Risk Report
2013

Nordjyske Bank

Risk Report

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Risk Report

Introduction

This risk report, which is published on www.nordjyskebank.dk has been prepared pursuant to the provisions of the Executive Order on Capital Adequacy.

The report is published one a year in connection with publishing of the bank's annual report for the previous year.

In the report only the areas are mentioned which the bank is dealing with.

In the opinion of the bank, the information published and the frequency of publication are appropriate in relation to the risk exposure of the bank.

The information in the present risk report has not been audited.

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Scope

The risk report covers the activities in

Nordjyske Bank A/S
CVR-Nr. 30 82 87 12.

The Bank owns the entire share capital of A/S Sæbygård Skov. The activities of the subsidiary are, both regarding balance sheet and result, immaterial in proportion to the bank. Consolidated financial statements therefore have not been prepared. Similarly, it is not considered relevant to distinguish between consolidation for accounting purposes and consolidation according to chapter 12 in the Financial Activities Ac.

Risk Report

Aim and Risk Profile

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 conditions.

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 defects in internal processes and systems, human mistakes, 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
Det følger af bankens forretningsmodel og kreditpolitik, at bankens risikoprofil på kreditområdet skal være passende forsigtig, hvilket udmønter sig i konkrete retningslinjer for bankens kreditgivning.

Among other things this means:

- at banken ikke ønsker enkeltengagementer, der er så store, at et tab kan true bankens eksistens
- at banken lægger vægt på lokalkendskab, hvilket betyder, at risikoprofilen er fastlagt med baggrund i de steder, hvor banken er fysisk repræsenteret
- at kreditbehandlingen skal sikre, at banken kun tager kalkulerede kreditrisici.

Der er i bankens forretningsmodel fastsat en maksimal gearing (udlån/egenkapital) af egenkapitalen på 5,5.

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 rather small commitments. The unsecured part of individual commitments must not exceed 10 per cent of the bank's core capital..

The sum of large commitments must be below 75 per cent of the bank's core capital..

The sum of large commitments, commitments amounting to more than 10 per cent of the bank's core capital after deductions amounts to a total of 11.6 per cent of the bank's core capital after deduction at the end of 2013.

The total gearing of loans is and has always been moderate. At the end of 2013 it was thus 4.1 times the equity.

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 following principles:

- Operating equipment:
  Calculation of the loan value for operating equipment is made according to the straight-line method. Typically 20-33 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 80 per cent of the market value less higher-ranking mortgages.
  The loan value is fixed individually on the basis of the characteristics of the individual properties, among other things location and size.
  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. The loan value is fixed

individually on the basis of the characteristics of the individual properties, among other things location and size, or on the basis of an independent valuation, alternatively an official public property valuation

Guarantees:
The loan value for guarantees from Danish public authorities is 100 per cent. Other guarantees are fixed individually on the basis of a principle of caution..

- 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.
- 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 on the basis of a principle of caution.

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 12 rating classes which can be grouped as follows:

10, 21, 22, 23	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 a need for write-downs or provisions
41, 42, 50	write-down commitments and distressed commitment

Der foretages tæt opfølgning på engagementer med visse og væsentlige svaghedstegn, samt på engagementer med objektiv indikation for værdiforringelse, og der udarbejdes handlingsplan for hvert enkelt engagement, hvori der tages stilling til hvordan engagementet kan forbedres, eller hvordan det påtænkes afviklet

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.

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 been entered into on a variable basis.

The interest risk, defined as the loss suffered by the bank in case of an increase in the effective rate of interest of 1 percentage point, on the exposures with a fixed rate of interest amounted to -0.5 per cent of the bank's core capital after deductions at the end of 2013.

The bank's main currency is Danish kroner. The bank has also made transactions in foreign currencies. Material foreign exchange 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.

At the end of 2013 the bank's currency risk (indicator 2) amounted to DKK 0.1 million.

The bank is co-owner of a number of sector businesses. 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.

At the end of 2013, the bank's holding of listed shares amounted to just over DKK 27 million - or 2 per cent of the bank's equity

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.

At the end of 2013, the holding of investment properties amounted to DKK 36 million, or 3 per cent of the bank's equity.

