Nordjyske Bank

Risk Report

2017

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Introduction

This risk report, which is published on www.nordjyskebank.dk has been prepared pursuant to the provisions of the CRD IV rules and CRR regulation no. 575/2013 sections 431 to 455.

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

The report only mentions the areas, which the bank is dealing with.

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

The information in this risk report has not been audited.

Scope

The risk report covers the activities in

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BIC/SWIFT nrsbdk24
LEI 5493001B6MUORX4ESV75

All calculations in this report are as at 31.12.17.

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

Aim and Risk Profile, CRR 435 (1), schedule a-f and (2)

The bank is exposed to different types of risk: Based on the bank's business model and its strategic objectives, the bank's Board of Directors determine relevant risk policies and risk and capital management. The purpose of the bank's risk management policies is to minimize losses that may occur as a result of unpredictable developments in the financial markets.

The bank has a number of tools for the identification and management of risks. The Board of Directors receives continuous reporting on the evolution of risks and exploitation of assigned risk framework. Daily risk management is mainly carried out in the FinansCentret, Kredit (the FinanceCentre, Credit) and with control and reporting from the Økonomi (Economy).

The bank's major risk areas are: credit risk, market risk, liquidity risk and operational risks.

The bank's Board of Directors regularly and at least once a year undertakes an assessment of the bank's individual and overall risks and in this connection determines whether the risks are acceptable.

Furthermore, the bank's risk management is dealt with in the appointed risk committee as well as the bank's audit committee. Both committees consist of members of the Board of Directors. The audit committee's tasks are, amongst others, to review the accounting, auditing and security conditions and to monitor the bank's internal control and risk management systems. The risk committee's tasks are, amongst others, to advise the Board of Directors on the bank's overall current and future risk profile and strategy and to assist the Board of Directors in ensuring that the Board's risk strategy is implemented correctly in the organisation.

In accordance with the legislation, the bank has established a risk management function and has appointed a senior manager with specific responsibility for the risk management function for the risk manager. It has organisationally been ensured that the risk manager may be sufficiently independent of the bank's functions to perform his tasks with integrity. Procedures have been established to ensure that potential conflicts of interest between the risk manager's tasks other than risk management are handled with integrity. The risk management function shall, as required and at least once a year, issue a report on the bank's risk management to the Board of Directors. The risk manager may, where appropriate, express concerns and warn the Board when specific risks affect or may affect the bank.

A guideline for the risk management function has been issued and has been approved by the Executive Board. Each year the risk manager shall draw up a plan for the risk areas, to which the function pays special attention. The plan shall be approved by the Executive Board.

The risk manager assists the risk committee with information. The risk manager is appointed by the Board of Directors and with the above-mentioned exceptions refers to the bank's Executive Board. Dismissal of the risk manager shall be subject to approval by the bank's Board of Directors.

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

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

The market risk is the risk that the market value of the bank's assets and liabilities and derived financial instruments will change as a consequence of changes to the market 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 defects 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 follows from the Bank's credit policy, that the Bank's risk profile in the credit area shall be suitably cautious, which translates into concrete guidelines for the Bank's lending.

Among other things this means
- that the bank does not want individual commitments of a size that a loss may threaten the bank's existence,
- that the bank attaches weight to local knowledge, which means that the risk profile is fixed on the basis on the locations where the bank is physically represented,
- that the credit administration only takes place after a principle of commercially calculated risks,
- the bank's lending growth shall be controlled.

The bank's business model has a fixed maximum gearing on the equity of 5.5.

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

The loan value is individually fixed on the basis of the characteristics of each individual property, among other things local position and size or based on an independent valuation, alternatively a public land assessment.

The bank's credit risk is distributed among a large number of rather small commitments. Individual commitments should not exceed 5 per cent of the bank's core capital with regard to the unsecured part of the commitment.

The sum commitments amounting to more than 10 per cent after deduction of the bank's core capital amounts to 13.5 per cent at the end of 2017.

The total gearing of loans is and has always been moderate. Thus, at the end of 2017 it was 4.0 times the equity.

The total of the 20 largest exposures after deductions must be below 170% of the bank's actual core capital.

At the end of 2017, the total of the 20 largest exposures after deductions amounts to 135% of the bank's actual core capital.

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

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

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

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

Operating equipment:
Calculation of the loan value for operating equipment is made according to the straight-line method. Typically, 12.5-33 per cent will be written-off immediately, and subsequently write-down of the value of the assets on an ongoing basis during the useful life.

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.

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 control price per hectare.

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

Guarantees:
The loan value for guarantees from Danish public authorities is 100 per cent. Other guarantees are 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. 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	commitments of very good quality
22	commitments of good quality
31	commitments of normal quality
32, 33	exposures of slightly reduced quality
38	exposures with some weaknesses
39	exposures with material weaknesses, but without objective need for write-downs or provisions
41, 42, 50	exposures with objective indication of reduced quality

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 Kredit.

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

Risks are primarily interest risks.

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

The interest risk, defined as the loss suffered by the bank in case of an increase in the effective rate of interest of 1 percentage point on the exposures with a fixed rate of interest, amounted to 1.4 per cent of the bank's core capital after deductions at the end of 2017.

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.

At the end of 2017 the bank's currency risk (indicator 2) amounted to DKK 0 million.

The Bank is the co-owner of a number of sector companies. 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.

The bank’s holding of listed shares amounted to DKK 11 million – or 0.4 per cent of the bank’s equity at the end of 2017.

