

# **Risk report regarding Capital Adequacy Calculation as at 31 December 2010**

## Risk report regarding capital adequacy calculation

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## **Introduction**

The present risk report, which is published at [www.nordjyskebank.dk](http://www.nordjyskebank.dk), has been prepared according to the stipulations in the Executive Order on Capital Adequacy.

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

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

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

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

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## Goal and risk policy

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

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

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

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

The operational risk is the risk that direct or indirect financial losses will occur as a consequence 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 take on risks which are in accordance with the business principles according to which the bank is run, and which the bank has the necessary competence resources to manage.

## Credit risks

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

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

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

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

*At the end of 2010, the sum of large commitments, commitments amounting to more than 10% of the bank's capital base after deductions, amounts to a total of 33% of the bank's capital base after deductions.*

*The total gearing of lending is and has always been moderate. At the end of 2010, it was thus 5 times the equity.*

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

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

- real property
- securities, and
- cars.

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

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

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

- **Operating equipment:**  
The loan value for operating equipment is calculated by the straight-line method. Typically, an immediate write-off of 20-33% is made, followed by current write-down of the value of the assets during the useful life.
- **Real property:**  
The loan value of mortgage in private properties is typically around 80% of the market value less any senior mortgages. The loan value has been fixed individually on the basis of the characteristics of the individual properties, including location and size.  
The loan value of mortgage in commercial properties is typically around 60-80% of the market value less any senior mortgages. The loan value has been fixed individually on the basis of the characteristics of the individual properties, including location and size, or on the basis of an independent assessment, alternatively a public land assessment.
- **Guarantees:**  
The loan value for guarantees from Danish public authorities is 100%. Other guarantees are fixed individually on the basis of a prudence concept.
- **Cash, deposits and securities:**  
The loan value for cash and deposits is typically 100%.  
For securities, the official price is used after correction for estimated price fluctuation and corrected for estimated marketability, currency, etc.
- **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 types of security:**  
The loan value is fixed individually on the basis of a prudence concept.

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

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

- 10 - 23 good-quality commitments
- 31 - 33 normal-quality commitments
- 37 - 38 commitments with some weaknesses
- 39 commitments with material weaknesses but without the need for write-downs or provisions
- 41 – write-down commitments and distressed commitments

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

Risk report regarding capital adequacy calculation

## Market risks

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

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

*At the end of 2010, the interest risk, defined as the loss which the bank will suffer from an increase in the effective interest rate of 1 percentage point on the exposures with a fixed rate of interest amounted to -0.4% of the bank's core capital after deductions.*

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

*Material foreign exchange positions are hedged on an ongoing basis with off-setting transactions. The bank is therefore only to a limited extent exposed to exchange rate fluctuations. At the end of 2010, the bank's foreign exchange rate risk (indicator 2) amounts to 0.4 million DKK.*

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

*At the end of 2010, the bank's holding of listed shares amounted to just over 20 million DKK – or 2% of the bank's equity.*

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

*At the end of 2010, the holding of investment properties amounted to DKK 40 million or 3% of the bank's equity.*

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

Risk report regarding capital adequacy calculation

## Liquidity risks

It is the aim of the bank to finance its lending portfolio by the sum of deposits from customers and equity

*At the end of 2010, the bank had excess cover of 1.6 billion DKK compared with this aim – corresponding to 27% of the lending portfolio. Add to this reserves which can be utilised on demand in a liquidity crisis in the form of repo transactions on the bank's holding of own bonds and pooled activities, temporary loan facilities with the central bank, and mortgaging of the bank's properties to a total value of about DKK 1.9 billion.*

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

## Operational risks

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

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

Risk report regarding capital adequacy calculation

## Scope

The risk report covers the activities in

Nordjyske Bank A/S  
CVR no 30 82 87 12.

The bank owns the entire share capital of A/S Sæbygård Skov. The activities of the subsidiary are, both regarding balance sheet and result, unimportant in relation to the bank. Therefore, no group financial statements have been prepared. Similarly, it is not considered relevant to distinguish between consolidation for accounting purposes and consolidation according to chapter 12 of the Danish Financial Activities Act.



