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The Executive Board, Nordjyske Bank











Management Report

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Management Report

Principal issues

2016		Nordjyske Bank increases its pre-tax result by 78 per cent
Core earnings		On top of expectations with DKK 347 million
Net interest		Still affected by low interest rate environment and increasing competition
Operating costs		Reduced by DKK 10 million
Write-downs		Falls by 21 per cent
Lending		Increases by app. DKK 100 million to DKK 10.8 billion
Capital ratio		Robust capital ratio of 16.4
Business volume		Marked increase to DKK 43.3 billion incl. safe custody values
Dividend		40 per cent corresponding to dividend/return of 3.5 per cent
Customers		High level of customer satisfaction Number 1 in North Jutland

Management Report

Significant improvement of the result

Core earnings at the top of expectations

2016 was a good year for Nordjyske Bank. Core earnings as DKK 347 million and thereby at the absolute top of the expected interval announced from DKK 320-350 million.

Core income was influenced by a competitive market for lending as well as a historically low interest environment. Net interest income in 2016 amounts to DKK 479 million compared with DKK 513 million the year before.

Regarding fees, the bank has been able to maintain about the same level in 2016 as the year before with income of DKK 352 million. At the same time the expected cost-savings on operating costs were achieved.

The bank has carried out and terminated the merger processes, and the management estimates that the bank now has a strong market position.

Core earnings of DKK 347 million are considered satisfactory in the light of the above.

Write-downs at the expected level

In 2016 the bank has charged write-downs of DKK 163 million to the profit and loss account compared with DKK 206 million in 2015.

The fall is attributable to improvements in the financial conditions for agriculture, including higher settling prices.

Significant improvement of the result of 78 per cent

Pre-tax result was DKK 230 million compared with DKK 129 million in 2015. It is a significant improvement of the bottom line, and it is a result of focus on core earnings and fewer write-downs, removal of merger costs and decreasing payment to the Guarantee Fund etc.

Equity at the beginning of 2016 bears 8.8 per cent interest. Thus, the bank is close to its strategic goal of interest on equity of 9-11 per cent in this strategy period. Adjusted for goodwill and customer relations, equity at the beginning of 2016 bears 11.8 per cent interest.

It is the opinion of the management that the strongly improved result and the above return on equity is satisfactory, keeping the low interest level in mind.

Expectations for the result in 2017

Nordjyske Bank expects – like at the beginning of 2016 – basic earnings in the range of DKK 300-350 million.

Write-downs on lending and guarantees are expected to fall by app. DKK 45 million from 2016 to 2017 to the level of DKK 120 million. The fall is due to an improved financial situation for agriculture.

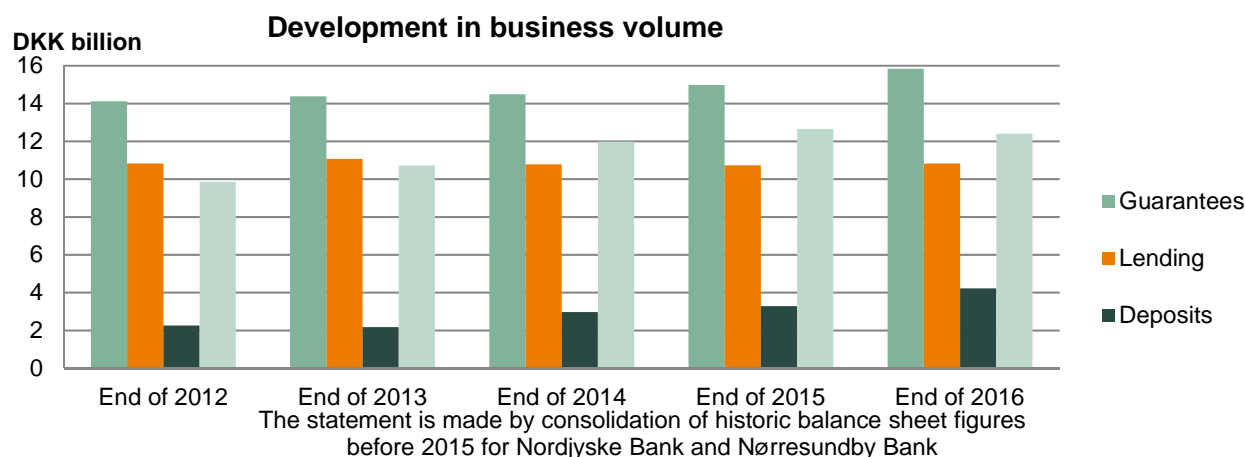
Applied calculation methods

Reporting in this statement is based on pro forma calculation with a view to increase the information value. Furthermore, alternative goals of result are used. Both are further explained on page 28.

Condensed pro forma income statement (amounts in DKK million)	2016	2015
Interest income	526	587
Interest costs	47	74
Net interest income	479	513
Fees and commission income, net	352	359
Other operating income etc.	35	17
Core income	866	889
Operating costs and operating depreciations excl. merger costs	519	529
Core earnings before merger costs	347	360
Payments to the Guarantee Fund, etc.	1	29
Write-downs on own lending etc.	163	206
Market price adjustments on securities, etc.	47	48
Pro forma result before merger costs	230	173
Merger costs	0	44
Pro forma pre-tax result	230	129
Pro forma regulations	-2	-68
Pre-tax result according to the purchase method	228	61

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Development in business volume



Business volume is still increasing

Total business volume incl. safe custody values, increased in 2016 to DKK 43.3 billion. It is a significant increase of DKK 1,7 billion in 2016. Business volume includes lending, guarantee, deposits, and customer safe custody.

The increase derives in particular from an increase in deposits of DKK 863 million and an increase of guarantees of DKK 943 million, but lending also contributes.

Lending amounts to DKK 10.8 billion at the end of 2016 compared with last year's DKK 10.7 billion. Thereby the bank has increased its lending by almost DKK 100 million in spite of ordinary annual repurchase at the level of DKK 800 million.

The increase is not least attributable to many new customers. A withholding incentive to take up loans is still seen, in spite of improved financial conditions with a lower unemployment rate, low interest rate and increasing prices on housing.

To a great extent, the bank's lending growth is expected to take place by customer influx, but it is also important for the bank to be available when existing customer need investments and loans. Among other things, the increase in guarantees is due to more guarantees on mortgage loans.

Deposits are still increasing in the bank, which provides the bank with very comfortable liquidity conditions and creates basis for lending growth. However, the bank pays much attention to offering the customers other options for investments with a view to improved return.

Volatile year for securities

2016 gave the C20 index its worst start in its 27-years of history and in spite of strong increases later in the 1st half of the year, the index closed lower at the end of the year than it began. The customers' safe custody values decreased by DKK 248 million to DKK 12.4 billion. This was primarily due to negative market price development in exiting portfolio and general uncertainty on the market.

Selected balance sheet figures (amounts in DKK million)	End of 2012	End of 2013	End of 2014	End of 2015	End of 2016
Total assets	17,772	18,168	18,160	18,660	19,443
Lending	10,826	11,067	10,778	10,729	10,822
Guarantees	2,258	2,172	2,971	3,280	4,223
Deposits incl. pooled schemes	14,115	14,379	14,488	14,975	15,838
Equity				2,617	2,758
Safe custody values	9,858	10,723	11,980	12,650	12,402
Business volume (lending, deposits and guarantees)	27,198	27,617	28,237	28,984	30,883
Business volume incl. safe custody values	37,056	38,340	40,217	41,634	43,285

The historical balance sheet figures before 2015 are consolidated figures for Nordjyske Bank and Nørresundby Bank. Consolidated equity is not estimated to provide any value.

Management Report

Development in North Jutland

Upward trend in North Jutland

2016 showed many fine key figures for North Jutland. Business life and labour market developed positively and many people in North Jutland became richer – both because of increase in real wages and increase in housing prices.

Increasing employment

At the end of 2016, employment in North Jutland is at its highest level since the crisis. Since the all-time low in the 1st quarter of 2011, 15,000 people in North Jutland have got a job. Today we have almost 280,000 full-time employed in North Jutland, and the increase seems to continue in 2017.

We are seeing good real earnings increases in the region. In the most recent statement from Statistics Denmark, real wages in North Jutland have increased by 2.5 per cent.

Nordjyske Bank expects continued increasing real wages and employment in 2017.

Homeowners become richer

Homeowners in North Jutland became richer in 2016. The average price per square meter for houses and terrace houses in North Jutland have increased by 5.7 per cent in 2016, while the price per square meter on owner-occupier flats has increased by 3.7 per cent.

However, there are big regional differences in the increases in housing prices. For example, the price increases of owner-occupier flats in Aalborg are at 8.3 per cent – which is a significantly higher increase than the rest of North Jutland. On the other hand, the price for houses and terrace houses has only increased by 3 per cent in Aalborg.

Nordjyske Bank also expects increasing housing prices in 2017 – of a more moderate nature, though.

Growth in the number of citizens in North Jutland

In 2016 the number of people increase by 2,867 in North Jutland, and it is positive in many areas. Aalborg is at the top of the list of North Jutland receiving community with 2,511 new arrivals. It is followed by Rebild, Brønderslev, Jammerbugt, Hjørring and Læsø as mentioned.

The primary industries are doing better

2016 offered a brighter view for a number of the primary industries. Agriculture's settling prices on pigs and milk have improved in the last part of 2016. This means that more farmers are now beginning to show positive operation.

Fisheries continued its upward trend in 2016 and set new records on earnings on the basis of large quantities and good prices,

2017 will be better than 2016

As a local bank Nordjyske Bank is closely depending on the development in North Jutland, and although 2016 was a good year for North Jutland, we expect 2017 to become an even better year.

Management Report

Expectations for 2017

Danish upswing

According to the Danish National Bank, Danish economy is in a solid upswing. Growth in Denmark is expected to increase in 2017 and 2018 and reach high rates of growth – although not at the level of the years before the crisis of 2 and 3 per cent.

The growth increase in 2017 and 2018 will come from both private consumption and export. In 2016 we saw that primarily private consumption pulled the engine, but in the coming years it is estimated that also export markets will grow.

However, there is as we all know some uncertainty about the world economy and thereby also Danish export. This applies not least to some of our largest export markets. Germany, Denmark's largest export market, will hold elections for the German Bundestag in the fall. England, Denmark's 3rd largest export market, will continue the negotiations about leaving the EU. The US, Denmark's 4th largest export market, is currently making a series of protectionist initiatives that may limit world trade. In addition, there are important elections to the parliaments in France and Holland in 2017. However, it is still too early to say whether the changes in e.g. the US will lead to more or less growth in Denmark.

Doing well in North Jutland

The upswing is also felt in North Jutland. Unemployment is decreasing, real wages are increasing and the housing prices – and thereby also equity – are also increasing. Nordjyske Bank is North Jutland's most local bank, and our development is strongly connected with the development in North Jutland.

*A decent Bank
– the safe choice*

After successful merger – more focus on growth

The merger between Nordjyske Bank and Nørresundby Bank has proceeded as planned, and a lot of synergies have been fulfilled. In 2017 focus will be moved from merger to growth through a number of new initiatives. It is about influx of customers – both private customers and business customers, and it is about more focus on investments, property advisory, and debt advisory service.

Expectations for 2017

Nordjyske Bank expects – as at the beginning of 2016 – core earnings in the interval DKK 300-350 million.

Core earnings have been calculated excl. write-downs and market price adjustments on lending etc. and market price adjustments on securities etc.

Decreasing write-downs

The bank's write-downs decreased from DKK 206 million in 2015 to DKK 163 million in 2016 corresponding to a fall of DKK 43 million or 21 per cent. Nordjyske Bank expects this development to continue in 2017.

In 2017 the bank expects write-down on lending and guarantees – pro forma calculated – at the level of DKK 120 million. This is a fall of app. DKK 45 million compared with 2016, which is attributable to improved financial situation for agriculture.

Strategic objectives

Nordjyske Bank's strategic objectives for the current strategy period, running from 2016 to 2018:

- Growth in lending of 2-4 per cent per annum
- Return on equity before tax shall be at 9-11 per cent before the end of the strategy period
- Dividend policy with the objective to pay between 30-50 per cent of the year's result after tax in consideration of an objective of a core capital ratio of 15.5 and to ensure sufficient capital to fulfill statutory requirements and socioeconomic and business related conditions.

Management Report

Activities in the bank in 2016

125th anniversary in a future-oriented bank

Nordjyske Bank has a long history, which shows that the bank has shown timely diligence and made good decisions through the years. In 2016 the bank celebrated its 125th anniversary.

Nordjyske Bank is the result of merger between 8 banks and parts of a couple of other institutions through the years. The original Frederikshavns Banks was established on 18 December 1891.

The management is proud to be head of a bank with a long tradition of doing well – also through the crises – and which has the courage to expand and develop.

Implementation of strategy

2016 was a busy year in Nordjyske Bank in many ways. Implementation of the new business strategy “Nordjyske Bank 2018 – Towards new times” for the period 2016-2018 was initiated at the beginning of the year.

The strategic plan includes a lot of strategic and financial objectives and actions that go with them to be launched to reach them.

The strategic initiatives are:

- To be Denmark's most agile bank
- Focused sales
- Unique customer universe.

The strategic work has influenced many decisions, and all employees have been involved and contributed well.

The Danish Financial Supervisory Authority

In May and June 2016, Nordjyske Bank had an ordinary examination visit by the Danish Financial Supervisory Authority, which is further described on page 14.

A lot of resources are used in the bank on such a visit as well as preparations with sending material and follow-up on it.

Visibility

In 2016 exposure of Nordjyske Bank was given an extra push. The biggest activity was the Win-a-car-campaign, which involved all departments and a big number of employees.

2016 is also the year Nordjyske Bank was seriously made visible in the media and on the social media.

From cheque to MobilePay

At the end of 2016 the long-time cooperation on cheques between the Danish financial institutions ended. This means that Nordjyske Bank is no longer able to cash cheques.

In 2016 Nordjyske Bank entered into a new partnership about MobilePay, after which Swipp will be phased out. With this, Nordjyske Bank can offer our customers a popular and user-friendly solution, which has been widely accepted. By working together on MobilePay as a sector solution, a stronger development basis is obtained, and therefore the bank looks forward to new opportunities via this sector cooperation.

High level of customer satisfaction

In 2016 Nordjyske Bank was elected the most popular financial institution in North Jutland by the analysis institute Voxmeter, which has asked 39,000 Danes about their relationship with their bank in 2016. Here Nordjyske Bank takes 1st place among the North Jutland financial institutions and 3rd place nationally.

Specifically, the high level of customer satisfaction is felt via the large number of recommendations given by existing customers to new customers. Among other things, this means that all branches have been able to attract many new customers in 2016.

The high level of customer supports the success of the merger and is a good indication of Nordjyske Bank as a bank which more than any other bank acts out the role of a local bank.

Organisational changes

At the beginning of 2017, Nordjyske Bank approved organisational changes with effect from 1 March 2017. The purpose is to support the strategy even better and be on the forefront of e.g. the digital development.

The organisational changes include establishment of a new IT department, where IT development, Projects and processes, IT operation, Datawarehouse and Business support are combined in one department. IT takes up more and more space on the strategic agenda, and we need to have extra focus on both innovation and optimizing of our operation, among other things via increasing use of robot technology.

A new HR-function will also be established, in order to ensure even greater focus on competence development of employees and leaders. Well-being and job satisfaction are preconditions for making customers and partners experience customer intimacy, unique service and an agile bank, all of which the new, focused HR-department shall help support and ensure.

Management Report

Development in the bank's staff

Competent customer consultancy

The bank has continuous focus on the ideal set-up for customer advisory as well as resources to be among the best at customer consultancy.

As part of ensuring a high level of competence with the customer consultants, the possibility for sparring is necessary. This is achieved in part in the day-to-day work and in part by using the bank's specialists.

In addition, the bank ensures that the employees receive adequate training and participation in fora and thereby achieve adequate competences.

Department structure

We still want to be close to our customers, something we think is of great importance to Nordjyske Bank's local attachment to North Jutland.

As mentioned above, it is equally important for the advisors to have adequate sparring in their day-to-day work.

As announced in 2015, the bank integrated the branches at Vestre Alle and Vesterbro in Aalborg into a new branch in Hasseris, Aalborg, which opened in March 2016. It is our opinion that the bank has got a good start.

Nordjyske Bank has 22 branches in North Jutland and a branch at the Kultorvet in Copenhagen.

Employees

The bank has continued focus on rationalisation and ensuring optimum use of resources and creating optimum framework and processes to be able to attract and maintain customers. Furthermore, the staff departments shall effectively support the branches directed to the customers so that the entire bank works with the customer in focus.

At the end of 2016 the bank has a total of 423 bank employees – recalculated into fulltime. As previously announced, 8 employees stopped working during 2016 after completing merger activities.

The bank has reduced staff by 50 fulltime employees as part of the merger. The reduction consists of the above mentioned 8 employees, 34 employees in 2015 cf. the table on the right, and 8 employees at the end of 2014, who were not replaced by other employees in view of the merger.

In addition, some strategic employments were made in 2016, which were primarily related to business consultancy. As a consequence of the increased regulation, the bank increased the resources in risk management and compliance.

*Decent
Dynamic
Competent*

The Board of Directors has specified goal figures and prepared a policy for the under-represented gender in the management. It is the aim of the Board of Directors that the number of female members of the Committee of Representatives shall be increased to at least 1 out of 8 members by 2018.

This is part of the considerations concerning the composition of the Committee of Representatives, since the bank has no female board members elected by the Committee of Representatives.

It is the intention of the bank to create a basis for equal distribution by gender at the bank's other management levels. It is the bank's goal that all employees experience equal opportunities for career and leading positions, and that the share of female leaders shall be increased to 30 per cent before 2018.

The share of female leaders is unchanged 24.4 per cent at the end of 2016. The number of leaders decreased during 2015, primarily as a consequence of the merger, which at the same time led to a decrease in female leaders.

Facts about the bank's employees	2016	2015	2014
Employees end of year (fulltime)	423	425	459
- female	234	237	253
- male	189	188	206
Average age	47.8 yrs	46.9 yrs	47.0 yrs
Average seniority	20.0 yrs	20.1 yrs	19.4 yrs



Management Report

Result before tax

The pro forma calculated pre-tax result is substantially better with DKK 230 million in 2016 compared with the merger year 2015, where the pre-tax result amounted to DKK 129 million.

If merger costs are left out in 2015 the result amounted to DKK 173 million and is still improved considerably in 2016.

The pre-tax result in 2016 bears interests on equity of 8.8 per cent and is close to the strategic goal of 9-11 per cent.

When correcting for goodwill and customer relations, equity bears interest of 11.8 per cent in 2016.

Core income

Net interest income falls by DKK 34 million in 2016 compared with 2015, as interest income falls by DKK 61 million, while interest expenses only fall 27 by million.

This is due to the current low interest rate environment, where interest rates on deposit have not been reduced to the same extent as interest on loans. The bank counters this to a limited extent by introducing negative interest on large deposits from business customers.

At the same time, interest income on bonds has fallen by DKK 7 million in 2016 as a consequence of the market situation.

The bank has felt much competition in 2016, but in the 4th quarter of 2016 noted that it has largely succeeded in maintaining the interest rate level on loans.

Net fee income amounts to DKK 352 million in 2016, which is at level with 2015, which had income of DKK 359 million. The fall of DKK 7 million is mainly a consequence of a high level of conversions in 2015 as well as a high activity level in the investment area. The conversion activity affects commission, guarantee commission and loan processing.

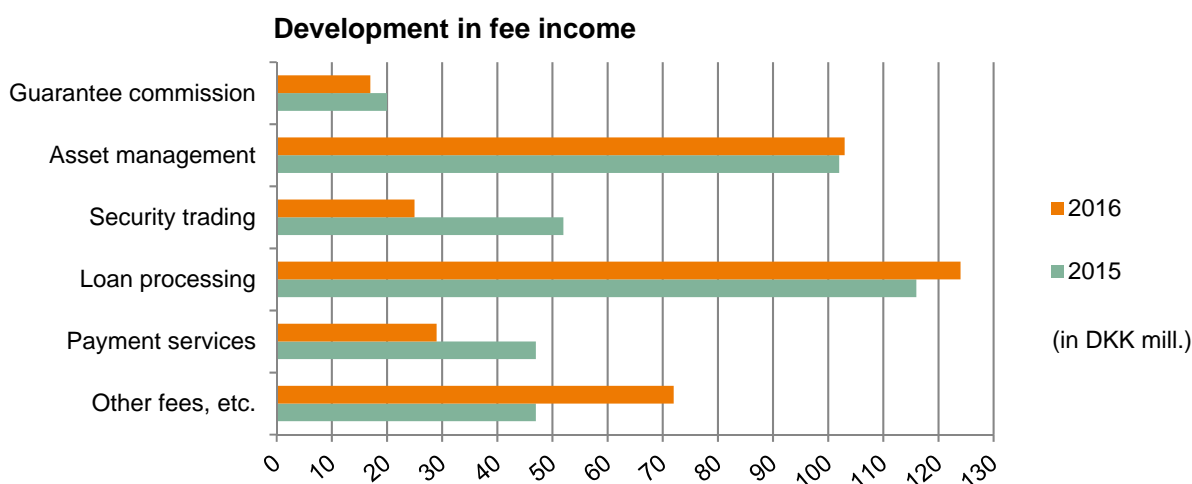
Furthermore, charge free conversion of mortgage loans in 2016 to loan types with lower contribution has had a negative effect on fee income. On the other hand, changed contribution rates have led to bigger income.

Asset management income was affected by removal of subscription commission on unit trust certificates at the beginning of 2016 and affected by outsourcing fees to a lesser extent for processing of tasks related to unit trust certificates.

The security market has been volatile in 2016, which creates uncertainty and has led to a lower activity level in the area.

Other fee income in the pension- and insurance area has increased in 2016 as a consequence of focus on the area and many customer meetings.

In 2016 the bank had operating income of DKK 35 million compared with DKK 17 million in 2015. Other operating income etc. was affected by extra income at the level of DKK 20 million in 2016 as a consequence of relatively big dividend payments from sector shares, sales of real property and sale of the name Nordbank.



Management Report

Operating costs and depreciations

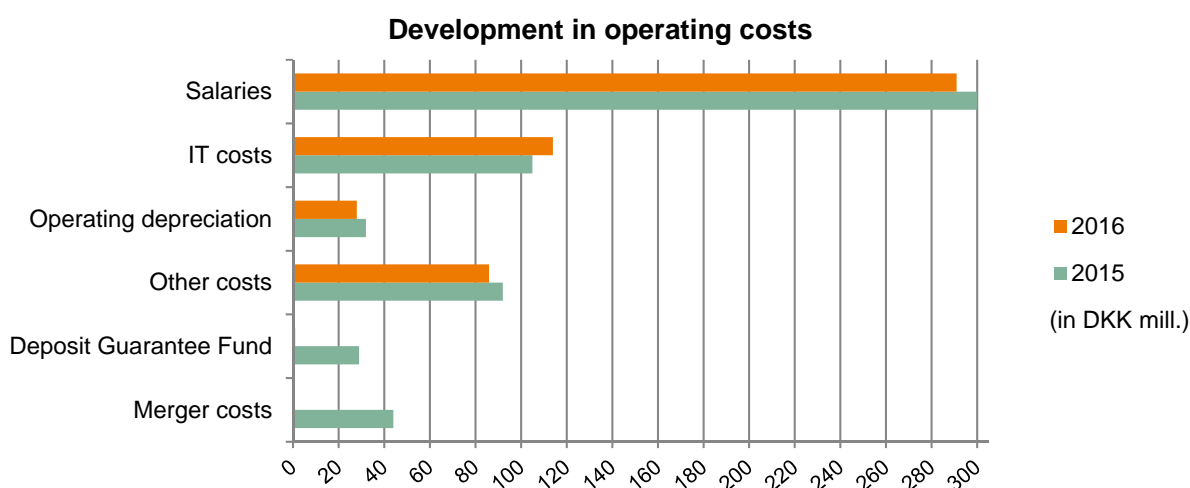
Operating costs and write-downs have been reduced by DKK 10 million to DKK 519 million in 2016.

The bank saved DKK 9 million on wages etc. compared with 2015. The bank achieved net savings by a reduction in the number of employees as a consequence of the merger. This is net savings, since it has been off-set against increase in wage bill and wage increase as a consequence of agreement and seniority

New competences were added to the bank's strategic areas such as the business area.

The bank has an increase of DKK 9 million on IT costs in 2016 compared with the year before, which is primarily due to investments in development of Bankdata, including automising of processes in housing trade. These investments will in the long run make manual tasks easier for the bank's employees, just as investment in robot technology will lead to improved efficiency in the bank.

Other costs fall, which to a great extent is due to synergy savings..



Write-downs

The bank's write-downs on lending and guarantees has been reduced to DKK 163 million in 2016 compared with DKK 206 million in 2015.

The fall is primarily due to a positive development for Danish agriculture. However, the bank's write-downs are still significantly affected by the bank's lending to milk producers and pig farmers, and write-downs to these production sectors affects by DKK 125 million.