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

At the end of 2017, the holding of investment properties amounted to DKK 33 million, or 1 per cent of the bank's equity.

The bank's market risks are controlled by the bank's FinansCenter according to policies and limits established by the bank's management. The individual risks are monitored continually by the bank's finance department, and the bank's management is informed on an ongoing basis.

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

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

- deposits from customers
- equity

At the end of 2017, the bank's deposits from customers and equity amounted to 167 per cent of the total loan portfolio.

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

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

The bank's management is informed on an ongoing basis of the losses and events that 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.

Management reports cf. CRR 435 (1), schedule e and f

The bank's Board of Directors and Executive Board have approved the risk report for 2017 on 8 February 2018.

It is the opinion of the Board of Directors that the bank's risk management systems are sufficient and provide security that the risk management systems introduced are sufficient in relation to the bank's profile and strategy.

Furthermore, it is the opinion of the Board of Directors that the below description of the bank's general risk profile in connection to the bank's business strategy, business model and key figures provides a relevant picture of the bank's risk management, including the mutual influence of the bank's risk profile and the risk tolerance fixed by the Board of Directors.

The Board of Directors' evaluation is based on the business model/strategy approved by the Board, material and reports presented to the Board by the management, internal audit, the risk responsible and compliance responsible persons, and on the basis of received supplementary information and reports.

A review of the business model and policies shows that the general requirements of the business model on the individual risk areas are fully and adequately expressed in the further specified limits of each individual policy, that a review of the Board of Directors' guidelines for the Executive Board and forwarded authorisations show that the fixed limits in each individual policy are fully and adequately expressed in the underlying guidelines to the management and forwarded authorisations, that the real risks are within the limits fixed in each individual policy and in forwarded authorizations, and that on this basis it is the Board of Directors' opinion that there is accordance between business model, policies, guidelines, and the real risks within each individual area.

The bank's business strategy is based on the bank's vision and basic values to be a strong and attractive co-operator for private and businesses within its market area. The bank wants profitable earnings based on pricing of the bank's products, reflecting the risk and net asset value assumed by the bank together with an overall evaluation of the business volume with customers and counterparts. The bank wants an appropriately robust capital adequacy which supports the business model.

The bank's Board of Directors has fixed an actual core capital objective in the level of 15.5 per cent in 2020 and a capital ratio in the level of 18.0 per cent in 2020. Currently the actual core capital ratio amounts to 14.8 per cent and the capital ratio to 16.7 per cent.

The maximum risk tolerance fixed by the Board of Directors is controlled via fixed limits for each individual policy. In addition, the Board of Directors observes the limit set applying to the supervisory diamond, cf. the below table, which partly shows the maximum allowed marginal values of the supervisory diamond, and the bank's current figures for various marginal values.

	Supervisory Diamond	The bank's performance as at 31.12.2017
Growth in lending	20%	9.2%
Large commitments	125%	13.5%
Excess liquidity solvency	> 50%	114.6%
Funding ratio	< 1	0.59
Property exposure	< 25%	12.8%

Management systems etc., cf. CRR 435, (2)
In addition to the management position in the bank, the members of the Board also have a number of other directorships:

Chairman of the Board, Mads Hvolby	2 other directorships
Deputy chairman of the Board, Sten Uggerhøj	22 other directorships
Per Lykkegaard Christensen	8 other directorships
Morten Jensen	34 other directorships
Poul Søe Jeppesen	7 other directorships
Henrik Lintner	1 other directorship
Anne Kaptain	No other directorships
John Chr. Aasted	6 other directorships
Hanne Karlshøj	No other directorships
Helle Juul Lynge	No other directorships
Arne Ugilt	No other directorships
Finn Aaen	No other directorships

The bank follows the competence requirements for the Board of Directors which are a consequence of financial legislation. In accordance with this the Board evaluates on a continuous basis whether its members possess the necessary knowledge and experience about the bank's risks to ensure reasonable operations by the bank. The Board's process for selection of candidates for the Board has been described in the brief from the Nomination Committee, which is described on the bank's homepage and in the annual report on page 38.

Based on recommendation from the Nomination Committee the Board of Directors has approved a policy of diversity pursuant to FIL Section 70 (1) no. 4.
From this it appears that the bank wants a composition of the Board of Directors based on diversity in competences and backgrounds, in particular the need for diversity in relation to differences in professional aspects, experience, gender and age are highly weighted.

Pursuant to Section 80 b (1) of the Danish Financial Business Act the bank has appointed a Risk Committee. The Risk Committee shall at least twice a year.

Core capital CRR 437

The bank's core capital is calculated in accordance with the (EU) regulation no. 575/2013 and directive 2013/36/EU of 26 June 2013 of the European Parliament and Council.

As at 31.12.2017 amounts in DKK 1,000		
Actual core capital:		
Share capital	183,645	
Revaluation reserves	16,431	
Other reserves	3,254	
Profit or loss carried forward	2,748,834	
		2,952,164
Deductions:		
Suggested dividend	80,804	
Intangible assets	402,756	
Non-significant investments in units in the financial sector	312,775	
Conservative valuation	3,886	
Other deductions	17,902	
		818,123
Actual core capital after deductions		2,134,041
Additional capital*		272,779
Core capital		2,406,820

*For a description of the subordinated capital contributions, please refer to note 32 page 94 in the 2017 annual accounts.

