

# Annual Report 2017



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## The Management's preface

2017 was another good year for Nordjyske Bank. We have delivered a strong financial result where we have realized and even exceeded our strategic goals. We are now even better prepared for the future and to meet our objective to be the best bank in Northern Jutland.

In 2017 we have come far with our strategy 2016-2018. our strategic objective to reach a return on equity of 9-11 per cent per annum before the end of 2018 has been met with a return of equity at the beginning of 2017 of 11,9 per cent.

Another and important strategic goal is growth in lending, which is of great importance to the result and return on equity. Here our objective is annual growth of 2-4 per cent, which we have achieved with a growth in lending in 2017 of 9.2 per cent in a very competitive market.

The explanation for the positive development is partly the financial situation in the world around us, and partly the great number of initiatives that have been initiated in recent years. We will and shall be the best bank in Northern Jutland. This applies to both creation of value towards the shareholders and in our relation to the customers, which among other things implies competent and satisfied employees.

Our vision "A decent bank – the safe choice" sets the course for our high standards and for our commitment as a local bank in Northern Jutland. We are dependent on the people of Northern Jutland, and the people of Northern Jutland benefit from a local bank based in the region.

It is positive that we have a resilience that provides us with a basis that, in spite of increasing capital requirements, provides us with a basis for maintaining our dividend policy and deliver a satisfactory return on shares of more than 18 per cent on the basis of paid dividend and market price increase in 2017.

**"Satisfactory yield on shares of more than 18 per cent"**



Claus Andersen, Managing Director, and Mads Hvolby, Chairman

**"The key word to us is customer intimacy. That is the road for us to differentiate..."**

Our strategy 2016-2018 includes a number of initiatives distributed on growth and greater efficiency. By this we ensure that we utilise the potential which is right in front of us. We have focus on execution of both, and we are well on our way with performance of the initiatives

To us the key word is customer intimacy. It is the road for us to differentiate, and it provides us with some ambitious goals to give our customers even more attention as well as specialised advice. In January 2018, the customers have again confirmed this by giving us top grade for customer satisfaction, which is the best answer to whether we have succeeded in our strategy

In the annual report for 2017 you can read more about the year's results and about some of all the initiatives we have initiated to ensure new progress in 2018. We continue to focus on utilising the bank's potentials through strengthened relations to shareholders, customers, and market area as a whole.

A handwritten signature in black ink, belonging to Mads Hvolby.

Mads Hvolby  
Chairman of the Board

A handwritten signature in black ink, belonging to Claus Andersen.

Claus Andersen  
Managing Director

## Overview 2017



### Equity

15 per cent return  
before tax - corrected for  
goodwill etc.



### Dividend

30 per cent  
corresponding to  
DKK 81 million



### High level of customer satisfaction

No. 1 in Northern Jutland



### Core earning

Increases to DKK 374 million  
in accordance with expectations



### Write-downs

Significant 63 per cent fall



### Pre-tax result

Increase by 43 per cent  
to DKK 329 million



### Lending

Growth in lending by 9 per cent  
to DKK 11.8 billion



### Capital adequacy rate

Strong capital adequacy rate  
of 16.7



### IT-focus

Strategic initiative

## Financial overview

| <b>Condensed core earnings</b><br>(pro forma statement – amounts in DKK million) | <b>2017</b> | <b>2016</b> | <b>Develop-<br/>ment, %</b> |
|--|-------------|-------------|-----------------------------|
| Interest income  | 524         | 526         | -0.4                        |
| Interest expenses  | 37          | 47          | -21.3                       |
| <b>Net interest income</b>   | <b>487</b>  | <b>479</b>  | <b>1.7</b>                  |
| Fees and commission income, net  | 356         | 352         | 1.1                         |
| Other operating income etc.  | 62          | 57          | 8.8                         |
| <b>Core income</b>   | <b>905</b>  | <b>888</b>  | <b>1.9</b>                  |
| Salaries etc.  | 304         | 291         | 4.5                         |
| Operating costs  | 198         | 201         | -1.5                        |
| Depreciations and write-downs  | 29          | 27          | 7.4                         |
| <b>Prime costs</b>   | <b>531</b>  | <b>519</b>  | <b>2.3</b>                  |
| <b>Core earnings</b>   | <b>374</b>  | <b>369</b>  | <b>1.4</b>                  |
| Payments to the Resolution Fund, etc.  | 1           | 1           | 0.0                         |
| Write-downs on own lending etc.  | 60          | 163         | -63.2                       |
| Holdnings result   | 16          | 25          | -36.0                       |
| <b>Pro forma pre-tax result</b>  | <b>329</b>  | <b>230</b>  | <b>43.0</b>                 |
| Pro forma regulations  | 10          | -2          | -                           |
| Pre-tax result according to the purchase method                                  | 339         | 228         | 48.7                        |

| <b>Selected balance sheet figures</b><br>(amounts in DKK million)                       | <b>2017</b> | <b>2016</b> | <b>Develop-<br/>ment, %</b> |
|---|-------------|-------------|-----------------------------|
| Total assets  | 20,527      | 19,451      | 5.5                         |
| Lending   | 11,822      | 10,822      | 9.2                         |
| Guarantees  | 4,675       | 4,223       | 10.7                        |
| Deposits  | 12,944      | 12,718      | 1.8                         |
| Pooled schemes  | 3,799       | 3,120       | 21.8                        |
| Deposits incl. pooled schemes   | 16,743      | 15,838      | 5.7                         |
| Equity  | 2,952       | 2,758       | 7.0                         |
| Safe custody values   | 13,325      | 12,402      | 7.4                         |
| Business volume (lending, guarantees, deposits, pooled schemes and safe custody values) | 46,565      | 43,285      | 7.6                         |

| <b>Selected key figures</b><br>(Earnings key figures and write-down rate pro forma calculated) | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|
| <b>Capital base</b>  |             |             |
| Actual core capital ratio  | 14.8        | 14.4        |
| Capital adequacy ratio   | 16.7        | 16.4        |
| <b>Ernings</b>   |             |             |
| Pre-tax return on equity, start of period  | 11.9        | 8.8         |
| Pre-tax return on equity (adjusted for goodwill and customer relations)                        | 15.2        | 11.8        |
| Prime costs as a percentage of core earnings   | 58.7        | 58.4        |
| <b>Credit risk</b>   |             |             |
| The year's growth in lending   | 9.2         | 0.9         |
| The year's write-down rate   | 0.3         | 1.0         |
| <b>Likviditet</b>  |             |             |
| Liquidity Coverage Ratio (LCR)   | 257         | 273         |
| <b>The Nordjyske Bank share</b>  |             |             |
| Market price start of period   | 120.0       | 105.0       |
| Book value per share   | 160.9       | 150.3       |
| Market price/Book value  | 0.75        | 0.70        |

## Summary

### Record high pre-tax result

Pre-tax result was DKK 329 million, which is a significant improvement compared with 2016, where the pre-tax result amounted to DKK 230 million.

In spite of a historically low interest rate level and sharpened competition, we managed to realise an increase in the pre-tax result of 43 per cent on the basis of a high level of activities in the bank and lower write-downs.

The pre-tax result carries a return on equity at the beginning of 2017 of 11.9 per cent per annum, which exceeds the strategic goal of return on capital of 9-11 per cent per annum in the strategy period 2016-2018.

Adjusted for goodwill and customer relations, equity at the beginning of 2017 carries a return of 15.2 per cent before tax.

### Core earnings at DKK 374 million

Core earnings are realised by DKK 374 million and is thereby in accordance with the latest announcement of DKK 365-385 million.

Core income increases by 2 per cent to DKK 905 million, which covers an increase in both net interest income, net fee income and other operating income etc.

In the light of increasing competition and a falling interest margin, it is positive that net interest income increases by DKK 8 million. The increase is among other things borne by a satisfactory growth in lending of 9.2 per cent in 2017. Furthermore, it is positive that the bank has had stable and even slightly increasing net interest income in the last 9 quarters.

Net fee income increases to DKK 356 million in 2017 and increases by DKK 4 million compared with 2016.

Prime costs increase by DKK 12 million which is primarily attributable to non-recurring expenses in connection with staff reductions etc.

### Significant reduction in write-downs

Write-downs are reduced significantly compared with 2016. Write-downs amount to DKK 60 million in 2017, which is a significant fall of 63 per cent compared with 2016 where write-downs amounted to DKK 163 million.

The fall is attributable to improvements in the financial conditions for agriculture, including higher settling prices in 2017.

It is the opinion of the management that core earnings of DKK 374 million and the strongly improved pre-tax are very satisfactory.

### Dividend at 30 per cent

In accordance with the bank's dividend policy, the board of directors suggests to pay dividend of DKK 4.4 per share, corresponding to 30 per cent of the bank's profit after tax.

### Positive development in business volume continues

In 2017 the bank has seen a positive increase in business volume, including satisfactory increase in lending.

Lending amounts to DKK 11.8 billion at the end of 2017, which is a DKK 1 billion increase compared with 2016, corresponding to a 9.2 per cent increase. It is very positive that growth in lending is above the strategic goal of 2-4 per cent for the period 2016-2018.

It is positive to notice that the customer's investment funds – safe custody values and pooled scheme deposits – in total increase by DKK 1.6 billion.

### Expectations for the result in 2018

Nordjyske Bank expects basic earnings in the range of DKK 340-390 million.

The bank expects write-downs on lending and guarantees – calculated on a pro forma basis – of DKK 50-75 million, which is related to uncertainty connected with agriculture's financial development.

In addition, the bank's pre-tax result is affected by the result of holdings, which is primarily related to the market price development on bonds.

### Applied calculation methods

Reporting in this statement is based on pro forma calculation and alternative target results with a view to improve the information value. Both are further explained on page 21.

**Increase in pre-tax result of  
43% to DKK 329 million**



## Business model and strategy

Nordjyske Bank's business model and business principles build on a mission to be an ambitious independent bank, where the power of decision is placed in the market area. We want to create value for both private customers and business customers as well as shareholders and employees. It is estimated that a long-term and balanced focus on all parties will bring the greatest value creation.

Nordjyske Bank offers consultancy and has expert knowledge within credit handling, housing, funds, investment, pension, insurance, leasing, payment handling, and foreign exchange business. The activities are performed by 423 competent employees as well as partners, which enables us to keep optimum focus on core business.



### Nordjyske Bank:

- 119,000 privat customers
- 10,000 business customers
- 43,300 shareholders
- Business volume of DKK 46.6 billion

### Nordjyske Bank's branches:

- 22 in Northern Jutland
- 1 in Copenhagen

Headquarters functions in Nørresundby and Frederikshavn

### Nordjyske Bank's focus

Nordjyske Bank has strategically decided that the key to differentiate is "customer intimacy". We want to know and understand our customers, which creates the basis for giving the customers special attention and good individual counselling. Therefore, we have continuous focus on the ideal setup for customer counselling as well as optimizing our resources to be among the best in customer counselling.

We want to use the digital possibilities to support customer contact and make processes more efficient, and therefore we have increased our attention on IT. At the same time, we find individual counselling for both business and private customers important.

We want to be close to our customers, which is considered of great importance to Nordjyske Bank's local attachment to Northern Jutland. More than any other bank in Northern Jutland does Nordjyske Bank act the role of a local bank.

We want to keep a high level of competence among our customer advisers and in consideration of that, we have grouped specialists in competence centres, thus creating good opportunities for sparring.

To ensure implementation of the bank's strategy we also have continuous focus on the organisational setup as well as the bank's management power. In 2017 and 2018 we are working on developing the management power and ensure the interrelationship of our initiatives.

### Strategic objectives

Nordjyske Bank's current strategy period runs from 2016 to 2018. During 2018 we shall re-evaluate the strategy. Two years ago, we set the following strategic goals for the current strategy period:

- Growth in lending of 2-4 per cent per annum
- Return on equity before tax shall be at 9-11 per cent before the end of the strategy period (without correction for goodwill and customer relations)
- Dividend policy with the objective to pay between 30-50 per cent of the year's result after tax in consideration of an objective of a core capital ratio of 15.5

The financial situation has made it possible for Nordjyske Bank to exceed the strategic goals in 2017 by a high level of growth in lending and return on equity. It is our goal for 2018 to be in the upper part of the interval for these strategic goals.

The dividend policy is maintained, which is described under the section Investor relations, with the addition about a goal to reach an actual core capital ratio of 15.5 in 2020.



## Significant events in 2017

### High level of customer satisfaction

Nordjyske Bank has again in 2017 obtained very satisfactory placings in surveys about customer satisfaction and image. In January 2018 the analysis institute Voxmeter published that the bank has the highest level of customer satisfaction among the Northern Jutland financial institutions, while the bank was elected the financial institution with the best image in Northern Jutland by FinansWatch in October 2017.

The surveys give pride in the bank and satisfaction that the strategic priorities prove their value.

The high level of customer satisfaction leads to good possibilities for recommendations from existing customers to new customers, which has been important for bringing new customers to the bank in 2017.

### Organisational adjustment and IT-focus

The organisation is adjusted to the strategy on an ongoing basis. At the beginning of 2017, the bank carried through organizational adjustments with the primary purpose of strengthening and supporting the use of IT in the bank.

A new IT department was established, which during the year was gathered at one location in Nørresundby, and new IT competences were added, providing the bank with the opportunity to complete strategic goals. What we achieve by this is in part to support the strategy with focus on IT innovation and possibilities for our customers, and in part to ensure necessary optimization and improved efficiency of our business. To a greater extent than before, Nordjyske Bank has utilized technology to automatise manual processes in 2017, and it is a desire to automatise a lot of processes in the future to the benefit of both customers and employees.

At the same time, we established a separate HR department which, among other things, has great attention on development on management power in the bank as well as development and welfare among the bank's employees. Welfare and development of competences are a precondition for customers and partners to experience customer intimacy, unique service and an agile bank.

In the 2nd half of 2017 Nordjyske Bank has invested in advanced cash dispensers, where the customers have the possibility to perform deposits and withdrawals as well as withdraw foreign currency around the clock seven days a week. At the same time, we have closed cashier functions and will reduce by more than 10 employees in this connection. The bank now has a number of branches with total attention on customer counselling.

**Customer satisfaction:  
No. 1 among the Northern  
Jutland financial institutions  
and no. 3 on a national basis**



### Innovation

In addition to a number of technological development initiatives we have initiated a strategic initiative internally in 2017, with the intention of creating a unique customer universe. The purpose with the initiative is to create and test ideas in the bank. A lot of good proposals have emerged; we will be working on them.

### Product initiatives

In 2017 the bank has got new product areas on the palette for business customers, as we offer leasing to business customers, with reference to cooperators, just as we can offer business damage insurance to business customers via cooperators.

### Exposure

The youth concept has had great value added via the cooperation with "migogaaalborg" ("meandaalborg"), which will later be expanded to other cities. Through this cooperation the bank's young customers will be given attractive offers.

A number of campaigns and initiatives have been carried out during the year. This includes that the bank has elected the Residential Street of the Year 2017 in cooperation with the Ejendomsmæglerne's Fond, which attracted attention to the great number of fun activities and social communities in the region.

## Development in Northern Jutland

### Danish and international economy

The Danish economy sees a solid upswing with BNP growth of 1.7 per cent, increasing employment rate and continued low unemployment rate. The Confederation of Danish Industry, the National Bank, and the Ministry of Finance all have positive expectations for 2018.

The activities in the Euro area are surprisingly positive, the USA experiences a high level of growth and the BRIC countries have a higher activity level. For several years China and India have had a high level of growth and there are signs of improvements in Russia and Brazil.

From a Danish perspective there is still uncertainty about the effects on Danish export as a consequence of Brexit and the US, which wants to introduce protectionist initiatives, but the possibility of Danish export to China and Russia is also of great importance.

### Continued good development in Northern Jutland

Development is positive in Northern Jutland in many areas, which gives rise to increased optimism and consequently a basis for more growth.

The employment rate in Northern Jutland is increasing. In one year the employment rate has increased by 0.9 per cent, while the unemployment rate is still low at 4.7 per cent in Northern Jutland.

Real wages are increasing, as wages increase by more than inflation. This gives rise to optimism and consequently a basis for more consumption and growth.

### Growth in the number of citizens in Northern Jutland

Again in 2017 there were more people in Northern Jutland, which in particular was driven by Aalborg municipality. This includes the positive effect from the offer of a bigger number of study places and thereby attracted new young arrivals.

### Homeowners become richer

The housing prices are still increasing and the homeowners in Northern Jutland became richer in 2017. The average price per square meter for houses and terrace houses in North Jutland has increased by more than for the country as a whole. In Northern Jutland the price has increased by 9.6 per cent compared with 4.7 per cent for Denmark as a whole. On the other hand, the price per square meter on owner-occupier flats has increased by 9.6 per cent both in Northern Jutland and the country as a whole.

Price increase on holiday houses in Northern Jutland is lower than on a national level, but there is still a great increase of 4.7 per cent in Northern Jutland and 6.9 per cent on a national basis.

### Business development

2017 has offered optimism for many industries. The property market has seen a high level of building activity and great interest in both investment properties with rental housing and owner-houses. The high level of building activity in the North Jutland Region lead to a great demand for skilled craftsmen, and there is a shortage of several groups of skilled craftsmen.

The primary industries had a good year. Fisheries have benefited from both large quantities and good prices, and agriculture had better settling prices in 2017. However, as mentioned under the section Risks, settling prices have fallen in the last part of 2017 and the beginning of 2018.

**Positive development in  
Northern Jutland**



## Expectations for 2018

As mentioned before, the upswing is also felt in Northern Jutland, which is of importance to the bank's customers and the bank's business opportunities. Nordjyske Bank is the most local bank in Northern Jutland, and the development of the bank is closely connected with the development in Northern Jutland.

In addition, we have experienced a good effect of our long presence in Copenhagen and the possibilities the upswing in Copenhagen has brought along.

### Expectations for the result in 2018

Nordjyske Bank expects core earnings in the range of DKK 340-390 million in 2018.

Core earnings have been calculated excl. of write-downs and market price adjustments on lending etc. as well as market price adjustments on securities etc., which is considered result of holdings.

We expect write-down on lending and guarantees – pro forma calculated – at DKK 50-75 million, which involves uncertainty related to the financial development of agriculture.

In addition, the bank's pre-tax result is affected by the result of holdings, which involves uncertainty. The result of holdings is primarily related to the price development on bonds and is expected to amount to the level of +/- DKK 30 million.

In total, the above expectations correspond to a pre-tax result in the range of DKK 235-370 million.

The basis for Nordjyske Bank's expectations for the financial results for 2018 is the expectation of continued hard competition and increased price pressure, which has led to a historically low interest rate on loans. The growth in lending is expected to be at the high end of the strategic goal of 2-4 per cent.

Fees are expected to be influenced by a high activity level in housing trade and investment in securities, since the low interest rate on deposits is expected to contribute to greater interest in securities. At the same time earnings in the investment area are under pressure by MiFID II.

A minor increase in costs is expected as a consequence of investments in IT, which, however, to some extent is expected to reduce the remuneration cost.

The uncertainty concerning write-downs is not least related to settling prices for pigs and the risk of the effect of the IFRS9 rules on write-downs in case of any aggravation in credit for agriculture in 2018.

**A decent bank  
– the safe choice**



## Core income

### Net interest income

Net interest income amounts to DKK 487 million in 2017, which is an increase of DKK 8 million compared with 2016.

A growth in lending of 9.2 per cent compared with last year pulls in the positive direction. The increasing competition on lending, the historically low interest rate as well as changes in the composition of loans, however, pulls in a negative direction, which has resulted in a limited fall in interest income of DKK 2 million.

To counter the fall in interest rates on loans, the bank has reduced the interest rate on deposits and thereby reduced the interest expenses by DKK 10 million.

Seen in the light of the market situation and the low interest rate level, it is positive that the bank has had stable and even slightly increasing net interest income in the last 9 quarters.

Interest on bonds has fallen by DKK 2 million in 2017 as a consequence of the market situation.

### Net fee income

Net fee income amounts to DKK 356 million in 2017, which is an increase of DKK 4 million compared with 2016, which had an income of DKK 352 million.

As it appears from the figure, the increase in fee income is primarily attributable to a higher level of activity in the lending area as well as handling of mortgage loans in the form of guarantee loans.

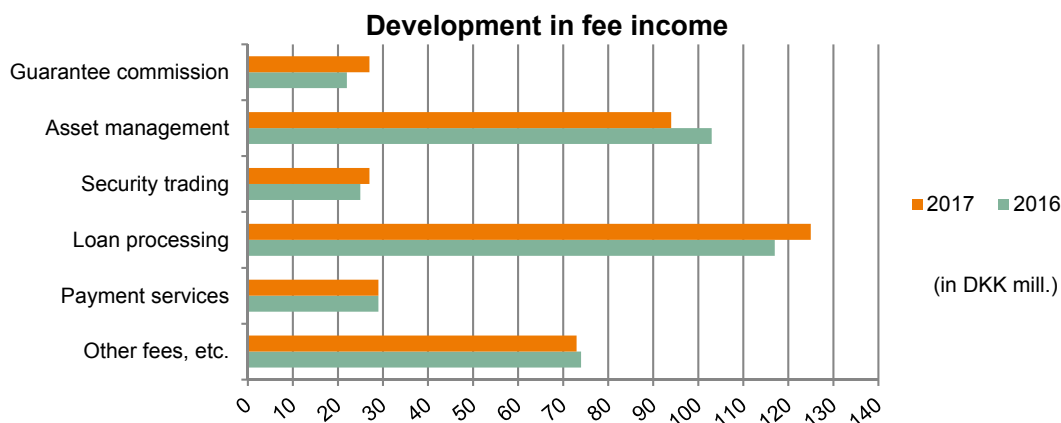
Effective as of 1 July 2017, the regulations of the MiFID II rules about commission came into force. This has as a consequence that the bank can only receive commission from unit trusts to a lesser extent, since as of 1 July 2017 the customers pay fewer costs to unit trusts.

This has resulted in a significant fall in earnings from asset management in the 2nd half of 2017, which, looking forward, partially will be offset by an increase in earnings from sector shares in the unit trusts and direct costs to the bank.

The bank's earnings on asset management was affected positively by an increasing interest in investments on the part of the customers. In addition, a favourable development on the securities market has resulted in a higher activity level and earnings in the area in 2017.

Other fee income mainly consists of services regarding insurance and pension, card fees, etc.

Minor reclassifications of fee income were made in 2016 and 2017.



### Other operating income

In 2017 the bank had other operating income of DKK 62 million compared with DKK 57 million in 2016. Other operating income primarily consists of earnings from sector shares, foreign exchange earnings, and dividend.

The increase is primarily attributable to earnings from sector shares in the form of price adjustments and dividend corresponding to DKK 49 million in 2017 compared with DKK 33 million in 2016.

Adjustments of exchange rates amount to DKK 10 million in 2017, which corresponds to earnings in 2016.

In addition, other operating income of DKK 3 million, primarily concerning operation of properties and other dividend. In 2016 the bank had other income in the range of DKK 14 million, which was mainly attributable to profit from sales of real property and sale of the name Nordbank.

## Prime costs

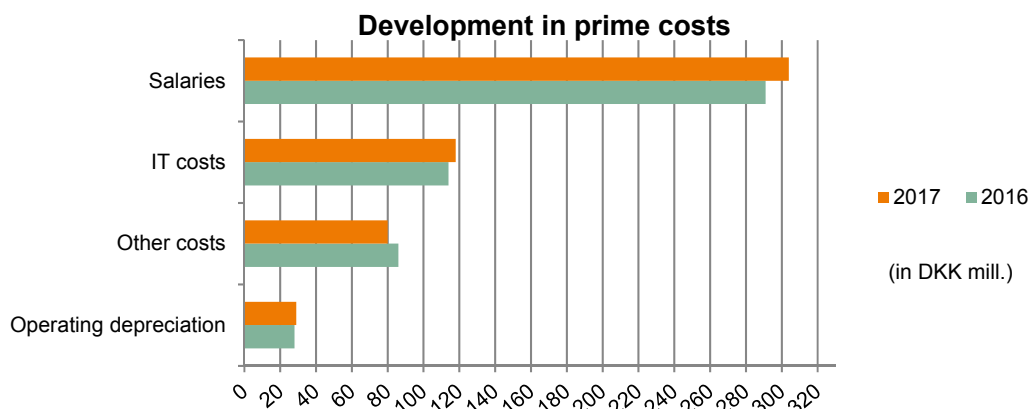
Prime costs amount to DKK 531 million and show a 2 per cent increase compared with 2016, where prime costs amounted to DKK 519 million.

Expenses for salaries increased by DKK 13 million, which is mainly attributable to non-recurrent expenses in connection with staff reductions. In addition, the bank has added resources and specialist competences to the IT area in 2017.

