ratings 11-14	12,955	1,534	36	1.15
Corporate customers, total	112,903	52,172		
Retail				
a) Ratings 1-5	28,215	1,968	27	0.09
b) Ratings 6-10	19,275	1,271	33	0.39
c) Ratings 11-14	5,312	337	32	0.79
Retail, total	52,802	3,576		
Total	165,705	55,748		

Specification of exposure by credit rating (2010)				
DKKm	EAD	Undrawn	Average LGD %	Average RW
Credit rating				
Corporate customers				
a) Ratings 1-5	44,809	21,125	34	0.26
b) Ratings 6-10	27,783	5,532	39	0.65
c) Ratings 11-14	10,103	829	37	1.14
Corporate customers, total	82,695	27,486		
Retail				
a) Ratings 1-5	35,010	2,946	30	0.1
b) Ratings 6-10	16,344	1,280	36	0.42
c) Ratings 11-14	4,939	214	32	0.73
Retail, total	56,293	4,440		
Total	138,988	31,926		

Specification of exposure (defaulted and past due) to counterparties (2011)				
DKKm	EAD	Undrawn	Average LGD %	Average RW
Exposure category				
Central governments	0	0	0	0
Corporate customers	5,934	507	44	0
Retail	2,282	93	30	1
Total	8,216	600		

Specification of exposure (defaulted and past due) to counterparties (2010)				
DKKm	EAD	Undrawn	Average LGD %	Average RW
Exposure category				
Central governments	0	0	0	1.50
Corporate customers	5,817	317	47	0.68
Retail	2,187	55	40	1.11
Total	8,004	372		

Appendix 2: Supplementary tables

Specification of exposure to unrated counterparties and counterparties under the standard approach (2011)				
DKKmn	EAD	Undrawn	Average LGD %	Average RW
Exposure category				
Central governments	12,298	1,316	0	0.00
Institutions	51,725	29,651	0	0.08
Corporate customers	5,921	1,138	0	0.46
Retail	6,477	395	0	0.26
Equities	842	0	0	1.00
Securitisations	2,423	0	0	0.00
Assets without counterparties	4,089	0	0	1.00
Total	83,775	32,500		

Specification of exposure to unrated counterparties and counterparties under the standard approach (2010)				
DKKmn	EAD	Undrawn	Average LGD %	Average RW
Exposure category				
Central governments	11,812	1,318	0	0.00
Institutions	34,838	22,324	0	0.10
Corporate customers	6,972	687	0	0.42
Retail	4,565	26	0	0.29
Equities	717	0	0	1.00
Securitisations	3,595	0	0	0.00
Assets without counterparties	3,424	0	0	1.00
Total	65,923	24,355		

Geographical break-down of exposure								
DKKmn	Denmark (zone A)	The EU (zone A)	Other European zone-A countries	USA + Canada (zone A)	Other zone-A countries	South America	Rest of the world	Total
Exposure category								
Central governments	12,146	0	152	0	0	0	0	12,298
Institutions	37,211	11,856	1,115	1,318	96	1	128	51,725
Corporate customers	116,023	6,631	1,626	57	21	130	394	124,882
Retail, total	54,573	4,963	743	162	38	471	487	61,437
1) Real property, personal	16,398	301	37	13	2	22	34	16,807
2) Real property, SMEs	7,523	6	1	2	0	0	0	7,532
3) Revolving credits	8,528	43	11	6	1	1	10	8,600
4) Other retail exposure, personal	13,093	4,409	693	140	35	448	439	19,257
5) Other retail exposure, SMEs	9,031	204	1	1	0	0	4	9,241
Equities	842	0	0	0	0	0	0	842
Securitisations	0	2,220	0	195	10	0	0	2,425
Assets without counterparties	3,896	177	14	0	0	0	0	4,087
Total 2011	224,691	25,847	3,650	1,732	165	602	1,009	257,696
Total 2010	182,257	22,896	4,683	1,368	255	177	1,280	212,917

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

Geographical breakdown of defaulted and past due exposure		
DKKmn	EAD for defaulted and past due exposures	Value adjustment /impairment charges
Denmark (zone A)	7,148	2,953
The EU (zone A)	979	89
Other European zone-A countries	58	12
USA + Canada (zone A)	22	1
Rest of the world	9	1
Total 2011	8,216	3,056
Total 2010	8,004	3,189

Appendix 2: Supplementary tables

Exposure to specialised lending distributed on risk weightings		
DKKm	2011	2010
	Term to maturity > 2½ years	Term to maturity > 2½ years
Risk weighting 70%	6	21
Risk weighting 115%	25	17
Risk weighting 250%	40	7
Defaulted exposures (risk weighting 0%)	75	0
Total	146	45

Average exposure by credit rating		
DKKm	2011	2010
Exposure category		
Central governments	8,987	10,691
Institutions	37,412	30,992
Corporate customers	110,066	95,108
Retail, total	62,244	62,010
1) Real property, personal	17,814	18,129
2) Real property, SMEs	7,462	7,943
3) Revolving credits	8,722	8,921
4) Other retail exposure, personal customers	18,667	18,126
5) Other retail exposure, SMEs	9,579	8,891
Equities	793	676
Securitisations	2,440	3,691
Assets without counterparties	3,577	3,389
Total	225,519	206,557

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