Capital requirement, CRR 438

The bank's adequate core capital and solvency requirement according to the Regulation on risk exposure core capital and solvency requirement CRR article 438, schedule a and b is published each quarter in the bank's solvency report.

As at 31.12.2017
amounts in DKK 1,000

	Risk exposure	Capital requirement (8% of the exposure)
Risk exposure per exposure class, CRR 438, schedule c		
The bank uses the standard method when calculating the credit risk of the total risk exposures.		
Exposures to public entities	1,564	125
Exposures to institutes	36,889	2,951
Exposures to businesses	3,709,720	296,778
Exposures to retail customers	4,598,435	367,875
Exposures secured by real property mortgage	1,538,207	123,057
Exposures with arrears or overdraft	903,444	72,276
Risk exposures with particularly high credit risk	689,430	55,154
Share exposures	293,353	23,468
Other items	339,841	27,187
Risk exposures with credit risk, total	12.110.883	968.871
Reporting of risk exposures with market risk, CRR 438 schedule e and CRR 445		
Items with position risk (shares, debt instruments)	545,678	43,654
Exchange rate risks	12,629	1,010
Risk exposures with market risk, total	558.307	44,664
Reporting of operational risk, CRR 438 schedule f and CRR 446		
The bank uses the basic indicator method when calculating the capital adequacy requirement for the operational risk.		
Operational risk	1,762,222	140,978
Reporting of credit valuation adjustment for counterparties – CVA, CRR 384		
The bank uses the standard method to calculate the capital adequacy requirement for credit valuation adjustment of counterparties.		
CVA	21,878	1,750
Thus, the total risk exposures can be calculated as follows:		
Credit risk	12,110,883	968,871
Market risk	558,307	44,664
Operational risk	1,762,222	140,978
CVA	21,878	1,750
Total risk exposure	14.453.290	1,156,263

Exposure to counterparty risk, CRR 439

Method, CRR 439, schedule a
The bank uses the market value method for counterparty risk when calculating the size of the exposures for derived financial instruments covered by the requirements in the CRR regulation section 274.

The determination of the value of the exposure by means of the market value method for counterparty risks follows the below method:

- Contracts are calculated at market value in order to obtain the current replacement cost for all contracts with a positive value.
- In order to reach a figure for the potential future credit exposure, the nominal principal amounts of the contracts or the underlying values are multiplied by percentages fixed by the Danish Financial Supervisory Authority.
- The sum of the current replacement costs and the potential future credit exposures amount to the exposure value.

The bank's granting process and the general monitoring of commitments allow for the calculated exposure value, so that it is guaranteed that it will not exceed the credit limit granted for the counterparty.
In connection with the bank's assessment of adequate core capital and solvency requirement, no extra capital has been reserved to cover the counterparty risk in excess of what in included in the core capital requirement of 8 pct., which is the minimum core capital pursuant to the 8+ method used by the bank to calculate adequate core capital and solvency requirement.

Policies for security and credit reserves, CRR 439, schedule b
Regarding exposures with customers in the exposure categories businesses and retail customers, limits for financial contracts are treated according to the bank's general credit valuation principles.

Counterparty risk according to the market value method, CRR 439, schedule a and f

As at 31.12.2017 amounts in DKK 1,000	Positive gross current value of financial contracts	The total exposure value of counterparty risk calculated according to the market value method
Counterparty with risk weight of 0%	0	0
Counterparty with risk weight of 20%	20,784	4,157
Counterparty with risk weight of 50%	1,451	725
Counterparty with risk weight of 75%	11,370	7,368
Counterparty with risk weight of 100%	35,058	34,272
Counterparty with risk weight of 150%	0	0
	68,663	46,522

To cover the risk of loss as a consequence of value regulations on OTC derivatives by deteriorations of the counterparty’s credit rating a CVA-addition has been introduced.

The bank's CVA addition increases the total risk exposure by TDKK 21,878.

Counter-cyclical capital buffer, CCR 440

Capital ratio and buffers
Danish financial institutes were at the implementation of the capital requirement directive CRD IV in the Act on financial activities § 125 (a) obliged to live up to several capital buffer requirements. Common for these buffer requirements is that only actual core capital can be used for the fulfilment hereof.

If the bank is unable to meet these buffer requirements with actual core capital, this will result in limitations in the bank's ability to pay dividends and other distributions.

The combined capital buffer requirement consists of the sum of the actual core capital, which is needed to meet the requirement for a capital conservation buffer, an institute specific counter-cyclical capital buffer, a G-SIFI buffer and a systemic buffer.

Nordjyske Bank is not a SIFI institute, why the G-SIFI buffer and the systemic buffer are not current for the bank.

The capital conservation buffer must ensure a larger holding of actual core capital. The capital conservation buffer must be at least 2.5% of the total risk exposures. A capital conservation buffer will be gradually introduced with 0.625% per year starting on 1 January 2016, thus final phasing-in will end in 2019.

Nordjyske Bank must therefore set aside 1.25% of the total risk exposures in 2017 for the capital conservation buffer, in total DKK 181 million.

In the light of the financial crisis and the pro-cyclical mechanisms that contributed to its start and intensified its effect, requirements for a countercyclical capital buffer has been introduced in the CRR-regulation, which shall only be put into force in periods with a supernormal growth in lending. The aim is to ensure that during periods with financial growth, credit institutes will build up an adequate core capital to cover losses in periods of crisis.