The write-down rate on the bank's lending and guarantees amounts to 1.0 in 2016 compared with 1.4 in 2015.

The bank's accumulated write-downs, provisions and discount amount to a total of DKK 1,203 million.

Write-downs are further elaborated on in the section about credit risks.

Write-downs on lending and guarantees (amounts in DKK mill.)	2016	2015
Write-downs on individually valuated lending etc.	205	270
Write-downs on lending valuated on a group basis etc..	7	-11
Total write-downs	212	259
Received on previously depreciated debts	8	8
Final loss, not previously written-down individually	8	5
Interest on written-down debt booked as income	49	50
Total influence on operations	163	206

Management Report

Market price adjustments

Market price adjustments etc. affects the result positively by DKK 47 million in 2016 compared with income of DKK 48 million in 2015.

Market price adjustments on bonds have provided income of DKK 16 million in 2016, while there has been capital gain on shares of DKK 20 million. Of this, market price adjustment on sector shares amounts to DKK 15 million.

Suggested distribution of profit and consolidation

The year's result after tax pursuant to the purchase method amounts to DKK 185 million cf. page 49.

The bank's management suggests 40 per cent of this result be paid and thereby DKK 73 million paid as dividend and DKK 112 million transferred to equity. Equity then amounts to DKK 2,758 million at the end of 2016.

Dividend payment corresponds to DKK 4 per share or 40 per cent of the share capital.

*40 per cent as dividend
corresponding to
rate of return of 3.5 per cent*

Main activities in Nordjyske Bank

Nordjyske Bank's business model and principles build on a mission to be an ambitious independent bank, where the power of decisions is placed in the market area. The bank wants to create value for both private and business customers as well as shareholders and employees.

Nordjyske Bank has 423 well educated employees, including specially trained employees within the most significant areas of consultancy. The bank has high tech aid and a great number of competent collaborators.



Nordjyske Bank has:

- 118,000 private customers
- 9,500 business customers
- 45,000 shareholders
- Business volume – lending, guarantees, deposits, and safe custody values - of DKK 43.3 billion

Nordjyske Bank offers consultancy and expertise in all areas within payment handling, foreign business, credit handling, housing, funds, investment, pension and insurance.

The bank uses digital options to support the customer contact and make processes more efficient. At the same time, the bank emphasizes individual consultancy for both business and private customers.

Management Report

The Supervisory Diamond

The sum of large commitments must be < 125 per cent of adjusted core capital
Nordjyske Bank: 36.0 per cent

Growth in lending must be < 20 per cent per year
Nordjyske Bank: 0.9 per cent



Stable funding ratio must be < 1.0
Nordjyske Bank: 0.57

Property exposure before write-downs must be < 25 per cent of lending and guarantees
Nordjyske Bank: 11.4 per cent

Excess liquidity must be > 50 per cent
Nordjyske Bank: 150.9 per cent

The Danish Financial Supervisory Authority has set special risk areas with fixed limits within which the banks should in principle stay. There are five key markers, which constitute a "Supervisory Diamond".

As it appears from the above illustration, Nordjyske Bank still has a good margin up to the fixed limits.

The Danish Financial Supervisory Authority introduced a new limit as at 1 January 2018, where they want a calculation of the 20 largest commitments. The sum of these amounts to 151 per cent in relation to the bank's actual core capital at the end of 2016 and is thereby below the limit of 175 per cent.

The Danish Financial Supervisory Authority

On 3 November 2016, Nordjyske Bank published a statement from the Danish Financial Supervisory Authority carried out an ordinary inspection in May-June 2016, and the statement was published in the interim report as at 30 September 2016.

The bank considers the statement satisfactory, as the Danish Financial Supervisory Authority among other things concluded in the statement:

- The inspection did not give rise to extra write-downs
- The bank has a better quality among the largest commitments in relation to comparable financial institutions

The bank's calculated adequate capital requirement took the bank's risks into consideration.

Thus, the inspection does not affect the result for 2016, which is very positive.

Nordjyske Bank is not surprised that the statement holds directions, as the merger between Nordjyske Bank and Nørresundby Bank had not been completed at the time of the inspection with adaptations of all guidelines and processes. The bank has now adjusted its guidelines and complied with the Danish Financial Supervisory Authority's directions.

During 2016, the bank has been in dialogue with the Danish Financial Supervisory Authority as part of several interdisciplinary examinations and theme examinations with the Danish Financial Supervisory Authority.

The statements published since 2010 are available on the bank's homepage www.nordjyskebank.dk.

Management Report

Risk and risk management

The bank's business goal is to offer financial products and services in combination with advisory services. Consequently, the bank is naturally exposed to credit risks, market risks, liquidity risks and operational risks.

These risks are described in the management report and in note 14 in this annual report and in Risk Report 2016, which is available on the bank's homepage at www.nordjyskebank.dk.

The bank's overall attitude is that the bank only wants to take on risks which the bank has the competence resources to manage.

Risk-taking is a natural element in the bank's operations, and likewise, risk management is a natural and central element in the bank. Credit risks constitute the most significant risk area.

Business model, policies and framework are updated at least once annually through the management's reassessment of the total risk.

Credit risks

Key credit figures	2016	2015
Lending in relation to equity	3.9	4.1
The year's growth in lending as a percentage *)	0.9	- 0.5
The sum of large exposures as a percentage of the adjusted core capital	36.0	27.5
The year's write-down percentage *)	1.0	1.4
Accumulated write-down percentage *)	7.4	7.4

** Calculated on pro forma figures*

The bank's lending gearing is at 3.9 at the end of 2016 compare with 4.1 at the end of 2015. The low lending gearing means that, with the current capital, the bank has a good basis for growth on lending.

The gearing ratio pursuant to the CRR directive is calculated as core capital after deduction in relation to total commitments. The gearing ratio amounts to 9.4 per cent at the end of 2016 compared with 9.2 per cent at the end of 2015. The bank's aim is a minimum of 5.5 per cent.

The purpose of the gearing ratio is to avoid exaggerated gearing and is calculated in accordance with the CRR regulation. The calculation is specified in the Risk Report 2016.

Nordjyske Bank's business model and credit policy imply a suitably cautious risk profile in the credit area. The credit policy sets the framework for the bank's credit risks and ensures a balanced relation between earnings and risks.

Among other things this means

- that the bank does not want individual commitments of such size that loss suffered on them may threaten the bank's existence.
- that the bank's risk profile is determined with basis in the areas where the bank is physically represented
- that credit processing shall ensure that the bank only takes calculated credit risks

In the bank's guidelines for credit risks and risk management there is great focus on concentration risks. In areas where the bank has chosen to have large concentrations, the bank has correspondingly great competences and long-time experience.

Management of the bank's credit risks is made on an overall basis by Credit, which is responsible for ensuring that the bank's credit policy is observed in the organization, among other things by determining the framework for credit processing and monitoring of and follow-up on commitments.

Credit controlling is performed on an ongoing basis from central quarters of the bank's branches and selected risk areas with the aim to control credit risks and strengthen the employees' credit competences through sparring.

The bank has appointed a credit committee – consisting of one member of the executive board, head of credit committee, and the area managers. The tasks of the credit committee are granting of and recommending large commitments to the Board of Directors.

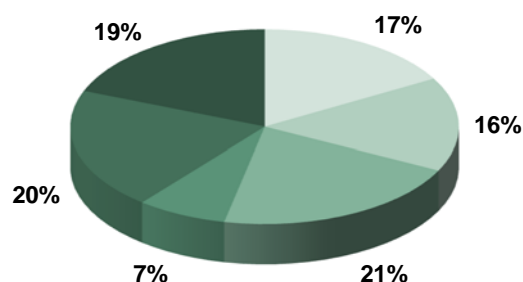
**Risk Report 2016 is available
on the bank's homepage**

www.nordjyskebank.dk

Management Report

Lending and guarantees distributed according to size

■ 0 - 500	■ 500 - 1,500
■ 1,500 - 5,000	■ 5,000 - 10,000
■ 10,000 - 50,000	■ > 50,000



Nordjyske Bank has great attention on concentration risks, including large commitments that may pose a bigger credit risk than small commitments. Therefore, the unsecured part of single commitments should as a main rule amount to a maximum of 5 per cent of the bank's adjusted core capital.

The bank has a size and core capital where it is possible to have several large commitments.

More than 60 per cent of the bank's single commitments is calculated as lending and guarantees under DKK 10 million, while 20 per cent is between DKK 10-50 million. Thus, the bank's credit risks are concentrated on minor commitments.

It is with satisfaction that Nordjyske Bank has noted that the Danish Financial Supervisory Authority concluded in 2016 that the bank has a better quality among the largest commitments in relation to comparable financial institutions.

Lending in foreign exchange

It is not the bank's policy to offer loans in foreign exchange to a great extent, which is the reason why the bank as a main rule does not offer this to private customers and only to commercial customers with a good credit rating.

The bank has only limited lending in foreign exchange. At the end of 2016 lending in foreign exchange only amounts to just over 6 per cent of total lending. Of this, lending in EUR amounts to just over 4 per cent of total lending.

It is estimated that there is a limited currency risk on lending.

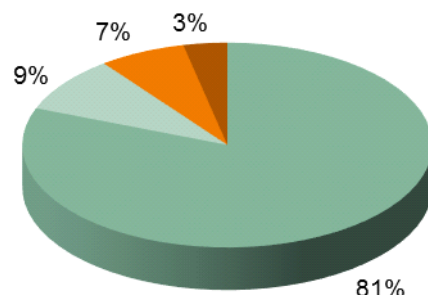
Geographical distribution

90 per cent of its total lending and guarantees is granted customers in geographical areas in which the bank is physically represented.

Lending and guarantees in the bank's primary market area in North Jutland amount to 82 per cent, while lending and guarantees in the Capital area, where Nordjyske Bank has a branch, amounts to 9 per cent.

A material part of the bank's lending and guarantees abroad consists of lending to plant-growing in the EU. These are commitments which are estimated to have a very limited risk of loss, which is described further on page 21.

■ North Jutland	■ The Capital Region
■ The rest of Denmark	■ Foreign Countries



Management Report

Credit rating

As an integral part of the bank's credit granting and credit management, the bank uses a credit rating model. The credit rating is more specified than the model of the Danish Financial Supervisory Authority but it can be adapted to it and is adjusted on a continuous basis in accordance with guidelines from the Danish Financial Supervisory Authority.

The bank performs tests of credit rating on an ongoing basis with a view to establish the model's ability to continue to spot commitments threatened by loss and write-down. Furthermore, the bank performs a stress test of the bank's lending and guarantee portfolio on a quarterly basis.

Nordjyske Bank estimates that both private customers and commercial customers in a number of industries experience a positive development. However, for some customers it takes time to pull through after some years of crisis.

In the bank's credit portfolio, there are some challenged lending and guarantees, but it is important to notice that 82 per cent of the bank's lending and guarantees show no signs of weakness.

The bank wants growth in lending and therefore closely follow new commercial and private customers where a satisfactory credit rating is seen. Upon influx of new customers, there has been performed ongoing monitoring and control of determination of e.g. credit rating.

Commitments with some weaknesses and commitments with OIV amount to 18 per cent in 2016 compared with 17 per cent in 2015. There are both customers with challenges and customers that need good market conditions for a longer period before their earnings and capital have sufficiently improved.

*82 per cent of
the bank's lending and
guarantees show no signs of
weakness*

Distribution of lending and guarantees according to credit rating	2016		2015	
	(in DKK mill.)	(as a percentage)	(in DKK mill.)	(as a percentage)
Good quality	3,489	23 %	2,904	21 %
Normal quality	4,192	28 %	4,489	32 %
Slightly reduced quality	4,688	31 %	4,285	30 %
Some weaknesses	551	4 %	466	3 %
Material weaknesses, but without OIV	1,047	7 %	647	5 %
With objective indication of value reduction (OIV)	1,078	7 %	1,218	9 %
Total lending and guarantees	15,045	100 %	14,009	100 %

Management Report

Risks related to various sectors

Lending distributed among sectors (amounts in DKK million)	2016	2015
Commercial	6,405	6,351
Private	4,417	4,378
Public authorities	0	0
Total lending	10,822	10,729

Nordjyske Bank's total lending amounts to DKK 10.8 billion at the end of 2016 and increases by about DKK 100 million compared with the year before corresponding to just under 1 per cent.

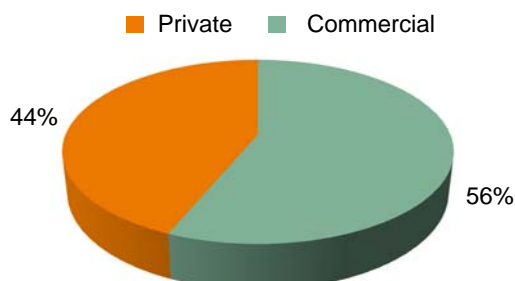
As mentioned under the section "Development in business volume" this should be seen in combination with annual ordinary settlement of DKK 800 million. In addition, the bank has noticed in 2016 that some customers have settled loans extraordinarily on the basis of improved economy.

The increase in lending was distributed equally between lending to privates and commercial.

The bank has provided guarantees at DKK 4,223 million at the end of 2016, which is an increase of DKK 943 million since the end of 2015, where guarantees amounted to DKK 3,280 million. Among other things, the increase is due to guarantees on mortgage loans.

The bank's lending and guarantees have increased by just above DKK 1 billion in 2016 corresponding to 7 per cent.

Distribution of lending and guarantees as at 31.12.2016



Lending and guarantees are distributed with 56 per cent to business and 44 per cent to private customers at the end of 2016.

The goal of the bank is at least 35 per cent lending and guarantees to private customers, since the risk on the private segment is assessed to be lower than the commercial segment. Thus, there are good opportunities for growth on both the commercial and the private customer segments.

The financial situation for private customers is in particular affected by divorce, unemployment and similar situations that may force housing sale. The bank still registers limited signals of loss on private customers.

The development in employment in 2016 has been positive in North Jutland, and unemployment has fallen, Aalborg in particular has seen a big growth in employment. In the building trades, manpower shortage is already seen, something that is expected to be a challenge in the coming years, where there are still many big construction projects.

In 2016, there have been increasing housing prices, on both houses and terrace houses as well as owner-occupied flats. It is very positive that a number of towns and municipalities in North Jutland have had increasing housing prices in recent years.

From the point of view of risk, it is advantageous that housing in North Jutland has had smaller price movements than other areas of the country both before and after the crisis.

The increasing housing prices also have a positive effect on equity of houses. More than 85 per cent of loans processed with Totalkredit are mortgaged below 60 per cent of the technically calculated value of the property. This shows that there is some equity in the property and, at the same time the bank has limited challenges with property that is technically mortgaged beyond its value.

Out of the bank's customers 53 per cent pay fixed interest on the loans with Totalkredit and 52 per cent have repayment, which the bank considers positive from the point of view of risk. This is a bigger share of loans with fixed interest and repayment than the average loans with Totalkredit.

When calculating the available means for private customers in connection with financing housing we base it on a calculation of a 30-year fixed interest loan with repayment in accordance with the bank's credit policy.

Management Report

Distribution as at 31 December 2016 (amounts in DKK million)	Lending and guarantees before write- downs	Accumulated write-downs and market price write-downs	in %	Lending and guarantees after write-downs	The year's write-downs
Plant growing	607	20	3%	587	7
Milk producers	445	213	48%	232	54
Pig breeding	637	252	40%	385	71
Fur farming	107	9	8%	98	4
Danish commercial farming, total	1,796	494	28%	1,302	136
Fishery, Plant growing abroad (EU) etc.	883	17	2%	866	0
Total farming etc	2,679	511	19%	2,168	136
Real property	1,738	130	8%	1,608	15
Other commercial	5,023	282	6%	4,741	27
Total commercial	9,440	923	9%	8,517	178
Private	6,808	226	3%	6,582	27
Public authorities	0	0	0%	0	0
	16,248	1,149	7%	15,099	205
Group write-downs		54		-54	7
Finally lost - not previously written down individually					8
Received re. receivables, interest, etc., written down previously					57
Total	16,248	1,203	7%	15,045	163

Nordjyske Bank's business model and credit policy sets the limits for the bank's concentration on sectors with the following limits to sector exposure calculated after write-downs and value adjustments:

- The total exposure to business as one should not exceed 65 per cent of the bank's lending and guarantees
- Lending and guarantees to farming, hunting and forestry incl. farming abroad should not exceed 16 per cent of the bank's lending and guarantees
- Lending and guarantees to fishery should not exceed 4 per cent of the bank's lending and guarantees
- Lending and guarantees to the business sector real property should not exceed 16 per cent incl. non-profit housing
- Lending and guarantees to other industries for each industry group should not exceed 9 per cent of the bank's lending and guarantees.

It is the management's opinion that financing of both the agricultural area and the real property area are natural responsibilities for a local bank with a market area where farming and property are of great importance, and Nordjyske Bank expects to continue to be exposed within these sectors.

At the same time, it is the bank's opinion that there is an appropriate distribution on sectors.

Statistics Denmark combines the farming and fishing industries in one group. However, since the two industries are regulated according to different regulations and have different cyclical conditions, the bank has separated these exposures into Danish commercial farming, fisheries, and plant growing in the EU etc. with a view to create better management and insight.

The fishing industry is of great positive importance to the bank's market area, as many companies are related to it. At the same time the fishing industry is strongly affected by the fisheries policy climate, and it is important to the bank to have experience and competences in this special area. Lending and guarantees to this industry amounts to 2 per cent of the bank's total lending and guarantees.

The fishing industry as a whole has had satisfactory results in 2016 as a consequence of a positive level for settling prices, quantity and low fuel prices. The industry depends strongly on the fishing accords and regulations in various areas.

Exposure to Danish commercial farming and the property sector will be amplified later.

Write-downs etc. have been reserved for 43 per cent of lending and guarantees to animal production

Management Report

Agriculture exposure

The agriculture sector is a significant sector in the bank's primary market area. Through many years Nordjyske Bank has had relatively comprehensive agriculture exposure, and the bank want to continue to be an attractive partner for agriculture.

At the end of 2016, the bank had lending and guarantees to Danish commercial farming of 8.7 per cent of the bank's lending and guarantees. This corresponds to DKK 1,302 million after write-downs.

The bank has reserved write-downs and provisions and discounts of DKK 494 million, corresponding to, write-downs of 27.5 per cent.

The bank has lending and guarantees to animal production of DKK 617 million after write-downs. Write-downs amount to DKK 465 million, corresponding to 43 per cent.

The industry has been challenged for a number of years and Nordjyske Bank's lending and guarantees to Danish commercial farming have affected the bank's write-downs significantly in recent years.

The bank's focus is on creating profitable operation for the farmers, and in some cases this means that we help farmers out of the business.

SEGES estimated mid-January 2017 that there are still brighter prospects for agriculture, as the prices are recovering after a lengthy period with very low prices. However, this is a broad consideration as there are big variations between the farms – both between various production sectors and between the units in each production sector.

The agricultural industry is still challenged by a number of conditions. In particular, plant growing has been affected by framework conditions and agriculture packages, while not least low settling prices have hit the animal production.

Demand from abroad – or lack of same – has affected settling prices on milk and pork in recent years. Russia's import stop for foods from the EU, the slowdown of demand for milk produce from China as well as large global food production. SEGES now establishes both increasing demand from Asia and a fall in the production of foods in some countries.

Organic milk production has had higher earnings in recent years but it must be taken into consideration that the transition and production may be challenging. The bank's milk producers mainly produce conventional milk.

Among other things, SEGES calculates average operational results after owner's pay for conventional milk producers. Both realised operating result in 2015 and expected operating result in 2016 are at the level of minus DKK 550-600.000.

For 2017 a positive operating result of DKK 650.000 is expected, while 2018 is expected to contribute with DKK 250.000, which is due to greater uncertainty concerning price level.

We are talking average figures. The best third of the producers are expected to achieve a zero result in 2016, while the lowest third is expected to have a negative operating result in 2016 at the level of DKK 1,300,000.

Pig farmers are positively affected by great demand from China, in particular, which has led to higher settling prices. However, for 2018, SEGES has included a fall in the settling price.

The operating results for pig farmers are expected to improve significantly in 2016 to a positive operating result of about DKK 60,000 after owner's pay compared with app. DKK 550,000.

In 2017 a positive operating result at the level of DKK 400,000 is expected, 2018 is expected to show a vise negative result of just under DKK 200,000.

There are also great variations between the operating results for the pig farmers. The best third of the pig breeders are expected to achieve apposite operating result of DKK 1,425,000 in 2016, where pork producers are expected to have a positive app. DKK 375,000. The lowest third of both kinds of pig producers are expected to have a negative operating result at the level of DKK 800,000 in 2016.

Plant growers have been less challenged in recent years, but in 2016 they were hit by lower yield and lower settling prices. Therefore, the operating result in 2016 is expected to be negative with app. DKK 70,000, while 2017 is expected to be zero and 2018 not much better.

However, Nordjyske Bank does not experience plant growers as challenged to a significant extent, and there are reasonable financial conditions. It should be noticed that there are great fluctuations between the crops and the results.

At the same time, it should be noted that the above mentioned operating results are all before investments and consolidation.

In general, the bank notices great variations in the results. There are still many farms that deliver good results, while others are challenged by high indebtedness and low efficiency.

Management Report

Distribution of lending and guarantees to Danish commercial farming by credit rating	2016		2015	
	(in DKK million)	(per cent)	(in DKK million.)	(per cent)
Good quality	111	9%	78	6%
Normal quality	192	15%	157	12%
Slightly reduced quality	164	12%	396	30%
Some weaknesses	116	9%	19	2%
Material weaknesses, but without OIV	225	17%	200	15%
With objective indication of value reduction (OIV)	494	38%	460	35%
Total lending and guarantees	1,302	100%	1,310	100%

The above table shows a distribution on rating of the bank's lending to Danish commercial farming.

It appears from it that 64 per cent of lending and guarantees after deduction of write-downs have weaknesses or OIV.

For Danish commercial farming with OIV, where it is not expected that the business in the shorter or longer view is going to cease farming cash flows from the operation at the level of DKK 57 million are included in the writing-down calculations.

If the current improved settling prices continue, and the conditions for farming in general are maintained, some farming commitments will improve their rating over time as a consequence of a better capital situation.

At the same time, the rating distribution shows that one fourth of the bank's farming commitments have normal or good quality. There are still farms with both good earnings and capital conditions.

Lending to plant growing in the EU

Nordjyske Bank has lending to plant growing in the EU at less than 3 per cent of the bank's lending and guarantees. These loans are assessed to be of a very limited risk of loss potential to the bank, as they are secured as priority lien and with regard to security supplemented by guarantee from the Danish Export Credit Fund. Furthermore, the debtors' soundness is more than 45 per cent.

Capital adequacy and stress test

When calculating the capital adequacy, the bank reserves capital for any losses on commitments with material weaknesses but no OIV. Furthermore, provisions are made for additional losses from commitments through write-downs, provisions and market price adjustments.

Quality classification of farms is among other things based on a price of DKK 145,000 per hectare of arable land in Vendsyssel. This corresponds to the Danish Financial Supervisory Authority's announcement about the price on land in Vendsyssel.

A reduction of 10 per cent of the values included in the bank's write-down on agriculture commitments with OIV, will lead to further write-downs at the level of DKK 43 million.

The bank has write-downs etc. of DKK 494 million to Danish commercial farming. In addition, the bank reserves capital for commitments with Danish commercial farming for value adjustment of securities and for loss as a consequence of general operating problems as well as the current agriculture crisis of DKK 276 million.

Nordjyske Bank performs stress test on the bank's commitments on an ongoing basis. A stress test of the bank's agriculture portfolio at the end of 2015 shows that the current problems in the agriculture sector cannot threaten the bank. If the bank loses the entire unsecured part on all the agriculture commitment, the bank will still have a capital adequacy ratio above the capital adequacy. It should be noticed that it is the bank's opinion that this scenario is not likely. A large share of the portfolio is without weaknesses

Management Report

Property exposure

Nordjyske Bank has lending and guarantees to the property sector at 12.3 per cent of total lending and guarantees. To a great extent this share is related to Aalborg, which experiences a high level of activity with housing construction. Lending to the public utility sector amounts to a level of 25 per cent of the bank's exposure to this sector.

To a great extent, the bank has contributed to the financing of dwellings, both to the non-profit and private housing sectors.

Nordjyske Bank still wants to be part of the large number of building projects in the bank's area. Therefore, good possibilities are important for long-term financing and satisfactory that pension funds such as PFA and Lærernes Pensionskasse are investing in housing construction in Aalborg.

Dansk Byggeri has performed an analysis which shows expected growth in the population in North Jutland up to 2025 of more than 19,000, which creates a need for 12,000 new dwellings. In Aalborg alone a need for almost 8,000 dwellings up to 2025 is estimated.

The price development for housing in North Jutland is still positive, and prices have been increasing in particular in Aalborg and in particular there has been an increase in trade and shorter waiting time on both owner-occupied flats and houses.

