Risk and Capital Management

2019

JYSKE BANK

Contents

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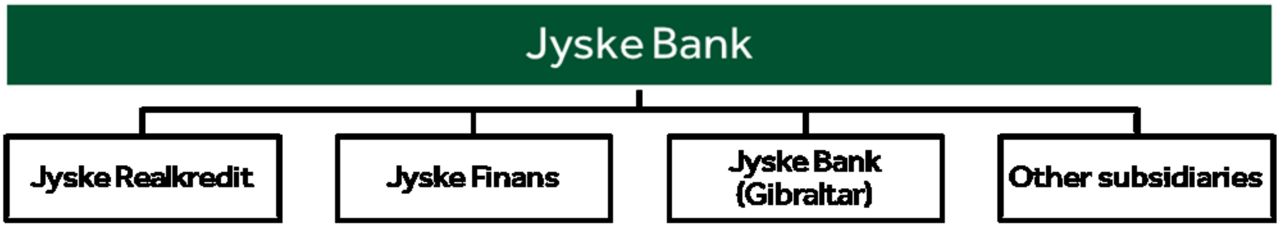
Executive summary

The objective of this report is to offer insight into the Group's internal risk and capital management and the regulatory capital requirements.

The capital-management objective of Jyske Bank is a capital ratio within the range 20-22% and a common equity tier 1 capital ratio between 15% and 17%. These objectives have been arranged with a horizon of 2-3 years. At these levels, Jyske Bank is at a reassuring distance to the capital requirements, while maintaining the desired strategic capital buffer. As of end-2019, the Group's capital is compliant with the capital objectives with a common equity tier 1 capital ratio of 17.4% and a capital ratio of 21.5%.

Business model



The Jyske Bank Group is a financial group, in which Jyske Bank, being the parent company, conducts banking activities, and subsidiaries provide other financial or accessory activities. The Group conducts mortgage-credit activities through Jyske Realkredit.

The Jyske Bank Group's business model is designed to offer financial products and other related services to private individuals, businesses, and institutions. The business model is embedded in a general environmental consciousness and commitment of enhancing environmental sustainability.

The Group primarily offers financial services within Denmark, and local presence is highly prioritized within these boundaries to pursue the strategy of being an accessible relational bank. Nonetheless, our foreign branches can to a limited extent offer standard banking products to local businesses and private individuals. During 2019 Jyske Bank arranged a sale of Jyske Bank Gibraltar Ltd. The sale is conditioned by approval of the relevant authorities, which is expected concluded during 1st quarter 2020.

The Group cooperates with other financial institutions on the delivery or distribution of the Group's products to the relevant businesses and/or their clients.

A main component of the Group's business model is to provide loans in exchange for collateral in real estate. The Group's mortgage loans are primarily funded by issuing covered bonds and secondarily by issuing mortgage bonds. It is the Group's ambition to maintain an AAA rating of its covered bond issues.

The Jyske Bank Group offers pension and life insurance products, investment and asset-management products, payment-service products as well as advisory services from sub-contractors, including jointly-owned sector companies.

The Group includes the leasing company, Jyske Finans, which supports the business model by facilitating services necessary for clients to obtain their financial objectives.

The Jyske Bank Group undertakes financial risks within established limits and to the extent that the risk-adjusted return contributes to the Group's financial goals. Furthermore, the Group strives to minimize operational costs considering the related costs.

Jyske Bank's financial risks consist mainly of credit risk. The Group will undertake credit risk if, through individual credit processing, it can be substantiated that the debtor has the necessary ability to service debts, and that it can be rendered sufficiently probable that the debtor has the intention to repay the credit granted. Failing that, the collateral must have sufficient value as well as stability of value, and it must be substantiated that the collateral can be liquidated and cover the remaining credit. Finally, it is a requirement that the Group's earnings must match the associated credit risk and capital charge.

Moreover, the Group undertakes market risk when the expected return more than matches the risk. Trading-related market risks arise primarily from client-related transactions. The Group holds only a small strategic trading related market risk position. Differentiated portfolios characterize the market risk profile and interest rate risk and foreign exchange risk are the main trading-related market risks. Asset and liability management drives the non-trading-related market-risk, where the interest-rate risk exposure is founded in core banking and mortgage-lending activities as well as funding and liquidity management.

As a consequence of the Group's activities, liquidity risk arises when a funding mismatch occurs in the balance sheet because of the longer duration of the loan portfolio relative to the funding sources. Active liquidity management ensures sufficient liquidity, enabling the Group to meet its short- and long-term obligations.

The total risk is adjusted regularly to harmonize with the Group's risk profile and capital structure in adherence with the Group's capital-management objective. This will ensure that the Jyske Bank Group is a trustworthy, long-term business partner for its clients and counterparties.

Risk management

Risk management is a key element in the Group's daily operations and is anchored at the Group Supervisory Board and the Group Executive Board.

Risk organisation

The Group Supervisory Board establishes the general principles for risk and capital management as well as for the Group's risk profile and implements these in the Group by adopting a number of risk policies and instructions. Together with the Group Executive Board, the Group Supervisory Board is responsible for ensuring that the Group has an organisational structure that will ensure a distinct allocation of responsibility and include an appropriate separation of functions between development units, operating units and control units in the daily monitoring and management of the Group's risks. The Group Executive Board is responsible for the day-to-day risk management of the Group and will ensure that policies and instructions are implemented and complied with. During the year the economy and risk unit has been disassociated. Hence, the Risk unit now constitutes an individual unit with a direct reference to the CEO of the Group.

The Group Executive Board has appointed a Group Chief Risk Officer, who is the director of the unit Risk. His responsibilities include activities involving risks across areas of risk and organisational units. The unit is responsible for:

- proposals of risk policies and risk-management principles to the Group Executive Board and the Group Supervisory Board;
- implementation of risk-management principles and policies in order to improve risk management on an ongoing basis;
- quantification of the Group's risk exposure as well as monitoring and reporting to ascertain that the Group's risk exposure does not exceed the limits defined by the Group Supervisory Board;
- recognition, measurement and reporting of risk in the Group as well as the implementation of risk-management tools.

To achieve efficient risk management in the mortgage-credit business, the Group has appointed a Chief Risk Officer at Jyske Realkredit in line with regulatory requirements. The risk officer and his employees form an integral part of the unit Risk to ensure that the Group Chief Risk Officer has a complete overview of the risks of the entire Group.

The organisational structure of the Group, in which Risk is separated from the risk-taking units, will ensure that the unit is independent of business-oriented activities.

Day-to-day management of credit risk is undertaken by relationship managers as well as the Credit Unit with due regard to credit policies and credit instructions.

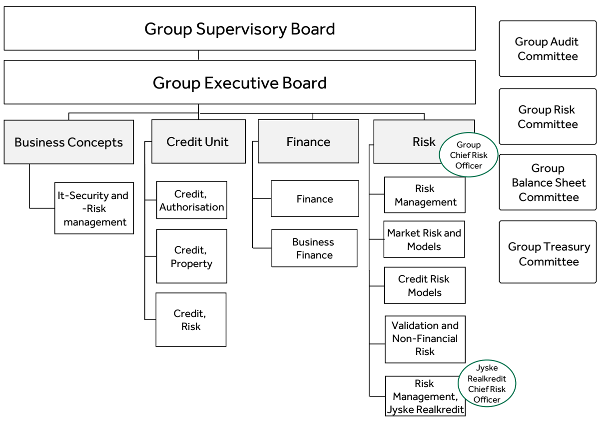
Jyske Bank has three business areas that manage market risk. Group Treasury manages strategic market risk, and investments are in general based on a long-term view of the financial markets. Jyske Markets and Jyske Realkredit manage short-term market risk as part of the servicing of clients' trades in financial instruments and in the mortgage-credit business.

Similarly, Group Treasury manages the strategic liquidity risks, and Jyske Markets and Jyske Realkredit manages the short-term operational liquidity risk.

The individual organisational units of the Group undertake the day-to-day management of operational risk.

Risk management of the specific risk types is described in detail in the chapters covering the individual risks.

RISK ORGANISATION



Several committees consider and process risk-related issues:

The Group Audit Committee oversees whether the Group's internal management and risk-management systems function effectively. These tasks are carried out through written and oral reporting to the committee and the committee's consideration of relevant audit reports.

The Group Risk Committee carries out the preliminary consideration of risk-related issues before the final consideration by the Group Supervisory Board. At quarterly meetings and in case of special circumstances, subjects in relation to the following are discussed:

- the Group's risk profile and the implementation hereof in the organisation;
- the Group's capital base as well as capital requirements;
- capital and liquidity buffers with related contingency plans including the Group's recovery plan;
- material changes of the model set-up for risk management as well as re-estimation and validation of models;
- internal procedures for risk measurement and management;
- assessment of material products earnings and risk profiles;
- new legislation relating to capital structure or risk management;
- topics of strategic relevance for the Group's overall risk management.

The main task of the Group Treasury Committee is to ensure that the Group's actual market-risk profile is in line with the intended risk profile and the assessment of market expectations. The participants at the monthly meetings are the following:

- members of the Group Executive Board responsible for Capital Markets, Finance and Risk,
- the member of the Executive Board for Jyske Realkredit responsible for securities,
- the heads of Capital Markets and Group Treasury
- risk-taking employees at Group Treasury and Jyske Realkredit.

The Group's liquidity-risk profile, balance-sheet development and financial structure are assessed by the Group Balance-Sheet Committee, which at its quarterly meetings ensures a continuously adequate liquidity-risk profile and balance-sheet structure according to the general guidelines. The participants at the meetings are the following:

- members of the Group Executive Board responsible for Capital Markets and Retail & Commercial Banking
- the member of the Executive Board for Jyske Realkredit responsible for securities
- the Group Chief Risk Officer
- the heads of Retail & Corporate Banking, Capital Markets and Group Treasury
- key employees of Retail & Corporate Banking
- employees in Group Treasury with responsibilities within liquidity, capital and balance-sheet management.

Risk reporting

The Group Supervisory Board and the Group Executive Board receive regular reports on the risk development and the utilisation of the allocated risk limits and can therefore monitor whether the risk limits are adhered to and whether they are still appropriate for the Group.

The business unit Risk continuously focuses on securing a qualified basis for decisions for management and works on an ongoing basis to optimise management reporting.

Risk reporting is submitted to the Group Supervisory Board, the Group Executive Board, the Group Supervisory Board Committees and relevant business areas, depending on the relevance of the contents of the reports.

Moreover, risk reporting is prepared for the supervisory boards and executive boards of the individual subsidiaries.

The following table provides an overview over the groupwise risk reporting to the Group Executive Board and the Group Supervisory Board.

REPORTING TO THE GROUP SUPERVISORY BOARD AND THE GROUP EXECUTIVE BOARD				
	Report	Frequency	Recipient	Contents
OVERALL PICTURE OF RISK	ICAAP report	Annually	Group Supervisory Board, Group Executive Board	In-depth description of the Group's statement of the capital requirements based on the 8+ method of the Danish FSA. Future implications of the Group's capital structure based on sensitivity analyses and projections under various stress scenarios.
	Group capital requirement statement	Quarterly	Group Supervisory Board, Group Executive Board	Statement of the Group's capital requirement and development in risk exposure.
	Group risk report	Quarterly	Group Supervisory Board, Group Executive Board	Information on the quarterly development in the Group's risk along with the status of established risk targets and recovery indicators. The report includes capital projections encompassing all risks in different scenarios. • The credit quality of the Jyske Realkredit and Jyske Bank portfolios is explained, including the development of credit quality, overdraft and risk exposures along with an assessment of concentration risk. • The Group's overall market-risk exposure based on authority granted at group level is described. The reporting emphasizes the key strategic risk positions at Group Treasury but also includes overall numbers for Jyske Markets and Jyske Realkredit. • The overall balance-sheet development is reported with emphasis on funding structure, refinancing risk and liquidity reserves relative to run-off profiles. • For operational risk, the development in the Group's largest risks as well as realised operational losses over the recent period are reported.
	Financial and risk reporting	Quarterly	Group Supervisory Board, Group Executive Board	Reports on the development of the business units' risk-adjusted results, etc.
	Group balance sheet and liquidity report	Quarterly	Group Supervisory Board, Group Executive Board	Information about the development of the Group's balance sheet, capital, risk profile, liquidity as well as funding structure and funding requirements. Overview of supervisory diamond and leverage ratio, etc.
CREDIT RISK	Annual credit report	Annually	Group Supervisory Board, Group Executive Board	Annual credit reports are prepared for all business units that assume credit risk. In respect of Jyske Bank and Jyske Realkredit, the annual credit report explains the credit quality in the portfolios, including the development of credit quality, overdraft, risk exposures, impairments and the concentration risk for individual clients as well as for sectors. Benchmarks for relevant key figures in the sector are also set. Additionally, the annual credit report includes relevant themes that may change from year to year. For subsidiaries, the development in credit quality and circumstances specifically relevant to these are explained. The annual credit reports are included in the Group risk report.
	Review of exposures	Annually	Group Supervisory Board, Group Executive Board	Review of the Group's most material credit risks at client level where all major cases are reported, and selected cases are reviewed with a view to ensuring that the risk has been measured correctly.
	Credit inspections	Monthly	Group Executive Board	Overview of the development of the completed credit inspections in the Group stating the status relative to the Group's target.
	Validation of credit models	Annually	Group Supervisory Board, Group Executive Board	Validation of all statistical models and parameters defined by experts for the calculation of credit risk where development and results are examined.
MARKET RISK	Market risk report	Monthly	Group Executive Board	The report describes the Group's overall market risk exposure based on authority granted for both the Group and the three acting units – Group Treasury, Jyske Markets and Jyske Realkredit. Moreover, the report includes a description of liquidity positions that exceed the authorised limits as well as changes in authority granted.
LIQUIDITY RISK	Balance-sheet, liquidity and funding profile	Monthly	Group Executive Board	Information about the balance-sheet development including changes in the deposits and lending components; the funding structure, refinancing risk and liquidity reserves relative to run-off profile. Access to and pricing of capital markets funding are also reported.
	ILAAP	Annually	Group Supervisory Board, Group Executive Board	Annual assessment of the Group's funding and liquidity-adequacy profile with focus on the Group's liquidity status, managerial initiatives throughout the year as well as the development of important key figures.

Internal risk management

In the Group's internal risk management, risk-adjusted target returns are used in the form of RAROC as a general management tool. RAROC calculations offer an overview of the risk and profitability of the various activities of the Group. RAROC calculations are based on economic capital, and the development in the general credit quality of the portfolio, concentration risk and other capital elements are included in the assessment.

RAROC at division and business-unit level forms an integral part of the reporting to the managements of business units, who determine activities for follow-up and any initiatives to manage risk within the risk appetite stated by the Supervisory Board.

RAROC is also applied at client and product level to measure results, assess profitability and determine prices of new loans. RAROC calculations and the facilities for pricing are made available in profitability systems where employees and managers have access to current risk-adjusted profitability calculations at various levels. The profitability systems allow for expenses, including expenses relating to the financing of the loan.

The profitability systems take into account the composition of the Group's credit portfolio, which means that concentration effects and diversification effects are reflected directly in the profitability calculations of new loans. If loans, for instance, are granted to clients in sectors, which are highly correlated with the market, this will result in higher capital requirements and therefore lower profitability.

Economic capital

Economic capital is a key element in the management of the Group's risk as well as in the day-to-day financial management. Economic capital is the capital required to cover the Group's unexpected loss one year into the future. One of the benefits of economic capital is an aggregate figure for all risk types.

A number of internal models are used for the calculation of economic capital. The models are based on a VaR setup over a 1-year horizon for those risk types to which the Group wishes to apply quantitative modelling. The various risks covered by economic capital make varied demands on the technical portfolio risk modelling. Various sub-models are used that are specifically designed to reflect the characteristics of individual risk types.