Risk report regarding capital adequacy calculation

**Capital base, calculation**

| As at 31.12.2010   | 1,000 DKK | 1,000 DKK        |
|--|-----------|------------------|
| <b>Core capital</b>                                      |           |                  |
| Share capital/guarantor capital/membership capital ..... | 80,400    |                  |
| Reserves .....   | 5,135     |                  |
| Profits or loss carried forward .....                    | 1,096,166 |                  |
| Core capital, total .....                                |           | 1,181,701        |
| <b>Primary deductions from core capital</b>              |           |                  |
| Proposed dividend .....                                  | 8,040     |                  |
| Intangible assets .....                                  | 17,584    |                  |
| Deferred, capitalised tax assets .....                   | 0         |                  |
| Primary deductions from core capital, total .....        |           | 25,624           |
| <b>Core capital after primary deductions</b>             |           | <b>1,156,077</b> |
| <b>Other deductions</b>                                  |           |                  |
| Half of the sum of capital shares, etc. > 10% .....      | 43,147    |                  |
| Excess deduction .....                                   | 12,332    |                  |
| Other deductions, total .....                            |           | 55,479           |
| <b>Core capital after deductions</b>                     |           | <b>1,100,598</b> |
| <b>Additional capital</b>                                |           |                  |
| Subordinated loan capital .....                          | 6,665     |                  |
| Provisions for appreciations .....                       | 24,151    |                  |
| Included additional capital .....                        |           | 30,816           |
| <b>Capital base before deductions</b>                    |           | <b>1,131,414</b> |
| <b>Deductions from capital base</b>                      |           |                  |
| Half of the sum of capital shares, etc. > 10% .....      | 43,147    |                  |
| Set-off of the excess deduction .....                    | 12,332    |                  |
| Deductions in capital base, net .....                    |           | 30,815           |
| <b>Capital base after deductions</b>                     |           | <b>1,100,599</b> |

At the end of 2010, the bank's capital adequacy percentage, the capital base after deductions, amounted to 17.4% of the weighted items of a total of DKK 6,326 million – based on equity alone. Core capital percentage amounts to 17.4%

Risk report regarding capital adequacy calculation

## Capital adequacy requirements and sufficient capital base

According to the stipulations in the Executive Order on Capital Adequacy, the Board of Directors and the Executive Board must make sure that the bank has sufficient capital base. In addition, the Board of Directors and the Executive Board must calculate the bank's individual capital adequacy requirement. Most recently, the Board of Directors and the Executive Board have in connection with the discussion of the annual report for 2010 discussed the level of sufficient capital base and the individual capital adequacy requirement. The next discussion has been agreed for May 2011 in connection with the discussion of the interim report for the first quarter of 2011.

The calculation of capital adequacy requirement and the necessary capital base is based on a two-tier model.

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

1. Income risks
  - 1.1. Net interest earnings are reduced by 12%.
  - 1.2. Fees and commission earnings are reduced by 17%.
2. Credit risks
  - 2.1. Write-downs on lending and provisions for guarantees are fixed at 4.27% of the exposure at the start of the year to cover the general credit risk.
  - 2.2. Write-downs of 8% of the positive market value on derivative transactions with customers to cover the counterparty risk
3. Market risks
  - 3.1. Interest risks are fixed corresponding to an increase in interest rates of 1.35 percentage points within the trading portfolio and 2 percentage points outside the trading portfolio.
  - 3.2. Foreign exchange risks are fixed at 2.25% of exposures in Euro and 12% of exposures in other currencies
  - 3.3. Share risks are fixed at 15% of the holding of sector shares and 30% of other shares
  - 3.4. Property risks are fixed corresponding to a price reduction of 18%.