Other risks

Interest risk

The bank's lending and deposit activities as well as accounts with credit institutions are for the most part entered into on a variable basis.

The bank's interest risk amounts to 1.0 per cent of equity after deductions as at 31 December 2016.

The primary interest risk is attached to the bank's portfolio of bonds, which is related to the bank's cash and liquidity management and deposits with a fixed rate of interest.

The bond portfolio is managed in consideration of the volatile market so that interest risk is taken into consideration. Through this the bank lives up to its objective of having a very limited interest risk.

The bank's interest risk is managed and monitored on a daily basis by the FinansCentret, whereas control and reporting about interest risk to the board of directors and executive management are performed by the Finance department.

Market risk

Nordjyske Bank's total market risk must be cautious, and limits have been determined for the interest risk, the foreign exchange risk and the share risk.

The FinansCentret is responsible for complying with the limits which are controlled and reported on an ongoing basis from Finance to the Board of Directors and the Executive Board.

Liquidity risk and funding risk

The liquidity and funding risk of Nordjyske Bank must be reasonable and shall profitably support the bank's business model. This means:

- that the bank's liquidity requirement should primarily be covered by ordinary deposits and equity
- that the bank has sufficient lines with other banks to cover the current day-to-day liquidity requirement
- that the bank has sufficient excess liquidity to meet the goal at any time and live up to the objective – both currently and during budget projection and in a stress scenario
- that the bank meets the limit fixed by the Financial Supervisory Authority for stable funding in the Supervisory Diamond

that the bank minimizes the funding risk by seeking stable liquidity coverage.

Liquidity is managed in the FinansCentret and is controlled, budgeted, and reported on an ongoing basis from Finance to the Board of Directors and Management through which the bank ensures that the fixed limits for liquidity risk are met.

Nordjyske Bank's policy is to finance lending with ordinary deposits from customers and equity

Management Report

Liquidity

Deposits / lending (amounts in DKK million)	2016	2015
Deposits	15,838	14,975
Lending	10,822	10,729
Excess deposits	5,016	4,246

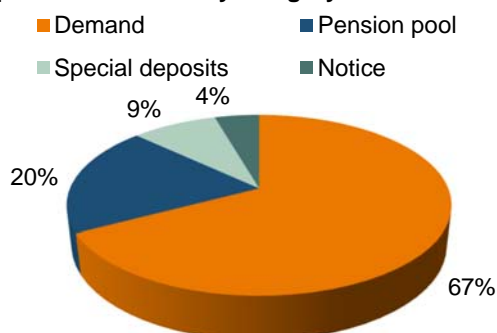
Excess deposits

Nordjyske Bank wants to finance lending with ordinary deposits from customers and equity.

The current market situation with a continued high incentive to saving and reluctant demand for lending, excess deposits of DKK 5,016 million for the bank and thereby a very comfortable liquidity situation.

The excess deposits are influenced by a heavy increase in deposits and a smaller increase in lending in 2016, which has led to an increase in excess deposits of DKK 770 million over the past year.

Deposits distributed by category:



The bank's deposits are stable and ordinary. Less than 83 per cent of the deposits are covered by the Guarantee Fund.

The bank has no deposits amounting to more than 1 per cent of total deposits, and the 10 largest deposits amount to less than 5 per cent of total deposits. The bank does not depend on expensive fixed term deposits.

LCR

The LCR requirement means that the bank must have sufficient highly liquid assets to be able to withstand 30 days of liquidity stress.

There are gradual phasing-rules, which means that the bank should meet 70 per cent at the end of 2016, increasing to 100 per cent at the beginning of 2018. The liquidity key figure LCR can be calculated at 273 per cent at the end 2016.

S 152-likviditet

The bank's current liquidity calculated pursuant to S 152 of Act on Financial Companies is very comfortable with excess solvency of 151 per cent, corresponding to excess liquidity of DKK 3,114 million.

The liquidity calculated according to this statutory requirement amounts to a total of DKK 5,177 million at the end of 2016, distributed on:

- DKK 327 mill. cash in hand and demand receivables in Danmarks Nationalbank
- DKK 66 mill. in fully secured and liquid demand receivables with credit institutions
- DKK 690 mill. in certificates of deposit
- DKK 3,070 mill. in secure, easily salable listed securities
- DKK 1,024 mill. in other secure easily salable uncharged securities (pooled assets)

Stable funding

The bank has "own liquidity" in the form of deposits and equity amounts to a total of DKK 18,596 million at the end of 2016, corresponding to excess liquidity of DKK 7,774 million compared to lending.

The bank's funding incl. subordinate capital as indicated in the table amounts to DKK 18,868 million. Lending compared with funding amounts to a funding ratio of 0.57 at the end of 2016. This is a slight fall compared with the year before due to the increase in deposits and is positive with regard to liquidity.

Stable funding (amounts in DKK million)	2016	2015
Lending	10,822	10,729
Equity	2,758	2,617
Deposits	15,838	14,975
Subordinate capital infusion	272	271
Funding	18,868	17,863
Excess amount	8,046	7,134
Funding ratio	0.57	060

Thus, it is the opinion of the management that Nordjyske Bank has a very satisfactory liquidity situation.

Management Report

Capital

The capital ratio amounts to 16.4 at the end of 2016, and the capital adequacy ratio is 14.4.

The bank's core capital consists primarily of equity and in addition of subordinate capital, which was acquired in connection with the purchase of Nørresundby Bank.

The bank is considerably affected by both goodwill and customer relations as well as the ownership of sector shares, which in total involve a deduction in the core capital at DKK 732 million at the end of 2016.

The management estimates that the bank's capital situation is solid and is at the same time aware of future capital requirements. It is the opinion that over the coming years, the bank will be affected by the IFRS 9 rules in relation to write-downs on lending etc. and expectedly by NEP/MREL requirements in relation to capital and funding as a consequence of implementation of BRRD directive from the EU as well as implementation of current capital requirements.

The regulation has not been determined, but the bank is aware of it in its dispositions. IFRS 9 rules are further elaborated under applied accounting practice in this annual report.

The bank's capital adequacy – solvency – is calculated by means of the standard methods for the calculation of credit risks outside the trading portfolio and market risks. The operational risks are calculated by means of the so-called basic indicator method

Pursuant to the stipulations in the CRR regulations, the bank shall publish detailed information about risks, capital structure, capital adequacy, and risk management. This information appears from the risk report on the bank's webpage on www.nordjyskebank.dk.

The individual capital adequacy

The bank's calculation of the individual capital adequacy is calculated at 10.1 per cent based on a core capital adequacy of DKK 1,353 million.

At the end of 2016, 0.625 percentage points of the capital conservation buffer were phased-in, which means that the total capital requirement may be calculated at DKK 1,437 million, corresponding to 107 per cent.

Nordjyske Bank has capital adequacy of DKK 2,201 million and a capital ratio of 16.4.

This corresponds to DKK 848 million or 6.3 percentage points compared with the individual solvency requirement.

Core capital / risk-weighted items (amounts in DKK million)	2016	2015
Equity	2,758	2,617
Deduction of		
- suggested dividend and unused share of framework for purchase of own shares	89	58
- goodwill and customer relations *	420	437
- cautious value assessment	5	4
- investment shares in fin. businesses	312	326
- other investments in financial businesses	3	0
Addition of subordinate capital	272	271
Core capital	2,201	2,063
Risk-weighted exposures	13,453	12,393
Capital adequacy ratio	14.4	14.5
Core capital ratio	16.4	16.6

* the calculation method concerning inclusion of Intangible assets has been changed cf. page 53

Information about capital is found in the solvency report on the bank's homepage

www.nordjyskebank.dk

Compared with the total capital requirement, the bank has total excess capital coverage of DKK 764 million corresponding to 5.7 percentage points.

Nordjyske Bank uses the credit reservation method – also called the 8+ method – in accordance with the instructions issued by the Danish Financial Supervisory Authority.

Information about capital adequacy and individual solvency requirement appears from the bank's solvency report, which is found on the bank's homepage at www.nordjyskebank.dk.

Management Report

Subsidiary

Nordjyske Bank has a subsidiary as the bank owns the entire share capital of Sæbygård Skov A/S.

The result of the subsidiary for 2016 is included in the bank's income statement under "result of investments in associated and group enterprises". The shares have been included at DKK 11.5 million, corresponding to the book value.

Group financial statements have not been prepared, as the activities of the subsidiary, both regarding balance sheet and result, are immaterial compared with those of the bank.

Uncertainty in relation to inclusion and calculation

The year's result has not been affected by unusual conditions - except for those already stated in the Management Report.

No events have occurred after the end of the financial year which will affect the bank's result for 2016, the bank's assets and liabilities, and its financial position as at the end of 2016.

Just like the other Danish banks, Nordjyske Bank is liable for losses which the Guarantee Fund (formerly the Deposit Guarantee Fund) may expect in connection with the insolvency of other banks. Nordjyske Bank's most recently calculated share of the sector's liability towards the Guarantee Fund amounts to 1.08 per cent.

Estimates have been made when calculating the book values. The estimates made are based on assumptions which the management finds reasonable.

The most significant estimates concern

- write-downs on lending and receivables where quantification of the risk of missing future payments involves material estimates – not least in the agricultural area,
- valuation of intangible assets, regarding quantification of future earnings and the rate of interest used for the calculation,

- valuation of properties, regarding the interest rates used for calculation and the internal rental value, and
- valuation of unlisted sector shares, cf. below.

Unlisted shares in companies owned by the bank jointly with a number of other banks, etc. – the so-called sector shares – are valued at market price. Decision of the market value is based on available information about current trades, e.g. in connection with redistribution among the shareholders (corresponding to level 2-input cf. definition in IFRS 13). If no current market data is available, the market value is estimated on the basis of information from the companies' accounts, experience in trade in shares in the companies in question, and input from qualified external party (corresponding to level 3-input cf. definition in IFRS 13).

Other unlisted securities are valued as far as possible at market value according to similar principles. If it is not possible to perform reliable calculation at market value, the security is included at cost price less write-downs.

Management Report

The process of preparation of financial statements

The Board of Directors and the Executive Board have the overall responsibility for Nordjyske Bank's risk management and internal control in connection with the preparation of the financial statements, including compliance with relevant legislation and other regulations in connection with the preparation of financial statements.

The bank's control and risk management systems in connection with the accounting process can create sufficient – but not absolute – certainty that unlawful use of assets, losses and/or material mistakes and omissions in connection with the preparation of the financial statements are avoided.

The Board of Directors and the Executive Board will on an ongoing basis assess risks and internal control in connection with the bank's activities and possible influence on the preparation of the financial statements.

Control environment

The management assess on an ongoing basis the organisational structure and staffing in all important areas, including within the area related to the preparation of the financial statement.

The Board of Directors and the Executive Board will establish and approve general policies, procedures and controls in material areas in connection with the preparation of financial statements. Compliance is emphasized on an ongoing basis, and random monitoring and control of compliance will be carried out..

In accordance with the statutory requirements, the Board of Directors has established internal auditing reporting to the Board of Directors. Internal auditing participates in the auditing of material and risk-related areas in connection with the preparation of the financial statements.

The bank's Audit Committee monitors the material and risk-related areas in connection with the preparation of the financial statements.

The bank has appointed a compliance responsible person, who is responsible for ensuring that legislation, market standards and internal codes of practice are complied with.

Risk assessment

The Board of Directors and the Executive Board perform an overall risk assessment on an ongoing basis in connection with the preparation of the financial statements.

As part of the risk assessment, the Board of Directors and the Executive Board will decide on the risk of fraud and measures to be taken with a view to reducing and/or eliminating such risks.

Furthermore, the bank has appointed a person to be responsible for risk management to ensure a total overview of risks, including supervision and assessment of risks and risk management.

Whistleblower-scheme

In accordance with current regulations, Nordjyske Bank has established a whistleblower-scheme, where the bank's employees anonymously via an independent channel may report potential breaches of the financial regulations committed by the bank, including the bank's employees or members of the board of directors.

Management Report

Income statement and balance sheet according to the purchase method

The income statement of the annual report, balance sheet, notes, etc. as at 31 December 2016 with comparative figures for 2015 in the following is prepared according to current rules and regulations pursuant to the purchase method.

In the following section, there are comments on the income statement and balance sheet at the end 2016 pursuant to the purchase method.

The consequence of the use this method in 2015 was among other things that Nørresundby Bank's operating results for January and February 2015 are only included in the purchased values, and that Nørresundby Bank's operating result for the month of March 2015 was included in Nordjyske Bank's income statement as at 31 December 2015 only as one single amount under the item "result of investment in associated and group companies".

The income statement shows the following in outline

- Net interest and fee income amount to DKK 933.6 mill. in 2016 compared with 837.5 mill. in 2015. The increase of DKK 96.1 mill. is primarily due to the fact that Nørresundby Bank was only included in the last 3 quarters of 2015.
- The market price adjustments are positive with DKK 46.5 mill. in 2016. There is a positive market price adjustment on shares etc. of DKK 20.2 mill. and a positive market price adjustment on bonds of DKK 16.5 mill.
- Staff and administration costs amount to DKK 490.6 mill. in 2016. In 2015 it had some effect on this item that Nørresundby Bank's figures were not included in the 1st quarter of 2015 and that merger costs were included.
- The result of investments in associated and group companies amounts to DKK 0.0 mill. in 2016. Income on this item in 2015 was primarily an indication of the operating result for March 2015 in Nørresundby Bank, which has been entered as income here.
- Write-downs on lending etc. have been charged to the income statement with DKK 244.8 mill. The item is affected by the fact that reversals of write-downs on loans from Nørresundby Bank are entered under interest income, which has been corrected in the pro forma statement cf. the statement on the next page.
- Pre-tax result amounts to DKK 228.1 mill. and the result after tax amounts to DKK 184.9 mill. in 2016.

The balance sheet shows the following in outline

- The total balance sheet as at 31 December 2016 amounts to DKK 19.4 bn. compared with DKK 18.7 bn. last year. The increase is primarily attributable to increase in deposits and, as a consequence, increased excess liquidity invested in bonds etc.
- The bank's lending amounts to DKK 10.8 bn. at the end of 2016 and deposits amount to DKK 15.8 bn.
- Goodwill and customer relations are included under the item intangible assets with DKK 455 mill.
- Subordinate capital infusion (Tier 2) amounts to DKK 271.8 mill. and was raised as part of the financing of the purchase price for Nørresundby Bank.
- Nordjyske Bank's share capital amounts to DKK 183,645,150. Equity then amounts to DKK 2.76 bn. at the end of 2016, which is an increase of DKK 141 mill. since the end of 2015.
- Total contingent obligations amount to DKK 4.2 bn. as at 31 December 2016 compared with DKK 3.3 bn. as at 31 December 2015.

Management Report

Applied calculation methods and alternative performance goals

Proforma statement

Nordjyske Bank merged with Nørresundby Bank effective 31 March 2015.

Nordjyske Bank acquired Nørresundby Bank on 27 February 2015 and the banks merged on 31 March 2015.

With regard to accounting this implies that Nørresundby Bank's operating result for the month of March alone will be included as one single item in Nordjyske Bank's operating result for the 1st quarter of 2015, while Nørresundby Banks' result for January and February 2015 is included in Nørresundby Bank's equity at the time of acquisition.

Furthermore, the merger was carried out according to the so-called purchase method. The additional value paid for assets is included as goodwill in the balance sheet. Comparative figures for income statement and balance sheet items as well as key figures in the annual accounts 2015 do not include figures from Nørresundby Bank prior to the merger.

It is the management's opinion that reporting where income statement and balance sheet items are drawn up according to the above rules does not provide the reader of the accounts with a thorough and fair picture of the bank's performance – in part because the figures for Nørresundby Bank are not included in the same way as Nordjyske Bank's figures and in part as a consequence of the requirements of the accounting rules for treatment of write-downs from Nørresundby Bank.

The difference between the pro forma statements and the accounts in relation to the purchase method is illustrated in a statement on pages 28-29.

Alternative performance goals

The bank uses a number of alternative performance goals. These financial goals are used where they provide more information value about e.g. the bank's earnings, or where the term is a general term for several items.

The bank is aware of the need that the statements use consistently and with comparative figures.

The alternative performance goals are defined below.

Definitions

Core earnings	The result before Market Value adjustments of securities, etc., payments to the Guarantee Fund and the Resolution Fund as well as Write-downs on lending etc.
Core income	The sum of Net interest- and fee income and Other operating income etc.
Other operating costs, etc.	The sum of Other operating income and dividend on shares etc.
Operating expenses	The sum of Staff and Administration costs, other operating cost except payment to the Guarantee Fund and the Resolution Fund and excl. Merger costs.
Operating write-downs	Consist of Depreciations and write-downs on intangible and tangible assets.
Market price adjustments on securities etc.	The sum of Market price adjustments and Result of investments in associated and group companies.
Merger costs	Operating costs derived directly from the merger.
Pro forma statement	Cf. the section above.
Business volume	The sum of Lending, Guarantees and Deposits.
Business volume incl. safe custody values	The sum of Business Volume and the customers' safe custody values.
Discount	Value regulation of loans acquired from other financial institutions in connection with merger and purchase.
Danish commercial farming	Farming with operating premises in Denmark excl. Farms where debtors main source of income is outside the farming operation.
Excess deposits	The sum of Deposits less Loans.
Sector shares	Shares, which the bank owns jointly with other financial institutions.
Customer relations	Intangible value of customers arisen in connection with acquisition of company

Management Report

Calculation of pro forma result

As indicated on page 5, the accounts statement in the report and the descriptions herein are mainly based on pro forma calculated figures which are assessed most true and fair.
See further description on page 28.

Below the adjustments between the official result according to the purchase method and the pro forma calculated result are shown. The adjustments have been made on the basis of the prospect rules and in addition to the extent it has been found true and fair.

Summary of calculation of pro forma result for 2016 (amounts in DKK million)	Official result	Note	Pro forma adjustment	Pro forma result
Interest income	606	5 7	-72 -8	526
Interest expenses	47			47
Net interest income	559		-80	479
Fees and commissions, net	352			352
Other operating income etc.	35			35
Core income	946		-80	866
Operating costs and operating depreciations excl. merger costs	519			519
Core earnings	427		-80	347
Payments to the Guarantee Fund, etc.	1			1
Write-downs on lending etc.	245	5 6 7	-72 -2 -8	163
Market price adjustments on securities, etc..	47			47
Result before merger costs	228		2	230
Merger costs	0			0
Pre-tax result	228		2	230

Summary of calculation of pro forma result for 2015 (amounts in DKK million)	Official result	Note	Pro forma adjustment	Pro forma result
Interest income	578	1 2 5 7	73 0 -59 -9	583
Interest expenses	58	1 3	9 3	70
Net interest income	520		-7	513
Fees and commissions, net	307	1	52	359
Other operating income etc.	16	1	1	17
Core income	843		46	889
Operating costs and operating depreciations excl. merger costs	495	1 4 9	75 3 -44	529
Core earnings before merger costs	348		12	360
Payments to the Guarantee Fund, etc	26	1	3	29
Write-downs on lending etc.	307	1 5 6 7	-16 -59 -17 -9	206
Market price adjustments on securities, etc..	46	1 8	27 -25	48
Result before merger costs	61		112	173
Merger costs	0	9	44	44
Pre-tax result	61		68	129

Management Report

Notes on the pro forma calculations	Pro forma adjustment 2016	Pro forma adjustment 2015
1) Result in Nørresundby Bank		
(for 2015 adjusted for 3 months incl. transfer of March 2015 as subsidiary)		82
2) Interest income		
As a consequence of financing purchase of shares in Nørresundby Bank in part by sale of bonds at a value of DKK 561 mill., interest income on the bank's cash is reduced. This is included with a minor income corresponding to market based revenue of 0.5 % p.a. of DKK 561 mill. (for 2015 adjusted for 2 months.)		-0
3) Interest expenses		
In connection with completion of the Purchase bid, new subordinate capital has been purchased at a total of DKK 275 mill. – gross, which is used for part financing of shares in Nørresundby Bank. The subordinate capital infusion carries interest at the rate of 5.341 % p.a. (for 2015 adjusted for 2 months)		-3
Initial expenses for subordinate capital of DKK 5 mill. are distributed over 5 years (for 2015 adjusted for 2 months)		-0
4) Depreciations and write-downs on intangible and tangible assets		
Customer relations at DKK 201 mill. arising from the transaction are expected to be written down by the straight-line method over a ten-year period (for 2015 adjusted for 2 months)		3
5) Value adjustment of lending taken over at a discount primarily conc. Nørresundby Bank		
When merging with other banks, part of lending is valued lower than par (primarily lending with individual write-downs). The difference between market price and nominal value is amortised (booked as income) over the term of the loan and booked as income in the official accounts as interest income on loan.		
If the loan is not improved at the same rate as the amortisation, there will be corresponding write-down on lending etc.		
If the loans have always been part of Nordjyske Bank's lending, these movements would have been entered as movements on write-down on lending etc.		
Regulation conc. lending taken over from Nørresundby Bank	-72	-47
Regulation conc. lending taken over from Løkken Sparekasse and Øster Brønderslev Sparekasse		-12
6) Value adjusted lending valued higher with regard to quality than amortisation taken over at a discount		
When merging with other banks, part of lending is valued lower than par (primarily lending with individual write-downs). The difference between market price and nominal value is amortised (booked as income) over the term of the loan and booked as income in the official accounts as interest income on loan.		
If the loan is improved faster than the amortisation, it will not be possible to immediately book the improvement as income with regard to quality, and it will not be possible to take the difference that occurs by this as income in the official accounts until later periods.		
If the loans had always been part of Nordjyske Bank's lending, these movements would be booked as income immediately as movements on write-downs on lending etc.	-2	-17
7) Interest income conc. the value adjusted part of lending from Nørresundby Bank		
If the original write-downs from Nørresundby Bank had been write-downs from Nordjyske Bank and not re-classified at a discount, the interest hereof would be adjusted between interest on lending and write-downs on lending etc.	-8	-9
8) Nørresundby Bank's result March 2015 as subsidiary		-25
9) Merger costs		44

Management Report

Shareholders

The bank's share capital of DKK 183.6 million is divided into 18,364,515 shares of DKK 10 each. The shares have been adopted for listing at Nasdaq Copenhagen A/S.

According to the Articles of Association of the bank, the shares must be registered by name. The shares are freely negotiable, but it will require the bank's consent if an acquirer obtains 10 per cent or more of the bank's share capital.

Voting right at the bank's general meeting shall be exercised so that each DKK 100 or fraction thereof gives one vote. However, 1,000 votes are the largest number of votes any shareholder is able to cast on his/her own behalf.

The bank's representatives, board of directors or shareholders may make proposals for amendments to the Articles to be discussed at the annual general meeting. Approval of proposals takes place in accordance with the bank's Articles, which are available at the bank's homepage www.nordjyskebank.dk.

With the approval of the Committee of Representatives, the Board of Directors is authorised to increase the share capital by up to DKK 72.8 million.

Out of new shares issued in accordance with this authorisation, up to DKK 25 million may be issued without pre-emptive rights for the bank's shareholders.

Likewise, the Board of Directors is authorised by the general meeting to allow the bank to acquire own shares at any time, corresponding to a maximum of 10 per cent of the bank's nominal share capital if the shares can be acquired at the current listed price with a deviation of up to 10 per cent.

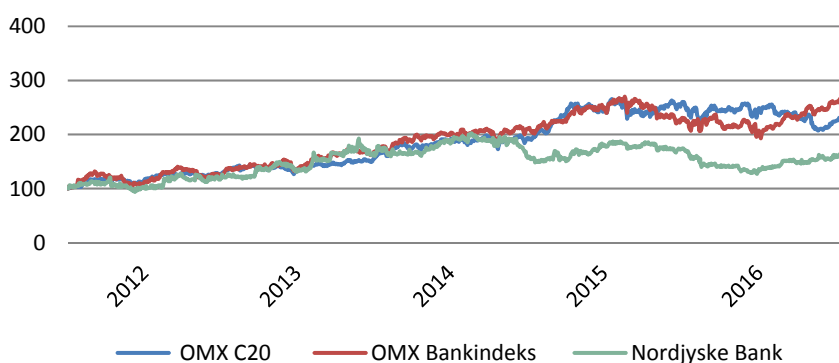
From the Danish Financial Supervisory Authority, the bank has been allowed to possess own shares for market-maker purposes of up to DKK 18.0 million.

Large shareholder

Nordjyske Bank has one large shareholder as Jyske Bank A/S at Silkeborg owns 38.49 per cent of the share capital in Nordjyske Bank A/S as at 31 December 2016, which is within an agreed limit of 40 per cent to Jyske Bank A/S.

Jyske Bank A/S has – cf. Nordjyske Bank's Articles of Association – 1,000 votes.

Index 100 = 30.12.2011



The Nordjyske Bank share

Above you will see the development in market price during the past 5 years compared with the OMX C20 index (the 20 most traded companies) and the index for banks.