Supervisory diamond

The supervisory diamond defines a number of special risk areas including specified limits that institutions should generally not exceed. The supervisory diamond limits applicable to Jyske Bank A/S and Jyske Realkredit A/S are shown below.

THE SUPERVISORY DIAMOND FOR JYSKE BANK A/S

	2019	2018
Sum of large exposures < 175% of the adjusted capital base	84%	76%
Increase in loans and advances < 20% annually	-7%	-4%
Exposures to property administration and property transactions < 25% of total loans and advances	10%	10%
Funding-ratio < 1	0.52	0.55
Liquidity surplus (LCR basis)	188%	171%

At end-2019, Jyske Bank A/S met all the benchmarks of the supervisory diamond.

THE SUPERVISORY DIAMOND FOR JYSKE REALKREDIT A/S

	2019	2018
Concentration risk < 100%	47.9%	46.2%
Increase in loans and advances < 15% annually in the segment:		
Owner-occupied homes and vacation homes	2.4%	6.3%
Residential rental property	0.2%	2.6%
Agriculture	-	-
Other sectors	6.1%	4.0%
Borrower's interest-rate risk < 25%		
Residential property	17.8%	19.7%
Interest-only schemes < 10%		
Owner-occupied homes and vacation homes	6.4%	7.3%
Loans with frequent interest-rate fixing:		
Refinancing (annually) < 25%	15.0%	14.7%
Refinancing (quarterly) < 12.5%	1.7%	3.1%

At end-2019, Jyske Realkredit A/S met all the benchmarks of the supervisory diamond.

Remuneration

The purposes of the remuneration policy are to:

- reward value-creating, competent and responsible conduct;
- support productivity and job satisfaction;
- promote sound and efficient risk management;
- prevent conflicts of interest and strengthen the liability to act in the best interest of the clients;
- ensure equal pay for equal work.

The policy applies to all companies in the Group. Jyske Bank has opted out of using direct bonus schemes with variable salaries. The Group's remuneration policy and latest remuneration reports are available at investor.jyskebank.com/investorrelations/governance.

Disclosure

The 2019 report on risk and capital management serves as the Group's main medium for disclosure of the information required in CRR. In addition to the report a number of tables on investor.jyskebank.com/investorrelations/capitalstructure provide further details to comply with transparency requirements from the CRR and the EBA guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013. The Group assesses the need for more frequent disclosure on an ongoing basis with a view to the materiality of the information.

Capital management

The objective of capital management is to optimise the Group's capital structure given the risk profile.

The capital-management objective of Jyske Bank is a capital ratio within the range 20-22% and a common equity tier 1 capital ratio between 15% and 17%. These objectives have been arranged with a horizon of 2-3 years. At these levels, Jyske Bank is at a reassuring distance to the capital requirements, while maintaining the desired strategic capital buffer. As of end-2019, the Group's capital is compliant with the capital objectives with a common equity tier 1 capital ratio of 17.4% and a capital ratio of 21.5%.

The Group has revised its capital-management objective. The objective has been altered from a long-term objective, to an objective with a horizon of 2-3 years. Consequently, the capital ratio and common equity tier 1 capital ratio objective has increased.

S&P's decision to revise their "economic risk" score for Denmark has caused a significant increase of the Group's RAC. Medio 2019 the Group's RAC were 11.7%, which was an increase of 1.4 percentage-point relative to the level prior to the revision of the risk weights. Ultimo 2019 the Group's RAC reached 12.1%. Considering the structural change of S&P's RAC, it will to a very limited degree pose restricting regarding capital management, since The Group can maintain the score "strong" as long as a RAC above 10% is preserved.

Capital base

At end-2019, the Common Equity Tier 1 capital amounted to 81% of the capital base, a decrease of 1 percentage point compared to end-2018. The capital base is stated in the subsequent table[1].

CAPITAL BASE		
DKKm	2019	2018
Equity	32,453	31,786
Intangible assets	-1	-5
Deferred tax assets relating to intangible assets	0	1
Cautious valuation	-366	-296
Diff. between expected losses and impairment charges	0	0
Share-buyback programme	-404	0
Expected dividend	0	-520
Other deductions	-27	-18
Common Equity Tier 1 capital	31,655	30,948
Additional Tier 1 capital	3,619	3,047
Other deductions	0	0
Tier 1 capital	35,274	33,995
Tier 2 capital	3,763	3,699
Other deductions	0	0
Capital base	39,037	37,694
Risk Exposure Amount	181,448	188,433

A capital increase of Tier 2 capital has been successfully executed during Q1 of 2020 to ensure a cost efficient capital structure. The capital structure is evaluated regularly to maintain an adequate structure.

Following the share buy-back programs of 2019, the Supervisory Board have authorized a dividend payment of 0 DKK for the financial year 2019.

Situations may arise necessitating a transfer of capital between the companies in the Group. The only limitation preventing a quick transfer of capital from subsidiaries to the parent company is the circumstance that Jyske Realkredit and Jyske Bank Gibraltar are subject to CRR. Therefore, the transfer of capital must take place subject to the capital requirements of the individual subsidiaries. There are no obstacles for a quick repayment of claims between parent company and subsidiaries.

Leverage ratio

The leverage ratio is a risk-neutral measure for the maximum extent of the balance-sheet leverage and is calculated as recommended by The Basel Committee as Tier 1 capital relative to the Group's total non-weighted exposures. The EU has suggested a binding leverage ratio requirement of minimum 3%. The implementation date of this requirement is June 28th 2021.

The Group Supervisory Board has adopted a policy for maximum leverage. To ensure a satisfactory development of the balance sheet, the Group's balance

[1] The capital base is specified in further detail according to the requirements as per the CRR at investor.jyskebank.com/investorrelations/capitalstructure.

sheet is considered in two sub-portfolios as it is assessed that the Group's banking and mortgage activities have different adequate leverage levels. The banking activities of the Group involve a higher risk in respect of liquidity and capital than do the Group's mortgage activities, and therefore a higher acceptable leverage is applied to the mortgage activities than to the banking activities.

At end-2019, the leverage ratio for the Group was at 5.3%[2].

LEVERAGE RATIO		
%	2019	2018
Jyske Bank Group	5.3	5.3

ICAAP and capital requirement

Jyske Bank's ICAAP (Internal Capital Adequacy Assessment Process) forms the basis of the assessment of the Group's capital structure and hence the determination of the Group's capital requirement. The assessment is based on the current relationship between the Group's risk profile and capital structure as well as forward-looking considerations that may affect this. Stress tests are used to model the micro- and macroeconomic factors to which Jyske Bank is exposed.

Capital requirement

Jyske Bank applies an 8+ setup when determining the capital requirement. Throughout the ICAAP, analyses are carried out for each risk type, addressing qualitative as well as quantitative elements with regard to ongoing quality assurance, including evaluation of model assumptions and monitoring. The analyses cover relevant risk factors within each risk type in accordance with current legislation.

The capital requirement expresses the pillar 1 regulatory requirements of 8% of the total risk exposure amount with additions for above normal risk represented by pillar 2. Thus, it expresses Jyske Bank's own assessment of the capital requirement based on the risk profile of the Group and reflections concerning the Group's own data, experience and management.

Jyske Bank has been approved to apply the advanced internal rating-based approach (AIRB) to measure credit risk. The approval extends to the application of advanced methods for the calculation of the capital requirement for the main part of the Group's credit portfolio.

The capital requirements for market risk and operational risk are calculated according to the standardised approaches. The development of the capital requirements for credit risk, market risk and operational risk is outlined in the table below and is further described in the chapters covering the individual risk types.

CAPITAL REQUIREMENTS BY RISK TYPE				
DKKm	2019	% of REA	2018	% of REA
Pillar 1				
Credit risk	12,313	6.8	12,671	6.7
Market risk	928	0.5	1,052	0.6
Operational risk	1274	0.7	1,351	0.7
Capital requirement, Pillar 1	14516	8.0	15,075	8.0
Pillar 2				
Credit risk	4,042	2.2	3,846	2.0
Market risk	1,206	0.7	1,050	0.6
Operational risk	391	0.2	371	0.2
Other	123	0.1	82	0.0
Capital requirement, Pillar 2	5,747	3.2	5,349	2.8
Total	20,263	11.2	20,424	10.8

The lower total capital requirement is mainly attributable to the decrease of REA, which has decreased by 7 billion DKK. The decrease of REA is mainly caused by the reduction of shares in DLR and reductions of risk exposures towards businesses. This decrease has affected the overall pillar 1 requirement, but the composition of the risk elements remains largely unchanged.

Nonetheless, the capital requirement related to pillar 2 has increased from 2.8% to 3.2%. This is primarily related to market risk and credit risk. Moreover, the decrease of REA contributes to a more severe effect on the capital requirement measured as a percentage of REA. The overall development in REA is further described in the Credit Risk chapter.

With respect to credit risk, a precautionary buffer is added in connection with weak exposures. This buffer is calculated on the basis of an extra cautious assessment. Moreover, capital additions are made for concentration risk and for the uncertainty relating to the determination of maturities for corporate clients with poor credit quality. Precautionary additions are made to account for uncertainty in the credit models.

To address the risk of an adverse development in the interest-rate spread on Danish covered bonds, a market-risk capital addition is made on the basis of a stress scenario.

[2] The leverage ratio is specified in further detail according to the requirements as per the CRR at investor.jyskebank.com/investorrelations/capitalstructure.

A capital addition is made to account for additional expenses relating to the provision of unsecured capital market funding and money-market funding from professional counterparties under a stress scenario.

The calculation of capital for operational risk is based on the REA value of operational risk with an addition for higher-than-normal risk. Capital additions are made for the uncertainty relating to the outcome of pending court cases.

The pillar 2 requirement of 3.2% is not statutory but institution specific. Jyske Bank estimates that the requirement will remain stable throughout 2020 .

In 2019, Jyske Bank was reconfirmed to be a systemically important financial institution (O-SII). Consequently, the Group will be subject to an additional capital buffer requirement of 1.5%. Moreover, the Group is subject to a capital conservation buffer of 2.5%.

The Danish countercyclical buffer requires institutions to maintain a buffer of 1%, rising to 1.5% by 30 June 2020. The countercyclical buffer will increase further to 2% by 30 December 2020. Jyske Bank is also subject to countercyclical buffers in the foreign countries in which the Group has exposures. Due to Jyske Bank's low level of foreign exposures, the contribution to the countercyclical buffer from foreign countries is insignificant. It is expected that the Danish government will increase the countercyclical buffer to 2.5% during 2021.

Pillar 1 and 2 requirements combined with legal buffer requirements form the total expected capital requirement of the Group as of end-2020.

TOTAL CAPITAL REQUIREMENT

%	TCR	CET1
Requirements		
Pillar 1	8.0	4.5
Pillar 2	3.2	1.8
Systemic risk buffer	1.5	1.5
Capital conservation buffer	2.5	2.5
Countercyclical buffer	2.0	2.0
Total	17.2	12.3
Current level	21.5	17.4

Group recovery plan

The recovery and resolution of credit institutions and investment firms' directive (BRRD) requires financial institutions to develop recovery plans. In the unlikely event that the Group suffers from serious financial stress, the recovery plan is to be utilized. The Jyske Bank Group is composed and organized to facilitate the preservation of the Group's critical business processes given significant financial stress.

The recovery plan contains a number of recovery options that can be undertaken. These options have been tested under different stress scenarios to evaluate their ability in ensuring the Group's recovery from different circumstances.

The recovery options can be divided into three different types:

- Recovery options aiming to improve the capital ratio of the Group.
- Recovery options aiming to improve the liquidity of the Group.
- Recovery options aiming to improve the Group's profitability by reducing the cost base, either through disposal or cost reductions.

The recovery plan includes recovery indicators that monitor the development in capital, liquidity, profitability and asset quality of the Group as well as relevant macro-economic and market-based indicators. The indicators serve as potential warnings to allow early identification of an adverse development. As an integrated part of the risk management of the Group, the indicators are monitored and reported quarterly to the Group Supervisory Board, the Group Executive Board and the Group Risk Committee, who will consider and act upon adverse developments.

The recovery plan contains a detailed mapping of business lines, economic functions and services within the Jyske Bank Group, enabling the Danish FSA to get a complete picture of all the significant activities within the Jyske Bank Group.

Stress test

Stress testing constitutes a decisive element in Jyske Bank's approach of projecting the capital base and relevant capital requirements. Moreover, stress tests are suitable to assess the Group's capital-management objective in a forward-looking perspective.

Stress testing is used in a number of respects. In general, stress testing can be characterised as an extensive scenario-based analysis of the impact on the Group of cyclical changes. The stress testing setup also allows for various sensitivity analyses. Furthermore, reverse stress testing is carried out in order to test the Group's capacity for loss. An objective of the stress test analyses is to gauge whether the future risk level of a certain scenario can be covered by excess capital, given the Group's earnings, capital policy and management objective as well as its risk profile. The results of the stress test also provide information that allows for evaluation of the sufficiency of the capital level and quality. Thus, giving valuable information regarding whether an effectuation of the Group's recovery plan is necessary. Expected consequences of future regulation are also included in the stress test analyses.

Scenarios

The stress test analyses rest on various macroeconomic scenarios. These include a scenario of the expected development as well as stress scenarios implying a severe recession of the Danish economy. In defining the stress scenarios, there is divided particular attention to the areas of exposure deemed to be of high risk and importance for the Group. The severity of the scenarios is on par with or more profound than the stress scenarios applied by the Danish FSA in its yearly stress testing of Danish banks. Selected examples of the applied scenarios appear below.

Processes and models

The scenarios play a key role in the projection of the consolidated profit, balance sheet, liquidity and capital structure. The scenario projections are based on model-based calculations combined with expert assessments. This interaction is necessary as the model-based approach builds on historical data. Hence, the results are to be interpreted considering Jyske Bank's current business structure and risk profile. The scenario projections offer a broader overview of the Group's sensitivity to the economic development.

Reverse stress testing is applied as an important supplement in order to put the regular stress tests into perspective. Reverse stress testing enables a more in-depth understanding of the current and potential vulnerabilities of the Group as well as circumstances under which the Group's business model would become unviable.

Processing of results

The effect from the stress scenario results in deterioration of the earnings capacity and higher level of risk-weighted assets. Both of these elements reduce the capital buffer compared to the expected scenario.

Despite the large impairments under the stress scenario the outcome of the analyses of the stress scenario shows that both the capital base and the capital ratio will remain at a satisfactory level, even under a severe stress scenario. The effects from the scenario on the minimum requirement for own funds and eligible liabilities (MREL), the legal requirement for covered bonds (SDO-krav) as well as the over-collateralization requirement are also included in the results of the stress test.

APPLIED SCENARIOS	2020 – 2022
Basis scenario	The Basis scenario describes the most likely scenario for the Danish economy. The growth in the Danish economy is expected to slow down in the forthcoming years after a long period with higher growth. Interest rates are expected to remain stable at the current level. Unemployment might increase slightly, due to an increase of the work force, fostered by the incremental increasing age of retirement. Housing prices are expected to remain stable.
Stress scenario	The stress scenario implies that the global economy enters a recession, which affects Danish exports, consequently, reducing personal consumption and investment. The stock market reacts promptly on the starting recession where also GDP decreases significantly and unemployment increases. Interest rates are expected to remain at the current low levels. The stress scenario is comparable to the financial crisis on 2008/2009.

