Risk Report

2014

Risk Report

Nordjyske Bank

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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

Nordjyske Bank A/S
CVR-No. 30 82 87 12.

The Bank owns the entire share capital of A/S Sæbygård Skov. The activities of the subsidiary are, both regarding balance sheet and result, 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 in the Financial Activities Act.

Risk Report

Aim and Risk Profile

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 mans 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.

In the bank's business model there is a fixed maximum gearing (lending/equity) of 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 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 core capital.

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 core capital after deductions amounts to a total of 11.1 per cent of the bank's core capital after deduction at the end of 2014.

The total gearing of loans is and has always been moderate. Thus, at the end of 2014 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 following principles :

Operating equipment :
Calculation of the loan value for operating equipment is made according to the straight-line method. Typically 20-33 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 80 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,

Guarantees :
The loan value for guarantees from Danish public authorities is 100 per cent. Other guarantees are fixed individually on the basis of a principle of caution .
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 .
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 on the basis of a principle of caution .

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 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 0.4 per cent of the bank’s core capital after deduction at the end of 2014.

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 2012 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 2 per cent of the bank’s equity at the end of 2014.

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 2014, the holding of investment properties amounted to DKK 34 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 and possibly long-term senior loans and allocated lines

At the end of 2013, the bank's deposits from customers and equity amounted to 157 per cent of the total loan portfolio. Add to this possible rights of disposal which can be initiated on demand in case of a liquidity crisis in the form of unutilised confirmed credit undertakings of a total value of DKK 400 million.

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 risk.

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 2014 on 10 February 2015.

It is the opinion of the Board of Directors that the bank's risk management systems 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 complete, relevant and adequate 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 fully and adequately are 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 authorizations show,
- that the fixed limits in each individual policy are fully and adequately expressed in the underlying guidelines to the management and forwarded authorizations,
- 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 19.6 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 2014
Growth in lending	20 %	- 1 %
Large commitments	125 %	11,1 %
Excess liquidity solvency	> 50 %	173,9 %
Funding ratio	< 1	0,64
Property exposure	< 25 %	6,5 %

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 og other directorships:

The chairman of the board, Hans Jørgen Kaptain	27 other directorships
The deputy chairman of the board, Sten Uggerhøj	13 other directorships
Erik Broholm Andersen	1 other directorship
Per Lykkegaard Christensen	8 other directorships
Tina Conradsen	No other directorships
Hanne Karlshøj	No other directorships
Ole Kristensen	4 other directorships
Henrik Lintner	2 other directorships
Helle Emborg Nielsen	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.

Based on recommendation from the Nomination Committee the Board of Directors has approved a policy of diversity pursuant toe 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 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 has held 7 meetings in 2014, 5 meetings of which are extraordinary meetings concerning merger with Nørresundby Bank.

Risk Report

Core capital

As at 31.12.2014 amounts in DKK 1,000		
Actual core capital		
Share capital	77,200	
Revaluation reserves (Other total income)	25,443	
Profit or loss carried forward	1,318,648	
Actual core capital, total		**1,421,291**
Primary deductions from core capital		
Suggested dividend	23,160	
Own shares cf. section 36 (1), head f, in CRR regulation no. 575/2013	26,436	
Intangible assets	9,984	
Deferred activated tax assets	0	
Primary deductions from core capital, total		59,580
Core capital after primary deductions		**1,361,711**
Hybrid core capital		0
Core capital inclusive of hybrid core capital after primary deductions		**1,361,711**
Other deductions		
Non-significant investments in the financial sector pursuant to CRR regulation no. 575/2013 section 46	109,491	
Other deductions, total		109,491
Core capital after deductions		**1,252,220**
Additional capital		
Employee bonds		
Principal amount DKK 2,838,000.		
Original term 5 years		
Redeemed 2 January 2015		
Interst rate 3% p.a.		
Included in calculation of core capital		284
Core capital before deductions		**1,252,504**
Deductions from core capital		**0**
Core capital after deductions		**1,252,504**

The bank's capital adequacy percentage, calculated on core capital after deductions amounted at the end of 2015 to 19.6 per cent of the weighted item of a total of DKK 6,399 million.

The core capital percentage amounts to 19.6 per cent.

Risk Report

Capital adequacy and sufficient core capital

According to the stipulations in the CRR regulation, the Board of Directors and the Executive Board must ensure that the bank has sufficient core capital. Furthermore, the Board of Directors and the Executive Board must calculate the bank's individual capital adequacy requirement.