Management Report

Recommendation to the general meeting

The board of directors will recommend to the general meeting that dividend be paid for the financial year 2016 at 40 per cent of the nominal share capital corresponding to DKK 4.0 per share and a total of DKK 73.5 million.

The bank's general meeting will be held on 7 March 2017 at Aalborg Congress & Culture Centre in Aalborg with transmission to Arena Nord in Frederikshavn.

The shareholders are free to choose to which one of the venues they want entrance cards just like the shareholders have the same rights and possibilities both places.

The agenda and the complete proposals as well as the documents to be presented at the general meeting will be available on www.nordjyskebank.dk from Monday, 13 February 2016 up to and included 7 March 2017.

Company announcements issued in 2016

11.02.2016	Announcement of financial statements and Annual Report 2015
12.02.2016	Reporting on insiders' trading with Nordjyske Banks shares
16.02.2016	Reporting on insiders' trading with Nordjyske Banks shares
18.02.2016	Notice of convening Ordinary General Meeting 15 March 2016
02.03.2016	Reporting on insiders' trading with Nordjyske Banks shares
15.03.2016	Summary from the bank's ordinary general meeting on 15 March 2016
21.03.2016	Announcement of large shareholder in Nordjyske Bank A/S
18.05.2016	Interim report for 1st quarter of 2016
11.08.2016	Interim report as at 30 June 2016
15.11.2016	Interim report as at 30 September 2016
15.11.2016	Financial calendar 2017 for Nordjyske Bank A/S

Financial calendar 2017

07.03.2017	Ordinary General Meeting
16.05.2017	Publication of interim report as at 31 March 2017
22.08.2017	Publication of interim report as at 30 June 2017
21.11.2017	Publication of interim report as at 30 September 2017



Management Report

Management

Committee of Representatives

The Committee of representatives shall have at least 40 and no more than 80 members, at present 65 members. The members are elected by the general meeting. When electing members of the Committee of Representatives, equal representation from the activities of the bank must be aimed at reflecting the bank's shareholders and business structure. Upon election of members of the Committee of Representatives, suitable candidates for the board of directors shall also be ensured.

When a member of the Committee of Representatives reaches the age of 70, the member in question retires from the Committee of Representatives at the subsequent ordinary general meeting. Members of the Committee of Representatives are elected for a period of three years and re-election may take place.

The Committee of Representatives itself elects its chairman and deputy chairman among its members each year.

Board of Directors

The Board of Directors consists of 4-8 members to be elected by and among the members of the Committee of Representatives. Members of the Board of Directors, who are elected by the Committee of Representatives, are elected for a period of two years. Re-election may take place. If such a member retires from the Committee of Representatives, the membership of the Board of Directors shall terminate.

In addition, the Committee of Representatives may elect two members of the Board of Directors who are not a member of the Committee of Representatives when this is considered appropriate considering the composition of the Board of Directors.

In addition, the Board of Directors includes such additional members as required by legislation, at present four employee representatives.

At present, the Board of Directors consists of 12 members, eight of which have been elected by and among the Committee of Representatives and four members have been elected by the employees.

The Board of Directors itself elects its chairman and deputy chairman each year.

The Board of Directors holds ordinary Board meetings 12 times each year.

Under the management of the chairman, the Board of Directors performs an annual evaluation of the performance, information level etc. of the board meetings and of the competences and composition of

the board both in the short and the long term.

In 2016 there has been external assistance for the evaluation.

The Board of Directors attaches great importance to competences, local attachment, and continuity to board work, but at the same time is aware of the importance of independency. The increasing competence demands are strongly weighted just like it is also important that the board members have adequate time for board work.

It is the Board of Directors' aim that the composition of the board ensures the presence of as many of the below qualifications as possible – based on the bank's business model:

- Board competence
- Management competence – management and strategy
- Business competence – turn ideas into business
- Accounting and auditing
- Competences in law and legal matters, including the financial sector and its competitive conditions
- Competences in farming, fisheries, and real property
- Insight into the conditions of commercial and private customers

In addition, personal competences are weighted:

- Personality
- Broad contact surface
- Analytical
- Integrity
- Commitment

At the same time the Board of Directors wants a multitude of professional experience and age.

The composition of the Board of Directors is established pursuant to fixed general and specific statutory requirements as well as in consideration of the recommendation for good company management.

The Board of Director's total competences are assessed as the sum of all the members' individual competences. Specific competences are indicated under the section "Information about the Board of Directors".

Nomination of candidates for election takes place at a meeting of the committee of representatives on the basis of these principles.

Management Report

Audit Committee

The Board of Directors has established a separate Audit Committee. The Committee monitors accounting and auditing and prepares issues to be discussed subsequently by the entire Board of Directors. In accordance with legislation, the Audit Committee does not have independent decision-making competence.

The Audit Committee holds four ordinary meetings per year.

The Board of Directors has appointed John Chr. Aasted as qualified and independent member of the Audit Committee in the light of his job experience and qualifications from participation in audit committee in another listed company. It is the opinion of the board of the directors that John Chr. Aasted possesses the necessary qualifications for this.

The Audit Committee consists of the following members:

- John Chr. Aasted, chairman of the committee
- Mads Hvolby
- Hans Jørgen Kaptain
- Sten Uggerhøj

Risk Committee

Furthermore, the Board of Directors has established a separate Risk Committee, which shall prepare the Board's work and advise the Board of Directors about the bank's risk profile and risk strategy as well as monitor implementation of the Board's risk strategy, etc.

In accordance with legislation the Risk Committee does not have independent decision competence.

The risk committee holds at least two meetings per year.

The risk committee consists of the following members:

- John Chr. Aasted, chairman of the committee
- Mads Hvolby
- Hans Jørgen Kaptain
- Sten Uggerhøj

Nomination Committee.

The Board of Directors has established a Nomination Committee to ensure that the Board of Directors continuously has the required knowledge and experience to undertake the tasks of the Board of Directors. The Nomination Committee does not have independent decision-making competence.

The Nomination Committee holds at least two meetings per year.

The Nomination Committee consists of all members of the Board of Directors. Mads Hvolby is chairman and Hans Jørgen Kaptain is deputy chairman of the committee.

Remuneration committee and policy

Furthermore, the Board of Directors has established a Remuneration Committee in accordance with legislation. The committee shall be in charge of the preparatory work concerning remuneration, including remuneration policy and identification of material risk takers.

The committee holds at least two meetings per year

The remuneration committee consists of all members of the Board of Directors. Mads Hvolby is chairman and Hans Jørgen Kaptain is deputy chairman of the committee.

According to the remuneration policy for the Board of Directors and the Executive Board in Nordjyske Bank, both the Board of Directors and the Executive Board will receive a fixed salary. This means that the remuneration does not include any type of incentive pay.

The remuneration of the Board of Directors is fixed by the Committee of Representatives. The remuneration of the Executive Board is fixed by the Board of Directors.

Executive Board

The Executive Board consists of three members who are in charge of the day-to-day management of the bank.

The Executive Board has a well-defined division of labour with an appropriate relation to the competences of the members of the Executive Board

Management Report

Good corporate management and the Corporate Governance Code of the Danish Bankers Association

In general, Nordjyske Bank is positive towards "Recommendation for good corporate management" from the Committee of Good Corporate Management and the Corporate Governance Code from FinanceDenmark, and with its corporate management wants to have an open and constructive cooperation with all the bank's stakeholders.

On the bank's homepage you will find a detailed report of the two sets of recommendations

The bank gives an account of how the bank relates to both sets of recommendations, because the bank is a listed Danish company and a Danish financial institute.

There are 47 recommendations to good corporate management – Corporate Governance – and 12 recommendations in the FinanceDenmark's Corporate Governance Code.

The bank's Board of Directors and Executive Board have chosen to adopt all the recommendations except for two recommendations which are observed partially, and two recommendations which are not observed.

Read more about it on www.nordjyskebank.dk/ombanken/godselskabsledelse, where in part reasons are given for the instances where the bank does not fully follow the recommendations, and in part to the relevant extent is given supplementary comments to recommendations followed by the bank.

Social responsibility

Nordjyske Bank's vision to be "A decent bank – the safe choice" is the basis for the bank's social responsibility. In combination with the bank's values: Dynamic, Decent, and Competent, it sets the framework for the bank's policy for social responsibility (Corporate Social Responsibility - CSR).

The bank's strategy plan for 2016-2018 makes it an objective to be North Jutland's best bank for customers, shareholders, and employees.

The bank wants to ensure fair treatment of its stakeholders, limit any negative effects on environment and local society and to contribute to mutual favourable financial results – based on social and societal responsibility.

Part of this is the bank's desire of a close and personal relationship with the customers where the customers are treated with respect for each individual and for the local society.

The bank's respect for both human rights and a reduction of climate impact are part of the bank's policy on social responsibility.

Read more on www.nordjyskebank.dk/ombanken/csr.

The policy and associated report can be seen in full on the bank's homepage

Management Report

Information about the Board of Directors



Mads Hvolby
Chairman of the
Board of Directors

Born 1956
Address in Nørre-
sundby



Hans Jørgen Kaptain
Deputy chairman of the Board of
Directors

Born 1946
Address in Sæby

Member of the Board of Directors since 2015 *)
Up for election in 2017
Chairman of the Board of Directors since 2015
Chairman of the Remuneration Committee
Chairman of the Nomination Committee

Fee received in 2016 a total of DKK 531,000.

Chartered surveyor and partner in the surveyor
company LE34 A/S.

Former chairman of the Board of Directors of
A/S Nørresundby Bank 2009-2015

Education
Cand.geom.

Executive positions and directorships
Director

Landinspektørernes gensidige
Erhvervsansvarsforsikring (LgE)

Chairman of the Board of Directors
NB Gruppen A/S Landinspektøraktieselskab

Member of the Board of Directors
Landinspektørfirmaet LE34 A/S

Independent

Special competences
Management of medium sized company
Strategy and business development
Accounting and budgeting
Financial legislation

Shareholding
• Beginning of 2016: 6,046 shares
• End of 2016: 6,046 shares

Member of the Board of Directors since 1993
Resigns in 2017 cf. the rules on age
Deputy Chairman of the Remuneration
Committee
Deputy Chairman of the Nomination
Committee

Fee received in 2016 a total of DKK 531,000.

Attorney (H) and co-owner of the law firm
HjulmandKaptain with offices in Frederikshavn,
Hjørring, Randers, Aalborg and Aarhus.

Former chairman of the Board of Directors of
Nordjyske Bank A/S in 1997-2015

Education
LLM.

Executive positions and directorships
Director
Kaptain ApS

Chairman of the Board of Directors
Aktieselskabet Sæby Fiske-Industri
Dafolo A/S
Dafolo Holding A/S
Den Grevelige Oberbech-Clausen-Peanske
Familiefond (Voergaard Slot)
Dokøen A/S
Elworks A/S
IE Holding, Hirtshals A/S
James A/S
Nordjysk Luftteknik A/S
Nordjyllands Hallens Fond
Skagens Museum
Skagens Museums Ejendomsselskab ApS
Skagerak Holding A/S

Member of the Board of Directors

Ann Birgitte og Niels Ørskov Christensens
Familiefond (Ørskov Koncernen)
Dafolo Fonden
Dansk Træemballage Holding A/S med 5
datterselskaber
GMC Holding A/S
Købstædernes Forsikring
OY Ejendom Nord ApS
RAIS A/S
Sigurd og Margit Espersens Familiefond
(Skagerak Koncernen)
Skagerak Fiskeeksport A/S
Stiholt Holding A/S
Vanggaard Fonden (Sæby Fiske-Industri
Koncernen)

Special competences
Board experience
Management
Strategy
Law
Fishing

Independence
Does not fulfill the requirements for
independence due to membership of the
board of directors for more than 12 years.

Shareholding
• Beginning of 2016: 30,045 shares.
• End of 2016: 32,645 shares.

*) Member of the Board of Directors of A/S Nørresundby Bank 2006-2015

Management Report



**Per Lykkegaard
Christensen**

Born 1959
Address in Hjøllerup



Morten Jensen

Born 1961
Address in
Dronninglund

Member of the Board of Directors since 2008
Up for election in i 2018

Member of the Board of Directors since 2015 *)
Up for election in 2017

Fee received in 2016 a total of DKK 218,000

Farm owner

Education

Qualified farmer

Executive positions and directorships *Director and member of the Board of Directors*

Blahova ApS
Lykkegaard Landbrug ApS
Lykkegaard Landbrug Holding ApS

Member of the Board of Directors

AKV-Cargill I/S
AKV-Langholt AMBA
Danfoil A/S
Donau Agro ApS
Farmas A/S

Special competences

Management
Strategy and business development
Negotiating technique
Farming

Independent

Shareholding

- Beginning of 2016: 4,428 shares.
- End of 2016: 4.420 shares.

Attorney (H) and partner in the
Advokatfirmaet Børge Nielsen in Aalborg

Education

LLM.
HD(R)

Executive positions and directorships *Director*

Badehotellerne Pepita og Sandvig Havn ApS
Komplementaranpartsselskabet
Langebjergvej 1
Lundagergaard Holding ApS
Vibeke Emborg Holding ApS
Vibeke Emborg Invest ApS

Chairman of the Board of Directors

Andersen & Aaquist A/S
Dansk Bilglas A/S
Felix Arden A/S
Kevin A/S
Novagraf A/S
Skandia Kalk Holding ApS

Member of the Board of Directors C.

Flauenskjold A/S
Dansk Facility Service Holding A/S
Desmi Contracting A/S
RengøringsCompagniet A/S
Madera Holding Aps
Ejendomsselskabet Nordtyskland
Kommanditaktieselskab (and 9 affiliated
investment companies))

Fee received in 2016 a total of DKK 218,000.

Ergonomic Solutions International Ltd.

Ergonomic Solutions Manufacturing A/S

Ergonomic Solutions Nordic A/S

Hadsundvej 33 A/S

JM Marine Consult A/S

Mesterbyg Klokkeholm A/S

Micodan A/S

Micodan Holding A/S

Miljø-Art A/S

Micodan Ejendomme A/S

Micodan Norge AS

Munkholm Consult A/S

PM Parts A/S

Square Holding A/S

Square Oil A/S

Tribodan A/S

Saga Shipping A/S

Svend Aage Christiansen Høllum A/S

Svend Aage Christiansen Jerslev A/S

S.C.J. Invest A/S

Vibeke Emborg Holding ApS

Vibeke Emborg Invest ApS

Special competences

Experience with board work
Legal matters, including financial legislation
and commercial law
Real property
Risk analysis and risk management
Budgeting and financial management
Tax law
Transfer of ownership of business

Independent

Shareholding

- Beginning of 2016: 1,210 shares.
- End of 2016: 2,210 shares.

*) Member of the Board of Directors of A/S Nørresundby Bank 2014-2015

Management Report



Poul Søren Jeppesen
Deputy Chairman of
the Committee of
Representatives
Born 1952
Address in Aalborg



Henrik Lintner

Born 1955
Address in Hjørring



Sten Uggerhøj
Chairman of the
Committee of
Representatives
Born 1959
Address in
Frederikshavn

Member of the Board of Directors since 2015
*)
Up for election in 2017

Fee received in 2016 a total of DKK 226,000.

Director of Aalborg Business College

Education
MA

Executive positions and directorships
Member of the Board of Directors
SOSU Randers

Member of the Board of Directors
Blegkildekollegiet
Erhvervsskolelederne i DJØF
Praxis Fonden
Handelskollegiet
ITAI A/S
Aalborg Studenterkursus

Special competences
Management of large company
Budgeting and resource management
HR
Communication and marketing

Independent

Shareholding
• Beginning of 2016: 752 shares.
• End of 2016: 854 shares.

Medlem af bestyrelsen siden 2007
På valg i 2017

Fee received in 2016 a total of DKK 218,000.

Pharmacist

Education
Graduate in pharmacology.

Executive positions and directorships
Member of the Board of Directors
Bryghuset Vendia ApS

Special competences
Management
HR
IT
Retail

Independent

Shareholding
• Beginning of 2016: 5,412 shares.
• End of 2016: 5,412 shares.

Medlem af bestyrelsen siden 2005
På valg i 2018

Fee received in 2016 a total of DKK 295,000.

Car dealer and director of Uggerhøj A/S
Runs business in Frederikshavn, Brønderslev,
Herning, Hjørring, Silkeborg, Aalborg and
Aarhus.

Education
Diploma from General Motors
Top Governance, Aalborg Business Institute
CBA, Aalborg Business Institute
MBA in Strategic Management, Aalborg
Business Institute

Executive positions and directorships
Director and member of the Board of Directors
Ejendomsselskabet Weddelsborgvej 1 A/S
Uggerhøj A/S
Uggerhøj Aarhus A/S
Uggerhøj Holding ApS and three 100 %-
owned subsidiaries

Member of the Board of Directors
A/S Knud Uggerhøj
Civilingeniør Bent Bøgh og Hustru Inge
Bøgh's Fond
Ejendomsselskabet Møllehuset A/S
Fortin Madrejon A/S
Frederikshavn Handelsskole
Knud Uggerhøj Kapital ApS
Techno Danmark F.M.B.A.
Techno Fosikring A/S
Tegllund A/S
Trigon Holding A/S and two 100 %-owned
subsidiaries
Uggerhøj Herning A/S

Special competences
Management
Strategy
Sale

Independent

Shareholding
• Beginning of 2016: 76,432 shares.
• End of 2016: 78,432 shares.

*) Member of the Board of Directors of A/S Nørresundby Bank 2007-2015

Management Report



John Chr. Aasted

Born 1961
Address in Aalborg



Hanne Karlshøj

Born 1957
Address in Bindslev



Helle Juul Lyngé

Born 1963
Address in Vester
Hassing, Vodskov

Member of the Board of Directors since 2015
)
Up for election in 2017
Chairman of the Audit Committee
Chairman of the Risk Committee

Fee received in 2016 a total of DKK 309,000.

Director

Education

Dairy Engineer
HD(U)
MBA

Executive positions and directorships

Chairman of the Board of Directors

SC Holding 2013 A/S
System Cleaners A/S

Member of the Board of Directors

Fonden Gissselfeld Kloster
Grintec A/S
Seafood International Holding A/S

Special competences

Management of large company
Strategy and business development
Farming and agro industry
Sales, export and IT

Independent

Shareholding

- Beginning of 2016: 3,710 shares.
- End of 2016: 3,710 shares.

Member of the Board of Directors elected by
the employees since 2002
Up for election in 2018

Fee received in 2016 a total of DKK 202,000.

Customer advisor
Joint union delegate

Education

Finance course

Special competences

Private customer advisor
Joint union delegate

Shareholding

- Beginning of 2016: 3,059 shares.
- end of 2016: 3,059 shares.

Member of the Board of Directors elected by
the employees since 2015 **)
Up for election in 2018

Fee received in 2016 a total of DKK 202,000.

Property specialist

Education

Finance course
HD(F)

Special competences

Organisation
Accounting and financing
Market risks

Shareholding

- Beginning of 2016: 1,225 shares.
- end of 2016: 1,225 shares.

*) Member of the Board of Directors of A/S Nørresundby Bank 2009-2015

**) Member of the Board of Directors of A/S Nørresundby Bank 2006-2015

Management Report



Arne Ugilt

Born 1956
Address in Uggerby,
Hjørring



Finn Aaen

Born 1970
Address in Frejlev,
Aalborg

Member of the Board of Directors elected by the employees since 2015
Up for election in 2018

Fee received in 2016 a total of DKK 202,000.

Credit employee

Education

Finance course
HD(R)

Special competences

Commitments in distress
Sale of assets

Shareholding

- Beginning of 2016: 2,529 shares.
- end of 2016: 2,529 shares.

Member of the Board of Directors elected by the employees since 2015 *)
Up for election in 2018

Fee received in 2016 a total of DKK 202,000.

Business advisor

Education

Finance course
HD(R)
Diploma in property administration
Holder of a business diploma as estate agent

Special competences

Credit risks
Financing and risk management
Real property

Shareholding

- Beginning of 2016: 802 shares.
- End of 2016: 802 shares.

*) Member of the Board of Directors of A/S Nørresundby Bank 2014-2015

The shareholding includes the holdings of the Board of Directors and connected parties.

No members of the Board of Directors have retired from the board in 2016.

Management Report

Information about the executive board



Claus Andersen
Managing Director

Born 1966
Address in
Frederikshavn

Appointed in 2000
Joined the Executive Board in 2010

Payment received in 2016:
Fixed salary, etc. DKK 3,122,000.
Pension contribution DKK 336,000.
Value of company car, etc. 125,000.

Previous employments

Spar Nord Bank A/S
Jyske Bank A/S

Education

Finance course
HD(F)
Executive programme

Executive positions and directorships

Chairman of the Board

Sæbygård Skov A/S

Member of the Board of Directors

Foreningen Bankdata
Foreningen Lokale Pengeinstitutter
BI Holding A/S (BankInvest)
DLR Kredit A/S

Area of responsibility

Finance and IT operation
Finance centre
Investor Relations
Risk management
Compliance

Shareholding

- Beginning of 2016: 2,914 shares.
- End of 2016: 2,914 shares.



Carl Pedersen
Deputy Managing
Director

Born 1962
Address in
Nørresundby

Appointed in 1982
Joined the Executive Board in 2015

Payment received in 2016:
Fixed salary, etc. DKK 2,255,000.
Pension contribution DKK 245,000.
Value of company car, etc. 132,000.

Previous employments

A/S Nørresundby Bank

Education

Finance course
HD(R)
Master, Management
eMBA at Business Strategy

Executive positions and directorships

Member of the Board of Directors

Byggesocietetet Aalborg
Vækst-Invest Nordjylland A/S

Area of responsibility

Credit
Business development, business

Shareholding

- Beginning of 2016: 2,005 shares.
- End of 2016: 2,005 shares.



Mikael Jakobsen
Bank Director

Born 1958
Address in Hjørring

Appointed in 1977
Joined the Executive Board in 2010

Payment received in 2016:
Fixed salary, etc. DKK 2,276,000.
Pension contribution DKK 245,000.
Value of company car, etc. 151,000.

Previous employments

Vendsyssel Bank A/S

Education

Finance course
Business diploma in financing, organisation
and marketing
Several long-term executive programme

Executive positions and directorships

Area of responsibility

HR
Sale and marketing
Business development, private
IT development
Business support

Shareholding

- Beginning of 2016: 6,386 shares.
- End of 2016: 6,386 shares.

The shareholding includes the holdings of the Executive Board and connected parties.

No members of the Executive Board have retired in 2016.



Nordjyske Bank

Nordjyske Bank

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MONTH / YEAR

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Endorsements

Statements and opinions

We have today presented the Annual Report for 1 January - 31 December 2016 for Nordjyske Bank A/S.

The Annual Report is prepared in accordance with the Financial Activities Act and also in accordance with additional Danish disclosure requirements for annual reports of listed financial companies.

We consider the accounting policy chosen to be appropriate, so that the financial statements provide a true and fair picture of the bank's assets and liabilities, the financial position and the result.

The Management's Report includes a true and fair account of the development of the bank's activities and financial situation, and a true and fair description of the most important risks and uncertainties by which the bank may be affected.

The Annual Report is recommended for approval by the General Meeting.

The Executive Board
Nørresundby, 8 February 2017

Claus Andersen
Managing Director

Carl Pedersen
Managing Director

Mikael Jakobsen
Bank Director

Pia Foss Henriksen
Finance Manager

The Board of Directors
Nørresundby, 8 February 2017

Mads Hvolby
Chairman

Hans Jørgen Kaptain
Deputy Chairman

Per Lykkegaard Christensen

Morten Jensen

Poul Søren Jeppesen

Henrik Lintner

Sten Uggerhøj

John Chr. Aasted

Hanne Karlshøj

Helle Juul Lynge

Arne Ugilt

Finn Aaen

Endorsements

Internal auditors' statements

To the owners of capital in Nordjyske Bank A/S

Endorsement of the annual report

Conclusion

We have audited the financial statements for Nordjyske Bank A/S for the financial year 1 January - 31 December 2016, including income statement, statement of total gains and losses, balance sheet, equity statement, core capital and notes, including applied accounting policy. The financial statements have been prepared according to the Danish Financial Activities Act and in accordance with the Danish disclosure requirements for listed financial companies.

It is our opinion that annual account provides a true and fair picture of the bank's assets, liabilities, and financial position as at 31 December 2016 and of the result of the bank's activities for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Activities Act and in accordance with the Danish disclosure requirements for listed financial companies.

The audit performed

The audit has been performed on the basis of the Executive Order issued by the Danish Financial Supervisory Authority on the auditing of financial businesses, etc., and financial groups and according to international auditing standards about auditing concerning planning and performance of the audit work.

We have planned and carried out the audit in order to obtain a high level of certainty that the financial statements do not include material misinformation. We have participated in the audit of all material and risky areas.

It is our opinion that, the obtained audit evidence is sufficient and suitable as basis for our conclusion.

Opinion on the Management's Report

The management is responsible for the management's report.

Our conclusion on the annual report does not include the management's report, and we do not express any kind of conclusion with certainty about the management's report.

