

Risk report regarding Capital Adequacy Calculation as at 31 December 2009



Risk report regarding capital adequacy calculation

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Risk report regarding capital adequacy calculation

Introduction

The present risk report, which is published at www.nordjyskebank.dk, was prepared according to the stipulations in the Executive Order on Capital Adequacy.

The report is published annually in connection with the publication of the bank's annual report for the previous year.

The report includes only the areas in which the bank has activities.

It is the opinion of the bank that the information published and the frequency of publication are appropriate in relation to the bank's risk exposure.

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

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Goal and risk policy

The activities of the bank expose the bank to different types of risks: credit risk, market risk, liquidity risk, and operational risk.

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

The market risk is the risk that the market value of the bank's assets and liabilities changes because of changed market conditions.

The liquidity risk is the risk that the bank's payment obligations cannot be met by the bank's liquidity reserves.

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 take on 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

Nordjyske Bank undertakes credit risks on the basis of a credit policy established with the aim of

- obtaining well-balanced relations between risks assumed and the return obtained by the bank
- making sure that the bank's losses are at an acceptable level compared with comparable Danish banks
- ensuring that the bank's losses can be covered by the bank's results.

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 small commitments. It is the aim that individual commitments will only in exceptional cases and for brief periods exceed 10% of the bank's equity as far as the unsecured part of the commitment is concerned.

At the end of 2009, the sum of large commitments, commitments amounting to more than 10% of the bank's capital base after deductions amounts to a total of 13.2% of the bank's capital base after deductions.

The total gearing of lending is and has always been moderate. At the end of 2009, it was 5.5 times the equity.

In connection with lending activities, efforts are made to ensure that the bank gets the best possible security cover for the bank's commitments.

For lending to private customers, the most important types of security are:

- real property
- securities and
- cars.

For lending to commercial customers, the most important types of security are:

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- real property
- securities
- operating equipment
- stocks
- debtors and
- guarantors.

A credit rating is made of the bank's customers, i.e. a division of the customers according to quality (ability and willingness to meet their commitments). The model used for private customers is based on the customer's personal financial situation (assets, income, disposable amount) and supplemented by an assessment of the customer's current situation. The model used for commercial customers is based on the customer's accounting data, swot analyses together with an assessment of the customer's current situation.

The credit rating is reflected in 13 rating classes which can be grouped as follows:

- 10 - 31 good commitments
- 32 - 33 medium-class commitments
- 37 - 39 weak commitments
- 41 - 42 write-down commitments
- 50 - loss-giving commitments

The total credit risk is managed according to policies and frameworks laid down by the bank's management. The responsibility for monitoring, general risk-taking and reporting to the bank's management is centrally anchored with the bank's credit office.

Market risks

It is the basic policy of the bank to keep the market risks at a low level. The bank's management has set up concrete risk limits for each type of market risk, which cannot be exceeded.

The main part of the bank's lending and deposit transactions and accounts with other banks have been established on a variable basis.

The interest risk, defined as the loss which the bank will suffer from an increase in the effective interest rate of 1 percentage point on the exposures with a fixed rate of interest amounted to 0.1% of the bank's core capital after deductions at the end of 2009.

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

Material foreign exchange positions are hedged on an ongoing basis with off-setting transactions. The bank is therefore only to a limited extent exposed to exchange rate fluctuations. By the end of 2009, the bank's foreign exchange rate risk (indicator 2) amounted to 0.2 million kroner.

The bank is co-owner of a number of sector businesses (Bankinvest holding A/S, Sparinvest Holding A/S, Let Pension, DLR Kredit A/S, PRAS A/S, PBS Holding A/S, Multidata Holding A/S and Bankdata). These ownership shares can be compared to the large banks' fully owned subsidiaries, and therefore these investments are not considered part of the bank's share risk. In addition, the bank has a small portfolio of listed shares.

At the end of 2009, the bank's holding of listed shares amounted to just over 19 million kroner – or 2% of the bank's equity.



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If possible, the bank wants to own the premises from which the bank operates. On the other hand, the bank primarily wants to own properties to be used for the banking activities. This means that the bank's property portfolio mainly includes headquarters property.

