

Risk Report



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Risk Report



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.

In the report only the areas are mentioned 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 the present risk report has not been audited.

Scope

The risk report covers the activities in

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All calculations in this report are as at 31.12.15

The Bank owns the entire share capital of A/S Sæbygård Skov. The activities of the subsidiary are, both regarding balance sheet and result, are immaterial in proportion to the bank. Consolidated financial statements therefore have 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.

Risk Report

Aim and Risk Profile, CRR 435 (1), heads a-d

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

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

The market risk is the risk that the market value of the bank's assets and liabilities and derived financial instruments will change as a consequence of changes to the market 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 is a consequence of the bank's business model and credit policy that the bank's risk profile in the credit area shall be appropriately cautious, which results in concrete guidelines for the bank's lending activities.

Among other things this means

- that the bank does not want individual commitments of 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 shall ensure that the bank only takes calculated risks.

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

The bank's credit risk is distributed among a large number of rather small commitments. The unsecured part of individual commitments must not exceed

10 per cent of the bank's adjusted core capital regarding the non-secured share of the exposure.

The sum of large commitments must be below 75 per cent of the bank's core capital.

The sum of large commitments, commitments amounting to more than 10 per cent of the bank's adjusted core capital amounts to 27.5 per cent at the end of 2015.

The total gearing of loans is and has always been moderate. Thus, at the end of 2015 it was 4.1 times the equity.

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

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

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

The value of the security is calculated according to the principle of caution.

Operating equipment :

Calculation of the loan value for operating equipment is made according to the straight-line method. Typically 15-33 per cent will be written-down of the value of the assets on an ongoing basis during the useful life.

Real property :

The loan value of mortgages in private properties is typically at the level of 90 per cent of the market value less higher-ranking mortgages.

The loan value of mortgage in business properties, including agricultural properties, is fixed on the basis of the market value less higher-ranking mortgages. The market value of agricultural properties is fixed on the basis of the Danish Financial Supervisory Authority's market control price per hectare.

The loan value is fixed individually on the basis of the characteristics of the individual properties, among other things location and size, or on the basis of an independent valuation, alternatively an official public property valuation.

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Guarantees :

The loan value for guarantees from Danish public authorities is 100 per cent. Other guarantees are fixed individually .

Deposits and securities :

The loan value for deposits is typically 100 per cent.

For securities, the official price adjusted for estimated price fluctuation and corrected for estimated negotiability, currency, etc., is used as starting point.

Current assets (receivables, stocks, etc.):

The loan value for current assets has been fixed individually on the basis of the realisation value of the current assets.

Other securities:

The loan value is fixed individually.

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

Credit rating is expressed by 12 rating classes which can be grouped as follows:

10, 21, 22, 23	commitments of good quality
31	commitments of normal quality
32, 33	commitments of slightly reduced quality
38	commitments with some weaknesses
39	commitments with material weaknesses, but without a need for write-downs or provisions
41, 42, 50	commitments with objective indication of reduced quality

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

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

Market risks

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

Risks are primarily interest risks.

Most of the bank's lending and deposits and accounts with other credit institutions have 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 0.1 per cent of the bank's core capital after deduction at the end of 2015.

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 2015 the bank's currency risk (indicator 2) amounted to DKK 0.1 million.

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

The bank's holding of listed shares amounted to more than DKK 31 million – or 1 per cent of the bank's equity at the end of 2015.

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.

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At the end of 2015, the holding of investment properties amounted to DKK 74 million, or 3 per cent of the bank's equity.

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

Liquidity risks

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

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

- deposits from customers
- equity
- long-term senior loans and allocated lines

At the end of 2015, the bank's deposits from customers and equity amounted to 164 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 which are regarded as originating from operational risks.

IT supplies, the most important area when assessing the bank's operational risks, have been outsourced to Bankdata, which is owned by the bank jointly with a number of other financial institutions. IT security is assessed on an ongoing basis, and the necessary adjustments are made to the bank's emergency plans.

It is the bank's policy – based on determined events – to improve business procedures on an ongoing basis with a view to reducing the number of errors and events which entail a possibility of suffering a loss.