The Board of Directors and the Executive Board have most recently in connection with the discussion of the Annual Report for 2014 discussed the level of sufficient core capital and the individual capital adequacy requirement. The next discussion has been agreed in May 2015 in connection with the discussion of the interim report for the first quarter of 2015.

The determination of the sufficient core capital and capital adequacy is based on the instructions issued by the Financial Supervisory Authority, which was most recently revised in December 2014. The instructions prescribe the use of the so-called 8+ model.

The basis of the 8+ model is that ordinary risks are covered by the minimum statutory requirements for capital adequacy, 8 per cent of the risk-weighted items. In addition, it is necessary to decide the extent to which the bank has special risks which necessitate an increase in the sufficient core capital and the capital adequacy requirement, respectively.

According to the instructions, an assessment must be made of the bank's risk profile in relation to the following six risk areas:

1. Earnings
2. Growth in lending
3. Credit risk
4. Market risk
5. Liquidity risk
6. Operational risk
7. Gearing

Earnings
During the past five years, the bank has realised sufficient core earnings, before payments to a restoring of the financial stability, write-downs on own lending and market value adjustment of securities, at the level of DKK 197 - 225 million. There has been an increasing trend, as the DKK 197 million were realised in 2010, whereas the DKK 225 million were realised in 2014. The average core earnings for the period amount to DKK 207 million.

For the coming year, the bank expects core earnings before payments to the Deposit Guarantee Fund, write-downs on own loans and market price adjustment for securities in the range of DKK 175-200 million. The expected earnings amount to between 2.4 and 2.7 per cent of the bank's credit risks, in the form of lending and guarantees, gross.

The bank is of the opinion that the expected core earnings will be sufficient to cover the immediate risk on the portfolio of loans and guarantees. Consequently, additional capital is not reserved to cover this.

Growth in lending
Over a period of five years, from the end of 2009 to the end of 2014, the bank's lending has decreased by DKK 552 million – corresponding to an average annual decrease of app. 2 per cent. During the past year, lending has been reduced by DKK 54 million – corresponding to a negative growth of 1 per cent.

For the coming year, modest growth is expected in the bank's lending.

The bank is of the opinion that the expected development in lending does not represent any special risk. Consequently, no capital is reserved to cover growth in lending.

Credit risk
An assessment has been made of the cautiously estimated loss on all commitments larger than 2 per cent of the bank's core capital. This means commitments which on a group basis are larger than DKK 25 million.

This assessment is supplemented by two analyses of

1. the risk of loss on the bank’s commitments with the farming industry, which is less than 2 per cent of the core capital
2. the temporary increase of the risk of loss as a consequence of the farming industry’s market potentials.

Furthermore, the bank's credit concentration risks have been assessed in the following areas:

- Large commitments
- Industries
- Securities

Regarding large commitments and industries, the assessment has been made on the basis of the instructions.

As far as the concentration of securities is concerned, a sensitivity analysis has been made of the bank's security in farming assets and fishing quotas for commitments which have been written down.

The assessments made result in an additional capital requirement of DKK 252 million to cover special credit risks.

Market risk
The bank's current market risks are and have for a number of years been very modest.

According to the instructions, the bank's special risks in this area must be assessed in proportion to the maximum risks within the limits fixed by the Board of Directors for the authority of the Executive Board for market risk-taking.

Regarding rent risks the capital requirement can alternatively be calculated with a basis in the maximum framework utilisation within the last 12 months prior to the calculation.

On the basis of the Executive Board's authority to take interest risks outside the trading portfolio for the past 12 months it is the assessment that an additional capital requirement of DKK 26 million is needed to cover special risks in this connection.

Liquidity risk
The bank currently has excess deposits of DKK 1.7 billion. Together with the bank's equity of DKK 1.4 billion, this corresponds to a funding ratio of 0.64. Add to these unutilised credit lines from other credit institutions of DKK 400 million. Compared with the statutory requirements, cf. section 152 of FIL, this amounts to excess cover of 174 per cent.

The bank has carried out a stress test of the liquidity which shows that the bank will also be able to observe the statutory requirements for the next 12 months.

The test is based on the following conditions :

- Any liquidity and credit lines from professional actors will lapse as they become due
- Time deposits will lapse as they become due
- Deposits which are not covered by the Deposit Guarantee Fund will disappear
- Deposits will be reduced by DKK 100 million as a consequence of calculation of taxes on conversion of capital pensions to retirement deposits
- The customers' unutilised drawing rights are utilised by 10 per cent
- Other deposits will decrease by 3 per cent per year.