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

4. Growth
  - 4.1. No growth in risk-weighted assets has been calculated.
5. Credit risks
  - 5.1. No additional provisions are made to cover large commitments, as the sum of large commitments amounts to 33% at the end of 2010, i.e. markedly below the level of the average for all financial institutions during the period 1995 – 2008.
  - 5.2. To cover the risk of commitments with objective indication for value deterioration provisions are made corresponding to the entire unsecured part.
  - 5.3. To cover the risk of commitments with material or some signs of weakness, provisions are made corresponding to half the unsecured part.
  - 5.4. To cover the risk of commitments with the agricultural segment with material or some signs of weakness, additional provisions are made corresponding to 30% and 10% of the unsecured part, respectively.
6. Market risks
  - 6.1. The bank's market risks are relatively small – and not characterised by a concentration on individual securities, etc. Consequently, no provisions are made to cover market risks.

## Risk report regarding capital adequacy calculation

7. Operational risks
  - 7.1. Provisions are made to cover operational risks in accordance with the stipulations in the Executive Order on Capital Adequacy.
8. Capital provision
  - 8.1. The bank's capital base is sufficiently sound to cover the bank's capital requirement for the coming year. Therefore, no provisions are made to cover the risks in connection with capital provision.
9. Liquidity risks
  - 9.1. The bank's liquidity scope at the end of 2010 amounted to about DKK 1.6 billion. Add to this reserves which can be initiated on demand in case of a liquidity crisis in the form of repo transactions on the bank's holding of own bonds and pooled assets, temporary loan facilities with the Danish central bank, and mortgaging of the bank's properties for a total of about DKK 1.9 billion.

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

On the basis of the above factors, the estimated capital adequacy requirement is calculated at 9.7% - corresponding to a sufficient capital base of DKK 612 million.

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

|                   | %    | Sufficient capital base |
|-------------------|------|-------------------------|
| Credit risks      | 9.3  | 589 m DKK               |
| Market risks      | 1.3  | 82 m DKK                |
| Operational risks | 1.1  | 72 m DKK                |
| Other aspects     | -2.0 | - 131 m DKK             |
| Total             | 9.7  | 612 m DKK               |

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

Risk report regarding capital adequacy calculation

### Calculation of the risk-weighted items with credit risk

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

| As at 31.12.2010 amounts in DKK 1,000                                 | Risk-weighted exposure | Cap. req. (8% of exposure) |
|---|------------------------|----------------------------|
| Public-sector units .....   | 1,154                  | 92                         |
| Institutions .....  | 108,832                | 8,707                      |
| Businesses, etc. ....   | 2,253,823              | 180,306                    |
| Retail customers .....  | 2,315,589              | 185,247                    |
| Exposure covered by mortgage  | 553,220                | 44,258                     |
| Exposure with arrears or overdraft                                    | 48,215                 | 3,857                      |
| Exposure in other items, including assets without counterparties..... | 179,797                | 14,384                     |
| <b>Weighted items with credit risk, total .....</b>                   | <b>5,460,630</b>       | <b>436,851</b>             |

### Calculation of risk-weighted items with market risk

| As at 31.12.2010 amount in DKK 1,000                | Risk-weighted exposure | Cap. req. (8% of exposure) |
|---|------------------------|----------------------------|
| Debt instruments .....                              | 191,139                | 15,291                     |
| Shares .....  | 7,318                  | 585                        |
| Foreign exchange risks .....                        | 0                      | 0                          |
| <b>Weighted items with credit risk, total .....</b> | <b>198,457</b>         | <b>15,876</b>              |

### Calculation of the risk-weighted items with operational risk

The bank uses the basic indicator method when calculating the capital adequacy requirement for the operational risk.

| As at 31.12.2010 amount in DKK 1,000                     | Risk-weighted exposure | Cap. req. (8% of exposure) |
|--|------------------------|----------------------------|
| <b>Weighted items with operational risk, total .....</b> | <b>706,282</b>         | <b>56,503</b>              |

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### **Counterparty risk**

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

The value of exposure is calculated by the market value method for counterparty risk by the below method:

Contracts are calculated at market value in order to obtain the current replacement cost of all contracts with a positive value.

