Risk and Capital Management

2022

JYSKE BANK

Contents

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.

On a continuous basis, Jyske Bank strives to become more efficient to ensure two main aspects. First, to comply with the complex regulatory requirements and second, to ensure value creation by providing relevant information for decision-making.

For Jyske Bank, the year 2022 has especially been influenced by the acquisition of Handelsbanken Denmark. This major event towards year-end brought a lot of new customers and employees to Jyske Bank, but it has also shown the necessity for collaboration across the organization to ensure a good transition. From a risk perspective, the integration has put a high emphasis on the operational risk function where a lot of extraordinary supervision and monitoring has taken place. Also, 2023 will be influenced by the integration focusing especially on a successful transition from the data provider BEC to Bankdata. At this time, the new portfolio will be included in the IRB models of Jyske Bank. Hence throughout this report, the effects are shown separately when relevant.

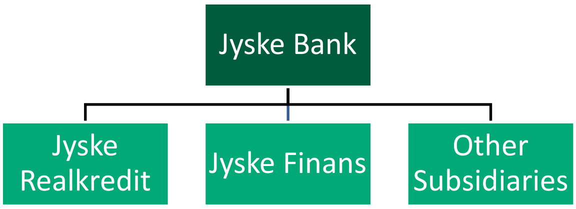
The capital position and management hereof was also affected by the acquisition, leading an issuance of tier 2 capital in august 2022. Despite of the acquisition, the group has demonstrated a strong capital position and monitors the levels closely also in relation to the target capital ratios.

The capital-management objectives of Jyske Bank for the coming years are a capital ratio within the range of 20-22% and a common equity tier 1 capital ratio between 15% and 17%. This will ensure a bolstering towards future legislation and uncertainties in relation hereto. Additionally, the group will also have the necessary flexibility for strategic decisions.

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 and leasing activities through Jyske Finans.

The business model of Jyske Bank Group is organised to offer financial products and other related services to private individuals, businesses, and institutions. The strategic target is to increase market shares through organic growth and profitable acquisitions.



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 for its covered bonds and mortgage bonds issues.

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

The Group cooperates with other financial institutions on the delivery or distribution of the Group's products to the relevant businesses and clients. The Group is primarily operating within Denmark.

Jyske Bank wishes to operate a company that conducts business in a responsible manner and promotes sustainability, as expressed in the UN Sustainable Development Goals. Jyske Bank will offer business solutions that support a sustainable development, supply knowledge of sustainability, and make it simple to invest sustainably. Jyske Bank is a founding signatory of the UN Principles for Responsible Banking (PRB), and these principles are used as an overarching approach to our work in integrating sustainability. On a national level, Jyske Bank also supports the 20 recommendations of the Forum for Sustainable Finance. Jyske Bank has also signed the Task Force on Climate-Related Financial Disclosures (TCFD) and are incorporating the guidelines actively in the risk management.

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. Jyske Bank's financial risks consist mainly of credit risk. The Group will undertake credit risk given that the debtor has the necessary ability to service the debt 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 expected that the collateral can be liquidated and cover the remaining credit. Hence, it is a requirement that the Group's earnings must match the associated credit risk and capital charge.

Market risk arises as an integrated part of banking activities, e.g., hedging interest rate risk. 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 trading-related market risk position. Differentiated portfolios characterize the market risk profile where 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, and the interest-rate risk exposure is founded in core banking and mortgage activities, as well as funding and liquidity management.

Because of the Group's activities, liquidity risk arises when a funding mismatch occurs in the balance sheet. Active liquidity management ensures sufficient liquidity, enabling the Group to meet its short- and long-term obligations.

Non-financial risks are an integrated part of banking activities, and the importance of this area is also recognized and has gained increased attention over the last couple of years. The group apply a risk-based approach ensuring that the risk of operational losses is kept at acceptable levels and balances the costs of risk reducing initiatives. Solid risk management processes and effective control environments are in place to support this.

The business model of Jyske Bank is the foundation for evaluating the risk of adequately capital and liquidity for ensuring sound banking operations. The total risk is adjusted regularly to harmonize with the Group's risk profile and capital structure in accordance 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 fundamental part of the daily operation in Jyske Bank and is embedded in the Group Supervisory Board and the Group Executive Board. Jyske Bank has an independent Risk unit with direct reference to the CEO.

The Risk unit undertakes activities involving risk policies, implementation, quantification, and reporting. Also, a strong risk management function has a continuous focus on providing relevant and timely analyses to ensure the foundation for the most qualified decision-making of the management. Hence, the risk unit applies a risk-based approach meaning, that the analyses and reporting is proportional with the severity of the identified risk.

In the continuous risk reporting for management, main attention is always given to the current risk identification and focus areas. However, while internal processes always ensure a strong risk culture and monitoring.

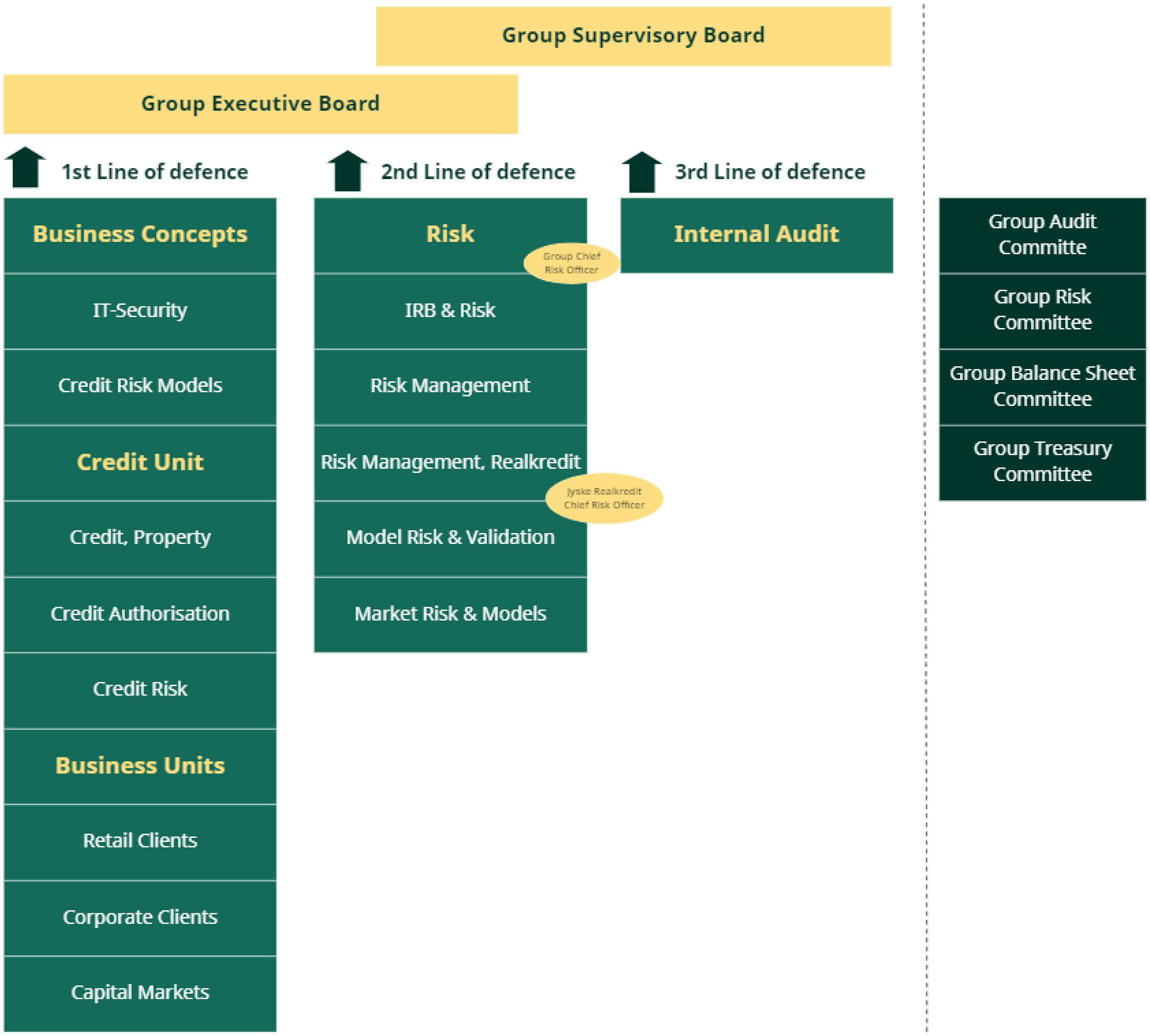
Risk Management

The current section describes the risk organisation of Jyske Bank and risk management processes.

Risk Organisation

The Group Supervisory Board established the general principles for risk and capital management, as well as defining the Group's risk profile, and implements these by adopting several risk policies and instructions in the group. 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. The Risk unit constitutes an individual unit with direct reference to the CEO of the Group.

Risk Organisation



The risk management is organised into three lines of defence which ensures effective risk management and oversight. The first line of defence acts within the preestablished limits, risk policies, and risk appetite. The first line of defence includes, but is not limited to, the business units Business Concepts, Credit Unit, Retail Clients, Corporate Clients, and Capital Markets. The units are responsible for the day-to-day management of risks arising from their line of business and acts as a direct support function to frontline functions.

The second line of defence is made up of IRB & Risk, Risk Management, Risk Management Realkredit, Model Risk & Validation, and Market Risk & Models within the unit Risk. The second line of defence performs independent monitoring, analyses, and reporting on the risks arising from the work of the first line. Further, the defence line is responsible for the risk framework and policies.

The Internal Audit constitutes the third line of defence and monitors the Group's risk management. The Audit Revision is an independent unit that evaluates the effectiveness of the overall risk management. The independence ensures credible and objective evaluations.

The Group Executive Board has appointed a Group Chief Risk Officer (CRO), who is the director of the Risk unit. The responsibilities of the CRO include activities involving risks across areas of risk and organizational 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 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, the group has appointed a CRO at Jyske Realkredit in line with regulatory requirements, as shown in the chart above.

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

Day-to-day management of credit risk is undertaken by relationship managers in the first line of defence as well as the Credit Unit under the framework of 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 the mortgage-credit business.

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

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

Several committees consider and process risk-related issues:

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

- assessment of new products and services with substantial risk for the Group or clients.
- topics of strategic relevance for the Group's overall risk management.
- assessment of risks of external and internal nature.

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 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.

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 evaluate their appropriateness.

The Risk unit continuously focuses on providing relevant and timely analyses to provide a good foundation for the most qualified decision-making of the management. This includes analyses of both internal and external conditions that might influence the risk assessment of the group. Hence, the identification and analyses of all material risks should be communicated and handled accordingly.