IT costs have increased by DKK 4 million in 2017 compared with the year before, which is primarily due to investments in development of Bankdata. These investments will, in the long run, ease manual tasks for the bank's employees and increase the improved efficiency in the bank.

The increase in IT costs is also attributable to investment in new IT systems.

Other costs fall by DKK 6 million, corresponding to 7 per cent. The fall is primarily attributable to a reduction in property costs as well as a general focus on cost management.



## Write-downs

The bank's write-downs on lending and guarantees has been reduced considerably in 2017 compared with the year before. Write-downs amount to DKK 60 million compared with DKK 163 million in 2016.

The fall is primarily due to the positive development for Danish agriculture during 2017. Higher settling prices and improved terms of trade have increased earnings for both pig producers and milk producers.

The write-down rate on the bank's lending and guarantees amounts to 0.3 in 2017 compared with 1.0 in 2016.

The bank's accumulated write-downs, provisions, and discount amount to a total of DKK 1,133 million as at 31 December 2017.

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

| <b>Write-downs on lending and guarantees</b><br>(calculated pro forma – amounts in DKK mill.) | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
| Write-downs on individually valuated lending etc.   | 103         | 205         |
| Write-downs on lending valuated on a group basis etc.   | 3           | 7           |
| <b>Total write-downs</b>  | <b>106</b>  | <b>212</b>  |
| Received on previously depreciated debts  | 7           | 8           |
| Final loss, not previously written-down individually  | 10          | 8           |
| Interest on written-down debt booked as income  | 49          | 49          |
| <b>Total influence on operations</b>  | <b>60</b>   | <b>163</b>  |

## Result of holdings

The result of holdings primarily consists of market price adjustments on bonds, market price adjustments on investment properties, and derived financial instruments.

The result of holdings contributes positively by DKK 16 million in 2017 compared with income of DKK 25 million in 2016.

Market price adjustments on bonds have resulted in a capital gain of DKK 7 million, whereas market price adjustments on investment properties have been credited with DKK 5 million to income.

Market price adjustments on derived financial instruments amount to a gain of DKK 7 million, which shall be seen in connection with capital loss on fixed-interest loans of DKK 3 million. To a great extent, derived financial instruments are used to cover fixed-interest loans.

## Result before tax

The pre-tax result – pro forma calculated – amounts to DKK 329 million, which is a significant increase. The pre-tax result increased by 43 per cent compared with 2016, where the pre-tax result amounted to DKK 230 million.

A pre-tax result of DKK 329 million bears interest on equity of 11.9 per cent in 2017, which is above the strategic goal of 9-11 per cent.

When correcting for goodwill and customer relations, equity at the beginning of 2017 bears interest of 15.2 per cent.

## Distribution of the result of the year

The year's result after tax pursuant to the purchase method amounts to DKK 270 million cf. page 53.

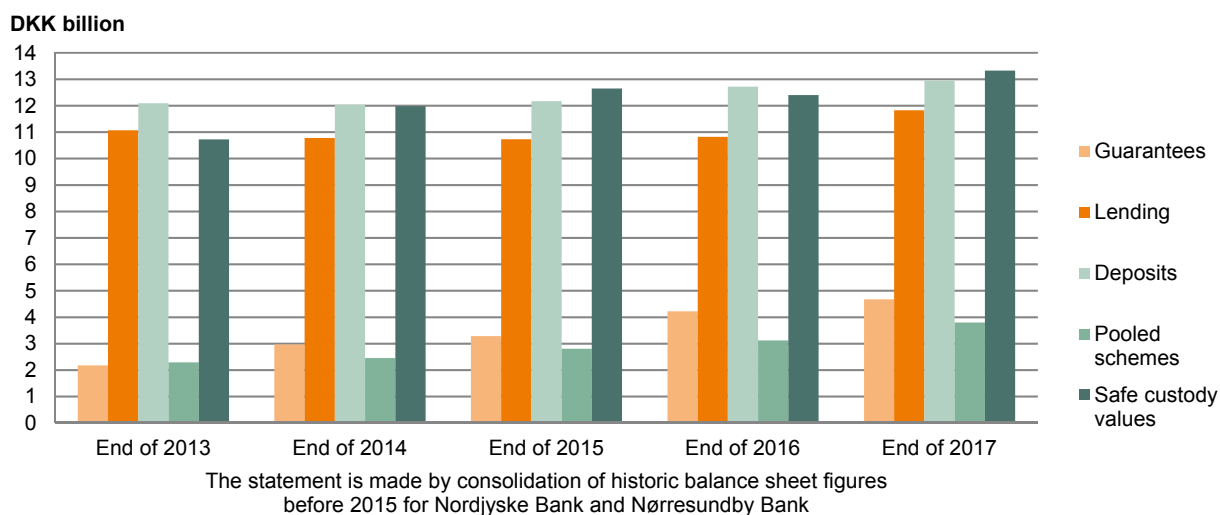
The bank's management suggests 30 per cent of this result be paid and thereby DKK 81 million reserved for dividend and DKK 189 million transferred to equity. Equity then amounts to DKK 2,952 million at the end of 2017.

Dividend payment corresponds to DKK 4.4 per share.

**30 per cent as dividend  
corresponding to a rate of  
return of 4.2 per cent\***



## Development in business volume



### Business volume, positive development continues

The bank's total business volume incl. safe custody values, increased in 2017 to DKK 46.6 billion, which is a significant increase of DKK 3.3 billion compared with 2016. Business volume includes lending, guarantees, deposits, pooled schemes, and customer safe custody.

It is a very satisfactory development, which is particularly positive as the bank has a great increase in the areas with the highest earnings, which is lending, guarantees, safe custody values, and pooled schemes.

Lending amounts to DKK 11.8 billion at the end of 2017 which is an increase of DKK 1 billion compared with 2016, corresponding to an increase of 9.2 per cent.

It should be mentioned that the growth rate in gross lending is considerably higher, as the customers have made ordinary debt repayment in 2017 in the range of DKK 850 million. To be added to this, significant extraordinary debt reductions have been made, which among other things take place as a consequence of an improved funds situation.

The increase is attributable to both private and business. Improved economic conditions and historically low interest rates have led to an increase in lending to private customers. The business sector in general experiences improved earnings which has also led to an increased demand for business loans.

Deposits increase by DKK 905 million compared with 2016. Of this increase DKK 680 million is attributable to pooled schemes, corresponding to 21.8 per cent.

The increase in deposits provides the bank with very comfortable liquidity conditions and creates basis for lending growth. At the same time, excess deposits are a challenge to the bank's earnings with the current market rate of interest.

The bank pays much attention to offering the customers other options for investments with a view to improved return.

Safe custody values have increased by DKK 923 million corresponding to 7.4 per cent. It is positive to notice that the increase in the customers' investment funds – safe custody values and pooled schemes – in total amount to DKK 1.6 billion, which is attributable to an increasing interest in investments as a consequence of the low interest rate level, among other things.

Guarantees increased by DKK 452 million compared with 2016, which among other things is due to more guarantees for mortgage loans.

Nordjyske Bank has processed mortgage loans with Totalkredit at DKK 19.9 billion and with DLR for DKK 4.4 billion.

## Capital management

The bank's capital base amounts to DKK 2,407 million at the end of 2017. The capital base primarily consists of equity and secondarily of subordinate capital, which was included in connection with the acquisition of Nørresundby Bank.

The capital base is significantly influenced by both goodwill and customer relations, and sector shares which as a whole lead to a reduction of the capital base of DKK 716 million at the end of 2017.

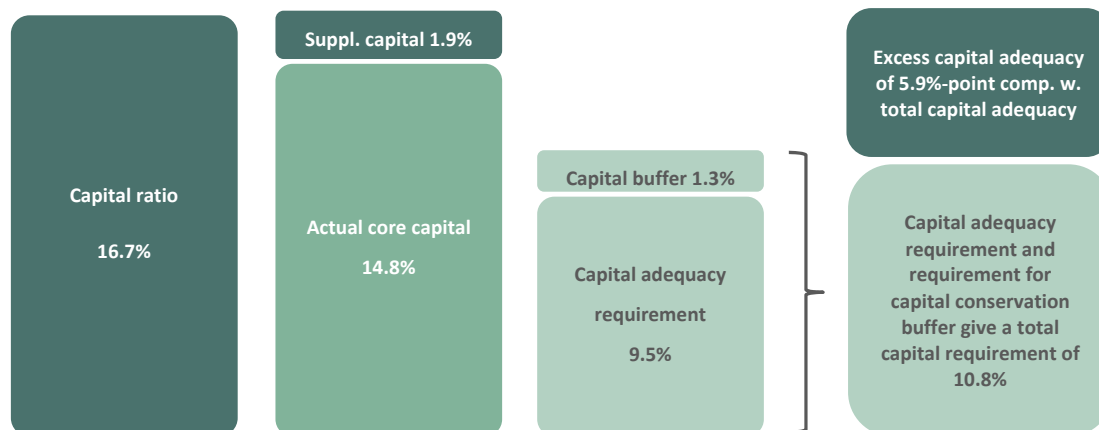
At the end of 2017 total risk exposure amounts to DKK 14,453 million, which is an increase of 7.4 per cent compared with 2016, which is mainly attributable to the increase in lending.

The capital ratio amounts to 16.7 and the actual core capital ratio to 14.8 at the end of 2017. The management estimate the capital situation to be stable, also in consideration of future capital requirements.

Detailed information about risks and capital appear from the risk report on [www.nordjyskebank.dk](http://www.nordjyskebank.dk).

| Capital base / risk-weighted items<br>(amounts in DKK million) | 2017          | 2016          |
|--|---------------|---------------|
| Equity   | 2,952         | 2,758         |
| Suggested dividend   | -81           | -73           |
| Deduction of sector shares, goodwill etc.                      | -737          | -753          |
| <b>Actual core capital</b>                                     | <b>2,134</b>  | <b>1,932</b>  |
| Addition of subordinate capital                                | 273           | 269           |
| <b>Capital base</b>  | <b>2,407</b>  | <b>2,201</b>  |
| <b>Risk-weighted exposures</b>                                 | <b>14,453</b> | <b>13,453</b> |
| Actual core capital ratio                                      | 14.8          | 14.4          |
| Capital ratio  | 16.7          | 16.4          |

### Capital end of 2017



Over the coming years, the bank will be affected by increasing capital requirements, including NEP surcharge, phasing-in of the capital conservation buffer as well as possible phasing-in of the contra cyclical capital buffer.

In January 2018 the Financial Supervisory Authority has fixed the bank's individual NEP surcharge at 5.5 per cent, which will be phased-in from 2019 to 2023. The surcharge is calculated on an annual basis by the Financial Supervisory Authority and will again be fixed during 2018 based on the bank's reports for 2017. It is an expected level for Nordjyske Bank considering the size of the bank.

The total NEP requirement – capital adequacy inclusive of NEP surcharge – is expected at the beginning of 2023 to be in the range of 17.5 per cent, which consists of capital conservation buffer and NEP surcharge.

In addition, the bank must have a restoration buffer, including any cyclical buffer as well as a management buffer.

As a consequence of the increasing capital requirements, it is the opinion of the bank that, looking forward, there will be a greater need for debt financing. The bank has prepared a capital plan, which takes into consideration the phasing-in of the new capital requirements.

It is the bank's goal that the actual capital adequacy ratio shall be in the range of 15.5 per cent and the capital shall be in the range of 18.0 per cent in 2020.

A considerable part of the NEP surcharge is expected to be covered by Tier III capital, while the remaining part of the NEP surcharge is expected to be covered by the above capital goals.

The capital goals are fixed in consideration of a balanced consideration to optimizing capital and revenue, consideration of the bank's desire for robust capital as well as a desire to limit the refinancing risk in debt financing, including Tier III capital to cover the NEP surcharge.



## Capital management – continued

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### The individual capital adequacy

A part of the calculation of the individual capital adequacy, the bank's calculated has individual capital adequacy is DKK 1,368 million corresponding to individual capital adequacy of 9.5 per cent.

At the end of 2017, 1.25 percentage points of the required capital conservation buffer were phased-in, which means that the total capital requirement may be calculated at DKK 1,551 million corresponding to 10.8 per cent.

Nordjyske Bank's capital adequacy is DKK 2,407 million and capital adequacy ratio of 16.7, corresponding to excess solvency of DKK 1,038 million or 7.2 percentage points relative to the individual capital adequacy.

Compared with the total capital requirement, the bank has total excess capital coverage of DKK 856 million, corresponding to 5.9 percentage points.

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

**Information about capital is  
available in the Risk report and  
Solvency report on the bank's  
homepage  
[www.nordjyskebank.dk](http://www.nordjyskebank.dk)**

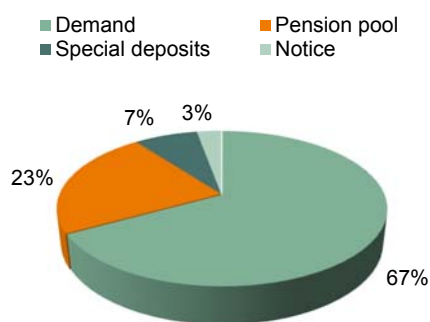


## Liquidity

| Deposits / lending<br>(amounts in DKK million) | 2017         | 2016         |
|--|--------------|--------------|
| Deposits                                       | 16,743       | 15,838       |
| Lending  | 11,822       | 10,822       |
| <b>Excess deposits</b>                         | <b>4,921</b> | <b>5,016</b> |

Nordjyske Bank's excess deposits is just under DKK 5 billion. At the same time, the bank's deposits are stable and ordinary deposits, thereby creating a very comfortable liquidity situation.

### Deposits by category:



83 per cent of the bank's deposits are covered by the Guarantee Fund.

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

### LCR

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

There are gradual phasing-rules, which means that the bank should meet 80 per cent at the end of 2017 and 100 per cent at the beginning of 2018.

The liquidity key figure LCR can be calculated at 257 per cent at the end of 2017, which means that it can be established that the bank has considerable excess liquidity.

The bank assesses on an ongoing basis the investment of the excess liquidity with a view to taking into consideration both the liquidity situation and the revenue.

### Stable funding

At the end of 2017, the bank has funding in the form of deposits, equity, and subordinate capital of DKK 19,968 million, corresponding to excess liquidity of DKK 8,146 million relative to lending.

Lending compared with funding amounts to a funding ratio of 0.59 at the end of 2017. For a long time, the bank's position has been stable at the same level.

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

| Stable funding<br>(amounts in DKK million) | 2017          | 2016          |
|--|---------------|---------------|
| Lending                                    | 11,822        | 10,822        |
| Equity                                     | 2,952         | 2,758         |
| Deposits                                   | 16,743        | 15,838        |
| Addition of subordinate capital            | 273           | 272           |
| <b>Funding</b>                             | <b>19,968</b> | <b>18,868</b> |
| Profit                                     | 8,146         | 8,046         |
| <b>Funding ratio</b>                       | <b>0.59</b>   | <b>0.57</b>   |

## The Supervisory Diamond

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

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

The Danish Financial Supervisory Authority will introduce a new limit as at 1 January 2018, where they want a calculation of the 20 largest commitments. The sum of these amounts to

135 per cent in relation to the bank's actual core capital at the end of 2017 and is thereby below the limit of 175 per cent.

As of 30 June 2018, the Danish Financial Supervisory Authority will change the key markers for liquidity, which will in the future be based on the LCR requirement and requires the bank to be able to withstand 30 days of liquidity stress test. Until 30 June 2018 the liquidity key marker is based on the previous § 152 liquidity requirement. Nordjyske Bank does not expect to be challenged by the new key markers.

The sum of large commitments must be < 125 per cent of adjusted core capital

**Nordjyske Bank: 13.5 per cent**

Growth in lending must be < 20 per cent per year

**Nordjyske Bank: 9.2 per cent**

Stable funding ratio must be < 1,0

**Nordjyske Bank: 0.59**



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

**Nordjyske Bank: 12.8 per cent**

Excess liquidity must be > 50 per cent

**Nordjyske Bank: 114.6 per cent**

## The Danish Financial Supervisory Authority

On 17 marts 2017, Nordjyske Bank published directions from the Danish Financial Supervisory Authority concerning implementation of good accounting policies for the bank's write-down test on goodwill.

The directions are an offshoot of the Danish Financial Supervisory Authority's account inspection of the bank's account for 2015 and the result of this is that the value of the bank's goodwill was present at the end of 2015 and this makes the banks accounts for 2015 correct.

The directions are further mentioned in the interim report as at 31 March 2017.

During 2017, the bank has been in dialogue with the Danish Financial Supervisory Authority as part of several interdisciplinary examinations and theme examinations with the Danish Financial Supervisory Authority. This has not resulted in reports with directions, reprimands or the like..

Previous statements published since 2010 are available on the bank's homepage [www.nordjyskebank.dk](http://www.nordjyskebank.dk).

## Subsidiary

Nordjyske Bank has a subsidiary as the bank owns the entire share capital of Sæbygård Skov A/S. The result for the subsidiary for 2017 is included in the bank's income statement under "result of investments in associated and group companies".

The shares have been included at DKK 11.5 million, corresponding to the book value.

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

## Income statement and balance sheet according to the purchase method

The income statement of the annual report, balance sheet, notes, etc. as at 31 December 2017 with comparative figures for 2016 in the following are prepared according to current rules and regulations concerning inclusion of Nørresundby Bank (the

purchase method).

In the following sections the income statement and balance sheet at the end of 2017 according to the purchase method are commented on.

### The income statement shows the following in outline

- Net interest and fee income amounts to DKK 897.9 mill. in 2017 compared with DKK 933.6 mill. in 2016. The fall of DKK 35.7 mill. is primarily due to large reversals of write-downs on lending from Nørresundby Bank – in particular in 2016 – which are booked under interest income. This has been adjusted in the pro forma statement on page 6, which shows growth in both net interest income and net fee income.
- The market price adjustments are positive with DKK 68.1 mill. in 2017 compared with DKK 46.5 mill. in 2016. There is positive market price adjustment on shares etc. of DKK 41.6 mill., positive market price adjustment on bonds of DKK 7.2 mill., and a positive exchange adjustment on foreign currency of DKK 10.1 mill.  
Furthermore, there is positive value adjustment on investment properties of DKK 5.3 mill., which among other things is due to sale of some investment properties.
- Staff and administration costs amount to DKK 502.3 mill. in 2017 compared with DKK 490.6 mill. in 2016. This increase is due to extra expenses in connection with adjustment of employee resources as mentioned earlier.
- Write-downs on lending etc. have been charged to the income statement with DKK 95.4 mill. compared with DKK 244.8 mill. in 2016.  
The item is affected by the fact that reversals of write-downs on lending from Nørresundby Bank are booked under interest income, which is why the pro forma statement on page 6 shows a more comparable development.
- Pre-tax result amounts to DKK 339.1 mill. and result after tax amounts to DKK 269.7 mill. in 2017.
- The result before payment to the Resolution Fund, market price adjustments, and write-down amounts to DKK 367.6 mill. in 2017, which is in accordance with the bank's expectations at the level of DKK 355-375 mill. calculated according to the purchase method.  
Write-downs of DKK 95.4 mill. is below the bank's expectations of 100 mill. calculated according to the purchase method.  
In addition, the result is affected by market price adjustments of DKK 68,1 mill. in 2017.

### The balance sheet shows the following in outline

- The total balance sheet at 31 December 2017 amounts to DKK 20.5 bn. compared with DKK 19.5 bn. last year. The increase is primarily attributable to increase in lending.
- The bank's lending has increased by DKK 1 bn. and amounts to DKK 11.8 bn. at the end of 2017 compared with DKK 10.8 bn. last year.
- Total deposits amount to DKK 16.7 bn. at the end of 2017, which is an increase of DKK 0.9 bn. compared with the end of 2016, where deposits amounted to DKK 15.8 bn.
- Goodwill and customer relations are included under the item intangible assets with DKK 433 mill.
- Subordinate capital infusion (Tier 2) amounts to DKK 272.8 mill. and was raised as part of the financing of the purchase price for Nørresundby Bank.
- Nordjyske Bank's share capital amounts to DKK 183.6 mill.
- Equity then amounts to DKK 2.95 bn. at the end of 2017, which is an increase of DKK 194 mill. since the end of 2016.
- Total contingent obligations amount to DKK 4.7 bn. as at 31 December 2017 compared with DKK 4.2 bn. as at 31 December 2016.

### Expectations for 2018 according to the purchase method

The bank expects a pre-tax result in the range of DKK 235-370 mill. in 2018.

The expectations for the pre-tax result are primarily connected to uncertainty about write-downs on lending and guarantees,

including the economic development for farming and market price adjustments.

The preconditions correspond to what is indicated on page 11.

## Calculation methods and alternative target results

### Pro forma statement

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

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

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

The difference between the pro forma statements and the accounts in relation to the purchase method is illustrated in a statement on pages 22-23.

### Alternative target results

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

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

The applied alternative target results are defined below.

### Definitions

|   |  |
|---|--|
| Core earnings                             | Result before result of holdings, payments to the Resolution Fund mv. as well as Write-downs on lending etc.   |
| Core income                               | The sum of Net interest- and fee income and Other operating income etc.,   |
| Other operating income, etc.              | The sum of Other operating income, Market price adjustments and dividend from sector shares, Dividend from other shares as well as Exchange adjustment on foreign currency.                |
| Prime costs                               | The sum of Staff and Administration costs and Other operating costs except payment to the Resolution Fund etc. as well as Depreciations and write-downs on intangible and tangible assets. |
| Result of holdings                        | The sum of Market price adjustments (exclusive of sector shares and foreign currency) as well as Result of investments in associated and group companies.                                  |
| Pro forma statement                       | Cf. the section above.   |
| Business volume                           | The sum of Lending, Guarantees and Deposits.   |
| Business volume incl. safe custody values | The sum of Business Volume and the customers' safe custody values.   |
| Discount                                  | Value adjustment of loans acquired from other financial institutions in connection with merger and acquisition.  |
| Danish commercial farming                 | Farming with operating premises in Denmark excl. farms where debtor's main source of income is outside the farming operation.  |
| Excess deposits                           | The sum of Loans less Deposits.  |
| Sector shares                             | Shares, owned by the bank jointly with other financial institutions.   |
| Customer relations                        | Intangible value of customers arisen in connection with acquisition of company.  |

### Statement

As indicated on page 7, the accounts statement in the report and the descriptions herein are mainly based on pro forma calculated core earnings, which are assessed most true and fair.

Below the adjustments between the official result according to the purchase method and the core earnings (alternative target results) are shown. The adjustments have been made on the basis of the prospectus rules and in addition to the extent it has been found true and fair.