Risk Report

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

The bank's Board and Directors and Executive Board have approved the risk report for 2015 on 10 February 2016.

It is the opinion of the Board of Directors that the bank's risk management systems are sufficient and provides 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, the risk responsible and compliance responsible persons, and on the basis of received supplementary information or reports.

A review of 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 policies 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 cooperator 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 a capital adequacy objective of minimum 16 per cent. Currently it amounts to 14.1 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 supervision diamond, cf. the blow table, which partly shows the maximum allowed marginal values of the supervision diamond, and the bank's current figures for various marginal values.

	Supervision Diamond	The bank's performance as at 31.12.2015
Growth in lending	20 %	95.1% *
Large commitments	125%	27.5%
Excess liquidity solvency	> 50%	142.0%
Funding ratio	< 1	0.60
Property exposure	< 25%	12,4%

*Pro forma calculation for the merged bank – Nordjyske Bank and Nørresundy Bank – shows a growth in lending of -0.5 per cent compared with 31.12.2014.

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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, Hans Jørgen Kaptain	26 other directorships
Per Lykkegaard Christensen	8 other directorships
Morten Jensen	34 other directorships
Poul Søe Jeppesen	7 other directorships
Henrik Lintner	1 other directorship
Sten Uggerhøj	15 other directorships
John Chr. Aasted	7 other directorships
Hanne Karlshøj	No other directorships
Helle Rørbæk 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 of directors has prepared a competence profile for the Board of Directors, which is described in the latest Annual Report. 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 37.

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 holds a minimum of 2 meetings per year.

Risk Report

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 31.12.2015
amounts in DKK 1,000

Actual core capital

Share capital	183,645	
Revaluation reserves	33,680	
Other reserves	3,303	
Profit or loss carried forward	<u>2,396,606</u>	2,617,234

Deductions:

Suggested dividend	44,075	
Intangible assets	477,079	
Non-significant investments in units in the financial sector	329,687	
Conservative valuation	3,930	
Other deductions	13,922	
		<u>868,693</u>

Core capital after deductions

1,748,541

Additional capital

270,729

Core capital

2,019,270

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, heads a and b is published each quarter in the bank's solvency report.

Risk Report

As at 31.12.2015
amounts in DKK 1,000

Risk exposure per exposure class, CRR 438, head c

The bank uses the standard method for credit risk to calculate total risk exposure

	Risk exposure	Cap. requirem. 8% of the exposure)
Exposures to public entities	980	78
Exposures to institutes	34,241	2,739
Exposures to businesses	3,515,845	281,267
Exposures to retail customers	4,511,046	360,884
Exposure secured by real property mortgage	732,586	58,607
Exposures with arrears or overdraft	1,164,139	93,131
Share exposures	250,657	20,053
Other items	472,845	37,828
Risk exposures with credit risk, total	10,682,339	854,587

Reporting of risk exposures with market risk, CRR 438, head e and CRR 445

Items with position risk (shares, debt instruments)	490,803	39,264
Exchange rate risks	10,030	802
Risk exposures with market risk, total	500,833	40,066

Reporting of operational risk, CRR 438, head f and CRR 446

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

Operational risk	1,179,111	94,329
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Reporting of credit valuation adjustment for counterparts - CVA, CRR 384

The bank uses the standard method to calculate the capital adequacy requirement for credit valuation adjustment of counterparts.

CVA	26,494	2,120
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Thus the total risk exposures can be calculated as follows:

Credit risk	10,682,339	854,587
Market risk	500,833	40,066
Operational risk	1,179,111	94,329
CVA	26,494	2,120
Total risk exposure	12,388,777	991,102

Exposure to counterparty risk, CRR 439

Method, CRR 439, head 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. Swaps based on two variable rates of interest in the same currency are excepted as only the current replacement cost is to be calculated.
- The sum of the current replacement costs and the potential future credit exposures 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 for coverage of the counterparty risk in excess of what is 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, head b

Concerning 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, heads e and f

As at 31.12.2015
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 pct.	0	0
Counterparty with risk weight of 20 pct.	27,889	5,578
Counterparty with risk weight of 50 pct.	3,781	1,890
Counterparty with risk weight of 75 pct.	7,719	4,800
Counterparty with risk weight of 100 pct.	59,527	56,061
Counterparty with risk weight of 150 pct.	270	406
	<u>99,186</u>	<u>68,735</u>

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 DKK 26,494,000.