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 of the group-wise 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	A description of the Group's statement of the capital requirements. It includes a description of the methodological approach to estimating capital requirements and future implications of the capital structure based on sensitivity analyses and projections under stress scenarios.
	Group capital requirement statement	Quarterly	Group Supervisory Board, Group Executive Board	A statement of the Group's capital requirement for pillar I, II, and additional capital buffers. It includes a description of developments in risk exposures.
	Group risk report	Quarterly	Group Supervisory Board, Group Executive Board	A detailed description of the development in the Group's risk along with a status of established risk targets and recovery indicators. It includes capital projections encompassing all risks in different scenarios, the credit quality of the portfolios, overall market risk exposure, balance sheet development and the development in the largest non-financial risks and realised operational losses.
	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 Executive Board	A description of the development of the Group's balance sheet, capital risk profile, liquidity and funding structure and funding requirements as well as an overview of supervisory diamond, leverage ratio, etc.
MARKET RISK	Market risk report	Monthly	Group Executive Board	A description of the Group's overall market risk exposure based on the authority granted for both the Group, Group Treasury, Jyske Markets, and Jyske Realkredit. It includes a description of liquidity positions that exceed the authorised limits as well as changes in authority granted.
	Balance sheet, liquidity, and funding profile	Monthly	Group Executive Board	Balance sheet development including changes in deposits and lending components; funding structure, refinancing risk, and liquidity reserves relative to run-off profile. Access to- and pricing of capital markets funding is also reported.
LIQUIDITY RISK	ILAAP report	Annually	Group Supervisory Board, Group Executive Board	An assessment of the Group's funding and liquidity adequacy profile focusing 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 RoRC (Return on Regulatory Capital) as a general management tool. RoRC calculations offer an overview of the risk and profitability of the various activities of the Group. RoRC calculations are based on the current valid regulatory capital requirements (CRR2), and the development in the general credit quality of the portfolio, concentration risk, and other capital elements are included in the assessment.

RoRC forms an integral part of the reporting to the management of the business units, who determine activities for follow-up and any initiatives to manage risk within the risk appetite stated by the Supervisory Board.

RoRC is also applied at client and product level to measure results, assess profitability, and determine prices of new loans. RoRC calculations and the facilities for pricing are made available in profitability systems where employees and managers have access to current profitability calculations at various levels. Hence, RoRC is also key for determining who in the organisation has the price-authority and the price-approval is made in the profitability system. The profitability systems allow for expenses, including expenses relating to the funding of the loans and other types of income.

The profitability systems consider the composition of the Group's credit portfolio through a concentration risk calculation based on methods developed by the Basel Committee for Banking Supervision, which means that concentration effects and diversification effects are reflected directly in the profitability calculations of new and existing loans. If loans, for instance, are granted to clients in sectors, which are highly correlated with the market or where the portfolio already contains large exposures, this will result in higher capital requirements and therefore lower profitability.

Supervisory diamond

The Danish FSA has defined a supervisory diamond focusing on specific risk areas and limits which institutions should not exceed. The purpose is to balance the ability of institutions to provide the necessary funding without taking on excessive risk. The supervisory diamond is defined for bank and mortgage separately and the results for Jyske Bank A/S and Jyske Realkredit A/S are shown in the following tables. As expected, the benchmark for increase in loans and advances has been exceeded by Jyske Bank A/S due to the acquisition of Handelsbanken Denmark. The Danish FSA has been notified, but also that the organic growth accounted for approx. 9%. Furthermore, large exposures relative to CET1 have increased by end-year also due to the acquisition. Jyske Realkredit met all the benchmarks in the supervisory diamond by year-end 2022.

THE SUPERVISORY DIAMOND			
JYSKE BANK A/S			
	Limit	2022	2021
Sum of large exposures	<175%	116.1%	110.3%
Increase in loans and advances (p.a.)	<20%	50.7%	7.8%
Exposures to property- administration and transactions	<25%	11.6%	8.8%
Liquidity surplus	>100%	135.0%	188.0%
JYSKE REALKREDIT A/S			
Concentration risk	<100%	47.8%	46.8%
Increase in loans and advances (segments p.a.)			
Owner occupied homes and vacation houses	<15%	-5.1%	-1.2%
Residential rental properties	<15%	6.5%	8.3%
Other	<15%	6.6%	-0.5%
Borrowers interest rate risk	<25%	16.0%	14.9%
Interest-only schemes	<10%	4.5%	5.6%
Loans with frequent interest-rate fixing			
Refinancing annually	<25%	14.1%	15.1%
Refinancing quarterly	<12.5%	1.6%	1.0%

Remuneration

The purpose of the remuneration policy is to:

- Reward value-creating, competent, and responsible conduct.
- Support productivity and job satisfaction.
- Promote sound and efficient risk management in line with business strategy, internal targets, and core value.
- 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 report on risk and capital management serves as the Group's main document 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

Capital management

During 2022, Jyske Bank has demonstrated a strong capital base and experienced very low write downs and losses.

By year-end 2022, Jyske Bank acquired Handelsbanken Denmark. Consequently, the acquisition affected the capital with a payment of DKK 3 bn in goodwill. However, the strategic decision is within the scope of normal business opportunities and can be absorbed so that the core capital ratio is within the target ratio of 15%-17% by year end 2022.

Capital management

The objective of capital management is to optimise the Group's capital structure considering the risk profile. Jyske Bank has a capital-management objective of retaining a capital ratio within the range of 20-22% and a common equity tier 1 capital ratio between 15-17%. The desired capital objectives ensure that Jyske Bank can absorb the effects of forthcoming legislative changes and at the same time maintain the desired strategic capital buffer. As of end-2022, the Group's common equity tier 1 capital ratio of 15,2% of REA is within the capital objective. Nonetheless, with a capital ratio of 19,5% of REA, the Group has a shortcoming relative to its objective. However, the development is explained by the acquisition of Handelsbanken Denmark, which diminished the capital base with above DKK 3 bn. Additionally, the acquired exposures contribute with a REA amount of approximately DKK 24 bn. The capital levels are expected to be within the objectives in the coming year.

S&P's RAC for Jyske Bank Group has been substantially above the critical 10% mark since the change of the Economic Risk Score for Denmark in mid-2019. As of yet, there have not been made new RAC calculations for the Group since the integration of Handelsbanken Denmark. However, it may be assumed, that RAC will be well above 10,5% considering earnings in Q4 against a RAC of 13% end-2021. S&P's RAC is only to a limited degree expected to be restricting capital management since the Group can maintain the score "strong" as long as a RAC above 10% is preserved.

Capital base

At end-2022, the Common Equity Tier 1 capital amounted to 78% of the capital base, a decrease of 2 percentage points compared to end-2021. The decrease of the proportion of CET1 relative to capital base, is an effect of DKK 3 bn in goodwill in relation to the acquisition of Handelsbanken Denmark. Even following the acquisition, the level of Common Equity Tier 1 capital is comfortable relative to the CET1 requirements and within the Group's capital objective. However, since the acquisition not only lowered the CET1 capital, but subsequently enlarged the portfolio and consequently the risk exposure amount (REA), the capital base percentage of REA fell slightly below the Group's capital objective.

The capital base and underlying components are stated in the subsequent table.

CAPITAL BASE		
DKKm	2022	2021
Equity	37,323	34,911
Intangible assets	-3,328	0
Cautious valuation	-271	-285
Share-buyback programme	-0	-272
Other deductions	-168	-102
Common Equity Tier 1 capital	33,556	34,252
Additional Tier 1 capital	3,272	3,329
Tier 1 capital	36,828	37,581
Tier 2 capital	6,178	5,275
Capital base	43,006	42,856
Risk Exposure Amount	220,922	188,181

The inflationary pressure, which has forced central banks to intervene by tightening the monetary policy has increased the margins for the Group. Hence, the effect of consolidation is expected to increase the capital base to ensure the long-term capital objectives.

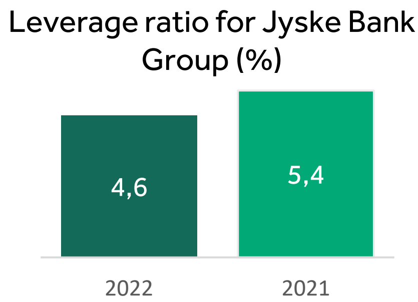
Furthermore, the capital structure is evaluated regularly to maintain an adequate structure in all the Groups' subsidiaries. Situations may arise necessitating a transfer of capital between the companies of the Group. However, the transfer of capital must take place subject to the capital requirements 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 non-risk sensitive measure for the maximum extent of the balance-sheet leverage and is calculated as Tier 1 capital relative to the Group's total non-weighted exposures. A leverage ratio of minimum 3% constitutes the binding leverage ratio requirement as prescribed by EBA.

The Group Supervisory Board has adopted a policy for maximum leverage. To ensure a satisfactory development of the balance sheet, the Group's balance 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 to liquidity and capital relative to the Group's mortgage activities. Therefore, a higher acceptable leverage is applied to the mortgage activities than to the banking activities.

At end-2022, the leverage ratio for the Group was at 4.6%[1].



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 expose the bank's robustness to micro- and macroeconomic factors.

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 regards 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 consists of the pillar I regulatory requirement of 8% of the total risk exposure amount. Additionally, the pillar II requirement defines the bank specific risks which are not covered by pillar I. 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.

In 2008, Jyske Bank was 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 majority 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

		2022	% of REA	2021	% of REA
Pillar 1	Credit risk	15,630	7.1	13,052	6.9
	Market risk	670	0.3	858	0.5
	Operational risk	1,373	0.6	1,144	0.6
	Total	17,674	8.0	15,054	8.0
Pillar 2	Credit risk	3,241	1.5	4,122	2.2
	Market risk	2,361	1.1	1,681	0.9
	Operational risk	291	0.1	249	0.1
	Other	225	0.1	21	0.0
	Total	6,118	2.8	6,072	3.2
	Total capital requirement	23,792	10.8	21,127	11.2

The higher total capital requirement, in nominal values, is primarily attributable to the increase in the total risk exposure amount, because of the acquisition of Handelsbanken Denmark. The pillar II capital requirements have decreased relative to REA, as it remains largely stagnant in nominal values. However, the distribution among risk types of pillar II has altered notably. Due to the increased REA, the pillar II requirement has decreased to 2.8% of REA. Jyske Bank estimates that the requirement will remain stable throughout 2023.

Capital Buffers

Jyske Bank constitutes 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 has gradually been re-activated by the authorities during 2022. The buffer had been nullified during the outbreak of the COVID-19 pandemic but is now gradually being restored. The current countercyclical buffer

1 The leverage ratio is specified in further detail in the disclosure for Jyske Bank Group 2022 according to the requirements as per the CRR at investor.jyskebank.com/investorrelations/capital-structure.

requirement for Danish exposures amounts to 2% of REA. Moreover, the Danish authorities has revealed that the buffer will increase to 2.5% with effect from Q1 2023. Jyske Bank is also subject to countercyclical buffers in countries outside of Denmark wherever the Group has exposures. Due to Jyske Bank's low level of foreign exposures, the contribution to the countercyclical buffer from foreign countries is limited. A detailed overview of the foreign exposures is reported in Disclosure Jyske Bank Group in table CCyB1 (xlsx)[2].

The Pillar I and II requirements in addition to the SIFI and the combined buffer requirements, form the total expected capital requirement of the Group as of end-2022.

TOTAL CAPITAL REQUIREMENTS (%)	TCR	CET1
Pillar 1	8.0	4.5
Pillar 2	2.8	1.6
Systemic risk buffer	1.5	1.5
Capital conservation buffer	2.5	2.5
Countercyclical buffer	1.9	1.9
Total	16.7	12.0
Capital ratios	19.5	15.2

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 serves a useful resource. The Jyske Bank Group is composed and organised to facilitate the preservation of the Group's critical business processes given significant financial stress.

The recovery plan contains multiple potential recovery options with distinct individual features, prerequisites, and effects. These options have been tested under different stress scenarios to evaluate their ability in ensuring the Group's recovery from various 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. The recovery indicators are divided into two primary groups; indicators of observational character and indicators necessitating actions when breached. 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, which 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 obtain a complete picture of all the significant activities within the Jyske Bank Group.

Stress test

Stress testing constitutes a decisive element of 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 from a forward-looking perspective where future legislation is also considered.