The counter-cyclical buffer is built up when total growth is considered contributing to the build-up of systemic risk and is reduced in periods of crisis. The buffers rate is fixed by the authorities in each individual EU country. In Denmark, the buffer rate is fixed by the Ministry of Industry, Business and Financial affairs on the basis of selected indicators, e.g. lending relative to BNP in Denmark.

Nordjyske Bank's total credit exposures in Denmark amount to 96.7%. The current Danish counter-cyclical buffer rate amounts to 0%.

Nordjyske bank's total foreign credit exposures amount to 3.3% of the bank's total credit exposures, hereof 2.6% in Slovakia. On 01.08.17 Slovakia introduced a counter-cyclical buffer rate of 0.5. This has had the result that Nordjyske Bank has an institute specific counter-cyclical capital buffer in 2017 of 0.02%, which is equivalent to DKK 2.3 million.

Geographical distribution of credit exposures, which are relevant for the calculation of the institute specific counter-cyclical capital buffer

As at 31.12.2017 Amounts in DKK 1,000		General credit exposures	Exposures in the trading portfolio	Core capital requirement			Weights for core capital re-quirements	Counter-cyclical capital buffer rate
Row	Country	Exposure value for SA	The sum of long and short positions in the trading portfolio	Total	Hereof general credit exposures	Hereof Exposures in the trading portfolio		
010		010	030	070	080	090	110	120
010	Denmark (DK)	16,197,401	2,583,333	955,073	933,263	21,810	0.9670	0.00
010	Czech Republic (CZ)	62		4	4		0.0000	0.50
010	Iceland (IS)	64		4	4		0.0000	1.25
010	Norway (NO)	25,580		1,127	1,127		0.0011	2.00
010	Sweden (SE)	3,628	23	196	192	4	0.0002	2.00
010	Slovakia (SK)	324,769		25,982	25,982		0.0263	0.50
010	Other countries	75,943	263	5,306	5,223	83	0.0000	0.00
	Total	**16,627,447**	**2,583,619**	**987,692**	**965,795**	**21,897**	**-**	**0.02**

Capital buffer, CRR 440

As at 31.12.2017 **amounts in DKK 1,000**		As a percentage of total risk exposure
Total risk exposures	14,453,290	
Actual core capital:	2,134,041	14.76
Additional capital	272,779	1.89
Total capital (core capital)	2,406,820	16.65
Core capital requirement	**1,156,263**	8.00
hereof actual core capital:	883,484	6.11
hereof additional capital	272,779	1.89
Excess actual core capital available to buffers	1,250,554	8.65
The combined capital buffer requirements	**182,950**	1.27
hereof capital conservation buffer requirement	180,666	1.25
hereof counter-cyclical buffer requirement	2,284	0.02
Excess actual core capital available after buffers	1,067,607	7.38

Credit risk adjustments, CRR 442

The definition of non-performed and value reduced receivables as well as procedure for measuring of write-downs, CRR 442 schedule a and b

Receivables with credit institutions and central banks as well as lending are valuated at the first inclusion at market price plus transaction costs and less received fees and commissions attached to the establishment.

Receivables with credit institutions and central banks as well as loans that are not genuine purchase and repurchase transactions, are subsequently valuated at amortised cost price less write-downs at a lower value if an objective indication of value reduction is present.

Receivables with credit institutions and central banks are all valuated individually for objective indication of value reduction.

Likewise, an individual valuation of objective indication of value reduction is performed for material lending. The need for writing down is assessed individually when at an individual level an objective indication for value reduction is present. Individual loans that have not been written down as well as other loans are subsequently assessed on a portfolio basis.

Group-based valuations are made in accordance with S53 of the accounting directive for all the bank's lending, except the loans that are written down after individual valuation or the loans that do not fit into a group. The group-based valuation is made on the basis of a segmentation model developed and maintained by The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark. The model is based on statistic material for losses in the entire financial sector adapted to the bank's own portfolio, including an assessment of previous events which the model cannot take into consideration.

An individual loan or a group of loans are considered reduced in value if – and only if – there is an objective indication of value reduction as a result of one or more events that have occurred after the first inclusion of the loan, and if this or these events have influenced on the expected future flows of payment, which can be reliably estimated. The agreed effective interest rate of the individual loan is used as discount factor.

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

Loans and receivables are defined according to CRR directive no. 575/2013 section 178 as:

- Non-performed when it has been in arrears during a continuous period of 90 days at min. DKK 1,000 kr. for retail and DKK 10,000 for industry.
- Value reduced when it is unlikely that the debtor will pay all his liabilities without resorting to measures such as realising any guarantee.

The total value of the bank's exposures after write-downs and before taking credit risk reduction into consideration amounts to a total of DKK 24,907 million as at 31.12.2017.

Total exposures after value adjustments and write-downs and the period's average, CRR 442, schedule c

As at 31.12.2017 **amounts in DKK 1,000**	The value of exposures after net value adjustments and write-downs and before consideration of the effects of credit risk reduction	The average size of exposures during the period
Exposure to central governments or central banks	823,046	829,466
Exposure to regional or local authorities	3,000	3,000
Exposure to public entities	10	10
Exposure to institutions	121,601	163,138
Exposure to businesses	6,051,959	5,719,985
Exposure to retail customers	10,918,729	11,271,736
Exposures secured by real property mortgage	4,470,064	3,618,907
Exposures with arrears or overdraft	908,236	880,121
Risk exposures with a particularly high credit risk	885,871	775,903
Share exposures	293,353	282,153
Other items	432,002	445,282
	24.907.871	23,989,701

Geographical distribution of the exposures, CRR 442, schedule d

The bank's primary market area is North Jutland and the bank has 97.4% of its exposures in Denmark, which is the reason why a geographical specification has been left out.