In connection with our audit of the financial report it is our responsibility to read the management's report and in that connection consider whether the management's report is significantly inconsistent with the annual account or our knowledge obtained from the audit or in other ways seem to contain material misinformation.

In addition, our job is to consider whether the management's report include mandatory information pursuant to the Danish Financial Business Act.

Based on the work performed it is our opinion that the management's report is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We have not found material misinformation in the management's report

Nørresundby, 8 February 2017

Internal Audit

Ove Steen Nielsen
Head of Internal Audit

Endorsements

The independent auditors' opinion

To the owners of capital in Nordjyske Bank A/S

Conclusion

We have audited the financial statements for Nordjyske Bank A/S for the financial year 1 January - 31 December 2016, including income statement, statement of total gains and losses, balance sheet, equity statement, core capital and notes, including accounting policy used. The financial statements are prepared according to the Danish Financial Business Act and in accordance with the Danish disclosure requirements for listed financial companies.

It is our opinion that the financial statements give a true and fair picture of the bank's assets, liabilities and financial situation as at 31 December 2015 and the result of the bank's activities for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Activities Act and Danish disclosure requirements for listed financial companies.

Basis for conclusion

We have completed our audit in accordance with international audit standards and additional requirements according to Danish audit laws. Our responsibility according to these standards and requirements are further described in the endorsement section "The auditor's responsibility for the audit of the accounts statement". We are independent of the bank in accordance with international ethical ruled for auditors (IESBA's Ethical rules) and further requirements applicable in Denmark, just as we comply with other ethical obligations pursuant to these regulations and requirements. It is our opinion that, the obtained audit evidence is sufficient and suitable as basis for our conclusion

Key conditions for the audit

Key conditions were for the audit are the conditions according to our professional opinion that were of the greatest importance in the audit of the annual accounts for the financial year 2016. The conditions were treated as part of our audit of the annual account as a whole and the formulation of our conclusion of it. We do not present any separate conclusion on these conditions.

Valuation of loans, including write-downs

Book value of loans and other receivables at amortised cost price amount to DKK 10,823 mill. The account item is important and it is connected with significant estimates concerning an evaluation of any needs for write-down, which is the reason why the condition is considered one of the most important for the audit.

Refer to page 50 of the annual report "Balance Sheet", and the notes 1, 2, 14, 16 and 17.

The management's accounts related assessment of need for write-downs is based on timely establishment of objective indication for decrease in value and preparation of write-down calculations.

Our consideration in the audit:

Our most important audit actions concerning valuation of lending, including write-down were:

- Testing that the bank's procedures concerning giving quality ratings on each individual loan has worked satisfactorily, including that the bank in time identifies the commitment with a need for write-down. The test has been based in part on a risk based approach, in part a random test. In particular, the risk based approach has focused on the following commitments:

the bank's largest commitments,

commitments in risk prone industries which are defined as agriculture commitments and property commitments,

commitments showing weaknesses in the form of a negative development in accounting figures, overdraft, arrears, and the like.

- Test of the bank's procedures concerning calculation of write-downs on commitments where an objective indication of value reduction has been established. In particular, there has been special attention whether the bank's write-down calculations on agriculture customers has been true and fair and in accordance with the guidelines given to the banking sector by the Danish Financial Supervisory Authority
- We have evaluated the sufficiency of information in the annual account's notes concerning valuation of lending, including write-downs..

Endorsements

The independent auditors' opinion (continued)

To the owners of capital in Nordjyske Bank A/S (continued)

Valuation of goodwill, including value reduction test

The book value of goodwill amounts to DKK 286.3 mill. The item is significant and is connected with considerable estimates, the reason why the considered one of the most important of the audit.

Refer to page 50 of the annual report "Balance Sheet", and the notes 1, 2 and 22.

The management's accounts related assessment of the value is based on the current value of expected future cash flow and basically depends on two parameters: the sum of the bank's future profit and the discount factor the banks estimates the supposedly expectations of market.

Goodwill is primarily ascribable to the purchase of A/S Nørresundby Bank, which was acquired as at 27 February 2015 and merged with Nordjyske Bank A/S as at 31 March 2015.

Our consideration in the audit:

Our most important audit actions concerning valuation of goodwill, including write-down were:

- We have reviewed the model used by the management to determine the estimated value, including the central preconditions that are part of the model.
- We have checked the inherent connections in term of figures in the model used by the management to determine the estimated value.
- We have checked that estimates on the bank's future profit which are included in the model are based on realistic, documentable, and consistent preconditions representing the management's best estimates.
- We have checked that discount factor used corresponds to what the market is assumed to expect.
- We have reviewed the management's sensitivity calculations.
- We have evaluated the sufficiency of the information in the annual account's notes concerning valuation and goodwill, including value reduction test.

The management's responsibility for the annual account

The management is responsible for preparation of annual accounts that provide a fair and true picture in accordance with the Danish Financial Business Act and in accordance with the Danish disclosure requirements for listed financial companies.

Furthermore, the Management is responsible for the internal control that the management considers necessary to prepare annual accounts without material misinformation, no matter whether this is due to fraud or fault.

When preparing the annual accounts, the management is responsible for assess the bank's ability to continue operations; to inform about conditions concerning continued operation where relevant; and prepare the account on the basis of the accounting principle of continued operation, unless the management intends to either liquidate the bank, cancel operations or has no other realistic alternative than to do so.

The auditor's responsibility for the audit of the financial statement

Our goal is to obtain a high degree of certainty that the annual account as a whole is without material misinformation, no matter whether this is due to fraud or faults and to provide endorsement with a conclusion. High degree of certainty is a high level of security but is no guarantee that audit carried out in accordance with international standards for audit and the further requirements in force in Denmark will always uncover material misinformation when present. Misinformation may occur as a consequence of fraud or errors and may be considered material if it may be reasonably expected that individually or together they influence the financial decisions that the users of the accounts make on the basis of the annual account.

Endorsements

The independent auditors' opinion (continued)

To the owners of capital in Nordjyske Bank A/S (continued)

As part of audit carried out in accordance with international standard on audit and the further requirements in force in Denmark, we perform professional assessments and maintain professional skepticism during the audit.

In addition:

- We identify and assess the risk of material misinformation in the annual account, no matter whether this is due to fraud or fault, we carry out audit actions as a reaction to these risks and obtain audit evidence, which is sufficient and suitable to form the basis for our conclusion. The risk of not discovering material misinformation caused by fraud is higher than misinformation caused by fault, as fraud may include conspiracy, forgery, deliberate omissions, deception, or neglect of internal control.
- We achieve understanding of the internal control with relevance for the audit to be able to formulate audit actions suitable according to the circumstances, but not to express a conclusion about the efficiency of the bank's internal control.
- We make a decision on whether the accounting practice adopted by the management is appropriate and whether the accounting estimates and associated information prepared by the management are reasonable.

We conclude whether the management's preparation of the annual account on the basis of the accounting principle of continued operation are suitable, and whether, based on the obtained audit evidence is a material uncertainty connected with events or conditions that may create significant doubt about the bank's ability to continue operations. If, we shall, in our endorsement, conclude that there is a material uncertainty, we shall point out information about it in the annual account or if such information is not sufficient, modify our conclusion. Our conclusions are based on the audit evidence that has been obtained up until the date of our endorsement. However, future events or conditions may imply that the bank will no longer be able to continue operation.

- We make a decision on the total presentation, structure, and contents of the annual account, including note information, and whether the annual account reflects the underlying transactions and events in such a way that it provides a true and fair picture hereof.

We communicate with the management about, among other things, whether the planned scope and the placing of the audit in terms of time as well as significant audit related observations, including any material inadequacies in internal control which we identify during the audit.

We also make a statement to the superior management indicating that we have met relevant ethical requirements concerning independence and provide information about all the relations and other conditions that may reasonably influence our independence and where this is relevant, matching security measures.

Based on the condition that have been communicated to the superior management we establish what condition were the most significant on the audit of the annual account for the period in question and thereby the key conditions for the audit. We describe these conditions in our endorsement unless law or other regulation prevents the condition from being published or on the extremely rare occasions where we establish that the condition shall not be communicated in our endorsement, because it might be reasonably expected that the negative consequences hereof would carry more weight than the advantages public interest may have of such communication.

Endorsements

The independent auditors' opinion (continued)

To the owners of capital in Nordjyske Bank A/S (continued)

Opinion on the Management's Report

The management is responsible for the Management's Report.

Our conclusion about the annual account does not include the management's report, and we do not express any kind of conclusion with certainty about the management's report.

In connection with our audit of the annual report it is our responsibility to read the management's report and in that connection, consider whether the management's report is significantly inconsistent with the annual account or our knowledge obtained during the audit or in another way seems to contain material misinformation.

In addition, it is our responsibility to consider whether the management's report contain the required information pursuant to the Danish Financial Business Act and in accordance with the Danish disclosure requirements for listed financial companies.

Based on the work carried out, it is our opinion that the information in the Management's Report is in accordance with the financial statements and in accordance with statutory requirements. We have not found material misinformation in the management's report.

Frederikshavn, 8 February 2017

BDO Statsautoriseret revisionsaktieselskab
CVR-nr. 20 22 26 70

Flemming Bro Lund
State-authorised public accountant

Aalborg, 8 February 2017

Beierholm Statsautoriseret
Revisionspartnerselskab
CVR-nr. 32 89 54 68

Jens Rytter Andersen
State-authorised public
accountant

Per Lindholt
State-authorised public
accountant

Annual Account

Income Statement

Amounts in DKK 1,000	note	2016	2015
Interest income	6	606,688	582,217
Interest expenses	7	47,410	62,235
Net interest income		559,278	519,982
Dividend of shares, etc.		22,062	10,034
Fees and commission income	9	369,652	327,347
Fees and commission income paid		17,344	19,851
Net interest and fee income		933,648	837,512
Market value adjustments	10	46,490	20,958
Other operating income		12,800	5,193
Staff and administration costs	11	490,598	466,039
Depr. and write-downs, intangible and tangible assets	12	27,823	26,683
Other operating costs		1,611	27,673
Write-downs on loans and receivables, etc.		244,764	307,077
Profit or loss from investments in associated and group enterprises	20	-28	25,000
Pre-tax result		228,114	61,191
Tax	13	43,228	7,528
The year's result		184,886	53,663

Suggested disposal of the result

Amounts in DKK 1,000	2016	2015
The year's result	184,886	53,663
Suggested dividend	73,458	44,075
Provisions for equity	111,428	9,588
Total spent	184,886	53,663

Statement of total income

Amounts in DKK 1,000	2016	2015
The year's result	184,886	53,663
Increases in reassessed value of headquarters properties	-160	-8,775
Tax conc. increased and reassessed value of headquarters prop.	348	-334
Provisions for pension liability	-271	-355
Tax conc. provisions for pension liability	-24	17
The year's total income	184,779	44,216

Annual Account

Balance Sheet on 31 December

Assets			
Amounts in DKK 1,000	note	2016	2015
Cash balance and demand deposits at central banks		351,054	349,848
Receivables from credit institutions and central banks	15	764,150	755,836
Loans and other receivables at amortised cost price	16+17	10,822,498	10,729,109
Bonds at market value	18	3,073,768	2,556,847
Shares, etc.	19	579,380	580,850
Investments in group enterprises	20	11,520	11,548
Assets related to pooled schemes	21	2,941,695	2,668,272
Intangible assets	22	455,049	477,079
Land and buildings, total	23	256,281	303,003
- Investment properties		62,071	73,715
- Headquarters properties		194,210	229,288
Other tangible assets	24	10,584	8,548
Temporary assets		12,636	45,119
Other assets		151,608	162,965
Prepayments and accrued income		13,391	10,999
Total assets		19,443,614	18,660,023

Annual Account

Balance Sheet, 31 December

Liabilities			
Amounts in DKK 1,000	note	2016	2015
Payables			
Payables to credit institutions and central banks	28	302,981	454,118
Total deposits and other payables		15,838,012	14,975,173
Deposits and other payables	29	12,718,121	12,172,764
Deposits in pooled schemes		3,119,891	2,802,409
Current tax liabilities		11,200	13,741
Other liabilities		204,287	265,454
Prepayments and deferred income		2,714	1,718
Total payables		16,359,194	15,710,204
Provisions			
Provisions for pensions and similar liabilities	30	11,160	9,758
Provisions for deferred tax	31	20,403	29,158
Provisions for losses on guarantees		17,525	7,182
Other provisions		5,533	15,758
Total provisions		54,621	61,856
Subordinate investments			
Subordinate investments, total	32	271,754	270,729
Equity			
Share capital	33	183,645	183,645
Revaluation reserves		18,216	33,680
Other reserves		3,275	3,303
Retained earnings		2,479,451	2,352,531
Suggested dividend		73,458	44,075
Total equity		2,758,045	2,617,234
Total liabilities		19,443,614	18,660,023
Contingent liabilities			
	34	4,222,554	3,280,329
Other notes	35		

Annual Account

Equity Movements

Amounts in DKK 1,000	2016	2015
Share capital		
Share capital, start of the year	183,645	77,200
Increase from merger (4,229,911 shares)	0	42,299
Increase from merger (293,099 shares)	0	2,931
Increase from issue (6,121,505 shares)	0	61,215
Share capital, end of the year	183,645	183,645
Additional paid-in capital (distributable reserves)		
Additional paid-in capital, start of the year	0	0
Cancellation of own shares	0	-2,966
Capital increase less costs	0	630,879
Carried forward to retained profit	0	-627,913
Additional paid-in capital, end of the year	0	0
Provisions for appreciation		
Provisions for appreciation, start of the year	33,680	25,444
Increase from merger	0	18,860
Other total income		
- reassessed headquarters properties	-160	-8,775
- tax conc. reassessed headquarters prop.	348	-334
Decrease from changed use/sales	-15,652	-1,515
Provisions for appreciation, end of the year	18,216	33,680
Other reserves		
Statutory reserves, start of the year	3,303	3,137
The year's profit	-28	166
Statutory reserves, end of the year	3,275	3,303
Retained profit		
Retained profit, start of the year	2,352,531	1,292,350
Increase from acquisition and merger (balance)	0	485,772
- transferred to increase of share capital	0	-45,230
- transferred to provisions for appreciation	0	-18,860
Transferred from additional paid-in capital	0	627,913
The year's profit	111,428	9,588
Dividend of own shares	43	45
Purchase/sale of own shares	64	-58
Transferred to other reserves	28	-166
Provisions for appreciation, realised	15,652	1,515
Other total income		
- Provisions for pension liability	-271	-355
- Tax conc. provisions for pension liability	-24	17
Retained profit, end of the year	2,479,451	2,352,531
Suggested dividend		
Suggested dividend, start of the year	44,075	23,160
Dividend paid	-44,075	-23,160
Suggested dividend, end of the year	73,458	44,075
Equity, end of the year	2,758,045	2,617,234

Annual Account

Core capital (solvency)

Amounts in DKK 1,000	2016	2015
Equity	2,758,045	2,617,234
Less:		
Suggested dividend	73,458	44,075
Intangible assets	419,940	437,123
Non-material investment in entities in the financial sector	311,910	325,692
Conservative valuation	4,478	3,930
Other deductions	16,158	13,921
	<u>825,944</u>	<u>824,741</u>
Actual core capital after deductions	1,932,101	1,792,493
Additional capital	271,754	270,729
Deductions:		
Non-material investment in entities in the financial sector	2,920	0
Core capital	<u>2,200,935</u>	<u>2,063,222</u>
Capital requirement pursuant to Article 92 of the EU regulation no. 575/2013	<u>1,076,219</u>	<u>991,462</u>
Risk exposure		
Total risk exposure	<u>13,452,733</u>	<u>12,393,276</u>
Actual core capital ratio	14.4	14.5
Core capital ratio	14.4	14.5
Capital adequacy ratio	16.4	16.6

Capital and capital adequacy are calculated according to regulation no. 575/2013 of the European Parliament and Council (EU) and directive 2013/36 EU of 26 June 2013.

The bank uses the standard method for credit and market risks and the basis indicator method for operational risks.

The calculation method concerning inclusion of intangible assets was changed in 2016. Comparative figures for 2015 have been adapted and the change has increased the capital adequacy ratio by 0.3 percentage points. The change has no effect on previous financial years.

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Notes

1. Applied accounting policies

In General

The annual account for 2016 is presented in accordance with the Financial Activities Act and the Executive Order on financial reports for credit institutions and stockbroker companies, etc. (the Accounting directive). In addition, the annual report is presented in accordance with further Danish requirements on information on annual reports for listed financial companies.

The annual account is presented in DKK and rounded to nearest DKK 1,000.

The annual account is presented according to the same accounting policies as last year. The calculation of core capital was changed in 2016 compared with 2015 concerning intangible assets, and comparative figures for 2015 have been adjusted. The financial consequence of the adjustment is +0.3 percentage point on the capital ratio. The change has no effect on the years before 2015 and there are no further effects of the change on other items. In addition, a reclassification has been made in a few items in the account statement as well as minor adjustments in a few notes and calculations.

In addition, there have been made some changes of accounts estimates concerning calculation of write-downs on headquarters properties, including changes of estimated values. This has increased the year's result and equity by DKK 0.8 mill.

In general on inclusion and calculation

Assets are included in the balance sheet when it is probable as a consequence of a previous event that future financial advantages will accrue to the bank and the value of the asset can be reliably calculated.

Liabilities are included in the balance sheet when the bank as a consequence of a previous event has a legal or actual liability and it is probable that future financial advantages will be deducted from the bank and the value of the liability can be reliably calculated.

Upon the first inclusion assets and liabilities are in terms of market value. However, intangible and tangible assets are included at cost price at the time of the first inclusion. Measuring after first inclusion takes place as described for each individual account item below.

Upon inclusion and calculation, predictable risks and losses, which appear before presentation of the income statement and which confirm or invalidate conditions existing on the balance sheet date, are taken into consideration.

Proceeds are included in the income statement as they are earned whereas costs are included with the amounts that concern the financial year. However, increase in value of headquarters properties are included directly in the equity unless the regulation offsets a decrease in value previously included in the income statement.

Purchase and sale of financial instruments are also included on trading date at market value, and the inclusion ends when the right to receive/cede cash flow from the financial asset or liability has expired, or if it has been transferred and the bank essentially has transferred all risks and proceeds attached to the right of ownership. The bank does not use the rules of reclassification of certain financial assets from market price to amortised cost price.

In connection with calculation at market value etc. on shares and bonds, valuation categories in accordance with the IFRS 7 hierarchy consisting of 3 levels are used:

- Level 1: Listed prices on an active market for the same type of instrument, i.e. without changes in form or composition, including listed shares and bonds.
- Level 2: Listed prices on an active market for similar assets or other valuation methods, where all essential input is based on observable market data.
- Level 3: Valuation methods where any essential input is not based on observable market data.

Establishment of market value

The market value is the amount at which an asset can be sold or an obligation discharged in trade under normal circumstances between qualified, willing and mutually independent parties.

The market value of financial instruments for which there is in an active market, is set at the closing market rate on the balance sheet date or, if this is not available, another published rate which presumably best corresponds with it.

For financial instruments, for which there is no active market, the market value is set via generally acknowledged valuation techniques based on observable current market data.

Annual Account

Notes

1. Applied accounting policies (continued)

Accounting estimates

The annual account is prepared on the basis of certain preconditions, which involve use of accounting estimates. These estimates are made by the bank management in accordance with accounting policy and on the basis of historical experience as well as preconditions, which the management consider reliable and realistic.

The calculation of the accounting value of certain assets and liabilities, involves an estimate of how future events affect the value of these assets and liabilities. The most significant estimates relate to write-downs on lending, provisions for guarantees, value reduction test on goodwill, calculations of market values for real property, valuation of unlisted financial instruments as well as provisions for liabilities.

For write-downs on lending, material estimates are connected with the quantification of the risk that not all future payments are received. If it is possible to determine that not all future payments will be received, assessment of the size of the expected payments is also subject to material estimates, including the realization value of securities and expected dividend payments from estates. Likewise, material estimates are related to calculation of the market value of unlisted shares and other financial instruments, assets in temporary possession as well as investment and headquarters properties. Regarding provisions for liabilities etc., material estimates are involved in assessment of the future employee turnover ratio.

The estimates and evaluations made are based on preconditions that the management finds reliable. However, the preconditions are naturally uncertain and characterized by unpredictability. In addition, the bank is under influence of risks and uncertainties which may have as a result that the actual results deviate from the estimates.

Conversion of foreign exchange

Transactions in foreign exchange are converted at the first inclusion at the exchange rate at the time of transaction. Balances in foreign exchange that are not settled on the balance sheet date are converted at the closing market rate at the end of the financial year. Exchange rate differences that occur between the exchange rate on the transaction date and the exchange rate at the payment date, respectively the balance sheet date, are included in the income statement as exchange rate adjustments.

Merger

In connection with acquisition of a company, assets are in terms of value, including identifiable intangible assets, liabilities and contingency liabilities at market value at the acquisition date according to the purchase method. As a consequence of using the purchase method, the comparative figures shall not be adjusted and therefore only express Nordjyske Bank before merger with Nørresundby Bank in 2015.

A possible positive balance between the cost price and the market value of the identifiable net assets are included as goodwill. A possible negative balance between the cost price and the market value of the identifiable net assets is included under other operating income in the statement account as badwill.

Group

The bank owns the entire share capital of Sæbygård Skov A/S, Frederikshavn. Group financial statements have not been prepared, as the activities of the subsidiary, both regarding balance sheet and activity, are immaterial compared with those of the bank.

The Account Statement

Interest, fees and commissions etc.

Interest income and –expenses and commission income and the part of fee income which is an integral part of effective interest on lending are stated on an accrual basis. The accrual is made according to the effective interest method, through which income recognition takes place using the fixed effective interest rate used on the current size of lending.

Fees that are gained over a period are accrued to the greatest possible extent across the period.

Transaction fees are booked as income at the time of the transaction.

Interest income from lending, which is either fully or partly written down, is included under the item "Write-downs on lending and receivables etc." regarding the interest of the written down part of the loans.

Market price adjustments

Market price adjustments include market price adjustments on bonds, shares, and derivative financial instruments. In addition, foreign exchange rates, accounting safeguarding of market value as well as price adjustments on investment properties.

Annual Account

Notes

1. Applied accounting policies (continued)

Other operating income

Other operating income mainly consists of rent receipts concerning those of the bank's headquarters properties which are also let out, the result of operation of the bank's investment properties, and profit from sale of headquarters properties.

Staff and administration costs

Staff costs include remuneration and salary as well as social costs and pensions, etc. to the bank's staff. Expenses on allowances and benefits to the employees, including anniversary bonuses, are included in line with the employees' performance and the working performances that entitle to the allowances and benefits in question.

The bank has entered into contribution based pension schemes with all current employees. The bank has no obligation to pay further contributions.

Nordjyske Bank's costs in connection with acquisition of and merger with Nørresundby Bank in 2015 are included under staff and administration costs, whereas corresponding costs in Nørresundby Bank are included in the acquisition balance sheet.

Other operating costs

Other operating costs include expenses of a secondary nature in relation to the bank's activities, including contributions to sector solutions concerning insolvent banks /banks in distress.

Write-downs on lending and receivables etc.

Write-downs on lending and receivables etc. include loss and write-downs on loans and unused credit facilities, loss and write-downs concerning Bank package I, loss and provisions on guarantees as well as loss and write-downs concerning temporarily acquired assets.

Tax

The year's tax, which consists of the year's current tax and changes in deferred tax, is calculated in the income statement with the share that is attributable to the year's result and in other total income or directly on equity with the share that is attributable to entries, respectively in other total income and directly on equity.

Current tax liabilities, respectively receivable current tax, is included in the balance sheet calculated as calculated tax of the year's taxable income adjusted for tax paid on account. When calculating the year's current tax, the tax rates and tax rules applying on balance sheet date are applied.

Deferred tax is included from temporary differences between accounting and tax related values of assets and liabilities. Deferred tax assets are included in the balance sheet with the value at which the asset is expected to be realized. Deferred tax liabilities are set in the balance sheet under "Provisions for liabilities". Deferred tax is calculated net.

The bank is jointly taxed with the affiliates company Sæbygård Skov A/S. Corporate tax is paid in accordance with the on-account tax scheme.

Balance Sheet

Receivables with credit institutes and central banks

Receivables with credit institutions and central banks include receivables with other credit institutions as well as time deposits in central banks.

Receivables are in terms of market value.

Lending and other receivables at amortised cost price

Lending and other receivables are included at first inclusion at market value. Fees and initial commissions etc. considered an integral part of the effective interest on the loan are equal to current interest payment and is included over the term of each individual loan.

Lending and other receivables are subsequently in terms of amortised cost price less write-downs for losses.

Write-downs on lending and other receivables are performed both individually and on a group basis. Write-downs are performed when there is an objective indication of decrease in value.

Annual Account

Notes

1. Applied accounting policies (continued)

For individual write-downs, objective indication is considered to have taken place if one or more of the following events has occurred:

- The lender is in considerable financial trouble
- The lender's breach of contract, e.g. in the form of lack of observance of payment obligation for instalments and interest
- The bank grants the lender relief in the terms, which would not have been considered if it was not because of the lender's financial trouble
- It is probable that the lender will become bankrupt or be included in some other financial reconstruction.