In the light of the above stress test, the bank is of the opinion that liquidity does not constitute any special risk. Capital is therefore not reserved to cover the costs of procuring liquidity.

Operational risk
On the basis of a qualitative assessment of the bank's organisation, use of IT and business model, there is no need to reserve additional capital to cover special risks within the operational area.

Sufficient core capital and capital adequacy

As at 31.12.2014 amounts in DKK 1,000	Cap. Adequacy as a percentage procent	Sufficient core capital 1.000 kr.
Coloumn I-requirement	8.0	511,947
Earnings	0.0	0
Growth in lending	0.0	0
Credit risk hereof	3.9	251,906
- a) Credit risks on large customers with fincaial problems	1.8	112,729
- b) Other credit risks	0.5	29,974
- c) Concentration risk on individual commitments	0.2	13,138
- d) Concentration risk on trades	0.2	15,344
- e) Concentration risk on warranties	1.2	80,721
Market risk	0.2	13,134
- a) Interest risks	0.2	13,134
Liquidity risk	0.0	0
Operational risk	0.0	0
Gearing	0.0	0
Additions as a consequence of statutory requirements	0.0	0
Capital adequacy requirement/Capital requirement	12.1	776,987
- Of which for credit risks	3.9	251,906
- Of which for market risks	0.2	13,134
- Of which for operational risks	0.0	0
- Of which for other risks	0.0	0
Total risk exposure		6,399,335
Capital ratio/Core capital	19.6	1,252,505

Excess capital adequacy

The bank's core capital after deductions amounts to a total of DKK 1,253 million. Compared with sufficient core capital of DKK 777 million, there is excess cover of DKK 476 million

The bank's capital adequacy rate has been calculated at 19.6. Compared with a capital adequacy requirement of 12.1 per cent, there is excess cover of 7.5 percentage points.

Capital adequacy target

The bank's Board of Directors has fixed a capital adequacy target of at least 16 per cent.

Calculation of risk-weighted items with credit risk 31.12.2014

Pr. 31.12.2014 amounts in DKK 1,000	Risk-weighted exposure	Cap. requirem. 8% of the exposure)
Calculation of risk-weighted items with credit risk		
The bank uses the standard method for credit risk to calculate risk-weighted items.		
Exposures to public entities	741	59
Exposures to institutes	67,003	5,360
Exposures to businesses, etc.	1,365,275	109,222
Exposures to retail customers	2,052,034	164,163
Exposure secured by real property mortgage	340,584	27,247
Exposures with arrears or overdraft	989,109	79,129
Share exposures	154,144	12,332
Exposures in other items, including assets without counterparties	162,592	13,007
Weighted items with credit risk, total	5,131,482	410,519
Calculation of the risk-weighted items with market risk		
Instruments of debt	252,193	20,175
Shares	14,224	1,138
Investments in investment associations	48,007	3,841
Exchange rate risks	0	0
Weighted items with credit risk, total	314,424	25,154
Calculation of the risk-weighted items with operational risk		
The bank uses the basic indicator method when calculating the capital adequacy requirement for the operational risk.		
Weighted items with operational risk, total	947,998	75,840
Calculation of credit valuation adjustment		
The bank uses the standard method to calculate the capital adequacy requirement for credit valuation adjustment.		
Vægtede poster med kreditværdijustering i alt	5,431	434
Risk-weighted items, total	6,399,335	511,947

Credit risk

Receivables from credit institutions and central banks and lending are valued at the first inclusion at market value plus transaction costs and with deduction of fees and commissions received in connection with the establishment.

Receivables from credit institutions and central banks and lending not for reserve transactions are subsequently valued at amortised cost price less write-downs to a lower value if there are objective indications for a value reduction.

Receivables from credit institutions and central banks are all valued individually for objective indication for value reduction.

For material lending an individual assessment is also made as to whether there is an objective indication for value reduction. The need for write-downs is calculated individually when there is objective indication for value reduction at an individual level. Individually valued loans which have not been written down and other lending are valued subsequently on a portfolio basis.

A portfolio-based valuation of the need for write-downs as a consequence of objective indication for value reduction for groups of lending with similar characteristics regarding credit risk. The portfolio valuation is based on a credit rating of the customers on the basis of financial key figures. When calculating the need for group-based write-downs, a gross method is used. The method means that the total group-based write-downs amount to the sum of the deterioration of the individual customers in the credit rating classes whether or not other customers have received a better rating during the period.