Industrial distribution per exposure class, CRR 442, schedule e

Industrial distribution of total exposure after value adjustments and write-downs per exposure class:

As at 31.12.2017 Amounts in DKK 1,000	Central governments or central banks	Regional or local authorities	Public entities	Institutions	Businesses	Retail exposures	Real property mortgage	Exposures with arrears or overdraft	Exposures with a particularly high credit risk	Share exposures	Other items	Total
Public authorities		3,000				40						3,040
Farming, hunting, forestry and fishing					1,516,262	665,552	97,893	463,213				2,742,920
Industry and extraction of raw materials					499,244	288,545	82,473	4,474				874,736
Energy supply					127,193	32,575	6,114	16,493				182,375
Building and construction					397,683	367,113	105,936	49,639	442,148			1,362,519
Trade					659,293	635,502	89,804	97,280				1,481,879
Transport, hotels and restaurants					53,830	237,782	45,242	21,418				358,272
Information and communication					14,797	85,966	12,388	1,036				114,187
Financing and insurance	823,046			121,601	538,885	239,747	776,319	277			432,002	2,931,877
Real property					1,397,031	698,438	261,253	116,105	443,723			2,916,550
Other industries			10		508,288	775,249	166,446	22,374		293,353		1,765,720
Industries, total	823,046	3.000	10	121,601	5,712,506	4,026,509	1,643,868	792,309	885,871	293,353	432,002	14,734,075
Private					339,453	6,892,220	2,826,196	115,927				10,173,796
Total	823,046	3,000	10	121,601	6,051,959	10,918,729	4,470,064	908,236	885,871	293,353	432,002	24,907,871

As at 31.12.2017 **amounts in DKK 1,000**	The value of exposures after book value adjustments and write-downs and before consideration of the effects of credit risk reduction	Of this exposures to SMV amount to
Exposure to central governments or central banks	823,046	
Exposure to regional or local authorities	3,000	
Exposure to public entities	10	
Exposure to institutions	121,601	
Exposure to businesses	6,051,959	587,638
Exposure to retail customers	10,918,729	3,119,218
Exposures secured by real property mortgage	4,470,064	411,876
Exposures with arrears or overdraft	908,236	
Risk exposures with a particularly high credit risk	885,871	
Share exposures	298,353	
Other items	432,002	
	24,907,871	4,118,732

Distribution of exposures e relative to remaining term, CRR 442, schedule f

As at 31.12.2017 amounts in DKK 1,000	On demand	0 – 3 months	3 months – 1 year	1 – 5 years	More than 5 years	Total
Central governments or central banks	277,978	545,068				823,046
Regional or local authorities	3,000					3.000
Public entities			10			10
Institutions	94,771	22,234	4,596			121,601
Businesses	1,160,753	283,075	3,478,520	581,459	548,152	6,051,959
Retail customers	3,312,672	562,837	2,521,915	1,421,415	3,099,890	10,918,729
Real property mortgage	136,529	72,296	326,987	385,880	3,548,372	4,470,064
Non-performed	118,810	26,664	519,526	67,677	175,559	908,236
Particularly high risk	138,502	717,369	30,000			885,871
Shares					293,353	293,353
Other items	420,930		11,072			432,002
Total	5,663,945	2,229,543	6,892,626	2,456,431	7,665,326	24,907,871

It should be noted that the figures in the above table cannot immediately be concluded from the bank's annual report as components other than the bank's lending and guarantee portfolio are calculated into the above review.

Non-performed and value-reducing receivables, CRR 442, schedule g

As at 31.12.2017 amounts in DKK 1,000	Non-performed and value-reducing receivables, CRR 442, schedule g (individually)	Write-downs /provisions at the end of the year (individually)	Amounts charged to revenue re. value reductions and write-downs*
Public authorities	0	0	0
Farming, hunting, forestry and fishing	908,743	465,165	39,547
Industry and extraction of raw materials	31,677	19,212	6,737
Energy supply	22,575	3,987	-415
Building and construction	91,217	34,020	19,003
Trade	175,284	88,454	19,537
Transport, hotels and restaurants	52,153	36,461	2,995
Information and communication	3,432	2,902	-169
Financing and insurance	12,958	10,817	-102
Real property	196,642	80,157	12,536
Other industries	55,791	33,443	3,496
Industries, total	1,550,472	774,618	103,165
Private	307,949	205,137	50,304
Total	1,858,421	979,755	153,469

As at 31.12.2017 amounts in DKK 1,000	Value-reduced receivables (Group-based)	Write-downs/provisions at the end of the year (Group-based)	Amounts charged to revenue re. value reductions and write-downs*
Public authorities	0	0	0
Industries	8,003,476	43,590	0
Private	7,442,340	5,503	0
Total valuated by group	15,445,816	49,093	6,524

*Amounts charged to the profit and loss account consist of the year's changes in write-downs/provisions added to the final lost amount.

Geographical distribution of non-performed and value-reduced receivables, CRR 442, schedule h

Since the bank has 97.4% of its exposures in Denmark a geographical specification has been left out.