Writing down is carried out as the difference between the accounting value before writing down and the market value of the expected future payments. The expected future payments are calculated on the basis of the most probable future payments, including the realization value of any security. The bank uses the currently fixed weighted interest rate as discounting factor.

Discount in connection with taking over loans from other financial institutions is amortised (booked as income) over the expected term of the loans as interest income in consideration of the bank's normal quality assessment of the customers.

Lending and other receivables that are not individually written down are included in the group based write-downs where a group based evaluation is made as to whether an objective indication of decrease in value has taken place.

The group based evaluation is performed on homogeneous groups of loans and other receivables. The operation is with 12 groups distributed on one group of public authorities, one group of private customers, and 10 groups of business customers, as the business customers are subdivided into industry groups.

The group based evaluation is performed via a segmentation model developed by The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, which performs maintenance and development on an ongoing basis. The segmentation model determines the connection in each individual group between established losses and a number of significant explanatory macro-economic variables via a regression analysis on a linear basis. The macro-economic variables include unemployment, housing prices, interest, number of bankruptcies/compulsory sales, etc..

The macroeconomic segmentation model is basically calculated on the basis of loss data from the entire bank sector. Subsequently the result of the calculation has been the object of an assessment of whether the model estimates should be adapted to the bank's own loan portfolio, including assessment of previous events which the model does not take into consideration.

This assessment has resulted in an adaptation of the model estimates to own conditions after which the adapted estimates form the basis for the calculation of the group based write-down. For each group of lending and other receivables an estimate results which expresses the percentage decrease in value that is attached to a given group of lending and other receivables on the balance sheet date.

When comparing with each individual loan's original loss potential and the loan's loss potential at the beginning of the current accounting period, the result is each individual loan's contribution to the group based write-down. The write-down is calculated as the difference between the accounting value and the discounted value of the expected future payments.

Bonds at market value

Listed bonds are in terms of market value determined by the market closing rate on the balance sheet date (level 1).

Unlisted bonds are in terms of market value calculated with basis on price information from the issuer (levels 2 and 3).

Shares, etc.

Listed shares are in terms of market value determined by the market closing rate on the balance sheet date (level 1).

Unlisted shares are in terms of market value calculated on the basis of what the transaction price would be in trade between independent parties. It is based on available information about trades, published account announcements or alternatively net present value calculations (levels 2 and 3).

For unlisted shares in the form of sector owned companies, where redistribution of the shares takes place, redistribution is considered to be the primary market for the shares. The market value is determined as the redistribution price and the shares are included as level 2 assets.

Unlisted shares, where reliable market value cannot be determined, are in terms of cost price less write-downs (level 3).

Annual Account

Notes

1. Applied accounting policies (continued)

Investments in associated companies

Investments in associated companies are calculated at equity value, calculated in accordance with an accounting practice corresponding to the one used by the bank. In connection with the value of the most significant asset, Sæbygård Skov in the associated company Sæbygård Skov A/S an external expert has been used.

Assets in pooled schemes

All pooled scheme assets and deposits are included in separate balance sheet items. Return on pooled scheme assets and dividend to the pooled scheme participants are entered under "Price adjustments" in the statement of accounts.

Intangible assets

Intangible assets include goodwill and customer relations.

Included goodwill amounts to the amount with which the cost price for an acquired company exceeds the market value of the identifiable assets, liabilities and contingency liabilities at the time of acquisition. Goodwill is not depreciated but is tested as a minimum on an annual basis for writing down needs. The first writing down test is performed before the end of the year of acquisition.

Identifiable intangible assets, including customer relations, acquired in connection with the acquisition of the company are included at market value at the time of acquisition and subsequently depreciated over 10 years.

If, after the first inclusion, changes are established in the values of assets, liabilities, and contingency liabilities calculated at the acquisition, then the calculation will be adjusted retroactively, including goodwill, until 12 months after the acquisition. After that, goodwill is not adjusted.

Land and buildings

Land and buildings include the two items "Investment properties" and "Headquarters properties". Property which is primarily used for banking operation (the bank's branches) is categorised as headquarters properties and other property is considered investment properties. If banking operation in a headquarters property comes to an end, the property is reclassified to investment property in the financial year in question.

Investment properties are in terms of market value calculated on the basis of a profit based model, based

on an external expert estimate of the price per square meter and profit requirement within a short period of sales efforts.

Ongoing value adjustments concerning.

investment properties are included in the account statement under "Price adjustments". Depreciation on investment properties does not take place.

Headquarters properties are in terms of reassessed value, which is the market value calculated on the basis of a profit based model based on an external expert estimate of the price per square meter and profit requirement within a short period of sales efforts, less accumulated depreciations. Depreciations are calculated on a linear basis based on an estimated economic life of 50 years in consideration of the expected scrap value of the building. Depreciations and loss on decrease in value are included in the income statement under "Depreciation and write-down on intangible and tangible assets", whereas the increase in the reassessed value is included directly in equity under the item "Revaluation reserves", unless the increase offsets a decrease in value previously included in the income statement.

Other tangible assets

Other tangible assets, including operating equipment and leasehold improvements, are in terms of cost price less accumulated depreciations and write-downs. Linear depreciations are made on the basis of the expected useful life of the assets, which for IT equipment as a maximum amounts to 3 years and for other tangible assets amounts to 5 years

Current tax assets / current tax liabilities

Current tax assets consist of receivable current tax calculated as tax paid on account reduced by tax of the year's taxable income. Current tax liabilities consist of tax payable calculated as tax of the year's taxable income reduced by tax on account paid.

Assets in temporary possession

Assets in temporary possession include tangible assets acquired as a consequence of liquidation of customer commitments in distress, where it is the intent to sell the assets as quickly as possible. Acquired assets are included at market value at the acquisition and are subsequently in terms of expected realisation value. Any market price adjustment in temporary possession is included in the income statement under "Write-downs on loans and receivables, etc.". No writing down is performed on the assets from the time where they are classified as assets in temporary possession.

Annual Account

Notes

1. Applied accounting policies (continued)

Other assets

Other assets include other assets that do not belong under other asset items. The item includes positive market value of derived financial instruments, paid cash security in connection with CSA-contracts, and income which are not due for payment until after the end of the accounting year, including receivable interest and dividend. Except for the derived financial instruments which have a positive value on the balance sheet date and which are in terms of market value, the accounting item is calculated at the first inclusion at cost price and subsequently at amortised cost price.

Accrual accounting items

Prepayments and accrued income included under assets include paid costs concerning the subsequent financial year. Prepayments and deferred charges included under liabilities include income concerning the subsequent financial year. Accrual accounting items are calculated at cost price.

Payables to credit institutions and central banks

Payables to credit institutions and central banks are calculated at amortised cost price, which usually corresponds to nominal value.

Deposits and other payables and deposits in pooled schemes

Deposits and other payables and deposits in pooled schemes are calculated at amortised cost price, which usually corresponds to nominal value.

Other liabilities

Other liabilities include other liabilities that do not belong under other liability items. The item includes negative market value of derived financial instruments, received cash security in connection with CSA-contracts, and expenses which are not due for payment until after the end of the financial year, including accrued interest. Except for derived financial instruments that have a negative value on the balance sheet date and which are calculated at market value, the accounting item is calculated at the first inclusion at cost price and subsequently at amortised cost price.

Provisions

Liabilities that are uncertain with regard to size or the time of settlement are included as provisions when it is likely that the liability will lead to drawing on the bank's economic resources and the liability can be reliably calculated. The liability is calculated at the market value of the costs that are necessary to redeem the liability.

Uncovered pension liabilities concerning former management members are itemized in the balance sheet under the item "Provisions for pensions and similar liabilities". The liability is calculated as the capitalized value of the expected future pension payments. This item further includes liabilities concerning anniversary bonuses, which are provided for on the basis of experience.

Provisions for losses on guarantees are included under provisions in the balance sheet.

Subordinate investments

Subordinated investments are calculated at amortised cost price.

Revaluation reserves

Revaluation reserves include revaluation of the bank's headquarters properties after calculation of deferred tax. The reserve is dissolved when the properties are written down or sold.

Suggested dividend

Dividend is included as a liability at the time of the approval at the general meeting. The suggested dividend for the financial year is shown as a separate item under equity. The suggested dividend for the financial year is shown under suggested disposal of result.

Own shares

Purchase and sales sums concerning purchase and sale of own shares as well as dividend from own shares are included directly in the equity. Pursuant to the Accounting directive, holding of own shares are admitted at DKK 0 under equity.

Annual Account

Notes

1. Applied accounting policies (continued)

Contingent liabilities

Contingent liabilities consist of the bank's ceded guarantees. The guarantees are reviewed on an ongoing basis and assessed to secure whether there is objective indication that there has been a decrease in value. Provisions for losses on guarantees are included under provisions in the balance sheet.

Furthermore, under contingent liabilities provisions of security in the bank's assets are stated as well as information about any pending legal disputes.

Derived financial instruments and accounting security

Forward transactions, interest- and currency swaps and other derived financial instruments are calculated at market value at the balance sheet date, which basically is based on listed market prices. To the extent that it is not a matter of listed instruments, the market value is calculated according to generally known principles building on market based parameters. Positive market values are included under other assets and negative market values are included under other liabilities. In the event that the bank has an offsetting agreement with the counterparty, the market value is calculated as a net market value in certain instances.

To a great extent, limitation of the currency risk is made via uncovering currency loans with currency forward transaction and limitation of the interest risk by covering with interest swap.

Interest swaps that meet the criteria for accounting security of fixed rate loans are included as hedge transactions, as the value adjustment takes place on the fixed rate loans and on other assets/other liabilities. The calculated value adjustment of the secured items is included in the income statement under the items "Price adjustments – Other lending and receivables at market value" and "Price adjustments – Derived financial instruments".

All value adjustments concerning derived financial instruments are entered under the item "Price adjustments" in the income statement.

Future rules of accounting

At the time of publication of this annual report, a number of standards are being changed in the Danish IFRS compatible accounting regulations. The background is the creation of the international accounting standard IFRS 9 Financial instruments, which is mandatory to use for IFRS financial reporting from 1 January 2018.

Correspondingly, the overall directions of IFRS 9 will be implemented in the Danish accounting regulations and supplemented by special Danish write-down rules in appendix 10 of the accounting directions, which comply with the overall principles of IFRS 9.

The financial reporting standard IFRS 9 will significantly change the current rules for classification and calculation of financial assets and current write-down rules.

The adjusted Danish accounting regulations are expected to come into force for the accounting periods beginning on 1 January 2018.

The IFRS 9 rules on financial instruments, which are under implementation in the Danish accounting regulations, will establish the following on classification and calculation, and write-down on financial assets.

IFRS 9 classification and calculation:

According to IFRS 9, classification and calculation of financial assets are performed on the basis of the business model for the financial assets and contractual payment flows attached to the financial assets.

The application of the IFRS 9 calculation categories for financial assets on the basis of the business model and on the basis of characteristics of the contractual payment flows is expected only to lead to insignificant changes of the calculation principles compared with the calculation principles used in Nordjyske Bank's current accounting reporting.

However, with regard to presentation, the use of a mixed business model for bonds, which is part of the day-to-day cash management, will imply that looking forward the price adjustment to market value will be part of other total income instead of the accounts statement according to the current accounting practice. The effect with regard to presentation will depend on the size of bond portfolio and the price regulation of the portfolio linked with it.

Annual Account

Notes

1. Applied accounting policies (continued)

IFRS 9 – write-downs:

With IFRS 9 the current write-down part based on incurred loss (“incurred loss”-model) will be replaced by a write-down model based on expected loss (“expected loss”-model). The new expectation based write-down model implies that a financial asset at the time of its first inclusion is written down by an amount corresponding to the expected credit loss for 12 months (stage 1). If, subsequently, a significant increase of the credit risk takes place compared with the time of the first inclusion, the asset will be written down by the amount corresponding to the expected credit loss in the expected remaining time of the asset (stage 2). If a decrease in value of the asset is established (stage 3), the asset is written down unchanged by an amount corresponding to the expected credit loss of the remaining time of the asset, but based on an increased probability of loss.

Development work is taking place based at Nordjyske Bank's data centre Bankdata with participation of the attached member institutes as well as LOPI with a view to developing an IFRS 9 compatible write-down model.

The model in development is in particular expected to be used for customers/facilities at stage 1, and some of customers/facilities at stage 2. For large, weak stage 2 customers/facilities and stage 3 customers/facilities the write-down calculation is expected to be performed by a manual, individual evaluation of the financial assets rather than by a calculation based on a model.

At this time it is not possible to perform a reasonable estimate of the accounting related effect of the first time use of IFRS 9 with regard to the write-down rules. However, in general it is expected that the new write-down rules for the financial institution on a total basis will lead to increased write-downs and a bigger corrective account, as according to the new regulations, all lending and guarantees will have attached write-down corresponding to the expected credit loss for 12 months or the expected credit loss of the remaining time of the asset by a significant increase of the credit risk.

Group based write-downs according to the current rules are not continued under the new rules, and to some extent it will diminish the effect of IFRS 9.

A negative accounting based influence of the new expectation based IFRS 9 write-down rules will as a starting point have a corresponding effect on the core capital. To counter an unintended effect of the core capital and thereby the opportunity of the financial institutions to support lending, the European Commission suggested, as an element of the reform

package presented by the Commission on 23 October 2016 (capital requirement package), a 5-year transition scheme so that a negative effect of the new IFRS 9 write-down rule will not be in full force on the core capital until after 5 years.

At this time, it is not possible to make a reasonable estimate of the capital related effects of the IFRS 9 at the commencement in 2018, as the level will depend on the accounting related effect. Looking forward, the effect of the capital related excess solvency is expected to be negative concurrently with the phasing-out of the effects of the transition scheme.

Annual Account

Notes

2. Material accounting estimates, preconditions and uncertainties

The year's result has not been affected by unusual conditions – apart from those already mentioned in the management report.

No events have occurred after the conclusion of the financial year with any effect on the bank's result for 2016, the bank's assets and liabilities or the financial position at the end of 2016.

Just like other Danish financial institutions, Nordjyske Bank is liable for losses that the Guarantee Fund may see in connection with the bankruptcy of other financial institutions. Nordjyske Bank's latest calculated share of the sector's guarantee towards the Guarantee Fund amounts to 1.08 per cent.

The calculation of the accounting values are based on estimates. The estimates are based on preconditions that the management finds reasonable.

The most significant estimates concern

- writing down on lending and receivables where the quantification of the risk for missing future payments is connected with material estimate – not least in the agricultural area,
- valuation of intangible assets with regard to quantification of future income and establishing the applied discount rate which corresponds to what the market is supposed to expect,
- valuation of property with regard to the applied discount rate and the internal rental value, and
- valuation of unlisted sector shares, cf. below.

Unlisted shares in companies owned by the bank jointly with a number of other financial institutions etc. – the so-called sector shares – are valued at market value. Calculation of the market value is based on available information about current transactions, e.g. in connection with redistribution among the shareholders (corresponding to level 2-input, cf. definition in note 1). If no current market data is available, the market value is determined on estimate based on information from the companies' accounts, experience with trade in shares in the companies in question as well as input from external party (corresponding to level 3-input, cf. definition in note 1).

Other unlisted securities are calculated as far as possible at market value according to similar principles. If it is not possible to make a reliable calculation at market value, the security is entered at cost price less write-downs

Annual Account

Notes with five-year surveys

3. Five years' selected financial data					
(amount in DKK million)					
	2016	2015	2014	2013	2012
Income statement:					
Net interest income*)	559.3	520.0	323.4	337.3	352.6
Fees and commission income, net	352.3	307.5	159.0	129.5	113.0
Net interest and fee income	933.6	837.5	488.2	472.2	472.1
Market value adjustments	46.5	21.0	43.8	18.6	22.6
Staff and administration costs	490.6	466.0	265.6	270.6	262.5
Write-downs on loans and receivables, etc.	244.8	307.1	139.2	129.3	130.7
Result of investments in associated and group companies	0.0	25.0	1.0	-1.8	0.0
Pre-tax result	228.1	61.2	109.4	70.8	86.6
The year's result	184.9	53.7	88.1	52.9	61.1
Balance sheet:					
Lending	10,822	10,729	5,499	5,553	5,557
Bonds	3,074	2,557	1,059	1,126	1,042
Shares, etc.	579	581	271	252	227
Investments in associated and group companies	12	12	11	11	13
Investment properties	62	74	34	36	39
Headquarters properties	194	229	94	100	101
Assets in temporary possession	13	45	2	5	3
Deposits, incl. pooled schemes	15,838	14,975	7,208	7,297	6,847
Subordinate loan capital	272	271	3	6	7
Equity	2,758	2,617	1,421	1,349	1,304
Total assets	19,444	18,660	8,881	8,915	8,420
Guarantees	4,223	3,280	1,172	841	995

*) Included in the net interest income for 2016 are DKK 71.6 mill. (2015: DKK 58.6 mill.) which are connected to the part of commitments acquired at a discount from A/S Nørresundby Bank in 2015.

The accounting figures for 2016 og 2015 are not compartive with those of previous years, since the key figures for 2012 to 2014 alone are related to Nordjyske Bank A/S prior to merger with A/S Nørresundby Bank in 2015.

Annual Account

Notes with five-year surveys

4. Five years' selected key figures					
(amount in DKK million)					
	2016	2015	2014	2013	2012
Capital adequacy					
Capital adequacy ratio	16.4	16.6	19.6	19.9 *)	19.3 *)
Core capital percentage	14.4	14.5	19.6	19.9 *)	19.2 *)
Earnings					
Return on equity before tax	8.5	3.0	7.9	5.3	6.8
Return on equity after tax	6.9	2.7	6.4	4.0	4.8
Earnings per cost krone	1.3	1.1	1.3	1.2	1.2
Costs as a percentage of core earnings	54.8	58.5	54.9	57.6	56.3
Return on net assets as a percentage after tax	1.0	0.3	1.0	0.6	0.7
Market risks					
Interest risk as a percentage of core capital	1.0	0.1	0.4	-0.5	-0.8
Foreign exchange position as a percentage of core capital	0.4	0.6	1.3	0.8	0.9
Foreign exchange risk as a percentage of core capital	0.0	0.0	0.0	0.0	0.0
Credit risks					
Loans in proportion to equity (gearing)	3.9	4.1	3.9	4.1	4.3
The year's lending growth percentage	0.9	95.1	-1.0	-0.1	-3.4
The sum of large commitments as a percentage of adjusted core capital	36.0	27.5	11.1	11.6 *)	23.3 *)
The year's write-down percentage	1.5	2.1	1.9	1.9	1.8
Accumulated write-down percentage	6.4	5.7	9.0	8.2	7.5
Accumulated write-down percentage incl. discount**)	7.4	7.5	9.0	8.2	7.5
Property exposure before write-downs	11.4	12.4	6.5	6.7	6.4
Liquidity risks					
Lending including write-downs in proportion to deposits	74.7	77.3	85.4	83.9	88.9
Excess cover compared with statutory liquidity as a percentage	150.9	142.0	173.9	215.0	209.7
Stable funding-ratio	0.57	0.60	0.64	0.64	0.68
Liquidity Coverage Ratio (LCR)	273	270	-	-	-
The Nordjyske Bank share					
DKK per share of DKK 10					
The year's result per share	10.1	4.1	11.4	6.7	7.6
Book value per share	150.3	142.7	184.5	175.2	169.1
Listed price	105.0	114.5	105.0	109.0	83.0
Dividend per share	4.0	2.4	3.0	2.0	1.0
Listed price/the year's result per share (P/E)	10.4	27.8	9.2	16.2	10.9
Listed price/book value per share	0.7	0.8	0.6	0.6	0.5

The key figures for 2015 and 2016 are not comparable with those from previous years since the key figures for 2012 to 2014 only apply to Nordjyske Bank A/S prior to the merger with Nørresundby Bank in 2015.

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Notes with five-year surveys

*) Calculated according to previous rules, as the bank does not have sufficient data basis to calculate the key figures according to the current rules.

**) The accumulated write-downs on lending amount to DKK 1,006 mill. as at 31 December 2016, while provisions for loss on guarantees amount to DKK 18 mill. The accumulated write-down percentage then amounts to 6.4% as at 31 December 2016. Furthermore, the bank has made write-downs of DKK 180 mill. from Nørresundby Bank, which in the accounts are included at a discount and therefore are not included in the accumulated write-downs. Thus, total accumulated write-downs, provisions and discount amount to DKK 1,204 mill., corresponding to adjusted accumulated write-down percentage of 7.4%.

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Notes with five years' surveys

5. Key figure definitions

Costs as a percentage of core earnings:	Staff and administration costs, Depreciations and write-downs on intangible and tangible assets as a percentage of Net interest and fee income, and Other operating income
Earnings per cost krone:	Net interest and fee income, Market price adjustment, Other operating income and Result of investment in affiliated company as a percentage of Staff and administration costs, Depreciations and write-downs on intangible and tangible assets, Other operating costs and Write-downs on lending and receivables, etc.
Return on net assets as a percentage after tax:	The year's result as a percentage of total assets
Return on equity before tax:	Pre-tax result as a percentage of average equity. Average equity is calculated as a simple average of beginning and end of the year
Return on equity after tax:	Result after tax of average equity. Average equity is calculated as a simple average of beginning and end of the year.
The year's result after tax per share:	The year's result/average number of shares. Average number of shares is calculated as a simple average of beginning and end of the year.
Book value per share:	Equity/number of shares excl. own shares
Dividend per share:	Suggested dividend/number of shares
Market price:	Closing market rate, end of period
Market price / result per share (P/E):	Market price/the year's result per share
Market price / book value per share:	Market price /book value per share
Capital adequacy rate:	Capital base as a percentage of total risk exposure
Core capital rate:	Core capital after deductions as a percentage of total risk exposure
Interest risk as a percentage of core capital:	Interest risk as a percentage of core capital after deductions
Currency position as a percentage of core capital:	Currency indicator 1 as a percentage of core capital after deductions
Currency risk as a percentage of core capital:	Currency indicator 2 as a percentage of core capital after deductions
Lending before write-downs as a percentage of core capital:	Lending before write-downs as a percentage of deposits
Excess solvency relative to statutory requirement on liquidity as a percentage:	Cash, Demand deposits in Danmarks Nationalbank, Fully secure and liquid receivables on demand in credit institutions and insurance companies, Uncharged certificates of deposit issued by Danmarks Nationalbank and Secure easily salable (listed) uncharged securities in relation to 10 per cent. of Reduced debt- and guarantee obligations
Liquidity Coverage Ratio (LCR)	Cash (easily realizable assets), as a percentage of payment obligations for the coming 30 days (outflow)
The year's write-down rate:	The year's write-downs and provisions as a percentage of lending plus write-downs on loans plus guarantees plus provisions for guarantees
Accumulated write-down rate:	Accumulated write-downs and provisions as a percentage of lending plus write-downs on loans plus guarantees plus provisions for guarantees
The sum of large exposures as a percentage of adjusted core capital:	The sum of large exposures as a percentage of core capital after deduction corrected for exposures with credit institutions under DKK 1 bn.
The year's growth in lending:	Growth in lending from beginning to end of the year as a percentage.
Lending relative to equity (gearing):	Lending/equity.
Property exposure before write-downs:	Real property exposure before write-downs as a percentage of lending and guarantees.
Stable funding ratio:	Lending / working capital (total deposits, issued bonds, subordinate capital, equity).

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Notes to the Income Statement

6. Interest income

Amounts in DKK 1,000

	2016	2015
Receivables from credit institutions and central banks	722	653
Lending and other receivables	519,198	510,036
Discount relating to loans acquired from A/S Nørresundby Bank	71,640	58,559
Bonds	11,505	12,561
Derived financial instruments	2,508	-1,036
Other interest income	1,115	1,444
Total interest income	<u>606,688</u>	<u>582,217</u>

There is no interest income from genuine purchasing and repurchasing transactions.

7. Interest expenses

Amounts in DKK 1,000

	2016	2015
Debt to credit institutions and central banks	5,138	9,270
Deposits and other debts	26,452	39,000
Subordinate capital	15,719	13,249
Other interest expenses	101	716
Total interest expenses	<u>47,410</u>	<u>62,235</u>

There are no interest expenses from genuine purchasing and repurchasing transactions.