At the end of 2009, the holding of investment properties amounted to just over 40 million Danish kroner, or 3% of the bank's equity.

The bank's market risks are controlled by the bank's FinansCenter according to policies and limits set up by the bank's management. The individual risk areas are monitored continually by the bank's finance department, and the bank's management receives reports on an ongoing basis.

Liquidity risks

It is the aim of the bank to finance the lending portfolio by the sum of deposits from customers (excluding pool deposits and time deposits above 15% of the total deposits)

- subordinated debts
- equity and
- long-term senior loans.

At the end of 2009, the bank had a surplus cover of 1.7 bn Danish kroner compared with this aim – corresponding to 28% of the lending portfolio. Add to this reserves which may be utilised at request in case of a liquidity crisis in the form of repo transactions-on the bank's pool assets, temporary loan facilities with the central bank, and mortgaging of the bank's properties to a total value of about 0.8 bn Danish kroner.

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

Operational risks

The bank's management is informed on an ongoing basis of the losses and events which are assessed as originating from operational risks. On the basis of this reporting, it is assessed whether business procedures, etc., can be adjusted and improved with a view to avoiding or minimising the operational risks.

The IT supply, which is the most important area when assessing the bank's operational risks, has been outsourced to Bankdata, which is owned jointly by the bank and a number of other financial institutions. IT security is assessed continually, and the necessary adjustments to the bank's emergency plans are made.

Risk report regarding capital adequacy calculation

Scope

The risk report covers the activities in

Nordjyske Bank A/S
CVR-No. 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, unimportant in relation to the bank. Therefore, no group financial statements have been prepared. Similarly, it is not considered relevant to distinguish between consolidation for accounting purposes and consolidation according to chapter 12 of the Danish Financial Activities Act.

Risk report regarding the capital adequacy statement

Capital base, calculation

| As at 31.12.2009 | 1,000 DKK | 1,000 DKK |
|--|-----------|-----------|
| Core capital | | |
| Share capital/guarantor capital/membership capital | 80,400 | |
| Reserves | 4,570 | |
| Profits or loss carried forward | 998,910 | |
| Core capital, total | | 1,083,880 |
| Primary deductions from core capital | | |
| Proposed dividend | 0 | |
| Intangible assets | 12,000 | |
| Deferred, capitalised tax assets | 8,400 | |
| Primary deductions from core capital, total | | 20,400 |
| Core capital after primary deductions | | 1,063,480 |
| Other deductions | | |
| Half of the sum of capital shares, etc. > 10% | 22,700 | |
| Excess deduction | 0 | |
| Other deductions, total | | 22,700 |
| Core capital after deductions | | 1,040,780 |
| Additional capital | | |
| Subordinated loan capital | 6,951 | |
| Provisions for appreciations | 23,608 | |
| Included additional capital | | 30,559 |
| Capital base before deductions | | 1,071,339 |
| Deductions from capital base | | |
| Half of the sum of capital shares, etc. > 10% | 22,700 | |
| Set-off of the excess deduction | 0 | |
| Deductions in capital base, net | | 22,700 |
| Capital base after deductions | | 1,048,639 |



Risk report regarding capital adequacy calculation

At the end of 2009, the bank's capital adequacy percentage, the capital base after deductions, amounted to 16.6% of the weighted items of a total of 6.333 million Danish kroner – based on equity alone.

The core capital percentage amounts to 16.4%.

Risk report regarding capital adequacy calculation

Capital adequacy requirements and sufficient core capital

According to the stipulations in the Executive Order on Capital Adequacy, the Board of Directors and the Executive Board must make sure that the bank has sufficient capital base. In addition, the Board of Directors and the Executive Board must calculate the bank's individual solvency requirement. The Board of Directors and the Executive Board have, most recently in connection with the discussion of the annual report for 2009, discussed the level of sufficient core capital and the individual capital adequacy requirement. The next discussion has been agreed for August 2010 in connection with the discussion of the interim report for 2010.

Calculation of the capital adequacy requirement and the necessary core capital has been based on a two-tier model.