Changes in adjustment of specific and general credit risk concerning decrease in value of claims, CRR 442, schedule i

As at 31.12.2017 **amounts in DKK 1,000**	Lending	Guarantees
Individual write-downs		
Write-downs, start of the year	965,229	15,723
Write-downs, during the year	216,375	14,990
Reversal of write-downs made during previous financial years	128,561	2,847
Other movements	42,984	0
Final loss, previously written-down individually	134,852	9,287
Write-downs, end of the year	961,175	18,579
Group-based write-downs		
Write-downs, start of the year	40,768	1,801
Write-downs, during the year	11,760	512
Reversal of write-downs made during previous financial years	5,748	
Write-downs, end of the year	46,780	2,313
Final loss (written down), not previously written down individually	10,529	
Received from previously written down receivables	20,677	

Nordjyske Bank has no write-downs or provisions on debts with credit institutions. In addition to the above write-downs, Nordjyske Bank has taken over write-downs concerning Nørresundby Bank, which are included as value adjustment of lending. At the end of 2017, these amount to TDKK 104,275.

Charged and free assets, CRR 443

Information about charged and free assets

As at 31.12.2017 amounts in DKK 1,000		Book value of charged assets	Current value of charged assets	Book value of free assets	Current value of free assets
		010	040	060	090
010	**The bank's assets**	34,968		20,492,412	
030	Share instruments			2,994,854	
040	Debt instruments			3,895,447	
050	Hereof: Bonds with special coverage			3,479,600	
060	Hereof: securities secured by shares				
070	Hereof: issued by public administration			104,736	
080	Hereof: issued by financial corporations			281,878	
090	Hereof: issued by non-financial corporations			29,234	
120	Other assets	34,968		793,096	

Information about encumbrance sources

As at 31.12.2017 amounts in DKK 1,000		Corresponding liabilities, contingent liabilities or lent securities	Assets, received guarantees and won issued instruments of debt except charged covered bonds and ABSes
		010	030
010	Book value of selected financial obligations	34,968	34,968

The bank has provided security for DKK 34.9 million towards financial counterparties. The security concerns negative market values on covered customer businesses in interest rate swaps and foreign exchange transactions.

Using a credit rating agency, CRR 444

The bank uses Bankdata as data centre, which receives external credit ratings from Standard & Poor’s Ratings Services via SIX Financial. IT updates are carried out on an ongoing basis of the credit ratings from Standard & Poor’s Ratings Services.

Bankdata has converted Standard & Poor’s Ratings Services’ credit evaluation classes to credit quality steps via the Danish Financial Supervisory Authority conversion table. A weight is attached to each individual credit quality step with which the exposure shall be weighted when calculating the risk-weighted items under the standard method for credit risk pursuant to CRR sections 111-134.

The table below shows the Danish Financial Supervisory Authority’s conversion of Standard & Poor’s Ratings Services’ credit valuation classes into credit quality steps for exposures to businesses, institutions, central governments and central banks.

Credit quality step	Standard & Poor's credit rating classes	Exposure to businesses (companies)	Exposure to central governments or central banks
1	AAA to AA-	20%	0%
2	A+ to A-	50%	20%
3	BBB+ to BBB-	100%	50%
4	BB+ to BB-	100%	100%
5	B+ to B-	150%	100%
6	CCC+ and below	150%	150%

Exposure classes using credit ratings from Standard & Poor’s Ratings Services

Exposure class	Exposure value before risk-weighting DKK 1,000	Exposure value after weighting with credit quality steps DKK 1,000
Exposure to public entities	7,820	1,562
Exposure to institutions	106,965	36,785

Market risk, CRR 445

As at 31.12.2017 amounts in DKK 1,000	Risk exposure	Capital requirement (8% of exp.)
Capital adequacy concerning market risk:		
Items with position risk	545,678	43,654
Foreign exchange exposure	12,629	1,010
	558,207	44,664
Calculation of capital adequacy of CVA	21,878	1,750

Operational risk, CRR 446

Pursuant to the CRR regulations operational risks must be covered by capital. The capital requirement for operational risks must cover: "Risk of loss as a consequence of inappropriate or insufficient internal procedures, human or system-based errors, or as a consequence of external events, including legal risks".

Nordjyske Bank uses the basic indicator model, cf. CRR regulation no. 575/2013 sections 135 and 136, when calculating the capital requirement for the operational risks. This means that the capital requirement for operational risks is calculated at 15 per cent of the average "core earnings" during the past 3 years.

The core earnings are the sum of net interest income and net income not related to rates of interest. In 2017 the operational risk amounts to 12.2 pct. of the total risk exposure, corresponding to TDKK 1,762,222 at the end of 2017, amounting to a capital requirement of TDKK 140,978.

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

Exposures in shares, etc., not included in the trading portfolio, CRR 447

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

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

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

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

As at 31.12.2017 **amounts in DKK 1,000**	Book value
Holdings of shares, etc.	
Shares in the trading portfolio	
- listed shares	10,909
- unlisted shares at market value	6,542
Portfolio, total	17,451
Unlisted shares, etc., at market value:	
- sector shares	569,433
- other unlisted shares	13,127
Other capital shares	551
Outside the trading portfolio, total	583,111
Shares, etc., total	600,562
Shares outside the trading portfolio (sector shares etc.)	
Portfolio start of the year	566,224
Addition from purchase	8,705
Unrealised profit/loss	40,817
Realised profit/loss	903
Reduction from sale	33,538
Portfolio end of the year	583,111

As a consequence of the fact that realised profit/loss is part of the account statement they are also included in the core capital.