## Calculation methods and alternative target results – continued

### Correlation between official result and core earnings (alternative target results) for 2017

(amounts in DKK million)

| Official result  | Note        | Pro forma adjustment | Di-<br>version    | Alternative target results – Core earnings                       |
|--|-------------|----------------------|-------------------|--|
| Interest income 570  | 1<br>3      | -40<br>-6            |                   | Interest income 524  |
| Interest expenses 37   |             |                      |                   | Interest expenses 37   |
| Net interest income 533  |             | -46                  |                   | Net interest income 487  |
| Fees and commissions, net 356                                    |             |                      |                   | Fees and commissions, net 356                                    |
| Dividend 9   | 4<br>5<br>7 |                      | 42<br>10<br>1     | Other operating income 62  |
| <b>Net interest and fee income 898</b>                           |             | <b>-46</b>           | <b>53</b>         | <b>Core income 905</b>   |
| Market price adjustments 68                                      | 4<br>5<br>6 |                      | -42<br>-10<br>-16 |  |
| Other operating income 1   | 7           |                      | -1                |  |
| Staff and administration expenses 502                            |             |                      |                   | Staff and adm. expenses 502                                      |
| Depreciation and write-down on intangible and tangible assets 29 |             |                      |                   | Depreciation and write-down on intangible and tangible assets 29 |
| Other operating costs 1  | 8           |                      | -1                |  |
|  |             |                      |                   | <b>Prime costs 531</b>   |
|  |             |                      |                   | <b>Core earnings 374</b>   |
|  | 8           |                      | 1                 | Payments to the Resolution Fund, etc 1                           |
| Write-downs on lending etc 96                                    | 1<br>2<br>3 | -40<br>10<br>-6      |                   | Write-downs on lending etc 60                                    |
|  | 6           |                      | 16                | Result of holdings 16  |
| Result of investments 0  |             |                      |                   |  |
| <b>Pre-tax result 339</b>  |             | <b>-10</b>           | <b>0</b>          | <b>Pre-tax result 329</b>  |

### Correlation between official result and core earnings (alternative target results) for 2016

(amounts in DKK million)

| Official result  | Note        | Pro forma adjustment | Di-<br>version    | Alternative target results – Core earnings                       |
|--|-------------|----------------------|-------------------|--|
| Interest income 606  | 1<br>3      | -72<br>-8            |                   | Interest income 526  |
| Interest expenses 47   |             |                      |                   | Interest expenses 47   |
| Net interest income 559  |             | -80                  |                   | Net interest income 479  |
| Fees and commission income, net 352                              |             |                      |                   | Fees and commission income net 352                               |
| Dividend 22  | 4<br>5<br>7 |                      | 12<br>10<br>13    | Other operating income 57  |
| <b>Net interest and fee income 933</b>                           |             | <b>-80</b>           | <b>35</b>         | <b>Core income 888</b>   |
| Market price adjustments 47                                      | 4<br>5<br>6 |                      | -12<br>-10<br>-25 |  |
| Other operating income 13  | 7           |                      | -13               |  |
| Staff and administration expenses 491                            |             |                      |                   | Staff and adm. expenses 491                                      |
| Depreciation and write-down on intangible and tangible assets 28 |             |                      |                   | Depreciation and write-down on intangible and tangible assets 28 |
| Other operating costs 1  | 8           |                      | -1                |  |
|  |             |                      |                   | <b>Prime costs 519</b>   |
|  |             |                      |                   | <b>Core earnings 369</b>   |
|  | 8           |                      | 1                 | Payments to the Resolution Fund etc. 1                           |
| Write-downs on lending etc 245                                   | 1<br>2<br>3 | -72<br>-2<br>-8      |                   | Write-downs on lending etc. 163                                  |
|  | 6           |                      | 25                | Result of holdings 25  |
| Result of investments 0  |             |                      |                   |  |
| <b>Pre-tax result 228</b>  |             | <b>2</b>             | <b>0</b>          | <b>Pre-tax result 230</b>  |

## Calculation methods and alternative target results – continued

| Notes for the statements concerning alternative target results   | Adjustment<br>2017 | Adjustment<br>2016 |
|--|--------------------|--------------------|
| <b>Pro forma adjustments:</b>  |                    |                    |
| <b>1) Value adjustment of lending taken over at a discount primarily conc. Nørresundby Bank</b><br>When merging with other banks, part of lending is valued lower than par (primarily lending with individual write-downs). The difference between market price and nominal value is amortised (booked as income) over the term of the loan and booked as income in the official accounts as interest income on loans.<br>If the loan is not improved at the same rate as the amortisation, there will be corresponding write-down on lending etc.<br>If the loans have always been part of Nordjyske Bank's lending, these movements would have been entered as movements on write-down on lending etc.<br>Adjustment conc. lending taken over from Nørresundby Bank  | -40                | -72                |
| <b>2) Value adjusted lending valued higher with regard to quality than amortization of discount acquired</b><br>When merging with other banks, part of lending is valued lower than par (primarily lending with individual write-downs). The difference between market price and nominal value is amortised (booked as income) over the term of the loan and booked as income in the official accounts as interest income on loan.<br>If the loan is improved faster than the amortisation, it will not be possible to immediately book the improvement with regard to quality as income, and it will not be possible to take the difference that occurs by this as income in the official accounts until later periods.<br>If the loans had always been part of Nordjyske Bank's lending, these movements would be booked as income immediately as movements on write-downs on lending etc. | 10                 | -2                 |
| <b>3) Interest income conc. the value adjusted part of lending from Nørresundby Bank</b><br>If the original write-downs from Nørresundby Bank had been write-downs from Nordjyske Bank and not re-classified at a discount, the interest hereof would be adjusted between interest on lending and write-downs on lending etc.  | -6                 | -8                 |
| <b>Diversion core earnings:</b>  |                    |                    |
| <b>4) Market price adjustments on sector shares</b><br>Market price adjustments on sector shares has been moved from market price adjustments to other operating income and are thereby included in core income, as this is assessed to provide the most true and fair picture of the bank's core earnings.  | 42                 | 12                 |
| <b>5) Exchange adjustment on foreign currency</b><br>Exchange adjustment on foreign currency has been moved from market price adjustments to other operating income and is thereby included in core income, as this is assessed to provide the most true and fair picture of the bank's core earnings.   | 10                 | 10                 |
| <b>6) Other market price adjustments</b><br>Other market price adjustments have been moved from market price adjustments to result on holdings and are thereby not included in core earnings, as this is assessed to provide the most true and fair picture of the bank's core earnings.   | 16                 | 25                 |
| <b>7) Other operating income</b><br>Other operating income has been moved to core income, as this is assessed to provide the most true and fair picture of the bank's core earnings.   | 1                  | 13                 |
| <b>8) Other operating costs</b><br>Payments to the Resolution Fund are not included in core earnings, as this is assessed to provide the most true and fair picture of the bank's core earnings. Furthermore, other operating costs are included in prime costs.   | 1                  | 1                  |

## Uncertainty in relation to inclusion and measuring

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In connection with preparation of the annual account and calculation of the book values of certain assets and liabilities, the management use assessments and estimates of the influence of future events on the value of the assets and liabilities in question on the balance sheet date.

The estimates and assessments made are based on preconditions that the management assume reasonable, but which are uncertain and unpredictable, which is why the actual results may deviate from the estimates and assessments made.

No unusual matters have affected the estimates and assessments made.

The most significant uncertainties concerning inclusion and calculation are connected to write-down on lending, valuation of intangible assets, valuation of real property as well as unlisted sector shares.

Refer to note 2 "Material accounting estimates, preconditions, and uncertainties" for further description of the estimates and assessments made.

## Significant events after the conclusions of the financial year

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At the time of the publication of this annual report, the accounting standard IFRS 9, which will replace the IAS 39 standard, has come into force as of 1 January 2018.

The accounting standard IFRS 9 significantly changes the current classification rules and measuring of financial assets, accounting write-down, and, to some degree, the rules of accounting safeguarding.

Likewise, the overall directions of IFRS 9 have been implemented into the Danish accounting directive and supplemented by special Danish write-down rules in appendix 10 of the accounting directive, which complete the superior principles of IFRS 9.

The adjusted Danish accounting directive will come into force at the same time as IFRS 9 and consequently for accounting periods beginning on 1 January 2018.

The changed rules for classification of financial assets are expected only to lead to insignificant changes in measuring principles compared with the measuring principles used in the bank's annual report for 2017.

The expected effect of the IFRS 9 write-down rules amounts to the range of DKK 115 million after tax, corresponding to a reduction of the bank's equity of just under 4 per cent, which is fully included in the opening balance sheet as at 1 January 2018.

To meet an unintended effect on the capital base and thereby possibilities for the financial institutions to support credit facilities, the European Commission has suggested a 5-year provisional scheme such that a negative effect of the IFRS 9 write-downs will not have full effect on the capital base until after 5 years.

It is optional for the financial institutions to use the provisional scheme. Nordjyske Bank has decided not to use the provisional scheme. The effect of the IFRS 9 on the capital base at the time when the rules come into force in 2018 will therefore correspond to the increase of the corrective account on 1 January 2018 adjusted for the tax related effect.

For further description of IFRS 9, refer to note 2 "Applied accounting policy" under "Future accounting rules".



## Risk and risk management

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

Therefore, risk management is a natural and central element in the Nordjyske Bank. Credit risks constitute the most significant risk area.

The management evaluates on an ongoing basis and at least once a year the total risks and each individual risk factor, which is connected with the bank's activities, this includes evaluation of business model, policies and framework for assessment of the total risk.

The superior responsibility for the bank's risk management and control hereof rests with the board of directors and the executive board.

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

Risks are described in the management report and in note 14 in this annual report as well as in Risk Report 2017, which is available on the bank's homepage at [www.nordjyskebank.dk](http://www.nordjyskebank.dk).

## Credit risks

| Key credit figures   | 2017 | 2016 |
|--|------|------|
| Lending in relation to equity                                  | 4.0  | 3.9  |
| The year's growth in lending as a percentage                   | 9.2  | 0.9  |
| The sum of large exposures as a percentage of the capital base | 13.5 | 36.0 |
| The year's write-down rate *)                                  | 0.3  | 1.0  |
| Accumulated write-down rate *)                                 | 6.4  | 7.4  |

*\* Calculated on pro forma figures*

The bank's lending gearing is at 4.0 at the end of 2017 compared with 3.9 at the end of 2016. The low lending gearing means that, with the current capital, the bank has a good basis for growth on lending.

The gearing ratio pursuant to the CRR directive is calculated as core capital after deduction in relation to total commitments. The gearing ratio amounts to 9.9 per cent at the end of 2017 compared with 9.4 per cent at the end of 2016. The bank's aim is a minimum of 7.0 per cent.

The purpose of the gearing ratio is to avoid exaggerated gearing and is calculated in accordance with the CRR regulation. The calculation is specified in the Risk Report 2017.

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

Among other things this means

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

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

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

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

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

**Risk Report 2017 is available on  
the bank's homepage**  
[www.nordjyskebank.dk](http://www.nordjyskebank.dk)



## Credit risks – continued

### Credit rating

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

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


An increasing employment rate, the price development on housing as well as a favourable development in general in business, have resulted in a positive development in 2017 for the bank's customers.

The bank wants growth in lending and therefore pays much attention to satisfactory credit rating on new commercial and private customers.

This is confirmed by an increase in the share of customers with good quality from 23 per cent to 28 per cent in 2017 corresponding to DKK 1.1 billion. To a great extent, the increase is attributable to both new and existing customers.

At the same time, it is important to note that 84 per cent are without weaknesses compared with 82 per cent in 2016.

**Increase in good quality of  
DKK 1.1 billion**

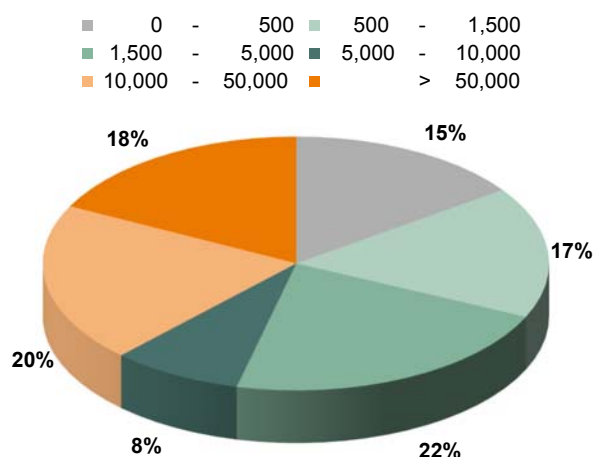


### Distribution of lending and guarantees according to credit rating

|  | 2017          |                   | 2016          |                   |
|--|---------------|-------------------|---------------|-------------------|
|  | (in DKK mill) | (as a percentage) | (in DKK mill) | (as a percentage) |
| Good quality                                       | 4,564         | 28 %              | 3,489         | 23 %              |
| Normal quality                                     | 4,156         | 25 %              | 4,192         | 28 %              |
| Slightly reduced quality                           | 5,173         | 31 %              | 4,688         | 31 %              |
| Some weaknesses                                    | 659           | 4 %               | 551           | 4 %               |
| Material weaknesses, but without OIV               | 960           | 6 %               | 1,047         | 7 %               |
| With objective indication of value reduction (OIV) | 985           | 6 %               | 1,078         | 7 %               |
| <b>Total lending and guarantees</b>                | <b>16,497</b> | <b>100 %</b>      | <b>15,045</b> | <b>100 %</b>      |

## Credit risks – continued

**Lending and guaranties by size (DKK thousand)**



The bank's size and capital base make it possible for the bank to have several large commitments.

Nordjyske Bank is very much aware of risks of concentration, including large commitments that may pose a greater credit risk than many small commitments. Therefore, it is a desire, as a main rule, that the unsecured part of individual commitments as a maximum should amount to 5 per cent of the bank's capital base.

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

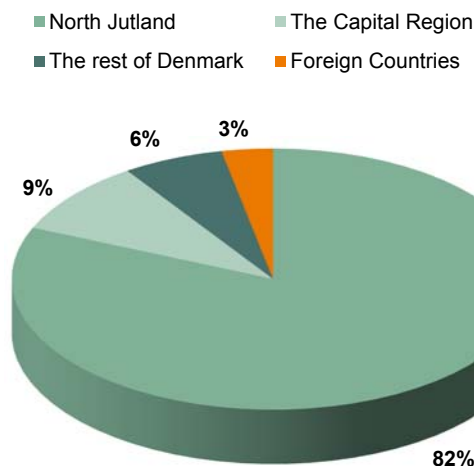
### Lending in foreign currency

It is not the bank's policy to offer loans in foreign currency to a great extent, which is why the bank as a main rule does not offer this to private customers but only to business customers with good rating.

The bank only has lending in foreign currency to a limited extent. Lending in foreign currency at the end of 2017 amounts to just over 5 per cent of total lending. Of this, lending in EUR amounts to a little more than 4 per cent of total lending.

Thus, it is estimated that there is a limited foreign exchange risk on lending.

**Geographical distribution**



The bank's primary market area is Northern Jutland. Of the bank's total lending and guaranties 82 per cent is attributable to Northern Jutland, whereas lending and guaranties amount to 9 per cent in the Capital area, where Nordjyske Bank has a branch.

Thus, 91 per cent of total lending and guaranties is granted to customers in geographical areas where the bank is physically represented.

A significant share of the bank's lending and guaranties abroad, constitutes lending and guaranties to plant-growing in the EU. These are commitments assessed to be of very limited risk of loss, which is described further on page 31.

## Credit risks – continued

### Industry risks

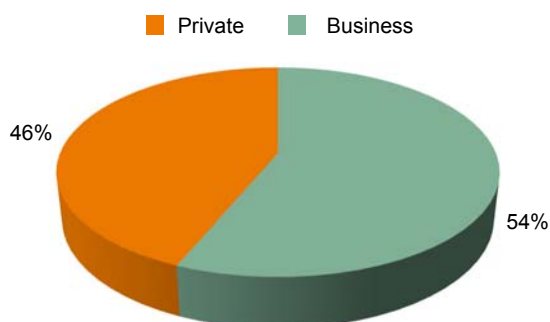
| Lending distributed among sectors<br>(amounts in DKK million) | 2017          | 2016          |
|---|---------------|---------------|
| Business  | 6,827         | 6,405         |
| Private customers   | 4,995         | 4,417         |
| Public authorities  | 0             | 0             |
| <b>Total lending</b>  | <b>11,822</b> | <b>10,822</b> |

Nordjyske Bank's total lending increases by DKK 1 billion and amounts to DKK 11.8 billion at the end of 2017, corresponding to an increase of 9.2 per cent.

Of this increase, 58 per cent is attributable to private customers and 42 per cent to business.

At the end of 2017 the bank has provided guarantees amounting to DKK 4,675 million, which is an increase of DKK 452 million since the end of 2016, where guarantees amounted to DKK 4,223 million. The increase amounts to 10.7 per cent and is due to guarantees on mortgage loans, among other things.

### Distribution of lending and guarantees as at 31.12.2017



Lending and guarantees are distributed with 54 per cent to business and 46 per cent to private customers at the end of 2017.

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

It is positive that Northern Jutland has seen an increasing rate of employment and increasing housing prices in 2017. The bank continues to record limited signals of loss on private customers. Refer to description under business development on page 10 for further description of the development in Northern Jutland.

The increasing housing prices also have a positive effect on equity of houses and are of importance to the credit risk on mortgage loans. More than 85 per cent of loans with Totalkredit processed by the bank, are mortgaged below 60 per cent of the technically calculated value of the property, which limits the risk in it.

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

When calculating the available means for private customers in connection with financing housing, we base it on a calculation of a 30-year fixed interest loan with repayment in accordance with the bank's credit policy if the customer wants a loan with variable interest, a stress test is performed based on an increased interest rate scenario.

## Credit risks – continued

| Distribution as at 31 December 2017<br>(amounts in DKK million)   | Lending and guarantees before write-downs | Accumulated write-downs and market price write-down | in %       | Lending and guarantees before write-downs | Distribution in % | The year's write-downs |
|---|---|---|------------|---|-------------------|------------------------|
| Plant growing   | 478                                       | 26  | 5 %        | 452                                       | 3 %               | 15                     |
| Milk producers  | 340                                       | 155   | 46 %       | 185                                       | 1 %               | 5                      |
| Pig breeding  | 745                                       | 259   | 35 %       | 486                                       | 3 %               | 14                     |
| Fur farming   | 102                                       | 14  | 14 %       | 88  | 0 %               | 5                      |
| Danish commercial farming, total                                  | 1,665                                     | 454   | 27 %       | 1,211                                     | 7 %               | 39                     |
| Fishery, Plant growing abroad (EU) etc.                           | 993                                       | 20  | 2 %        | 973                                       | 6 %               | -1                     |
| Total farming etc.  | 2,658                                     | 474   | 18 %       | 2,184                                     | 13 %              | 38                     |
| Real property   | 2,090                                     | 103   | 5 %        | 1,987                                     | 12 %              | 0                      |
| Other commercial  | 5,100                                     | 264   | 5 %        | 4,836                                     | 29 %              | 31                     |
| <b>Total commercial</b>   | <b>9,848</b>                              | <b>841</b>  | <b>9 %</b> | <b>9,007</b>                              | <b>54 %</b>       | <b>69</b>              |
| <b>Private customers</b>  | <b>7,782</b>                              | <b>235</b>  | <b>3 %</b> | <b>7,547</b>                              | <b>46 %</b>       | <b>34</b>              |
| <b>Public authorities</b>   | <b>0</b>                                  | <b>0</b>  | <b>0 %</b> | <b>0</b>                                  | <b>0 %</b>        | <b>0</b>               |
|   | <b>17,630</b>                             | <b>1,076</b>  | <b>6 %</b> | <b>16,554</b>                             | <b>100 %</b>      | <b>103</b>             |
| Group write-downs   |   | 57  |            | -57                                       |                   | 3                      |
| Final loss - not previously written down individually             |   |   |            |   |                   | 10                     |
| Received re. receivables, interest, etc., written down previously |   |   |            |   |                   | 56                     |
| <b>Total</b>  | <b>17,630</b>                             | <b>1,133</b>  | <b>6 %</b> | <b>16,497</b>                             | <b>100 %</b>      | <b>60</b>              |

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

- The total exposure to business as one should not exceed 65 per cent of the bank's lending and guarantees.
- Lending and guarantees to farming, hunting and forestry incl. farming abroad should not exceed 16 per cent of the bank's lending and guarantees.
- Lending and guarantees to fishery should not exceed 4 per cent of the bank's lending and guarantees
- Lending and guarantees to the real property business sector should not exceed 16 per cent incl. non-profit housing and 12 per cent excl. non-profit housing.
- Lending and guarantees to other industries should for each industry group not exceed 9 per cent of the bank's lending and guarantees.

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

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

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

### Fishery

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

The fishery industry as a whole has had satisfactory results both in 2016 and 2017 as a consequence of a positive level for settling prices, quantities, and low fuel prices. The industry depends strongly on the fishing accords and regulations in various areas. Therefore, it is positive that the recently adapted fishing quotas for 2018 set the framework for continued growth and earnings in the fishery industry.

Exposure to Danish commercial farming, plant growing in the EU, and the property sector will be amplified later.

## Credit risks – continued

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### Danish commercial farming

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

Danish commercial farming amounts to 7.3 per cent lending and guarantees and write-downs corresponding to DKK 1,211 million. Thus, the bank's current commitment amounts to a limited share of bank's commitments.

At the end of 2017 write-downs, provisions, and discounts amount to DKK 454 million on Danish commercial farming, corresponding to an accumulated write-down rate of 27.3.

Lending and guarantees to animal production – pig farmers and milk – amount to a total of DKK 671 million after write-downs of a total of DKK 414 million corresponding to an accumulated write-down rate of 38.2 per cent.

In general, agriculture has experienced positive development in 2017. Earnings in animal production have been satisfactory, primarily on account of increasing settling prices and improved terms of trade. Furthermore, the effect of the Food and Agricultural Package worked through with full strength in 2017 and is expected also to contribute strongly to earnings in agriculture in 2018.

Thus, the bank has noted a general improvement of earnings and liquidity for a lot of the farming customers in 2017.

However, the positive development in settling prices for pig breeders and milk producers has been replaced by falling prices at the end of 2017 and beginning of 2018. In particular, the pig breeders have seen a fall in settling prices. The fall in settling prices is primarily attributable to increased production worldwide and subsequent pressure on prices.

Therefore, it is positive to note that several farming customers have had full focus on improved efficiency and measures to improve productivity, which provide them with a good foundation to survive in a possible recession.

In January 2018, SEGES has worked out an income prognosis for the agricultural sector. The lower pig prices will put pressure on the pig producers' earnings in 2018. SEGES expects an average result of DKK -342,000 in 2018. The prognosis still shows great diversity among the pig producers' ability to create profit. The best third is expected to realise a profit, but in particular the weakest third of the slaughter hog producers may expect a strong pressure on the economy in 2018.

In spite of expected fall in prices, SEGES, expects that the milk producers on average will yield profit in the range of DKK 270,000 in 2018.

In 2017, the plant growers had satisfactory yield and slightly increasing settling prices, but earnings are affected by costs for drying etc. as a consequence of the wet summer and autumn. Operating results for 2017 are expected on average to be about zero.

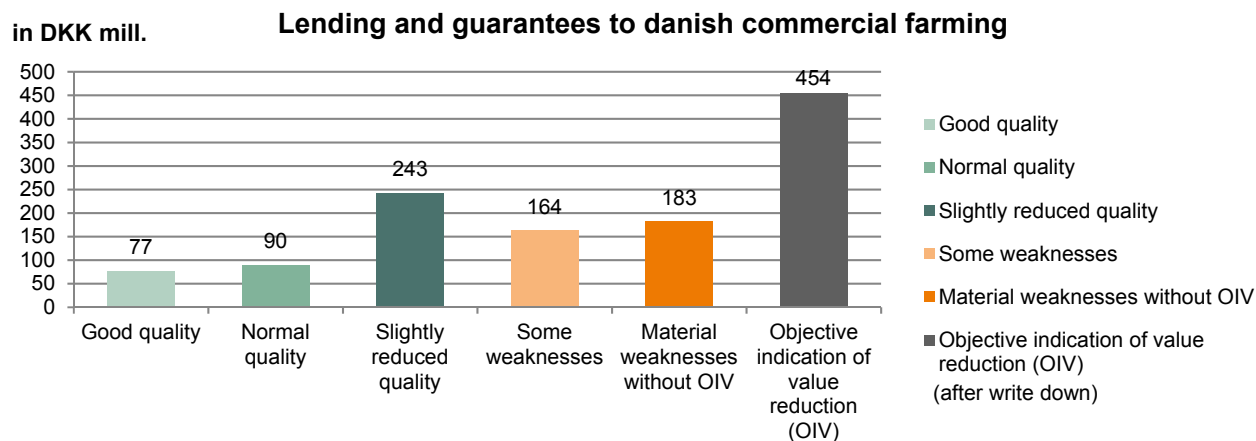
The troublesome harvest in 2017 is expected to rub off negatively on the plant growers' result for 2018, since the usual treatment and sowing of the fields was not possible. Therefore, the operational results for 2018 are expected to be at the same level as 2017. However, Nordjyske Bank does not see the plant growers to be challenged to a great extent and the financial conditions are reasonable.

However, in general there is still great diversity among farmers – both among the production sectors and among the farms in each sector of production. There are still many farms that provide satisfactory results while others are challenged by heavy indebtedness and low efficiency.

The bank has great focus on the farmers' ability to create profitable operations. However, in some instances it may be necessary to help farmers out of the business.

The bank expects that to some extent the falling settling prices for pig breeders and milk producers may necessitate further addition of liquidity. For customers with OIV this may lead to further write-downs.

## Credit risks – continued



To evaluate the bank's agriculture portfolio, it should be pointed out that, apart from OIV commitments, the bank only has limited commitments that show material weaknesses. These lending and guarantees amount to DKK 183 before deduction of securities. In a recession with falling settling prices etc., these will be the commitments to be challenged first.

Furthermore, it should be noted that the bank's commitments with the material weaknesses are satisfactorily covered by securities and distributed with a reasonable diversification on each branch of production.

Regarding farms with some weaknesses it should be pointed out that in accordance with the bank's rating system, these have a cautiously corrected soundness of min. 15 per cent, which provides a good buffer in connection with falling settling prices.

### Lending to plant growing in the EU

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

### Capital adequacy and stress test

In addition to write-downs etc. of DKK 454 million to Danish commercial farming, the bank has reserve capital for commitments with Danish commercial farming for value adjustment of securities and for loss as a consequence of general operating problems of DKK 201 million.

Nordjyske Bank performs stress test on the bank's commitments on an ongoing basis. A stress test of the bank's agriculture portfolio at the end of 2017 shows that the current problems in the agriculture sector cannot threaten the bank.

If the bank loses the entire unsecured part on all the agriculture commitment, the bank will still have a capital adequacy ratio above the capital adequacy (capital adequacy + capital conservation buffer). It should be noticed that it is the bank's opinion that this scenario is not likely. A large share of the portfolio is without weaknesses.