An individual loan or a group of loans will be considered reduced in value if – and only if – there is an objective indication for value reduction as a result of one or more events occurred after the first inclusion of the loan, and this or these events influence the expected future payment flows which can be estimated reliably. The agreed effective rate of interest for the individual loan is used as a discounting factor. For portfolios of loans, the weighted average of the agreed, effective rate of interest is used for the individual loans in the portfolio.

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

The portfolio-based valuation of the write-down requirement for groups of loans with similar characteristics regarding credit risk is based on a rating model where the model is developed and improved on an ongoing basis via back test, etc.

Loans and receivables are classified according to CRR regulation no. 575/2013 dection 178 as

- non-performed in case of arrears during a consecutive period of 90 days of at least DKK 1,000 for retail loans and DKK 10,000 for commercial loans.
- Decreased in value when it is improbable that debtor will pay all his obligations without resorting to measures such as realisation of any security.

The total value of the bank's exposures after write-downs and before allowing for credit risk reduction amounts to a total of DKK 9,284 million as at 31.12.2014.

Calculation of the average value of exposures

Average for amounts in DKK 1,000	**2014**
Exposure to central governments or central banks	213,142
Exposure to regional or local authorities	0
Exposure to public entities	10
Exposure to institutes	281,249
Exposure to businesses, etc.	1,921,250
Exposure to retail customers	4,673,220
Exposures secured by real property mortgage	900,498
Exposures with arrears or overdraft	916,741
Share exposures	190,431
Exposures in other items, including assets without counterparties	215,618
Exposures, total	9,312,159

Since the bank has 95 % of its exposures in Denmark a closer specification has been left out.

Nordjyske Bank

Credit exposures by industries and credit categories

As at 31.12.2014 amounts in DKK 1,000	Central governments or central banks	Public entities	Institutes	Businesses, etc.	Retail customers	Exposures secured by real property mortgage	Exposures with arrears or overdraft	Exposures in other items, including assets without counterparties	Shares	Total
Public authorities					5,551					5,551
Farming, hunting, forestry and fishing				1,023,649	552,458	65,749	533,250			2,175,106
Industry and extraction of raw materials				287,213	126,368	22,001	9,803			445,385
Energy supply				5,589	20,484	2,404				28,477
Building and construction				47,937	204,968	40,555	3,350			296,810
Trade				102,746	328,876	35,416	18,160			485,198
Transport, hotels and restaurants				150	100,716	16,379	37,628			154,873
Information and communication					34,449	6,465	1,062			41,976
Financing and insurance	232,721		256,988	207,283	64,987	4,157	3,188	209,479	151,183	1,129,986
Real property				89,663	182,167	42,437	140,584			454,851
Other industries		10		55,656	289,267	27,911	31,497		2,961	407,302
Industries, total	232,721	10	256,988	1,819,886	1,910,291	263,474	778,522	209,479	154,144	5,625,515
Private				150,676	2,685,629	718,142	104,457			3,658,904
Total	232,721	10	256,988	1,970,562	4,595,920	981,616	882,979	209,479	154,144	9,284,419

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Credit exposure by remaining term and credit categories

As at 31.12.2014 amounts in DKK 1,000	Demand	0-3 months	3 months - 1 year	1 - 5 years	More than 5 years	Total
Exposure to central governments and central banks	232,721					232,721
Exposure to public entities		10				10
Exposure to institutes	232,777	11,029	5,697	6,525	960	256,988
Exposure to businesses, etc.	265,717	102,759	1,317,650	117,134	167,303	1,970,563
Exposure to retail customers	1,212,808	203,927	1,019,151	745,472	1,414,562	4,595,920
Exposure secured by real property mortgages	64,326	18,897	99,190	108,634	690,567	981,614
Exposure with arrears or overdraft	76,261	95,558	475,060	109,784	126,317	882,980
Share exposures					154,144	154,144
Exposures in other items, including assets without counterparties	209,479					209,479
Total	2,294,089	432,180	2,916,748	1,087,549	2,553,853	9,284,419

Non-performed and value-reducing receivables by exposure categories

As at 31.12.2014 amounts in DKK 1,000	Non-performed receivables exposure	Value-reducing receivables exposure	Write-downs /provisions at the end of the year	Amounts charged to revenue re value-red. and write-
Public authorities				
Farming, hunting, forestry and fishing	1,265	883,557	318,443	42,466
Industry and extraction of		21,121	12,010	3,860
Energy supply				
Building and construction		11,651	5,039	1,637
Trade	928	38,567	12,256	860
Transport, hotels and restaurants		74,314	36,623	3,388
Information and communication		3,889	2,844	
Financing and insurance		32,391	22,659	1,303
Real property		237,806	89,768	2,982
Other industries		58,764	24,015	4,157
Business, total	2,193	1,362,060	523,657	60,653
Private	1,114	216,997	109,097	42,779
Total	3,307	1,579,057	632,754	103,432