The bank's market risks are controlled by the bank's FinansCenter according to policies and limits established by the bank's management.

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The individual risks are monitored continually by the bank's finance department, and the bank's management is informed on an ongoing basis.

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 to finance the loan portfolio by the sum of

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

At the end of 2013, the bank's deposits from customers and equity corresponding to 156 per cent of the total loan portfolio. Add to this possible rights of disposal which can be initiated on demand in case of a liquidity crisis in the form of unutilised confirmed credit undertakings to a total value of DKK 350 million.

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.

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..

Calculation of core capital

As at 31.12.2013 amounts in DKK 1,000		
Actual core capital		
Share capital/guarantee capital/share capital	77,200	
Reserves	3,067	
Profit or loss carried forward	1,242,552	
Actual core capital, total		1,322,819
Primary deductions from core capital		
Suggested dividend	15,440	
Value of own shares in custody	3,681	
Intangible assets	11,884	
Deferred activated tax assets	3,800	
Primary deductions from core capital, total		34,805
Core capital after primary deductions		**1,288,014**
Hybrid core capital		0
Core capital inclusive of hybrid core capital after primary deductions		**1,288,014**
Other deductions		
Half of the sum of capital shares, etc., > 10 per cent	33,665	
Excess deductions	4,970	
Other deductions, total		38,635
Core capital after deductions		**1,249,379**
Additional capital		
Provisions for appreciation	26,535	
Subordinate loan capital	2,160	
Additional capital included		28,695
Core capital before deductions		**1,278,074**
Deductions from core capital		
Half the sum of capital shares, etc., > 10 per cent	33,665	
Setting off of the excess deduction	4,970	
Deduction from core capital, total		28,695
Core capital after deductions		**1,249,379**

The bank's capital adequacy percentage, the core capital after deductions, amounted to 19.9 per cent of the weighted items at the end of 2013, of a total of DKK 6,290 million - only on the basis of equity capital.

The core capital percentage amounts to 19.9 per cent.

Capital adequacy and sufficient core capital

According to the stipulations in the executive order on capital adequacy, the Board of Directors and the Executive Board must ensure that the bank has sufficient core capital. Furthermore, the Board of Directors and the Executive Board must calculate the bank's individual capital adequacy requirement.

The Board of Directors and the Executive Board have most recently in connection with the discussion of the Annual Report for 2013 discussed the level of sufficient core capital and the individual capital adequacy requirement. The next discussion has been agreed at May 2014 in connection with the discussion of the interim report for the first quarter of 2014.

The determination of the sufficient core capital and capital adequacy is based on the instructions issued by the Financial Supervisory Authority which was most recently revised in February 2013. The instructions prescribe the use of the so-called 8+ model.

The basis of the 8+ model is that ordinary risks are covered by the minimum statutory requirements for capital adequacy, 8 per cent of the risk-weighted items. In addition, it is necessary to decide the extent to which the bank has special risks which necessitate an increase in the sufficient core capital and the capital adequacy requirement, respectively.

According to the instructions, an assessment must be made of the bank's risk profile in relation to the following six risk areas:

1. Earnings
2. Growth in lending
3. Credit risk
4. Market risk
5. Liquidity risk
6. Operational risk

Earnings
During the past five years, the bank has realised sufficient core earnings, before payments to a restoring of the financial stability, write-downs on own lending and market value adjustment of securities, at the level of DKK 186 - 212 million. There has been an increasing trend, as the DKK 186 million were realised in 2009, whereas the DKK 212 million were realised in 2012. The average core earnings for the period amount to DKK 199 million.

For the coming year, the bank expects core earnings before payments to the Deposit Guarantee Fund, write-downs on own loans and market price adjustment for securities in the range of DKK 175-210 million. The expected earnings amount to between 2.5 and 3.0 per cent of the bank's credit risks, in the form of lending and guarantees, gross.

The bank is of the opinion that the expected core earnings will be sufficient to cover the immediate risk on the portfolio of loans and guarantees. Consequently, additional capital is not reserved to cover this.

Growth in lending
Over a period of five years, from the end of 2008 to the end of 2013, the bank's lending has decreased by DKK 148 million - corresponding to an average annual growth of less than 1 per cent. During the past year, lending has been reduced by DKK 4 million - corresponding to a negative growth of 0.1 per cent.