### Property exposure

Nordjyske Bank has lending and guarantees to the property sector at 12.0 per cent of total lending and guarantees. Lending and guarantees to the public utility sector amounts to 29 per cent of the bank's lending and guarantees to the property sector.

To a great extent, Nordjyske Bank has contributed to the financing of dwellings, both in the non-profit and private housing sectors, where a high activity level on housing construction is seen – in particular in the Aalborg area. Based on the high activity level, the bank pays much attention to the possibility to carry out the projects and to the subsequent financing of them.

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

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



## Other risks

### Market risk

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

The FinansCentret is responsible for managing and complying with the limits which are controlled and reported on an ongoing basis from Finance to the Board of Directors and the Executive Board. The bank's lending and deposits as well as accounts with credit institutions are mainly entered into on a variable basis.

The bank's interest rate risk has been calculated at 1.4 per cent of core capital after deductions as at 31 December 2017. The primary interest risk is connected to the bank's portfolio of bonds which is related to the bank's liquidity management as well as fixed interest loans.

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

### Operational risks

Operational risks are the risk of direct or indirect loss as a consequence of insufficient or unsuccessful internal processes, human errors, system errors, or loss as a consequence of external events.

Operational risks are managed on the basis of the established policy. In order to keep operational risks a level that is acceptable for the management, the bank is organised with a clear organisational distribution of responsibility with necessary and sufficient separation of functions, internal control procedures, and routines in all significant activity areas.

Operational events are reported on an ongoing basis to management and board. Finance is responsible for collecting and reporting operational events.

### Liquidity risk and funding risk

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

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

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

### Nordjyske Bank's values:

**Competent**  
**Decent**  
**Dynamic**





## The process of preparation of financial statements

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

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

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

### Control environment

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

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

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

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

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

The compliance function's work is based on the plan for the year, which has been approved by the Board of Directors.

### Risk assessment

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

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

Furthermore, the bank has established a risk management function and appointed a person to be responsible for risk management. The area of responsibility of the risk management includes activities subject to risk across risk areas and organisational entities as well as risks from outsourced functions.

It is the risk management function's responsibility that risk management is performed in a satisfactory way which includes supervising Nordjyske Bank's risks and the overall risk image.

The risk management function's work is based on the plan for the year, which has been approved by the board of directors.

## Investor relations

Nordjyske Bank has strategic focus on investors and as a part of this a desire to create increased liquidity in the Nordjyske Bank share.

We are trying continuously to develop and maintain good relations to our stakeholders, including investors and analysts. It is our desire to ensure a high level of information and a high degree of accessibility as well as relevant and adequate information.

In addition to the bank's financial reporting and the information on the bank's homepage [Nordjyskebank.dk](http://Nordjyskebank.dk), Nordjyske Bank supports and expands relations with investors and analysts at frequent meetings, which, among other things, are being held in connection with publication of annual and interim reports.

Communication with investors and analysts is primarily handled by the managing director in cooperation with the bank's investor relations manager.

We experience increasing interest in the Nordjyske Bank share, and in 2017 more than 20 meetings were held with investors and analysts. The share is covered by two analysts in addition to ad hoc analyses.

### Dividend and capital goal

At the beginning of 2018 the bank has determined a dividend policy and capital goals based on the current capital requirements, including NEP surcharge.

It is still the bank's aim to pay 30-50 per cent of the year's result after tax. Payment may take place in the form of actual dividend or repurchase of shares.

Payment is performed both in consideration of the bank's capital goal and in consideration of complying with statutory requirements as well as economic and business conditions.

It is the bank's objective that the actual core capital shall be at the level of 15.5 per cent in 2020 and capital adequacy ratio at the level of 18.0 per cent in 2020.

These capital goals are determined on the basis of a balanced consideration of optimizing of capital and return, consideration of the bank's desire for strong capital as well as a desire to limit the re-financing risk of debt financing, including Tier III capital to cover the NEP surcharge.

## The Nordjyske Bank share

The bank's share capital of DKK 183.6 million divided into 18,364,515 shares of DKK 10 each. The shares have been adopted for listing at Nasdaq Copenhagen A/S, where the share is part of the Mid Cap segment ultimo 2017.

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

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

The bank's representatives, Board of Directors or shareholders may make proposals for amendments to the Articles to be discussed at the annual general meeting. Approval of proposals takes place in accordance with the bank's Articles, which are available at the bank's homepage [www.nordjyskebank.dk](http://www.nordjyskebank.dk).

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

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

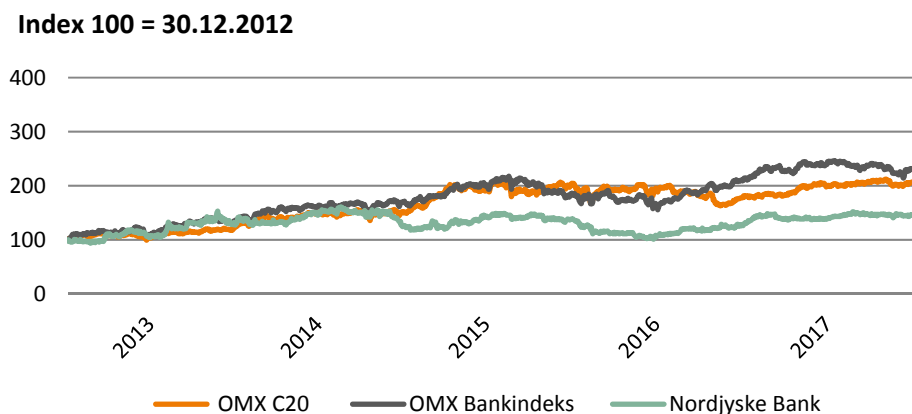
Likewise, the Board of Directors is authorised by the general meeting to allow the bank to acquire own shares at any time, corresponding to a maximum of 10 per cent of the bank's nominal share capital if the shares can be acquired at the current listed price with a deviation of up to 10 per cent.

From the Danish Financial Supervisory Authority, the bank has been allowed to possess own shares for market-maker purposes of up to DKK 20.0 million.

| The Nordjyske Bank share                    | 2017    | 2016    |
|---|---------|---------|
| Share capital, DKK mill.                    | 183.6   | 183.6   |
| Total market value end of period, DKK mill. | 2,203.7 | 1,928.3 |
| Listed price end of period                  | 120.0   | 105.0   |
| The year's result per share, DKK.           | 14.7    | 10.1    |
| Dividend per share, DKK.                    | 4.4     | 4.0     |
| Dividend revenue, per cent                  | 4.2 %   | 3.5 %   |
| Book value per share, DKK.                  | 160.9   | 150.3   |
| Listed price /book value per share, DKK.    | 0.75    | 0.70    |
| Book value per share, DKK. *)               | 137.3   | 125.5   |
| Listed price/book value per share DKK*)     | 0.87    | 0.84    |

\*) book value excl. goodwill and customer relations.

## The Nordjyske Bank share – continued



The above diagram shows the movements in market price over the past 5 years compared with the OMX C20 index (the 20 most traded limited liability companies) and the index for banks.

The Nordjyske Bank share increased in 2017 from a price of 105 at the beginning of the year to a price of 120 at the end of the year.

## Shareholders

Nordjyske Bank has more than 43,000 shareholders, 94 per cent of which are registered.

99 per cent of registered shareholders are residents in Denmark, while 94 per cent of the capital belongs in Denmark.

| Distribution of shares | Number of registered shareholders | Shareholders' total number of shares | %          |
|------------------------|-----------------------------------|--------------------------------------|------------|
| 1-99                   | 29,753                            | 729,146                              | 4          |
| 100-999                | 12,289                            | 3,503,272                            | 19         |
| 1,000-9,999            | 1,223                             | 2,570,221                            | 14         |
| 10,000-19,999          | 30                                | 418,814                              | 2          |
| >20,000                | 38                                | 10,002,327                           | 54         |
| Own shares             | 1                                 | 17,483                               | 0          |
| Non-registered shares  |                                   | 1,123,252                            | 6          |
| <b>Total</b>           | <b>43,334</b>                     | <b>18,364,515</b>                    | <b>100</b> |

### Large shareholder

Nordjyske Bank has one large shareholder which owns more than 5 percent of the share capital, as Jyske Bank A/S at Silkeborg owns 38.50 per cent of the share capital in Nordjyske Bank A/S as at 31 December 2017. There is an agreed limit between the bank's Board of Directors and Jyske Bank A/S of 40 per cent.

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

## Recommendation to the general meeting

The board of directors will recommend to the general meeting that dividend be paid for the financial year 2017 at 30 per cent of the nominal share capital corresponding to DKK 4.4 per share and a total of DKK 80,8 million.

The bank's general meeting will be held on 6 March 2018 at Arena Nord in Frederikshavn with transmission to Aalborg Congress & Culture Centre in Aalborg.

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

The agenda and the complete proposals as well as the documents to be presented at the general meeting will be available on [www.nordjyskebank.dk](http://www.nordjyskebank.dk) from Monday, 12 February 2018 up to and including 6 March 2018.

## Company announcements issued in 2017

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|            |   |
|------------|---|
| 08.02.2017 | Announcement of financial statements and Annual Report 2016                                     |
| 08.02.2017 | Report on the management and their connected parties' transactions with Nordjyske bank's shares |
| 10.02.2017 | Notice of convening Ordinary General Meeting 7 March 2017                                       |
| 07.03.2017 | Minutes of the bank's ordinary general meeting on 7 March 2017                                  |
| 16.05.2017 | Announcement of interim accounts and interim report as at 31 March 2017                         |
| 17.05.2017 | Transactions with Nordjyske Bank A/S shares by individuals required to render returns           |
| 22.08.2017 | Announcement of interim accounts and interim report as at 30 June 2017                          |
| 21.11.2017 | Announcement of interim accounts and interim report as at 30 September 2017                     |
| 21.11.2017 | Financial calendar 2018 for Nordjyske Bank A/S  |

## Financial calendar 2018

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|            |   |
|------------|---|
| 06.03.2018 | Ordinary General Meeting                              |
| 03.05.2018 | Publication of interim report as at 31 March 2018     |
| 15.08.2018 | Publication of interim report as at 30 June 2018      |
| 01.11.2018 | Publication of interim report as at 30 September 2018 |

**Nordjyske Bank's mission:**  
**Nordjyske Bank is your bank**  
**- you can count on it**



## Management

### Committee of Representatives

The Committee of representatives shall have at least 40 and no more than 80 members, at present 63 members. The members are elected by the general meeting. When electing members of the Committee of Representatives, equal representation from the activities of the bank must be aimed at reflecting the bank's shareholders and business structure. Upon election of members of the Committee of Representatives, suitable candidates for the Board of Directors shall also be ensured.

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

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

### Board of Directors

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

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

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

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

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

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

Under the leadership of the chairman, the Board of Directors performs an annual evaluation of the performance, information level etc. of the board meetings and of the competences and composition of the board both in the short and the long term. In 2017 there has been external assistance for the evaluation.

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

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

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

In addition, personal competences are weighted:

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

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

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

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

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

### Audit Committee

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

The Audit Committee holds four ordinary meetings per year.

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

The Audit Committee consists of the following members:

- John Chr. Aasted, chairman of the committee
- Mads Hvolby
- Sten Uggerhøj
- Per Lykkegaard Christensen

## Management – continued

### Risk Committee

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

In accordance with legislation the Risk Committee does not have independent decision-making competence.  
The risk committee holds at least two meetings per year.

The risk committee consists of the following members:

- John Chr. Aasted, chairman of the committee
- Mads Hvolby
- Sten Uggerhøj
- Per Lykkegaard Christensen

### Nomination Committee

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

The Nomination Committee holds at least two meetings per year.  
The Nomination Committee consists of all members of the Board of Directors. Mads Hvolby is chairman and Sten Uggerhøj is deputy chairman of the committee.

### Remuneration committee and policy

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

The Nomination Committee holds at least two meetings per year.

The remuneration committee consists of all members of the Board of Directors. Mads Hvolby is chairman and Sten Uggerhøj is deputy chairman of the committee.

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

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

### Executive Board

The Executive Board consists of three members who are in charge of the day-to-day management of the bank. Cf. the merger agreement of 2015, the Board of Directors will after May 2018 consist of two members, as Mikael Jakobsen will retire after reaching the age of 60 years.

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

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

In general, the bank wants to have open and constructive cooperation with all the bank's stakeholders – both shareholders, customers, employees, and partners.  
The management is positive towards "Recommendation for good corporate management" from the Committee of Good Corporate Management and the Corporate Governance Code from FinanceDenmark.

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

There are 47 recommendations to good corporate management – Corporate Governance – and 12 recommendations in the FinanceDenmark's Corporate Governance Code. The bank's Board of Directors and Executive Board have chosen to adopt all the recommendations except for two recommendations that are observed partially, and two recommendations that are not observed.

The reports, which are part of the management report, are published on [www.nordjyskebank.dk/ombanken/godselskabsledelse](http://www.nordjyskebank.dk/ombanken/godselskabsledelse), where in part reasons are indicated in the cases where the bank does not fully follow the recommendations and in part, to a relevant extent, supplementary comments are given to recommendations that the bank follows.

The policy and the attached report are available on the bank's homepage





## Whistleblower-scheme

In accordance with current regulations, Nordjyske Bank has established a whistleblower-scheme, where the bank's employees anonymously via an independent channel may

report potential breaches of the financial regulations committed by the bank, including the bank's employees or members of the Board of Directors.

## Information about the Board of Directors

|   |   |  |  |
|---|---|--|--|
|    | <p><b>Mads Hvolby</b><br/><b>Chairman of the Board of Directors</b></p> <p>Born 1956<br/>Address in Nørre-sundby</p>  |   | <p><b>Sten Uggerhøj</b><br/><b>Deputy Chairman of the Board of Directors</b></p> <p>Born 1959<br/>Address in Frederikshavn</p> |
| <p>Member of the Board of Directors since 2015 *)<br/>Up for election in 2018<br/>Chairman of the Board of Directors since 2015<br/>Chairman of the Remuneration Committee<br/>Chairman of the Nomination Committee</p> <p>Fee received in 2017 a total of DKK 541,000</p> <p>Chartered surveyor and partner in the surveyor company LE34 A/S.</p> <p>Former chairman of the Board of Directors of A/S Nørresundby Bank 2009-2015</p> <p><b>Education</b><br/>Cand.geom.</p> <p><b>Executive positions and directorships</b><br/><b>Director</b><br/>Landinspektørernes gensidige Erhvervsansvarsforsikring (LgE)</p> <p><b>Chairman of the Board of Directors</b><br/>NB Gruppen A/S Landinspektøraktieselskab</p> <p><b>Member of the Board of Directors</b><br/>Landinspektørfirmaet LE34 A/S</p> <p><b>Independent</b></p> <p><b>Special competences</b><br/>Management of medium sized company<br/>Strategy and business development<br/>Accounting and budgeting<br/>Financial legislation</p> <p><b>Shareholding</b><br/>• Beginning of 2017: 6,046 shares<br/>• End of 2017: 7,294 shares</p> | <p>Member of the Board of Directors since 2005<br/>Up for election in 2018</p> <p>Fee received in 2018 a total of DKK 400,000</p> <p>Car dealer and director of Uggerhøj A/S<br/>Runs business in Frederikshavn, Brønderslev, Herning, Hjørring, Horsens, Silkeborg, Aalborg and Aarhus.</p> <p><b>Education</b><br/>Diploma from General Motors<br/>Top Governance, Aalborg Business Institute<br/>CBA, Aalborg Business Institute<br/>MBA in Strategic Management, Aalborg Business Institute</p> <p><b>Executive positions and directorships</b><br/><b>Director</b><br/>Ejendomsselskabet Motel Lisboa ApS<br/>Ejendomsselskabet Wedellsborgvej 1 A/S<br/>Uggerhøj A/S<br/>Uggerhøj Ejendomme A/S<br/>Uggerhøj Erhverv ApS<br/>Uggerhøj Finans A/S<br/>Uggerhøj Holding ApS<br/>Uggerhøj Nord ApS<br/>Uggerhøj Aarhus A/S</p> <p><b>Chairman of the Board of Directors</b><br/>Uggerhøj Finans A/S<br/>Uggerhøj Horsens A/S</p> <p><b>Member of the Board of Directors</b><br/>Aktieselskabet Trigon<br/>A/S Knud Uggerhøj<br/>Autocentralen.com Vejle A/S<br/>Civilingeniør Bent Bøgh og Hustru Inge Bøgh's Fond<br/>Ejendomsselskabet Møllehuset A/S<br/>Ejendomsselskabet Wedellsborgvej 1 A/S<br/>Fortin Madrejon A/S</p> | <p>Frederikshavn Handelsskole<br/>Knud Uggerhøj Kapital ApS<br/>Power Mills af 1989 ApS<br/>Techno Danmark F.M.B.A.<br/>Techno Forsikring A/S<br/>Trigon Holding A/S<br/>Uggerhøj A/S<br/>Uggerhøj Ejendomme A/S<br/>Uggerhøj Erhverv ApS<br/>Uggerhøj Herning A/S<br/>Uggerhøj Holding ApS<br/>Uggerhøj Aarhus A/S<br/>Øster Dahl ApS</p> <p><b>Special competences</b><br/>Management<br/>Strategy<br/>Sale</p> <p><b>Independent</b><br/>Does not fulfill the requirements for independence due to membership of the board of directors for more than 12 years.</p> <p><b>Shareholding</b><br/>• Beginning of 2017: 78,432 shares.<br/>• End of 2017: 79,683 shares</p> |  |

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



## Information about the Board of Directors – continued



**Per Lykkegaard  
Christensen**

Born 1959  
Address in Hjallerup



**Morten Jensen**

Born 1961  
Address in  
Dronninglund

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

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

Fee received in 2017 a total of DKK 273,000

Fee received in 2017 a total of DKK 222,000

Farm owner

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

### Education

Qualified farmer

### Education

LLM.  
HD(R)

### Executive positions and directorships

#### Director and member of the Board of Directors

Blahova ApS  
Lykkegaard Landbrug ApS  
Lykkegaard Landbrug Holding ApS

### Executive positions and directorships

#### Director

Ejendomsselskabet Svinkløv Badehotel A/S  
Badehotellerne Pepita og Sandvig Havn ApS  
JenSchu K/S  
Komplementaranpartsselskabet  
Langebjergvej 1  
Lundagergaard Holding ApS  
Skovbakkevej 24 ApS  
Vibeke Emborg Holding ApS  
Vibeke Emborg Invest ApS

### Member of the Board of Directors

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

### Chairman of the Board of Directors

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

### Special competences

Management  
Strategy and business development  
Negotiating technique  
Farming

Ergonomic Solutions International Ltd.  
Ergonomic Solutions Manufacturing A/S  
Ergonomic Solutions Nordic A/S

Hadsundvej 33 A/S  
Havnens Fiskebod A/S  
JM Marine Consult A/S  
Mesterbyg Klokkeholm A/S  
Micodan A/S  
Micodan Holding A/S  
Miljø-Art A/S  
Micodan Ejendomme A/S  
Micodan Norge AS  
Munkholm Consult A/S  
PM Energi A/S  
PM Parts A/S  
P/S Marshalls Alle  
Saga Shipping A/S  
Square Holding A/S  
Square Oil A/S  
Teglbakken, Niverød P/S  
Tribodan A/S  
Vibeke Emborg Holding ApS  
Vibeke Emborg Invest ApS

### Special competences

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

### Independent

### Shareholding

- Beginning of 2017: 4,420 shares.
- End of 2017: 4.420 shares

### Member of the Board of Directors

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

### Independent

### Shareholding

- Beginning of 2017: 1,210 shares.
- End of 2017: 2,210 shares

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



## Information about the Board of Directors – continued



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



**Anne Kaptain**

Born 1980  
Address in Sæby



**Henrik Lintner**  
Chairman of the  
Committee of  
Representatives  
Born 1955  
Address in Hjørring

Member of the Board of Directors since  
2015 \*)  
Up for election in 2019

Member of the Board of Directors since  
2017  
Up for election in 2019

Member of the Board of Directors since  
2007  
Up for election in 2019

Fee received in 2017 a total of DKK 230,000

Fee received in 2017 a total of DKK 185,000

Fee received in 2017 a total of DKK 235,000

Director of Aalborg Business College

Attorney (L) and Vice President of Bladt  
Industries A/S

Pharmacist

MA

### Education

LLM.

### Education

Graduate in pharmacology

### Executive positions and directorships

#### Member of the Board of Directors

SOSU Randers

### Executive positions and directorships

#### Member of the Board of Directors

Bryghuset Vendia ApS

#### Member of the Board of Directors

Blegkildekollegiet

Erhvervsskolelederne i DJØF

Praxis Fonden

Handelskollegiet

ITAI A/S

Aalborg Studenterkursus

### Special competences

Legal matters, including financial legislation  
and commercial law

Tax law

HR

### Special competences

Management

HR

IT

Retail

### Independent

### Shareholding

- Beginning of 2017: 0 shares
- End of 2017: 33 shares

### Independent

### Shareholding

- Beginning of 2017: 5,412 shares
- End of 2017: 5,412 shares

### Special competences

Ledelse af større virksomhed

Budgettering og ressourcestyling

HR

Kommunikation og markedsføring

### Independent

### Shareholding

- Beginning of 2017: 854 shares
- End of 2017: 1,019 shares

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

## Information about the Board of Directors – continued



**John Chr. Aasted**

Born 1961  
Address in Aalborg



**Hanne Karlshøj**

Born 1957  
Address in Bindslev



**Helle Juul Lynge**

Born 1963  
Address in Vester  
Hassing, Vodskov

Member of the Board of Directors since 2015 \*)

Up for election in 2019

Chairman of the Audit Committee

Chairman of the Risk Committee

Fee received in 2017 a total of DKK 314,000

Director

### Education

Dairy Engineer

HD(R) & HD(U)

MBA

### Executive positions and directorships

#### Chairman of the Board of Directors

SC Holding 2018 A/S

System Cleaners A/S

#### Member of the Board of Directors

Farmas A/S

Fonden Gissselfeld Kloster

Graintec A/S

Seafood Danmark A/S

### Special competences

Management of large company

Strategy and business development

Farming and agro industry

Sales, export and IT

### Independent

#### Shareholding

• Beginning of 2017: 3,710 shares.

• End of 2017: 3,710 shares.

Member of the Board of Directors elected by the employees since 2002

Up for election in 2018

Fee received in 2017 a total of DKK 205,000

Customer advisor  
Joint union delegate

### Education

Finance course

### Special competences

Private customer advisor

Joint union delegate

#### Shareholding

• Beginning of 2017: 3,059 shares.

• end of 2017: 3,059 shares.

Member of the Board of Directors elected by the employees since 2015 \*\*)

Up for election in 2018

Fee received in 2017 a total of DKK 205,000

Property specialist

### Education

Finance course

HD(F)

### Special competences

Accounting and financing

Market risks

#### Shareholding

• Beginning of 2017: 1,225 shares.

• end of 2017: 1,225 shares

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

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

## Information about the Board of Directors – continued



**Arne Ugilt**

Born 1956  
Address in Uggerby,  
Hjørring



**Finn Aaen**

Born 1970  
Address in Frejlev,  
Aalborg

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

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

Fee received in 2017 a total of DKK 205,000

Credit consultant

Business advisor

**Education**

Finance course  
HD(R)

**Education**

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

**Special competences**

Commitments in distress  
Sale of assets

**Special competences**

Credit risks  
Financing and risk management  
Real property

**Shareholding**

- Beginning of 2017: 2,529 shares.
- end of 20167: 2,529 shares.

**Shareholding**

- Beginning of 2017: 802 shares.
- End of 2017: 802 shares.

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

The shareholding of the Board of Directors includes own shareholdings and that of connected parties.