Nordjyske Bank

Movements in value-reducing receivables because of value-regulations and write-downs

As at 31.12.2014 amounts in DKK 1,000	Udlån	Garantier
Individual write-downs		
Write-downs, start of the year	540,132	440
Write-downs, during the year	174,091	1,467
Reversal of write-downs made during previous financial years	28,274	0
Other movements	34,846	0
Final loss, previously written down individually	89,948	0
Write-downs, end of the year	630,847	1,907
Group-based write-downs		
Write-downs, start of the year	26,871	1,410
Write-downs, during the year	4,251	0
Reversal of write-downs made during previous financial years	4,418	272
Write-downs, end of the year	26,704	1,138
Final loss (written down), not previously written down individually	7,534	
Received from previously written down receivables	15,149	

Risk Report

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

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 31.12.2014 amounts in DKK 1,000	Book value
Holding of shares, etc.	
Shares in the trading portfolio	
- listed shares	31,570
Unlisted shares, etc., at market value:	
- sector shares	236,735
- other unlisted shares	209
Other capital shares	2,961
Outside the trading portfolio, total	239,905
Shares, etc., total	271,475
Shares outside the trading portfolio sector shares	
Portfolio start of the year	220,642
Addition from purchase	26,103
Addition from reclassification	0
Unrealised profit/loss	18,397
Realised profit/loss	14,010
Reduction from sale	42,417
Portfolio end of the year	236,735

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 24 million.

Credit-reducing methods

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 increasingly used as security. Among other things through investment opportunities where 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.

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

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

As at 31.12.2014 amounts in DKK 1,000	Exposure covered by financial securities	Exposure covered by guarantees and credit derivatives
Businesses	140,145	105,648
Retail customers	109,219	16,605
Exposure covered by real property mortgage	12,719	
Bad debts	7,987	4,132
Total exposures covered by financial securities, and guarantees and credit derivatives	270,070	126,385

Counterparty risk

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 is made as follows:

- 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.

The value of the bank's total counterparty risk calculated according to the market value method, cf. the CRR regulation section 274, amounted to a total of DKK of 37,037 as at 31 December 2014

To cover the risk of loss as a consequence of value regulations on OTC derivatives by deteriorations of the counterparty’s credit rating the risk-weighted items have been increased by DKK 5 million.

Nordjyske Bank

Using a credit rating agency

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 and 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+ ol 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 institutions	253,072	67,003

Risk Report

Market risk

As at 31.12.2014 amounts in DKK 1,000	weighted amount	Capital requ. (8% of exp.)
Calculation of capital adequacy risk for items with position risk		
Instruments of debt	252,193	20,175
Shares	14,224	4,979
Mutual fund shares	48,007	3,841
Foreign exchange position	0	0
Calculation of capital adequacy risk credit valuation adjustment	5,431	434

Interest risk in positions outside the trading portfolio

As at 31 December 2014 the bank's total interest risk amounted DKK 5,432,000, distributed as follows
amounts in DKK 1,000

Interest risk for positions in the trading portfolio:		
Securities	8,296	
Futures, forward transactions for FRAs	2,757	
Swaps	- 96	10,957
Interest risk for positions outside the trading portfolio:		
Balance sheet items		
i.e. lending and receivables and deposits and debts		- 5,525
Total interest risk		5,432
Including		
- positions in Danish kroner	5,063	
- positions in foreign currencies	369	

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 interst risk is calculated on an ongoing basis via the bank's risk management systems. At the end of 2014 the interest risk ouside the trading portfolio amounted to DKK 5,525,000.

Operational risk

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.

The bank does, however, carry 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

Remuneration policy

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.
Hans Jørgen Kaptain is chairman of the committee.

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

Business area	Fixed salary DKK 1,000.
Retail customer area	2,680
Other business areas	8,946

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	1,633
Executive board	4,296
Other material risk takers	5,697

Nordjyske Bank
Jernbanegade 4-8
DK-9900 Frederikshavn

Telephone +45 9633 5000

email@nordjyskebank.dk
www.nordjyskebank.dk

CVR: 30828712
BIC/SWIFT ebandk22