In order to obtain a figure for the potential future credit exposure, the nominal principal amounts of the contracts or the underlying values are multiplied by percentages fixed by the Danish Financial Supervisory Authority. Swaps based on two variable interest rates in the same currency are excepted, as only the current replacement cost is to be calculated.

The sum of the current replacement costs and the potential future credit exposures form the exposure value.

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

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

As at 31 December 2010, the value of the bank's total counterparty risk calculated according to the market value method amounted to a total of 68,097 thousand DKK.

## Risk report regarding capital adequacy calculation

### Credit risk

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

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

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

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

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

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

Lending and receivables are according to the Danish Executive Order on Preparation of Financial Statements and the Executive Order on Capital Adequacy classified as non-performing when arrears of at least DKK 1,000 for retail loans and DKK 10,000 for commercial loans have existed for a coherent period of 90 days.

As at 31 December 2010, the total value of the bank's exposures after write-downs and before considering credit risk reduction amounts to a total of DKK 10,075 million.

Risk report regarding capital adequacy calculation

**Calculation of the average value of the exposure**

| <b>Average for</b><br>in 1,000 DKK                                      | <b>2010</b>             |
|---|-------------------------|
| Central governments or central banks .....                              | 472,874                 |
| Public-sector units .....   | 32                      |
| Institutions .....  | 276,403                 |
| Businesses, etc. ....   | 2,105,698               |
| Retail customers .....  | 3,454,365               |
| Exposures secured by mortgage in real property .....                    | 1,258,757               |
| Exposures with arrears or overdraft .....                               | 110,060                 |
| Exposures in other items, including assets without counterparties ..... | 184,884                 |
| <b>Total exposures .....</b>  | <b><u>7,863,073</u></b> |

## Risk report regarding capital adequacy calculation

**Credit exposure by lines of business and credit categories**

| As at 31 December 2010<br>Amount in 1,000 DKK       | Central<br>governments or<br>central banks | Public-sector<br>units | Institutions | Businesses,<br>etc. | Retail<br>customers | Exposures<br>secured by<br>mortgage in real<br>property | Exposures<br>with arrears or<br>overdraft | Bond cover | Exposures in<br>other items,<br>including<br>assets without<br>counterparties | Total      |
|---|--|------------------------|--------------|---------------------|---------------------|---|---|------------|---|------------|
| Public authorities .....                            |  |                        |              |                     | 7,010               | 1,667   |   |            |   | 8,677      |
| Agriculture, hunting,<br>forestry and fishing ..... |  |                        |              | 1,092,144           | 618,311             | 236,814   | 3,157                                     |            |   | 1,950,426  |
| Industry and raw material<br>extraction .....       |  |                        |              | 385,985             | 128,568             | 32,201  | 2,945                                     |            |   | 549,699    |
| Energy supply .....                                 |  |                        |              | 6,721               | 17,321              | 334   |   |            |   | 24,376     |
| Building and construction ..                        |  |                        |              | 66,195              | 223,355             | 54,432  | 1,424                                     |            |   | 345,406    |
| Trade .....   |  |                        |              | 192,853             | 299,776             | 64,312  | 1,018                                     |            |   | 557,959    |
| Transport, hotels and<br>restaurants .....          | 150,280                                    |                        |              | 75,556              | 116,127             | 31,576  | 3,575                                     |            |   | 377,114    |
| Information and<br>communication .....              | 299,959                                    |                        | 95,669       | 2,141               | 24,799              | 3,835   | 36  |            |   | 426,439    |
| Financing and insurance ...                         | 34,325                                     |                        | 326,001      | 103,641             | 13,585              | 5,448   |   |            | 228,652   | 711,652    |
| Real property .....                                 |  |                        |              | 655,048             | 131,186             | 60,515  | 313                                       |            |   | 847,062    |
| Other lines of business .....                       |  |                        |              | 181,576             | 311,678             | 70,120  | 3,589                                     |            |   | 566,963    |
| Commercial customers,<br>total .....                | 484,564                                    |                        | 421,670      | 2,761,860           | 1,891,716           | 561,254   | 16,057                                    |            | 228,652   | 6,365,773  |
| Private .....                                       |  |                        |              | 106,620             | 2,650,869           | 930,452   | 20,980                                    |            |   | 3,708,921  |
| Total .....   | 484,564                                    | 0                      | 421,670      | 2,868,480           | 4,542,585           | 1,491,706   | 37,037                                    | 0          | 228,652   | 10,074,694 |



