



Risk Report

Contents – Risk Report 2016

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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 this 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 31.12.16

The Bank owns the entire share capital of A/S Sæbygård Skov. The activities of the subsidiary, 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 act on financial activities.

Risk Report

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

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 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.

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 of commitments exceeding 10 per cent after deduction of the bank's core capital shall be below 75 per cent of the bank's core capital.

The sum commitments amounting to more than 10 per cent after deduction of the bank's core capital amounts to 36.0 per cent at the end of 2016.

The total gearing of loans is and has always been moderate. Thus, at the end of 2016 it was 3.9 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 and according to the following principles.

Operating equipment:

Calculation of the loan value for operating equipment is made according to the straight-line method. Typically, 15-33 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.

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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.

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 10 rating classes which can be grouped as follows:

10, 22	commitments of undoubtedly 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 objective need for write-downs or provisions
41, 42, 50	commitments 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 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 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 0.1 per cent of the bank's core capital after deductions at the end of 2016.

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 2016 the bank's currency risk (indicator 2) amounted to DKK 0 million.

Risk Report

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 DKK 1.3 million – or 0.5 per cent of the bank's equity at the end of 2016.

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 2016, the holding of investment properties amounted to DKK 62 million, or 2 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 2016, the bank's deposits from customers and equity amounted to 172 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.

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 2016 on 8 February 2017.

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 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 15.5 per cent at the end of the strategy period in 2018. Currently it amounts to 14.4 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 blow 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 31.12.2016
Growth in lending	20%	0.9%
Large commitments	125%	36.0%
Excess liquidity solvency	> 50%	150.9%
Funding ratio	< 1	0.57
Property exposure	< 25%	11.4%

Risk Report

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	24 other directorships
Per Lykkegaard Christensen	8 other directorships
Morten Jensen	34 other directorships
Poul Sæe Jeppesen	7 other directorships
Henrik Lintner	1 other directorship
Sten Uggerhøj	15 other directorships
John Chr. Aasted	5 other directorships
Hanne Karlshøj	No other directorships
Helle Juul Lyngø	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 34.

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 31.12.2016
amounts in DKK 1,000

Actual core capital

Share capital	183,645	
Revaluation reserves	18,216	
Other reserves	3,275	
Profit or loss carried forward	2,552,909	
		2,758,045
Deductions:		
Suggested dividend	7,458	
Intangible assets	419,940	
Non-significant investments in units in the financial sector	311,910	
Conservative valuation	4,478	
Other deductions	16,158	
		825,944
Actual core capital after deductions		1,932,101
Additional capital		271,754
Deduction:		
Non-material investments in units in the financial sector		2,920
Core capital		<u>2,200,935</u>

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 31.12.2016
amounts in DKK 1,000

Risk exposure per exposure class, CRR 438, head c

	Risk exposure	Capital requirem. 8% of the exposure)
Exposures to public entities	1,608	129
Exposures to institutes	32,507	2,601
Exposures to businesses	3,583,295	286,664
Exposures to retail customers	4,705,073	376,406
Exposure secured by real property mortgage	1,019,276	81,542
Exposures with arrears or overdraft	1,007,752	80,620
Risk exposures with particularly high credit risk	393,411	31,473
Share exposures	275,130	22,010
Other items	369,954	29,596
Risk exposures with credit risk, total	11,388,006	911,041

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

Items with position risk (shares, debt instruments)	542,671	43,414
Exchange rate risks	7,929	634
Risk exposures with market risk, total	550,600	44,048

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	1,490,922	119,274
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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	23,205	1,856
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Thus, the total risk exposures can be calculated as follows:

Credit risk	11,388,006	911,041
Market risk	550,600	44,048
Operational risk	1,490,922	119,274
CVA	23,205	1,856
Total risk exposure	13,452,733	1,076,219

Risk Report

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 to cover 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

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, heads e and f

**As at 31.12.2016
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.	28,551	5,710
Counterparty with risk weight of 50 pct.	2,710	1,355
Counterparty with risk weight of 75 pct.	11,671	7,186
Counterparty with risk weight of 100 pct.	44,975	256
Counterparty with risk weight of 150 pct.	170	256
	88,077	14,763

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 23,205,000.