An adjustment of 10 pct. of the calculated market value of shares outside the trading portfolio will affect the pre-tax result by DKK 58 million.

Interest risk, CRR 448

As at 31.12.2017 amounts in DKK 1,000		
Interest risk for positions in the trading portfolio:		
Securities	13,932	
Futures, forward transactions for FRAs	14,499	28,431
Interest risk for positions outside the trading portfolio:		
Balance sheet items,		
i.e. lending and receivables and deposits and debts		13,576
Position with limited or covered interest risk		-13,025
		551
Total interest risk		28,982
Distributed as:		
- positions in Danish kroner	27,095	
- positions in foreign currencies	1,887	

The bank's interest risk outside trading portfolio primarily includes interest risk on fixed-interest loans and deposits. The interest risk is calculated on the basis of duration goal, defined as a general change in the interest rate of 1 percentage point.

The interest risk is calculated on an ongoing basis via the bank's risk management systems. At the end of 2017 the interest risk outside the trading portfolio amounted to TDKK. 551.

In the bank's solvency requirement statement it shall be further assessed if the bank's unifying interest rate risk results in additional capital to be allocated to the adequate core capital.

Remuneration policy, CRR 450

The Board of Directors has adopted a remuneration policy for Nordjyske Bank, which has been approved at the general meeting. The purpose of the remuneration policy is to promote a remuneration policy and practice that is consistent with and encourages a sound and effective risk management in Nordjyske Bank.

The Board of Directors has established a remuneration committee in accordance with legislation. The committee shall be in charge of the preparatory work concerning remuneration, including remuneration policy and identification of material risk takers.

The Committee shall meet at least twice a year. 2 meetings have been held in 2017.

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

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 amount. The bank does not use variable remuneration as an agreed element in the remuneration of the Board of Directors, the Executive Board and other material risk takers. Thus, variable remunerations are not paid as an agreed element of the remuneration, neither in the form of salary, stocks, options, pension contributions or similar systems. At an extraordinary effort, an employee shall be granted a one-off remuneration at a maximum of DKK 100,000 per year.

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.

Quantitative information about remuneration, distributed according to management and the employees identified as material risk takers

	Fixed salary DKK 1,000
Board of Directors	3,196
Executive Board	9,212
Other material risk takers	9,260

In addition, refer to pages 39-44 and 73 and 96-97 of the annual report.

It can be further informed that

- Only cash remuneration is used (with the exception of company car etc.)
- Further to the stated remuneration, severance pay has been paid once.
- No persons in the bank have received remuneration exceeding EUR 1 million during the financial year.

Gearing, CRR 451

With the CRR regulation the gearing ratio is introduced which is a risk neutral measure for the maximum accounts related gearing. The gearing ratio is calculated as core capital in relation to unweighted exposures.

At the present time, no requirement of maximum gearing ratio has been fixed, but in the EU Commission's suggestion to a revision of CRR and CRD IV, it is suggested to introduce a gearing requirement for all institutions of 3%, corresponding to a maximum gearing of 33 times the bank's core capital.

In December 2017, the Basel Committee has published that the requirement for financial institutions gearing ratio shall be a minimum of 3%, applicable as from 1 January 2018.

Nordjyske Bank complies with this requirement, since Nordjyske Bank's gearing ratio at the end of 2017 has been calculated at 9.9%, corresponding to maximum gearing of 10.1 times the core capital.

Reconciliation between accounting-related assets and gearing ratio-relevant exposures - overview

		Applicable amount
1	Total assets, cf. the published annual accounts	20,527,380
2	Adjustments for entities that have been consolidated with a view to accounting, but which are not included in the statutory consolidation limits	
3	(Adjustment for current assets entered in the balance sheet pursuant to the current accounts regulations, but left out in the total exposure limits expressed through the gearing ratio pursuant to Article 429 (13) of the regulation (EU) no. 575/2013)	
4	Adjustment for derived financial instruments	24,260
5	Adjustments for security financing transactions (»SFTs«)	
6	Adjustments for off-balance sheet items (i.e. conversion of off-balance sheet exposures to credit equivalent amounts)	5,268,593
EU-6a	(Adjustment for group internal exposures left out of the total exposure limit, expressed as the gearing ratio pursuant to Article 429 (7), in regulation (EU) no. 575/2013)	
EU-6b	(Adjustment for exposures left out of the total exposure limit, expressed as the gearing ratio pursuant to Article 429 (14) of regulation (EU) no. 575/2013)	
7	Other adjustments	-4,191,487
8	**Total exposure limit in terms of the gearing ratio**	21,628,746