The first part includes a stress test of the bank's expected result for the coming period with the following factors:

- 1 Income risks
 - 1.1 Net interest earnings are reduced by 12%
 - 1.2 Fees and commission earnings are reduced by 17%
- 2 Credit risks
 - 2.1 Write-downs on lending and provisions for guarantees are fixed at 4.27% of the exposure at the start of the year to cover the general credit risk
 - 2.2 Write-downs of 8% of the positive market value on derivative transactions with customers to cover the counterparty risk
- 3 Market risks
 - 3.1 Interest risks are fixed corresponding to an interest rate increase of 1.35 percentage points
 - 3.2 Foreign exchange risks are fixed at 2.25% of exposures in Euro and 12% of exposures in other currencies
 - 3.3 Share risks are fixed at 15% of the holding of sector shares and 30% of other shares
 - 3.4 Property risks are fixed corresponding to an increase in interest rates of 1.35 percentage points

In the second part of the model, provisions are made to cover the following risks:

- 4 Growth
 - 4.1 A growth of 5% in risk-weighted assets is included.
- 5 Credit risks
 - 5.1 No further provisions are made to cover large commitments, as the sum of large commitments amounts to 13.2% at the end of 2009, i.e. markedly below the level of both the average for all financial institutions during the period 1995 – 2008 and the fourth of all financial institutions with the lowest levels in 2004 – 2008.
 - 5.2 To cover the risk of low-quality commitments, provisions are made corresponding to a loss of half of the unsecured amounts for this group.
 - 5.3 To cover the geographic concentration, provisions of 0.5 are made as an estimate
 - 5.4 To cover a commercial concentration in the agricultural sector, provisions are made corresponding to the entire unsecured amount of low-quality commitments in this group.

Risk report regarding capital adequacy calculation

- 6 Market risks
 - 6.1 The bank's market risks are relatively small – and not characterised by a concentration on individual securities, etc. Consequently, no provisions are made to cover market risks.
- 7 Operational risks
 - 7.1 Provisions are made to cover operational risks in accordance with the stipulations of the Executive Order on Capital Adequacy.
- 8 Capital provision
 - 8.1 The bank's capital base is sufficiently sound to cover the bank's capital requirement for the coming year. Therefore, no provisions are made to cover the risks in connection with capital provision.
- 9 Liquidity risk
 - 9.1 The bank's liquidity scope amounted to about 2.8 bn kroner at the beginning of the year. In addition, it is the bank's assessment that about 80% of the bank's deposits will be covered by the Danish Deposit Guarantee Fund when the current state guarantee lapses at the end of September 2010. Consequently, no provisions have been made to cover the risks of liquidity provision.
- 10 Other risks
 - 10.1 Provisions of 0.5 have been made as an estimate regarding institution size. It is the opinion of the bank that no additional provisions to cover other risks are required.

In the opinion of the bank, the risk factors included in the model will cover all the risk areas which the legislation requires the bank's management to allow for when fixing the capital adequacy requirement, and the risks which the management finds it relevant to include in the assessment of the capital adequacy requirement.

On the basis of the above factors, the estimated capital adequacy requirement is estimated at 6.62% – corresponding to sufficient capital base of 420 million Danish kroner. According to the legislation, the individual capital adequacy requirement must not be fixed at less than 8%.

The capital adequacy calculation can be specified as follows on risk areas:

| | % | Sufficient capital base |
|----------------------|-------|----------------------------|
| Credit risks | 5.28 | 334 m DKK |
| Market risks | 1.09 | 69 m DKK |
| Operational risks | 0.97 | 61 m DKK |
| Other aspects | -0.72 | - 44 m DKK |
| Internal calculation | 6.62 | 420 m DKK |
| Statutory surcharge | 1.38 | 87 m DKK |
| Total | 8.00 | 507 m DKK |

Risk report regarding capital adequacy calculation

In addition, the Board of Directors and the Executive Board must assess whether the capital base is sufficient to support the future activities. This assessment is in Nordjyske Bank part of the general calculation of the capital adequacy requirement. Therefore, the management will at least twice a year assess how the growth expectations will affect the calculation of the capital adequacy requirement. In practice, this will mean that the management must in the model estimate the future growth percentage, the average solvency weight and earnings margin after tax of the growth. In the model, the calculated solvency charge of the growth expectations will have a direct effect on the capital adequacy requirement in the form of a surcharge.