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 heads a and b

Receivables with credit institutions and central banks as well as lending are valued 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 which are not genuine purchase and repurchase transactions, are subsequently valued 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 valued 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. As discount factor the agreed effective interest rate of the individual loan is used.

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 the 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 21,309 mill as at 31.12.2015.

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

As at 31.12.2015
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	928,334	1,508,310
Exposure to regional or local authorities	98	1,430
Exposure to public entities	10	10
Exposure to institutions	107,932	174,379
Exposure to businesses	5,633,272	5,246,534
Exposure to retail customers	10,588,320	10,786,916
Exposures secured by real property mortgage	2,112,783	1,930,163
Exposures with arrears or overdraft	1,115,177	1,249,982
Share exposures	250,657	236,090
Other items	572,514	544,476
	<u>21,309,097</u>	<u>21,678,290</u>

Geographical distribution of the exposures, CRR 442, head d

The bank's primary market area is North Jutland and the bank has 96,6% of its exposures in Denmark, which is the reason why a geographical specification has been left out.

Industrial distribution per exposure class, CRR 442, head e

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

As at 31.12.2015	Central governments or central banks	Regional or local authorities	Public entities	Institutions	Businesses	Retail exposures	Real property mortgage	Exposures with arrears or overdraft	Share exposures	Other items	Total
amounts in DKK 1,000											
Public authorities		98				95					193
Farming, hunting, forestry and fishing					1,330,104	587,179	69,092	471,338			2,457,713
Industry and extraction of raw materials					481,056	246,835	42,237	4,519			774,647
Energy supply					12,698	35,115	2,950	19,761			70,524
Building and construction					365,911	347,218	61,548	52,959			827,636
Trade					516,824	577,172	67,695	107,585			1,269,276
Transport, hotels and restaurants					90,161	366,045	30,422	28,942			515,570
Information and communication					1,572	74,026	7,358	2,446			85,402
Financing and insurance	928,334			107,932	680,155	88,636	227,160	3,966		572,514	2,608,697
Real property					1,555,217	614,980	186,846	220,281			2,577,324
Other industries			10		213,323	745,709	88,380	19,810	250,657		1,317,889
Industries, total	928,334	98	10	107,932	5,247,021	3,683,010	783,688	931,607	250,657	572,514	12,504,871
Private					386,251	6,905,310	1,329,095	183,570			8,804,226
Total	928,334	98	10	107,932	5,633,272	10,588,320	2,112,783	1,115,177	250,657	572,514	21,309,097

Risk Report

As at 31.12.2015
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	Of this exposures to SMC amount to
Exposure to central governments or central banks	928,334	
Exposure to regional or local authorities	98	
Exposure to public entities	10	
Exposure to institutions	107,932	
Exposure to businesses	5,633,272	631,848
Exposure to retail customers	10,588,320	2,979,163
Exposures secured by real property mortgage	2,112,783	261,304
Exposures with arrears or overdraft	1,115,177	
Share exposures	250,657	
Other items	572,514	
	<u>21,309,097</u>	<u>3,872,315</u>

Distribution of exposure relative to remaining term, CRR 442, head f

As at 31.12.2015 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	250,206	678,128				928,334
Regional or local authorities			98			98
Public entities			10			10
Institutions	74,338	31,670	194		1,730	107,932
Businesses	1,116,158	227,441	3,456,551	347,284	485,838	5,633,272
Retail customers	3,089,537	468,317	2,451,626	1,641,046	2,937,794	10,588,320
Mortgage in real property	126,655	25,899	250,789	224,644	1,484,796	2,112,783
Non-performed	111,585	115,588	585,529	122,822	179,653	1,115,177
Shares				250,657		250,657
Other items	569,175		3,339			572,514
Total	5,337,654	1,547,043	6,748,136	2,586,453	5,089,811	21,309,097

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.