Information about gearing ratio

	Balance sheet exposures (excl. derivatives and SFIs)	**Gearing ratio-relevant exposures, cf. CRR**
1	Balance sheet items (excl. derivatives, SFTs and current assets, but incl. security)	16,694,246
2	(The value of the assets deducted at the calculation of core capital)	-402,756
3	**Total balance sheet exposures (except for derivatives, SFTs and current assets (sum of rows 1 and 2)**	16,291,490
	Derivative exposures	
4	Replacement costs in connection with *all* derivative transactions (i.e. with approved variation margin received in cash deducted)	44,140
5	Additional amount for potential future exposure in connection with *all* derivative transactions (market value method)	24,523
EU-5a	Exposure calculated according the original exposure method	
6	Gross-up for security in connection with derivative contracts if deducted in the assets included in the balance sheet pursuant to current accounting rules	
7	(Deduction of assets in the form of claims for variation margin paid cash in connection with derivative contracts)	
8	(Not included CCP-element of customer cleared trade exposures)	
9	Adjusted actual notional value of sold credit derivatives	
10	(Adjusted actual notional value adjustments and deduction of addition for sold credit derivatives)	
11	**Total derivative exposures (sum of rows 4-10)**	68,663
	SFT exposures	
12	Gross assets included in SFTs (without netting), after adjustment for account related transactions regarding sale	
13	(Cash debt and cash claims (netted amounts) originating from gross assets included in SFTs)	
14	Exposure to counterparty credit risk for SFT assets	
EU-14a	Exception for SFTs: Exposure to counterparty credit risk, cf. Article 429b (4), and article 222 of regulation (EU) no. 575/2013	
15	Exposures in connection with agent transactions	
EU-15a	(Non-included CCP element of customer cleared SFT exposure)	
16	**Total exposure to security financing transactions (sum of rows 12-15a)**	

Other off-balance sheet exposures		
17	Off-balance sheet exposures at notional gross value	11,374,501
18	(Adjustments for conversion to the credit equivalent amounts)	-6,105,908
19	**Other off-balance sheet exposures (sum of rows 17 and 18)**	5,268,593
(Balance sheet and off-balance sheet group-internal regulation (individual basis), which in accordance with Article 429 (7) and (14), of regulation (EU) no. 575/2013 are not included)		
EU-19a	(Balance sheet and off-balance sheet group-internal regulation (individual basis), which in accordance with Article 429 (7), of regulation (EU) no. 575/2013 are not included)	
EU-19b	(Balance sheet and off-balance sheet exposures, which in accordance with 429 (14), of regulation (EU) no. 575/2013 are not included)	
Capital exposure and total exposure goal		
20	**Core capital**	2,134,041
21	**Total exposure goal expressed with the gearing (the sum of rows 3, 11, 16, 19, EU-19a and EU-19b)**	21,628,746
Gearing ratio		
22	**Gearing ratio**	9,87%
Choice of transition schemes with indication of amounts of trading items, which are no longer included		
EU-23	Choice of transition schemes for definition of the capital goal	
EU-24	Negotiable items, which pursuant to article 429 (1) of regulation (EU) no. 575/2013 are not included	

Reconciliation between accounting-related assets and gearing ratio-relevant exposures - overview

		Gearing ratio-relevant exposures, cf. CRR
EU-1	Total balance sheet exposures (excl. derivatives, SFTs and exposures not included), viz.:	16,694,246
EU-2	Exposures in the trading portfolio	2,772,168
EU-3	Exposures outside the trading portfolio, viz.:	13,922,078
EU-4	Bonds with special coverage and mortgage bonds with special coverage	
EU-5	Exposures treated as exposures to states	823,046
EU-6	Exposures to regional authorities, multilateral development banks, international organisations and public entities, which are not treated as states	
EU-7	Institutions	81,842
EU-8	Exposures secured in the form of real property	1,923,706
EU-9	Exposure to retail customers	5,247,767
EU-10	Businesses	3,563,903
EU-11	Exposures with arrears or overdraft	705,337
EU-12	Other exposures e.g. share exposure, securitisation and other assets that are not liabilities)	1,576,477

With the purpose of dealing with risk of exaggerated gearing, Nordjyske Bank has fixed procedures and specified methods for identification, management and monitoring of the bank's gearing risk. Furthermore, the Board has determined a threshold value in the bank's restoration plan for the gearing ratio, just as it has been specified what initiatives shall be initiated if the gearing ratio drops to a level below the determined threshold value.

In addition, the bank has prepared a policy for management of exaggerated gearing in which a goal for 3 different gearing goals, vi. The gearing ratio in CRR article 429 and 2 internal alternative gearing goals.

The most significant single item when calculating the bank's gearing ratio is lending, including unutilized credit facilities etc. but also guarantees and the bank's portfolio of securities affect the bank's gearing.

In addition to the 3 gearing ratios, the bank has a number of follow-up the various items that are included in the gearing and will often identify the increasing gearing via these controls long before the increasing gearing is established in the gearing ratio.

Credit-reducing methods, CRR 453

Nordjyske Bank uses neither balance sheet netting nor netting below the line.

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

- Deposit
- Bonds and instruments of debt
- Investment units
- Shares, listed

Securities are used more and more as security. Among other things it is due to investment opportunities while at the same time the bank offers a financing package. Also the more traditional security in the form of an existing holding of securities is to some extent used in the bank.

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

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

The Bank uses guarantees as a credit-reducing method when calculating risk-weighted exposures, i.e. those issued by the EKF (Eksportkreditfonden (Denmark's Export Credit Agency)).

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

As at 31.12.2017 amounts in DKK 1,000	Credit exposure (before security and guarantees)	Value of the security	Guarantees
Exposure to businesses	6,051,959	313,778	100,000
Exposure to retail customers	10,918,729	191,014	11,925
Exposure covered by real property mortgage	4,470,064	84,693	0
Exposures with arrears or overdraft	908,235	7,469	5,716
Risk exposures with a particularly high credit risk	885,871	30,140	0

Nordjyske Bank