Risk report regarding capital adequacy calculation

Calculation of the risk-weighted items with credit risk

The bank uses the standard method for credit risks when calculating the risk-weighted items.

| As at 31.12.2009 amounts in DKK 1,000 | Risk-weighted exposure | Cap. req. (8% of exposure) |
|--|------------------------|-------------------------------|
| Public-sector units | 240 | 19 |
| Institutions | 69,230 | 5,538 |
| Businesses, etc. | 2,230,576 | 178,446 |
| Retail customers | 2,262,872 | 181,030 |
| Exposure covered by mortgage | 571,664 | 45,733 |
| Exposure with arrears or overdraft | 219,700 | 17,576 |
| Exposure in other items, including assets without counterparties..... | 192,945 | 15,436 |
| Weighted items with credit risk, total | 5,547,227 | 443,778 |

Calculation of risk-weighted items with market risk

| As at 31.12.2009 amount in DKK 1,000 | Risk-weighted exposure | Cap. req. (8% of exposure) |
|--|------------------------|-------------------------------|
| Debt instruments | 133,039 | 10,643 |
| Shares | 4,125 | 330 |
| Foreign exchange risks | 33,160 | 2,653 |
| Weighted items with credit risk, total | 170,324 | 13,626 |

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.

| As at 31.12.2009 amount in DKK 1,000 | Risk-weighted exposure | Cap. req. (8% of exposure) |
|---|------------------------|-------------------------------|
| Weighted items with operational risk, total | 639,914 | 51,193 |

Risk report regarding capital adequacy calculation

Counterparty risk

The bank uses the market value method for counterparty risk when calculating the size of exposure for derived financial instruments included in the definition in the Executive Order on Capital Adequacy.

The value of the exposure by means of the market value method for counterparty risk follows from the below method:

- Contracts are calculated at market value in order to obtain the current replacement cost of all contracts with a positive value.
- In order to get 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 interest rates 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 form the exposure value.

In connection with the bank's determination of sufficient capital base, capital is held corresponding to 8% of the positive market value of the derivatives.

During the bank's granting process and the general commitment monitoring, the bank allows for the calculated exposure value in order to ensure that it does not exceed the granted credit limit for the counterparty.

The value of the bank's total counterparty risk calculated according to the market value method amounted to DKK 57,784 thousand DKK as at 31 December 2009.

Risk report regarding capital adequacy calculation

Credit risk

When determining the value adjustment and write-downs of the bank's lending and deposits, the bank uses the stipulations in §§ 51-54 of Order on Financial Reports for Credit Institutions and Stockbroker Companies, etc.

Amounts owing from credit institutions and central banks are all assessed individually for an objective indication of value deterioration. For material lending, an individual assessment is made of whether there is an objective indication for value deterioration. The write-down requirement is calculated individually when there is an objective indication for value deterioration at individual level. Individually assessed loans which have not been written down and other loans are subsequently assessed on portfolio basis.

A portfolio-based assessment is made of the write-down requirement as a consequence of an objective indication of value deterioration of groups of loans with similar characteristics regarding credit risk. The portfolio assessment is based on a rating of the customers on the basis of financial key figures. When calculating the need for group write-downs, a gross approach is used. The method means that the total group-based write-downs amount to the sum of the individual customers' deterioration in the rating classes without considering the possibility that other customers have received a better rating during the period.

An individual loan or a group of loans are considered value-deteriorated if and only if there is objective indication for value deterioration as a consequence of one or more events which have occurred after the first inclusion of the loan, and such event or events affect the expected future payment flows which can be estimated reliably. The agreed effective interest rate for the individual loan is used as a discounting factor. For portfolios of loans, the weighted average of the agreed effective interest rate is used for the individual loans in the portfolio.