For the coming year, the bank's lending is expected to be stabilised at the current level.

The bank is of the opinion that the expected development in lending does not represent any special risk. Consequently, no capital is reserved to cover growth in lending.

Credit risk
An assessment has been made of the cautiously estimated loss on all commitments larger than 2 per cent of the bank's core capital. This means commitments which are on a group basis larger than DKK 25 million..

Furthermore, the bank's credit concentration risks have been assessed in the following areas:

- Large commitments
- Industries
- Securities

Regarding large commitments and industries, the assessment has been made on the basis of the instructions.

As far as the concentration of securities is concerned, a sensitivity analysis has been made of the bank's security in farming assets and fishing quotas for commitments which have been written down.

The assessments made result in an additional capital requirement of DKK 210 million to cover special credit risks.

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Market risk
The bank's current market risks are and have for a number of years been very modest.

According to the instructions, the bank's special risks in the area must be assessed in proportion to the maximum risks within the limits fixed by the Board of Directors for the authority of the Executive Board for market risk-taking.

On the basis of the Executive Board's authority to run interest risk outside the trading portfolio it is the assessment that an additional capital requirement of DKK 26 million is needed to cover special risks in this connection.

Liquidity risk
The bank currently has excess deposits of DKK 1.7 billion. Together with the bank's equity of DKK 1.4 billion, this amounts to a funding ratio of 0.64. Add to these unutilised credit lines from other credit institutions of DKK 350 million. Compared with the statutory requirements, cf. section 152 of FIL, this amounts to excess cover of 215 per cent - corresponding to DKK 1.8 billion.

The bank has carried out a stress test of the liquidity which shows that the bank will also for the next 12 months be able to observe the requirements of the legislation.

The test is based on the following conditions:

- Any liquidity and credit lines from professional actors will lapse as they become due
- The Danish central bank’s lending possibility concerning sector shares lapse immediately
- Time deposits will lapse as they become due
- Deposits which are not covered by the Deposit Guarantee Fund will disappear
- Deposits reduced by DKK 175 m as a consequence of calculation of taxes on conversion of captial pensions to retirement deposits
- The customers' unutilised drawing rights are utilised by 10 per cent
- Other lendings and deposits will continue unchanged

In the light of the above stress test, the bank is of the opinion that liquidity does not constitute any special risk. Capital is therefore not reserved to cover the costs of procuring liquidity.

Operational risk
On the basis of a qualitative assessment of the bank's organisation, use of IT and business model, there is no need to reserve additional capital to cover special risks within the operational area.

Sufficient core capital and capital adequacy

As at 31.12.2013 amounts in DKK 1,000	Cap. Adequacy as a percentage	Sufficient core capital
Ordinary risks	8.0	503.2 m DKK
Special risks		
- Earnings	0.0	0.0 m DKK
- Growth in lending	0.0	0.0 m DKK
- Credit risk	3.3	209.8 m DKK
- Market risk	0.4	26.0 m DKK
- Liquidity risk	0.0	0.0 m DKK
- Operational risk	0.0	0.0 m DKK
Special risks, total	3.7	235.8 m DKK
Total	**11.7**	**739.0 m DKK**

Excess capital adequacy

The bank's core capital after deductions amounts to a total of DKK 1,249 million. Compared with sufficient core capital of DKK 739 million, there is excess cover of DKK 510 million

BThe bank's capital adequacy rate has been calculated at 19.9. Compared with a capital adequacy requirement of 11.7 per cent, there is excess cover of 8.2 percentage points.

Capital adequacy target

The bank's Board of Directors has fixed a capital adequacy target of at least 16 per cent.

Risk report

Calculation of risk-weighted items with credit risk 31 Dec.

