Risk Report
2012

Nordjyske Bank

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Risk Report

Introduction

The present risk report which is published at www.nordjyskebank.dk has been 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 mentions only the areas in which the bank has activities.

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.

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
Nordjyske Bank undertakes credit risks on the basis of a credit policy established with the following aims:

- there must be a well-balanced relation between the risks undertaken and the return obtained by the bank
- the bank's loss must be at an acceptable level compared with comparable Danish banks
- it must be possible to cover the bank's loss 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 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 less than 75 per cent of 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 23.3 per cent of the bank's core capital after deduction at the end of 2012.

The total gearing of loans is and has always been moderate. At the end of 2012 it was thus 4.3 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 off immediately, followed by write-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 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 commitments

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 -0.8 per cent of the bank's core capital after deductions at the end of 2012.

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.

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 2012, the bank's exchange rate 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 2012, the bank's holding of listed shares amounted to just over DKK 15 million - or 1 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 2012, the holding of investment properties amounted to DKK 39 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. 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 2012, the bank had excess cover of DKK 2.6 billion compared with this aim - corresponding to 47 per cent of the 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 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
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.

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, immaterial in proportion to the bank. Consolidated financial statements have therefore 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 Act.

Calculation of core capital

As at 31.12.2012 amounts in DKK 1,000		
Actual core capital		
Share capital/guarantee capital/share capital	80.400	
Reserves	4.185	
Profit or loss carried forward	1.193.837	
Actual core capital, total		1.278.422
Primary deductions from core capital		
Suggested dividend	8.040	
Value of own shares in custody	4.029	
Intangible assets	13.784	
Deferred activated tax assets	3.800	
Primary deductions from core capital, total		29.653
Core capital after primary deductions		**1.248.769**
Hybrid core capital		0
Core capital inclusive of hybrid core capital after primary deductions		**1.248.769**
Other deductions		
Half of the sum of capital shares, etc., > 10 per cent	26.612	
Excess deductions	0	
Other deductions, total		26.612
Core capital after deductions		**1.222.157**
Additional capital		
Subordinate loan capital	3.872	
Provisions for appreciation	25.581	
Additional capital included		29.453
Core capital before deductions		**1.251.610**
Deductions from core capital		
Half the sum of capital shares, etc., > 10 per cent	26.612	
Setting off of the excess deduction	0	
Deduction from core capital, total		26.612
Core capital after deductions		**1.224.998**

The bank's capital adequacy percentage, the core capital after deductions, amounted to 19.3 per cent of the weighted items at the end of 2012, of a total of DKK 6,351 million - only on the basis of equity capital.

The core capital percentage amounts to 19.2 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 2012 discussed the level of sufficient core capital and the individual capital adequacy requirement. The next discussion has been agreed at May 2013 in connection with the discussion of the interim report for the first quarter of 2013.

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 December 2012. 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 158 - 211 million. There has been an increasing trend, as the DKK 158 million were realised in 2008, whereas the DKK 211 million were realised in 2012. The average core earnings for the period amount to DKK 190 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. 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 2007 to the end of 2012, the bank's lending has increased by DKK 475 million - corresponding to an average annual growth of less than 2 per cent. During the past year, lending has been reduced by DKK 198 million - corresponding to a negative growth of 3.4 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 199 million to cover special credit risks.

Risk Report

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 49 million is needed to cover special risks in this connection.

Liquidity risk
The bank currently has excess deposits of DKK 1.3 billion. Together with the bank's equity of DKK 1.3 billion, this amounts to a funding ratio of 0.68. Add to this 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 210 per cent - corresponding to DKK 1.7 billion.

For the future, 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
- Time deposits will lapse as they become due
- Deposits which are not covered by the Deposit Guarantee Fund will disappear
- The customers' unutilised drawing rights are utilised by 10 per cent

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 December 2012 amounts in DKK 1,000	Cap. Adequacy as a percentage	Sufficient core capital
Ordinary risks	8,00	508,0 m DKK
Special risks		
- Earnings	0,00	0,0 m DKK
- Growth in lending	0,00	0,0 m DKK
- Credit risk	3,13	198,9 m DKK
- Market risk	0,77	48,9 m DKK
- Liquidity risk	0,00	0,0 m DKK
- Operational risk	0,00	0,0 m DKK
Special risks, total	3,90	247,8 m DKK
Total	**11,90**	**755,8 m DKK**

Excess capital adequacy

The bank's core capital after deductions amounts to a total of DKK 1,225 million. Compared with sufficient core capital of DKK 756 million, there is excess cover of DKK 469 million.

The bank's capital adequacy rate has been calculated at 19.3. Compared with a capital adequacy requirement of 11.9 per cent, there is excess cover of 7.4 percentage points.

Capital adequacy target

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

Calculation of risk-weighted items with credit risk 31 Dec. 2012

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

As at 31 December 2012 amounts in DKK 1,000	Risk-weighted exposure	Cap. requirement (8% of the exposure)
Public entities	2.862	229
Institutes	97.293	7.783
Businesses, etc.	2.477.405	198.192
Retail customers	2.137.747	171.020
Exposure secured by real property mortgage	339.566	27.165
Exposures with arrears or overdraft	11.879	950
Exposures in other items, including assets without counterparties	169.253	13.540
Weighted items with credit risk, total	5.236.005	418.879
Calculation of the risk-weighted items with market risk		
Instruments of debt	261.891	20.951
Shares	5.432	435
Exchange rate risks	0	0
Weighted items with credit risk, total	267.323	21.386
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	888.875	71.110
Deductions for group write-downs according to the standard method		
Group-based write-downs, total	41.615	3.329
Risk-weighted items, total	6.350.588	508.046

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 amounts 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 38,525,000 as at 31 December 2012.