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

The portfolio-based assessment of the write-down requirement for groups of loans with similar characteristics regarding credit risk is based on a rating of the customers on the basis of financial key figures. When calculating the need for group write-downs, a gross approach is used. The method means that the total group-based write-downs amount to the sum of the individual customers' deterioration in rating classes without considering the possibility that other customers have received a better rating during the period.

Lending and amounts owing are according to the Danish Executive Order on Preparation of Financial Statements and the Executive Order on Capital Adequacy classified as non-performing when arrears of at least DKK 1,000 have existed for a coherent period of 90 days.

As at 31 December 2009, the total value of the bank's exposures after write-downs and before considering credit risk reduction amounts to a total of 10,979 million DKK.

Risk report regarding capital adequacy calculation

Calculation of the average value of the exposure

| Aver. for in 1,000 DKK | 2009 |
|---|------------------|
| Central governments or central banks | 1,039,573 |
| Exposures with regional or local authorities | 3 |
| Public-sector units | 62,709 |
| Institutions | 219,975 |
| Businesses, etc. | 2,118,778 |
| Retail customers | 3,337,607 |
| Exposures secured by mortgage in real property | 1,128,941 |
| Exposures with arrears or overdraft | 210,257 |
| Short-term institute exposures and business exposures, etc. | 3,217 |
| Exposures in other items, including assets without counterparties | 179,670 |
| Total exposures | 8,300,730 |

Risk report regarding capital adequacy calculation

Credit exposure by lines of business and credit categories

| As at 31 December 2009 Amount in 1,000 DKK | Central governments or central banks | Public-sector units | Institutions | Businesses, etc. | Retail customers | Exposures secured by mortgage in real property | Exposures with arrears or overdraft | Bond cover | Exposures in other items, including assets without counterparties | Total |
|---|--|------------------------|--------------|---------------------|---------------------|---|---|------------|---|------------|
| Public authorities | | | | | 15,485 | 6,190 | | | | 21,675 |
| Agriculture, hunting, forestry | | | | 1,135,463 | 582,731 | 168,930 | 9,806 | | | 1,896,930 |
| Fishing | | | | | | | | | | |
| Manufacturing, raw material extraction, electricity, gas, water and heating plants .. | | | | 337,991 | 153,697 | 25,236 | 7,062 | | | 523,986 |
| Building and construction . | | | | 102,461 | 242,955 | 68,490 | 15,039 | | | 428,945 |
| Trade, restaurant and hotel activities | | | | 245,829 | 378,275 | 116,130 | 17,158 | | | 757,392 |
| Transport, post and telephone | | 20,369 | | 59,931 | 75,623 | 9,200 | 7,682 | | | 172,805 |
| Credit and financing and insurance activities | 1,460,195 | | 179,869 | 106,411 | 7,184 | 7,036 | | | 240,996 | 2,001,691 |
| Property administration and trade, business service | | | 461 | 533,003 | 140,299 | 47,583 | 2,493 | | | 723,839 |
| Other lines of business | | | | 211,176 | 276,137 | 67,439 | 8,513 | 1 | | 563,266 |
| Commercial customers, total | 1,460,195 | 20,369 | 180,330 | 2,732,265 | 1,872,386 | 516,234 | 67,753 | 1 | 240,996 | 7,090,529 |
| Private customers | | | | 143,889 | 2,556,767 | 1,088,951 | 98,899 | | | 3,888,506 |
| Total | 1,460,195 | 20,369 | 180,330 | 2,876,154 | 4,429,153 | 1,605,185 | 166,652 | 1 | 240,996 | 10,979,035 |