The bank uses the standard method for credit risk to calculate the risk-weighted items

As at 31.12.2013
amounts in DKK 1,000

Calculation of risk-weighted items with credit risk	Risk-weighted exposure	Cap. requirem. 8% of the exposure)
Public entities	1	0
Institutes	89,587	7,167
Businesses, etc.	2,517,950	201,436
Retail customers	2,045,253	163,620
Exposure secured by real property mortgage	304,343	24,347
Exposures with arrears or overdraft	4,294	343
Exposures in other items, including assets without counterparties	165,869	13,270
Weighted items with credit risk, total	5,127,297	410,183
Calculation of the risk-weighted items with market risk		
Instruments of debt	281,034	22,483
Shares	5,414	433
Exchange rate risks	0	0
Weighted items with credit risk, total	286,448	22,916
Calculation of the risk-weighted items with operational risk		
The bank uses the basic indicator method when calculating the capital adequacy requirement for the operational risk.		
Weighted items with operational risk, total	912,751	73,020
Deductions for group write-downs according to the standard method		
Group-based write-downs, total	36,013	2,881
Risk-weighted items, total	6,290,483	503,238

Nordjyske Bank

Counterparty risk

The bank uses the market value method for counterparty risk when calculating the size of the exposures for derived financial instruments covered by the definition in the executive order on capital adequacy.

The determination of the value of the exposure by means of the market value method for counterparty risks is made as follows:

- Contracts are calculated at market value in order to obtain the current replacement cost for all contracts with a positive value
- In order to reach a figure for the potential future credit exposure, the nominal principal amounts of the contracts or the underlying values are multiplied by percentages fixed by the Danish Financial Supervisory Authority. Swaps based on two variable rates of interest in the same currency are excepted as only the current replacement cost is to be calculated.
- The sum of the current replacement costs and the potential future credit exposures amount to the exposure value.

The bank's granting process and the general monitoring of commitments allows for the calculated exposure value, so that it is guaranteed that it will not exceed the credit limit granted for the counterparty.

The value of the bank's total counterparty risk calculated according to the market value method amounted to a total of DKK 28,491,000 as at 31 December 2013.

Credit risk

Receivables from credit institutions and central banks and lending are valued at the first inclusion at market value plus transaction costs and with deduction of fees and commissions received in connection with the establishment.

Receivables from credit institutions and central banks and lending not for reserve transactions are subsequently valued at amortised cost price less write-downs to a lower value if there are objective indications for a value reduction.

Receivables from credit institutions and central banks are all valued individually for objective indication for value reduction.

For material lending an individual assessment is also made as to whether there is an objective indication for value reduction. The need for write-downs is calculated individually when there is objective indication for value reduction at an individual level. Individually valuated loans which have not been written down and other lending are valued subsequently on a portfolio basis.

A portfolio-based valuation of the need for write-downs as a consequence of objective indication for value reduction for groups of lending with similar characteristics regarding credit risk. The portfolio valuation is based on a credit rating of the customers on the basis of financial key figures. When calculating the need for group-based write-downs, a gross method is used. The method means that the total group-based write-downs amount to the sum of the deterioration of the individual customers in the credit rating classes whether or not other customers have received a better rating during the period.

An individual loan or a group of loans will be considered reduced in value if - and only if - there is an objective indication for value reduction as a result of one or more events occurred after the first inclusion of the loan, and this or these events influence the expected future payment flows which can be estimated reliably. The agreed effective rate of interest for the individual loan is used as a discounting factor. For portfolios of loans, the weighted average of the agreed, effective rate of interest is used for the individual loans in the portfolio.

The write-downs are calculated as the difference between the amortised cost price and the market value of the expected future payments, including the realisation value of any securities. The future payments have been calculated on the basis of the most likely result.

The portfolio-based valuation of the write-down requirement for groups of loans with similar characteristics regarding credit risk is based on a rating model where the model is developed and improved on an ongoing basis via back test, etc.

Loans and receivables are classified according to the executive order on financial statements and the executive order on capital adequacy as non-performed in case of arrears during a consecutive period of 90 days of at least DKK 1,000 for private loans and DKK 10,000 for commercial loans.

The total value of the bank's exposures after write-downs and before allowing for credit risk reduction amounts to a total of DKK 9,125 million as at 31.12.201 3.