Risk Report

Counter-cyclical capital buffer, CCR 440

In the light of the financial crisis and the pro-cyclical mechanisms that contributed to its start and intensified its effect, requirements for a counter-cyclical 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 has exposures both in Denmark and abroad. The bank's total foreign credit exposures amount to 3.6% of the bank's total credit exposures. The bank's foreign credit exposures are distributed on 2.8% in Slovakia and 0.8% distributed on more than 50 countries.

Slovakia has no fixed counter-cyclical capital buffer rate which has the effect that the bank shall not calculate an individual counter-cyclical capital buffer for it.

The bank's other foreign credit exposures are distributed on many countries, where only Norway and Sweden have a fixed counter-cyclical capital buffer rate. Based on the size of the capital exposures, no individual counter-cyclical capital buffer shall be calculated for these countries.

The current Danish counter-cyclical buffer rate amounts to 0%, which has the effect that the bank shall not calculate an individual counter-cyclical capital buffer for the Danish credit exposures.

Nordjyske Bank does not have a counter-cyclical capital buffer.

Risk Report

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 that 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. 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 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 22,913 mill as at 31.12.2016.

Risk Report

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

As at 31.12.2016 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	964,525	958,197
Exposure to regional or local authorities	3,000	4,886
Exposure to public entities	64	24
Exposure to institutions	134,004	284,371
Exposure to businesses	5,532,526	5,848,915
Exposure to retail customers	10,934,329	10,719,700
Exposures secured by real property mortgage	2,952,475	2,584,117
Exposures with arrears or overdraft	949,045	1,029,717
Risk exposures with a particularly high credit risk	721,281	180,320
Exposures in the form of parts or shares in CIUs	0	10,440
Share exposures	275,130	262,881
Other items	446,595	521,959
	22,912,974	22,405,527

Geographical distribution of the exposures, CRR 442, head d

The bank's primary market area is North Jutland and the bank has 97.0% of its exposures in Denmark, which is the reason why a geographical specification has been left out..

Risk Report

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 31.12.2016 amounts in DKK 1,000.	Central government s or central banks	Regional or local authorities	Public entities	Insti- tutions	Businesses	Retail exposures	Real property mortgage	Exposures with arrears or overdraft	Risk exposures with a particularly high credit risk	Share ex- posures	Other items	Total
Public authorities		3,000				90						3,090
Farming, hunting, forestry and fishing					1,452,204	577,496	119,819	507,733				2,657,252
Industry and extraction of raw materials					433,973	251,936	69,525	7,208				762,642
Energy supply					31,415	144,365	3,984	17,467				197,231
Building and construction					310,793	354,073	96,087	42,634	435,014			1,238,601
Trade					677,272	576,291	74,697	56,021				1,384,281
Transport, hotels and restaurants					170,855	199,375	54,733	17,131				442,094
Information and communication					186	81,193	10,402	2,154				93,935
Financing and insurance	964,525			134,004	610,464	208,633	601,519	2,625			446,595	2,968,365
Real property					1,157,941	629,199	225,179	116,031	261,268			2,389,618
Other industries			64		318,080	924,841	104,083	30,453		275,130		1,652,651
Industries, total	964,525	3,000	64	134,004	5,163,183	3,947,492	1,360,028	799,457	696,282	275,130	446,595	13,789,760
Private					369,342	6,986,837	1,592,447	149,588	25,000			9,123,214
Total	964,525	3,000	64	134,004	5,532,525	10,934,329	2,952,475	949,045	721,282	275,130	446,595	22,912,974

Risk Report

As at 31.12.2016
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	964,525	
Exposure to regional or local authorities	3,000	
Exposure to public entities	64	
Exposure to institutions	134,004	
Exposure to businesses	5,532,526	538,023
Exposure to retail customers	10,934,329	3,059,208
Exposures secured by real property mortgage	2,952,475	310,952
Exposures with arrears or overdraft	949,045	
Risk exposures with particularly high credit risk	721,281	
Share exposures	275,130	
Other items	446,595	
	22,912,974	3,908,183

Risk Report

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

As at 31.12.2016 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	274,438	690,087				964,525
Regional or local authorities	3,000					3,000
Public entities	54		10			64
Institutions	74,905	31,261	24,205		3,633	134,004
Businesses	1,227,209	128,825	3,253,049	381,892	541,551	5,532,526
Retail customers	3,101,394	499,197	2,677,557	1,574,861	3,081,320	10,934,329
Mortgage in real property	105,809	52,408	274,039	226,468	2,293,751	2,952,475
Non-performed	107,693	40,145	516,803	96,530	187,874	949,045
Particularly high risk	900	88,161	613,865	18,355		721,281
Shares					275,130	275,130
Other items	446,191		404			446,595
Total	5,341,593	1,530,084	7,359,932	2,298,106	6,383,259	22,912,974

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.