8. Trade

Amounts in DKK 1,000

	2016	2015
Nordjyske Bank A/S conducts traditional banking business in the North Denmark region and in Copenhagen with headquarters in Nørresundby. No branches are established abroad and no public subsidies are received.		
Interest income	606,688	582,217
Fees and commission income	369,652	327,347
Other operating income	12,800	5,193
Total income	<u>989,140</u>	<u>914,757</u>

Annual Account

Notes to the Income Statement

9. Fees and commission income		
Amounts in DKK 1,000	2016	2015
Security trading and custody accounts	128,586	131,204
Payment services	39,885	26,497
Loan transaction fees	123,524	93,434
Guarantee commission	17,396	18,634
Other fees and commission income	60,261	57,578
Total fees and commission income	<u>369,652</u>	<u>327,347</u>

10. Market value adjustments		
Amounts in DKK 1,000	2016	2015
Loans and other receivables at market value	4,786	-3,347
Bonds	16,456	-16,149
Shares, etc.	20,248	34,726
Investment properties	-3,456	-6,075
Foreign exchange	9,975	8,786
Derived financial instruments	-1,377	3,357
Assets related to pooled schemes	120,322	19,847
Deposits in pooled schemes	-120,464	-20,187
Total market value adjustments	<u>46,490</u>	<u>20,958</u>

Annual Account

Notes to the Income Statement

11. Staff and administration costs			
Amounts in DKK 1,000		2016	2015
Staff costs:			
Salaries	228,389		220,705
Pension	24,660		25,430
Costs of social security, etc.	4,064		2,057
Charges calculated on the basis of size of staff or payroll cost	34,174	291,287	28,441
Other administration costs		199,311	189,406
Total staff and administration costs		490,598	466,039
Remuneration for Board of Directors		3,199	2,941
Number of people during the whole or part of the year	12		16
Remuneration for the Committee of representatives		1,098	859
Number of people during the whole or part of the year	72		72
Remuneration for the Executive Board			
Fixed salary, etc.		7,653	7,970
Repaid remuneration conc. Directorsip		-143	-50
Pensions		829	546
Value of company car, etc		408	371
Remuneration for the Executive Board, total		8,747	8,837
Number of people during the whole or part of the year	3		5

Annual Account

Notes to the Income Statement

11. Staff and administration costs, continued

Amounts in DKK 1,000

	2016	2015
Remuneration for employees whose activities materially influence the bank's risk profile		
Fixed salary, etc.	7,195	6,314
Pension	771	709
Value of company car, etc.	118	256
Total remuneration	8,084	7,279
 Number of people during the whole or part of the year	 8	 11

Incentive schemes

No incentive scheme has been established for members of the bank's management. Thus, variable salary is not paid.

Retirement of the members of the Executive Board:

The bank's directors can retire with six months' notice and 12 months' notice on the part of the bank. In case of notice of termination on the part of the bank, an allowance of up to 12 months' salary is payable in addition to the notice period.

If the bank's directors are terminated in connection with a merger, they are entitled to 24 months' pay in addition to the period of notice.

Number of employees

The average number of employees during the financial year, calculated as full-time employees
In the year of the merger 2015 A/S Nørresundby Bank's employees are not included until after the merger date on 31 March 2015.

	426	405
Auditing fee for:		
Statutory auditing of financial statements	972	899
Statement tasks with security	72	1,969
Fee for tax advice	62	54
Other services	191	53
Total	1,297	2,975

12. Depreciation and write-downs on intangible and tangible assets

Amounts in DKK 1,000

	2016	2015
Depreciation on intangible assets	22,030	18,674
Depreciation on headquarters properties	378	1,825
Write-downs and write-downs carried back on headquarters properties, net	134	1,541
Depreciations on other tangible assets	5,281	4,643
Depreciations and write-downs, total	27,823	26,683

Annual Account

Notes to the Income Statement

13. Tax		
Amounts in DKK 1,000	2016	2015
The year's tax may be distributed like this:		
Tax on the year's income:	43,228	7,528
Tax on other total income (equity movements)	-324	316
Tax, total	<u>42,904</u>	<u>7,844</u>
The tax charged to the profit and loss account may be specified like this:		
Current tax	51,619	16,155
Regulation of deferred tax	-8,431	-9,066
Regulation of previous years' calculated tax	40	439
Total tax on the year's result	<u>43,228</u>	<u>7,528</u>
Current tax rate	22.0%	23.5%
Not taxable income and not deductible expenses etc.	-3.0%	-2.4%
Share of result in group companies	0.0%	-9.6%
Regulation of previous years' calculated tax	0.0%	0.8%
Effective tax percentage	<u>19.0%</u>	<u>12.3%</u>

The effective tax percentage is tax of the year's result relative to the pre-tax result.

Annual Account

Notes for the balance sheet

14. Financial risks

Because of the bank's activities, the bank is exposed to different types of risk: credit risk, market risk, liquidity risk, and operational risk.

The credit risk is the risk of losses caused by the customers' full or partial default on their payment obligations to the bank.

The market risk is the risk that the market value of the bank's assets and liabilities and derived financial instruments will change as a consequence of changes to the market prices.

Liquidity risk is the risk that the bank's costs of procuring liquidity will increase disproportionately and/or that lack of liquidity will prevent the bank from maintaining the adopted business model, and/or that the bank cannot meet its payment obligations because of lack of liquidity.

The operational risk is the risk that direct or indirect financial losses occur because of errors in internal processes and systems, human errors, or as a consequence of external events.

It is the bank's general policy only to undertake risks which are in accordance with the business principles according to which the bank is run, and which the bank has the competence resources to manage.

Credit risks

It is a consequence of the bank's business model and credit policy that the bank's risk profile in the credit area shall be appropriately cautious, which results in concrete guidelines for the bank's lending activities.

Among other things this means

- that the bank does not want individual commitments of a size that a loss may threaten the bank's existence,
- that the bank attaches importance to local knowledge, which means that the risk profile is fixed on the basis on the locations where the bank is physically represented,
- that the credit administration shall ensure that the bank only takes calculated risks.

Maximum gearing on the equity is set at 5.5 in the bank's business model.

It is the policy of Nordjyske Bank to base its lending on insight into the customers' financial situation, and the customers' ability and willingness to meet their obligations are decisive for the bank's lending activities.

The bank's credit risk is distributed among a large number of commitments. Individual commitments must not exceed 5 per cent of the bank's core capital regarding the non-secured share of the exposure.

The sum of commitments exceeding 10% after deduction of the bank's core capital must be below 75 per cent of the bank's core capital.

In connection with the lending, the bank aims at getting the highest possible security cover of the risk involved in the bank's commitments.

For lending to private customers, the most important types of security are: cars, real property and securities.

For lending to commercial customers, the most important types of security are: operating equipment, real property, guarantees, deposits and securities, and current assets (receivables, stocks, etc.).

The value of the security is calculated according to the principle of caution and according to the following principles:

- Operating equipment:
Calculation of the loan value for operating equipment is made according to the straight-line method. Typically, 15-33 per cent will be written-down of the value of the assets on an ongoing basis during the useful life.
- Real property:
The loan value of mortgages in private properties is typically at the level of 90 per cent of the market value less higher-ranking mortgages. The loan value of mortgage in business properties, including agricultural properties, is fixed on the basis of the market value less higher-ranking mortgages. The market value of agricultural properties is fixed on the basis of the Danish Financial Supervisory Authority's market control price per hectare.

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Notes for the balance sheet

14. Financial risks (continued)

- Guarantees :
The loan value for guarantees from Danish public authorities is 100 per cent. Other guarantees are fixed individually.
- Deposits and securities
The loan value for deposits is typically 100 per cent.
For securities, the official price adjusted for estimated price fluctuation and corrected for estimated negotiability, currency, etc., is used as starting point.
- Current assets (receivables, stocks, etc.):
The loan value for current assets has been fixed individually on the basis of the realisation value of the current assets.
- Other securities:
The loan value is fixed individually.

A credit rating of the bank's customers is carried out, i.e. a division of customers according to quality (ability and willingness to observe obligations undertaken). The model used for private customers is based on the customer's personal circumstances (assets, income and disposable amount and debt gearing) and is supplemented by an evaluation of the customer's current situation. The model used for commercial customers is based on the customer's financial data, swot analyses and supplemented by an evaluation of the customer's current situation.

Credit rating is expressed by 10 rating classes which can be grouped as follows:

10, 22	commitments of good quality
31	commitments of normal quality
32, 33	commitments of slightly reduced quality
38	commitments with some weaknesses
39	commitments with material weaknesses, but without indication of value reduction
41, 42, 50	commitments with objective indication of reduced quality

Close follow-up is performed on commitments with some or material weaknesses and on commitments with objective indication of reduced quality, and a plan of action is prepared for each individual commitment in which it is decided how to improve the commitment or how it is proposed to be settled.

The total credit risk is managed according to policies and limits fixed by the bank's management. The responsibility for monitoring, general risk rating and reporting to the bank's management is anchored centrally with the bank's credit office.

See also description of the bank's current credit risk in the management report on page 15, and in note 17.

Market risks

It is the bank's basic policy that market risks should be kept at a low level. For the total market risk and for each type of market risk, the bank's management has established concrete risk limits which must not be exceeded.

Risks are primarily interest risks.

Most of the bank's lending and deposits and accounts with other credit institutions have for the greater part been entered into on a variable basis.

The bank's main currency is Danish kroner. The bank has also made transactions in foreign currencies. Material currency positions are covered on an ongoing basis through off-setting transactions. Thus, the bank is only to a limited extent exposed to exchange rate fluctuations.

The bank is co-owner of a number of sector enterprises. These ownership shares can be compared with large banks' fully owned subsidiaries, and the investments are therefore not considered part of the bank's share risk. Furthermore, the bank has a small portfolio of listed shares.

If possible, the bank wants to own the premises from which the bank has its operations. On the other hand, the bank primarily only wants to own properties to be used for the banking activities. This means that the bank's property portfolio mainly consists of headquarters properties.

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Noter til balancen

14. Financial risks (continued)

The bank's market risks are controlled by the bank's FinansCenter according to policies and limits established by the bank's management. The individual risks are monitored continually by the bank's finance department, and the bank's management receives reporting about it on an ongoing basis.

The sensitivity of the bank's current market risks is described in note 27.

Liquidity risks

It is the bank's policy that the bank's operations must not depend on the short-term money market or short-term time deposits of a more volatile nature.

It is the bank's aim that it shall be possible to finance the lending portfolio with the sum of

- deposits from customers
- equity, and any
- long-term senior loans and allocated lines

Furthermore, it is the aim that, in case of a liquidity crisis, the bank should be able to meet the statutory liquidity requirements without drawing on other banks' unconfirmed lines.

See also a description of the bank's current liquidity situation on page 23 of the management report.

Operational risks

Operational risks are the risk of direct or indirect loss as a consequence of insufficient business procedures, human mistakes, system errors, etc., or as a consequence of external events.

The bank's management is informed on an ongoing basis of the losses and events which are regarded as originating from operational risks.

IT supplies, the most important area when assessing the bank's operational risks, have been outsourced to Bankdata, which is owned by the bank jointly with a number of other financial institutions. IT security is assessed on an ongoing basis, and the necessary adjustments are made to the bank's emergency plans.

It is the bank's policy – based on determined events – to improve business procedures on an ongoing basis with a view to reducing the number of errors and events which entail a possibility of suffering a loss.

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Notes for the Balance Sheet

15. Receivables from credit institutions and central banks		
Amounts in DKK 1,000	2016	2015
Receivables on demand	755,640	749,126
Remaining term:		
- from 1 year up to and including 5 years	5,000	5,000
- more than 5 years	3,510	1,710
Total receivables from credit institutions and central bank	<u>764,150</u>	<u>755,836</u>
Time receivables from credit institutions and central banks	690,087	678,127
Receivables from credit institutions	<u>74,063</u>	<u>77,709</u>
Total receivable from credit institutions and central bank	<u>764,150</u>	<u>755,836</u>

16. Lending and other receivables		
Amounts in DKK 1,000	2016	2015
Demand receivables	877,972	743,485
Remaining term:		
- up to and including 3 month	464,641	514,369
- from 3 months up to and including 1 year	4,126,685	4,301,029
- from 1 year up to and including 5 years	2,759,242	2,690,224
- more than 5 years	<u>2,593,958</u>	<u>2,480,002</u>
Total lending	<u>10,822,498</u>	<u>10,729,109</u>

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Notes for the Balance Sheet

17. Credit risk				
Amounts in DKK 1,000				
	2016		2015	
A Lending and guarantees (after write-down)				
by sectors and industries				
Public authorities	0	0.0%	102	0.0%
Agriculture, hunting, forestry and fishing::				
Agriculture	1,325,731	8.8%	1,285,171	9.2%
Plant growing abroad	419,090	2.8%	364,274	2.6%
Fur farming	98,145	0.7%	85,932	0.6%
Fishing	306,502	2.0%	305,512	2.2%
Agriculture, hunting, forestry and fishing, total	2,149,468	14.3%	2,040,889	14.6%
Industry and raw material extraction	655,102	4.4%	527,361	3.8%
Energy supply	66,578	0.4%	45,105	0.3%
Building and construction	718,134	4.8%	466,574	3.3%
Trade	931,426	6.2%	935,920	6.7%
Transport, hotels and restaurants	286,610	1.9%	364,207	2.6%
Information and communication	70,497	0.5%	61,920	0.4%
Financing and insurance	1,203,662	8.0%	826,561	5.9%
Real property	1,598,905	10.6%	1,718,459	12.3%
Other industries	790,953	5.2%	680,838	4.8%
Other industries, total	6,321,867	42.0%	5,626,945	40.1%
Business, total	8,471,335	56.3%	7,667,834	54.7%
Private	6,573,717	43.7%	6,341,502	45.3%
Total	15,045,052	100.0%	14,009,438	100.0%

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Notes for the Balance Sheet

17. Credit risk (continued)			
Amounts in DKK 1,000			
	2016	2015	
B Maximum credit exposure (lending, guarantee and credit commitment) distributed by sectors and industries			
Public authorities	3,090 0.0%	192 0.0%	
Agriculture, hunting, forestry and fishing::			
Agriculture	2,124,873 9.6%	1,975,441 9.8%	
Plant growing abroad	494,864 2.2%	402,875 2.0%	
Fur farming	155,404 0.7%	116,413 0.6%	
Fishing	466,531 2.1%	404,577 2.0%	
Agriculture, hunting, forestry and fishing, total	3,241,672 14.6%	2,899,306 14.4%	
Industry and raw material extraction	868,691 3.9%	856,331 4.3%	
Energy supply	211,140 1.0%	70,476 0.4%	
Building and construction	1,308,698 5.9%	713,196 3.5%	
Trade	1,486,025 6.7%	1,325,216 6.6%	
Transport, hotels and restaurants	435,804 2.0%	551,681 2.7%	
Information and communication	99,399 0.5%	85,027 0.4%	
Financing and insurance	1,536,498 7.0%	956,287 4.7%	
Real property	2,525,648 11.5%	2,896,684 14.3%	
Other industries	1,322,105 6.0%	1,057,547 5.2%	
Other industries, total	9,794,008 44.5%	8,512,445 42.1%	
Business total	13,035,680 59.1%	11,411,751 56.5%	
Private	9,004,991 40.9%	8,792,042 43.5%	
Total	22,043,761 100.0%	20,203,985 100.0%	
	Incl. in Balance Sheet	Incl. in Balance Sheet	
Public authorities	3,090 0	192 102	
Business	13,035,680 8,471,335	11,411,751 7,667,834	
Private	9,004,991 6,573,717	8,792,042 6,341,502	
Total	22,043,761 15,045,052	20,203,985 14,009,438	

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Notes for the Balance Sheet

17. Kreditrisici (fortsat)				
Amounts in DKK 1,000				
	2016		2015	
C Security received for maximum credit exposure distributed by sectors and industries				
Public authorities	50	0.0%	50	0.0%
Agriculture, hunting, forestry and fishing	1,829,424	22.2%	1,716,509	22.3%
Industry and raw material extraction	417,834	5.1%	342,917	4.5%
Energy supply	28,865	0.4%	20,384	0.3%
Building and construction	339,980	4.1%	274,827	3.6%
Trade	455,213	5.5%	384,491	5.0%
Transport, hotels and restaurants	133,015	1.6%	175,401	2.2%
Information and communication	39,343	0.5%	29,242	0.4%
Financing and insurance	393,298	4.8%	378,853	4.9%
Real property	909,687	11.0%	1,104,709	14.4%
Other industries	492,677	6.0%	353,753	4.5%
Business total	5,039,336	61.2%	4,781,086	62.1%
Private	3,206,723	38.8%	2,911,859	37.9%
Total	8,246,109	100.0%	7,692,995	100.0%
D Security received for maximum credit exposure distributed by types				
Operating equipment	1,672,829	20.3%	1,368,548	17.8%
Property	4,426,428	53.7%	4,048,103	52.6%
Securities and cash deposits etc.	1,660,370	20.1%	1,688,405	22.0%
Guarantees	486,482	5.9%	587,939	7.6%
Total	8,246,109	100.0%	7,692,995	100.0%

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Notes for the Balance Sheet

17. Kreditrisici (fortsat)		
Amounts in DKK 1,000	2016	2015
E Lending with individual write-down (before deduction of write-downs)		
Business	1,550,859	1,524,313
Private	259,415	299,407
Total	1,810,274	1,823,720
F Lending with individual write-down (before write-downs) carried out because of:		
Liquidation and debt rescheduling	109,954	94,498
Collection and suspension of payments	306,472	276,212
Other financial difficulties	1,393,848	1,453,010
Total	1,810,274	1,823,720
G Lending at book value > 0, on which objective indication of value reduction has occurred:		
Individually written-down lending:		
Value before write-down	1,636,016	1,772,915
Value after write-down	852,420	1,019,882
Lending written down on a group basis:		
Value before write-down	9,718,000	9,342,051
Value after write-down	9,677,232	9,311,022

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Notes for the Balance Sheet

17. Credit risk (continued)		
Amounts in DKK 1,000	2016	2015
H Write-downs on loans		
Individual write-downs:		
Start of the year	811,489	630,847
Write-downs during the year	328,283	352,287
Reversal of write-downs carried out during previous financial years	96,787	45,895
Other movements	40,964	40,595
Final loss, previously written down individually	118,720	166,345
End of the year	965,229	811,489
Group-based write-downs		
Start of the year	31,029	26,704
Write-downs during the year	18,389	16,208
Reversal of write-downs carried out during previous financial years	8,650	11,883
End of the year	40,768	31,029
Discount on loans acquired from A/S Nørresundby Bank	179,852	267,237
Total write-downs and discount on lending	1,185,849	1,109,755

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17. Credit risk (continued)		
Amounts in DKK 1,000		
	2016	2015
I Lending which has not been written down and not in arrears, by credit rating		
Public authorities and Business		
Rating category:		
10, 22 good quality commitments	1,229,354	1,469,985
31 normal quality commitments	1,186,496	1,381,699
32 - 33 commitments of slightly reduced quality	1,512,026	1,205,673
38 commitments with some weaknesses	234,381	133,330
39 commitments with material weaknesses	555,676	297,236
Total	<u>4,717,933</u>	<u>4,487,923</u>
Private		
Rating category:		
10, 22 good quality commitments	928,691	695,880
31 normal quality commitments	958,975	1,112,451
32 - 33 commitments of slightly reduced quality	1,349,874	1,346,784
38 commitments with some weaknesses	107,618	164,443
39 commitments with material weaknesses	143,058	118,040
Total	<u>3,488,216</u>	<u>3,437,598</u>
J Credit exposure (lending, guarantees and credit commitments) by credit rating		
Public authorities and Business		
Rating category:		
10, 22 good quality commitments	2,777,188	2,903,969
31 normal quality commitments	3,537,181	3,382,899
32 - 33 commitments of slightly reduced quality	3,293,636	2,616,028
38 commitments with some weaknesses	559,596	247,601
39 commitments with material weaknesses	1,028,207	510,902
Total	<u>11,195,808</u>	<u>9,661,399</u>
Private		
Rating category:		
10, 22 good quality commitments	2,496,012	1,621,057
31 normal quality commitments	2,798,768	3,487,298
32 - 33 commitments of slightly reduced quality	2,921,593	2,821,204
38 commitments with some weaknesses	185,092	286,039
39 commitments with material weaknesses	296,415	216,089
Total	<u>8,697,880</u>	<u>8,431,687</u>

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Notes for the Balance Sheet

17. Credit risk (continued)		
Amounts in DKK 1,000		
	2016	2015
K Security received for credit exposure by credit rating		
Public authorities and Business		
Rating category:		
10, 22 good quality commitments	917,382	1,115,482
31 normal quality commitments	1,227,171	1,254,096
32 - 33 commitments of slightly reduced quality	1,282,396	1,198,163
38 commitments with some weaknesses	300,867	127,273
39 commitments with material weaknesses	540,916	277,113
Total	<u>4,268,732</u>	<u>3,972,127</u>
Private		
Rating category:		
10, 22 good quality commitments	1,021,722	661,450
31 normal quality commitments	1,022,745	1,185,969
32 - 33 commitments of slightly reduced quality	944,401	857,159
38 commitments with some weaknesses	69,688	72,481
39 commitments with material weaknesses	87,772	46,171
Total	<u>3,146,328</u>	<u>2,823,230</u>
L Arrears by period;		
Up to 90 days	69,031	73,270
More than 90 days	21,693	39,985
Total	<u>90,724</u>	<u>113,255</u>
M Loans at reset interest		
Loans at reset interest	451,915	412,226
Write-downs hereon	373,971	293,712

18. Bonds at market value		
Amounts in DKK 1,000		
	2016	2015
Listed mortgage bonds at market value	3,055,483	2,428,657
Unlisted bonds at market value	18,285	128,190
Total bonds at market value	<u>3,073,768</u>	<u>2,556,847</u>
Distributed like this:		
Level 1 cf. description in applied accounting policies	3,045,931	2,428,657
Level 2 cf. description in applied accounting policies	9,552	118,794
Level 3 cf. description in applied accounting policies	18,285	9,396
Total bonds at market value	<u>3,073,768</u>	<u>2,556,847</u>

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19. Shares etc.		
Amounts in DKK 1,000	2016	2015
Listed shares at market value	13,156	31,456
Unlisted shares, etc., at market value	565,525	544,637
Unlisted shares at market value less write-downs	699	4,757
Shares, etc. Total	579,380	580,850
Distributed like this:		
Level 1 cf. description in applied accounting policies	13,156	31,456
Level 2 cf. description in applied accounting policies	445,173	428,348
Level 3 cf. description in applied accounting policies	121,051	121,046
Shares, etc. Total	579,380	580,850

The unlisted sector shares include shares at a value of DKK 106,491,000 acquired with redemption right but not obligation, to seller at market price. Seller may use the redemption right once a year for a period of 14 days. The bank cannot sell the shares to a third party until expiry of the redemption right in 2019.

20. Investments in associated companies		
Amounts in DKK 1,000	2016	2015
Purchase price, start of the year	8,245	8,245
Increase by investment	0	2,009,257
Decrease by merger	0	-2,009,257
Purchase price, end of the year	8,245	8,245
Write-up and -down, start of the year	3,303	3,137
Share of the year's profit	-28	25,000
Reversal by merger	0	-24,834
Write-up and -down, end of the year	3,275	3,303
Book value, end of the year	11,520	11,548

Investments in associated companies includes:

Sæbygård Skov A/S located at Frederikshavn, ownership 100%. The company runs Sæbygård Skov.

The year's result amounts to DKK -28,000 (DKK 166,000 in 2015) and equity amounts to DKK 11,520,000 as at 31 December 2016 (DKK 11,548,000 as at 31 December 2015).

Nordjyske Bank A/S acquired A/S Nørresundby Bank on 27 February 2015, and the banks merged on 31 March 2015. Nørresundby Bank's result for March 2015, DKK 24,834,000 is included as the result of an associated company in 2015.

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21. Assets related to pooled schemes:

Amounts in DKK 1,000	2016	2015
Bonds:		
Index-linked bonds	120,528	123,073
Other bonds	1,006,055	1,051,778
Bonds, total	1,126,583	1,174,851
Shares:		
Unit certificates	1,449,943	1,130,148
Other shares	365,169	363,273
	1,815,112	1,493,421
Assets related to pooled schemes, total	2,941,695	2,668,272

22. Intangible assets

Amounts in DKK 1,000	2016	2015
Customer relations:		
Total cost price, start of the year	220,300	19,000
Added during the year	0	201,300
Customer relations, total	220,300	220,300
Depreciation, start of the year	29,474	10,800
Depreciation during the year	22,030	18,674
Depreciation, total	51,504	29,474
Booked value, end of the year	168,796	190,826
Goodwill:		
Total cost price, start of the year	286,457	1,985
Added during the year	0	284,472
Goodwill, total	286,457	286,457
Write-downs, start of the year	204	204
Write-downs during the year	0	0
Write-downs, total	204	204
Booked value, end of the year	286,253	286,253
Intangible assets, total	455,049	477,079

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22. Intangible assets (continued)

Amounts in DKK 1,000

Value reduction test

The bank's goodwill primarily refers to the purchase of A/S Nørresundby Bank, which was acquired as at 27 February 2015 and merged with Nordjyske Bank A/S as at 31 March 20

Goodwill is as a minimum tested for value reduction annually. This year's goodwill test has not resulted in value reduction.

Goodwill is tested on the identified cash flow generating entities to which the assets are allocated, which means the bank as a whole, since, at the merger, the activities are combined in one cash flow generating entity.