Calculation of the average value of exposures

As at 31.12.2013 amounts in DKK 1,000	**2013**
Central governments or central banks	183,531
Regional or local authorities	2,502
Public entities	3
Instsitutes	480,359
Businesses, etc.	3,249,936
Retail customers	4,132,824
Exposures secured by real property mortgage	855,520
Exposures with arrears or overdraft	19,703
Exposures in other items, including assets without counterparties	219,550
Exposures, total	9,143,928

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Credit exposures by industries and credit categories

As at 31.12.2013 amounts in DKK 1,000	Central governments or central banks	Public entities	Institutes	Businesses, etc.	Retail customers	Exposures secured by real property mortgage	Exposures with arrears or overdraft	Exposures in other items, including assets without counterparties	Total
Public authorities					50	0			50
Farming, hunting, forestry and fishing				1,650,454	499,130	63,292	0		2,212,876
Industry and extraction of raw materials				453,076	110,520	14,986	0		578,582
Energy supply				7,230	20,061	1,500			28,791
Building and construction				58,965	192,246	27,570			278,781
Trade				156,985	272,809	38,807	7		468,608
Transport, hotels and restaurants				53,968	111,869	20,469			186,306
Information and communication				3,057	20,851	6,824	4		30,736
Financing and insurance	307,765		416,682	205,755	42,396	3,413	0	219,384	1,195,395
Real property				256,698	154,212	44,958			455,868
Other industries		10		209,040	273,934	35,646	362		518,992
Industries, total	307,765	10	416,682	3,055,228	1,698,078	257,465	373	219,384	5,954,985
Private				199,454	2,392,414	575,318	3,116		3,170,302
Total	307,765	10	416,682	3,254,682	4,090,492	832,783	3,489	219,384	9,125,287

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Credit exposure by remaining term and credit categories

As at 31.12.2013 amounts in DKK 1,000	Demand	0-3 months	3 months - 1 year	1 - 5 years	More than 5 years	Total
Central governments and central banks	307,765					307,765
Public entities		10				10
Institutes	274,351	8,663	2,331	12,514	118,823	416,682
Businesses, etc.	544,021	203,599	1,762,807	370,731	373,524	3,254,682
Retail customers	1,097,635	129,772	860,260	769,566	1,233,259	4,090,492
Exposure secured by real property mortgages	70,914	27,521	108,120	133,877	492,351	832,783
Exposure with arrears or overdraft	2,026	0	0	67	1,396	3,489
Exposures in other items, including assets without counterparties	219,187		0	197	0	219,384
Total	2,515,899	369,565	2,733,518	1,286,952	2,219,353	9,125,287

Non-performed and value-reducing receivables by exposure categories

As at 31.12.2013 amounts in DKK 1,000	Non-performed receivables exposure	VValue-reducing receivables exposure	Write-downs/provisions at the end of the year	Amounts charged to revenue re value-red. and write-downs
Public authorities	0	0	0	0
Farming, hunting, forestry and fishing	0	749,314	250,781	47,797
Industry and extraction of raw materials	0	36,367	14,311	4,913
Energy supply	0	0	0	0
Building and construction	0	13,689	6,819	2,012
Trade	7	45,331	13,267	25,124
Transport, hotels and restaurants	0	83,861	28,798	12,526
Information and communication	4	3,769	833	160
Financing and insurance	0	32,159	23,432	2,548
Real property	0	243,744	64,602	2,542
Other industries	363	69,577	33,161	2,221
Business, total	374	1,277,811	436,004	99,843
Private	3,116	200,552	104,568	39,708
Total	3,490	1,478,363	540,572	139,551

Movements in value-reducing receivables because of value-regulations and write-downs

As at 31.12.2013 amounts in DKK 1,000	Lending	Guarantees
Individual write-downs		
Write-downs, start of the year	501,137	40
Write-downs, during the year	160,964	1,002
Reversal of write-downs made during previous financial years	44,860	602
Other movements	30,391	0
Final loss, previously written down individually	107,500	0
Write-downs, end of the year	540,132	440
Group-based write-downs		
Write-downs, start of the year	31,041	1,570
Write-downs, during the year	2,918	0
Reversal of write-downs made during previous financial years	7,088	160
Write-downs, end of the year	26,871	1,410
Final loss (written down), not previously written down individually	19,403	
Received from previously written down receivables	2,270	

Market risk

As at 31.12.2013 amounts in DKK 1,000	weighted amount	capital req. (8% of exposure)
Calculation of capital adequacy risk for items with position risk		
Instruments of debt	281,034	22,483
Shares, etc. (including collective investment schemes)	5,414	433
Foreign exchange position	0	0

Operational risk

According to the executive order on capital adequacy, operational risks must be covered by capital. The capital requirement for operational risks must cover: “Risk of loss as a consequence of inappropriate or insufficient internal procedures, human or system-based errors, or as a consequence of external events, including legal risks”.