Risk Report

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

As at 31.12.2016 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	967,195	496,186	139,071
Industry and extraction of raw materials	18,825	11,443	6,301
Energy supply	24,103	4,401	2,480
Building and construction	64,399	17,415	10,082
Trade	101,047	48,308	11,133
Transport, hotels and restaurants	55,285	37,484	16,020
Information and communication	5,314	3,631	2,480
Financing and insurance	68,845	56,101	11,734
Real property	196,734	91,766	25,039
Other industries	67,212	38,643	11,417
Business, total	1,568,959	805,378	235,757
Private	262,240	175,574	54,316
Total	1,831,199	980,952	290,073

As at 31.12.2016 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-red. and write-downs*
Public authorities	0	0	
Industries	5,657,934	37,390	
Private	4,335,744	5,179	
Total valuated by group	9,993,678	42,569	10,325

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

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

Since the bank has 97% of its exposures in Denmark a geographical specification has been left out.

Risk Report

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

As at 31.12.2016 amounts in DKK 1,000	Lending	Guarantee
Individual write-downs		
Write-downs, start of the year	811,489	5,966
Write-downs, during the year	328,283	11,946
Reversal of write-downs made during previous financial years	96,787	2,189
Other movements	40,964	0
Final loss, previously written down individually	118,720	0
Write-downs, end of the year	965,229	15,723
Group-based write-downs		
Write-downs, start of the year	31,029	1,215
Write-downs, during the year	18,389	586
Reversal of write-downs made during previous financial years	8,650	
Write-downs, end of the year	40,768	1,801
Final loss (written down), not previously written down individually	7,856	
Received from previously written down receivables	15,235	

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 2016, these amount to DKK 179,852,000.

Risk Report

Charged and free assets, CRR 443

As at 31.12.2016 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	10,970		19,432,644	
030	Share instruments			2,406,012	2,406,012
040	Debt instruments			4,203,208	4,203,208
120	Other assets	10,970		872,819	

As at 31.12.2016 amounts in DKK 1,000		Corresponding liabilities, contingent liabilities or lent securities	Assets, received guarantee and won issued instruments of debt except charged covered bonds and ABSes
		010	030
010	Book value of selected financial obligations	33,959	10,970

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 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 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	8,039	1,606
Exposure to institutions	112,413	11,978

Risk Report

Market risk, CRR 445

As at 31.12.2016 amounts in DKK 1,000	Risk exposure	Capital requ. (8% of exp.)
Capital adequacy concerning market risk:		
Items with position risk	542,671	43,414
Foreign exchange exposure	7,929	634
	550,600	44,048
Calculation of capital adequacy of CVA	23,205	1,856

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 2016 the operational risk amounts to 11 pct. of the total risk exposure, corresponding to DKK 1,490,922,000. At the end of 2015, amounting to capital requirement of DKK amounting to capital requirement of DKK 119,274,000.

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

Risk Report

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 31.12.2016
amounts in DKK 1,000**

Book value

Holding of shares, etc.

Shares in the trading portfolio

- listed shares

13,156

Unlisted shares, etc., at market value:

- sector shares

552,419

- other unlisted shares

13,215

Other capital shares

590

Outside the trading portfolio, total

566,224

Shares, etc., total

579,380

Shares outside the trading portfolio sector shares

Portfolio start of the year

549,201

Addition from purchase

20,874

Unrealised profit/loss

13,710

Realised profit/loss

1,513

Reduction from sale

19,074

Portfolio end of the year

566,224

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 with DKK 57 million.

Risk Report

Interest risk, CRR 448

As at 31 December 2016 the bank's total interest risk amounted DKK 18,603,000, that be distributed as follows, amounts in DKK 1,000

Interest risk for positions in the trading portfolio:		
Securities	10,390	
Futures, forward transactions for FRAs	12,013	22,403
Interest risk for positions outside the trading portfolio:		
Balance sheet items, i.e. lending and receivables and deposits and debts		11,545
Position with limited or covered interest risk		-15,345
		-3,800
Total interest risk		18,603
Distributed as:		
- positions in Danish kroner	16,084	
- positions in foreign currencies	2,519	

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 2016 the interest risk outside the trading portfolio amounted to DKK. -3,800,000.

