Jyske Bank Group

Solvency requirement

Second quarter of 2016

To comply with Danish financial legislation, this report discloses the solvency requirement of the Jyske Bank Group for the second quarter of 2016.

The report serves as a quarterly follow-up to the publication “Risk and Capital Management 2015” which was published along with the annual report of the Group in February 2016.

Jyske Bank applies its own, internal model to determine the individual solvency requirement and the following table presents the solvency requirement grouped by risk category.

Solvency requirement, 2016 2nd quarter	Jyske Bank Group		Jyske Bank A/S	
DKKm/pct.				
	Solvency requirement	Pct. of REA	Solvency requirement	Pct. of REA
Credit risk	14,751	8.1%	14,923	11.2%
Market risk	1,723	0.9%	1,723	1.3%
Operational risk	1,645	0.9%	1,645	1.2%
Other	697	0.4%	697	0.5%
Individual solvency requirement	18,816	10.3%	18,988	14.3%
Individual solvency requirement + regulatory buffers	21,074	11.6%	20,647	15.5%
Capital requirement incl. transitional provisions	17,695	9.7%	10,654	8.0%
Capital base	30,883	17.0%	31,181	23.4%
Capital buffer	9,809	5.4%	10,534	7.9%

The individual solvency requirement makes up 10.3 % of the risk exposure (REA), which is higher than the solvency requirement according to the 8+ method as used by the Danish FSA and the legislative capital requirement incl. transitional provisions.

To complete the solvency requirement regulatory buffers must be added to the individual solvency requirement resulting in a solvency requirement of the Group of 11.6 %. Given a capital ratio of 17.0 %, the Group has a capital buffer of 5.4 % at the end of second quarter of 2016.

The individual solvency requirement of the parent company (Jyske Bank A/S) is, as a conservative assumption, identical to that of the Group, as the parent is liable for all risk in the subsidiaries. However, a small technical correction is made to the credit risk. Besides this, the only difference in the individual solvency requirement (as a percentage of REA) between the Group and the parent is due to the difference in REA. At the end of second quarter of 2016 the individual solvency requirement of the parent is 14.3%.

The individual solvency requirement expresses Jyske Bank's assessment of the capital requirement given the Group's risk profile. Measurement of the individual solvency requirement rests on the Group’s internal models for measuring economic capital, which comprise the risk types for which the Group wishes to set capital aside: credit risk, market risk and business risk. In this way, the Group's data, experience and management are reflected.

Based on the calculation of economic capital, it is also assessed whether any considerable circumstances have not been addressed by the calculation model or for which, by way of precaution, funding is desirable. In that case, additional capital will be set aside. The additional capital addresses the uncertainty relating to specific circumstances and the model setup.

In respect of credit risk, a precautionary buffer is added in connection with weak exposures. This buffer is calculated on the basis of an extra cautious assessment of elements forming part of the measurement of these exposures. Moreover, capital additions are made for the uncertainty relating to the determination of maturities for corporate clients with poor credit quality.

To cover any potential future Credit Value Adjustment (CVA) losses, capital additions are made for future deterioration of credit quality among counterparties as this issue is not covered by the economic capital model.

As the fair value of the held-to-maturity bonds exceeds the amount recognised, a deduction is calculated in the internally calculated adequate capital base.

According to the CRR, the difference between the accounting-related provisions and value adjustments, on the one hand, and the expected loss on the AIRB portfolio calculated by the model, on the other, is added.

The capital additions for market risk relate to circumstances that are not addressed by the applied model as well as circumstances addressing the uncertainty in the model.

Capital additions are made to allow for additional expenses relating to the provision of unsecured capital market funding and money market funding from professional counterparties under a stress scenario.

Capital additions are made for the uncertainty relating to the outcome of pending court cases.

The calculation of capital for operational risk is based on the REA value of operational risk with an addition for higher than normal risk.

As a forerunner to the CRR countercyclical buffer, capital additions are made in good times and are applied in bad times. This capital addition is phased out as the countercyclical buffer is phased in.

Moreover, capital additions are made for BRFkredit, which is not yet included in the economic capital statement. The capital addition is identical to BRFkredit's solvency requirement adjusted for inter-company eliminations. BRFkredit applies the 8+ method when determining the institution's solvency requirement.

A precautionary addition is made to allow for uncertainty in the general assessment of the adequate capital base.

Finally, Jyske Bank’s ability to generate a profit is also considered when assessing the internally calculated adequate capital base. The reason is that the on-going earnings are the first line of defence against investors suffering losses.

On the whole, the internally calculated adequate capital base mirrors the negative retained earnings/profit in an extreme situation.