**Information about members of the Board of Directors retired in 2017:**

Hans Jørgen Kaptain

Retired on 7 March 2017

Fee received in 2017 a total of DKK 133,000

## Information about the executive board



**Claus Andersen**  
Managing Director

Born 1966  
Address in  
Frederikshavn



**Carl Pedersen**  
Deputy Managing  
Director

Born 1962  
Address in  
Nørresundby



**Mikael Jakobsen**  
Bank Director

Born 1958  
Address in Hjørring

Appointed in 2000  
Joined the Executive Board in 2010

Payment received in 2017:  
Fixed salary, etc. DKK 3,190,000  
Pension contribution DKK 342,000  
Value of company car, etc. DKK 164,000

### Previous employments

Spar Nord Bank A/S  
Jyske Bank A/S

### Education

Finance course  
HD(F)  
Executive programme

### Executive positions and directorships

#### **Chairman of the Board**

Sæbygård Skov A/S

#### **Member of the Board of Directors**

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

### Area of responsibility

Finance  
IT  
FinansCenter  
Investor Relations  
Risk management  
Compliance  
Money laundering

### Shareholding

- Beginning of 2017: 2,914 shares
- End of 2017: 2,914 shares

Appointed in 1982  
Joined the Executive Board in 2015

Payment received in 2017:  
Fixed salary, etc. DKK 2,280,000  
Pension contribution DKK 245,000  
Value of company car, etc. DKK 144,000

### Previous employments

A/S Nørresundby Bank

### Education

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

### Executive positions and directorships

#### **Member of the Board of Directors**

Byggesocietetet Aalborg  
Vækst-Invest Nordjylland A/S

### Area of responsibility

Credit  
Business development, business

### Shareholding

- Beginning of 2017: 2,005 shares
- End of 2017: 2,005 shares

Appointed in 1977  
Joined the Executive Board in 2010

Payment received in 2017:  
Fixed salary, etc. DKK 2,460,000 \*)  
Pension contribution DKK 245,000  
Value of company car, etc. DKK 151,000

### Previous employments

Vendsyssel Bank A/S

### Education

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

### Area of responsibility

HR  
Sale and marketing  
Business development, private customers

### Shareholding

- Beginning of 2017: 6,386 shares
- End of 2017: 6,386 shares

\*) The remuneration received includes DKK 180,000 anniversary bonus. The amount has been reserved in previous years in the accounts.

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

No members of the Executive Board have retired in 2017.

## Social responsibility

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

We have a strategic goal to be the best bank in Northern Jutland bank for shareholders, customers, and employees. This implies fair treatment of the bank's stakeholders, limitation of any negative effects on environment and local community as well as contribution to mutually favourable financial results – based on a social and community related responsibility.

The customers should feel that the bank's employees are local and committed in their everyday work and that pursuant to legislation the employees are subject to secrecy, which help the customers to feel comfortable.

We constantly strive to perform reliable and ethical counselling based on the customers' needs and not use sales methods of offering the customer counselling bonus systems that encourage them to act unethically or unreasonably.

Regarding behaviour, there is focus on the bank's values: Competent, Decent, Dynamic. Managers and employees are determined in their work to make the values come to life in the run of things via their behaviour. This creates a good ambience, work with the right things and create results to the benefit of both shareholders, customers, and employees.

The bank's respect for both human rights and a reduction of climate impact is part of the bank's policy on social responsibility, where we are also co-responsible for the environment.

The report on social responsibility – which is part of the management report – is published on the bank's homepage [www.nordjyskebank.dk/ombanken/csr](http://www.nordjyskebank.dk/ombanken/csr).

**The policy and the attached report are available in full on the bank's homepage**



## Policy and goals for the under-represented gender

The Board of Directors specifies goal figures and prepares a policy for the under-represented gender in the management.

The bank has fulfilled the objective of increasing the number of female members of the Board of Directors elected by the Committee of Representatives to at least 1 out of 8 members by 2018. This objective is maintained until 2020.

It is our intention to create a basis for equal distribution by gender at the bank's other management levels, including that all employees experience equal opportunities for career and leading positions irrespective of gender. We want to have a culture that is open and without prejudice, where each individual employee may use his or her competences in the best possible way, irrespective of gender, and at the same time the bank wants to employ and appoint the leader best suitable for the job.

The share of female leaders is increased to 25.3 per cent at the end of 2017 from 24.4 per cent at the end of 2016. The bank's goal of a share of female leaders to 30 per cent will be extended to 2020.

We ensure focus on career development through the annual performance review (MUS (medarbejderudviklingssamtale)) with subsequent action plans for competence development. The employees are offered the opportunity to develop professional and personal competences via both internal and external courses.

In the period up to 2020 an education programme will be carried through which is expected to increase the share of female leaders.

## Facts about the bank's employees

| Facts about the bank's employees | 2017     | 2016     |
|----------------------------------|----------|----------|
| Employees end of year (fulltime) | 423      | 423      |
| - female                         | 228      | 234      |
| - male                           | 195      | 189      |
| Average age                      | 48.2 yrs | 47.8 yrs |
| Average seniority                | 20.1 yrs | 20.0 yrs |

An important element for Nordjyske Bank is to be an attractive work place with a healthy and social environment, where the employees are given a good framework for good interdisciplinary cooperation and at the same time creating good results. The bank has a flat organisation and short chains of decision.

As described earlier, the bank has reduced the number of employees in August 2017 by just over 10 employees. These employees are still employed at the end of 2017 and are included in the figures.



**Not all  
banks are  
so well  
served.**

**Henrik Østergaard**  
Officer



## Statements and opinions

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We have today presented the Annual Report for 1 January – 31 December 2017 for Nordjyske Bank A/S.

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

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

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

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

The Executive Board  
Nørresundby, 8 February 2018

Claus Andersen  
Managing Director

Carl Pedersen  
Deputy Managing Director

Mikael Jakobsen  
Bank Director

Pia Foss Henriksen  
Finance Manager

The Board of Directors  
Nørresundby, 8 February 2018

Mads Hvolby  
Chairman

Sten Uggerhøj  
Deputy Chairman

Per Lykkegaard Christensen

Morten Jensen

Poul Søren Jeppesen

Anne Kaptain

Henrik Lintner

John Chr Aasted

Hanne Karlshøj

Helle Juul Lynge

Arne Ugilt

Finn Aaen

## Internal auditors' statements

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### To the owners of capital in Nordjyske Bank A/S

#### Endorsement of the annual report

##### Conclusion

We have audited the financial statements for Nordjyske Bank A/S for the financial year 1 January - 31 December 2017, which includes income statement, statement of total gains and losses, balance sheet, equity statement, core capital and notes, including applied accounting policy. The financial statements have been prepared according to the Danish Financial Activities Act and in accordance with the Danish disclosure requirements for listed financial companies.

It is our opinion that annual account provides a true and fair picture of the bank's assets, liabilities, and financial position as at 31 December 2017 and of the result of the bank's activities for the financial year 1 January – 31 December 2017 in accordance with the Danish Financial Activities Act and in accordance with the Danish disclosure requirements for listed financial companies.

Our conclusion is in consistency with our letter of recommendation to the audit committee and the board of directors.

##### The audit performed

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

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

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

### Opinion on the Management Report

The management is responsible for the management report.

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

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

In addition, our responsibility is to consider whether the management report includes mandatory information pursuant to the Danish Financial Business Act.

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

Nørresundby, 8 February 2018

Internal Audit

Ove Steen Nielsen  
Head of Internal Audit



## The independent auditors' opinion

### To the owners of capital in Nordjyske Bank A/S Endorsement of the annual report

#### Conclusion

We have audited the financial statements for Nordjyske Bank A/S for the financial year 1 January - 31 December 2017, which includes income statement, statement of total gains and losses, balance sheet, equity statement, core capital and notes, including applied accounting policy. The financial statements have been prepared according to the Danish Financial Activities Act and in accordance with the Danish disclosure requirements for listed financial companies.

It is our opinion that annual account provides a true and fair picture of the bank's assets, liabilities, and financial position as at 31 December 2017 and of the result of the bank's activities for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Activities Act and in accordance with the Danish disclosure requirements for listed financial companies.

#### Basis for conclusion

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

#### Key conditions for the audit

Key conditions for the audit are the conditions according to our professional opinion that were of the greatest importance in the audit of the annual accounts for the financial year 2017. The conditions were treated as part of our audit of the annual account as a whole and the formulation of our conclusion of it. We do not present any separate conclusion on these conditions.

#### Valuation of loans, including write-downs

Book value of loans and other receivables at amortised cost price amount to DKK 11,822 mill. Just like last year, the account item is important and it is connected with significant estimates concerning an evaluation of any needs for write-down, which is the reason why the condition is considered one of the most important for the audit.

Refer to page 54 of the annual report "Balance Sheet", and the notes 1, 2, 14, 16 and 17.

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

#### *Our consideration in the audit:*

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

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

*The bank's largest commitments,*

*The agriculture industry, which is considered both significant and risky. On random selection we have had particular focus on conventional milk and pig producers as a consequence of their uncertain future financial situation*

*The real estate industry, which is considered important to the bank. In particular, focus has been on the bank's financing project properties where the risk has been attached to the customer's subsequent possibility to let out or resell the property*

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

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

#### Valuation of goodwill, including value reduction test

The book value of goodwill amounts to DKK 286.3 mill. Just like last year, the account item is significant and is connected with considerable estimates, which is why the matter is considered one of the most important of the audit.

Refer to page 54 of the annual report "Balance Sheet", and the notes 1, 2 and 22.

## The independent auditors' opinion

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

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

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

#### *Our consideration in the audit:*

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

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

### The management's responsibility for the annual account

The management is responsible for preparation of annual accounts that provide a fair and true picture in accordance with the Danish Financial Business Act and in accordance with the Danish disclosure requirements for listed financial companies. Furthermore, the Management is responsible for the internal control that the management considers necessary to prepare annual accounts without material misinformation, no matter whether this is due to fraud or fault.

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

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

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

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

In addition:

- We identify and assess the risk of material misinformation in the annual account, no matter whether this is due to fraud or fault, we carry out audit actions as a reaction to these risks and obtain audit evidence, which is sufficient and suitable to form the basis for our conclusion. The risk of not discovering material misinformation caused by fraud is higher than misinformation caused by fault, as fraud may include conspiracy, forgery, deliberate omissions, deception, or neglect of internal control
- We achieve understanding of the internal control relevant to the audit to be able to formulate audit actions suitable according to the circumstances, but not to express a conclusion about the efficiency of the bank's internal control
- We make a decision on whether the accounting practice adopted by the management is appropriate and whether the accounting estimates and associated information prepared by the management are reasonable
- We conclude whether the management's preparation of the annual account on the basis of the accounting principle of continued operation is suitable, and whether, based on the obtained audit evidence, there is a material uncertainty connected with events or conditions that may create significant doubt about the bank's ability to continue operations. If we conclude that there is a material uncertainty, we shall, in our endorsement, point out information about it in the annual account or, if such information is not sufficient, modify our conclusion. Our conclusions are based on the audit evidence that has been obtained up until the date of our endorsement. However, future events or conditions may imply that the bank will no longer be able to continue operation.

## The independent auditors' opinion

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

- We take a position on the total performance, structure and contents of the annual account, including information in the notes, as well as whether the annual account mirrors the underlying transactions and events in such a way that it provides a true and fair account hereof.

We communicate with the management about, among other things, the planned scope and the timing of the audit as well as audit related observations, including any significant discrepancies in internal control that we identify during the audit.

We also present a statement to the superior management indicating that we have met relevant ethical requirements concerning independence and informs it about all the relations and other conditions that may reasonably be presumed to affect our independence and, where relevant, related safeguarding precautions.

Based on the matters communicated to the superior management, we establish what matters were most significant in the audit of the annual account for the period in question, and thereby are key matters for the audit. We describe these matters in relation to our endorsement unless legislation or other regulations exclude the matter from being published, or in the extremely rare instances where we maintain that the matter shall not be communicated in our endorsement, because the negative consequences hereof could reasonably be expected to carry more weight than the advantages the public interest has in such communication.

#### Opinion on the Management Report

The management is responsible for the Management Report.

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

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

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

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

#### Further information required pursuant to EU Directive 537/2014

Our conclusion is in consistency with our letter of recommendation to the auditing committee and the board of directors.

We are convinced that no prohibited non-auditing services have been performed as mentioned in Article 5, stk. 1, of directive (EU) no. 537/2014.

We were selected for the first time as auditor for Nordjyske Bank A/S on 20 January 2000 for the accounting year 1999. We were re-elected annually by the decision of the general meeting for a total consecutive period of 19 years up to and including the financial year 2017.

Aalborg, 8 February 2018

Beierholm Statsautoriseret Revisionspartnerselskab  
CVR no. 32 89 54 68

Jens Rytter Andersen  
State-authorised public  
accountant  
MNE-no. 10408

Per Lindholt  
State-authorised public  
accountant  
MNE-no. 21381

**Not all banks  
teaches its  
employees  
the art to  
provide  
consultancy  
service.**

**Marie M. Jensen**  
Business adviser





## Income Statement

| Amounts in DKK 1,000  | note | 2017           | 2016           |
|---|------|----------------|----------------|
| Interest income   | 6    | 569.832        | 606.688        |
| Interest expenses   | 7    | 36.918         | 47.410         |
| Net interest income   |      | <b>532.914</b> | <b>559.278</b> |
| Dividend of shares, etc.  |      | 8.853          | 22.062         |
| Fees and commission income  | 9    | 374.678        | 369.652        |
| Fees and commission income paid                                     |      | 18.518         | 17.344         |
| <b>Net interest and fee income</b>                                  |      | <b>897.927</b> | <b>933.648</b> |
| Market value adjustments  | 10   | 68.052         | 46.490         |
| Other operating income  |      | 1.069          | 12.800         |
| Staff and administration costs                                      | 11   | 502.322        | 490.598        |
| Depr. and write-downs, intangible and tangible assets               | 12   | 28.738         | 27.823         |
| Other operating costs   |      | 1.478          | 1.611          |
| Write-downs on loans and receivables, etc.                          |      | 95.367         | 244.764        |
| Profit or loss from investments in associated and group enterprises | 20   | -21            | -28            |
| <b>Pre-tax result</b>   |      | <b>339.122</b> | <b>228.114</b> |
| Tax   | 13   | 69.414         | 43.228         |
| <b>The year's result</b>  |      | <b>269.708</b> | <b>184.886</b> |

## Suggested disposal of the result

| Amounts in DKK 1,000  | 2017           | 2016           |
|-----------------------|----------------|----------------|
| The year's result     | 269.708        | 184.886        |
| Suggested dividend    | 80.804         | 73.458         |
| Provisions for equity | 188.904        | 111.428        |
| <b>Total spent</b>    | <b>269.708</b> | <b>184.886</b> |

## Statement of total income

| Amounts in DKK 1,000   | 2017           | 2016           |
|--|----------------|----------------|
| The year's result  | 269.708        | 184.886        |
| Increases in reassessed value of headquarters properties       | -1.826         | -160           |
| Tax conc. increased and reassessed value of headquarters prop. | 41             | 348            |
| Provisions for pension liability                               | -403           | -271           |
| Tax conc. provisions for pension liability                     | -8             | -24            |
| <b>The year's total income</b>                                 | <b>267.512</b> | <b>184.779</b> |

## Balance Sheet on 31 December

| <b>Assets</b>  |       |                   |                   |  |
|--|-------|-------------------|-------------------|--|
| Amounts in DKK 1,000                                   | note  | 2017              | 2016              |  |
| Cash balance and demand deposits at central banks      |       | 361.495           | 351.054           |  |
| Receivables from credit institutions and central banks | 15    | 614.793           | 764.150           |  |
| Loans and other receivables at amortised cost price    | 16+17 | 11.822.101        | 10.822.498        |  |
| Bonds at market value                                  | 18    | 2.660.927         | 3.073.768         |  |
| Shares, etc.   | 19    | 600.562           | 579.380           |  |
| Investments in group enterprises                       | 20    | 11.499            | 11.520            |  |
| Assets related to pooled schemes                       | 21    | 3.614.298         | 2.941.695         |  |
| Intangible assets                                      | 22    | 433.019           | 455.049           |  |
| Land and buildings, total                              | 23    | 227.045           | 256.281           |  |
| - Investment properties                                |       | 33.175            | 62.071            |  |
| - Headquarters properties                              |       | 193.870           | 194.210           |  |
| Other tangible assets                                  | 24    | 9.818             | 10.584            |  |
| Current tax assets                                     |       | 3.240             | 0                 |  |
| Temporary assets                                       |       | 2.185             | 12.636            |  |
| Other assets   |       | 145.202           | 151.608           |  |
| Prepayments and accrued income                         |       | 21.196            | 20.950            |  |
| <b>Total assets</b>                                    |       | <b>20.527.380</b> | <b>19.451.173</b> |  |

## Balance Sheet, 31 December

| <b>Liabilities</b>                                |      |                   |                   |  |
|---|------|-------------------|-------------------|--|
| Amounts in DKK 1,000                              |      |                   |                   |  |
|   | note | 2017              | 2016              |  |
| <b>Payables</b>                                   |      |                   |                   |  |
| Payables to credit institutions and central banks | 28   | 313,922           | 302,981           |  |
| Total deposits and other payables                 |      | 16,743,401        | 15,838,012        |  |
| Deposits and other payables                       | 29   | 12,944,009        | 12,718,121        |  |
| Deposits in pooled schemes                        |      | 3,799,392         | 3,119,891         |  |
| Current tax liabilities                           |      | 0                 | 11,200            |  |
| Other liabilities                                 |      | 190,694           | 211,846           |  |
| Prepayments and deferred income                   |      | 1,569             | 2,714             |  |
| <b>Total payables</b>                             |      | <b>17,249,586</b> | <b>16,366,753</b> |  |
| <b>Provisions</b>                                 |      |                   |                   |  |
| Provisions for pensions and similar liabilities   | 30   | 11,669            | 11,160            |  |
| Provisions for deferred tax                       | 31   | 15,070            | 20,403            |  |
| Provisions for losses on guarantees               |      | 20,892            | 17,525            |  |
| Other provisions                                  |      | 5,220             | 5,533             |  |
| <b>Total provisions</b>                           |      | <b>52,851</b>     | <b>54,621</b>     |  |
| <b>Subordinate investments</b>                    |      |                   |                   |  |
| <b>Subordinate investments, total</b>             | 32   | <b>272,779</b>    | <b>271,754</b>    |  |
| <b>Equity</b>                                     |      |                   |                   |  |
| Share capital                                     | 33   | 183,645           | 183,645           |  |
| Revaluation reserves                              |      | 16,431            | 18,216            |  |
| Other reserves                                    |      | 3,254             | 3,275             |  |
| Retained earnings                                 |      | 2,668,030         | 2,479,451         |  |
| Suggested dividend                                |      | 80,804            | 73,458            |  |
| <b>Total equity</b>                               |      | <b>2,952,164</b>  | <b>2,758,045</b>  |  |
| <b>Total liabilities</b>                          |      | <b>20,527,380</b> | <b>19,451,173</b> |  |
| <b>Contingent liabilities</b>                     | 34   | <b>4,674,524</b>  | <b>4,222,554</b>  |  |
| <b>Other notes</b>                                | 35   |                   |                   |  |

## Equity Movements

| Amounts in DKK 1,000                           | 2017                    | 2016                    |
|--|-------------------------|-------------------------|
| <b>Share capital</b>                           |                         |                         |
| Share capital, start of the year               | 183.645                 | 183.645                 |
| Increase/decrease                              | <u>0</u>                | <u>0</u>                |
| Share capital, end of the year                 | 183.645                 | 183.645                 |
| <b>Provisions for appreciation</b>             |                         |                         |
| Provisions for appreciation, start of the year | 18.216                  | 33.680                  |
| Other total income                             |                         |                         |
| - reassessed headquarters properties           | -1.826                  | -160                    |
| - tax conc. reassessed headquarters prop.      | 41                      | 348                     |
| Decrease from changed use/sales                | <u>0</u>                | <u>-15.652</u>          |
| Provisions for appreciation, end of the year   | 16.431                  | 18.216                  |
| <b>Other reserves</b>                          |                         |                         |
| Statutory reserves, start of the year          | 3.275                   | 3.303                   |
| The year's profit                              | <u>-21</u>              | <u>-28</u>              |
| Statutory reserves, end of the year            | 3.254                   | 3.275                   |
| <b>Retained profit</b>                         |                         |                         |
| Retained profit, start of the year             | 2.479.451               | 2.352.531               |
| The year's profit                              | 188.904                 | 111.428                 |
| Dividend of own shares                         | 69                      | 43                      |
| Purchase/sale of own shares                    | -4                      | 64                      |
| Transferred to other reserves                  | 21                      | 28                      |
| Provisions for appreciation, realised          | 0                       | 15.652                  |
| Other total income                             |                         |                         |
| - Provisions for pension liability             | -403                    | -271                    |
| - Tax conc. provisions for pension liability   | <u>-8</u>               | <u>-24</u>              |
| Retained profit, end of the year               | 2.668.030               | 2.479.451               |
| <b>Suggested dividend</b>                      |                         |                         |
| Suggested dividend, start of the year          | 73.458                  | 44.075                  |
| Dividend paid                                  | -73.458                 | -44.075                 |
| Suggested dividend, end of the year            | <u>80.804</u>           | <u>73.458</u>           |
| <b>Equity, end of the year</b>                 | <b><u>2.952.164</u></b> | <b><u>2.758.045</u></b> |



## Core capital (solvency)

| Amounts in DKK 1,000   | 2017    |                  | 2016    |                  |
|--|---------|------------------|---------|------------------|
| Equity   |         | 2.952.164        |         | 2.758.045        |
| Less:  |         |                  |         |                  |
| Suggested dividend   | 80.804  |                  | 73.458  |                  |
| Intangible assets  | 402.756 |                  | 419.940 |                  |
| Non-material investment in entities in the financial sector                  | 312.775 |                  | 311.910 |                  |
| Conservative valuation   | 3.886   |                  | 4.478   |                  |
| Other deductions   | 17.902  | 818.123          | 16.158  | 825.944          |
| <b>Actual core capital after deductions</b>                                  |         | <b>2.134.041</b> |         | <b>1.932.101</b> |
| Additional capital   | 272.779 |                  | 271.754 |                  |
| Deductions:  |         |                  |         |                  |
|  | 0       | 272.779          | 2.920   | 268.834          |
| <b>Capital base</b>  |         | <b>2.406.820</b> |         | <b>2.200.935</b> |
| Capital requirement pursuant to Article 92 of the EU regulation no. 575/2013 |         | 1.156.263        |         | 1.076.219        |
| Risk exposure  |         |                  |         |                  |
| Total risk exposure  |         | 14.453.290       |         | 13.452.733       |
| <b>Actual core capital ratio</b>   |         | <b>14,8</b>      |         | <b>14,4</b>      |
| <b>Core capital ratio</b>  |         | <b>14,8</b>      |         | <b>14,4</b>      |
| <b>Capital adequacy rate</b>   |         | <b>16,7</b>      |         | <b>16,4</b>      |

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

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

## Notes overview

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| Note |   |
|------|---|
| 1    | Applied accounting policy                                       |
| 2    | Material accounting estimates, preconditions and uncertainties  |
| 3    | Five-year selected principal figures                            |
| 4    | Five-year selected key figures                                  |
| 5    | Key figure definitions  |
| 6    | Interest income   |
| 7    | Interest expenses   |
| 8    | Trade   |
| 9    | Fees and commission income                                      |
| 10   | Market price adjustments  |
| 11   | Staff and administration costs                                  |
| 12   | Depreciations and write-downs on intangible and tangible assets |
| 13   | Tax   |
| 14   | Financial risks   |
| 15   | Receivables from credit institutions and central banks          |
| 16   | Loans and other receivables                                     |
| 17   | Credit risks  |
| 18   | Bonds at market value   |
| 19   | Shares, etc.  |
| 20   | Investments in group enterprises                                |
| 21   | Assets related to pooled schemes                                |
| 22   | Intangible assets   |
| 23   | Land and buildings  |
| 24   | Other tangible assets   |
| 25   | Market value of financial instruments                           |
| 26   | Derived financial instruments                                   |
| 27   | Market risks  |
| 28   | Payables to credit institutions and central banks               |
| 29   | Deposits and other payables                                     |
| 30   | Provisions for pensions and similar liabilities                 |
| 31   | Provisions for deferred tax                                     |
| 32   | Subordinate capital   |
| 33   | Share capital   |
| 34   | Contingent liabilities  |
| 35   | Affiliated parties  |

## Notes

### 1. Applied accounting policies

#### In general

The annual account for 2017 is presented in accordance with the Financial Activities Act and the Executive Order on financial reports for credit institutions and stockbroker companies, etc. (the Accounting directive). In addition, the annual report is presented in accordance with further Danish requirements on information on annual reports for listed financial companies.

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

The annual account is presented according to the same accounting policies as last year. Minor reclassifications have been made in a few items in income statement and balance sheet, including specifications in the notes. This change has no effect on this year's and last year's result and equity, and has only been done to ensure comparability of the items in the annual account.

#### General remarks on inclusion and measuring

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

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

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

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

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

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

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

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

#### Establishment of market value

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

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

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

#### Conversion of foreign exchange

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

## Notes

### 1. Applied accounting policies (continued)

#### Merger

In connection with acquisition of a company, assets, including identifiable intangible assets, liabilities and contingency liabilities are in terms of market value at the acquisition date according to the purchase method.

As a consequence of using the purchase method, the comparative figures shall not be adjusted and therefore only express Nordjyske Bank before merger with Nørresundby Bank in 2015.

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

#### Group

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

#### The Account Statement

##### Interest, fees and commissions etc.

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

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

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

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

#### Market price adjustments

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

#### Other operating income

Other operating income includes income of a secondary nature in relation to the bank's activities, including rent receipts concerning those of the bank's headquarters properties which are also let out, the result of operation of the bank's investment properties, and profit from sale of headquarters properties.