DEVELOPMENT IN KEY MACROECONOMIC VARIABLES (DENMARK)	Expected scenario			Stress scenario		
	2020	2021	2022	2020	2021	2022
GDP	0.9%	1.0%	1.5%	0.9%	-5.2%	-1.5%
Personal consumption	1.3%	1.3%	1.6%	1.6%	-4.2%	-2.6%
Unemployment rate (gross)	3.3%	3.4%	3.1%	3.3%	5.9%	9.4%
House prices	1.9%	1.9%	4.1%	1.4%	-16.7%	-7.7%
Money-market rate (average for the year)	-0.5%	-0.5%	-0.5%	-0,.7%	-0.7%	-0.7%
Bond yield (average for the year)	-0.2%	-0.1%	0.0%	-0.6%	-0.6%	-0.6%

External stress tests
Stress testing financial institutions is becoming an increasingly important aspect of both national and international authorities' efforts to ensure integrity of the financial markets and stability of the financial system.

The Group participates in external stress testing exercises facilitated by the Danish FSA as well as by the EBA and IMF. The Danish FSA conducts annual macroeconomic stress testing exercises, and a large EBA stress testing exercise is conducted at least every second year. The results of the 2018 EBA exercise were published in November 2018 with a satisfactory result for the Group. The EBA stress testing exercise will be conducted again in 2020.

New legislation
Currently, there is a high number of new regulatory requirements or revisions of existing regulatory requirements being processed both in the Basel Committee and within the European Union's legislative system. Below is a short description of the regulatory changes, which are expected to affect Jyske Bank the most during the coming years.

MREL
The current requirements are set equal to the double of the current capital requirements for the banking business of the Group and with a different treatment of the mortgage assets within the Group. The Danish FSA also made a grandfathering rule for older non-subordinated senior debt whereby senior debt issued before 1 January 2018 will count towards the fulfilment of the MREL requirement until 31 December 2021. As a result of the BRRDII, which was approved by the EU parliament in June 2019 and which is currently being implemented in Danish law, minor changes to the MREL implementation is expected in Denmark, however Jyske Bank fulfils the requirements before its commencement. The implementation of the countercyclical buffer of 2% during 2020 will increase the requirements, but the buffer will not count towards the required recapitalisation amount.

Jyske Bank does not envision that it will be in need of any significant amount of neither capital, nor subordinated loans or senior debt due to the MREL requirements. However, the current senior debt will over the four-year phase-in period have to be replaced by subordinated bail-inable senior debt. This replacement of senior debt will take place as the current senior debt reaches maturity. The first issues of senior non-preferred debt were issued during 2018 and 2019 and were significantly oversubscribed.

Mortgage-credit institutions are exempt from the MREL requirement. Instead, they have to hold a debt buffer of 2% of the total non-weighted loans. The debt buffer will be fully phased in during the summer of 2020.

New capital requirement regulation by the EU
CRD IV/CRR is the comprehensive set of rules that implements the Basel III recommendations in Europe. The general purpose of CRR was to strengthen the capital structure of the European financial institutions and to ensure a level playing field among European financial institutions. The CRR was revised in 2019 and the main changes was the introduction of the fundamentally revised requirements for the calculation of capital requirements in the trading book (FRTB). CRR II was politically agreed upon in the EU in the autumn of 2018 and passed through the EU parliament in June 2019. Parts of CRR II are already in use, but most part will have to be used from the summer of 2021. CRR III is already being drafted by the European Commission and will contain the implementation of what is often referred to as Basel IV. CRR III is expected to be published in a first draft in Q2 and is supposed to be used from January 1st, 2022 and may mean significant changes in the capital requirements for many banks In Europe – including Jyske bank.

There are still a number of implementation issues which seem to be open for discussion in the EU implementation of Basel IV especially regarding the mandatory use of a so-called Mortgage Lending Value for measuring LTVs of real estate financing and whether the output floor will be implemented for only the capital requirements defined by the Basel Committee or for all Basel and EU capital requirements. Both issues will be of great importance as to how the new rules will impact the future capital requirements for Jyske Bank.

NPL-Backstop
New EU legislation has introduced new rules regarding minimum coverage of loses for non-performing exposures. The new legislation is implemented, but merely encompasses new exposures from post 26 April 2019 and will at its earliest have an effect from Q2 2021. The new legislation requires institutions to compute a minimum coverage of loss for every non-performing exposure. This is to be compared with the sum of impairments and other reductions in the capital requirement related to the exposure concerned.

Overall, the phasing-in of Basel IV/CRR III from 2022 to 2027 will result in increasing REA under pillar 1, to some extent offset by decreasing pillar 2 risk. Consequently, a reduction in the common equity tier 1 capital ratio of approximately 3 percentage points is expected by 2027.

Jyske Bank is in a position to meet all future, known regulatory requirements. Jyske Bank monitors closely the international work on the completion of further capital-requirement initiatives to ensure, with due care and diligence, that the Group can meet all new requirements before their implementation deadlines.

Credit risk

- Overall increased exposure of DKK 67.6bn mainly associated to increases in repurchase transactions of DKK 43.5 bn and central government exposures (DKK +13.2 bn). Both of these exhibit little REA effect.
- Decrease in equity holdings is the main driver in the decrease in REA of DKK 2.9 bn for these exposures.
- Reduced lending activity for the corporate and retail exposure classes.

Jyske Bank's Group Supervisory Board lays down the overall guidelines for credit granting within the Group, and the largest exposures are presented to the Group Supervisory Board for approval. The Group Supervisory Board delegates limits to the members of the Group Executive Board.

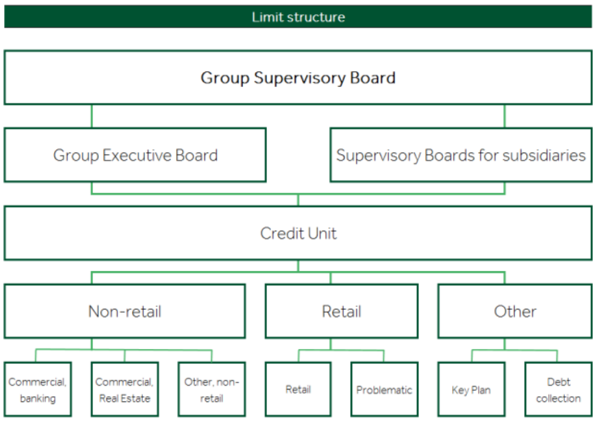
Credit risk is managed through Jyske Bank's credit policy with the objective to keep group risk at an acceptable level in relation to the capital base and business volume of the Group, given the general trend in the Danish economy. Client transactions with the Group must generate a satisfactory long-term return according to RAROC principles.

Specific credit policies have been formulated for all areas in which the Group assumes credit risk, and credit-risk levels and desirable types of business have been identified. The policies are regularly adjusted to meet current requirements and adapted to the management tools available to relationship managers and the monitoring functions.

Credit risk is managed on the basis of individual credit assessments and the Group's credit-risk models. Credit models are used for various purposes, for instance in connection with the advisory services offered to the Group's clients and in management reporting.

Limits and authorisation

Jyske Bank attaches great importance to its decentralised credit-authorisation process. The limit structure is in line with the hierarchy below where, for each level, it is clearly stated which amounts, instances and segments are covered by the limit. The main principle is that regularly occurring credit cases can be authorised decentrally whereas credit-related decisions for major or more complicated cases are authorised centrally.



Limits are delegated to relationship managers individually. Decisions about applications over and above the limits delegated to relationship managers are made by the Credit Unit. Credit-related decisions above the limits of the Credit Unit are made by the Group Executive Board for credit cases at Jyske Bank A/S, whereas the supervisory boards of the individual subsidiaries authorise cases involving clients of the subsidiaries. Credit-related decisions above the limits of the Group Executive Board are made by the Group Supervisory Board.

The Group Executive Board is represented on the supervisory boards of the subsidiaries.

The granting procedures for mortgage credits concerning retail are outsourced from Jyske Realkredit to Jyske Bank.

The credit process and monitoring

Together with policies and business procedures, the credit processes form the basis ensuring that the granting of credit is based on sound risk taking and prudent loss minimisation.

The basis of each authorisation of credit is the client's ability to repay the loan. A central element in the assessment of the creditworthiness of corporate clients is their ability to service debt out of cash flows from operations in combination with their financial strength. In respect of personal clients, their debt servicing ability, as reflected in budgets and disposable income, is decisive.

The extent of data and analyses depends on the client's financial situation and the complexity of the matter and may therefore vary from case to case.

The provision of collateral is a material element in credit granting in order to minimise the Group's future losses.

Monitoring of the credit-risk positions of the Group is carried out by Risk Management, which is separated from client-oriented functions and is independent of core business processes.

Large exposures

Large exposures are monitored on a regular basis in accordance with CRR, including exposures larger than 10% of the Group's capital base. At end-2019, no exposures exceeded 10% of the capital base. Four exposures amounted to between 5% and 7.5% of the capital base, and no exposures were between 7.5% and 10% of the capital base.

Risk Models

The Group applies the advanced approach to calculate the own funds requirement for the majority of the Group's credit portfolio. The Group makes exceptions for exposures to governments and public-sector entities, central banks and institutions, which are consequently processed according to the standardised approach.

In the credit modelling, key parameters are the client's probability of default as well as the extent of the client's exposure and collateral provided at the time of default.

The credit-risk models are enhanced on an ongoing basis with a view to be fully compliant with the forthcoming regulatory requirements, first and foremost the EBA guidelines when these will apply from 2022.

Credit assessment and PD

Credit procedures are adjusted to match the level of risk on individual exposures. The key element is the client's credit quality, referred to as credit rating, as this expresses the probability of the client defaulting during the coming year (PD). Default occurs when an obligor is considered unlikely to meet his obligations to the Group. Most clients are awarded a PD on the basis of statistical credit-scoring models developed internally in the Group. Very large enterprises and enterprises within special sectors are, however, awarded a PD on the basis of an assessment by an independent expert. Examples are financing companies, financial institutions and governments. In those cases, external ratings, if available, will primarily form the basis of the internal credit rating of the client.

Many factors are relevant for the calculation of a client's PD. Specific factors relating to the client are considered, but factors relating to the situation of the client are also taken into account. The calculation of PD therefore takes into account financial data, changes in transaction data, management and market circumstances, industrial assessments etc. Also included are specific warning signals in relation to the client's credit quality, payment profile and loss history.

In order to reach the best possible overview of client-credit quality, PD is mapped into internal credit ratings at Jyske Bank. Jyske Bank's credit ratings are on a scale from 1 to 14, 1 being the highest credit quality (the lowest PD) and 14 the lowest credit quality (the highest PD). The scale is constant over time so that clients migrate up or down depending on their PD. PD levels relative to the actual development of the default rate are monitored quarterly. Necessary adjustments are made partially relative to the long-term average.

At Jyske Realkredit, the PD is translated into 9 rating classes, where rating class 9 designates clients in default. Work is undergoing to harmonise credit-rating models and the amounts of rating classes in the Group from 2022. The subsequent table shows the mapping between credit ratings, PD and external ratings at end-2019.

INTERNAL RATINGS AND PD BAND

JB Credit rating	JR Credit rating	PD band (%)	External rating equivalence
1		0.00 - 0.10	Aaa-Baa1
2	1	0.10 - 0.15	Baa2
3		0.15 - 0.22	Baa3
4		0.22 - 0.33	Ba1
5	2	0.33 - 0.48	Ba2
6		0.48 - 0.70	Ba3
7	3	0.70 - 1.02	B1
8		1.02 - 1.48	B1-B2
9	4	1.48 - 2.15	B2
10	5	2.15 - 3.13	B3
11		3.13 - 4.59	Caa1
12	6	4.59 - 6.79	Caa2
13		6.79 - 10.21	Caa3
14	7 and 8	10.21 - 25.0	Ca / C

Note: Jyske Realkredit's rating class 8 includes PDs above 25%.

The Group's internal credit ratings and the mapped Jyske Realkredit credit ratings aim to assess the credit risk in a one-year perspective, while external ratings (Aaa - C) aim to assess the credit risk in a longer perspective. The mapping between the internal credit ratings, Jyske Realkredit credit rating and the external credit ratings is based on the currently observed default frequency for companies rated by Jyske Realkredit and Moody's. The mapping between Jyske Bank credit rating, Jyske Realkredit credit rating and external ratings is therefore dynamic. Observations are made on at least a quarterly basis to determine whether changes are to be made to the mapping. If the credit rating calculated by the model is considered to be inadequate, independent credit experts

IRB PD models by exposure class and business unit

EXPOSURE CLASS	CLASSIFICATION PROCESS	KEY MODEL CHARACTERISTICS
Central governments or central banks	Permanent exemption from IRB	Permanent exemption from IRB
Regional governments or local authorities	Permanent exemption from IRB	Permanent exemption from IRB
Public-sector entities	Permanent exemption from IRB	Permanent exemption from IRB
Multilateral development banks	Permanent exemption from IRB	Permanent exemption from IRB
International organisations	Permanent exemption from IRB	Permanent exemption from IRB
Institutions	Permanent exemption from IRB	Permanent exemption from IRB
Corporates	Bank: 6 calibration segments Leasing: 1 calibration segment Mortgage: 5 calibration segments	Covering different sub-segments with different risk and information available for modelling; e.g. Agriculture, Rentals, Sole proprietorships, new clients etc.
Retail – SME, immovable property	Bank: 7 calibration segments	Covering different sub-segments with different risk and information available for modelling; e.g. Agriculture, Rentals, Sole proprietorships, new clients etc.
Retail – SME	Bank: 7 calibration segments Leasing: 2 calibration segments	Covering different sub-segments with different risk and information available for modelling; e.g. Agriculture, Rentals, Sole proprietorships, new clients etc.
Retail – immovable property	Bank: 7 calibration segments Leasing: 1 calibration segment Mortgage: 1 calibration segment	Singles; families; new clients
Retail – other	Bank: 7 calibration segments Leasing: 1 calibration segment	Singles; families; new clients

Note: Based on number of calibration segments.

may review the credit rating of corporate clients at the request of the relevant relationship manager.

Credit exposure

Credit exposures are quantified by means of EAD. EAD reflects the exposure at default in the event of the client defaulting in the course of the next twelve months. A client's overall EAD depends on client-specific factors and the specific products held by the client. For most product types, EAD is calculated on the basis of statistical models while a few product types are based on expert models.

For loans with a fixed principal, the only element of uncertainty is the time until possible default. Uncertainty is higher, however, for credit facilities. In those cases the amount drawn by the client at the time of loss is decisive. This can be modelled by means of client-specific factors and the circumstances surrounding the exposure.

Guarantees and credit commitments are special products inasmuch as a certain event must take place before they are utilised. It is therefore material to assess the probability and the extent of utilisation of the product in the event of the client defaulting within the next twelve months. In this regard, the EAD parameters are based mainly on expert assessments: the Group has recorded very few default events over time, so the available data are too meagre for statistical modelling as such. In respect of guarantees, there is a sufficient amount of data for statistical modelling.

In respect of financial instruments, EAD is measured according to the market-value method for regulatory calculation, while for internal management purposes, the more advanced EPE method is used.

Collateral

With the objective of limiting credit risk, the need to demand collateral will be considered for each exposure on its merits. As a main rule, clients are required to provide full or partial collateral for their exposures. The Group's mortgage loans are always secured by mortgages on immovable property, and also in a number of cases, guarantees are provided by third parties in connection with cooperation with other financial institutions. In connection with loans for social housing, guarantees are provided by municipalities and the government.

Collateral received is a main element of the Group's assessment of Loss Given Default (LGD). LGD is the part of the Group's total exposure to a client which the Group expects to lose in the event of the client defaulting within the next twelve months. A client's LGD depends on specific factors concerning the client, but also on the commitment and the collateral provided. Overall, LGD also depends on Jyske Bank's ability to collect receivables and liquidate collateral.