## Risk report regarding capital adequacy calculation

**Credit exposure by remaining term and credit categories**

| As at 31.12.2010<br>amount in DKK 1,000                                      | Demand           | 0 - 3 m.       | 3 m.<br>- 1 year | 1 - 5 years      | More than<br>5 years | Total             |
|--|------------------|----------------|------------------|------------------|----------------------|-------------------|
| Central governments or<br>central banks .....                                | 184,605          | 299,959        |                  |                  |                      | 484,564           |
| Public-sector units .....  |                  |                |                  |                  |                      | 0                 |
| Institutions .....   | 195,485          | 72,027         | 5,611            | 52,878           | 95,669               | 421,670           |
| Businesses, etc. ....  | 690,933          | 376,744        | 1,284,395        | 255,338          | 261,070              | 2,868,480         |
| Retail customers .....   | 1,146,965        | 212,869        | 1,059,826        | 814,420          | 1,308,506            | 4,542,586         |
| Exposure secured by<br>mortgage in real property ....                        | 142,324          | 27,182         | 252,375          | 226,106          | 843,717              | 1,491,704         |
| Exposures with arrears or<br>overdraft .....                                 | 2,770            | 2,676          | 2,192            | 9,157            | 20,243               | 37,038            |
| Exposure in other items,<br>including assets without<br>counterparties ..... | 225,258          |                |                  |                  | 3,394                | 228,652           |
| <b>I alt .....</b>   | <b>2,588,340</b> | <b>991,457</b> | <b>2,604,399</b> | <b>1,357,899</b> | <b>2,532,599</b>     | <b>10,074,694</b> |

**Non-performing and value deteriorated claims by exposure categories**

| 1,000 DKK                                    | Non-<br>performing<br>claims<br>exposure | Value<br>deteriorated<br>claims<br>exposure | Write-downs/<br>Provisions at<br>the end of the<br>year | Amounts<br>charged to<br>revenue re<br>value adj. and<br>write-downs |
|--|--|---|---|--|
| Public-sector authorities .....              |  |   |   | 115  |
| Agriculture, hunting, forestry and fishing . | 3,157                                    | 412,440                                     | 144,375   | 7,000  |
| Industry and raw material extraction .....   | 2945                                     | 17,682                                      | 6,725   | 724  |
| Energy supply .....                          |  |   |   |  |
| Building and construction .....              | 1,424                                    | 11,927                                      | 5,588   | 11,180   |
| Trade .....                                  | 1,018                                    | 20,327                                      | 8,739   | 3,316  |
| Transport, hotels and restaurants .....      | 3,575                                    | 77,685                                      | 36,862  | 4,187  |
| Information and communication .....          | 36                                       | 6,337                                       | 2,445   | 150  |
| Financing and insurance .....                |  | 40,982                                      | 14,259  | 33,061   |
| Real property .....                          | 313                                      | 3,681                                       | 2,192   | 2  |
| Other lines of business .....                | 3,590                                    | 31,530                                      | 10,619  | 2,667  |
| Commercial customers, total .....            | 16,058                                   | 622,591                                     | 231,804   | 62,287   |
| Private .....                                | 20,980                                   | 95,154                                      | 48,868  | 25,636   |
| <b>Total .....</b>                           | <b>37,038</b>                            | <b>717,745</b>                              | <b>280,672</b>  | <b>88,038</b>  |