Risk report regarding capital adequacy calculation

Credit exposure by remaining term and credit categories

| As at 31.12.2009 amount in DKK 1,000 | Demand | 0 - 3 m. | 3 m. - 1 year | 1 - 5 years | More than 5 years | Total |
|--|------------------|------------------|------------------|------------------|----------------------|-------------------|
| Central governments or central banks | 235,351 | 1,224,844 | | | | 1,240,372 |
| Public-sector units | (219,659) | 240,027 | | | | 240,117 |
| Institutions | 30,820 | 24,926 | 2,500 | 257 | 121,827 | 180,330 |
| Businesses, etc. | 757,457 | 341,470 | 1,329,095 | 205,308 | 242,825 | 2,871,725 |
| Retail customers | 1,236,342 | 260,693 | 946,302 | 779,597 | 1,206,219 | 4,429,153 |
| Exposure secured by mortgage in real property | 133,881 | 37,995 | 140,534 | 220,204 | 1,072,571 | 1,605,185 |
| Exposures with arrears or overdraft | 35,869 | 9,187 | 24,293 | 30,041 | 67,262 | 166,652 |
| Bond cover | | | | | 1 | 1 |
| Exposure in other items, including assets without counterparties | 238,757 | | | | 2,239 | 240,506 |
| I alt | 2,448,818 | 2,139,142 | 2,442,724 | 1,235,407 | 2,712,944 | 10,979,035 |

Non-performing and value deteriorated claims by exposure categories

| 1,000 DKK | Non- performing claims exposure | Value deteriorated claims exposure | Write-downs/ Provisions at the end of the year | Amounts charged to revenue re value adj. and write-downs |
|---|--|---|---|--|
| Public authorities..... | | | | |
| Agriculture, hunting and forestry | 9,806 | 338,337 | 149,112 | |
| Fishing | | 62,327 | 14,504 | |
| Manufacturing, raw material extraction, electricity, gas, water and heating plants ... | 7,062 | 83,288 | 14,498 | 4,750 |
| Building and construction | 15,039 | 21,715 | 12,299 | 750 |
| Trade, restaurant and hotel activities | 17,158 | 80,907 | 38,267 | 3,979 |
| Transport, post and telephone | 7,682 | 15,366 | 6,109 | 2,617 |
| Credit and financing activity and insurance activity | | 66,280 | 20,297 | 3,698 |
| Property administration and transactions, business service | 2,493 | 18,370 | 6,925 | |
| Other lines of business | 11,503 | 29,081 | 14,188 | 2,178 |
| Commercial customers, total | 70,743 | 715,671 | 276,199 | 17,972 |
| Private customers | 102,926 | 65,347 | 37,604 | 9,575 |
| Total | 173,669 | 781,018 | 313,803 | 27,547 |

Risk report regarding capital adequacy calculation

Movements of value deteriorating claims because of value adjustments and write-downs

| As at 31.12.2009 1,000 DKK | Lending | Guarantees |
|--|---------|------------|
| Individual write-downs | | |
| Write-downs, start of year | 153,690 | 0 |
| Write-downs during the year | 115,829 | 14,623 |
| Reversal of write-downs made in previous financial years | 36,614 | |
| Other movements (write-downs received Løkken) | 82,078 | |
| Final loss previously written down individually | 19,274 | |
| Write-downs, end of the year | 295,709 | 14,623 |
| Group-based write-downs | | |
| Write-downs, start of the year | 13,107 | 1,529 |
| Write-downs during the year | 6,318 | 268 |
| Other movements (write-downs received Løkken) | 11,686 | |
| Reversal of write-downs made in previous financial years | 0 | 0 |
| Write-downs, end of the year | 31,111 | 1,797 |
| Final loss (written down) not previously written down individually | 8,372 | |
| Received re claims previously written down | 1,281 | |

Risk report re capital adequacy calculation

Market risk

Calculation of capital adequacy risks for items with position risk

| As at 31.12.2009 in 1,000 DKK | weighted amount capital adequacy requirement (8 % of exposure) | |
|---|---|--------|
| Debt instruments | 133,039 | 10,643 |
| Shares, etc. (incl. collective investments schemes) | 4,125 | 330 |
| Foreign exchange position | 33,160 | 2,653 |

Risk report regarding capital adequacy calculation

Operational risk

According to the Executive Order on Capital Adequacy, operational risks must be hedged as far as capital is concerned. The capital adequacy requirement regarding operational risks is to cover: "Risk of loss caused by inappropriate or insufficient internal procedures, human or system-related errors or as a consequence of external events, including legal risks".

Nordjyske Bank uses the basic indicator method, cf. Appendix 18 of the Executive Order on Capital Adequacy Requirements, when calculating operational risks. This means that the capital adequacy requirement is calculated at: 15% of the average "basic earnings" during the past 3 years. The basic earnings are the sum of net interest earnings and not interest-related net earnings.