Stress testing is used for a variety of purposes. In general, stress testing can be characterised as an extensive scenario-based analysis of the impact on the Group of cyclical and legislative changes. The stress testing setup also allows for various sensitivity analyses. Furthermore, reverse stress testing is carried out to test the Group's capacity for loss and produce an understanding of the severeness of

[2] See jyskebank.dk/ir/rating

developments needed to challenge the survival of the Group in its current composition.

An objective of the stress test analyses is to evaluate 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, providing valuable information as to 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. As a standard, a scenario of the expected development as well a stress scenario, that is used for long term capital planning, is analysed every quarter. Hereto, a climate scenario has been adopted, which is based on the macroeconomic effects of a net zero 2050 scenario, developed by the Network for Greening the Financial System (NGFS).

When defining the stress scenarios, special consideration is given to areas where the Group or its subsidiaries are particularly exposed or have exposure deemed to be of high risk and importance for the Group. This is to ensure, that the business model of Jyske Bank is tested under severe macroeconomic conditions.

Base Scenario

- The Base scenario describes the most likely scenario for the Danish economy. The projections are made by Jyske Banks macroeconomic experts, based on the current state of the economy. In the current base scenario, the Danish economy is expected to enter a recession. Interest rates have increased significantly in an effort to discipline the inflation witnessed during the last year. However, inflation is expected tp decline and interest rates are expected to drop accordingly. Hereto, the decrease of real income is expected to decrease private consumption. Housing prices are expected to decrease further in the first year of the recession and hence resume the development from the 2nd half of 2022.

Stress Scenario

- The stress scenario illustrates a situation, where inflation is more persistent than expected, and consequently further contractionary monetary policy is applied. The high inflation will decrease real income and both domestic and foreign demand decreases. Additionally, investments will be significantly reduced due to the rising cost of financing and the overall collapse of the economy. The lower demand and recession results in an increase of unemployment. The housing market will suffer substantially from the increased interest rates, but the continued high inflationary pressure does not allow the central banks to conduct interest rate drops. The scenario can be characterized as a severe recession and is considered highly unlikely but not unimaginable.

Climate Scenario

- The climate stress scenario applies the macroeconomic consequences of a net zero 2050 scenario as presented by the Network for Greening the Financial System (NGFS). Interest rates will increase and the consumer spending will decrease. Meanwhile housing prices are expected to decreace significantly. The scenario will lead to transitional risks as political actions are implemented thorugh carbon prices decreasing GHG emisisons thus preventing temperatures above 1.5 °C.

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 a higher level of risk-weighted assets. Both these elements reduce the capital buffer compared to the expected scenario.

Despite the large impairments under the stress scenarios, the outcome of the analyses of the stress scenarios shows that both the capital base and the capital ratio will remain at a satisfactory level. The effects from the scenarios on the minimum requirement for own funds and eligible liabilities (MREL), the legal requirement for covered bonds (SDO-requirement) as well as the over-collateralisation requirement are also included in the results of the stress tests. The projections of these aspects uniformly display acceptable results.

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. The Danish FSA conducts annual macroeconomic stress testing exercises. Additionally, the comprehensive EBA stress testing exercise is conducted at every second year. The EBA stress test is launched in the beginning of 2023, and the results are expected to be published end of July 2023.

MREL

The current minimum requirements for own funds and eligible liabilities (MREL) are set equal to the double of the current capital requirements (the countercyclical buffer only counts once) for the banking business of the Group but with a different treatment of the mortgage assets within the Group.

Mortgage-credit institutions are exempt from the MREL requirement. Instead, they must maintain a debt buffer of 2% of the total non-weighted loans. Jyske Realkredit complies with the debt-buffer requirement based primarily on its high capitalisation supplemented by a smaller issue of NPS debt.

As of beginning of 2023, the MREL is the higher of

i) MREL for banking activities + capital and debt buffer requirement in the mortgage bank.
ii) 8% of total liabilities and own funds (TLOF).

The MREL requirement should primarily be fulfilled with senior non-preferred debt (NPS). The implementation of BRRD II allows for 4% of senior debt (equal to the size of the combined buffer requirement) to continue to count as eligible liabilities and fulfil the MREL requirement. Jyske Bank fulfils the MREL requirement by end 2022 and has done so since the introduction of the requirement with a substantial margin[3].

Future legislation

Jyske Bank is currently able to meet all future, known regulatory requirements. Jyske Bank monitors closely the international developments on the completion of further capital-requirement initiatives, to ensure that the Group can meet all new requirements before their implementation deadlines.

Below is a short description of the regulatory changes, which are expected to affect Jyske Bank notably during the coming years.

CRD VI/CRR III is the draft 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.

CRR III and CRD VI has been drafted by the European Commission and will contain the implementation of what is often referred to as Basel IV. The first draft of CRR III has been published in 2021, but the implementation was postponed to January 1st, 2025 (for the most parts). To ease the implementation transitional arrangements are expected to be introduced. This implementation will entail significant changes in the capital requirements for many banks In Europe – including Jyske Bank.

Overall, the phasing-in of Basel IV/CRR III/CRD VI from 2025 will result in increasing REA under pillar 1, and presumably to some extent be offset by decreasing pillar II risk. These effects are included in the capital planning of the Group.

[3] For more information on the Group's MREL requirement, MREL position, and issued NPS bonds, please see the link, which is updated on a quarterly basis: Information for Debt Investors (jyskebank.com)

Climate Risk

Jyske Bank has an ambition of living up to our responsibility, and the environmental developments calls for action and for responsible and sustainable finance. The climate changes create a new element of risk into the existing risk structure of banks; hence, climate related risks affect all the existing risk types. From a risk-based approach, especially credit risk has been the starting point for developing and integrating climate risk into the risk management framework, but this will be further enhanced in the coming years.

Data is essential for making a strong foundation for decision making, which is also why climate related data is of outmost focus, and the enrichment of this will continue. Different analyses of physical risks potentially affecting the Jyske Bank client base, have been performed. By year end 2022, a setup to analyze transitional risk is developed based on NGFS scenarios. This ongoing work, that is further developed and improved over time, sets the basis for defining the risk appetite of Jyske Bank related to climate risk.

Climate Risk

Climate risk has group-wide attention and is seen as an integrated part of all risk types. Hence, this is a relevant and integrated part of the business model in Jyske Bank and the daily work. The Risk unit is responsible for monitoring and analysing the climate risk within the organisation. So far, physical climate risk has been the primary focus, but next year transitional risk will get a greater focus.

End of 2021 the Jyske Bank Group signed up for the TCFD (Task Force on Climate-related Financial Disclosures). Consequently, the Group committed to disclosing information related to governance, strategy, risk management, metrics, and targets.

Start 2023, Jyske Bank Group complies with the Pillar 3 Disclosures on Environmental, Social, and Governance (ESG) risks as outlined by the European Banking Authority. The templates will expand towards full implementation by 2024.[4]

The data foundation is fundamental and is still at an early stage but will mature with time as the requirements for firm disclosure increases e.g., through the CSRD (Corporate Sustainability Reporting Directive). Therefore, the Group has a dedicated focus on establishing and developing internal data on the client base to establish a sound data foundation for reporting, internal analyses, strategic decisions etc.

Reporting lines

The Jyske Bank Group has a Sustainability Committee, and the committee is responsible for setting the overall sustainability strategy and an organisational structure, which supports this strategy[5].

With respect to climate risk, the supervising and reporting responsibility lies within the Risk unit. The Risk unit is divided into teams representing the different risk types and the Chief Risk Officer has appointed a climate risk responsible in each of the teams. This assures the necessary commitment and integration across all risk types.

Climate risk is an integrated part of the Group's risk reporting. This means, that the ongoing work is reported continuously through the channels as outlined in the chapter about risk management. This implies, that when the Risk unit identifies some areas of attention or recommended actions to be taken, the supervisory board can act upon this information.

Identifying climate related risks

The Risk Unit has chosen a risk-based approach to the work with climate risk, including both transition and physical risk. The business model of the Jyske Bank Group has a strategic focus on financing immovable properties, which constitutes approx. 70% of the total exposure[6]. Combined with the latest analysis from Intergovernmental Panel on Climate Change (IPCC), which concludes that for the Nordic countries, one of the most significant physical risks are storm floods, the Group has been focusing on analysing storm flood and stream flood. See Box 1 for a short description of how storm floods potentially can affect the Group, under some very restrictive assumptions.

[4] Please refer to the Sustainability Report 2022 for more on the Group's work on ESG.
[5] See also our website www.jyskebank.dk/investorrelations/sustainability and the sustainability Report 2022

[6] Calculated as fair value of loans collateralized by immovable property relative to the total exposure ex. repo.

Box 1: In the long run exposures in risk for flooding can be significant

Globally rising temperatures will cause more extreme weather, and for Denmark this means an increased risk of flooding. As a group largely exposed to real estate lending, flooding is an important risk.

Considering the group's portfolio of lending to private owner-occupier homes today about 5 per cent of the carrying value was in risk of flooding based on the climate environment as it was in 2020, see figure 1. In this context 'in risk of flooding' should be understood as a 100-year event based on a climate scenario RCP 8.5.[1,2] However, the exposure in risk of flooding from this part of the credit portfolio more than doubles over a 100-year period to more than 10 per cent in 2120. This is under the very restrictive assumption of 'business as usual' meaning no reduction in CO2-emissions and no mitigation actions to reduce the effects of climate changes. According to figure 2, the municipals with the highest concentration to flooding risk in the Groups private owner-occupier homes portfolio are Copenhagen, Lolland, and Lemvig areas.

Figure 1: Exposures in risk of flooding by a 100-year event distributed on housing types and year

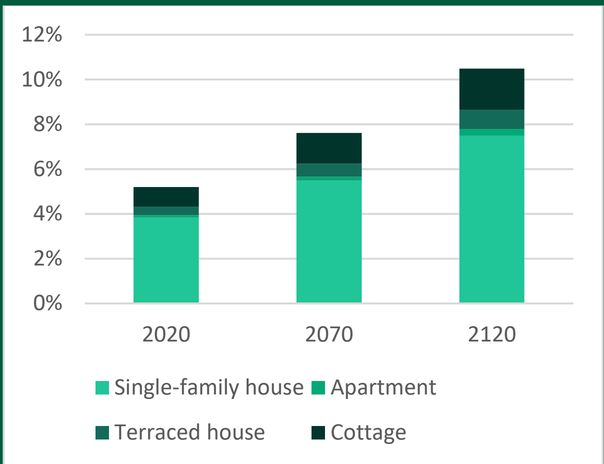
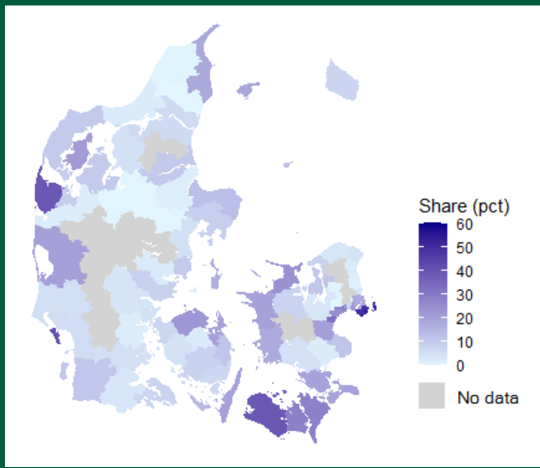


Figure 2: Concentration of properties in risk of flooding by a 100-year event by 2120



The assumption behind the analysis is conservative because the full exposure amount is included. In most cases, only part of the property's value is expected to deteriorate, and individual insurance and mortgage conditions have an impact on the value of the mortgage.

It is therefore Jyske Bank's assessment, that the climate risk from flooding is limited.