The value reduction test compares the book value with the estimated present value of expected future cash flows. The special debt structure in financial companies implies that the basis for calculation of the present value of future cash flows is based on a simplified equity model.

The applied equity model, which estimates the present value of the expected future cash flows is influenced by estimates for the projection, where in particular the development in interest margin, cost percentage, and write-downs on lending are of importance for the present value.

The future cash flows are calculated on the basis of approved strategies and earnings estimates for the coming 5 years. Earnings in the budget period are with basis in the management's budget for 2017, which implies a stable positive development in the bank's pre-tax result. Earnings at the end of the budget period are then carried forward by the expected long-term growth. The assumed annual growth during the terminal period amounts to 1.8% corresponding to the Danish National Bank's expected development in the net price index.

The estimated cash flows are discounted with a profit requirement, which at the end of 2016 amounts to 11.1% before tax and 8.65% after tax. The profit requirement and thereby the discount rate is based on current market data and external benchmarks.

Primary preconditions

Net interest income: The interest margin is estimated on the basis of current interest on loans and the expected future competition. A slightly increasing interest margin during the budget period is expected as a consequence of an expected increasing interest rate level.

Expected development in deposits and loans is slightly increasing loans and a relatively smaller increase in deposits.

Net fees: The expected fee income is based on historical data and the bank's budget for 2017. Fee income is expected to increase by a slightly higher level than the growth in net interest income.

Costs: Expected costs are based on projection of the bank's costs in relation to the expected activities and based on collective agreements, changes in taxes and fees as well as general price increases.

Write-downs: Write-downs on loans are expected to stabilise at a lower level than realised during recent years with financial and agricultural crises. The write-down rate of loans is fixed at 0.85% corresponding to an average of the past 14 years' historical write-down rates for Nordjyske Bank incl. historical write-downs from Nørresundby Bank.

Sensitivity analyses

The expected future earnings are based on known information as well as preconditions which the management assesses to be reasonable, but which are subject to some uncertainty. The management assesses that probable changes in the basic preconditions do not imply a need for write-down of the recorded goodwill.

Sensitivity analyses show that goodwill is robust against changes in preconditions. The following relations each individually do not lead to value reduction:

Increase of profit before tax by 1 %-point

Reduction of assessed growth in the terminal period by 1 %-point

Reduction in the result after tax in the terminal period by 15%

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23. Land and buildings (continued)		
Amounts in DKK 1,000	2016	2015
Investment property:		
Market value, start of the year	73,715	33,871
Added during the year, including improvements	10,216	48,803
Disposed of during the year	-21,860	-2,884
The year's value regulation to market value	0	-6,075
Market value, end of the year	<u>62,071</u>	<u>73,715</u>
Headquarters properties:		
Re-assessed value, start of the year	229,288	94,274
Added during the year, including improvements	3,671	150,952
Disposed of during the year	-38,410	-4,068
Depreciation	-378	-1,825
Value changes during the year, included directly in other total income	173	-8,504
Value changes during the year, included directly in the income statement	-134	-1,541
Reassessed value end of the year	<u>194,210</u>	<u>229,288</u>

Valuation of the bank's investment and headquarters properties has been made on the basis of a return-based model. As return requirement, a return rate of between 4% and 10% p.a. has been used, depending on the location of each individual property. Every second year the bank obtains valuation of the property from independent external estate agents. This was most recently done in 2015.

24. Other tangible assets:		
Amounts in DKK 1,000	2016	2015
Total cost price, start of the year	60,244	52,961
Added during the year, including improvements	7,952	8,892
Disposed of during the year	-1,890	-1,609
	<u>66,306</u>	<u>60,244</u>
Depreciation and write-downs, start of the year	51,696	47,913
The year's allowances for depreciation	5,281	4,643
The year's reversed depreciations and write-downs	-1,255	-860
	<u>55,722</u>	<u>51,696</u>
Book value, end of the year	<u>10,584</u>	<u>8,548</u>

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25. Market value of financial instruments

Financial instruments are included in the balance sheet either at market value or at amortised cost price. Market value is the amount at which a financial asset can be traded, or the amount at which a financial obligation can be redeemed between independent parties. For financial assets and obligations priced on active markets, the market value is calculated on the basis of observed market prices on the date of the balance sheet. The market value of financial instruments, which are not priced on active markets, is calculated on the basis of generally accepted pricing methods.

The vast majority of the bank's receivables, loans and deposits cannot be transferred without prior acceptance from the customers, and there is no active market for such financial instruments. The information stated about market value is therefore only based on circumstances where changes have been determined in the market conditions after the first inclusion of the instrument in question, including in particular changes to interest rates.

Information about market value for financial instruments included at amortised cost price is based on the assessments below

- for loans and other receivables, write-downs in connection with value reductions are considered to correspond to the market value of the credit risk
- for financial instruments with interest risk of less than six months, amortised cost price is considered to correspond to the market value
- for financial assets and obligations with a fixed rate of interest, the market value is calculated on the basis of an estimate of the current return requirements on the market

Shares, etc., assets related to pooled schemes and derived financial instruments are calculated in the balance sheet at market value so that the values included correspond to market values.

Amounts in DKK 1,000	2016		2015	
	Book value	Market value	Book value	Market value
Financial assets				
Cash in hand and demand deposits	351,054	351,054	349,848	349,848
Receivables from credit institutions and central banks	764,150	764,150	755,836	755,836
Loans and other receivables at amortised cost price	10,822,498	10,909,091	10,729,109	10,816,809
Bonds at market value	3,073,768	3,073,768	2,556,847	2,556,847
Shares, etc.	579,380	579,380	580,850	580,850
Assets related to pooled schemes	2,941,695	2,941,695	2,668,272	2,668,272
Derived financial instruments	71,062	71,062	69,118	69,118
Financial assets, total	18,603,607	18,690,200	17,709,880	17,797,580
Financial obligations				
Debt to credit institutions and central banks	302,981	302,981	454,118	454,118
Deposits and other debts	12,718,121	12,726,796	12,172,764	12,189,194
Deposits in pooled schemes	3,119,891	3,119,891	2,802,409	2,802,409
Derived financial instruments	63,778	63,778	67,243	67,243
Subordinated capital investments	271,754	273,883	270,729	269,334
Financial obligations, total	16,476,525	16,487,329	15,767,263	15,782,298

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26. Derived financial instruments						
Amounts in DKK 1,000					2016	2015
	Up to and incl 3 mths.	3 mths. up to and incl. 1 year	1 year up to and incl. 5 years	More than 5 years	total	total
Nominal values						
Foreign exchange-related transactions:						
forward trans., purchase	423,461	60,647			484,108	447,307
forward trans., sale	705,356	68,802			774,158	817,576
unsettled spot transact., purch.	40,766				40,766	12,811
unsettled spot transact., sale	37,611				37,611	92,116
currency swaps				149,057	149,057	196,637
Interest-related transactions:						
forward transact., purchase	99,727	3,452	trans.,		103,179	42,835
forward transact., sale	11,384		trans.,		11,384	6,126
unsettled spot transact., purch	18,413		spot		18,413	6,049
unsettled spot transact., sale	23,633		spot		23,633	14,918
interest swaps		236,311	swaps	292,674	528,985	953,015
Share-related transactions:						
forward transact., purchase	43				43	
forward transact., sale	43				0	
unsettled spot transact., purch.	18,451				18,451	14,261
unsettled spot transact., sale	18,451				18,451	15,948
Net market values						
Foreign exchange-rel. transact.:						
forward transact., purchase	8,243	1,190			9,433	2,570
forward transact., sale	-3,980	-2,430			-6,410	4,977
unsettled spot transact, purch.	-67				-67	-9
unsettled spot transact., sale	113				113	95
currency swaps		related		-4,758	-4,758	201
Interest-related transactions:						
forward transactions, purch.	1,733	96			1,829	204
forward transactions, sale	-111				-111	14
unsettled spot transact., purch.	34				34	1
unsettled spot transact., sale	56				56	6
interest swaps			-3,263	-550	-3,813	-6,214
Share-related transactions:						
forward transact., purchase	-4				-4	
forward transact., sale	6				6	
unsettled spot transact., purch.	12				12	239
unsettled spot transact., sale	-5				-5	-208

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Notes for the Balance Sheet

26. Derived financial instruments, (continued)

Amounts in DKK 1,000

Market values	Contracts total 2016			Contracts total 2015		
	Positive	Negative	Net	Positive	Negative	Net
Foreign exchange-rel. transact.:						
forward transactions, purch.	11,387	1,954	9,433	8,254	5,684	2,570
forward transactions, sale	5,346	11,756	-6,410	11,615	6,638	4,977
unsettled spot transact., purch.	13	80	-67	61	70	-9
unsettled spot transact., sale	117	4	113	100	5	95
currency swaps	0	4,758	-4,758	1,812	1,611	201
average market value	15,541	13,403		29,899	23,206	
Interest-related transactions:						
forward transactions, purch.	1,841	12	1,829	205	1	204
forward transactions, sale	0	111	-111	36	22	14
unsettled spot transact., purch.	55	20	35	5	5	0
unsettled spot transact., sale	56	0	56	8	2	6
interest swaps	41,018	44,831	-3,813	46,661	52,875	-6,214
average market value	48,327	53,343		54,777	62,811	
Share-related transactions:						
forward transactions, purch.	0	4	-4			
forward transactions, sale	6	0	6			
unsettled spot transact., purch.	130	118	12	290	51	239
unsettled spot transact., sale	123	129	-6	71	279	-208
average market value	3	3		635	535	
Market value included in balance sheet with the following amounts						
Other assets	60,092			69,118		
Security CSA contracts	10,970			0		
Other liabilities		63,778			67,243	
Other liabilities, total	<u>71,062</u>			<u>69,118</u>		

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27. Market risks

Amounts in DKK 1,000

	2016	2015
Interest risk, debt instruments		
Distributed by type of instrument		
- trading activity	22,403	12,644
- non-trading activity	-3,800	-11,315
Total	18,603	1,329
By currency		
DKK	16,084	-1,899
EUR	2,518	3,341
CHF	-17	-108
Other currencies, net	18	-5
Total	18,603	1,329
percentage of equity	0.7	0.1
Effect on the year's result before tax if the interest rate increases by 1%	-18,603	-1,329
Effect on equity if the interest rate increases by 1%	-14,510	-1,017

The interest risk is an expression of the loss/gain which the bank will suffer/obtain because of reasonably probable changes to the effective rate of interest of 1 percentage point.

Foreign exchange risk

Exchange rate indicator 1	7,929	10,030
Exchange rate indicator 1 as a percentage of core capital after deductions	0.4	0.6
Exchange rate indicator 2	43	108
Exchange rate indicator 2 as a percentage of core capital after deductions	0.0	0.0

The exchange rate indicator is calculated as the largest sum of positions in foreign currencies where the bank has net receivables, and the sum of positions where the bank has net debt, respectively. The key figure is reported to the Danish Financial Supervisory Authority. In addition the risk per currency is calculated and reported

The exchange rate indicator 2 is based on a statistical method, where historic data are calculated by the Danish authorities and is an expression of the total loss potential. If the bank does not change the currency positions during the following 10 days there is a 1% probability that the bank will suffer a loss that exceeds the value of the indicator. The key figure is reported to the Danish Financial Supervisory Authority.

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27. Market risks (continued)

Amounts in DKK 1,000

	2016	2015
Exposure in Euro	4,150	3,798
- sensitivity 2.25 per cent	93	85
Exposure in other currencies	3,779	6,232
- sensitivity 12 per cent	453	748
Total sensitivity	546	833
Effect on the year's pre-tax result from the calculated currency rate risk	-546	-833
Effect on equity according to the calculated currency risk	-427	637
Share risk		
Listed shares and unlisted shares excl. sector shares	26,960	39,039
- sensitivity 30 per cent	8,088	11,712
Sector shares	552,420	541,811
- sensitivity 15 per cent	82,863	81,272
Total sensitivity	90,951	92,984
Share risk as a percentage of core capital after deductions	4.7	5.2
Effect on the year's pre-tax result from the calculated share risk	-90,951	-92,984
Effect on equity according to the calculated share risk	-70,942	-71,132

Accounting safeguards

The bank uses the rules of accounting safeguards to avoid the inconsistency that occurs when loans and deposits on fixed interest rate are calculated at amortised cost price, while the safeguards instruments (interest and currency swaps) are calculated at market price. When the criteria for application of the rules of accounting safeguards are met, the book value of the secured loans and deposits of the income statement concerning the secured risks are adjusted.

The following fixed rate assets and liabilities are covered with regard to risk:

Nominal value of loans	217,764	243,353
Regulation to market value (hedge)	7,980	3,440
Book value of loans	225,744	246,793
Nominal value of deposits	0	86,351
Regulation to market value (hedge)	0	-854
Book value of deposits	0	85,497
Cover has taken place like this:		
Interest swaps (synthetic principal amount)	67,538	178,710
Currency swaps (synthetic principal amount)	149,057	149,623
Market value	-7,980	-4,294

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28. Debt to credit institutions and central banks

Amounts in DKK 1,000

	2016	2015
On demand	302,981	423,880
Remaining term		
- more than 5 years	0	30,238
Total debt to credit institutions and central banks	302,981	454,118

29. Deposits and other debts

Amounts in DKK 1,000

	2016	2015
On demand	10,713,675	9,463,239
Remaining term		
- up to and including 3 months	349,069	424,062
- from 3 months up to and including 1 year	35,723	341,599
- from 1 year up to and including 5 years	728,438	1,040,488
- more than 5 years	891,216	903,376
Deposits and other debts, total	12,718,121	12,172,764
By categories		
- on demand	10,652,965	9,409,142
- notice	703,337	1,312,844
- time deposits	5,070	54,559
- special deposits	1,356,749	1,396,219
Deposits and other debts, total	12,718,121	12,172,764
Share of deposits incl. pooled schemes covered by the Deposit Guarantee Fund	83%	83%

In addition it should be mentioned that the bank's 10 largest deposit customers amount to less than 5% of total deposits.

30. Provisions for pension and similar obligations

Amounts in DKK 1,000

	2016	2015
Anniversary bonus etc.	8,235	6,723
Salary and pension obligations taken over in connection with business acquisition	2,925	3,035
Total provisions for pension and similar obligations	11,160	9,758

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31. Provisions for deferred tax

Amounts in DKK 1,000

	2016	2015
Lending and other receivables	-12,669	-11,027
Securities and financial instruments	1,132	296
Tangible assets	-619	2,259
Intangible assets	35,110	39,957
Allocated liabilities	-2,551	-2,327
Total	20,403	29,158

Deferred tax are influenced by the merger with A/S Nørresundby Bank in 2015, where, in connection with the calculation of acquired liabilities, deferred tax concerning customer relations has been included.

32. Subordinate capital

Amounts in DKK 1,000

	2016	2015
Additional capital	271,754	270,729
Subordinate capital, total	271,754	270,729
In this is included when calculateing the core capital	271,754	270,729
Interest (cf. note 7)	15,719	13,249
Costs from raising additional capital	0	5,125

In February 2015, DKK 275 mill. was issued as capital certificates at a price of 100.

The capital certificates have a 10 year term and cannot be redeemed neither in full nor part until the day that occurs 5 years after the issue date. The issue takes place at an interest rate measured as the 5-year swap interest rate plus 5.00 %-points p.a., applying for 5 years from the issue date, corresponding to 5.341% p.a. After that, the interest rate will be Cibor 6 months plus 5.00 %-points p.a.

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33. Share capital

Amounts in DKK 1,000

The bank's share capital is divided into 18,364,515 shares of DKK 10 each

Holding of own shares

Acquired

Number of own shares

661,857

723,861

Nominal value

6,619

7,239

Percentage of the share capital

3.6%

3.9%

Total purchase price

63,774

80,876

Sold

Number of own shares

662,473

723,459

Nominal value

6,625

7,235

Percentage of the share capital

3.6%

3.9%

Total sales price

63,836

80,818

End of the year

Number of own shares

17,540

18,156

Nominal value

175

182

Percentage of the share capital

0.1%

0.1%

Acquisition and sale of own shares have taken place as part of the bank's general day-to-day activities

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Notes with additional information

34. Contingent liabilities		
Amounts in DKK 1,000	2016	2015
Finance guarantees	2,965,654	1,955,567
Loss guarantees for mortgage loans	732,438	548,730
Land registration and conversion guarantees	139,842	71,983
Other liabilities	384,620	704,049
Total	4,222,554	3,280,329
Pledges		
For clearing etc. with the Danish Central Bank bonds have been pledged at market value of	88,125	88,384
For security of a loss limit towards the Danish Growth Fund as a consequence of Nordjyske Bank's ownership in the Landbrugets Finansieringsbank, deposited in a cover-for-liabilities account	253	253
Security in connection with DSA agreements	10,970	0

Nordjyske Bank A/S is the administration company in a Danish joint taxation, which includes Sæbygaard Skov A/S.

Therefore, Nordjyske Bank A/S is, according to the rules of company law hereon, liable from and including 1 July 2012 for income tax etc. in the jointly taxed companies, and from and including 1 July 2012 for any liabilities to include withholding tax on interest, royalties, and dividend for the jointly taxed companies.

The bank has no part in any legal matters that are assessed to be able to lead to material loss and thereby material changes in the accounts.

35. Connected parties		
Amounts in DKK 1,000	2016	2015
Size of loan, pledges or guarantees for members of the bank's:		
Executive Board	490	795
Board of Directors	42,732	48,228
The commitments have been granted on market conditions and in accordance with the bank's usual business terms		
Rates of interest at the end of the year, per cent p.a.		
Executive Board	4.7	4,82 - 6,00
Board of Directors (elected by the general meeting)	1,85 - 13,875	1,85 - 13,875

For members of the Board of Directors elected by the employees, the commitment was granted on the bank's usual staff conditions.

Bank management

Committee of Representatives

- Sten Uggerhøj, Car Dealer, Frederikshavn (Chairman)
- Poul Søren Jeppesen, Director, Aalborg (Deputy Chairman)
- Erik Broholm Andersen, Farm Owner, Skagen,
- Inge Kjær Andersen, Dentist, Sæby
- Kjeld Andersen, Service Advisor, Øster Brønderslev
- Palle Joest Andersen, Farm Owner, Hjørring
- Peter Andersen, Area Manager, Hjørring
- Svend-Erik Andersen, Chairman of the Fishing Association, Strandby
- Børge Bech, Special advisor, Løkken
- Anders Bentsen, Head of Department, Øster Brønderslev
- Ib Bergkjær, Managing Director, Aalborg
- Erling Christensen, Furniture Dealer, Hørmested
- Inge Christensen, Bookkeeper, Østervrå
- Lars Ingemann Christensen, Manufacturer, Hjørring
- Per Lykkegaard Christensen, Farm Owner, Hjørring
- Nina Friis Christiansen, Shop Owner, Vittrup
- Jørn Bo Clausen, Fish Exporter, Strandby
- Ole Conradsen, Director, Strandby
- Peter Conradsen, Director, Frederikshavn
- John Elling, Fur Farmer, Strandby
- Lene Frandsen, Center Manager, Sindal
- Trine Frisgaard, Responsible for professional standards, Dronninglund
- Svend Erik Frøstrup, Shop Owner, Løkken
- Birthe Gadegård, Principal, Hjørring
- Hans-Christian Holst, Farmer, Asaa
- Mads Hvolby, Chartered surveyor, Nørresundby
- Kim Jacobsen, State-authorized Estate Agent, Aalborg
- Kurt Elbo Jensen, Warehouse Manager, Brønderslev
- Morten Jensen, Attorney, Dronninglund
- Søren Faurholt Jensen, Farm Owner, Tylstrup
- Bent Torp Johansen, Regional Chief Accountant, Øster Brønderslev
- Per Jørgensen, Farmer, Brovst
- Anne Kaptain, Attorney, Legal and HR manager, Sæby
- Hans Jørgen Kaptain, Attorney, Sæby
- Tom Karlshøj, Farm Owner, Tversted
- Peter Dengsø Kjærsgaard, Car Dealer, Aalborg
- Lars Krull, Director Aalborg
- Susanne Bruun Ladefoged, Dentist, Aalborg
- Bente Larsen, Veterinarian, Dybvad
- Thomas Overgaard Larsen, Veterinarian, Frejlev
- Henrik Lintner, Pharmacist, Hjørring
- Peter Mortensen, Forwarding Agent, Hirtshals
- Jens Jørgen Nielsen, Concreter, Skagen
- Jesper Nyborg, Director, Vodskov
- Inger Marie Grund Petersen, Head of Marketing, Sæby
- Lars Petersen, Engineer, Gærum
- Anette Pilgaard, Shop Owner, Nørresundby
- Niels H. Pedersen Qvist, Farm Owner, Vester Hassing
- Keld Ramlov, Certified Electrician, Aalborg
- Partner Jørn Rosenmeier jun., Copenhagen
- Torben Røgild, Economist, Nørresundby
- Kathrine Sandeløv, Director, Skørping
- Søren Gyldenhof Schilder, Appeals manager, Aalborg
- Peter Schou, Fishing Vessel Master, Skagen
- Yvonne Skagen, Director, Aalborg
- Peter Sloth, Wholesale Dealer, Nibe
- Jens Otto Størup, Director, Tornby
- Jan Leth Sørensen, Haulier, Sæby
- Peer Buch Sørensen, Draper, Frederikshavn
- Ingeborg Thusgaard, Consultant, Frederikshavn
- Claus Uttrup, Brigadier General, Hjørring
- Margrethe Vejby, Nurse, Aalbæk
- Morten Vestergaard, Director, Sæby
- Niels-Erik Østergaard, Registered Accountant, Brønderslev
- John Chr. Aasted, Director, Aalborg

Bank management

Board of Directors

- Mads Hvolby, Chartered Surveyor, Nørresundby (Chairman)
- Hans Jørgen Kaptain, Attorney, Sæby (Deputy chairman)
- Per Lykkegaard Christensen, Farm Owner, Hjallerup
- Morten Jensen, Attorney, Dronninglund
- Poul Søren Jeppesen, Director, Aalborg
- Henrik Lintner, Pharmacist, Hjørring
- Sten Uggerhøj, Car Dealer, Frederikshavn
- John Chr. Aasted, Director, Aalborg
- Hanne Karlshøj, Customer Advisor, Bindslev (elected by the employees)
- Helle Juul Lynge, Property specialist, Vester Hassing (elected by the employees)
- Arne Ugilt, Credit Employee, Uggerby (elected by the employees)
- Finn Aaen, Business Advisor, Frejlev (elected by the employees)

Executive Board

- Claus Andersen, Managing Director
- Carl Pedersen, Deputy Managing Director
- Mikael Jakobsen, Bank Director

Bank management

The bank's branches

Brønderslev	Thomas Jørgensen, Branch Director
Dronninglund	Ole Andersen, Branch Director
Frederikshavn, Bangsbostrand	Peter K. Madsen, Branch Director
Frederikshavn, Jernbanegade	Brian Thomsen, Branch Director
	Lejf Andersen, Business Customer Manager
	Anders Nielsen, Fisheries Customer Manager
	Marianne Nordmann, Private Customer Manager
Hirtshals	Jens Buje, Branch Director
Hjallerup	Michael Bladsgaard Larsen, Branch Director
Hjørring	Henrik Aaen, Area Director
	Lotte Hørsel, Business Customer Manager
	Claus Bak, Agriculture Manager
	Ulla Magersholt, Private Customer Manager
København	Kim Vagner, Branch Director
Læsø	Karsten Nielsen, Branch Director
Løkken	Mads Gade, Branch Director
Nibe	Tom Solvang, Branch Director
Nørresundby	Jacob Jensen, Area Director
	Allan Nielsen, Business Customer Manager
	Lars Skov, Branch Director Private
Sindal	Klaus Christensen, Branch Director
Skagen	Allan Kastor Andersen, Branch Director
Strandby	Kirsten Poulsen, Branch Director
Sæby	Torben Schioldan, Area Director
	Stig Elversøe, Business Customer Manager
	Annemette Mæhle, Private Customer Manager
Vestbjerg	Paw Winther, Branch Director
Vodskov	Gert Zinndorff, Branch Director
Aabybro	Tommy Kristensen, Branch Director
Aalborg, Bredegade	Anders Tetsche, Branch Director
Aalborg, Hasseris	Keld Jakobsen, Area Director
	Carsten Holt Christensen, Business Customer Manager
	Michael Thoft, Branch Director Private
Aalborg, Kastetvej	Michael Kristensen, Branch Director
Aalborg, Vejgaard	Jesper Nielsen, Branch Director
Management Secretariat	Hanne Fynbo, Secretariat Manager
FinansCentret	Lars Kiærskou, Finance Manager
HR, Business support and IT development	Marian Andreassen, HR Manager
Internal Audit	Ove Steen Nielsen, Audit Manager
IR and Risk	Alma Lund Høj, Investor Relations and Risk Manager
Credit	Claus Kongsgaard, Credit Manager
Sales and Marketing	Palle Skyum, Sales- and Marketing Manager
Finance	Pia Foss Henriksen, Financial Manager