Nordjyske Bank uses the basic indicator model, cf. Appendix 18 to the executive order on capital adequacy, when calculating the capital requirement for the operational risks. This means that the capital requirement for operational risks is calculated at: 15 per cent of the average “core earnings” during the past 3 years. The core earnings are the sum of net interest income and net income not related to rates of interest.

The bank does, however, carry out a valuation of the capital requirement for operational risks on an ongoing basis. If the capital requirement is assessed as higher than mentioned above, this will be allowed for during the bank's calculation of the capital adequacy requirement.

Exposures in shares, etc., not included in the trading portfolio

In cooperation with other banks, Nordjyske Bank has made capital contributions to a number of sector firms. The aim of such sector firms is to support the business of banks within mortgage credit, payment services, IT, investment associations, etc. The bank does not intend to sell these capital contributions, as participation in these sector firms is considered necessary for the bank's activities. The capital contributions are therefore considered to be outside the trading portfolio.

In several sector firms, the capital shares are redistributed so that the ownership of the banks will always reflect the business volume of the individual bank with the sector firm. The redistribution is typically carried out on the basis of the book value of the sector company, or alternatively on calculation of capital values.

Capital shares in such sector firms have been valued at market value. The market value is fixed on the basis of available information about current transactions. If no current market data is available, the market value is fixed on the basis of published company announcements or alternatively capital value calculations. Other unlisted securities are calculated at current value. In certain cases, it has not been possible to make a reliable calculation at market value. Such securities have been included at cost price less write-downs. The ongoing regulation is entered according to the rules via the income statement.

In addition, the bank has small holdings of unlisted shares acquired as part of our support to business in the local area.

As at 31.12.2013 amounts in DKK 1,000	Book value
Holding of shares, etc.	
Shares in the trading portfolio	
- listed shares	27,345
Unlisted shares, etc., at market value:	
- sector shares	220,642
- other unlisted shares	1,299
Other capital shares	2,895
Outside the trading portfolio, total	224,836
Shares, etc., total	252,181

Interest Risk

As at 31 December 2013, the bank's total interest risk amounted to a total of DKK -6.757 distributed as follows
beløb i 1.000 kr.

Interest risk for positions in the trading portfolio:		
Securities	9,763	
Futures, forward transactions for FRAs	240	
Swaps	- 126	9,877
Interest risk for positions outside the trading portfolio:		
Balance sheet items		
i.e. lending and receivables and deposits and debts		- 16,444
Total interest risk		- 6,567
Including		
- A1positions in Danish kroner	- 7,199	
- positions in foreign currencies	632	

Credit-reducing methods

Nordjyske Bank uses neither balance sheet netting or netting below the line.

Through its policies and procedures regarding security, the bank gives priority to receiving financial security within the following main areas:

- Deposits
- bonds and instruments of debt
- investment units
- shares, listed

Securities are increasingly used as security. Among other things through investment opportunities where the bank offers a financing package. Also the more traditional security in the form of an existing holding of securities is to some extent used in the bank

The bank's policy for valuation of financial securities means that the value assessment is a conservative market value consideration. Business procedures exist for administration and valuation of securities, and the procedures are an integrated part of the general risk surveillance.

As credit risk reducing technique, the bank uses the expanded method under the standard method, which means that the bank may reduce the capital strain from a commitment through pledging of certain financial securities issued by a business or a country with a particularly good credit rating.

Calculation of credit reduction with financial securities and guarantees, etc.

The table below shows the total exposures covered by financial securities and guarantees and credit derivatives

As at 31.12.2013 amounts in DKK 1,000	Exposure covered by financial securities	Exposure covered by guarantees and credit derivatives
Businesses	146,707	107,000
Retail customers	91,166	13,141
Exposure covered by real property mortgage	5,344	46
Total exposures covered by financial securities, and guarantees and credit derivatives	243,217	120,187