Risk report regarding capital adequacy calculation

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

| As at 31.12.2010 1,000 DKK   | Lending | Guarantees |
|--|---------|------------|
| <b>Individual write-downs</b>  |         |            |
| Write-downs, start of year .....   | 239,682 | 20,984     |
| Write-downs during the year .....  | 114,370 | 2,000      |
| Reversal of write-downs made in previous financial years                 | 47,631  |            |
| Final loss previously written down individually .....                    | 29,765  | 18,967     |
| Write-downs, end of the year .....                                       | 276,656 | 4,017      |
| <b>Group-based write-downs</b>   |         |            |
| Write-downs, start of the year .....                                     | 19,425  | 1,797      |
| Write-downs during the year .....  | 6,612   | 71         |
| Reversal of write-downs made in previous financial years .....           |         | 130        |
| Write-downs, end of the year .....                                       | 26,037  | 1,738      |
| Final loss (written down) not previously written down individually ..... | 39,306  |            |
| Received re claims previously written down .....                         | 1,872   |            |

Risk report regarding capital adequacy calculation

## Market risk

### Calculation of capital adequacy risks for items with position risk

| As at 31.12.2010<br>in 1,000 DKK                          | weighted<br>amount | capital<br>adequacy<br>requirement<br>(8 % of exposure) |
|---|--------------------|---|
| Debt instruments .....                                    | 191,139            | 15,291  |
| Shares, etc. (incl. collective investments schemes) ..... | 7,318              | 585   |
| Foreign exchange position .....                           | 0                  | 0   |

Risk report regarding capital adequacy calculation

### **Operational risk**

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

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

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

Risk report regarding capital adequacy calculation

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

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

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

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

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

#### Shareholding, etc.

As at 31.12.2009  
in 1000 DKK

|   | Book value     |
|---|----------------|
| Shares in the trading portfolio           |                |
| - listed shares .....                     | 20,832         |
| Unlisted shares, etc., at current value:  |                |
| - sector shares .....                     | 177,311        |
| - other unlisted shares .....             | 27             |
| Other capital shares .....                | <u>17,405</u>  |
| Total outside the trading portfolio ..... | <u>194,743</u> |
| Shares, etc., total .....                 | <u>215,575</u> |

Risk report regarding capital adequacy calculation

### Interest risk outside the trading portfolio

The bank's total interest risk as at 31 December 2010 amounted to a total of DKK -4,862 thousand distributed as follows:

As at 31.12.2010  
in 1,000 DKK

Interest risk on positions in the trading portfolio:

|  |          |        |
|--|----------|--------|
| Securities .....                             | 10,312   |        |
| Futures, forward transactions for FRAs ..... | - 3      |        |
| Swaps .....                                  | <u>0</u> | 10,309 |

Interest risk for positions outside the trading portfolio:

|  |  |                 |
|--|--|-----------------|
| Balance sheet items, i.e. loans and amounts owing and deposits and debts ..... |  | <u>- 15,171</u> |
|--|--|-----------------|

|                            |  |                |
|----------------------------|--|----------------|
| Interest risk, total ..... |  | <u>- 4,862</u> |
|----------------------------|--|----------------|

Of this

|  |         |  |
|--|---------|--|
| - positions in DKK .....               | - 3,670 |  |
| - positions in foreign currencies..... | - 1,192 |  |

Risk report regarding capital adequacy calculation

### Credit reducing methods

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

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

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

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

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

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

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

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

| As at 31.12.2010  | Exposures<br>covered by<br>financial<br>securities | Exposures<br>covered by<br>guarantees and<br>credit derivatives |
|---|--|---|
| in 1,000 DKK  |  |   |
| Businesses .....  | 137,522  | 50,187  |
| Retail customers .....  | 106,646  | 8,404   |
| Exposures covered by mortgage in real property .....  | 28,672   | 0   |
| Exposures with arrears or overdraft .....   | 1,540  | 57  |
| <b>Total exposures covered by financial securities,<br/>and guarantees and credit derivatives .....</b> | <b>274,380</b>                                     | <b>58,648</b>   |