The models relating to real property and vehicles include ongoing updating of the collateral value, taking into account, among other things, market-related changes in value, ranking of the loan and wear and tear. The ongoing updating of the values of real property will also ensure compliance with the requirements relating to the monitoring of LTV limits of the covered bonds according to the rules on possible, further supplementary capital.

In the calculation of the own funds requirement, LGD estimates are used which reflect the expected loss rates of the Group in the event of an economic downturn. The levels of loss have been calibrated to the period at the end of the 1980s and the beginning of the 1990s.

Overall development in exposures and REA

The Group's risk-weighted exposure amount (REA) for credit risk decreased by 3% in 2019, which is the result of a decrease by 1% related to the AIRB approach and an 18% decrease related to the standardised approach. Overall, the exposures increased by 11%. The overall increased exposure level is mainly associated to an increase in repurchase transactions of 78% over the year. With an end-2019 repurchase level of DKK 99.3 bn – a DKK 43.5 bn increase - the repurchase transactions is a big part of the total Group exposure, but as repurchase transactions have a high degree of collateralisation they have a little impact on the overall risk weighted exposure amount. This has a significant impact on the average risk weight for the whole portfolio.

EAD AND RISK-WEIGHTED EXPOSURE FOR CREDIT RISK

DKKm	2019	2018	Change
EAD	695,814	628,076	11%
REA for credit risk	152,843	157,329	-3%

Note: The risk-weighted exposure amount does not include CVA risk, which at end-2019 amounted to DKK 1,069m compared to DKK 1,068m at end-2018.

The following tables and associated assessments show the breakdown of exposures, collateral and risk-weighted exposure amount according to the standardised approach and the AIRB approach.

Breakdown of development for standardised approach

For the standardised approach, the DKK 42.7bn increase of the exposure level is primarily a result of the following factors:

- Increase of DKK 25.3 bn in exposures related to repurchase transactions, which are primarily driven by increases in the exposure classes Institutions (DKK 13.2 bn) and Multilateral Development Banks (DKK 10.4 bn).
- Increase of DKK 13.2 bn in Central government exposures as a result of increased holdings of certificates of deposits.
- Holdings of Covered Bonds increased over the year (DKK +6.3 bn) as a result of the ongoing liquidity management.

All of the developments described have little impact on REA as the covered bonds in question qualify for a 10% risk weight, the central government and central bank exposures are 0% risk weighted, and repurchase transactions have very low risk weights because of the high collateralisation levels associated with these transactions. All of these increases the exposure level, and thereby reduces the overall risk weight on the standardised approach.
The overall REA development relating to the standardised approach can be attributed to the following factor:

- A decrease in Equity after saleback to DLR is the main driver in the decrease in REA of DKK 2.9 bn in the Equity exposure type and the main source of the overall decrease in REA for the standardised approach.

The Group's average risk weight according to the standardised approach decreased from 15.7% to 9.1% throughout 2019, which relates to the previously described factors.

BREAKDOWN OF COLLATERAL BY EXPOSURE TYPE ACCORDING TO THE STANDARDISED APPROACH				
DKKm	Exposure	Financial collateral	REA 2019	REA 2018
Central governments or central banks	27,343	874	4	8
Regional governments or local authorities	10,614	4,983	-	-
Public-sector entities	309	214	19	19
Multilateral development banks	19,280	17,792	-	-
International organisations	-	-	-	-
Institutions	35,689	23,332	3,658	4,228
Corporates	3,544	966	1,320	1,451
Retail	1,040	719	234	267
Secured by mortgages on immovable property	1,845	-	654	673
In default	1,690	23	1,109	1,112
Exposures associated with particularly high risk	0	0	0	0
Institutions with a short-term credit assessment	-	-	-	-
Covered bonds	43,995	-	4,407	3,769
Equity	1,043	-	1,933	4,786
Total 2019	146,392	48,903	13,338	
Total 2018	103,696	21,997		16,313

Note: Exposures to central banks, central governments and government units are risk-weighted by 0%, and therefore financial collateral does not provide any credit-risk mitigating effect for these counterparties. The risk weighting for defaulted clients is highly correlated with the level of provisions associated. According to the standardised approach, real-property collateral equals the exposure class secured by mortgages on immovable property and is consequently not displayed explicitly.

Breakdown of development for AIRB approach

Exposures treated on the AIRB approach increased by DKK 20.5bn during 2019. Corporate clients account for the majority of this development.

For corporate clients the exposure increase of DKK +22.9bn is primarily related to the following factors:

- Increase of DKK 18.3bn in corporate clients exposures related to repurchase transactions. Because of a high collateralisation, the associated REA development is small.
- Increased mortgage lending in Jyske Realkredit A/S of DKK 7.9bn, which is associated with an increase in real property collaterals. REA for these exposures increased by DKK 1.9bn over the year.
- SME-related exposures (excl. repurchase and derivative transactions) decreased over the year with DKK 3.5bn, with an associated REA decrease of DKK 3.2bn. This is a result of a lower lending activity related to this segment during 2019.
- Large corporate exposures (excl. repurchase and derivative transactions) for the banking part of the Group shows a decrease of DKK 0.5bn in REA, which is associated to different portfolio effects e.g. ordinary PD-adjustments. The exposure related to this is largely unchanged.

The overall REA for the AIRB portfolio decreased by DKK 2.9bn during 2019, which relates to the developments described for corporate clients, and a decreasing REA for retail clients of DKK 1.0bn as a result of decreased lending of DKK 2.4bn over the year. The exposure development for the retail exposure class is a result of reduced overall lending in the bank; partly because of transfer of mortgage loans from Jyske Bank A/S to Jyske Realkredit A/S, but also reduced retail lending in addition to that.

The Group's average risk weight according to the AIRB approach decreased from 26.1% to 24.6% during 2019, which is mainly a result of the increased level of repurchase transactions with very low risk weights.

BREAKDOWN OF COLLATERAL BY COLLATERAL TYPE FOR EXPOSURE ACCORDING TO THE AIRB APPROACH								
	Exposure	Collateral					REA 2019	REA 2018
DKKm		Real property collateral	Financial Collateral	Physical collateral	Other funded collateral	Guarantee collateral		
Corporates, total	316,486	173,692	58,195	10,619	13	3,061	88,236	90,190
Large corporate clients	*242,269*	*165,391*	*32,509*	*3,930*	*5*	*841*	*66,334*	*64,928*
Specialised lending	*249*	-	-	-	-	-	*161*	*257*
SME corporates	*73,969*	*8,301*	*25,686*	*6,690*	*8*	*2,220*	*21,741*	*25,004*
Retail, total	219,917	191,069	944	7,095	1	49	43,455	44,417
Real property, personal	*191,792*	*187,686*	-	-	-	-	*35,792*	*36,348*
Real property, SMEs	*5,209*	*3,382*	-	-	-	-	*1,619*	*1,630*
Other retail, personal	*16,544*	*0*	*593*	*5,135*	*1*	*29*	*4,199*	*4,599*
Other retail, SMEs	*6,372*	-	*350*	*1,960*	*0*	*19*	*1,845*	*1,839*
Total 2019	536,404	364,761	59,139	17,715	14	3,110	131,692	
Total 2018	515,902	335,408	42,387	16,472	27	2,743		134,606

Note: The above does not include collateral of DKK 0.2bn at end-2019 recognised with a direct substitution impact where exposures are transferred to other counterparties as part of a guarantee arrangement. Furthermore, the table does not include securitisations (REA: DKK +829m; +444%) and other non-credit-obligation assets (REA: DKK +575m.; +9%), where the first is due to new and more restrictive legislation.

Loan impairment charges and provisions for guarantees

For all exposures, impairments are made in accordance with IFRS 9. The impairment model according to IFRS 9 is based on a calculation of expected credit losses where loans are divided into three stages, which depend on the individual loan's credit deterioration compared to the first recognition:

- Lending with the absence of a significant increase in credit risk (stage 1)
- Loans with a significant increase in credit risk (stage 2)
- Loans that are credit-impaired (stage 3)

Risk classifications

The Group divides exposures with objective evidence of impairment into three risk classifications: exposures with low, high and full risk. The latter two risk categories consist of credit-impaired exposures (stage 3) and are defined according to the default definition as used in the Group's advanced IRB setup.

Default clients only due to the 90 days past due-criteria can be considered by the Group to be non-credit-impaired after an individual assessment and moved from stage 3 to stage 2. This individual assessment is based on the client's financial situation, which must not show early warnings or any signals of financial difficulties.

On an ongoing basis - and at least quarterly - the Group assesses whether objective evidence of impairment relating to the Group's clients has emerged.

The Annual Report provides more information on the definitions for default and rating classes in note 50.

Impairment calculations

For loans at stage 1, impairments are made for expected credit losses in the coming 12 months, while for loans at stages 2 and 3, impairments are made for the expected loss in the loans' expected residual maturity. On initial recognition, the individual loans are placed on the basis of stage 1, whereby impairments are made for 12-month expected losses on initial recognition.

The classification into the 3 stages is of significance for the calculation method used and is determined, among other things, on the basis of the change in probability of default (PD) over the expected residual maturity of the loan.

The assessment of whether there has been a significant increase in the credit risk since initial recognition is based on the following factors:

- An increase in PD for the expected residual maturity of the financial asset of 100% and an increase of 12-month PD of 0.5 percentage point when the 12-month PD at initial recognition was below 1.0%.

- An increase in PD for the expected residual maturity of the financial asset of 100% or an increase of 12-month PD of 2.0 percentage points when the 12-month PD at initial recognition was 1.0% or more.

- The loan is in 30 past due or more.

- The Group's risk assessment (risk classification), which is based on, among other things, assessment of the client's ability and willingness to comply with his payment obligations, breach of contract/covenants and/or changes in the initial conditions for the client relationship.

In addition to the calculations, a managerial assessment is made of the ability of the models and the expert assessing impairment calculations to take into account all future expectations. To the extent that it is assessed that there are factors/risks that are not addressed in the calculations, a management estimate is made for the write-down calculations. This estimate is based on concrete observations and is calculated on the basis of the expected risks in the portfolio.

The calculated impairments (both individual and management's estimates) are based on the credit portfolio to ensure consistency to the accounting framework and are attributable to the specific exposures (specific credit-risk adjustments).

The Annual Report provides more detailed information on the impairment methods and processes.

Trend in loan-impairment charges and provisions for guarantees

The total balance of loan-impairment charges and provisions for guarantees stood at DKK 5.2bn at end-2019 (2018: DKK 5.6bn). The discount balance from acquired assets at end-2019 amounts to DKK 0.2bn against DKK 0.3bn at end-2018. Hence, the total balance of impairment charges and provisions inclusive of discount amounts to DKK 5.6bn (2018: DKK 6.0bn).

Provisions for financial instruments are recognised in the item value adjustments, and as the negative market value of financial instruments is included in the statement of EAD, the balance of these value adjustments is also shown in the table below. At end-2019, the balance of value adjustments amounted to DKK 103m (2018: DKK 87m).

IMPAIRMENT CHARGES AND PROVISIONS FOR GUARANTEES		
DKKm	2019	2018
Balance of impairment charges for loans and advances	4,861	5,250
Balance of provisions for guarantees and liabilities	373	364
Balance of loan-impairment charges and provisions for guarantees	5,234	5,614
Balance of discounts	223	303
Balance of loan-impairment charges and provisions for guarantees incl. balance of discounts	5,457	5,917
Balance of value adjustments	103	87
Balance of loan-impairment charges and provisions for guarantees incl. balance of discounts and balance of value adjustments	5,559	6,004

In 2019, the development in loan-impairment charges and provisions for guarantees amounted to DKK -23m (2018: DKK 608m), and Jyske Bank recognised as interest income DKK -78m (2018: DKK -139m) from the discount balance. Hence, the total net effect recognised in the income statement came to DKK -101m (2018: DKK 468m).

The effect from value adjustments on financial instruments came to DKK 16m in 2019 (2018: DKK 6m).

NET EFFECT FROM IMPAIRMENT CHARGES, ETC.		
DKKm	2019	2018
Loan-impairment charges and provisions for the year	-56	383
Recognised as a loss, not covered by loan-impairment charges/provisions	302	463
Recoveries	-269	-238
Loan-impairment charges and provisions for guarantees	-23	608
Recognised discount for assets taken over	-78	-139
Net effect on income statement	-101	468
Value adjustments for financial instruments	16	6
Net effect on income statement, inclusive of value adjustments	-85	474

EAD FOR ACCOUNTING PURPOSES AND PAST-DUE EXPOSURES BROKEN DOWN BY SECTOR

DKKm	EAD for exposures at stage 1	EAD for exposures at stage 2	EAD for exposures at stage 3	EAD for past-due exposures	Balance of loan-impairment charges and provisions for guarantees incl. discounts and value adjustment	Net effect from impairment charges and provisions for guarantees
Banks and mortgage-credit institutions	12,122	1,243	-	-	9	0
Construction	7,131	631	190	3	135	45
Energy supply	6,887	162	33	-	42	-23
Real property	155,097	5,519	2,280	1,501	1,008	-13
Finance and insurance	89,528	1,108	1,082	20	686	14
Manufacturing, mining, etc.	11,231	1,711	314	5	232	-76
Commerce	14,524	1,437	248	10	216	-44
Information and communication	911	124	375	0	274	215
Agriculture, hunting, forestry and fishing	7,517	1,387	1,286	11	870	-137
Transport, hotels and restaurants	7,083	764	109	6	107	-18
Public authorities	11,788	19	0	-	0	0
Other sectors	17,183	978	212	15	216	-10
Personal clients	209,059	10,245	3,820	1,248	1,763	-37
Total 2019	550,062	25,329	9,948	2,820	5,559	-85
Total 2018	514,689	33,546	10,986	3,204	6,004	474

EAD for past-due exposures amounted to DKK 2,820m of which DKK 2,701m are impaired at end-2019. Individual assessment of credit risk implies that the full amount of past-due exposures is not considered to be impaired.

Information and communication make up the most risky sector in terms of balance of impairment charges as a percentage of total EAD and are highly affected by a default on a single-name obligor. Total volume in the sector is relative low.

The balance of impairment charges for Agriculture, hunting, forestry and fishing as a percentage of total EAD amounted to 8.5% at end-2019. The sector experiences temporary improvements due to higher prices, however, the situation is still expected to be critical going forward.

The balance of impairment charges for real property as a percentage of total EAD amounted to 0.6% at end-2019. Improvements have been observed due to higher prices of commercial properties, but in general, the price development has slowed down.

The balance of impairment charges for personal clients as a percentage of total EAD is continuously low and amounted to 0.8% at end-2019.

Re-estimation and validation of models

On an ongoing basis, the credit-risk models are adjusted to improve quality and to ensure compliance with current and future legislation. Therefore, whether, based on statistical models or on expert opinions, the models behind the calculations of PD, LGD, EAD and collateral models are validated at least annually by the validation function. All new models will also go through an initial validation. The validation function is independent of the department responsible for developing the models.

The validation includes, for example, stability testing and back-testing, and its objective is to reveal any areas which require special attention. The purpose of stability testing is to monitor whether the models are stable over time. The identification of structural breaks and systematic changes is an important aspect when the models are applied to such long-time horizons as are involved in credit risk. The purpose of back-testing is to compare a model's predictions with what actually happened. Validation is carried out quantitatively as well as qualitatively.

Re-estimation and model improvements of the credit-risk models are undertaken when needed due to the validation results, changing business requirements or significant changes in the legal requirements.

The models also constitute a component highly applicable for other purposes than IRB such as IFRS9. The models forms a fundamental structure in this regard. The IFRS9 is also validated by the validation function.