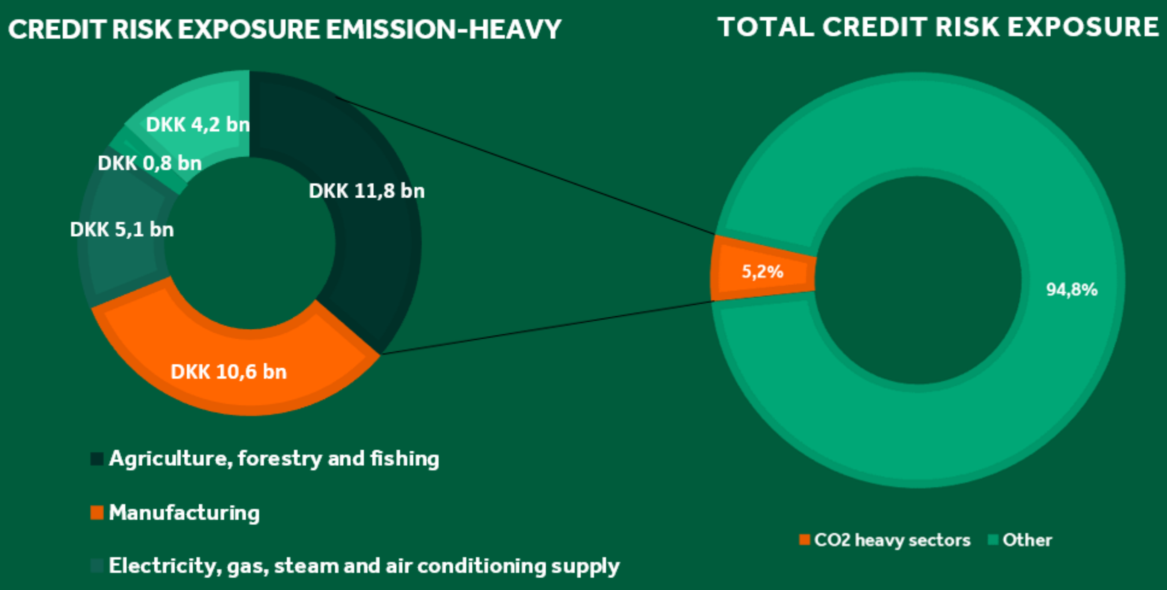
[1]The dataset is developed by the Danish Coastal Authority.
[2]Representative Concentration Pathway (RCP) 8.5 is a standardized climate scenario, which are used to investigate the effects of high greenhouse gas concentration in the atmosphere.

The work with transition risks is focusing on the clients risks and opportunities regarding a transition to a climate neutral business model, which can affect the earnings and long-term survivability of the clients, hence increasing the credit risks for the Jyske Bank Group. See box 2 for Group's exposures towards emission-heavy sectors.

Box 2: The Jyske Bank Group's exposures towards emission-heavy sectors are limited

As part of the monitoring of transition risks, Jyske Bank Group uses the financed CO_2 emissions from the credit portfolio. This is done as CO_2 emissions represent both a challenge and an opportunity in relation to changing to a climate-neutral business model.

Figure: Jyske Bank Group's sensitivity to selected CO_2-heavy sectors



Note: The selected sectors represent the five sectors with the highest CO_2 emissions in Denmark by 2021 cf. Statistics Denmark.

By the end of 3rd quarter of 2022, the Jyske Bank Group has an exposure of 32.5 bn DKK towards the top five emission-heavy sectors in Denmark, which corresponds to 5.2% of the total exposure. The group assesses, that the exposure towards transition risks is currently limited. The underlying risk is particularly driven by legislative action on climate. To exploit the opportunities in the green transition, the Group has created a separate credit policy for wind turbines and solar cells. The exposure to renewable energy is in the same period 3.1 bn DKK.

Climate related risk management

The management of climate risk follows the same process as for the other risk types and is managed in the unit Risk (see chapter on Risk Management). Climate risk is viewed as an integrated part of other risk types, meaning that credit, market, liquidity as well as non-financial risks all have elements of climate risk inherited. Therefore, climate risk is also an element in the different risk policies and instructions. However, the integration of climate risk into the risk management framework is nontrivial and will develop further as the setup matures. The Risk Unit works with identifying current risks and uses this work and the analyses herein to continuously ensure, that relevant risk factors provide the foundation for identifying and developing an updated and relevant risk appetite within this area.

It is essential in Jyske Bank, that the daily management of climate-related risk is anchored in the first line of defence and integrated into e.g., the credit process. This is also why there is a continuous focus on education of employees in first line, so they are well prepared in the interaction with the customers and the increasing requirements, that they are met with.

Metrics and data

Data on ESG is a primary focus for Jyske Bank Group, both on collecting and ensuring a valid data foundation. Hence in 2023, the work will continue focusing on establishing a stronger climate data foundation. Hence, Jyske Bank has established a data project concerning a broader range of ESG data across business units. This is in line with Jyske Bank's ambition of creating strong and valid climate data.

In Jyske Bank's Sustainability Report 2022 and in the ESG fact book, the Group's current targets are stated along with the developments of these.

Credit Risk

During 2022, the credit risk observed in individual customers and in the portfolio, in general, have been stable. The credit risk due to the COVID-19 pandemic is estimated to have decreased significantly during 2022. Basically, the residual COVID-19-risk are now only related to business enterprises' ability to repay in accordance with the Governmental COVID-19 economic aid arrangements.

On the other hand, the general economic outline with increased energy prices, increasing interest rates and a high inflation, have affected the overall credit risk processes and assessment in 2022. The increased credit risk is intensively monitored, and the impairment levels have been adjusted accordingly.

The risk weighted assets have increased where especially the acquisition of Handelsbanken Denmark accounts for DKK 21 bn by year-end 2022.

The acquired credit portfolio is in the process of being integrated into the Group. The migration from BEC to Bankdata will take place at the end of 2023. Until the migration takes place, risk data is exchanged on a daily basis and consolidated for risk management processes. The credit portfolio is already fully integrated into the group's granting and monitoring processes.

Credit Risk

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 by far the largest risk category. It 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 RoRC 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 based on 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 and pricing offered to the Group's clients, in the Group's risk management processes/risk assessment 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 following hierarchy 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 locally 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-2022, 3 exposures exceeded 10% of Tier1. Two exposures amounted to between 5% and 7.5% of Tier1, and 3 exposures were between 7.5% and 10% of Tier1.

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 with a view to being compliant with the current regulatory requirements, first and foremost the EBA IRB Repair Programme.

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 based on statistical credit-scoring models developed internally in the Group. Very large enterprises and enterprises within special sectors are, however, awarded a PD based on an assessment by an independent expert. Examples are investment companies and educational institutions. In some 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 considered. The calculation of PD therefore takes into account financial data, changes in transaction data, management and market circumstances, industrial assessments, questionnaires, expert assessments, and any other essential elements. 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. The subsequent table shows the mapping between credit ratings, PD and external ratings at end-2022.

INTERNAL RATINGS AND PD BAND

JB Credit rating	JR Credit rating	PD band (%)	External rating equivalence
1		0.00 - 0.10	Aaa-A3
2	1	0.10 - 0.15	Baa1
3		0.15 - 0.22	Baa2
4		0.22 - 0.33	Baa3
5	2	0.33 - 0.48	Ba1
6		0.48 - 0.70	Ba2
7	3	0.70 - 1.02	Ba3
8		1.02 - 1.48	B1
9	4	1.48 - 2.15	
10	5	2.15 - 3.13	B2
11		3.13 - 4.59	B3
12	6	4.59 - 6.79	Caa1
13		6.79 - 10.21	Caa2
14	7 and 8	10.21 - 25.0	Caa3- 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 ratings 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 credit rating is therefore dynamic. Observations are made on at least a quarterly basis to determine the adequacy of the mapping.

If the credit rating calculated by the model is inadequate, independent credit experts 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 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 based on 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 enough 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 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, considering, 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 increased 20% during 2022, while exposures increased 15%. Overall, the development in the exposure level can be associated to several factors:

- The acquisition of Handelsbanken Denmark.
- Decreased exposure levels related to interest sensitive exposures, e.g., swaps and mortgage loans with fixed interest coupons.
- Increased level of repo exposures

While the latter has no/low risk weight exposures associated to the increased exposure level, especially the acquired portfolio from Handelsbanken Denmark contributes significantly to the overall increase in the risk weighted exposure amount (REA). Another major factor associated to the increase in REA over the year is the capital reservation related to the non-compliance with new requirements for the Advanced Internal Rating Based modelling approach used in the capital calculations in the Jyske Bank Group. This reservation is associated to the credit risk calculations, which is why it's included in the overall numbers with regards to REA for credit risk displayed below. The acquired portfolio from Handelsbanken Denmark is included in the overall numbers for the Jyske Bank Group with regards to risk weighted assets for credit risk even though the portfolio is handled separately from the existing portfolio[7]. The acquired portfolio has been split in a part treated in Jyske Realkredit, which are loans fulfilling mortgage lending requirements, and a part treated in the banking part of the Group, Jyske Bank A/S, which is the rest of exposures from Handelsbanken Denmark.

The following tables and associated assessments show the breakdown of exposures and risk-weighted exposure amount according to the standardised approach and the AIRB approach. The contribution from Handelsbanken will be displayed separately to facilitate a more transparent overview of the development of the existing portfolio in 2022.

Development for standardised approach

For the standardised approach, the risk weighted exposure increased by 11% in 2022. This increase was primarily the result of increased holdings of covered bonds and secondly the effect of the acquisition of Handelsbanken Denmark with regards to exposures treated on the standardised approach.

The Group's average risk weight on the standardised approach decreased from 8.4% to 7.0% in 2022, which primarily relates to increase in exposures in the exposure classes Central governments/central banks, regional governments and local authorities with a risk-weight of 0.

EAD AND RISK-WEIGHTED EXPOSURE FOR CREDIT RISK

DKKm	2022		2021		Change	
	EaD	REA	EaD	REA	EaD	REA
Jyske Bank Group - Standard approach	177.072	12.426	132.141	11.161	34%	11%
- of which from Handelsbanken Denmark:	7.123	361				
Jyske Bank Group - AIRB approach	625.270	181.326	565.713	150.341	11%	21%
- of which from Handelsbanken Denmark:	63.783	20.390				
- of which non-compliance reservation for AIRB-models		13.632		5.328		
Total	802.341	193.752	697.854	161.502	15%	20%

Note: The risk-weighted exposure amount does not include CVA risk, which at end-2022 amounted to DKK 1,627m compared to DKK 1,632m at end-2021.

[7] Until the acquired customers from Handelsbanken Denmark are converted from BEC to Bankdata, they will be handled separately from the rest of the Jyske Bank Group's exposures and RWA calculations. This is done in agreement with the Danish FSA.

Breakdown of development for AIRB approach

Exposures treated on the AIRB approach increased by DKK 59.6bn during 2022, while REA increased DKK 31.0bn. The acquisition of the portfolio from Handelsbanken Denmark accounts for the majority of this increase in both exposure and REA levels, as can be seen in the overview below.

The underlying developments of AIRB-treated exposures for the existing portfolio are described below.

- Increased interest rates over the year have led to a decrease in the exposure level for interest-sensitive derivatives. Mortgage loans in Jyske Realkredit have also experienced significantly decreased exposure levels seen in isolation following the increased interest rates.
- A correction in the SME-Retail setup results in exposure relocation from corporate to retail exposure classes.
- Increased repo transactions over the year (16.7bn). The risk-weighted exposure amount did not change significantly because of the high collateralisation level of repo exposures.