#### Staff and administration costs

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

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

Nordjyske Bank's costs in 2014 and 2015 in connection with acquisition of and merger with Nørresundby Bank in 2015 are included under staff and administration costs, whereas corresponding costs in Nørresundby Bank are included in the acquisition balance sheet.

#### Other operating costs

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

#### Write-downs on lending and receivables etc.

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

## Notes

### 1. Applied accounting policies (continued)

#### Tax

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

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

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

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

#### Balance Sheet

##### Receivables with credit institutions and central banks

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

Receivables are in terms of market value.

##### Lending and other receivables at amortised cost price

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

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

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

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

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

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

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

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

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

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

## Notes

### 1. Applied accounting policies (continued)

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

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

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

#### Bonds at market value

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

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

#### Shares, etc.

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

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

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

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

#### Investments in affiliated companies

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

#### Assets in pooled schemes

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

#### Intangible assets

Intangible assets include goodwill and customer relations.

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

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

## Notes

### 1. Applied accounting policies (continued)

#### Land and buildings

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

Investment properties are in terms of market value calculated on the basis of a profit-based model, based on an external expert estimate of the price per square meter and profit requirement within a short period of sales efforts.

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

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

#### Other tangible assets

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

#### Current tax assets / current tax liabilities

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

#### Assets in temporary possession

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

#### Other assets

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

#### Accrual accounting items

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

#### Payables to credit institutions and central banks

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

#### Deposits and other payables and deposits in pooled schemes

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

#### Other liabilities

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



## Notes

### 1. Applied accounting policies (continued)

#### Provisions

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

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

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

#### Subordinate investments

Subordinate investments are calculated at amortised cost price.

#### Revaluation reserves

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

#### Suggested dividend

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

#### Own shares

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

#### Other reserves

Other reserves include statutory reserves as a consequence of revaluation of investments in group companies according to the equity value method.

#### Contingent liabilities

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

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

#### Derived financial instruments and accounting safeguarding

Forward transactions, interest- and currency swaps and other derived financial instruments are calculated at market value at the balance sheet date, which basically is based on listed market prices. To the extent that it is a matter of unlisted instruments, the market value is calculated according to generally known principles building on market-based parameters. Positive market values are included under other assets and negative market values are included under other liabilities. In the event that the bank has an offsetting agreement with the counterparty, the market value is calculated as a net market value in certain instances.

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

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

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



## Notes

### 1. Applied accounting policies (continued)

#### Future rules of accounting

At the time of publication of this annual report the accounting standard IFRS 9, which replaces the IAS 39 standard, has come into force as of 1 January 2018. The accounting standard IFRS 9 will considerably change the current rules of classification and measuring of financial assets, accounting write-downs and to some extent the rules of accounting safeguarding.

Correspondingly, the overall stipulations of IFRS 9 are implemented into the Danish Accounting directive and supplemented by special Danish write-down rules in appendix 10 of the accounting directive, which supplement the general principles of IFRS 9.

The amended Danish accounting directive will come into force at the same time as IFRS 9, which means for accounting periods beginning on 1 January 2018.

The IFRS 9 rules on financial instruments that are implemented in the Danish accounting directive provide the following about classification and analysis as well as write-down on financial assets:

#### IFRS 9 - classification and measuring

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

Financial assets that are kept to generate the contractual payments and where the contractual payments only consist of interest and instalments on the outstanding amount, which is primarily loan, are measured at the after time of the first inclusion at amortised cost price.

Financial assets that are kept in a mixed business model where some financial assets are kept to generate the contractual payments, and other financial assets are sold, and where the contractual payments of the financial assets in the mixed business models exclusively consist of interest and instalments on the outstanding amount, are measured after time of the first inclusion on the basis of market value through other total income.

Financial assets that do not meet the above criteria for business model, or where the contractual payment flows do not exclusively consist of interest and instalments on the outstanding amount, are measured after the time of the first inclusion at market value through the account statement.

However, the financial assets in question – primarily bonds – are included in a risk management system and an investment strategy, which are based on market values, and on that basis are included in Nordjyske Bank's internal management reports. On that basis, Nordjyske Bank estimates that the financial assets do not meet the criteria for business model which is attached to the measuring categories amortised cost price and market value through other total income. The financial assets in question are instead measured at market value via the account statement.

The use of the IFRS 9 measuring categories for financial assets on the basis of the business model and on the basis of the characteristics of the contractual payment flows, is only expected to lead to insignificant changes in measuring principles compared with the measuring principles used in the bank's annual report for 2017.

#### IFRS 9 – write-downs

With IFRS 9 the current write-down part based on incurred loss ("incurred loss"-model) will be replaced by a write-down model based on expected loss ("expected loss"-model).

The new expectation-based write-down model implies that a financial asset at the time of its first inclusion is written down by an amount corresponding to the expected credit loss for 12 months (stage 1). If, subsequently, a significant increase of the credit risk takes place compared with the time of the first inclusion, the asset will be written down by the amount corresponding to the expected credit loss in the expected remaining time of the asset (stage 2). If a decrease in value of the asset is established (stage 3), the asset is written down by an amount corresponding to the expected credit loss during the remaining time of the asset, which will be bigger than at stage 2, and interest income is included in the income statement according to the effective interest method relative to the written down amount.

Write-downs on the customers at stages 1 and 2 are performed on the basis of a portfolio-based model calculation, whereas the write-downs for stage 3 customers are performed by a manual, individual assessment.

The portfolio-based model calculation is performed on the basis of a simpler model, which is based on the bank's distribution of the customers into different rating categories and an evaluation of the risk for each rating category. The calculation takes place in a setup, which is developed and maintained by Bankdata, supplemented by a forward-looking, macro-economic module, which is developed and maintained by LOPI. The at forward-looking, macro-economic module generates a number of adjustment factors which are multiplied by the "raw" estimates of the data central, which are thereby adjusted relative to the basis.

## Notes

### 2. Material accounting estimates, preconditions and uncertainties

In connection with preparation of the annual account and calculation of the accounting values of certain assets and liabilities, the management make assessments and estimates about the effect of future events on the value of the assets and liabilities in question on the balance sheet date.

The assessments and estimates are based on assumptions considered by the management to be reasonable but which are uncertain and unpredictable, which is why the final actual results may deviate from the assessments and estimates made.

No unusual conditions have affected the assessments and estimates made.

The most significant uncertainties for inclusion and measuring are connected to the valuation of:

- a) Lending
- b) Intangible assets, including goodwill
- c) Properties
- d) Unlisted financial instruments, including sector shares

Write-downs on lending are made to take any value reduction after the first inclusion into consideration. The write-down is made as a combination of individual and group-based write-downs and is connected with a number of estimates, including which loans or portfolios show an objective indication of value reduction.

Test for value reduction of individual loans implies an estimate of condition which hold a high level of uncertainty. The assessment implies estimate of the most probable future cash flow that the customer is expected to generate.

Lending for which there is an objective indication of value reduction or where no individual need for write-down has been identified, is part of a group where, at portfolio-level, it is estimated whether there is a need for write-down. In test for value reduction of a group of loans, the material aspect is to identify the events that provide an indication of whether loss on the group has taken place. The assessment of the market value of the cash flows generated by the customers in the group, is uncertain when historic data are used to mirror the current situation. Lending is placed in groups with uniform credit risk properties.

To reduce the risk on each individual commitment in the bank, security is primarily received in the form of mortgage on the physical assets (of which mortgage on real property is the most important), securities etc. Material management related estimates are part of the valuation of the securities. For a more detailed description of conditions concerning securities, refer to note 15 Financial risks.

As a minimum, goodwill is tested annually for value reduction and in this is included estimate concerning quantification of future income and establishing of a discount rate corresponding to what the market is presumed to expect. For further description of the value reduction test, refer to note 22 "Intangible assets".

As a basis, the return method is used to measure properties at market value. The future cash flows are based on the bank's best estimate of the future ordinary result and required return on each individual property, taking factors such as location and maintenance into consideration. A number of these assumptions and estimates have a considerable influence on the calculations. Changes in these parameters as a result of change in market conditions affect the expected return and thereby the market value of the property. An external valuation is obtained supporting the estimates made.

The bank measures a number of unlisted financial instruments at market value, including derived financial instruments as well as unlisted shares and bonds. As part of its operation, the bank has obtained strategic investments in various sector companies. Strategic investments in sector companies are measured at market value on the basis of available information about trade with the share of the company in question or alternatively, on the basis of a valuation model based on acknowledged methods and various data.

For financial instruments, where valuation only to a lesser extent is based on observed market data, the valuation is influenced by estimate. This, for example, applies to unlisted shares and certain bonds, where there is no active market.

For further description of the valuation methods used, refer to "Applied accounting policies".

## Notes with five-year surveys

### 3. Five years' selected financial data

(amounts in DKK million)

|   | 2017   | 2016   | 2015   | 2014  | 2013  |
|---|--------|--------|--------|-------|-------|
| <b>Income statement:</b>                                |        |        |        |       |       |
| Net interest income*)                                   | 532,9  | 559,3  | 520,0  | 323,4 | 337,3 |
| Fees and commission income, net                         | 356,2  | 352,3  | 307,5  | 159,0 | 129,5 |
| Net interest and fee income                             | 897,9  | 933,6  | 837,5  | 488,2 | 472,2 |
| Market value adjustments                                | 68,1   | 46,5   | 21,0   | 43,8  | 18,6  |
| Staff and administration costs                          | 502,3  | 490,6  | 466,0  | 265,6 | 270,6 |
| Write-downs on loans and receivables, etc.              | 95,4   | 244,8  | 307,1  | 139,2 | 129,3 |
| Result of investments in associated and group companies | 0,0    | 0,0    | 25,0   | 1,0   | -1,8  |
| Pre-tax result  | 339,1  | 228,1  | 61,2   | 109,4 | 70,8  |
| The year's result                                       | 269,7  | 184,9  | 53,7   | 88,1  | 52,9  |
| <b>Balance sheet:</b>                                   |        |        |        |       |       |
| Lending   | 11.822 | 10.822 | 10.729 | 5.499 | 5.553 |
| Bonds   | 2.661  | 3.074  | 2.557  | 1.059 | 1.126 |
| Shares, etc.  | 601    | 579    | 581    | 271   | 252   |
| Investments in associated and group companies           | 11     | 12     | 12     | 11    | 11    |
| Investment properties                                   | 33     | 62     | 74     | 34    | 36    |
| Headquarters properties                                 | 194    | 194    | 229    | 94    | 100   |
| Assets in temporary possession                          | 2      | 13     | 45     | 2     | 5     |
| Deposits, incl. pooled schemes                          | 16.743 | 15.838 | 14.975 | 7.208 | 7.297 |
| Subordinate loan capital                                | 273    | 272    | 271    | 3     | 6     |
| Equity  | 2.952  | 2.758  | 2.617  | 1.421 | 1.349 |
| Total assets  | 20.527 | 19.451 | 18.660 | 8.881 | 8.915 |
| <b>Guarantees</b>                                       | 4.675  | 4.223  | 3.280  | 1.172 | 841   |

\*) Included in the net interest income for are DKK 2017 39.5 mill. (2016: DKK 71.6 mill., 2015: 58.6 mio. kr.), which are connected to the part of commitments acquired at a discount from Nørresundby Bank in 2015.

The key figures for 2015 - 2017 are not comparative with those of previous years, since the key figures for 2013 and 2014 alone are related to Nordjyske Bank A/S prior to merger with A/S Nørresundby Bank in 2015.

## Notes with five-year surveys

### 4. Five years' selected key figures

(amounts in DKK million)

|   | 2017  | 2016  | 2015  | 2014  | 2013  |
|---|-------|-------|-------|-------|-------|
| <b>Capital adequacy</b>   |       |       |       |       |       |
| Capital adequacy rate *)  | 16,7  | 16,4  | 16,6  | 19,6  | 19,9  |
| Core capital percentage *)  | 14,8  | 14,4  | 14,5  | 19,6  | 19,9  |
| <b>Earnings</b>   |       |       |       |       |       |
| Return on equity before tax   | 11,9  | 8,5   | 3,0   | 7,9   | 5,3   |
| Return on equity after tax  | 9,4   | 6,9   | 2,7   | 6,4   | 4,0   |
| Earnings per cost krone   | 1,5   | 1,3   | 1,1   | 1,3   | 1,2   |
| Costs as a percentage of core earnings                                | 55,9  | 53,6  | 57,0  | 51,6  | 56,4  |
| Return on net assets as a percentage after tax                        | 1,3   | 1,0   | 0,3   | 1,0   | 0,6   |
| <b>Market risks</b>   |       |       |       |       |       |
| Interest risk as a percentage of core capital                         | 1,4   | 1,0   | 0,1   | 0,4   | -0,5  |
| Foreign exchange position as a percentage of core capital             | 0,6   | 0,4   | 0,6   | 1,3   | 0,8   |
| Foreign exchange risk as a percentage of core capital                 | 0,0   | 0,0   | 0,0   | 0,0   | 0,0   |
| <b>Credit risks</b>   |       |       |       |       |       |
| Loans in proportion to equity (gearing)                               | 4,0   | 3,9   | 4,1   | 3,9   | 4,1   |
| The year's lending growth percentage                                  | 9,2   | 0,9   | 95,1  | -1,0  | -0,1  |
| The sum of large commitments as a percentage of adjusted core capital | 13,5  | 36,0  | 27,5  | 11,1  | 11,6  |
| The year's write-down percentage                                      | 0,6   | 1,5   | 2,1   | 1,9   | 1,9   |
| Accumulated write-down percentage                                     | 5,9   | 6,4   | 5,7   | 9,0   | 8,2   |
| Accumulated write-down percentage incl. discount**)                   | 6,4   | 7,4   | 7,5   | 9,0   | 8,2   |
| Property exposure before write-downs                                  | 12,8  | 11,4  | 12,4  | 6,5   | 6,7   |
| <b>Liquidity risks</b>  |       |       |       |       |       |
| Lending including write-downs in proportion to deposits               | 76,6  | 74,7  | 77,3  | 85,4  | 83,9  |
| Excess cover compared with statutory liquidity as a percentage        | 114,6 | 150,9 | 142,0 | 173,9 | 215,0 |
| Stable funding-ratio  | 0,59  | 0,57  | 0,60  | 0,64  | 0,64  |
| Liquidity Coverage Ratio (LCR)  | 257   | 273   | 270   | -     | -     |
| <b>The Nordjyske Bank share</b>                                       |       |       |       |       |       |
| DKK per share of DKK 10   |       |       |       |       |       |
| The year's result per share   | 14,7  | 10,1  | 4,1   | 11,4  | 6,7   |
| Book value per share  | 160,9 | 150,3 | 142,7 | 184,5 | 175,2 |
| Listed price  | 120,0 | 105,0 | 114,5 | 105,0 | 109,0 |
| Dividend per share  | 4,4   | 4,0   | 2,4   | 3,0   | 2,0   |
| Listed price/the year's result per share (P/E)                        | 8,2   | 10,4  | 27,8  | 9,2   | 16,2  |
| Listed price/book value per share                                     | 0,75  | 0,70  | 0,80  | 0,57  | 0,62  |

The key figures for 2015 - 2017 are not comparable with those from previous years since the key figures for 2013 and 2014 only apply to Nordjyske Bank A/S prior to the merger with Nørresundby Bank in 2015.

Key figures calculated on the basis of proforma figures appear from the management report on page 6.

## Notes with five-year surveys

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### 4. Five years' selected key figures (continued)

(amounts in DKK million)

\*) Capital adequacy rate and core capital adequacy rate for 2013 are calculated according to previous rules, as the bank does not have sufficient data basis to calculate the key figures according to the current rules.

\*\*) The accumulated write-downs on lending amount to DKK 1,008 mill. as at 31 December 2017, while provisions for loss on guarantees amount to DKK 21 mill. The accumulated write-down percentage then amounts to 5.9% as at 31 December 2017. Furthermore, the bank has made write-downs of DKK 104 mill. from Nørresundby Bank, which in the accounts are included at a discount and therefore are not included in the accumulated write-downs. Thus, total accumulated write-downs, provisions and discount amount to DKK 1,133 mill., corresponding to adjusted accumulated write-down percentage of 6.4%.

## Notes with five years' surveys

### 5. Key figure definitions

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

## Notes to the Income Statement

### 6. Interest income

Amounts in DKK 1,000

|   | 2017           | 2016           |
|---|----------------|----------------|
| Receivables from credit institutions and central banks        | 266            | 722            |
| Lending and other receivables                                 | 514,531        | 519,198        |
| Discount relating to loans acquired from A/S Nørresundby Bank | 39,493         | 71,640         |
| Bonds   | 9,645          | 11,505         |
| Derived financial instruments                                 | 3,748          | 2,508          |
| Other interest income   | 2,149          | 1,115          |
| Total interest income   | <u>569,832</u> | <u>606,688</u> |

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

### 7. Interest expenses

Amounts in DKK 1,000

|   | 2017          | 2016          |
|---|---------------|---------------|
| Debt to credit institutions and central banks | 3,670         | 5,138         |
| Deposits and other debts                      | 17,406        | 26,452        |
| Subordinate capital                           | 15,713        | 15,719        |
| Other interest expenses                       | 129           | 101           |
| Total interest expenses                       | <u>36,918</u> | <u>47,410</u> |

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

### 8. Trade

Amounts in DKK 1,000

|   | 2017           | 2016           |
|---|----------------|----------------|
| Nordjyske Bank A/S conducts traditional banking business in the North Denmark region and in Copenhagen with headquarters in Nørresundby. No branches are established abroad and no public subsidies are received. |                |                |
| Interest income   | 569,832        | 606,688        |
| Fees and commission income  | 374,678        | 369,652        |
| Other operating income  | 1,069          | 12,800         |
| Total trade   | <u>945,579</u> | <u>989,140</u> |

## Notes to the Income Statement

### 9. Fees and commission income

Amounts in DKK 1,000

|                                       | 2017    | 2016    |
|---------------------------------------|---------|---------|
| Security trading and custody accounts | 120,772 | 128,586 |
| Payment services                      | 41,357  | 39,885  |
| Loan transaction fees                 | 124,942 | 116,895 |
| Guarantee commission                  | 27,086  | 22,425  |
| Other fees and commission income      | 60,521  | 61,861  |
| Total fees and commission income      | 374,678 | 369,652 |

As a consequence of changes in booking of fee income, for reasons of comparability the specification of fee income in 2016 was changed, cf. comments on this under applied accounting policy in note 1.

### 10. Market value adjustments

Amounts in DKK 1,000

|                                     | 2017     | 2016     |
|-------------------------------------|----------|----------|
| Other loans and receivables (hedge) | -3,460   | 4,786    |
| Bonds                               | 7,161    | 16,456   |
| Shares, etc.                        | 41,577   | 20,248   |
| Investment properties               | 5,325    | -3,456   |
| Foreign exchange                    | 10,051   | 9,975    |
| Derived financial instruments       | 7,398    | -1,377   |
| Assets related to pooled schemes    | 149,824  | 120,322  |
| Deposits in pooled schemes          | -149,824 | -120,464 |
| Total market value adjustments      | 68,052   | 46,490   |



## Notes to the Income Statement

### 11. Staff and administration costs

Amounts in DKK 1,000

|   | 2017          |                | 2016          |                |
|---|---------------|----------------|---------------|----------------|
| <b>Remuneration for Board of Directors, Executive Board, and representatives</b>                |               |                |               |                |
| Executive Board   | 11,332        |                | 9,638         |                |
| Board of Directors  | 3,196         |                | 3,198         |                |
| Representatives   | <u>1,067</u>  | 15,595         | <u>1,098</u>  | 13,934         |
| Staff costs:  |               |                |               |                |
| Salaries  | 223,890       |                | 215,291       |                |
| Pension   | 25,863        |                | 23,831        |                |
| Costs of social security, etc.  | 4,430         |                | 4,057         |                |
| Charges calculated on the basis of size of staff or payroll cost                                | <u>34,800</u> | 288,983        | <u>34,174</u> | 277,353        |
| Other administration costs  |               | <u>197,744</u> |               | <u>199,311</u> |
| Total staff and administration costs  |               | <u>502,322</u> |               | <u>490,598</u> |
| <b>Remuneration for employees whose activities materially influence the bank's risk profile</b> |               |                |               |                |
| Remuneration earned, etc. *)  |               | 8,301          |               | 7,195          |
| Pensions *)   |               | 914            |               | 771            |
| Value of company car, etc   |               | <u>45</u>      |               | <u>118</u>     |
| Total remuneration  |               | <u>9,260</u>   |               | <u>8,084</u>   |

\*) Includes severance pay for one person. Pursuant to executive order on financial reports for credit institutions and stock brokering companies S 121 (3), the amount is not specified.

#### Incentive schemes

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

#### Number of people during the whole or part of the year

|                      |    |    |
|----------------------|----|----|
| Executive Board      | 3  | 3  |
| Board of Directors   | 13 | 12 |
| Representatives      | 66 | 72 |
| Material risk takers | 10 | 8  |

#### Number of employees

|  |     |     |
|--|-----|-----|
| The average number of employees during the financial year, calculated as full-time employees | 421 | 426 |
|--|-----|-----|

#### Auditing fee for:

|  |            |            |
|--|------------|------------|
| Statutory auditing of financial statements | 1,082      | 972        |
| Statement tasks with security              | 56         | 72         |
| Fee for tax advice                         | 40         | 62         |
| Other services                             | <u>133</u> | <u>191</u> |

|       |              |              |
|-------|--------------|--------------|
| Total | <u>1,311</u> | <u>1,297</u> |
|-------|--------------|--------------|

## Notes to the Income Statement

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

Amounts in DKK 1,000

|  | 2017          | 2016          |
|--|---------------|---------------|
| Depreciation on intangible assets  | 22,030        | 22,030        |
| Depreciation on headquarters properties                                  | 384           | 378           |
| Write-downs and write-downs carried back on headquarters properties, net | 548           | 134           |
| Depreciations on other tangible assets                                   | <u>5,776</u>  | <u>5,281</u>  |
| Depreciations and write-downs, total                                     | <u>28,738</u> | <u>27,823</u> |

### 13. Tax

Amounts in DKK 1,000

|  | 2017          | 2016          |
|--|---------------|---------------|
| The year's tax may be distributed like this:                 |               |               |
| Tax on the year's income:                                    | 69,414        | 43,228        |
| Tax on other total income (equity movements)                 | <u>-33</u>    | <u>-324</u>   |
| Tax, total   | <u>69,381</u> | <u>42,904</u> |
| Specification of tax charged to the profit and loss account: |               |               |
| Current tax  | 73,671        | 51,619        |
| Regulation of deferred tax                                   | -5,301        | -8,431        |
| Regulation of previous years' calculated tax                 | <u>1,044</u>  | <u>40</u>     |
| Total tax on the year's result                               | <u>69,414</u> | <u>43,228</u> |
| Current tax rate   | 22.0%         | 22.0%         |
| Not taxable income and not deductible expenses etc.          | -1.8%         | -3.0%         |
| Share of result in group companies                           | 0.0%          | 0.0%          |
| Regulation of previous years' calculated tax                 | <u>0.3%</u>   | <u>0.0%</u>   |
| Effective tax percentage                                     | <u>20.5%</u>  | <u>19.0%</u>  |

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

## Notes for the Balance Sheet

### 14. Financial risks

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

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

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

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

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

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

#### Credit risks

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

Among other things this means

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

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

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

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

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

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

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

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

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

- Operating equipment:  
Calculation of the loan value for operating equipment is made according to the straight-line method. Typically, 12.5 to 33 per cent will be written-down of the value of the assets on an ongoing basis during the useful life.
- Real property:  
The loan value of mortgages in private properties is typically at the level of 90 per cent of the market value less higher-ranking mortgages. The loan value of mortgage in business properties, including agricultural properties, is fixed on the basis of the market value less higher-ranking mortgages. The market value of agricultural properties is fixed on the basis of the Danish Financial Supervisory Authority's market recommended price per hectare.
- Guarantees:  
The loan value for guarantees from Danish public authorities is 100 per cent. Other guarantees are fixed individually.
- Deposits and securities  
The loan value for deposits is typically 100 per cent. For securities, the official price adjusted for estimated price fluctuation and corrected for estimated negotiability, currency, etc., is used as starting point.
- Current assets (receivables, stocks, etc.):  
The loan value for current assets has been fixed individually on the basis of the realisation value of the current assets.
- Other securities:  
The loan value is fixed individually.

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

## Notes for the Balance Sheet

### 14. Financial risks (continued)

The model used for commercial customers is based on the customer's financial data, swot analyses, and supplemented by an evaluation of the customer's current situation.

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

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

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

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

See also a description of the bank's current credit risk in the management report on page 25, and in note 17.

#### Market risks

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

Risks are primarily in the form of interest risks.