The Group has a governance structure, which ensures that all changes to the IRB models are decided and documented by the Credit Risk Control Unit (CRCU). The CRCU receives information about all validation results and other relevant issues related to models and decides appropriate actions depending on materiality. The CRCU is responsible for communication of relevant issues to the senior management and for the ongoing dialogue about IRB models with the Danish FSA. The members of the CRCU are all senior experts with management responsibility in credit risk and modelling.

Counterparty credit risk

- The level of counterparty credit risk exposure at end-2019 increased a bit compared to end-2018 mostly due to interest rates decreasing during the year.

Counterparty Credit Risk is the risk of a financial loss due to a counterparty failing to fulfil its obligations. Counterpart Credit Risk is generated when Jyske Bank trades derivative contracts (interest rate, foreign exchange, equity, credit and commodity) with clients.

The financial loss is the market value of the derivative contract, that is, the cost of having to replace the contract at the current market price. The future market value of a contract is uncertain, due to the construction of the derivative contract, in which the value is dependent on the underlying market factors. Jyske Bank has a counterparty credit-risk exposure towards a certain counterparty when the market value is positive, meaning that if the counterparty defaults, Jyske Bank has lost this value.

Policy and management

Jyske Bank's policy for managing counterparty credit risk distinguishes between small and large counterparties where the latter includes financial institutions. The basic principle for measuring risk for the two types of clients is identical, however, the management of risk on large counterparties is extended to include additional management parameters.

Jyske Bank calculates its daily exposure to individual counterparties within the Group's counterparty credit-risk management system. These exposures are included in the credit-risk management in line with other credit exposures. Counterparties are granted lines in accordance with the instructions in force after risk assessment of the individual counterparty. The lines are reviewed at least once a year or in case of a change in creditworthiness of the respective counterparty.

The daily exposure is calculated as the sum of market values and market risks on a derivative portfolio with a counterparty where the market risk or the potential future exposure is determined as an add-on of the nominal amount of each transaction intraday and a portfolio calculation end-of-day. The size of the add-on depends on the type of trade, maturity and currency.

Risk reduction

To manage and monitor large counterparty exposures, the Group calculates settlement risk. To reduce the settlement risk towards each individual counterparty, transactions will, to the extent possible, take place through a Continuous Linked Settlement system (CLS). Jyske Bank is a third-party member of the CLS system in which settlement is based on the principle of "payment to payment", thus reducing the risk of settlement risk on foreign-exchange derivative transactions between participants of the system.

For all derivatives transactions, the Group seeks to mitigate the risk further by:

- Clearing through a Central Counterparty (CCP);
- Requiring master netting agreements, which gives the Group the right to net market values of derivative trades in case of counterparty default;
- Attaching collateral management agreements to the master netting agreements, which entitles the Group to collateral in case the counterparty's debt to Jyske Bank exceeds an agreed amount.

The table below shows to which extent the group clears derivatives through a CCP. Of the total amount of principals not cleared in 2019, over 90% was covered by netting and collateral agreements.

OTC DERIVATIVES - NOTIONAL AMOUNT		
DKKm	2019	2018
CCP	893,683	895,405
Non-CCP	1,209,757	1,301,336
- Collateralized	*1,115,606*	*1,212,517*
- Non-collateralized	*94,151*	*88,819*
Total	2,103,440	2,196,741

From September 2020 the Group will be obliged to fulfil the EMIR requirements on Initial Margin for non-cleared derivatives. An examination has shown that the consequences on counterparty credit risk are negligible since the Group expects to be exempted by the Initial Margin Threshold of EUR 50m.

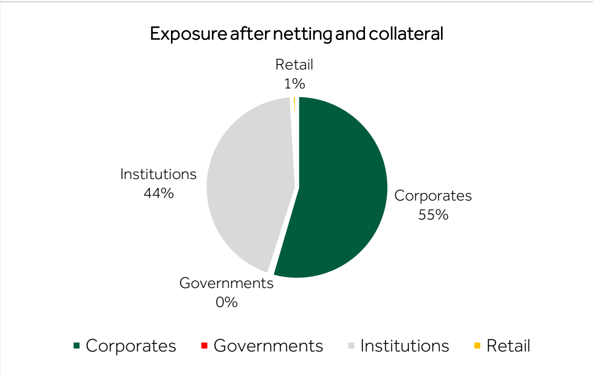
Risk Profile

Jyske Bank measures counterparty credit risk in terms of the market value of a portfolio with a given counterparty, which takes into account any allowed netting and collateral exchanged with the counterparty. The table below shows the Group's exposure at end-2019 for counterparties except CCPs.

COUNTERPARTY CREDIT-RISK EXPOSURE		
DKKm	2019	2018
Gross exposure	36,766	29,888
Effect of netting	30,324	23,368
Exposure after netting	6,442	6,520
Effect of collateral	597	927
Exposure after netting and collateral	5,845	5,593

Agreements on collateral with financial counterparties and large corporate clients are mutual agreements, which means that Jyske Bank must pay margin for the counterparty if the market value in favour of the counterparty exceeds an agreed limit. At end-2019, the Group's collateral holdings mostly consisted of cash, however, some agreements also allowed exchange of collateral in the form of government bonds issued in Denmark, the United States, Germany, France and Danish mortgage bonds.

The following figure breaks down the counterparty credit-risk exposure in sectors.



At end-2019, the Group's total exposure, after taking into account any netting and collateral allowed, amounted to DKK 6.5bn of which over 98% was towards the corporate and institutions segments.

The Group's portfolio of Credit Default Swaps (CDS) is limited, and the net nominal exposure amounts to DKK 278m at end-2019 divided on 5 bought and 3 sold contracts. Underlying exposures consist of individual government credits and credit indices.

Wrong-Way Risk

Wrong-way risk occurs when the exposure to a counterparty is negatively correlated with the credit quality of that counterparty. General wrong-way risk (GWWR) occurs when the credit quality of a counterparty is correlated with specific macroeconomic factors that also affect the value of the derivative transaction. Specific wrong-way risk (SWWR) arises when the exposure to a counterparty is positively correlated with the probability of default of that counterparty due to the type of transaction with the counterparty.

In the event of SWWR, there is a legal relationship between the counterparty and the issuer of the underlying OTC derivative or securities-financing transactions. An example is if the Group receives collateral from a counterparty which is issued by this very counterparty. It could be the case if the Group enters into repo transactions with a counterparty and the underlying paper is issued by the same counterparty. It is Jyske Bank's policy not to assume considerable SWWR, and the Group has procedures in place to monitor this.

Own funds requirements

Capital must be set aside for counterparty credit risk in accordance with CRR. Jyske Bank calculates its capital requirements using the Current Exposure Method (CEM), in which the exposure at default (EAD) is calculated as the current market value of a portfolio recognising allowed netting and collateral exchanged plus an add-on for potential future credit-risk exposure in which a maximum of 60% netting of the risk is allowed. The own funds requirement for counterparty credit risk is reported as a part of the own funds requirement for credit risk.

Furthermore, capital must be set aside to cover the Credit Valuation Adjustment (CVA) risk. This capital charge covers only the Group's exposures towards financial counterparties, since other counterparties are exempted by the CRR. Jyske Bank therefore makes a capital addition to cover the risk that the probability of default for non-financial counterparties increases.

The total capital requirement from counterparty credit risk, EAD and CVA, is almost unchanged compared to end-2018.

Market risk

- The market-risk exposure from the trading-related activities was primarily driven by client flow and was kept at a moderate level in 2019. The main conditions affecting the managing of market risk in the trading book have been the comprehensive effect of falling interest rates on the market for Danish mortgage bonds, with effects such as large prepayment rates on Danish convertible bonds and increased turnover in general.

- Low interest rates dominated the banking book interest-rate risk management and the implementation of negative interest rates was the main focus of attention during 2019. A low partial hedge of the negative interest-rate risk from deposits was maintained.

Market risk is the risk that Jyske Bank will incur losses due to changes in market prices affecting market values or the Group's net interest income. Jyske Bank assumes market risk from position taking in the financial markets and general banking and mortgage-banking operations.

Certain financial instruments include elements of credit risk, which are managed and monitored in parallel with market risk.

Governance and responsibility

The Group Supervisory Board owns the Market Risk Policy, setting the Group's overall market-risk profile and framework. The policy is implemented through limits delegated to the Group Executive Board.

The Group Executive Board's limits are further restricted and delegated to the three heads of the Jyske Markets, Group Treasury and Jyske Realkredit (first line of defence). The three business units are the sole units of the Jyske Bank Group that may assume significant market risk.

Market Risk and Models is the second line of defence unit that is responsible for the risk framework for market risk and oversees market risks and monitors delegated limits. This includes establishing methodologies for measuring and assessing market risk, setting limits and ensuring an appropriate risk control infrastructure.

Internal Audit (third line of defence) is the independent unit that evaluates the effectiveness of the risk management, monitoring and governance setup.

The Group Treasury Committee monitors market developments closely and is therefore able to adjust for any discrepancies between the Group's actual risk profile and its desired risk profile.

Monitoring and reporting

All risk positions in the Group's trading portfolio are monitored daily. The Group Executive Board is notified immediately of any exposure that breaches the delegated limits or is in conflict with the Market Risk Policy. Upon a breach, the responsible business unit is requested to provide an explanation and rectifying plan. The Group Supervisory Board is notified immediately if an exposure exceeds the overall authority of the Group Executive Board.

New products and services are reviewed in relation to the Group's risk management infrastructure and IT systems.

The development of the market-risk exposure of the various units is reported monthly to the Group Executive Board and quarterly to the Group Supervisory Board.

Market risk management

In the management of market risk, the Group distinguishes between:

- Trading-related market risks;
- non-trading-related market risks which are handled by Group Treasury

Trading-related market risks arise primarily from portfolios in Jyske Markets where client-related transactions drive the risk profile. This means that differentiated portfolios characterize the market-risk profile across interest-rate risk, foreign-exchange risk and equity risk where interest-rate risk and foreign-exchange risk are the main market risks. Commodity risk is hedged on a daily basis. Group Treasury is responsible for strategic market-risk positions in the trading book, which primarily consists of interest-rate risk and foreign-exchange risk.

Non-trading-related market-risk exposure arises from asset and liability management and is placed in the banking book. The exposure originates from exposure to interest-rate risk founded in core banking and mortgage-lending activities as well as funding and liquidity management.

In addition, the Group holds a portfolio of shares not held for trading, which is primarily relating to the ordinary operating activity of the Group.

Developments in market risk

The main circumstances effecting the managing of market risk in the trading book were falling interest rates during 2019. The development has had a comprehensive effect on the market for Danish mortgage bonds, with effects such as large prepayment rates on Danish convertible bonds and increased turnover in general. Key risk figures were in large driven by market-making activities related to Danish mortgage bonds, Nordic FX and investment funds. The FX risk is concentrated in EUR and a diversified portfolio of investment funds drove the equity risk. The Group has only a minor portfolio of single shares.

Management of the market-risk profile related to asset and liability management was focused on continuing low interest rates and the negative impact from the core business. Key risk figures from the bond portfolio were kept at a moderate level relative to the framework with a concentration in the short term and DKK exposure.

Own funds requirements for market risk

During 2019, REA from market risk declined by DKK - 1.6 billion to DKK 11.6 billion. Main reason was lower market risk from the Group's equity portfolio.

OWN FUNDS REQUIREMENT FOR MARKET RISK

DKKm	2019		2018	
Risk type	REA	OFR*	REA	OFR*
Debt instruments	8,228	658	8,129	650
Equity	1,860	149	3,074	246
Commodity	-	-	-	-
Foreign exchange	1,517	121	1,953	156
Total	11,606	928	13,156	1,052

Note: OFR = Own funds requirements

Methodologies

Every market risk type has its own characteristics and is managed by means of individual risk measurements as well as through stress testing like the Group's VaR model and interest-rate scenarios. The management of market risk associated with derivatives is supplemented by risk measurements developed in accordance with conventional option theory.

Interest-rate risk

The Group measures interest-rate risk as the gain or loss generated by shifts in the yield curve. In addition to a simple simultaneous 1-percentage point shift in all yield curves the Group also measures and limits the interest-rate risk under different scenarios including variants of curve twists.

Interest-rate risk is calculated on contractual cash flows. Jyske Bank has no fixed-rate balances without an agreed due date. Certain loans are fixed-rate loans and can be prepaid. Jyske Bank has developed a risk-management model that adjusts the key-risk figures for mortgage bonds for the built-in option element of the bonds. Therefore, callable mortgage bonds are included in the interest-rate risk with the option-adjusted duration.

Interest-rate risk in the banking book

Interest-rate risk in the banking book (IRRBB) is measured and monitored separately from trading-related interest-rate risk.

On a monthly basis, the Group measures and monitors IRRBB within a risk-appetite framework founded in the Market Risk Policy laid down by the Group Supervisory Board. IRRBB is measured in respect to both economic value and earnings at risk within a 12-month horizon in different interest-rate scenarios, including both parallel and non-parallel shifts in interest rates. In addition to the monitoring of overall risk appetite, sub-elements of IRRBB are measured on a daily basis in respect to the additional limiting.

The asset and liability management of the Group drives the interest-rate risk in the banking book, and a number of activities and risk factors drive the interest-rate risk. Here amongst factors such as funding and liquidity risk, interest-rate risk from non-maturing deposits, and optionality and interest-rate floors within client products.

Management of interest-rate risk in the banking book is addressed by hedging with different instrument types and with a high attention on alignment in accounting principles.

The interest-rate sensitivity in the banking book, measured by economic value, is illustrated below in a 50-point parallel shift in interest rates. Potential further actions from management on negative retail deposit rates would impact (reduce) the loss for decreasing rates. For this reason, we do not find it relevant to calculate numbers for scenarios with larger rate movements. The figures do not include the pickup in NII from deposits, resulting from a realisation of current forwards:

INTEREST-RATE RISK IN THE BANKING BOOK

DKKm	2019		2018	
	+50bp	-50bp	+50bp	-50bp
DKK	286	-819	352	-550
EUR	60	-63	61	-55
Other	-4	4	-4	4
Total	342	-878	409	-601

A sudden parallel increase in interest rates would positively impact the Group's economic value from the banking-book positions, whereas decreases in interest rates reduce the economic value. The sensitivity to falling interest rates increased from DKK -601 million in 2018 to DKK -878 million in 2019.

Rates on non-maturing deposits have been of highest attention in the Group during 2018 and 2019, finally leading the Group to implement negative interest rates for private clients during the fall of 2019.

Foreign-exchange risk

Jyske Bank's foreign-exchange risk indicators are calculated on the basis of currency indicator 1 in accordance with the Danish Executive Order on the Presentation of Financial Statements laid down by the Danish FSA.

Currency indicator 1 does not take into account the fact that some currencies are more volatile and perhaps less liquid than others. For management purposes, Jyske Bank therefore uses more granular risk indicators.

Equity risk

The daily measuring of equity risk distinguishes between equities in- and outside the trading portfolio.

The exposure of the trading portfolio is measured on the basis of the stock holdings as well as equity-based instruments. The equity risk is determined through risk measurements that indicate the maximum loss that Jyske Bank may incur in the event of different simultaneous changes in the underlying equity prices.

Equity exposure not included in the trading portfolio is primarily financial-sector shares relating to the ordinary operating activity of the Group.

SHARES NOT HELD FOR TRADING

DKKm	2019	2018	Unrealised gain	Realised gain
Total	1,729	2,850	134	12

The holding decreased in 2019 primarily due to sell-off.

Shares are valued at fair value though associate holdings are recognised in accordance with the equity method as described in the Group's annual report. Unrealised capital gains/losses have influenced the operating income.

Commodity risk

Jyske Bank's exposure to commodities is modest, and the commodity risk is determined and limited according to simple-risk measurements.