The overall REA for the AIRB portfolio increased by 21% over the year, which primarily was caused by the acquisition of Handelsbanken Denmark, and secondly an increased reservation for non-compliance with new requirements for the Advanced Internal

BREAKDOWN OF EXPOSURE CLASSES ACCORDING TO THE STANDARDISED APPROACH				
DKKm	**EaD 2022**	**REA 2022**	EaD 2021	REA 2021
Central governments or central banks	58.658	2	33.950	2
Regional governments or local authorities	19.728	-	18.894	-
Public sector entities	58	3	140	11
Multilateral development banks	13.724	-	8.739	-
International organisations	-	-	-	-
Institutions	15.889	2.543	14.058	2.412
Corporates	961	912	978	549
Retail	466	168	706	274
Secured by mortgages on immovable property	425	139	584	190
In default	1.148	660	1.354	794
Exposures associated with particularly high risk	126	189	124	183
Institutions with a short-term credit assessment	-	-	-	-
Covered bonds	57.215	5.721	50.948	5.095
Equity	1.551	1.728	1.650	1.650
Other	-	-	16	1
	169.949	*12.065*	132.141	11.161
Handelsbanken DK's portfolio treated on the STD approach	7.123	361		
Total	**177.072**	**12.426**	132.141	11.161

BREAKDOWN OF EXPOSURE CLASSES ACCORDING TO THE AIRB APPROACH				
DKKm	EaD 2022	REA 2022	EaD 2021	REA 2021
Corporates, total	**324.084**	**95.813**	**330.514**	**95.038**
Large corporate clients	255.439	73.425	227.333	62.159
Specialised lending	453	219	296	74
SME corporates	68.192	22.168	102.884	32.805
Retail, total	**221.304**	**41.415**	**222.485**	**42.637**
Real property, personal	160.586	28.639	179.199	31.514
Real property, SMEs	33.370	4.330	9.703	1.597
Other retail, private	15.760	4.694	18.271	4.755
Other retail, SMEs	10.830	3.691	15.313	4.771
QRRE (Credit cards)	758	62	-	-
	545.388	**137.228**	**552.999**	**137.674**
Other non-credit obligation assets	8.580	8.580	5.957	5.957
Securitisations	7.518	1.496	6.756	1.382
Handelsbanken DK's portfolio treated on the AIRB approach	63.783	20.390		
Non-compliance reservation regarding AIRB-models		13.632		5.328
Total	**625.270**	**181.326**	565.713	150.341

Rating Based modelling approach used in the capital calculations in the Jyske Bank Group. This reservation is quantified in close dialogue with The Danish FSA.

The Group's average risk weight for exposures treated according to the AIRB approach increased from 26.6% to 29.0% during 2022. The increased risk weight is mainly a result of the capital reservation for non-compliance and cautious calculation of risk exposure for Handelsbanken DK's portfolio treated on the AIRB approach.

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 four categories, depending on the loan's credit deterioration compared to the first recognition:

1) Lending with the absence of a significant increase in credit risk (stage 1).
2) Loans with a significant increase in credit risk (stage 2).
3) Loans that are credit-impaired (stage 3).
4) Loans that are purchased or credit impaired at first recognition (POCI-category). This category is only relevant for reporting as the impairment calculation are made in accordance with the actual underlying staging based on the actual risk-assessment.

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.

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 based on 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, by 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 days 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 consider all future expectations regarding loan impairment charges. 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 based on 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

In the following tables, Jyske Bank Group will be presented along with the individual contributions from the acquisition of Handelsbanken Denmark.

The total balance of loan impairment charges and provisions for guarantees amounted to DKK 4.7bn at end-2022 (2021: DKK 5.4bn). The discount balance from acquired assets at end-2022 amounts to DKK 621m against DKK 108m at end-2021. Hence, the total balance of impairment charges and provisions inclusive of discounts from acquired loans, amounts to DKK 5.4bn.

Provisions for financial instruments are recognised in the P/L-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 2022, the balance of value adjustments amounted to DKK 15m (2021: DKK 58m).

In 2022, the development in loan-impairment charges and provisions for guarantees amounted to DKK -572m (2021: DKK -184m), and Jyske Bank recognized as interest income of DKK -108m (2021: DKK -34m) from the discount balance. Hence, the total net effect recognized in the income statement came to DKK -680m (2021: DKK -218m).

The effect from value adjustments on financial instruments accounts for DKK -43m in 2022 (2021: DKK -20m).

IMPAIRMENT CHARGES AND PROVISIONS FOR GUARANTEES INCL. BALANCE OF DISCOUNTS

DKKm	Jyske Bank Group **2022**	of which Handelsbanken DK	**2021**
Balance of impairment charges for loans and advances	4.353	72	4.815
Balance of provisions for guarantees and liabilities	393	23	638
Balance of loan-impairment charges and provisions for guarantees	**4.746**	**95**	**5.453**
Balance of discounts	621	621	108
Balance of loan-impairment charges and provisions for guarantees incl. balance of discounts	**5.366**	**715**	**5.561**
Balance of value adjustments	15	0	58
Balance of loan-impairment charges and provisions for guarantees incl. balance of discounts and balance of value adjustments	**5.381**	**715**	**5.619**

NET EFFECT FROM IMPAIRMENT CHARGES, ETC.

DKKm	Jyske Bank Group **2022**	of which Handelsbanken DK	**2021**
Loan-impairment charges and provisions for the year	-527	-74	-150
Recognised as a loss, not covered by loan-impairment charges/provisions	112	0	92
Recoveries	-157	0	-126
Loan-impairment charges and provisions for guarantees	**-572**	**-74**	-184
Recognised discount for assets taken over	-108	0	-34
Net effect on income statement	**-605**	**-74**	-218
Value adjustments for financial instruments	-43	0	-20
Net effect on income statement, inclusive of value adjustments	**-722**	**-74**	-239

EAD FOR ACCOUNTING PURPOSES AND PAST-DUE EXPOSURES BROKEN DOWN BY SECTOR								
DKKm	EAD Stage 1	EAD Stage 2	EAD Stage 3	EAD Past-Due	Handels-banken EAD	Balance of loan-impair-ment charges*	Of which Han-dels-banken	Net effect from impair-ment charges**
Banks and mortgage-credit institutions	10.028	1.064	0	0	465	8	1	-5
Public authorities	18.406	0	0	0	3.660	0	0	0
Agriculture, hunting, forestry, and fishing	13.614	733	376	0	611	185	18	-203
Manufacturing, mining, etc.	15.713	1.338	691	1	1.388	284	51	-221
Energy supply	11.180	113	6	0	364	30	0	-24
Construction	9.170	836	143	7	2.125	148	42	2
Commerce	13.590	2.173	360	2	1.374	353	36	-6
Transport, hotels, and restaurants	7.288	382	228	3	3.475	132	12	-13
Information and communication	3.208	75	132	0	331	157	6	-10
Finance and insurance	135.541	1.588	796	228	2.251	909	37	334
Real property	158.887	2.329	2174	1	9.478	1.007	142	-224
Other sectors	21.344	1.179	384	2	2.201	314	54	-22
Corporate Clients	389.535	10.746	5290	244	23.598	3.519	398	-387
Personal clients	175.270	8.602	3681	712	42.841	1854	315	-330
Total 2022	593.238	20.414	8972	957	70.565	5.381	715	-722
Total 2021	574.775	25.916	8893	1155	-	5619	-	-239

*Including: provisions for guarantees, discounts and value adjustments.
** Including: provisions for guarantees.

Due to the inability to divide the EAD for Handelsbanken Denmark into stages and past-due exposures, the EAD is divided into sectors and not stages. The net effect from impairment charges and provisions for guarantees regarding Handelsbanken (DKK -74m) is included in the sector "Other sectors".

EAD for past-due exposures amounted to DKK 957m end-2022 (1,155 end-2021). The level has decreased because of ongoing focus on arrears in the business units of Jyske Bank Group. This decrease in past due amount is from a risk perspective a satisfactory development since the Danish economy is affected by high inflation (higher consumer prices, higher interest rates, high energy prices etc.), which, under normal circumstances, would have a negative impact on the level of past due. Overall, the ongoing focus has led to a lower level of arrears. Alignment of the definitions of credit impairment and default from early 2021 implies that the full amount of past-due exposures is impaired.

Credit risk and impairment levels are in 2021-2022 largely transferred from credit risk affected by the COVID-19 pandemic to a more general negative view on the economic outlook. Higher levels of defaults have not yet been observed to a significant extent in the portfolio but are expected to increase in 2023. The economic outlook comes with great uncertainty and entails difficulty to continue to separate residual effects from COVID-19 from impacts from the Danish economy's actual uncertainties. Therefore, the Jyske Bank Group has combined the statement of the managerial overlays regarding macroeconomic effects into one impairment-overlay effect. This entails a reversal of managerial overlays regarding COVID-19, as it is expected that any post effects of COVID-19 will be included in the overall estimate to cover macroeconomic uncertainties. The Annual Report provides more detailed information in notes 14 and 67.

The total balance of impairment charges for corporate clients as a percentage of total EAD is amounted to 0.8% at end-2022.

Information and communication make up the riskiest sector in terms of balance of impairment charges as a percentage of total EAD. Total volume in the sector is relatively low.

The balance of impairment charges for real property as a percentage of total EAD amounted to 0.6% at end-2022, compared to 0.5% at end-2021.

The balance of impairment charges for personal clients as a percentage of total EAD is continuously low and amounted to 0.8% at end-2022.

Re-estimation and validation of models

The credit-risk models are enhanced to improve quality and to ensure compliance with current 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 to what occurred, thus measuring the predictive capabilities of the model. The validation of the models used for credit risk purposes 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 form a fundamental structure in this regard. 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 and severity. 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 Groups overall non-CCP exposure has decreased during 2022. This development is primarily due to increasing interest rates throughout the year as well as FX rate fluctuations.

Counterparty credit risk

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

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 depends 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 Banks policy for managing counterparty credit risk distinguishes between small and large counterparties, where the latter includes financial institutions. The basic principle for measuring risk on the two types of clients are 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 eliminating the 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 2022, around 90% was covered by netting and collateral agreements.

OTC DERIVATIVES - NOTIONAL AMOUNT		
DKKm	**2022**	**2021**
CCP	1,258,384	1,040,761
Non-CCP	1,145,225	1,158,695
- Collateralized	*1,019,376*	*1,058,349*
- Non-collateralized	*125,849*	*100,345*
Total	2,403,609	2,199,456

From September 2021 the Group was obliged to fulfil the EMIR requirements on Initial Margin for non-cleared derivatives. At year-end 2022, no Initial Margin have been posted or collected, but it is the Groups expectation that OTC initial Margin will be exchanged in the coming year. Security Agreements and Collateral Transfer Agreements are set up with counterparties approaching the 50m EUR threshold, and the general setup for exchanging Initial Margin is in place. For most of our financial counterparties, the Threshold Monitoring Agreement will be sufficient.

Risk Profile

Jyske Bank measures counterparty credit risk in terms of the market value of a portfolio with a given counterparty, considering any allowed netting and collateral exchanged with the counterparty. The table below shows the Groups exposure at end-2022 for counterparties except CCPs.

COUNTERPARTY CREDIT RISK EXPOSURE		
DKKm	2022	2021
Gross exposure	21,953	24,980
Effect of netting	12,023	16,400
Exposure after netting	9,930	8,580
Effect of collateral	6,648	3,723
Exposure after netting and collateral	3,282	4,857

The overall decrease in the Groups non-CCP exposures are primarily driven by the increase in interest rates and fluctuations in FX rates.