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

As at 31.12.2015 amounts in DKK 1,000	Non-performed and value-reduced receivables (Individually)	Write-downs /provisions at the end of the year (Individually)	Amounts charged to revenue re. value-reductions and write-downs*
Public authorities			
Farming, hunting, forestry and fishing	857,935	388,103	164,210
Industry and extraction of raw materials	11,103	5,684	3,969
Energy supply	22,376	1,921	1,970
Building and construction	59,018	11,100	7,625
Trade	86,434	21,064	11,085
Transport, hotels and restaurants	51,743	21,548	11,488
Information and communication	3,998	1,583	-516
Financing and insurance	6,596	2,402	85
Real property	313,979	108,654	58,624
Other industries	120,996	65,774	8,219
Business, total	1,534,178	627,833	266,759
Private	304,207	189,622	86,595
Total	1,838,385	817,455	353,354

As at 31.12.2015 amounts in DKK 1,000	Value-reduced receivables (Group based)	Write-downs /provisions at the end of the year (Group based)	Umounts charged to revenue re. value-red. and write-downs*
Public authorities	102	0	
Industries	5,474,998	31,331	
Private	4,266,274	913	
Total valued by group	9,741,374	32,244	4,402

the final lost amount.

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

Since the bank has 96.6% of its exposures in Denmark a geographical specification has been left out

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

As at 31.12.2015

	Lending	Guarantees
Individual write-downs		
Write-downs, start of the year	630,847	4,770
Write-downs, during the year	352,287	3,874
Reversal of write-downs made during previous financial years	45,895	2,678
Other movements	40,595	0
Final loss, previously written down individually	166,345	0
Write-downs, end of the year	811,489	5,966
Group-based write-downs		
Write-downs, start of the year	26,704	1,138
Write-downs, during the year	16,208	77
Reversal of write-downs made during previous financial years	11,883	
Write-downs, end of the year	31,029	1,215
Final loss (written down), not previously written down individually	5,172	
Received from previously written down receivables	10,084	

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 lendings. At the end of 2015 these amount to DKK 267,237,000.

Charged and free assets, CRR 443

As at 31.12.15 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 assests	88,388		18,571,635	
030	Share instruments			2,085,820	2,085,820
040	Debt instruments	88,388	88,388	3,645,931	3,645,931
120	Other assets			982,974	

Risk Report

Using a credit rating agency, CRR 444

The bank uses Bankdata as data center, 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 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
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 under	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	4,901	769
Exposure to institutions	102,924	34,123

Risk Report

Market risk, CRR 445

As at 31.12.2015 amounts in DKK 1,000	Risk exposure	Capital requ. (8% of exp.)
Capital adequacy concerning market risk:		
Items with position risk	490,803	39,264
Foreign exchange exposure	10,030	802
	<hr/>	<hr/>
	500,833	40,066
	<hr/>	<hr/>
Calculation of capital adequacy of CVA	26,494	2,120

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 115 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 2015 the operational risk amounts to 9.5 pct. of the total risk exposure, corresponding to DKK 1,179,111,000. At the end of 2015, amounting to capital requirement of DKK 94,329,000.

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 acquired as part of our support to business in the local area.

As at 31.12.2015
amounts in DKK 1,000

Book value

Holding of shares, etc.

Shares in the trading portfolio	
- listed shares	31,456
Unlisted shares, etc., at market value:	
- sector shares	545,954
- other unlisted shares	193
Other capital shares	3,247
Outside the trading portfolio, total	549,394
Shares, etc., total	580,850

Shares outside the trading portfolio sector shares

Portfolio start of the year	236,735
Addition from purchase	419
Addition from reclassification	278,530
Unrealised profit/loss	35,765
Realised profit/loss	1,677
Reduction from sale	7,172
Portfolio end of the year	545,954

As a consequence of the fact that unrealised 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 with DKK 55 million.

Interest risk, CRR 448

As at 31 December 2015 the bank's total interest risk amounted DKK 1,329,000, distributed as follows amounts in DKK 1,000

Interest risk for positions in the trading portfolio:		
Securities	9,498	
Futures, forward transactions for FRAs	3,146	
Swaps	0	12,644
	<hr/>	
Interest risk for positions outside the trading portfolio:		
Balance sheet items		
i.e. lending and receivables and deposits and debts		4,957
Position with limited or covered interest risk		-16,272
		<hr/>
		-11,315
Total interest risk		1,329
Including		
- positions in Danish kroner	-1,900	
- positions in foreign currencies	3,229	

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 2015 the interest risk outside the trading portfolio amounted to DKK 11,315,000.