Credit-risk exposure

Jyske Bank's exposure to credit risk on financial instruments relates mainly to bond holdings.

Jyske Bank manages the exposure by limiting concentration risk expressed as the credit quality of the instruments as defined by ratings granted by recognised international rating agencies. On the basis of the credit quality of the instruments, concentration risk is calculated for rating classes and bond types. This means that there are different limits depending on whether the instrument is a government, a corporate bond or a securitisation. For equities, a concentration risk limit has been defined geographically and for individual exposures.

In addition, risk management of the Group's portfolio of mortgage bonds is supplemented with limits for credit-spread risk.

Securitisations

The Group's activity within securitisation is investment in tranches issued by other institutions and legal entities. The Group does not invest in re-securitisations and acts as neither an originator nor a sponsor. Investment is made in traditional securitisations and distributed on the following securitisation types:

- RMBS primarily consisting of AAA-rated senior tranches;
- CLOs/CDOs consisting predominantly of AAA.

Since credit risk on the underlying assets is the most significant, the Group limits itself to acquiring positions that are most senior in the capital structure and highly rated by rating agencies.

The portfolio's positions are acquired with the intent of holding them until maturity and therefore held in the banking book. As such, they are booked at amortised cost though a small amount of legacy positions are at fair value.

The level of the underlying market and credit risks in securitisations is monitored continuously and is analysed at least every quarter. The analyses are based on trustee reports and also information from rating agencies or other external sources.

The securitisation types and the geographical exposure of the underlying assets of the portfolio are shown in the table below.

EXPOSURE TYPES FOR SECURITISATIONS					
DKKm	European	American	Other	Total 2019	Total 2018
RMBSs	286	-	-	286	497
CLO	3,551	2,382	-	5,933	1,757
ABS	-	1	-	1	1
Total 2019	3,837	2,283	-	6,220	2,255
Total 2018	1,002	914	339	2,255	

The Group increased the portfolio of securitizations significantly during 2019. All new investments in CLOs have an AAA-rating, broken down in the table below, and with senior status in accordance with the Market Risk Policy.

BREAKDOWN OF RATINGS (Standard & Poor's / Moody's)		
DKKm	2019	2018
AAA / Aaa	5,902	1,839
AA / Aa	269	359
A /A	51	57
BBB / Baa	-	-
BB/Ba	-	-
Lower or no rating	-	-
Total	6,220	2,255

Own funds requirements for securitisations

Jyske Bank applies a rating-based method in the calculation of the own funds requirement. The requirement for securitisations was higher in 2019 in line with the increased exposure taken during the year. In addition, new regulation on own funds requirement from securitisations applied to positions acquired in 2019, which gave rise to higher risk weights as shown in the table.

OWN FUNDS REQUIREMENT FOR SECURITISATIONS				
DKKm	2019		2018	
Risk weight - ranges	Exposure	OFR*	Exposure	OFR*
≤ 20%	6,180	80	2,202	14
> 20% ≤ 50%	42	1	53	1
> 50% ≤ 100%	-	-	-	-
> 100% < 1,250%	-	-	-	-
1,250% / deduction	-	-	-	-
Total	6,220	81	2,255	15
Of which in the trading portfolio	-	-	-	-

Note: OFR = Own funds requirements

Liquidity risk

- During 2019, the Group maintained a very high degree of excess coverage in terms of the stress-based internally delegated limits and guidelines.
- Despite further extension of negative interest rates on deposits; including private deposits and lower rates deposits held up well. Only lately a moderate decline within expectations was detected.
- During 2019, capital-market were characterized by an ongoing risk-on sentiment and credit spreads tightened continuously across all asset classes throughout the year.
- The gradual replacement of the Group's old preferred senior debt with the new MREL-eligible non-preferred senior debt, continued during 2019 via the issuance of a EUR 500m non-preferred senior bond in 5NC4 format.

Liquidity risk occurs due to funding mismatch in the balance sheet. The Group's liquidity risk can primarily be attributed to its bank-lending activities as the bank-loan portfolio has a longer contractual duration than its average funding sources. The liquidity risk at Jyske Realkredit is contained due to the adherence to the balance principle of the mortgage legislation for covered bonds.Jyske Realkredit on the other hand faces liquidity risk related to declining real estate prices due to regulatory overcollaterisation requirements.

Objective and overall setup

The Group Supervisory Board determines the liquidity profile expressed as the balance between the risk level and the Group's costs of managing liquidity risk. Jyske Bank's liquidity management must ensure adequate short- and long-term liquidity so the Group can in due time honour its payment obligations by having reasonable funding costs.

Organisation, management and monitoring

The Group Supervisory Board has adopted a liquidity policy which defines specific critical survival horizons for the Group during adverse stress scenarios. Based on these general guidelines, the Group Executive Board has defined specific operational limits for Jyske Markets as well as Group Treasury, which monitor and manage liquidity on a daily basis in accordance with the limits and liquidity policies adopted. Group liquidity management is conducted by Group Treasury.

Jyske Realkredit is subject to liquidity-related restrictions in respect of the investment profile in the securities portfolio, repo borrowing as well as money-market placements outside the Group to ensure that transactions of Jyske Realkredit are in line with statutory requirements as well as the internal guidelines at Jyske Realkredit and at Group level.

Market Risk & Models monitor liquidity positions daily for observance of the delegated limits. Liquidity positions that exceed the authorised limits are reported immediately according to the business procedure relating to market risks.

The Group's responsibility for issuing bonds in the capital market is centralised at Group Treasury. When necessary, liquidity or capital can be distributed from Jyske Bank A/S to Jyske Realkredit and other financial subsidiaries. As a mortgage-credit institution, Jyske Realkredit must comply with mandatory overcollateralization within the scope of the privileged position of covered bond investors in a bankruptcy scenario. In a scenario with declining house prices, Jyske Realkredit may need to have liquidity injected into its capital centres from Jyske Bank to fund supplementary collateral and to ensure the capital centre's compliance with S&P's over-collateralisation requirements (OC requirements).

Short-term liquidity management

Jyske Markets manage short-term operational liquidity, which is active in the international money markets as a trader in all major currencies and related derivatives and as a market-maker in the Nordic inter-bank money markets. Jyske Markets has been granted specific limits for the maximum placement of longer-term deposits in the same markets. Short-term funding in these markets forms part of the overall Group limits for short-term funding within strategic liquidity management.

Strategic liquidity management

Strategic liquidity is managed by Group Treasury based on the measurement of the Group's liquidity position in various stress scenarios. The asset side of the liquidity balance is broken down and grouped in order of liquidity whereas the financial liabilities are grouped according to expected run-off risk in various scenarios. In relevant stress scenarios, the liquidity buffer is used to cover negative payment gaps. During 2019, the Group's liquidity stress scenarios have been redefined. In addition to the survival horizon in these stress scenarios, the Group's compliance with the LCR ratio in stress scenarios is monitored. Three scenarios are used: an idiosyncratic scenario, a capital market scenario and a combination scenario.

For more detailed information on the stress scenarios used, see the Group's Annual Report 2019.

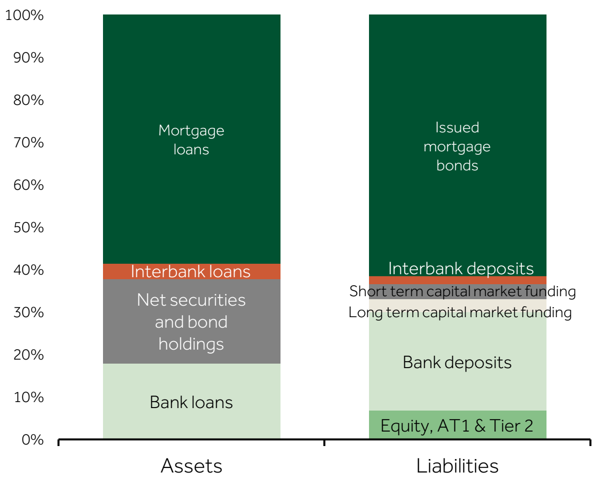
Liquidity contingency plan

The liquidity contingency plan comes into force if the Group can only meet the internally delegated limits at very high costs or is ultimately unable come back to compliance with limits. The plan determines a broad range of initiatives that can be used to strengthen the Group's liquidity position.

During 2019, Jyske Bank had a very high degree of excess coverage in terms of the stress-based internally delegated limits and guidelines.

Group funding structure

From the perspective of liquidity risk, Jyske Bank's overall balance-sheet structure is reflected in the following chart.



The chart shows how Jyske Realkredit's mortgage activities are reflected in the Group's balance sheet in the form of mortgage loans funded by issued mortgage bonds.

In addition to mortgage bonds, the Group's primary source of funding is deposits from clients; the deposit base is even granular and well-diversified from a broad client base. As reflected in the chart, client deposits funded 120% of bank loans at end-2019, which is unchanged compared to the end of 2018.

The Group's deposit surplus contributes to the funding of the Group's net holdings of securities[3]. Other important funding sources are primarily short- and long-term bonds issued in the international capital markets. In addition, Jyske Markets funds its own wholesale-related activities by taking up unsecured as well as secured loans in the wholesale fixed-term and interbank markets. Continuous activity in the above-mentioned markets enhances the possibility of refinancing short-term positions and is a natural part of the business of Jyske Markets.

The Group's liquidity buffer

Jyske Bank's liquidity buffer consists solely of assets which can be sold immediately or pledged as collateral for loans and are therefore a swift and efficient source of liquidity. The procurement of secured funding does not depend on Jyske Bank's creditworthiness, but solely on the quality of the assets that can be offered as collateral. The measurement of the Group's liquidity buffer takes into account haircuts of the relevant assets.

Jyske Bank's holding of securities is divided into three groups in the internal liquidity management in order of liquidity:

1) Ultra-liquid assets (intra-day liquidity)
Assets placed with the Danish Central Bank or the ECB with intra-day liquidity effect: Cash deposits at the ECB or the Danish central bank, certificates of deposit with the Danish central bank.

2) Very liquid assets (central bank eligible)
Assets eligible for borrowing transactions in the Danish central bank or the ECB: Danish government and mortgage bonds and covered bonds, European covered bonds, RMBS and government bonds.

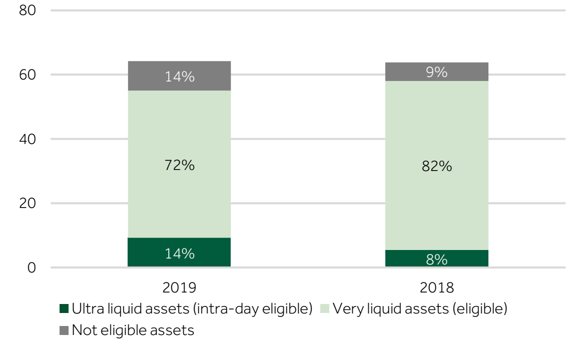
3) Non-central bank eligible assets (not eligible at central banks): Other negotiable securities with a longer realisation period. Securities in this group consist primarily of assets denominated in currencies other than DKK and EUR as well as emerging-market bonds, corporate and structured bonds and equities.

Jyske Bank has adopted a general policy for the size and quality of its liquidity buffer, which is adjusted to suit the Group's balance-sheet composition and risk profile. In practice, the liquidity buffer policy implies that the liquidity buffer consists predominantly of assets from liquidity groups 1 and 2 as there is a high degree of consistency to the requirements for LCR-reserves.

[3] Repo holdings have been netted, i.e. repo has been deducted and repo reverse added. Adjustments have been made for loans with central banks.

At end-2019, Jyske Bank had a definite overweight of very liquid assets as illustrated by the below chart. The very liquid assets faced a reduction, whereas not eligible assets increased over the year, however, the overall composition of the buffer was unchanged from 2018 to 2019.

Development in the Group liquidity buffer



The table below shows the development of Jyske Bank's liquidity buffer over a 12-month period under stress scenario 3. At end-2019, the Group's liquidity buffer amounted to DKK 64bn, the same as end-2018. The reserve consists mainly of Danish mortgage bonds and covered bonds. DKK 55bn of the buffer is eligible at either the Danish Central Bank or the ECB; only slightly reduced during the year.

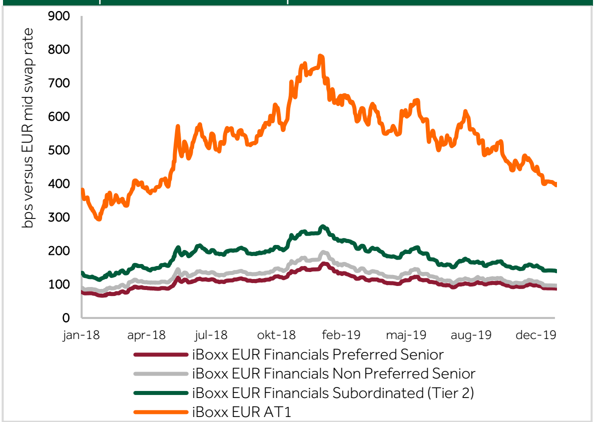
Liquidity reserve and run-off

	2019	2018	Index 19/18
Beginning of period	64.3	63.9	101
3 months	56.5	52.0	109
6 months	48.8	46.1	106
9 months	44.2	41.7	106
12 months	42.2	39.4	107
24 months	34.0	34.1	100

Capital markets

As reflected in the chart below, the development in the international debt capital markets during 2019 has been overall positive in contrast to 2018 which was dominated by high market volatility and a widening of credit spreads. High household savings and a low demand for credit have resulted in high cash-inflows in investment funds during 2019. Negative interest rates and continued accommodative QE measures from the ECB ensured an overall risk-on sentiment and tightening of credit spreads during 2019, especially for high-yield assets such as subordinated Tier 2 debt and AT1 capital.

Development in credit spreads 2018 & 2019



At end-2019, senior unsecured debt issued under the EMTN programme amounted to DKK 23.3bn (EUR 3.1bn) against DKK 19.6bn (EUR 2.6bn) at end-2018. Outstanding issues of subordinated Tier 2 notes remained unchanged at DKK 3.3bn (EUR 0.4bn).

At end-2019, outstanding bonds under the CP programme amounted to DKK 15.6bn (EUR 2.1bn) which is roughly unchanged from end-2018.

Group refinancing risk

Refinancing risk is the risk of a financial institution not being able to refinance maturing deposits, senior debt, covered bonds or other liabilities, or the risk that the refinancing cost will be so high that it will adversely affect net-interest income.

The refinancing risk of deposits and senior unsecured funding at Jyske Bank is addressed, monitored and managed via the Group's internal limits and the integration of stress scenarios in daily liquidity-risk management. Jyske Realkredit's mortgage bonds dominate the Group's refinancing risk measured by volume.

Refinancing risk covered bonds

Through Jyske Realkredit the Group is a major issuer in the Danish market for SDOs and has a high dependency on secured capital-market funding on a covered bond basis.

Jyske Realkredit's outstanding volume of covered bonds and mortgage bonds increased from DKK 324.2bn at end-2018 to DKK 357bn at end-2019. The refinancing risk from mortgage activities was further reduced through 2019 as customers took up a higher percentage in long fixed rate callable mortgages.

Long fixed-rate callable covered bonds have no refinancing risk. The proportion of loans with refinancing risk amounts to DKK 207.8bn and 64% of Jyske Realkredit's lending volume . The maturity profile for mortgage loans with refinancing risk, as of end-2019, is illustrated in the chart below.

Maturity profile for SDOs with refinancing risk

Refinancing of senior debt and capital instruments

Refinancing risk at Jyske Bank A/S is related to the wholesale fixed-term market, the interbank market, the CP and the market for preferred and non-preferred debt. In addition, refinancing of the Group's capital instruments according to the Group's capital targets and capital policy must also be addressed.