Agreements on collateral with financial counterparties and large corporate clients are mutual agreements, which means that Jyske Bank is also obliged to pay margin to the counterparty if the market value in favour of the counterparty exceeds a pre-agreed threshold. At end-2022 roughly 80% of the Groups collateral holdings consisted of cash, the remaining 20% was composed by securities in the form of government bonds issued in Denmark, the United States, Germany and France and Danish mortgage bonds.

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 Standard Approach for Counterparty Credit Risk (SA-CCR), 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. 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. Jyske Bank uses the Standard Approach in CCR to calculate the corresponding Own Funds requirement. This capital charge covers only the Groups 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.

Market Risk

Market-risk exposure from trading-related activities was primarily driven by client flow and was in general kept at a moderate level in 2022. Credit spreads on Danish callable mortgage bonds have been volatile through the year, affecting trading activities.

The sensitivity to interest rate changes in the banking book has increased in 2022. The inclusion of deposits from Handelsbanken Denmark is the partial effect, but the general sensitivity has increased as well. The increase is a result of increasing expected net interest income in line with the increasing interest rates. The interest rate risk from deposits is partially hedged, and the hedge is increased during 2022.

Market Risk

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 decides 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 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.

The Internal Revision (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 conflicts 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 Risk Committee.

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 characterise 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 daily. 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 managed 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 trading-related market risk

The market risk exposure from the trading related activities is 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.
The main themes in the Danish mortgage market were the globally rising interest rates and increasing inflation. The rising interest rates did put outward pressure on credit spreads right from the start of the year and increased the volatility significantly. In the last quarter of the year, inflation showed a decreasing trend, which tightened credit spreads.

Own funds requirements for market risk

During 2022, REA from market risk decreased by DKK 2.3bn to DKK 8.4bn. Risk from debt instruments and Groups' equity portfolio decreased during 2022. The REA from foreign exchange has been reduced to zero, as the exposure is below the minimum threshold according to CRR article 351.

A large part of the Group's own funds requirement in debt instruments is a result of hedging DKK interest rate risk with EUR instruments.

OWN FUNDS REQUIREMENT FOR MARKET RISK

DKKm	2022		2021	
Risk type	REA	OFR*	REA	OFR*
Debt instruments	6,756	540	8,008	641
Equity	1,624	130	2,208	177
Commodity	-	-	-	-
Foreign exchange	-	-	506	41
Total	8,380	670	10,723	858

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 tolerance framework founded in the Market Risk Policy decided 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 tolerance, sub-elements of IRRBB are measured daily 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. These include 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-bp parallel shift in interest rates. The figures do not include the pickup in NII from deposits, resulting from a realization of current forwards:

INTEREST-RATE RISK IN THE BANKING BOOK

DKKm	2022		2021	
	+50bp	-50bp	+50bp	-50bp
DKK	372	-421	208	-194
EUR	40	-33	121	-114
Other	-7	7	-7	7
Total	405	-446	322	-301

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 -301 million in 2021 to DKK -446 million in 2022. The inclusion of deposits from Handelsbanken Denmark has enhanced the risk, but the general sensitivity from deposits and the expected new interest income have increased with the increasing rates. Hedging the interest rate risk from deposits has been of highest attention in 2022, hence the hedge is increased continuously during 2022.

Foreign-exchange risk

Jyske Bank's foreign-exchange risk indicators are calculated based on 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 consider 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 based on 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. A few selloffs during 2022 decreased the holding marginally.

SHARES NOT HELD FOR TRADING

DKKm	2022	2021	Unrealised gain	Realised gain
Total	1,500	1,543	149	59

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. Based on 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 consisting only 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 is 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 information from rating agencies or other external sources. The securitisation types and the geographical exposure of the underlying assets of the portfolio are depicted in the table below.

The Group increased the portfolio of securitizations during 2022. All new investments in CLO have an AAA-rating and senior status in accordance with the Market Risk Policy. In the table below, the current investments are broken down by the current rating.

Own funds requirements for securitisations

Jyske Bank applies the external ratings-based approach (SEC-ERBA) for the calculation of the own funds requirements. The requirements for securitisations were higher in 2022 in line with the increased exposure taken during the year.

EXPOSURE TYPES FOR SECURITISATIONS					
DKKm	European	American	Other	Total 2022	Total 2021
RMBS	96	-	-	96	136
CLO	5,185	2,237	-	7,422	6,620
ABS	-	-	-	-	1
Total 2022	5,281	2,237	-	7,518	6,756
Total 2021	4,472	2,285	-	6,756	

BREAKDOWN OF RATINGS (Standard & Poor's / Moody's)		
DKKm	2022	2021
AAA / Aaa	7,422	6,620
AA / Aa	96	109
A / A	0	11
BBB / Baa	0	0
BB / Ba	-	-
Lower or no rating	-	-
Total	7,518	6,756

OWN FUNDS REQUIREMENTS FOR SECURITISATIONS				
DKKm	2022		2021	
Risk weight - ranges	Exposure	OFR*	Exposure	OFR*
≤ 20%	7,422	116	6,620	106
> 20% ≤ 50%	97	3	136	5
> 50% ≤ 100%	-	-	17	0
> 100% < 1,250%	-	-	-	-
1,250% / deduction	-	-	-	-
Total	7,518	120	6,756	111
Of which in the trading portfolio	-	-	-	-

Note: OFR = Own funds requirements

Liquidity Risk

During 2022, the Group maintained a high degree of excess coverage in terms of the stress-based internally delegated limits and guidelines.

For the regulatory liquidity measures LCR and NSFR, the Group also maintained a high excess coverage to both internal delegated limits and to a high extend the regulatory limits.

2022 was characterised by historical high market volatility, rising interest rates and a significant widening of credit spreads during 2nd half of 2022. During 2022 the Group demonstrated "through the cycle" market access issuing five public bonds, hereof two EUR 500m NPS benchmark bonds in the very challenging market environment of the Autumn of 2022.

Liquidity Risk

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 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 funding risk related to potential decline in real estate prices due to regulatory over-collateralisation requirements (OC 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. The risk level is reassessed on an ongoing basis, considering current market and economic conditions in Denmark and the financial sector.

Organisation, management, and monitoring

The Group Supervisory Board has adopted a liquidity policy which sets specific guidelines and limits including critical survival horizons for the Group during three different stress scenarios. Other key ratios include an internal key objective for the LCR and NSFR, the size and quality of the Groups liquidity buffer and the relationship between bank loans and bank deposits. Based on the overall limits, the Group Executive Board has defined and delegated specific limits to those operationally responsible in Jyske Bank, who daily monitor and manage the Group's liquidity. 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 liquidity risks.

The Group's responsibility for issuing bonds in the capital market is centralised at Group Treasury. As a mortgage-credit institution, Jyske Realkredit must comply with mandatory over-collateralization within the scope of the privileged position of covered bond investors in a bankruptcy scenario. In a scenario with declining real estate 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 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. 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. Measurement of the Group's liquidity position in various stress scenarios is a cornerstone in managing the Groups strategic liquidity risk profile. 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 the three current relevant stress scenarios, the Group's liquidity buffer is used to cover negative payment gaps. 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 analysed: an idiosyncratic scenario, a capital market/recession scenario, and a combination scenario.

For more detailed information on the stress scenarios used, see the Group's Annual Report 2022.

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 to 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 2022, Jyske Bank had a very high degree of excess coverage in terms of the stress-based internally delegated limits and guidelines.

Group funding structure

The Group's largest funding source is covered bonds and mortgage bonds issued by Jyske Realkredit which according to the balance principle of the Danish mortgage legislation fund Jyske Realkredit's mortgage loans. Total covered bonds and mortgage bonds amounted to DKK 324 bn corresponding to 43% of the balance sheet at the end of 2022. The Group's second largest source of funding is customer deposits representing DKK 189 bn (18 % of the balance sheet). The deposit base is granular and well-diversified reflecting a broad client base of private customers as well as small and medium-sized companies. 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 considers 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.

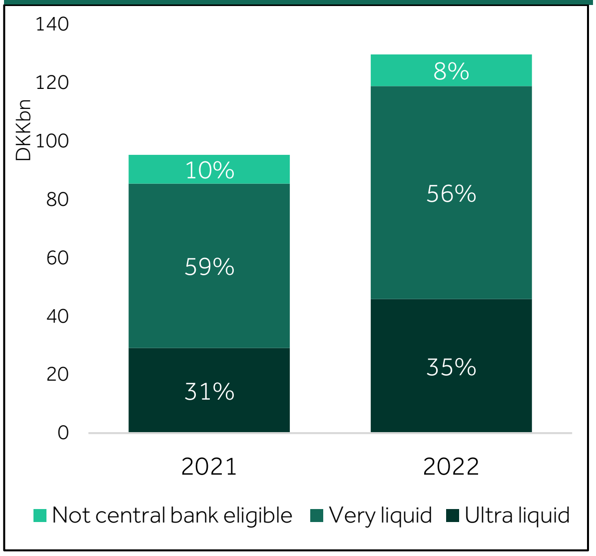
2. Very liquid assets (central bank eligible): Assets eligible for borrowing transactions in the Danish central bank or the ECB: Danish government-, mortgage-, and covered bonds, as well as European covered bonds, residential mortgage-backed securities (RMBS) and government bonds.

3. Non-central bank eligible assets: 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 group 1 (ultra liquid) and group 2 (very liquid) as there is a high degree of consistency to the requirements for LCR-reserves.

At end-2022, the Group's liquidity buffer amounted to DKK 130bn compared to DKK 95bn end-2021.

DEVELOPMENT IN THE GROUP LIQUIDITY BUFFER

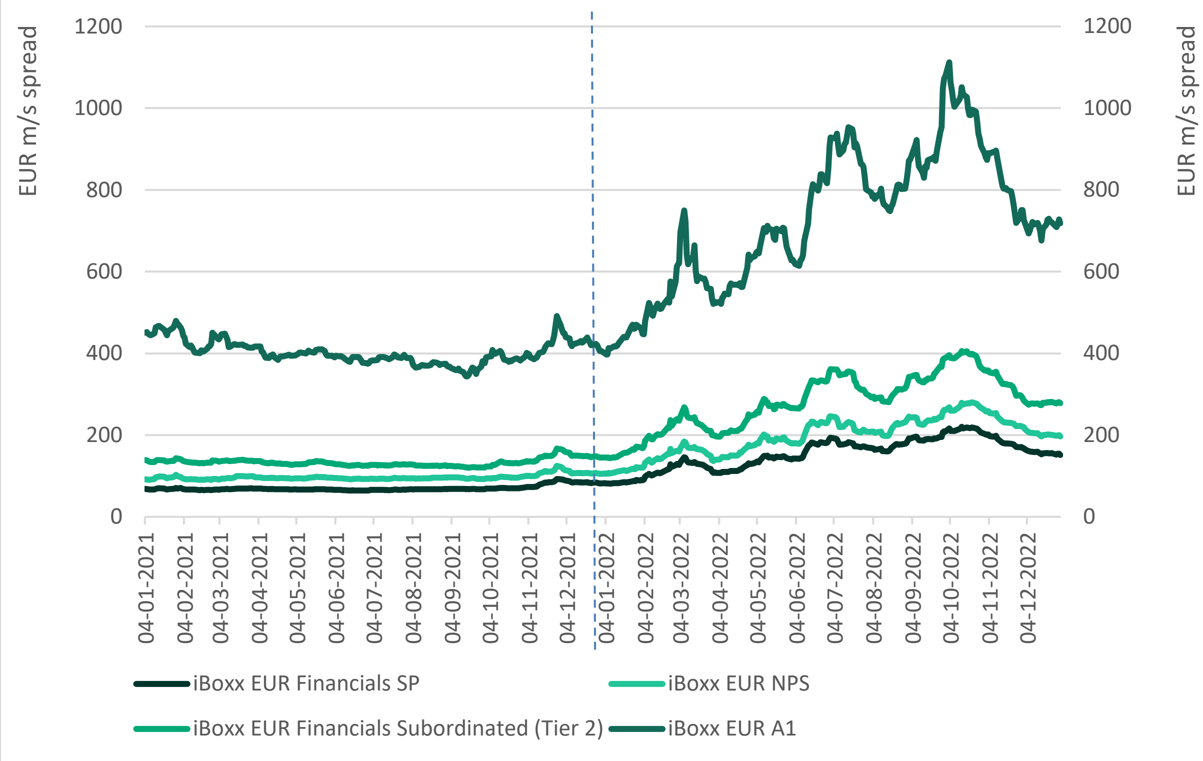


As reflected in the above chart the reserve consists mainly of ultra-liquid or very liquid assets such as central bank deposits and Danish mortgage bonds and covered bonds. End of 2022 DKK 118 bn of the buffer was eligible at either the Danish Central Bank or the ECB.