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 valued 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 during the period received a better rating.

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 individual 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 31.12.2012.

Calculation of the average value of exposures

Average for amounts in DKK 1,000	**2012**
Central governments or central banks	119.864
Institutes	353.004
Businesses, etc.	2.359.401
Retail customers	3.204.990
Exposures secured by real property mortgage	758.702
Exposures with arrears or overdraft	77.386
Exposures in other items, including assets without counterparties	168.164
Exposures, total	7.041.511

Credit exposures by industries and credit categories

As at 31 December 2012 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					7.893	733			8.626
Farming, hunting, forestry and fishing				1.625.972	575.259	61.607	977		2.263.815
Industry and extraction of raw materials				419.253	108.180	18.267	3		545.703
Energy supply				6.774	22.375				29.149
Building and construction				56.652	188.394	31.822			276.868
Trade				178.712	274.460	50.234	447		503.853
Transport, hotels and restaurants				62.788	123.374	25.077			211.239
Information and communication				3.055	18.877	5.308	427		27.667
Financing and insurance	85.851		461.006	188.389	47.348	8.147	1	215.330	1.006.072
Real property				263.564	150.577	50.926			465.067
Other industries				195.351	270.827	43.332	26		509.536
Industries, total	85.851		461.006	3.000.510	1.787.564	295.453	1.881	215.330	5.847.595
Private				170.193	2.458.498	642.336	6.668		3.277.695
Total	85.851	0	461.006	3.170.703	4.246.062	937.789	8.549	215.330	9.125.290

Credit exposure by remaining term and credit categories

As at 31 December 2012 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	85.851					85.851
Public entities						0
Institutes	328.530	7.972	3.623	8.756	112.125	461.006
Businesses, etc.	789.083	356.024	1.472.992	323.257	229.347	3.170.703
Retail customers	1.113.104	181.112	957.351	789.704	1.204.791	4.246.062
Exposure secured by real property mortgages	85.020	14.054	113.372	155.946	569.397	937.789
Exposure with arrears or overdraft	1.653	119	1.653	2.148	2.976	8.549
Exposures in other items, including assets without counterparties	215.034		5		291	215.330
Total	2.618.275	559.281	2.548.996	1.279.811	2.118.927	9.125.290

Non-performed and value-reducing receivables by exposure categories

As at 31 December 2012 amounts in DKK 1,000	Non-performed receivables exposure	Value-reducing receivables exposure	Write-downs/provisions at the end of the year	Amounts charged to revenue re value-red. and write-downs
Public authorities				
Farming, hunting, forestry and fishing	977	683.797	213.390	45.546
materials	3	45.978	19.472	10.346
Energy supply				
Building and construction		12.747	7.078	1.463
Trade	447	75.442	32.586	17.383
Transport, hotels and restaurants		92.019	34.377	9.080
Information and communication	427	3.243	510	-261
Financing and insurance	1	30.445	24.052	578
Real property		215.608	59.401	37.676
Other industries	26	82.792	32.457	11.059
Business, total	1.881	1.242.071	423.323	132.870
Private	6.668	157.635	77.854	28.759
Total	8.549	1.399.706	501.177	161.629

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

As at 31 December 2012 amounts in DKK 1,000	Lending	Guarantees
Individual write-downs		
Write-downs, start of the year	377.544	94
Write-downs during the year	245.144	413
Reversal of write-downs made during previous financial years	91.488	467
Final loss, previously written down individually	30.063	0
Write-downs, end of the year	501.137	40
Group-based write-downs		
Write-downs, start of the year	32.468	1.702
Write-downs during the year	1.613	152
Reversal of write-downs made during previous financial years	3.040	284
Write-downs, end of the year	31.041	1.570
Final loss (written down), not previously written down individually	8.104	
Received from previously written down receivables	1.887	

Market Risk

As at 31 December 2012 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	261.891	20.951
Shares, etc. (including collective investment schemes)	5.432	435
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 December 2012 amounts in DKK 1,000	Book value
Holding of shares, etc.	
Shares in the trading portfolio	
- listed shares	15.441
Unlisted shares, etc., at market value:	
- sector shares	208.792
- other unlisted shares	4
Other capital shares	2.521
Outside the trading portfolio, total	211.317
Shares, etc., total	226.758

Interest Risk

As at 31 December 2012, the bank's total interest risk amounted to a total of DKK -9.792 distributed as follows:
amounts in DKK 1,000

Interest risk for positions in the trading portfolio:		
Securities	11.443	
Futures, forward transactions for FRAs	131	
Swaps	- 162	11.412
Interest risk for positions outside the trading portfolio:		
Balance sheet items		
i.e. lending and receivables and deposits and debts		- 21.204
Total interest risk		- -9.792
Including		
- positions in Danish kroner	- 10.072	
- positions in foreign currencies	280	

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 December 2012 amounts in DKK 1,000	Exposure covered by financial securities	Exposure covered by guarantees and credit derivatives
Businesses	137.719	106.531
Retail customers	79.444	14.216
Exposure covered by real property mortgage	11.064	0
Total exposures covered by financial securities, and guarantees and credit derivatives	228.227	120.747