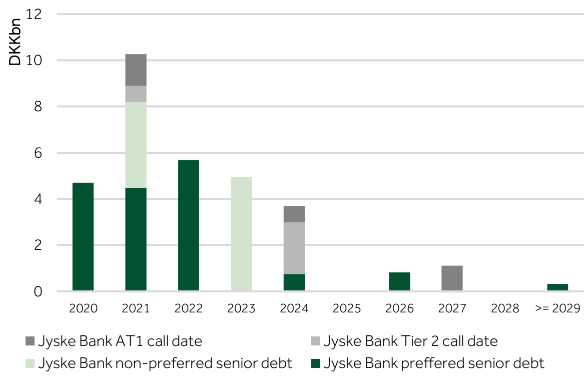
Furthermore, monitoring and assessing the structure and quality of the deposit base is imperative to assess the overall need for longer-dated funding to hedge overall refinancing risk.

The Jyske Bank Group has a high-quality deposit base with a high proportion of small deposits from SMEs and private individuals.

The run-off of wholesale fixed-term deposits, interbank deposits, CP and EMTN issues is monitored and managed via the use of stress scenarios. In addition, the Group has limits on the maximum funding in each separate short-term funding market and a rolling 12-month guideline on the maximum amount of senior debt maturing within a 12- month horizon.

The run-off profile of the Group's preferred and non-preferred senior debt and the issuer call date profile of outstanding capital instruments as of end-2019 is illustrated in the chart below.

Maturity profile/call date profile



Debt buffer requirement at Jyske Realkredit

As part of the Danish BRRD framework, mortgage-credit institutions are required to establish a debt buffer equal to 2% of their total (unweighted) mortgage lending to facilitate a more flexible resolution process. The debt buffer requirement is gradually implemented and increased to 90% in 2019 and the full 100% in 2020.

MREL & issuance of non-preferred senior debt

All the Group's preferred senior debt issued before 1 January 2018 with a residual maturity above one year can be included in the Group's MREL from the commencement of the MREL requirement on 1 July 2019 until the end of 2021 ("grandfathering").

The Danish FSA requires that the Group meets the MREL requirement with contractually subordinated debt (non-preferred senior "NPS") from 1 January 2022.

The Group plans to maintain a total amount of EUR 2.5bn of MREL-eligible instruments from the end of 2021. As part of the gradual replacement of the Group's old preferred senior debt with new non-preferred senior debt, Jyske Bank in 2019 issued a non-preferred senior bond of EUR 500m in the format of a 5-year bond with an issuer's call right after 4 years. The credit spread was EUR m/s + 95 bps (3M cibor + 83 bps).

Compliance with MREL

As of end-2019, Jyske Bank fulfils the MREL requirement with a substantial buffer. Jyske Realkredit complies with the fully phased in debt-buffer requirement based primarily on its high capitalisation supplemented by smaller issue of non-preferred-senior issue.

For more information on the Group's MREL position, issued NPS bonds and compliance with the 2% debt-buffer requirement in Jyske Realkredit as well as the new 8% requirement, please see the below link which is updated on a quarterly basis:
investor.jyskebank.com/investorrelations/debt

Liquidity risk legislation and supervisory diamond

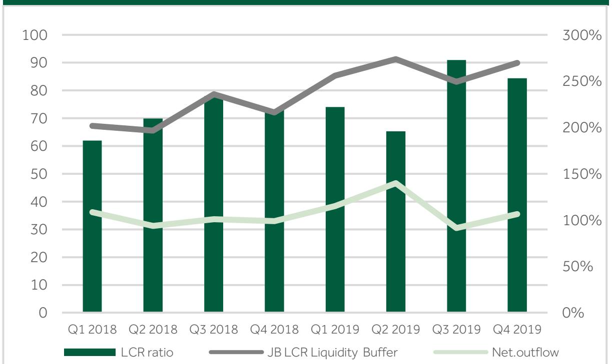
The daily calculation of the LCR ratio is the key short-term limit for liquidity risk management.

As of end-2019, the Group's LCR was 253% compared to 219% as of end-2018. The composition of the Group's LCR buffer net of haircuts as of end-2019 is shown below:

Group LCR liquidity buffer		
Asset classes	mia. DKK	%
Level 1a	43.5	48.4%
Level 1b	43.3	48.2%
Level 2a+2b	3.1	3.4%
Total	89.9	100%

The development in the Group's LCR liquidity buffer, the net LCR outflow and the LCR ratio on a quarterly basis is illustrated in the chart below.

Group LCR 2018-2019



The minimum target for the LCR is 150% for the Group as well as at bank level.

As a Danish SIFI, Jyske Bank must also comply with a modified LCR requirement in EUR. Jyske Bank is fully compliant with a substantial buffer to the 100% requirement as of end-2019.

The Danish Financial Supervisory Authority introduced a new liquidity ratio in the supervisory diamond at mid-2018. The ratio is a simplified version of LCR. The liquidity reserve has no minimum requirement for the proportion of 1a assets and holdings of own SDOs are included, but the survival horizon is extended to 90 days. At the end of 2019, the Group's ratio was calculated at 188% compared to 171% end of 2018.

Net Stable Funding Ratio will become a statutory requirement as of end June 2021. The political agreement included a paragraph recognizes the virtues of the so-called "maturity extension trigger" in the Danish mortgage bond legislation. This means, that as all bonds will be "closely related to the loans" ("regulatory match") NSFR compliance at Jyske Realkredit will be relatively easy to achieve because other limitations are more restrictive.

At Group level, Jyske Bank was fully NSFR-compliant throughout 2019 with the current tougher Basel recommendations and the Group NSFR as of end-2019 was 105.7% compared to 103.1% at end-2018.

Funding plans

The Group's funding plans in the international capital markets will in the coming years include an annual NPS benchmark bond (EUR 500 million) from Jyske Bank and an SDO benchmark bond in EUR from Jyske Realkredit.

Funding in the supervisory diamond

The benchmark of the supervisory diamond for mortgage-credit institutions relating to loans with short-term funding must be met as of 2020.

Jyske Realkredit has been fully compliant with the supervisory diamond since 2016.

Loans with frequent interest-rate fixing			
	Benchmark	2018	2019
Refinancing (yearly)	< 25%	14.7%	15.0%
Refinancing (quaterly)	< 12.5%	3.1%	1.7%

Asset encumbrance

Asset encumbrance is a natural and inevitable part of the Group's daily activities. However, a large asset encumbrance on the Group's assets will entail a structural subordination of the Group's unsecured creditors. To ensure that the Group at all times has access to unsecured funding, a policy has been established to ensure that asset encumbrance is not extended to any inexpedient extent.

At Jyske Bank, the following types of asset encumbrance of material extent have been identified. The primary sources of asset encumbrance stem from the following:

- Issuance of covered bonds
- Periodical short-term funding in central banks (Danmarks Nationalbank and the ECB)
- Repo financing
- Derivatives and clearing activities

Asset Encumbrance	End of Q4 2019		End of Q4 2018	
	Group	Jyske bank A/S	Group	Jyske bank A/S
Total encumbered assets	446.1	80.1	397.6	49.7
of which: derivatives collateral	27.1	27.1	24.0	24.0
of which: REPO	34.0	47.6	21.9	22.5
of which: Central Bank funding	3.8	3.8	1.9	1.9
of which: SDO-issuance	379.6	0.0	344.1	0.0
of which: other assets	0.0	1.1	0.0	1.1
Total assets	649.6	304.1	601.7	280.3
Encumbrance ratio	68.7%	26.3%	66.1%	17.7%

As the amounts in the above table[4] suggest, the issuance of covered bonds out of Jyske Realkredit is by far the most substantial source of encumbrance. Issuance of covered bonds is a long-term and strategically important instrument to ensure stable and attractive funding.

Credit ratings

The Jyske Bank Group is rated by Standard & Poor's (S&P). Jyske Bank's stand-alone credit profile ("SACP") has been A- with a stable outlook since 2011. Jyske Realkredit has the same rating as Jyske Bank.

Based on the Group's expected issuance of EUR 2.5bn of additional loss absorbing capital ("ALAC") before the end of 2021, Jyske Bank's issuer rating was granted a positive outlook by S&P in April 2018.

On 23 October 2019, Jyske Bank's issuer rating was upgraded to A/A-1 from A-/A-2 as S&P changed its assessment of the individual components of the Danish BICRA; Economic Risk and Industry Risk. S&P upgraded Economic Risk in Denmark from a "3" to a "2" and downgraded Industry Risk from "3" to a "4". Although overall the Danish BICRA remains unchanged the change of the individual components had a positive impact on Jyske Bank.

- The RAC: An Economic Risk of "2" caused the risk weights for the calculation of Jyske Bank's RAC to decrease significantly. Jyske Bank's RAC as of end of 2019 is calculated to 12.1% (compared to the end of 2018 reported RAC of 10.3%).

- Preferred Senior Rating/Issuer Rating: As S&P's risk weights are reduced, Jyske Bank's amount of ALAC was considered by S&P to be sustainably above their 5% threshold.

Following the upgrade of the issuer rating PS debt from Jyske will therefore be rated A (previously A-), and the short-term rating will be A-1 (previously A-2).

The ratings of Jyske Bank's other debt and capital instruments remain unchanged; NPS debt is rated BBB+, subordinated Tier 2 capital is rated BBB, and the rating of AT1 capital is BB+ as the NPS, Tier 2 rating and the AT1 are notched down by one, two and four notches, respectively from the Group's stand-alone credit profile ("SACP).

Jyske Realkredit issues mortgage bonds from Jyske Realkredit's Capital Centre E (SDO), which are rated AAA. It is a key objective of the Group to maintain S&P's AAA rating for Jyske Realkredit's capital centres.

The capital requirement to maintain the AAA rating for Jyske Realkredit's capital centres is assessed continuously by S&P, among other things, on the basis of Jyske Realkredit's issuer rating as well as the growth and composition of the loan portfolio at the capital centres. At end-2019, the capital requirement from S&P totalled DKK 11.6bn against DKK 10.8bn at end-2018.

Standard & Poor's ratings

Jyske Bank issuer rating profile	rating	outlook	Jyske Realkredit ratings of Mortgage bonds	
Stand Alone Credit Profile (SACP)	A-	stable	CRD-compliant covered bonds from Capital Center E	AAA
Short term unsecured rating (preferred senior)	A-1	stable		
Long-term unsecured rating (preferred senior)	A	stable	UCITS-compliant mortgage bonds from Capital Center B and the General Capital Center	AAA
Long-term non-preferred senior ("NPS")	BBB+	stable		
Tier 2	BBB	stable		
Additional Tier 1 (AT1)	BB+	stable		

[4] Asset encumbrance is specified in further detail according to the requirements as per the CRR on investor.jyskebank.com/investorrelations/capitalstructure.

Operational risk

- The overall level of operational risk was unchanged in the past year.
- Operational risk is at an acceptable level and subject to continuous managerial attention.
- Anti-money laundering and cyber security have top priority.

Jyske Bank is exposed to potential losses as a result of operational risk, including inexpedient processes, human errors, IT errors as well as fraud. Operational risk relates to all internal processes and can therefore not be eliminated entirely. The Group monitors and actively manages operational risk to reduce the risk of operational events resulting in material loss and damage to reputation.

Policy

Jyske Bank's Group Supervisory Board sets out a policy for operational risk that states the framework for identification, assessment, monitoring and management of the operational risk as well as the Group's risk profile for the area.

The purpose of the policy is to keep operational risk at an acceptable level with respect to the Group's overall objectives and the cost associated with reducing the risks. Therefore, the Group Supervisory Board has laid down a number of principles for the set-up and management of the Group where, among other things, attention must be paid to sufficient resources, IT support of material work processes, due separation of functions as well as stable development and operational processes.

In the policy, the Group Supervisory Board has determined an upper limit to how many large risks the Group may assume. No limit was breached throughout 2019.

Risk identification and assessment

In the internal risk management, scenario analysis supports the reduction of risk and a higher awareness of operational risks in the organisation.

Scenario analyses chart the Group's largest operational risks by analysing central processes and events that could cause loss. An assessment of the effectiveness of the control environment will reveal risks that are insufficiently covered by existing controls. The scenario analyses propose ways in which operational risks can be reduced.

Jyske Bank analyses all risk scenarios that may cause direct or indirect loss of more than DKK 5m. Jyske Bank also analyses risk scenarios that could materially damage the Group's reputation. The scenarios have been identified in cooperation with management, with reference to internal and external events.

The risk scenarios cover all business areas of the Group and a broad range of risks such as the provision of incorrect advice, trading errors, errors in models as well as errors in internal and external reporting. In addition, the risk of fraud is analysed. Operational risks at important business partners are included in the scenario analyses, including errors in IT development or IT failure. The scenario analyses are prepared in cooperation with the relevant business areas.

Management and monitoring

Developments in operational risk are monitored to ensure the best possible basis for risk management. Monitoring is based on continuous dialogue with management to ensure that all material operational risks of the Group are reflected in the risk scenarios. Risk scenarios, risk exposure, control environment and action plans for further reduction of the risk are evaluated annually in cooperation with the Group units. The Validation and Non-Financial risk department ensures follow-up on the action plans.

In addition to the monitoring of potential risks in the form of the risk scenarios, registration takes place in the Group of all operational errors or incidents that caused losses or gains in excess of DKK 5,000. Near misses of significant amounts are also registered. Each registration includes information about the incident, for instance about product, work process and cause of error. Data are used for analysis and reporting with a view to optimising processes and reducing future losses.

The Group Executive Board and the relevant unit directors are in charge of operational risk management. This management is an integral part of daily operations through policies and controls established with the purpose of securing the best possible processing environment. On the basis of scenario analysis and quarterly reporting of the Group's operational risks, management considers the Group's risk exposure on an ongoing basis and decides whether to introduce initiatives to reduce operational risks.

The Group Executive Board and the Group Supervisory Board receive a quarterly report that describes the development of the Group's operational risks accompanied by error statistics from the error registry. The number and development of large risks in the Group are also reported.

Development of operational risk

The overall level of operational risk was unchanged in the past year.

An IT inspection by the Danish Financial Supervisory Authority's (the FSA) in 2016 resulted in seven general orders in the fall of 2017, which mainly commented on the Group's methods and practices for IT security and risk management – not its security operations. Many enhancements have been made to address these orders and by October 2019 5 out of 7 orders were reported completed to the FSA. The final orders are in the closing phase, and we expect closing them fully within Q2 2020. Following the IT inspection, Jyske Bank made an extraordinary add-on to the pillar 2 capital requirement to address the issues pointed out by the FSA. This add-on will be maintained in full until all issues have been resolved.

Bankdata, which provides IT solutions to Jyske Bank, has continued work with good progress on new capital market IT solutions throughout 2019. The project implies increased operational risk for the duration of the project, as a large number of critical systems used for trading, position management, risk management and settling will be changed. Jyske Bank has an extraordinary add-on to the pillar 2 capital requirement to take the temporary higher risk exposure into account. Once implemented, the new IT solutions are expected to decrease the operational risk.

With effect from 1 September 2019, Jyske Bank implemented a large organisational change which affected top management in many of the core areas of the Group. To account for the transitional increase in operational risk resulting from this significant change, a temporary add-on to the pillar 2 capital requirement has been decided. This add-on is likely to be removed during 2020 once the organisational change has been fully implemented.

Jyske Bank still experiences many attempts of external fraud, of which the greater part is prevented through an extensive control environment and vigilance on the part of the employees. Despite the focused efforts, it is impossible to eliminate the risk completely.