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

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

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

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

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

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

#### Liquidity risks

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

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

- deposits from customers
- equity, and any

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

See also a description of the bank's current liquidity situation on page 18 of the management report.

#### Operational risks

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

## Notes for the Balance Sheet

### 15. Receivables from credit institutions and central banks

Amounts in DKK 1,000

|  | 2017           | 2016           |
|--|----------------|----------------|
| Receivables on demand  | 614.793        | 755.640        |
| Remaining term:  |                |                |
| - from 1 year up to and including 5 years                    | 0              | 5.000          |
| - more than 5 years  | <u>0</u>       | <u>3.510</u>   |
| Total receivables from credit institutions and central banks | <u>614.793</u> | <u>764.150</u> |
| Time receivables from credit institutions and central banks  | 545.069        | 690.087        |
| Receivables from credit institutions                         | <u>69.724</u>  | <u>74.063</u>  |
| Total receivable from credit institutions and central banks  | <u>614.793</u> | <u>764.150</u> |

### 16. Lending and other receivables

Amounts in DKK 1,000

|  | 2017              | 2016              |
|--|-------------------|-------------------|
| Demand receivables                         | 1.058.838         | 877.972           |
| Remaining term:                            |                   |                   |
| - up to and including 3 month              | 552.348           | 464.641           |
| - from 3 months up to and including 1 year | 4.184.832         | 4.126.685         |
| - from 1 year up to and including 5 years  | 2.950.954         | 2.759.242         |
| - more than 5 years                        | <u>3.075.129</u>  | <u>2.593.958</u>  |
| Total lending                              | <u>11.822.101</u> | <u>10.822.498</u> |

## Notes for the Balance Sheet

### 17. Credit risk

Amounts in DKK 1,000

|  | 2017       |        | 2016       |        |
|--|------------|--------|------------|--------|
| <b>A Lending and guarantees (after write-down) by sectors and industries</b> |            |        |            |        |
| Public authorities   | 0          | 0,0%   | 0          | 0,0%   |
| Agriculture, hunting, forestry and fishing::                                 |            |        |            |        |
| Agriculture  | 1.261.597  | 7,6%   | 1.325.731  | 8,8%   |
| Plant growing abroad   | 422.897    | 2,6%   | 419.090    | 2,8%   |
| Fur farming  | 87.760     | 0,5%   | 98.145     | 0,7%   |
| Fishing  | 390.192    | 2,4%   | 306.502    | 2,0%   |
| Agriculture, hunting, forestry and fishing, total                            | 2.162.446  | 13,1%  | 2.149.468  | 14,3%  |
| Industry and raw material extraction   | 726.652    | 4,4%   | 655.102    | 4,4%   |
| Energy supply  | 90.861     | 0,5%   | 66.578     | 0,4%   |
| Building and construction  | 701.445    | 4,2%   | 718.134    | 4,8%   |
| Trade  | 890.901    | 5,4%   | 931.426    | 6,2%   |
| Transport, hotels and restaurants  | 194.138    | 1,2%   | 286.610    | 1,9%   |
| Information and communication  | 91.425     | 0,6%   | 70.497     | 0,5%   |
| Financing and insurance  | 1.250.385  | 7,6%   | 1.203.662  | 8,0%   |
| Real property  | 1.974.718  | 12,0%  | 1.598.905  | 10,6%  |
| Other industries   | 874.006    | 5,3%   | 790.953    | 5,2%   |
| Other industries, total  | 6.794.531  | 41,2%  | 6.321.867  | 42,0%  |
| Business, total  | 8.956.977  | 54,3%  | 8.471.335  | 56,3%  |
| Private  | 7.539.648  | 45,7%  | 6.573.717  | 43,7%  |
| Total  | 16.496.625 | 100,0% | 15.045.052 | 100,0% |

## Notes for the Balance Sheet

### 17. Credit risk (continued)

Amounts in DKK 1,000

#### B Maximum credit exposure (lending, guarantees, and credit commitment) distributed by sectors and industries

|   | 2017                              |            | 2016                              |            |
|---|-----------------------------------|------------|-----------------------------------|------------|
| Public authorities                                | 3.040                             | 0,0%       | 3.090                             | 0,0%       |
| Agriculture, hunting, forestry and fishing::      |                                   |            |                                   |            |
| Agriculture                                       | 2.123.973                         | 8,8%       | 2.124.873                         | 9,6%       |
| Plant growing abroad                              | 470.223                           | 2,0%       | 494.864                           | 2,2%       |
| Fur farming                                       | 153.851                           | 0,6%       | 155.404                           | 0,7%       |
| Fishing   | 559.941                           | 2,3%       | 466.531                           | 2,1%       |
| Agriculture, hunting, forestry and fishing, total | 3.307.988                         | 13,7%      | 3.241.672                         | 14,6%      |
| Industry and raw material extraction              | 1.007.253                         | 4,2%       | 868.691                           | 3,9%       |
| Energy supply                                     | 192.744                           | 0,8%       | 211.140                           | 1,0%       |
| Building and construction                         | 1.462.602                         | 6,0%       | 1.308.698                         | 5,9%       |
| Trade   | 1.605.092                         | 6,6%       | 1.486.025                         | 6,7%       |
| Transport, hotels and restaurants                 | 370.198                           | 1,5%       | 435.804                           | 2,0%       |
| Information and communication                     | 126.961                           | 0,5%       | 99.399                            | 0,5%       |
| Financing and insurance                           | 1.576.950                         | 6,5%       | 1.536.498                         | 7,0%       |
| Real property                                     | 2.998.149                         | 12,4%      | 2.525.648                         | 11,5%      |
| Other industries                                  | 1.421.375                         | 5,9%       | 1.322.105                         | 6,0%       |
| Other industries, total                           | 10.761.324                        | 44,4%      | 9.794.008                         | 44,5%      |
| Business total                                    | 14.069.312                        | 58,1%      | 13.035.680                        | 59,1%      |
| Private   | 10.132.175                        | 41,9%      | 9.004.991                         | 40,9%      |
| Total   | 24.204.527                        | 100,0%     | 22.043.761                        | 100,0%     |
|   | Of this incl. in<br>Balance Sheet |            | Of this incl. in<br>Balance Sheet |            |
| Public authorities                                | 3.040                             | 0          | 3.090                             | 0          |
| Business  | 14.069.312                        | 8.956.977  | 13.035.680                        | 8.471.335  |
| Private   | 10.132.175                        | 7.539.648  | 9.004.991                         | 6.573.717  |
| Total   | 24.204.527                        | 16.496.625 | 22.043.761                        | 15.045.052 |



## Notes for the Balance Sheet

### 17. Credit risk (continued)

Amounts in DKK 1,000

|  | 2017       |        | 2016      |        |
|--|------------|--------|-----------|--------|
| <b>C Security received for maximum credit exposure distributed by sectors and industries</b> |            |        |           |        |
| Public authorities   | 0          | 0,0%   | 50        | 0,0%   |
| Agriculture, hunting, forestry and fishing   | 2.102.255  | 20,4%  | 1.829.424 | 22,2%  |
| Industry and raw material extraction   | 453.560    | 4,4%   | 417.834   | 5,1%   |
| Energy supply  | 20.494     | 0,2%   | 28.865    | 0,4%   |
| Building and construction  | 488.348    | 4,7%   | 339.980   | 4,1%   |
| Trade  | 495.382    | 4,8%   | 455.213   | 5,5%   |
| Transport, hotels and restaurants  | 149.648    | 1,5%   | 133.015   | 1,6%   |
| Information and communication  | 53.421     | 0,5%   | 39.343    | 0,5%   |
| Financing and insurance  | 411.795    | 4,0%   | 393.298   | 4,8%   |
| Real property  | 1.195.937  | 11,6%  | 909.687   | 11,0%  |
| Other industries   | 617.284    | 6,0%   | 492.677   | 6,0%   |
| Business total   | 5.988.124  | 58,1%  | 5.039.336 | 61,2%  |
| Private  | 4.323.037  | 41,9%  | 3.206.723 | 38,8%  |
| Total  | 10.311.161 | 100,0% | 8.246.109 | 100,0% |
| <b>D Security received for maximum credit exposure exposure distributed by types</b>         |            |        |           |        |
| Operating equipment  | 2.047.364  | 19,9%  | 1.672.829 | 20,3%  |
| Property   | 5.986.420  | 58,1%  | 4.426.428 | 53,7%  |
| Securities and cash deposits etc.  | 1.696.700  | 16,4%  | 1.660.370 | 20,1%  |
| Guarantees   | 580.677    | 5,6%   | 486.482   | 5,9%   |
| Total  | 10.311.161 | 100,0% | 8.246.109 | 100,0% |
| <b>E Lending with individual write-down (before deduction of write-downs)</b>                |            |        |           |        |
| Business   | 1.470.653  |        | 1.551.425 |        |
| Private  | 275.337    |        | 259.415   |        |
| Total  | 1.745.990  |        | 1.810.840 |        |
| <b>F Lending with individual write-down (before write-downs) carried out because of:</b>     |            |        |           |        |
| Liquidation and debt rescheduling  | 86.665     |        | 109.954   |        |
| Collection and restructuring   | 235.566    |        | 307.038   |        |
| Other financial difficulties   | 1.423.759  |        | 1.393.848 |        |
| Total  | 1.745.990  |        | 1.810.840 |        |

## Notes for the Balance Sheet

| <b>17. Credit risk (continued)</b>  |                  |                  |
|---|------------------|------------------|
| Amounts in DKK 1,000  |                  |                  |
|   | <b>2017</b>      | <b>2016</b>      |
| <b>G Lending at book value &gt; 0, on which objective indication of value reduction has occurred:</b> |                  |                  |
| Individually written-down lending:  |                  |                  |
| Value before write-down   | 1.546.576        | 1.636.016        |
| Value after write-down  | 799.210          | 852.420          |
| Lending written down on a group basis:  |                  |                  |
| Value before write-down   | 10.722.338       | 9.718.000        |
| Value after write-down  | 10.675.558       | 9.677.232        |
| <b>H Write-downs on loans</b>   |                  |                  |
| Individual write-downs:   |                  |                  |
| Start of the year   | 965.229          | 811.489          |
| Write-downs during the year   | 216.375          | 328.283          |
| Reversal of write-downs carried out during previous financial years                                   | 128.561          | 96.787           |
| Other movements   | 42.984           | 40.964           |
| Final loss, previously written down individually  | <u>134.852</u>   | <u>118.720</u>   |
| End of the year   | <u>961.175</u>   | <u>965.229</u>   |
| Group-based write-downs   |                  |                  |
| Start of the year   | 40.768           | 31.029           |
| Write-downs during the year   | 11.760           | 18.389           |
| Reversal of write-downs carried out during previous financial years                                   | <u>5.748</u>     | <u>8.650</u>     |
| End of the year   | <u>46.780</u>    | <u>40.768</u>    |
| Discount on loans acquired from A/S Nørresundby Bank  | <u>104.275</u>   | <u>179.852</u>   |
| Total write-downs and discount on lending   | <u>1.112.230</u> | <u>1.185.849</u> |

## Notes for the Balance Sheet

### 17. Credit risk (continued)

Amounts in DKK 1,000

|  | 2017              | 2016              |
|--|-------------------|-------------------|
| <b>I Lending which has not been written down and is not in arrears, by credit rating</b> |                   |                   |
| Public authorities and Business  |                   |                   |
| Rating category:   |                   |                   |
| 10, 22 good quality commitments  | 1.342.542         | 1.229.354         |
| 31 normal quality commitments  | 1.181.830         | 1.186.496         |
| 32 - 33 commitments of slightly reduced quality  | 1.452.599         | 1.512.026         |
| 38 commitments with some weaknesses  | 376.108           | 234.381           |
| 39 commitments with material weaknesses  | <u>460.063</u>    | <u>555.676</u>    |
| Total  | <u>4.813.142</u>  | <u>4.717.933</u>  |
| Private  |                   |                   |
| Rating category:   |                   |                   |
| 10, 22 good quality commitments  | 1.355.442         | 928.691           |
| 31 normal quality commitments  | 887.072           | 958.975           |
| 32 - 33 commitments of slightly reduced quality  | 1.610.635         | 1.349.874         |
| 38 commitments with some weaknesses  | 67.325            | 107.618           |
| 39 commitments with material weaknesses  | <u>163.490</u>    | <u>143.058</u>    |
| Total  | <u>4.083.964</u>  | <u>3.488.216</u>  |
| <b>J Credit exposure (lending, guarantees and credit commitments) by credit rating</b>   |                   |                   |
| Public authorities and Business  |                   |                   |
| Rating category:   |                   |                   |
| 10, 22 good quality commitments  | 3.369.111         | 2.776.909         |
| 31 normal quality commitments  | 4.195.649         | 3.528.407         |
| 32 - 33 commitments of slightly reduced quality  | 3.143.633         | 3.293.463         |
| 38 commitments with some weaknesses  | 744.157           | 559.441           |
| 39 commitments with material weaknesses  | 858.984           | 1.027.057         |
| 41,42,50 commitments with OIV  | <u>1.760.818</u>  | <u>1.853.493</u>  |
| Total  | <u>14.072.352</u> | <u>13.038.770</u> |
| Private  |                   |                   |
| Rating category:   |                   |                   |
| 10, 22 good quality commitments  | 3.464.987         | 2.495.686         |
| 31 normal quality commitments  | 2.400.599         | 2.794.477         |
| 32 - 33 commitments of slightly reduced quality  | 3.435.566         | 2.920.182         |
| 38 commitments with some weaknesses  | 133.029           | 185.092           |
| 39 commitments with material weaknesses  | 356.533           | 294.148           |
| 41,42,50 commitments with OIV  | <u>341.461</u>    | <u>315.406</u>    |
| Total  | <u>10.132.175</u> | <u>9.004.991</u>  |

## Notes for the Balance Sheet

### 17. Credit risk (continued)

Amounts in DKK 1,000

|  | 2017      | 2016      |
|--|-----------|-----------|
| <b>K Modtagne sikkerheder for krediteksponering fordelt på bonitetsgrupper</b> |           |           |
| Public authorities and Business  |           |           |
| Rating category:   |           |           |
| 10, 22 good quality commitments  | 1.485.179 | 906.412   |
| 31 normal quality commitments  | 1.340.536 | 1.227.171 |
| 32 - 33 commitments of slightly reduced quality                                | 1.508.512 | 1.282.396 |
| 38 commitments with some weaknesses  | 389.016   | 300.867   |
| 39 commitments with material weaknesses  | 471.421   | 540.916   |
| 41,42,50 commitments with OIV  | 793.460   | 781.624   |
| Total  | 5.988.124 | 5.039.386 |
| Private  |           |           |
| Rating category:   |           |           |
| 10, 22 good quality commitments  | 1.618.271 | 1.021.722 |
| 31 normal quality commitments  | 1.112.576 | 1.022.745 |
| 32 - 33 commitments of slightly reduced quality                                | 1.307.180 | 944.401   |
| 38 commitments with some weaknesses  | 61.355    | 69.688    |
| 39 commitments with material weaknesses  | 122.552   | 87.772    |
| 41,42,50 commitments with OIV  | 101.103   | 60.395    |
| Total  | 4.323.037 | 3.206.723 |
| <b>L Arrears by period;</b>  |           |           |
| Up to 90 days  | 88.056    | 69.031    |
| More than 90 days  | 10.926    | 21.693    |
| I alt  | 98.982    | 90.724    |
| <b>M Loans at reset interest</b>   |           |           |
| Loans at reset interest  | 304.905   | 451.915   |
| Write-downs hereon   | 265.521   | 373.971   |

### 18. Bonds at market value

Amounts in DKK 1,000

|  | 2017      | 2016      |
|--|-----------|-----------|
| Listed mortgage bonds at market value                  | 2.660.927 | 3.055.483 |
| Unlisted bonds at market value                         | 0         | 18.285    |
| Total bonds at market value                            | 2.660.927 | 3.073.768 |
| Distributed like this:                                 |           |           |
| Level 1 cf. description in applied accounting policies | 2.651.070 | 3.045.931 |
| Level 2 cf. description in applied accounting policies | 9.857     | 9.552     |
| Level 3 cf. description in applied accounting policies | 0         | 18.285    |
| Total bonds at market value                            | 2.660.927 | 3.073.768 |

## Notes for the Balance Sheet

### 19. Shares etc.

Amounts in DKK 1,000

|  | 2017           | 2016           |
|--|----------------|----------------|
| Listed shares at market value                          | 10.909         | 13.156         |
| Unlisted shares, etc., at market value                 | 588.992        | 565.525        |
| Unlisted shares at market value less write-downs       | <u>661</u>     | <u>699</u>     |
| Shares, etc. Total                                     | <u>600.562</u> | <u>579.380</u> |
| Distributed like this:                                 |                |                |
| Level 1 cf. description in applied accounting policies | 10.909         | 13.156         |
| Level 2 cf. description in applied accounting policies | 464.450        | 445.173        |
| Level 3 cf. description in applied accounting policies | <u>125.203</u> | <u>121.051</u> |
| Shares, etc. Total                                     | <u>600.562</u> | <u>579.380</u> |

The unlisted sector shares include shares at a value of DKK 115,140,000 acquired with redemption right but not obligation, to seller at market price. Seller may use the redemption right once a year for a period of 14 days. The bank cannot sell the shares to a third party until expiry of the redemption right in 2019.

### 20. Investments in associated companies

Amounts in DKK 1,000

|                                       | 2017          | 2016          |
|---------------------------------------|---------------|---------------|
| Purchase price, start of the year     | <u>8.245</u>  | <u>8.245</u>  |
| Purchase price, end of the year       | <u>8.245</u>  | <u>8.245</u>  |
| Write-up and -down, start of the year | 3.275         | 3.303         |
| Share of the year's profit            | <u>-21</u>    | <u>-28</u>    |
| Write-up and -down, end of the year   | <u>3.254</u>  | <u>3.275</u>  |
| Book value, end of the year           | <u>11.499</u> | <u>11.520</u> |

Investments in associated companies inclu

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

The year's result amounts to DKK -21,000 (DKK -28,000 in 2016) and equity amounts to DKK 11,499,000 as at 31 December 2017 (DKK 11,520,000 as at 31 December 2016).

## Notes for the Balance Sheet

### 21. Assets related to pooled schemes:

Amounts in DKK 1,000

|   | 2017             | 2016             |
|---|------------------|------------------|
| Bonds:                                  |                  |                  |
| Index-linked bonds                      | 137.980          | 120.528          |
| Other bonds                             | <u>1.093.526</u> | <u>1.006.055</u> |
| Bonds, total                            | <u>1.231.506</u> | <u>1.126.583</u> |
| Shares:                                 |                  |                  |
| Unit certificates                       | 1.887.930        | 1.449.943        |
| Other shares                            | <u>494.862</u>   | <u>365.169</u>   |
| Shares, total                           | <u>2.382.792</u> | <u>1.815.112</u> |
| Assets related to pooled schemes, total | <u>3.614.298</u> | <u>2.941.695</u> |

### 22. Intangible assets

Amounts in DKK 1,000

|                                     | 2017           | 2016           |
|-------------------------------------|----------------|----------------|
| Customer relations:                 |                |                |
| Total cost price, start of the year | <u>220.300</u> | <u>220.300</u> |
| Customer relations, total           | <u>220.300</u> | <u>220.300</u> |
| Depreciation, start of the year     | 51.504         | 29.474         |
| Depreciation during the year        | <u>22.030</u>  | <u>22.030</u>  |
| Depreciation, total                 | <u>73.534</u>  | <u>51.504</u>  |
| Booked value, end of the year       | <u>146.766</u> | <u>168.796</u> |
| Goodwill:                           |                |                |
| Total cost price, start of the year | <u>286.457</u> | <u>286.457</u> |
| Goodwill, total                     | <u>286.457</u> | <u>286.457</u> |
| Write-downs, start of the year      | 204            | 204            |
| Write-downs during the year         | <u>0</u>       | <u>0</u>       |
| Write-downs, total                  | <u>204</u>     | <u>204</u>     |
| Booked value, end of the year       | <u>286.253</u> | <u>286.253</u> |
| Intangible assets, total            | <u>433.019</u> | <u>455.049</u> |

## Notes for the Balance Sheet

### 22. Intangible assets (continued)

Amounts in DKK 1,000

#### Value reduction test

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

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

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

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

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

The future cash flows are calculated on the basis of approved strategies and earnings estimates for the coming 5 years. Earnings in the budget period are with basis in the management's budget for 2018, which implies a stable positive development in the bank's pre-tax result. Earnings at the end of the budget period are then carried forward by the expected long-term growth. The assumed annual growth during the terminal period amounts to 2.1% corresponding to the The Danish Economic Councils' expected development in the GNP.

The estimated cash flows are discounted with a profit requirement, which at the end of 2017 amounts to 11.1% before tax and skat and 8.65% after tax. The profit requirement and thereby the discount rate is based on current market data and external benchmarks.

#### Primary preconditions

Net interest income

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

Net fees: The expected fee income is based on historical data and the bank's budget for 2018. Fee income is expected to increase by a higher level than the growth in net interest income.

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

Write-downs: Write-downs on loans are expected to stabilise at a lower level than realised during recent years with financial and agricultural crises. The write-down rate of loans is fixed at 0.81% corresponding to an average of the past 15 years' historical write-down rates for Nordjyske Bank incl. historical write-downs from Nørresundby Bank.