Risk Report

Remuneration policy, CRR 450

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 holds at least two meetings per year.

The remuneration committee consists of all members of the Board of Directors.

Mads Hvolby is chairman of the committee and Hans Jørgen Kaptain 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. This means that the remuneration does not include any type of incentive pay.

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

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

	Fixed salary DKK 1,000
Board of Directors	3.656
Executive board	9.321
Other material risk takers	7.023

*Remuneration of the management of Nørresundby Bank in March 2015, where the bank's subsidiary is included in the figures.

In addition refer to pages 39-44 and 70-71 of the annual report.

It can be further informed that

- Only cash remuneration is used (with the exception of company car etc.)
- No severance pay has been paid to leading employees and risk takers. However, severance pay has been paid to 2 members of the board who resigned from Nørresundby Bank.
- No persons in the bank has received remuneration exceeding EUR 1 mill. during the financial year.

Gearing, CRR 451

Nordjyske Bank calculates the gearing rate as core capital in relation to the total exposure calculated pursuant to EU/2015/62 of 10 October 2014 and EU/2013/575 of 26 June 2013. All the bank's exposures, also including items not listed in the balance sheet, shall basically be fully included in the calculation of the total exposure. However, unused credit facilities which may be terminated without conditions and without notice may be included with a conversion weight of 10 pct., cf. CRR section 429 (10).

At the present time no requirement of maximal gearing has been fixed, but the decision to that effect must be taken under the auspices of the EU no later than in 2016.

For the time being indicative gearing requirement of 3 pct., corresponding to maximum gearing at 33 times the core capital has been reported.

The bank's gearing rate is calculated at 9.0% as at 31.12.2015, corresponding to gearing at 11 times the core capital

Monitoring of the gearing rate is part of the bank's ongoing risk monitoring and is reported to the board of directors on an ongoing basis.

The board of directors is responsible for following the development in the bank's risk of excessive gearing. If the bank's gearing rate gets below a limit set by the board of 5.5%, the management shall immediately inform the board of directors.

The merger with Nørresundby Bank and the development in lending has had significant

influence on the bank's gearing rate.

As at 31.12.2015
amounts in DKK 1,000

Total assets, cf. the annual report	18,660,024
Derivatives (book value)	-69,118
Derivatives (Counterparty risk)	99,187
Contingent liabilities, cf. the annual report	3,280,329
Unutilised credit facilities etc.	5,344,848
Deduction due to unutilised credit facilities with conversion weight of 10 pct.	-4,464,657
Excess write-downs and provisions upon solvency calculation	11,905
Amortising of fees conc. loans	33,486
Bonds, cf. the annual report	-2,556,847
Receivable interest on bonds	-2,622
Receivables from credit institutions treated as bonds	-5,001
Shares belonging to the trade portfolio	-31,650
Shares belonging to pooled schemes, cf. the annual report	-2,668,273
Exposure value for market risk (shares, debt instruments, currency exchange risk)	2,631,347
Deductions in the core capital	
Intangible shares	-477,079
Not material investments in entities in the financial sector	-329,687
Total exposure for coalculation of the gearing rate	19,456,192
Core capital with full integration of CRR-rules	1,748,541
Gearing rate with full integration of CRR-rules	9.0%

Risk Report

Credit-reducing methods, CRR 453

Nordjyske Bank uses neither balance sheet netting or netting below the line.

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

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

Securities are 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 table below shows the total exposures covered by financial securities and guarantees and credit derivatives

As at 31.12.2015 amounts in DKK 1,000	Credit exposure (before security and guarantees)	Value of the security	Guarantees
Exposure to businesses	5,633,273	449,510	0
Retail customers	10,588,320	231,987	11,175
Exposure covered by real property mortgage	2,112,783	30,089	0
Exposures with arrears or overdraft	1,115,177	3,227	12,196