Capital markets & issuance activity

2022 was a challenging year in the financial markets, and in sharp contrast to the relative stability in 2021 with historically low credit spreads and negative interest rates. As reflected in the chart below, the 2nd half of 2022 was characterised by high volatility and very difficult market conditions in the international capital markets.

DEVELOPMENT IN CREDIT SPREADS 2021-2022



The key drivers were the aggressive market repricing of interest rate expectations and the deteriorating macro-economic outlook caused by the outbreak of the war in Ukraine, which accelerated the energy crises in Europe. After a long period with negative central bank rates and quantitative easing, the 2nd half of 2022 was characterised by several rate hikes from Central Banks and quantitative tightening. As a result, fixed income assets have been repriced, and positive yields have returned.

Despite the continuously shifting market conditions, the Jyske Bank Group issued five public benchmark transactions during 2022. The two EUR 500m NPS benchmark bonds were issued in a difficult and distressed market in the autumn of 2022.

	Maturity	Credit spread
SEK 3bn preferred senior	12.04.2025	3M CIBOR + 31bps
(value date 12.04.2022)	(call 2024)	
EUR 500m covered bond (value date 25.08.2022)	01.10.2029	3M CIBOR + 5,75bps
DKK 400m Tier 2 (value date 31.8.2022)	31.08.2032 (call 31.08.2027)	3M CIBOR + 245 bps
SEK 600m Tier 2 (value date 31.08.2022)	31.08.2032 (call 31.08.2027)	3M CIBOR + 245 bps
NOK 400m Tier 2 (value date 31.08.2022)	31.08.2032 (call 31.08.2027)	3M CIBOR + 245 bps
EUR 500m NPS (value date 11.10.2022)	11.04.2026 (call 11.04.2025)	3M CIBOR + 184 bps
EUR 500m NPS (value date 16.11.2022)	16.11.2027 (call 16.11.2026)	3M CIBOR + 222,5 bps
SEK 2,25 mia. (value date 2 februar 2023)	02.02.2027 (call 02.02.2026)	3M CIBOR + 148 bps

An overview of the bonds issued in the international capital markets during 2022 is provided in the table above:

At end-2022, senior unsecured debt amounted to DKK 27.8bn (EUR 3.7bn) against DKK 24.1bn (EUR 3.2 bn) at end-2021. Outstanding CRDIV compliant issues of subordinated Tier 2 notes and AT1 capital amounted to respectively DKK 6.2 bn (EUR 0.9 bn) and DKK 3.3bn (EUR 0.4bn) end of 2022 compared to DKK 5.2n (EUR 0.6bn) and DKK 3.3bn (EUR 0.4bn) end of 2021.

At end-2022, outstanding bonds under the CP programme amounted to DKK 71 bn (EUR 9.5 bn) compared to DKK 51 bn (EUR 6.8 bn) end-2021.

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 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 (premium) and covered bonds in nominal values increased from DKK 339bn at end-2021 to DKK 366bn at end-2022. The increase was driven by general lending growth as well as funding of mortgage loans from Handelsbanken Denmark.

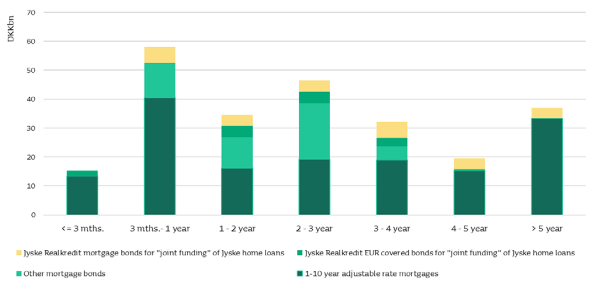
Long fixed-rate callable covered bonds have no refinancing risk.

The increasing interest rates during 2022, let to substantial declines in the market values of long-term fixed rate callable mortgage bonds. Many borrowers therefore remortgaged their existing fixed interest rate loans financed with callable bonds, thereby reducing their outstanding debt. Instead of refinancing their loan with a new fixed rate loan many borrowers opted for a new loan with a variable interest rate (interest rate reset every 1-5 years) as well as loans with interest rate ceiling. Furthermore, the loans from Handelsbanken Denmark are primarily mortgage loans with variable interest rate.

The change in the interest rate profile of existing borrowers and the inclusion of loans from Handelsbanken Denmark has during 2022 increased the proportion of loans with refinancing risk in Jyske Realkredit. As at end of 2022 loans with refinancing risk amount to DKK 243bn and 67% of Jyske Realkredit's lending volume.

The maturity profile for mortgage loans with refinancing risk, as of end-2022, is illustrated in the chart below.

MATURITY PROFILE FOR SDO's 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.

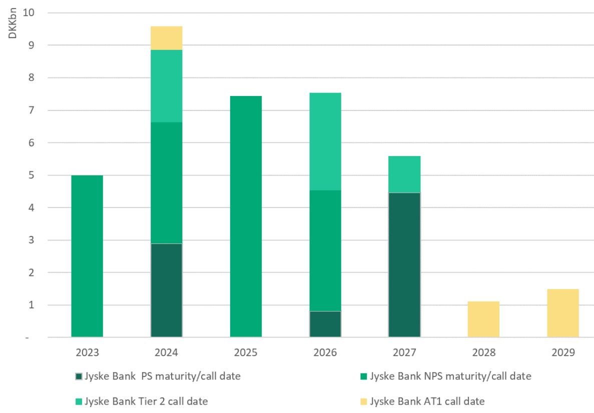
Furthermore, monitoring and assessing the structure and quality of the deposit base is imperative to assess the overall need for longer-dated funding to hedge overall refinancing risk.

The Jyske Bank Group has a high-quality deposit base with a high proportion of small deposits from SMEs and private individuals and "core deposits" represents approximately 62% of bank lending.

The run-off of wholesale fixed-term deposits, interbank deposits, CP and EMTN issues is monitored and managed via the use of stress scenarios to make sure that the Group does not become structurally dependent on these founding sources. In addition, the Group has limitations on the amount of senior debt maturing within a rolling 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-2022 is illustrated in the following chart.

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.

MREL & MREL eligible debt

Since January 1st 2022, the Group MREL requirement has been that the sum of the Group's capital instruments, and bail-in-able liabilities must be above 8 % of the Group's total liabilities and own funds (TLOF). The countercyclical buffer ("CCyB") has been gradually reactivated from 1 % as of end September 2022 to 2 % end of December 2022, and as of 31 March 2023 it will be raised further to 2.5 %. On 31 December 2022 the CCyB requirement was raised further to 2 %. Consequently, the general MREL requirement consisting of the sum of the MREL requirement for banking activities plus the capital and debt buffer requirement in Jyske Realkredit was the binding requirement end of 2022. Group capital, that is utilised towards the mortgage bank's capital and debt buffer requirements, is not eligible to count towards the MREL requirement for banking activities.

The subordination requirement for MREL for banking activities end of 2022 as set by the Danish FSA was 27.3 % of the risk weighted exposure for banking activities. End of March 2023 it will increase to 27.7 % due to the full reactivation of the CCyB.

Implementation of the amendments to the European Crisis Management Directive (BRRD II), introduced a subordination cap on the MREL requirement (for banking activities). Consequently, Jyske Bank can meet part of the MREL requirement with PS debt. The total MREL requirement for banking activities incl. of the non-subordinated allowance was 31.3 %

end of December 2022 and will increase to 31.7 % as from 31 March 2023[8].

To ensure ongoing compliance with statutory requirements, including an internal buffer to statutory requirements, Jyske Bank expects to have approx. DKK 25-27bn MREL eligible debt instruments, of which DKK approx. 6bn preferred senior debt (PS) and DKK 19-21bn non-preferred senior debt (NPS) outstanding in the market.

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-2022, the Group's LCR was 417% compared to 448% as of end-2021. The yearly development in the underlying liquidity buffer and net liquidity outflow is shown in the table below. Furthermore, the composition of the Group's LCR buffer net of haircuts as of end-2022 is shown:

GROUP LCR 2021-2022	2021	2022
Liquidity buffer	106.3	133,4
Net outflow	23.7	32,0
LCR	448%	417%

GROUP LCR LIQUIDITY BUFFER 2022		
Asset classes	DKK bn	%
Level 1a	81.1	63.0%
Level 1b	46.4	34.8%
Level 2a+2b	2.9	2.2%
Total	133.4	100%

The minimum target for the LCR is 120% 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-2022.

The Danish FSA 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 2022, the Group's ratio was calculated at 142% compared to 188% end of 2021.

Net Stable Funding Ratio has been a statutory requirement since the end of June 2021. The "maturity extension trigger" in the Danish mortgage bond legislation means that all bonds qualify as "closely related to the loans" and can be excluded from the calculation. NSFR compliance at Jyske Realkredit is therefore relatively easy to achieve.

At Group level, Jyske Bank was fully NSFR-compliant throughout 2022. The Group NSFR as of end-2022 was 126% compared to 138% as of end-2021.

Funding plans

During 1st half of 2023, the issuance of a EUR 500m benchmark bond in NPS format is expected. Depending on the balance sheet development, this issue may be supplemented by further issuance of NPS and/or PS debt.

Asset encumbrance

Assets are encumbered if they have been pledged or are subject to any form of arrangement to secure, collateralise or credit-enhance any on- or off-balance-sheet transaction from which it cannot be freely withdrawn.

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 always 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 and collateral encumbrance stem from:

- Issuance of covered bonds
- Repo financing
- Derivatives and clearing activities

[8] See Information for Debt Investors (jyskebank.com) for an overview of the current MREL requirement for the Group and for the banking activities.

- Periodical short-term funding in central banks (Danmarks Nationalbank and the ECB)

	END OF Q4 2022		END OF Q4 2021	
	Group	Jyske bank A/S	Group	Jyske bank A/S
Total encumbered assets and collateral	418.84	58.22	416.62	57.54
of which: derivatives collateral	25.41	25.32	24.79	24.73
of which: REPO	33.89	33.89	22.85	32.81
of which: Central Bank funding	0.00	0.00	0.00	0.00
of which: SDO-issuance	359.53	0.00	368.62	0.00
of which: other assets	0.00	0.00	0.00	0.00
Total assets and collateral	819.05	491.65	704.41	364.09
Encumbrance ratio	51.1%	12.0%	59.1%	15.8%

As the amounts in the table above 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 Realkredit has the same rating as Jyske Bank. During 2022 there has been no change to neither Jyske Banks SACP of A- nor the issuer rating of A/A-1. Jyske Bank's stand-alone credit profile ("SACP") has been A- with a stable outlook since 2011.