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	3,194
Executive board	8,890
Other material risk takers	8,084

In addition, refer to pages 36-41 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.
- No persons in the bank has received remuneration exceeding EUR 1 mill. during the financial year.

Risk Report

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.

Nordjyske Bank complies with this requirement, since Nordjyske Bank's gearing ratio at the end of 2016 has been calculated at 9.4%, corresponding to maximum gearing of 10.6 times the core capital.

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.

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

		Gældende beløb
1	Total assets, cf. the published annual accounts	19,443,615
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 expresses through the gearing ratio pursuant to Article 429 (13) of the regulation (EU) n. 575/2013)	
4	Adjustment for derived financial instruments	27,985
5	Adjustments for security financing transactions («SFTs»)	
6	Adjustments for items not included in the balance sheet (i.e. conversion of exposures not included in the balance sheet to amounts credit equivalent amounts)	4,630,415
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	-3,576,598
8	Total exposure limit in terms of the gearing ratio	2,525,417

Risk Report

Information about gearing ratio

Exposures included in the balance sheet (excl. derivatives and SFIs)		Gearingsgradrelevante eksponeringer, jf. CRR
1	Items included in the balance sheet (excl. derivatives, SFTs and current assets, but incl. security)	16,226,863
2	(The value of the assets deducted at the calculation of core capital)	-419,939
3	Total exposures included in the balance sheet (except for derivatives, SFTs and current assets (sum of rows 1 and 2))	15,806,924
Derivative exposures		
4	Replacement costs in connection with <i>all</i> derivative transactions (i.e. with approved variation margin received in cash deducted)	59,598
5	Additional amount for potential future exposure in connection with <i>all</i> derivative transactions (market value method)	28,480
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 (The sum of the rows 4-10)	88,078
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 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	

Risk Report

EU-15a	(non-included CCP element of customer cleared SFT exposure)	
16	Total exposure to security financing transactions (the sum of the rows 12-15a)	
Other on-balance sheet exposures		
17	Off-balance sheet exposures at notional gross value	10,215,283
18	(Adjustments for conversion to credit equivalent amounts)	-5,584,868
19	Other off-balance sheet exposures (the sum of rows 17 and 18)	4,630,415
(On-balance sheet and off-balance sheet exposures, which in accordance with Article 429 (7) and (14), of regulation (EU) no. 575/2013 are not included)		
EU-19a	(On-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	(On-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	1,932,101
21	Total exposure goal expressed with the gearing (the sum of rows 3, 11, 16, 19, EU-19a and EU-19b)	20,525,417
Gearing ratio		
22	Gearing ratio	9.41%
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	

Risk Report

Balancing accounting related assets and gearing ratio relevant exposures – overview

		Gearing ratio relevant exposures, cf. CRR
EU-1	Total on-balance exposures (excl. derivatives, SFTs and exposures not included), viz.:	16,226,863
EU-2	Exposures in the trading portfolio	3,168,816
EU-3	Exposures outside the trading portfolio, viz.:	13,058,047
EU-4	Bonds with special coverage and mortgage bonds with special coverage	
EU-5	Exposures treated as exposures to states	964,579
EU-6	Exposures to regional authorities, multilateral development banks, international organisations and public entities, which are <u>not</u> treated as states	
EU-7	Institutions	69,266
EU-8	Exposures for which are secured in the form of real property	1,012,399
EU-9	Exposures to retail	5,283,474
EU-10	Companies	3,370,822
EU-11	Exposures to non-performance	820,863
EU-12	Other exposures e.g. share exposure, securitisation and other assets that are not liabilities)	1,536,644

With the purpose of counter the risk for 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.

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 31.12.2016 amounts in DKK 1,000	Credit exposure (before security and guarantees)	Value of the security	Guarantees
Exposure to businesses	5,532,525	346,939	104,513
Retail customers	10,934,329	200,971	8,059
Exposure covered by real property mortgage	2,952,475	53,535	0
Exposures with arrears or overdraft	949,045	8,698	21,796
Exposures with a particularly high credit risk	721,281	7,055	144,691