Cyber security

The Group recognises cyber risk among the top operational risks. Throughout 2019, Jyske Bank intensified its IT security activities and launched new initiatives to combat cyber threats and improve the overall security of the IT infrastructure.

Spurred by global and national increases in cyber threat trends, stating cyber threat level at its highest yet, additional investments in cyber defence capabilities at Jyske Bank and main suppliers were given high priority in 2019. Technology adoption of best practice tools and cyber defence methods was initiated to provide further leverage to cyber defence capabilities. Multiple indicators of these achievements have been observed in day-to-day combating of cyber events where none have inflicted damage or noticeable impact at Jyske Bank nor its main suppliers. Further, advanced cyber testing (Red Team testing) has been conducted which spanned a variety of advanced and probable attack scenarios. This test indicated effective combating of advanced cyber attacks and positive effects of the increased focus.

Despite the very high national threat level in 2019, and constant pressure on the Group's defence systems, Jyske Bank has not been specifically targeted in any cyber attacks employing moderate to high sophistication attack methods. Nor have we seen any material losses stemming from cyber attacks (online fraud not included). We anticipate moderate cyber threat activity against Jyske Bank in 2020, though we do realize the volatility of cyber threats as well as the motives for pointing out targets.

While significant achievements have been made overall on cyber resilience, and especially on detection and response capabilities, the focus of the Group's cyber security enhancements continues into 2020. Focus of the initiatives remains on improving the security posture, which is accessible externally, in order to deter cyber attack attempts, and further, adding special focus to leveraging protection and recovery capabilities.

Anti-Money Laundering

Efforts against money laundering and financing of terrorism remain a top priority in the Jyske Bank Group. Aiming to reduce risks of being misused for illegal purposes, Jyske Bank continuously works to further refine and optimise the Group's measures against money laundering and financing of terrorism.

Due to its size and business volume the Group runs a high inherent risk of being abused for purposes of money laundering or financing of terrorism. On this background, Jyske Bank analyses, on an ongoing basis, the risk exposure within the entire money-laundering area which may result in financial losses or loss of reputation. The Group has continued focus on increasing data quality and work to improve client data is of high priority, as correct client data is an essential prerequisite for effective and secure monitoring of clients and transactions.

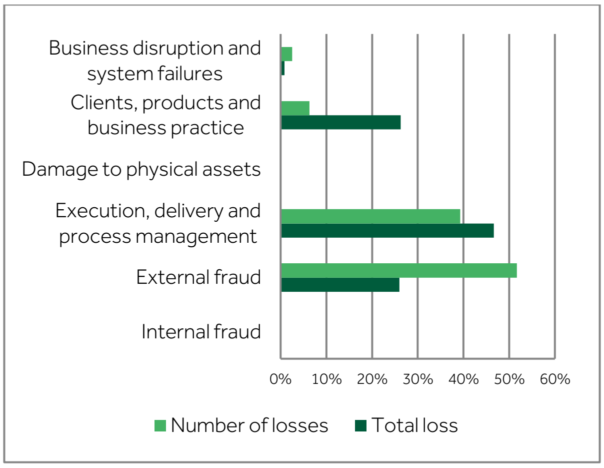
During 2019, monitoring of clients and transactions triggered 37,228 alerts. Alerts are handled manually, and employees responsible for processing alerts conduct a thorough investigation and assessment of the need to notify authorities. 3,398 cases were reported to the Danish Money Laundering Secretariat in 2019.

The Group has, since 1 January 2019, as a specific initiative to prevent money laundering, implemented requirements that new corporate clients use an auditor, which has been approved by the Group. If a potential corporate client is unable to inform the Group of the name of its auditor, it will not, as a general rule, be possible to become a client at the Group. Most recently, this initiative has been extended to include already existing corporate clients.

It is important that the Group's employees are continuously vigilant in their interaction with clients. To ensure that employees are competent and able to identify potentially suspicious behaviour and suspicious transactions and to take appropriate action, training of employees is carried out on an ongoing basis. New employees complete an e-Learning programme immediately after employment. Education programmes are generally targeted the individual employees with focus on risks that are relevant for their specific work functions.

In November 2018, the Group received the report on the Danish FSA's anti-money laundering inspection at Jyske Bank. The FSA noted that Jyske Bank had implemented material measures in the area, and that Jyske Bank has given high priority to measures preventing money laundering and the financing of terrorism. The report included six orders focused on strengthening of processes and controls in the anti-money laundering area. No specific instances of abuse of Jyske Bank for money laundering purposes were found. It is the Group's assessment, that all six orders, as of end-Q3 2019, have been met.

Breakdown of losses



The breakdown of operational errors registered in 2019 by category shows that the number of incidents related to external fraud account for roughly 50 per cent of all incidents, but also that the losses associated herewith make out only 26 per cent of total losses. External fraud can to a great extent be ascribed to payment card fraud. The majority of the losses are, however, of a limited size.

The most costly category was execution, delivery and process management, accounting for 47 per cent of all losses.

The errors that were generally most expensive per incident related to advisory services rendered to clients as well as the development and administration of the Group's products.

The specification of errors only includes direct losses that are recognised separately, for instance, compensation to clients, loss of means and extra expenses. Therefore, a category such as business disruption and system failures ranks low on the list as such incidents will primarily result in loss of working hours.

Own funds requirement for operational risk

The own funds requirement for Jyske Bank is determined by means of the standardised approach. At end-2019, the overall own funds requirement for the Group amounted to DKK 1,274m against DKK 1,351m at end-2018. The decrease in the own funds requirement is primarily due to a decrease in net income in the three years covered by the calculation.

Management declaration

The Group is according to article 435(1) of CRR obligated to provide a declaration and risk statement approved by the Group Executive Board.

Board declaration: A declaration of approval by the management body of the risk management setup and its effectiveness. This declaration should also incorporate the policies regarding the ongoing assessment and review of the risk management strategies.

Risk Statement: A Risk Statement approved by the management body should outline how the business model interacts, but also constitutes to the foundation of the overall risk profile. Hence, the statement includes the key risks of the business model and how these are reflected in the risk disclosures. Moreover, it should also describe how the risk profile interact with the risk tolerance approved by the management body.

Board declaration

The Group Supervisory Board establishes the general principles for risk and capital management. The Group Supervisory Board assess the Group's risk on an ongoing basis. A thorough assessment based on a report presented by Group Executive Board is conducted yearly. The Group Executive Board is responsible for the day-to-day risk management of the Group and will ensure that policies and instructions are implemented complied with. The Group Executive Board finds that the Group has adequate risk management arrangements in place with regard to the Group's risk profile and strategy.

Risk Statement

The Jyske Bank Group's business model is designed to offer financial products and other related services to private individuals, businesses, and institutions. The Group primarily offers financial services within Denmark.

Jyske Bank's Group Supervisory Board lays down the overall guidelines for credit granting within the Group, and the largest exposures are presented to the Group Supervisory Board for approval. The Group Supervisory Board delegates limits to the members of the Group Executive Board. Credit risk is managed through Jyske Bank's credit policy with the objective to keep risk at an acceptable level in relation to the capital base and business volume of the Group, given the general trend in the Danish economy. Hereto, the ongoing monitoring and reporting on credit risk ensures alignment with the approved risk appetite.

The Group undertakes market risk, primarily represented by interest-rate risk. The Group Supervisory Board is responsible for the Market Risk Policy, setting the Group's overall market-risk profile and framework. The policy is implemented through limits delegated to the Group Executive Board. The Group adjust its market risk in accordance with market developments, maintaining a suitable risk appetite based on the risk profile agreed upon by the management body.

The business model engender liquidity risk. These risks are controlled and supervised through active liquidity management, which ensures sufficient liquidity, enabling the Group to meet its obligations. The Group Supervisory Board determines the liquidity profile expressed as the balance between the risk level and the Group's costs of managing liquidity risk. The liquidity risk is monitored and managed on a daily basis to comply with the liquidity policy implemented by the Group Supervisory Board.

Moreover, the group faces Non-Financial risks. The Non-Financial risk policy seeks to ensure that the Group's exposure to operational risk and resultant losses is at an acceptable level in relation to the Group's overall objectives. The Policy is approved by the Group Supervisory Board at least once a year.

The total risk is adjusted regularly to harmonize with the Group's risk profile and capital structure in adherence with the Group's capital-management objective. The Group Supervisory Board and the Group Executive Board regularly receives reports regarding the development of the risk types and how the Group manoeuvres within the relevant policies. This allows the Board to supervise the compliance of the approved policies, as well as evaluate whether the policies continue to be suitable for the Group and its activities.

Group Executive Board	
Anders Christian Dam	Per Skovhus
Niels Erik Jakobsen	Peter Schleidt

Appendix: Definitions

ABS	Asset Backed Security. A general term for claims whose value is determined by a pool of specified underlying assets such as a certain type of loan.
AIRB	The Advanced Internal Rating Based approach. A method under the CRR for determining the minimum own funds requirement to cover credit risk.
AT1 capital	Additional Tier 1 capital.
Back-testing	An ex-post comparison of forecast and realised values with a view to assessing the absolute precision of the relevant models.
Balance principle	The balance principle means that the borrowers' payments of interest and instalments match the payments on the bonds issued to fund the mortgage loan.
Benchmarking	A management tool used for comparing the accuracy of the model under review with the accuracy of alternative models.
BRRD	Bank Recovery and Resolution Directive, a common approach within the EU to the recovery and resolution of banks and investment firms.
Calibration	Adjustment of a given model to bring it to an intended level.
Capital base	The capital base consists of CET1, AT1 and Tier 2 capital; it must at all times be higher than the capital requirement.
Capital centre	Covered bonds and mortgage bonds are issued by capital centres with separate individual own funds requirements. At Jyske Realkredit, covered bonds (SDO) are issued at Capital Centre E and traditional mortgage bonds (RO) at Capital Centre B.
Capital conservation buffer	A capital requirement of 2.5% of the total risk exposure. The buffer is being phased in gradually. To be accumulated as protection against crisis.
Capital ratio	The capital base divided by the total risk exposure.
Capital requirement	The capital requirement expresses the pillar 1 regulatory requirements of 8% of the total risk exposure amount with additions for above normal risk under pillar 2.
CDO	Collateralised Debt Obligations. Bonds whose value is determined by the value of pools of underlying claims which are typically not commercial loans or real property.
CLO	Collateralised Loan Obligation. An asset-backed security backed by receivables on loans.
CLS	Continuous Linked Settlement. A settlement system linking "payment to payment", which reduces the settlement risk of FX transactions made between participants of the CLS system. Jyske Bank is a third-party member.
Commodity risk	The risk of loss caused by changing commodity prices.
Common Equity Tier 1 capital	Equity eligible for capital purposes.
Countercyclical buffer	A capital requirement of up to 2.5% of the total risk exposure. The authorities taking into account the current economic situation determine this.

Counterparty credit risk	The risk of loss due to a counterparty failing to fulfil his obligations.
Country risk	The risk of loss caused by the economic and political conditions in a given country.
CRD IV	The Capital Requirements Directive is an EU directive, which through the Danish Financial Business Act was implemented directly in Danish legislation with effect as of 1 April 2014.
Credit risk	The risk of loss caused by clients' or counter-parties' failure to meet their payment obligations. Credit risk extends to loans and advances, committed credit facilities and guarantees, market values of derivatives and equity investments.
CRR	The Capital requirements regulation is an EU regulation that lays down the rules for capital requirements of credit institutions.
Currency risk	The risk of loss caused by changing exchange rates.
CVA Risk Charge	Credit Value Adjustment risk charge. The potential net loss that may occur in the portfolio of derivatives if in the future the credit quality among counterparties deteriorates.
Default	An exposure is termed 'defaulted' if the borrower is expected not to meet all his obligations towards the Group (high and full risk).
Defaulted exposures	Defaulted clients and past due exposures.
EAD	Exposure At Default. The estimated exposure, should the client default in the course of the next twelve months.
EBA	European Banking Authority.
ECB	European Central Bank.
Economic capital	The capital required to cover the Group's unexpected loss one year into the future. Economic capital covers credit risk, market risk and business risk.
EMTN	European Medium Term Notes. Typically with maturities of between two and ten years.
EPE	Expected Positive Exposure. A method for estimating EAD for derivatives.
Equity risk	The risk of loss caused by changing equity prices.
ICAAP	Internal Capital Adequacy Assessment Process. The process assessing the capital requirement.
IFRS	International Financial Reporting Standards.
ILAAP	Internal Liquidity Adequacy Assessment Process. The Group's own determination and assessment of liquidity position and liquidity risk.
Impaired exposures	Exposures for which impairment charges have been made individually.
Interest-rate risk	The risk of loss caused by changing market rates.
JB credit rating	A rating on a scale from 1 to 14, where 1 is the highest credit quality (the lowest PD) and 14 the lowest credit quality (the highest PD).

Joint funding	A financial institution may fund loans secured against real property through covered bonds issued by another financial institution or mortgage-credit institution.
Leverage ratio	The leverage ratio is Tier 1 capital relative to the Group's total non-weighted exposures.
LGD	Loss Given Default. The proportion of a given exposure which is expected to be lost if the client defaults in the course of the next twelve months.
Liquidity risk	The risk of Jyske Bank not being able to generate or obtain sufficient liquidity at a reasonable price to meet its payment obligations or ultimately being unable to meet its obligations as they fall due.
Market risk	The risk of loss caused by a change in the market value of the Group's assets and liabilities caused by price changes in the financial markets.
MREL	Minimum requirements for own funds and eligible liabilities.
O-SII	Other systemically important institutions, the systemic importance classification of Jyske Bank.
OAS risk	Option Adjusted Spread, the interest-rate spread defined as the risk premium related to investing in a mortgage bond compared to the equivalent swap rate. The risk premium can be related to credit risk, illiquidity and for convertible bonds the conversion right.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Own funds requirements	The own funds requirement is the amount of capital that the Group must hold to maintain its banking licence. The determination is based on statutory formulas, which prescribe how the total risk exposure must be measured. The own funds requirement is 8% of this.
PD	Probability of Default. The probability of a given client defaulting within the next twelve months.
Pillar 1	The regulatory capital requirement of 8% of the total risk exposure.
Pillar 2	The part of the Group's capital requirements that exceeds the own funds requirements.
RAC	Risk-adjusted capital.
REA	Risk Exposure Amount or Risk-weighted Exposure Amount.
Retail	In relation to the CRD, the 'Retail' category covers personal clients and small- and medium-sized enterprises. The latter must meet certain criteria to rank as retail clients.
Risk category	Jyske Bank's exposures at risk are broken down into three categories: low (1), high (2) and full (3) risk. Risk categories 2 and 3 are termed defaulted. The risk categories are also applied in the Group's set-up for impairment recognition.
Risk-weighted exposure amount	The risk-weighted exposure amount or the risk exposure amount is calculated according to the capital requirements regulation.
RMBS	Residential Mortgage Backed Securities.
RW	Risk weighting according to the capital requirement regulations in force. Risk weightings are applied to the assets to reach the risk-weighted exposure amount.
SACP	Stand-alone credit profile.

Settlement risk	The risk of loss caused by the non-fulfilment of payment obligations agreed between Jyske Bank and its counterparties.
SDO	CRD-compliant covered bonds. Loans secured against real property.
Supplementary collateral	For loans funded through the issue of covered bonds, supplementary collateral must be provided if LTV exceeds the loan-to-value limit as individual loans must at all times comply with the established loan-to-value limits for the type of real property in question.
Tier 1 capital	The sum of Common Equity Tier 1 capital and additional Tier 1 capital.
Trustee report	A status report from the securitisation's trustee describing the underlying loan portfolio of the securitisation and the development of this to be used by investors, among others.
VaR	Value at Risk expresses the anticipated maximum risk of loss over a given period based on historical price and correlation developments.