#### Sensitivity analyses

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

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

Increase of profit before tax by 1 %-point

Reduction of assessed

growth in the terminal period by 1 %-point

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

Increase of the write-down percentage by 25% to 1%



## Notes for the Balance Sheet

| <b>23. Land and buildings (continued)</b>                                |                |                |
|--|----------------|----------------|
| Amounts in DKK 1,000   |                |                |
|  | <b>2017</b>    | <b>2016</b>    |
| Investment property:   |                |                |
| Market value, start of the year  | 62.071         | 73.715         |
| Added during the year, including improvements                            | 6.561          | 10.216         |
| Disposed of during the year  | -32.256        | -21.860        |
| The year's value regulation to market value                              | -3.201         | 0              |
| Market value, end of the year  | <u>33.175</u>  | <u>62.071</u>  |
| Headquarters properties:   |                |                |
| Re-assessed value, start of the year                                     | 194.210        | 229.288        |
| Added during the year, including improvements                            | 2.418          | 3.671          |
| Disposed of during the year  | 0              | -38.410        |
| Depreciation   | -384           | -378           |
| Value changes during the year, included directly in other total income   | -1.826         | 173            |
| Value changes during the year, included directly in the income statement | -548           | -134           |
| Reassessed value end of the year   | <u>193.870</u> | <u>194.210</u> |

Valuation of the bank's investment and headquarters properties has been made on the basis of a return-based model. As return requirement, a return rate of between 3.75% and 10% p.a. has been used, depending on the location of each individual property. Every second year the bank obtains valuation of the property from independent external estate agents. This was most recently done in the autumn of 2017.

| <b>24. Other tangible assets:</b>                 |               |               |
|---|---------------|---------------|
| Amounts in DKK 1,000                              |               |               |
|   | <b>2017</b>   | <b>2016</b>   |
| Total cost price, start of the year               | 66.306        | 60.244        |
| Added during the year, including improvements     | 5.230         | 7.952         |
| Disposed of during the year                       | -1.017        | -1.890        |
| Total cost price, end of the year                 | <u>70.519</u> | <u>66.306</u> |
| Depreciation and write-downs, start of the year   | 55.722        | 51.696        |
| The year's allowances for depreciation            | 5.776         | 5.281         |
| The year's reversed depreciations and write-downs | -797          | -1.255        |
| Depreciation and write-downs, end of the year     | <u>60.701</u> | <u>55.722</u> |
| Book value, end of the year                       | <u>9.818</u>  | <u>10.584</u> |

## Notes for the Balance Sheet

### 25. Market value of financial instruments

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

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

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

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

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

| Amounts in DKK 1,000                                   | 2017              |                   | 2016              |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | Book value        | Market value      | Book value        | Market value      |
| <b>Financial assets</b>                                |                   |                   |                   |                   |
| Cash in hand and demand deposits                       | 361.495           | 361.495           | 351.054           | 351.054           |
| Receivables from credit institutions and central banks | 614.793           | 614.793           | 764.150           | 764.150           |
| Loans and other receivables at amortised cost price    | 11.822.101        | 11.892.842        | 10.822.498        | 10.909.091        |
| Bonds at market value                                  | 2.660.927         | 2.660.927         | 3.073.768         | 3.073.768         |
| Shares, etc.   | 600.562           | 600.562           | 579.380           | 579.380           |
| Assets related to pooled schemes                       | 3.614.298         | 3.614.298         | 2.941.695         | 2.941.695         |
| Derived financial instruments                          | 78.661            | 78.661            | 71.062            | 71.062            |
| <b>Financial assets, total</b>                         | <u>19.752.837</u> | <u>19.823.578</u> | <u>18.603.607</u> | <u>18.690.200</u> |
| <b>Financial obligations</b>                           |                   |                   |                   |                   |
| Debt to credit institutions and central banks          | 313.922           | 313.922           | 302.981           | 302.981           |
| Deposits and other debts                               | 12.944.009        | 12.946.883        | 12.718.121        | 12.726.796        |
| Deposits in pooled schemes                             | 3.799.392         | 3.799.392         | 3.119.891         | 3.119.891         |
| Derived financial instruments                          | 34.324            | 34.324            | 63.778            | 63.778            |
| Subordinate capital investments                        | 272.779           | 275.042           | 271.754           | 273.883           |
| <b>Financial obligations, total</b>                    | <u>17.364.426</u> | <u>17.369.563</u> | <u>16.476.525</u> | <u>16.487.329</u> |

## Notes for the Balance Sheet

### 26. Derived financial instruments

Amounts in DKK 1,000

|  |                              |   |   |                      | 2017    | 2016    |
|--|------------------------------|---|---|----------------------|---------|---------|
|  | Up to<br>and incl<br>3 mths. | 3 mths.<br>up to<br>and incl.<br>1 year | 1 year<br>up to<br>and incl.<br>5 years | More than<br>5 years | total   | total   |
| <b>Nominal values</b>                  |                              |   |   |                      |         |         |
| Foreign exchange-related transactions: |                              |   |   |                      |         |         |
| forward trans., purchase               | 233.689                      | 74.991                                  |   |                      | 308.680 | 484.108 |
| forward trans., sale                   | 584.236                      | 74.991                                  |   |                      | 659.227 | 774.158 |
| unsettled spot transact., purch.       | 30.970                       |   |   |                      | 30.970  | 40.766  |
| unsettled spot transact., sale         | 4.383                        |   |   |                      | 4.383   | 37.611  |
| currency swaps                         |                              |   |   | 149.273              | 149.273 | 149.057 |
| Interest-related transactions:         |                              |   |   |                      |         |         |
| forward transact., purchase            | 101.222                      | 1.536                                   |   |                      | 102.758 | 103.179 |
| forward transact., sale                |                              |   |   |                      | 0       | 11.384  |
| unsettled spot transact., purch        | 14.153                       |   |   |                      | 14.153  | 18.413  |
| unsettled spot transact., sale         | 14.153                       |   |   |                      | 14.153  | 23.633  |
| interest swaps                         | 8.491                        | 111.017                                 | 171.257                                 | 186.126              | 476.891 | 787.726 |
| Share-related transactions:            |                              |   |   |                      |         |         |
| forward transact., purchase            |                              |   |   |                      | 0       | 43      |
| forward transact., sale                |                              |   |   |                      | 0       | 43      |
| unsettled spot transact., purch.       | 21.088                       |   |   |                      | 21.088  | 18.451  |
| unsettled spot transact., sale         | 21.145                       |   |   |                      | 21.145  | 18.451  |
| <b>Net market values</b>               |                              |   |   |                      |         |         |
| Foreign exchange-rel. transact.:       |                              |   |   |                      |         |         |
| forward transact., purchase            | -3.500                       | -434                                    |   |                      | -3.934  | 9.433   |
| forward transact., sale                | 11.204                       | 7.069                                   |   |                      | 18.273  | -6.410  |
| unsettled spot transact., purch.       | -4                           |   |   |                      | -4      | -67     |
| unsettled spot transact., sale         | 5                            |   |   |                      | 5       | 113     |
| currency swaps                         |                              |   |   | -2.792               | -2.792  | -4.758  |
| Interest-related transactions:         |                              |   |   |                      |         |         |
| forward transactions, purch.           | 888                          | 20                                      |   |                      | 908     | 1.829   |
| forward transactions, sale             |                              |   |   |                      | 0       | -111    |
| unsettled spot transact., purch.       | -4                           |   |   |                      | -4      | 34      |
| unsettled spot transact., sale         | 25                           |   |   |                      | 25      | 56      |
| interest swaps                         | -40                          |   | -2.007                                  | -351                 | -2.398  | -3.813  |
| Share-related transactions:            |                              |   |   |                      |         |         |
| forward transact., purchase            |                              |   |   |                      | 0       | -4      |
| forward transact., sale                |                              |   |   |                      | 0       | 6       |
| unsettled spot transact., purch.       | -28                          |   |   |                      | -28     | 12      |
| unsettled spot transact., sale         | 34                           |   |   |                      | 34      | -5      |

## Notes for the Balance Sheet

### 26. Derived financial instruments (continued)

Amounts in DKK 1,000

| Market values   | Contracts total 2017 |          |        | Contracts total 2016 |          |        |
|---|----------------------|----------|--------|----------------------|----------|--------|
|   | Positive             | Negative | Net    | Positive             | Negative | Net    |
| Foreign exchange-rel. transact.:                                  |                      |          |        |                      |          |        |
| forward transactions, purch.                                      | 1.458                | 5.392    | -3.934 | 11.387               | 1.954    | 9.433  |
| forward transactions, sale  | 19.303               | 1.030    | 18.273 | 5.346                | 11.756   | -6.410 |
| unsettled spot transact., purch.                                  | 10                   | 14       | -4     | 13                   | 80       | -67    |
| unsettled spot transact., sale                                    | 5                    | 0        | 5      | 117                  | 4        | 113    |
| currency swaps  | 0                    | 2.792    | -2.792 | 0                    | 4.758    | -4.758 |
| average market value  | 17.765               | 14.903   |        | 15.541               | 13.403   |        |
| Interest-related transactions:                                    |                      |          |        |                      |          |        |
| forward transactions, purch.                                      | 921                  | 13       | 908    | 1.841                | 12       | 1.829  |
| forward transactions, sale  | 0                    | 0        | 0      | 0                    | 111      | -111   |
| unsettled spot transact., purch.                                  | 3                    | 7        | -4     | 55                   | 20       | 35     |
| unsettled spot transact., sale                                    | 26                   | 1        | 25     | 56                   | 0        | 56     |
| interest swaps  | 22.458               | 24.856   | -2.398 | 41.018               | 44.831   | -3.813 |
| average market value  | 30.475               | 32.466   |        | 48.327               | 53.343   |        |
| Share-related transactions:                                       |                      |          |        |                      |          |        |
| forward transactions, purch.                                      | 0                    | 0        | 0      | 0                    | 4        | -4     |
| forward transactions, sale  | 0                    | 0        | 0      | 6                    | 0        | 6      |
| unsettled spot transact., purch.                                  | 96                   | 124      | -28    | 130                  | 118      | 12     |
| unsettled spot transact., sale                                    | 127                  | 93       | 34     | 123                  | 129      | -6     |
| average market value  | 1                    | 1        |        | 3                    | 3        |        |
| Market value included in balance sheet with the following amounts |                      |          |        |                      |          |        |
| Other assets  | 44.403               |          |        | 60.092               |          |        |
| Security CSA contracts  | 34.254               |          |        | 10.970               |          |        |
| Other liabilities   |                      | 34.320   |        |                      | 63.778   |        |
| Other liabilities, total  | <u>78.657</u>        |          |        | <u>71.062</u>        |          |        |

## Notes for the Balance Sheet

### 27. Market risks

Amounts in DKK 1,000

|   | 2017    | 2016    |
|---|---------|---------|
| <b>Interest risk, debt instruments</b>                                      |         |         |
| Distributed by type of instrument   |         |         |
| - trading activity  | 28.431  | 22.403  |
| - non-trading activity  | 551     | -3.800  |
| Total   | 28.982  | 18.603  |
| By currency   |         |         |
| DKK   | 27.095  | 16.084  |
| EUR   | 1.891   | 2.518   |
| CHF   | -11     | -17     |
| Other currencies, net   | 7       | 18      |
| Total   | 28.982  | 18.603  |
| percentage of equity  | 1,0     | 0,7     |
| Effect on the year's result before tax if the interest rate increases by 1% | -28.982 | -18.603 |
| Effect on equity if the interest rate increases by 1%                       | -22.606 | -14.510 |

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

### Foreign exchange risk

|  |        |       |
|--|--------|-------|
| Exchange rate indicator 1  | 12.630 | 7.929 |
| Exchange rate indicator 1 as a percentage of core capital after deductions | 0,6    | 0,4   |
| Exchange rate indicator 2  | 82     | 43    |
| Exchange rate indicator 2 as a percentage of core capital after deductions | 0,0    | 0,0   |

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

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

## Notes for the Balance Sheet

### 27. Market risks (continued)

Amounts in DKK 1,000

|  | 2017    | 2016    |
|--|---------|---------|
| Exposure in Euro   | 8.047   | 4.150   |
| - sensitivity 2.25 per cent  | 181     | 93      |
| Exposure in other currencies   | 4.583   | 3.779   |
| - sensitivity 12 per cent  | 550     | 453     |
| Total sensitivity  | 731     | 546     |
| Effect on the year's pre-tax result from the calculated currency rate risk | -731    | -546    |
| Effect on equity according to the calculated currency risk                 | -570    | -427    |
| <b>Share risk</b>  |         |         |
| Listed shares and unlisted shares excl.                                    |         |         |
| sector shares  | 31.129  | 26.960  |
| - sensitivity 30 per cent  | 9.339   | 8.088   |
| Sector shares  | 569.433 | 552.420 |
| - sensitivity 15 per cent  | 85.414  | 82.863  |
| Total sensitivity  | 94.753  | 90.951  |
| Share risk as a percentage of core capital after deductions                | 4,4     | 4,7     |
| Effect on the year's pre-tax result from the calculated share risk         | -94.753 | -90.951 |
| Effect on equity according to the calculated share risk                    | -73.907 | -70.942 |

### Accounting safeguards

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

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

|   |         |         |
|---|---------|---------|
| Nominal value of loans                      | 213.329 | 217.764 |
| Regulation to market value (hedge)          | 4.520   | 7.980   |
| Book value of loans                         | 217.849 | 225.744 |
| Cover has taken place like this:            |         |         |
| Interest swaps (synthetic principal amount) | 64.056  | 67.538  |
| Currency swaps (synthetic principal amount) | 149.273 | 149.057 |
| Market value                                | -4.520  | -7.980  |

## Notes for the Balance Sheet

### 28. Debt to credit institutions and central banks

Amounts in DKK 1,000

|   | 2017    | 2016    |
|---|---------|---------|
| On demand   | 313.922 | 302.981 |
| Total debt to credit institutions and central banks | 313.922 | 302.981 |

### 29. Deposits and other debts

Amounts in DKK 1,000

|  | 2017       | 2016       |
|--|------------|------------|
| On demand  | 11.279.942 | 10.713.675 |
| Remaining term   |            |            |
| - up to and including 3 months   | 374.273    | 349.069    |
| - from 3 months up to and including 1 year                                   | 34.318     | 35.723     |
| - from 1 year up to and including 5 years                                    | 436.957    | 728.438    |
| - more than 5 years  | 818.519    | 891.216    |
| Deposits and other debts, total  | 12.944.009 | 12.718.121 |
| <b>By categories</b>   |            |            |
| - on demand  | 11.216.393 | 10.652.965 |
| - notice   | 478.682    | 703.337    |
| - time deposits  | 1.025      | 5.070      |
| - special deposits   | 1.247.909  | 1.356.749  |
| Deposits and other debts, total  | 12.944.009 | 12.718.121 |
| Share of deposits incl. pooled schemes covered by the Deposit Guarantee Fund | 83%        | 83%        |

Furthermore, it should be noted that the bank's 10 largest depositors amount to less than 5 per cent of total deposits

### 30. Provisions for pension and similar obligations

Amounts in DKK 1,000

|   | 2017   | 2016   |
|---|--------|--------|
| Anniversary bonus etc.  | 8.782  | 8.235  |
| Salary and pension obligations taken over in connection with business acquisition | 2.887  | 2.925  |
| Total provisions for pension and similar obligations                              | 11.669 | 11.160 |



## Notes for the Balance Sheet

### 31. Provisions for deferred tax

Amounts in DKK 1,000

|                                       | 2017          | 2016          |
|---------------------------------------|---------------|---------------|
| Lending and other receivables         | -11.849       | -12.669       |
| Securities and financial instruments  | 430           | 1.132         |
| Tangible assets                       | -1.130        | -619          |
| Intangible assets, customer relations | 30.263        | 35.110        |
| Allocated liabilities                 | <u>-2.644</u> | <u>-2.551</u> |
| Total                                 | <u>15.070</u> | <u>20.403</u> |

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

### 32. Subordinate capital

Amounts in DKK 1,000

|   | 2017           | 2016           |
|---|----------------|----------------|
| Additional capital                                    | <u>272.779</u> | <u>271.754</u> |
| Subordinate capital, total                            | <u>272.779</u> | <u>271.754</u> |
| In this is included when calculating the core capital | 272.779        | 271.754        |
| Interest (cf. note 7)                                 | 15.713         | 15.719         |

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

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

After that, the interest rate will be Cibur 6 months plus 5.00 %-points p.a.

## Notes for the Balance Sheet

### 33. Share capital

Amounts in DKK 1,000

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

#### Holding of own shares

Acquired

|                                 | 2017    |        | 2016    |        |
|---------------------------------|---------|--------|---------|--------|
| Number of own shares            | 687.049 |        | 661.857 |        |
| Nominal value                   |         | 6.870  |         | 6.619  |
| Percentage of the share capital | 3,7%    |        | 3,6%    |        |
| Total purchase price            |         | 81.146 |         | 63.774 |

Sold

|                                 |         |        |         |        |
|---------------------------------|---------|--------|---------|--------|
| Number of own shares            | 687.106 |        | 662.473 |        |
| Nominal value                   |         | 6.871  |         | 6.625  |
| Percentage of the share capital | 3,7%    |        | 3,6%    |        |
| Total sales price               |         | 81.142 |         | 63.836 |

End of the year

|                                 |        |     |        |     |
|---------------------------------|--------|-----|--------|-----|
| Number of own shares            | 17.483 |     | 17.540 |     |
| Nominal value                   |        | 175 |        | 175 |
| Percentage of the share capital | 0,1%   |     | 0,1%   |     |

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

## Notes with additional information

### 34. Contingent liabilities

Amounts in DKK 1,000

|   | 2017             | 2016             |
|---|------------------|------------------|
| Finance guarantees  | 3.335.191        | 2.965.654        |
| Loss guarantees for mortgage loans  | 905.827          | 732.438          |
| Land registration and conversion guarantees   | 19.831           | 139.842          |
| Other liabilities   | 413.675          | 384.620          |
| <b>Total</b>  | <b>4.674.524</b> | <b>4.222.554</b> |
| <b>Pledges</b>  |                  |                  |
| For clearing etc. with the Danish Central Bank bonds have been pledged at market value of   | 87.190           | 88.125           |
| For security of a loss limit towards the Danish Growth Fund as a consequence of Nordjyske Bank's ownership in the Landbrugets Finansieringsbank, deposited in a cover-for-liabilities account | 251              | 253              |
| Security in connection with DSA agreements  | 34.254           | 10.970           |

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

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

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

### 35. Connected parties

Amounts in DKK 1,000

|   | 2017           | 2016           |
|---|----------------|----------------|
| Size of loan, pledges or guarantees for members of the bank's:  |                |                |
| Executive Board   | 1.990          | 490            |
| Board of Directors  | 46.646         | 42.732         |
| The commitments have been granted on market conditions and in accordance with the bank's usual business terms |                |                |
| Rates of interest at the end of the year, per cent p.a.   |                |                |
| Executive Board   | 3,669          | 4,7            |
| Board of Directors (elected by the general meeting)   | 1,400 - 19,750 | 1,850 - 13,875 |

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

## Notes with additional information

### 35. Connected parties

Amounts in DKK 1,000

#### Remuneration for the Executive Board

|   | Claus Andersen | Carl Pedersen | Mikael Jakobsen |
|---|----------------|---------------|-----------------|
| Earned remuneration etc. *)                 | 3.279          | 2.345         | 2.460           |
| Repaid remuneration conc. Directorship      | -138           | -50           | 0               |
| Pensions                                    | 352            | 252           | 245             |
| Value of company car, etc.                  | 164            | 144           | 151             |
| Total                                       | 3.657          | 2.691         | 2.856           |
| Provisions for pension liabilities etc.     | 875            | 636           | 300             |
| Remuneration for the Executive Board, total | 4.532          | 3.327         | 3.156           |

\*) In the contractual remuneration etc. is included DKK 180,000 bonus for Mikael Jakobsen. The amount has been allocated in previous years' accounts.

#### Incentive schemes

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

#### Retirement of the members of the Executive Board:

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

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

## Committee of Representatives

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- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Henrik Lintner, Pharmacist, Hjørring (Chairman)</li> <li>• Poul Søren Jeppesen, Director, Aalborg (Deputy Chairman)</li> <li>• Erik Broholm Andersen, Farm Owner, Skagen</li> <li>• Inge Kjær Andersen, Dentist, Sæby</li> <li>• Kjeld Andersen, Service Advisor, Øster Brønderslev</li> <li>• Peter Andersen, Area Manager, Hjørring</li> <li>• Svend-Erik Andersen, Chairman of the Fishing Association, Strandby</li> <li>• Børge Bech, Special advisor, Løkken</li> <li>• Anders Bentsen, Head of Department, Øster Brønderslev</li> <li>• Ib Bergkjær, Managing Director, Aalborg</li> <li>• Erling Christensen, Furniture Dealer, Hørmested</li> <li>• Inge Christensen, Bookkeeper, Østervrå</li> <li>• Lars Ingemann Christensen, Manufacturer, Hjørring</li> <li>• Per Lykkegaard Christensen, Farm Owner, Hjørring</li> <li>• Nina Friis Christiansen, Shop Owner, Vittrup</li> <li>• Jørn Bo Clausen, Fish Exporter, Strandby</li> <li>• Ole Conradsen, Director, Strandby</li> <li>• Peter Conradsen, Director, Frederikshavn</li> <li>• John Elling, Fur Farmer, Strandby</li> <li>• Lene Frandsen, Center Manager, Sindal</li> <li>• Trine Frisgaard, Responsible for professional standards, Dronninglund</li> <li>• Svend Erik Frøstrup, Shop Owner, Løkken</li> <li>• Birthe Gadegær, Principal, Hjørring</li> <li>• Hans-Christian Holst, Farmer, Asaa</li> <li>• Mads Hvolby, Chartered surveyor, Nørresundby</li> <li>• Kim Jacobsen, State-authorized Estate Agent, Aalborg</li> <li>• Kurt Elbo Jensen, Warehouse Manager, Brønderslev</li> <li>• Morten Jensen, Attorney, Dronninglund</li> <li>• Søren Faurholt Jensen, Farm Owner, Tylstrup</li> <li>• Bent Torp Johansen, Regional Chief Accountant, Øster Brønderslev</li> </ul> | <ul style="list-style-type: none"> <li>• Per Jørgensen, Farmer, Brovst</li> <li>• Anne Kaptain, Vice President, Attorney (L), Sæby</li> <li>• Tom Karlshøj, Farm Owner, Tversted</li> <li>• Peter Dengsø Kjærsgaard, Car Dealer, Aalborg</li> <li>• Direktør Lars Krull, Director, Aalborg</li> <li>• Susanne Bruun Ladefoged, Dentist, Aalborg</li> <li>• Bente Larsen, Veterinarian, Dybvad</li> <li>• Thomas Overgaard Larsen, Veterinarian, Frejlev</li> <li>• Peter Mortensen, Forwarding Agent, Hirtshals</li> <li>• Jens Jørgen Nielsen, Concreter, Skagen</li> <li>• Jesper Nyborg, Director, Vodskov</li> <li>• Ole Nygaard, Director, Frederikshavn</li> <li>• Inger Marie Grund Petersen, Head of Marketing, Sæby</li> <li>• Lars Petersen, Engineer, Gærum</li> <li>• Anette Pilgaard, Shop Owner, Nørresundby</li> <li>• Niels H. Pedersen Qvist, Farm Owner, Vester Hassing</li> <li>• Keld Ramlov, Certified Electrician, Aalborg</li> <li>• Jørn Rosenmeier jun., Partner, Copenhagen</li> <li>• Torben Røgild, Economist, Nørresundby</li> <li>• Kathrine Sandeløv, Director, Skørping</li> <li>• Søren Gyldenhof Schilder, Appeals manager, Aalborg</li> <li>• Peter Schou, Fishing Vessel Master, Skagen</li> <li>• Yvonne Skagen, Director, Aalborg</li> <li>• Peter Sloth, Wholesale Dealer, Nibe</li> <li>• Jens Otto Størup, Director, Tornby</li> <li>• Peer Buch Sørensen, Draper, Frederikshavn</li> <li>• Ingeborg Thusgaard, Consultant, Frederikshavn</li> <li>• Sten Uggerhøj, Car Dealer, Frederikshavn</li> <li>• Claus Uttrup, Brigadier General, Hjørring</li> <li>• Margrethe Vejby, Nurse, Aalbæk</li> <li>• Morten Vestergaard, Director, Sæby</li> <li>• Niels-Erik Østergaard, Registered Accountant, Brønderslev</li> <li>• John Chr. Aasted, Director, Aalborg</li> </ul> |
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## Board of Directors

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- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Mads Hvolby Chartered Surveyor, Nørresundby (Chairman)</li> <li>• Sten Uggerhøj, Car Dealer, Frederikshavn (Deputy chairman)</li> <li>• Per Lykkegaard Christensen, Farm Owner, Hjørring</li> <li>• Morten Jensen, Attorney, Dronninglund</li> <li>• Poul Søren Jeppesen, Director, Aalborg</li> <li>• Henrik Lintner, Pharmacist, Hjørring</li> <li>• Anne Kaptain, Vice President, Attorney (L), Sæby</li> </ul> | <ul style="list-style-type: none"> <li>• John Chr. Aasted, Director, Aalborg</li> <li>• Hanne Karlshøj Customer Advisor, Bindslev (elected by the employees)</li> <li>• Helle Juul Lynge, Property specialist, Vester Hassing (elected by the employees)</li> <li>• Arne Ugilt, Credit Employee, Uggerby (elected by the employees)</li> <li>• Finn Aaen, Business Advisor, Frejlev (elected by the employees)</li> </ul> |
|---|---|

## Executive Board

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

## The bank's branches

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Brønderslev  
Dronninglund  
Frederikshavn, Bangsbostrand  
Frederikshavn, Jernbanegade

Hirtshals  
Hjallerup  
Hjørring

Copenhagen  
Læsø  
Løkken  
Nibe  
Nørresundby

Sindal  
Skagen  
Strandby  
Sæby

Vestbjerg  
Vodskov  
Aabybro  
Aalborg, Bredegade  
Aalborg, Hasseris

Aalborg, Kastetvej  
Aalborg, Vejgaard

Management Secretariat  
FinansCentret  
HR  
Internal Audit  
IT  
Credit  
Business Development and Marketing  
Finance

Thomas Jørgensen, Branch Director  
Michael Bladsgaard Larsen, Branch Director  
Peter K. Madsen, Branch Director  
Brian Thomsen, Branch Director  
Lejf Andersen, Business Customer Manager  
Anders Nielsen, Fisheries Customer Manager  
Marianne Nordmann, Private Customer Manager  
Jens Buje, Branch Director  
Michael Bladsgaard Larsen, Branch Director  
Henrik Aaen, Area Director  
Lotte Hørsel, Business Customer Manager  
Claus Bak, Agriculture Manager  
Ulla Magersholt, Private Customer Manager  
Kim Vagner, Branch Director  
Jesper Jensen, Branch Director  
Mads Gade, Branch Director  
Tom Solvang, Branch Director  
Jacob Jensen, Area Director  
Allan Nielsen, Business Customer Manager  
Lars Skov, Branch Director Private customers  
Klaus Christensen, Branch Director  
Allan Kastor Andersen, Branch Director  
Kirsten Poulsen, Branch Director  
Torben Schioldan, Area Director  
Rune Dam Dyhr, Business Customer Manager  
Annemette Mæhle, Private Customer Manager  
Ole Andersen, Branch Director  
Ole Andersen, Branch Director  
Tommy Kristensen, Branch Director  
Anders Tetsche, Branch Director  
Keld Jakobsen, Area Director  
Carsten Holt Christensen, Business Customer Manager  
Michael Thoft, Branch Director Private customers  
Michael Kristensen, Branch Director  
Jesper Nielsen, Branch Director  
  
Alma Lund Høj, Investor Relations and Secretariat Manager  
Lars Kiærskou, Finance Manager  
Ole Telling, HR Manager  
Ove Steen Nielsen, Audit Manager  
Ivan Rafn, IT Manager  
Claus Kongsgaard, Credit Manager  
Palle Skyum, Business Development and Marketing Manager  
Pia Foss Henriksen, Financial Manager



Nordjyske Bank