However, the bank carries out an ongoing assessment of the capital adequacy requirement for operational risks. If the capital adequacy requirement is considered higher than the amount mentioned above, this will be taken into account when the bank calculates the capital adequacy requirement.

Risk report regarding the capital adequacy calculation

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

In cooperation with other financial institutions, Nordjyske Bank has made capital deposits into a number of sector businesses. The aim of these sector businesses is to support financial institutions within mortgage credit lending, payment provision, IT, investment associations, etc. The bank does not intend to dispose of these capital deposits, as participation in these sector businesses is considered necessary for the bank's activities. Capital deposits are therefore considered outside the trading portfolio.

In several sector businesses, the capital shares are redistributed so that the ownership shares of the financial institutions will at all times reflect the amount of business of the individual financial institution with the sector company. The redistribution is typically based on the book value of the sector company.

Capital shares in these sector businesses are valued at current value. The determination of the current value is based on available information about current transactions. If no current market information is available, the current value is based on the most recently prepared and approved annual reports. Other unlisted securities have been entered at original cost or a possible, lower current value. The ongoing adjustment is entered according to the rules via the income statement.

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

Shareholding, etc.

As at 31.12.2009

in 1000 DKK

| | Book value |
|---|----------------|
| Shares in the trading portfolio | |
| - listed shares | 19,283 |
| Unlisted shares, etc., at current value: | |
| - sector shares | 128,468 |
| - other unlisted shares | 645 |
| Other capital shares | <u>16,246</u> |
| Total outside the trading portfolio | <u>145,359</u> |
| Shares, etc., total | <u>164,642</u> |

Risk report regarding capital adequacy calculation

Interest risk outside the trading portfolio

The bank's total interest risk as at 31 December 2009 amounted to a total of 924 t DKK distributed as follows:

As at 31.12.2009
in 1,000 DKK

Interest risk on positions in the trading portfolio:

| | | |
|--|--------------|-------|
| Securities | 7,127 | |
| Futures, forward transactions for FRAs | - 19 | |
| Swaps | <u>- 545</u> | 6,563 |

Interest risk for positions outside the trading portfolio:

| | | |
|--|--|----------------|
| Balance sheet items, i.e. loans and amounts owing and deposits and debts | | <u>- 5,639</u> |
|--|--|----------------|

| | | |
|----------------------------|--|------------|
| Interest risk, total | | <u>924</u> |
|----------------------------|--|------------|

Of this

| | | |
|--|---------|--|
| - positions in DKK | 2,171 | |
| - positions in foreign currencies..... | - 1,247 | |

Risk report regarding capital adequacy calculation

Credit reducing methods

Nordjyske Bank does not use balance sheet netting or netting below the line.

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

- deposits
- bonds and debt instruments
- investment association certificates
- shares, listed

Securities are increasingly used as security. This is among other things due to investment opportunities, where the bank also offers a financing package. Also the more traditional type of guarantee in the form of an existing holding of securities is to some extent used by the bank.

The bank's policy for value assessment of financial guarantees causes the value assessment to be a conservative market value assessment. There are business procedures in place for administration and value assessment of guarantees, and the procedures is an integrated part of the general risk monitoring.

As a credit reducing method, the expanded method under the standard method is used, which means that the bank can reduce the capital burden of a commitment when security is accepted in certain financial guarantees issued by a business or countries with particularly good credit rating.

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

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

| As at 31.12.2009 | Exposures covered by financial securities | Exposures covered by guarantees and credit derivatives |
|---|--|---|
| in 1,000 DKK | | |
| Institutions | 0 | 11,202 |
| Businesses | 97,778 | 2,372 |
| Retail customers | 122,438 | 13,189 |
| Exposures covered by mortgage in real property | 42,029 | 0 |
| Exposures with arrears or overdraft | 2,076 | 13 |
| | <hr/> | <hr/> |
| Total exposures covered by financial securities, and guarantees and credit derivatives | 264,321 | 26,776 |