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, based on Jyske Realkredit's issuer rating as well as the growth and composition of the loan portfolio at the capital centres. At end-2022 the overcollateralisation requirement from S&P totalled DKK 8.9 bn against DKK 8.2bn at end-2021.

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
Issuer Credit Rating ("ICR")	A	stable		
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		

Operational Risk

The operational risk exposure at the Jyske Bank Group has in the second half of 2022 been affected by the acquisition of Handelsbanken Denmark. Management of operational risks related to the integration of organisations, business models and IT-platforms, have high priority in the Group throughout 2023.

The Group continues to recognise cyber risk among the top operational risks. Throughout 2022, Jyske Bank continued its IT security activities and launched further initiatives to combat cyber threats and improve the overall security of the IT infrastructure.

In addition, fighting financial crime continues to remain a high priority effort in the Jyske Bank Group. To reduce risks of being abused for illegal purposes, the bank has continuously introduced mitigating measures that go beyond the bank's legal obligations.

Operational risk

Jyske Bank is exposed to potential losses as a result of operational risk events, including inexpedient processes, human errors, IT errors as well as financial crime. 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 risk events resulting in material losses 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 operational risk as well as the Group's operational risk appetite.

The purpose of the policy is to keep operational risk at an acceptable level with respect to the Group's overall strategic objectives and the cost associated with reducing the risks. Therefore, the Group Supervisory Board has laid down 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.

Risk identification and assessment

The primary ways in which risks are identified and assessed in the Group are via Risk and Control Self-Assessments (RCSA) conducted in all business units, and analysis of historical losses and near misses. Further, scenario analysis of tail-risk events strengthens the ability to manage operational risk effectively in the Group.

RCSA-analyses assess the Group's operational risks by analysing central processes and events that could cause losses. All risk events that may cause losses of more than DKK 100,000 are within scope of the RCSA-analyses.

Each business unit maps out the risks that are significant based on substantial experience within their respective areas. A broad range of risks are accounted for, such as the provision of incorrect advice, trading errors, errors in models, as well as errors in internal and external reporting. Operational risks at major business partners are included in the assessments, including errors in IT development or IT failure. Risks that could materially damage the Group's reputation are also analysed and mitigated, if necessary.

An assessment of the effectiveness of the control environment reveals risks that are insufficiently mitigated by existing controls. The RCSA-analyses propose ways in which operational risks can be reduced.

The Operational Risk Function acts as the second line of defence and supports and facilitates the Group's business units throughout the RCSA process as well as challenges and ensures the quality of the work. The Operational Risk Function is centralised, to achieve consistency across the Group.

Registration is made of all operational errors or incidents in the Group that cause losses or gains in excess of DKK 5,000. Near misses of significant amounts are also registered. Each registration includes information about the incident such as product, work process and cause of error. Data is used for analysis and reporting with a view to optimising processes and reducing future losses.

Management and monitoring

Developments in operational risk are monitored using a risk-based approach to ensure the best possible basis for risk management. High risk areas are reported on more frequently and thoroughly than other areas.

The Group Executive Board and the relevant unit directors oversee operational risk management. Thus, risk management is an integral part of daily operations through policies and controls established with the purpose of securing the best possible processing environment.

Regular reporting to the business unit directors, ensures that management are continually informed about developments in operational risk exposure in their respective business units.

Furthermore, quarterly reports to the Group Executive Board and the Group Supervisory Board are prepared by the Operational Risk Function. In these reports, important aspects with respect to the development in the Group's operational risk exposure are described and areas in need of senior management attention are highlighted.

Cyber security

The Group recognises cyber risk among the top operational risks. Throughout 2022, Jyske Bank continued its IT security activities and launched further initiatives to combat cyber threats and improve the overall security of the IT infrastructure.

Spurred by global and national increases in cyber threat trends, including Russia's invasion of Ukraine, Jyske Bank has not been notably affected compared to 2021. High volatility in the threat landscape was assumed in H1 2022 due to the Russian invasion and the financial sanctions against Russia. However, throughout H2 2022, very little activity from threat actors that can be attributed to the Russian invasion was observed.

Early January 2023, Jyske Bank was in a targeted attack which consisted of periodic DDoS attacks over the course of a week. The DDoS attacks were likely to come from organised hacker groups with some affiliation to Russia. The attacks had very little to no business impact, yet large efforts were put into handling the attack, as it was an attack on the Danish banking sector. Jyske Bank believes that both the financial sector in general and Jyske Bank as an individual company have a responsibility to be as robust as possible and to deter such attacks despite low business impact. Therefore, the Group employed additional technological features to enhance our cyber defences in order to deter and/or absorb future similar attacks.

While the Group sees multiple indicators of attack attempts in day-to-day monitoring and cyber events, it has not seen any sophisticated, directly targeted attempts– proving that the Group is maintaining its strategy well in terms of managing the attack surface. During the DDoS attacks, the Group took measures to strengthen the externally facing cyber defences. The Group has, however, observed some of its large customers and partners being impacted by events, yet still without cascading impact on Jyske Bank.

The Group has not experienced any material losses stemming from cyber-attacks in 2022. In the aftermath of the targeted DDoS attacks experienced in January 2023, the anticipation is a "moderate to high" cyber threat activity against Jyske Bank in 2023. Volatility of cyber threats are expected, and the possibility that the Group is targeted again as a result of activism connected to the Russian invasion cannot be ruled out.

Focus of the initiatives in 2023 remains on improving the overall security posture. External security posture has already been improved significantly. Further, the Group anticipates that supply chain risks will increase, including attacks on supply chains for the Group. A more proactive approach to identifying and managing the effects of a cyberattack on customers and partners is taken in 2023. The Group realises that the nature of cyber threats may develop in unknown directions and the fact that it must enhance IT capabilities and train recovery procedures to be as prepared as possible for impact.

Dialogue with The Danish FSA concerning completion of specific orders on areas to improve following an IT inspection in 2016, has ended. All orders have been addressed and The Danish FSA has ended its review process and concluded all orders as solved. As a result of this conclusion, the extraordinary pillar 2 capital add-on, that the Group has held to address the issues pointed out by The Danish FSA, has been removed applicable from Q4 2022.

Financial crime

Preventing financial crime, and efforts to prevent money laundering and the financing of terrorism, are a top priority at Jyske Bank. The Group wants to prevent the bank from being misused for illegal purposes of any kind. Therefore, efforts are continuously being made within a wide range of focus areas such as customer due diligence, client's connection to Denmark, monitoring of transactions, and anti-fraud measures.

For 2022, efforts particularly in the following areas can be pointed out:

The Bank focuses on improving customer due diligence and the customer due diligence processes applicable to personal clients by implementing new user interfaces to obtain information in the mobile banking application. These efforts are made to offer clients an easier and more flexible way of submitting information to the Bank, and hereby help us to secure that, on an ongoing basis, Jyske Bank has updated knowledge of its clients.

It is more difficult to keep the customer due diligence, in relation to clients without any natural connection to Denmark, at the desired level. In 2022, the risk assumed by Jyske Bank of being misused for money laundering purposes was reduced, for instance by enhancing the customer due diligence procedures relating to foreign clients without any natural connection to Denmark and by reducing the number of such clients. The Bank's efforts to reduce the size of this group of clients will continue into 2023.

At this time, the Bank will generally accept transfers to and from Russia for its own clients if such transfers do not violate international sanctions. To counter the risk that sanctions are violated, control measures, where each transfer to and from Russia are addressed and manually reviewed, were introduced in 2022. These efforts will continue in 2023.

In the autumn of 2022, Jyske Bank received a report from the Danish Financial Supervisory Authority including nine orders, primarily relating to a small portfolio of mortgage loans in Southern Europe to be phased out. Subsequently, the FSA reported Jyske Bank to the police. The specific shortcomings in the handling of the portfolio were rectified as soon as they were known. It is expected that the last issues relating to the orders will be resolved by the end of Q1 2023. Jyske Bank has contacted the police to help the investigation and get the case settled as quickly as possible. As a result of the issues pointed out by the FSA, the ensuing discussions and upcoming investigation by the police, the Group has taken a capital add-on in pillar 2 in anticipation of a possible fine.

Outsourcing

The Group has throughout 2022 made progress regarding governance and management of risks related to outsourcing.

Work has continued to strengthen the integration of outsourcing risks into the RCSA-analyses. Moreover, significant progress has been achieved with respect to analysis and reporting of risks related to the Group's main outsourcing partners.

The Operational Risk Function has been working in close collaboration with Group IT Security and the Head of Group Outsourcing throughout 2022 to implement a process to identify, assess and manage risks related to the Group's outsourcing contracts. This work will proceed going into 2023.

Furthermore, the Operational Risk Function has been working with the Head of Outsourcing at Jyske Realkredit in order to strengthen the process surrounding the management of intragroup outsourcing. This cooperation will be further strengthened throughout 2023.

Data protection

The Group is continuously working to ensure compliance with the General Data Protection Regulation (GDPR). Substantial progress has been made during 2022 to ensure that the processing of personal data is carried out in accordance with the GDPR.
The Operational Risk Function works in close collaboration with the Group's Data Protection Officer (DPO) to strengthen the integration of risks related to GDPR into the RCSA-analyses that are carried out throughout the Group. The Group's DPO provides concrete observations to support the identification of GDPR risks before each RCSA-analysis is initiated, as well as contributes to the review and quality-assurance process of the analysis.

Model risk

Models risk constitutes an important and still growing risk type within non-financial risk, due to an increase in digitalisation and need for efficient data-driven processes and decisions. The application of models to support decision making may result in risk due to errors in the development, operationalisation, and application of models.

Model risk is governed by the Group's Model Risk Policy, which defines the Group's framework for managing and governing model risk.

Model owners are responsible for the model risk connected to their models, which includes identifying models and ensuring ownership of tasks connected to models such as development, validation, monitoring, and processes related to application of their models.

The Model Risk Management (MRM) function is the Group's second line of defence concerning model risk and is responsible for developing and updating the model risk policy and overseeing the Group's model risk. This is done by classifying models in cooperation with business units and reviewing the ownership of responsibilities related to the model, model documentation, business procedures and the handling of observations made by the validation unit.

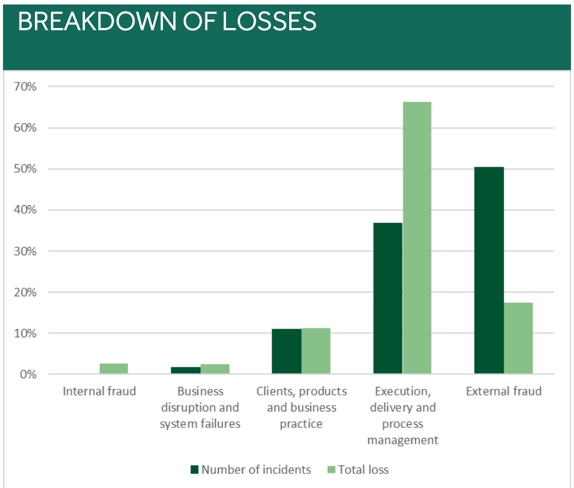
An essential part of the oversight and control of model risk is the validation of high-risk models, covering among others the risk models used for IRB, IFRS9 and stress test. The Group has an internal framework for validating models. The validation unit performs model validation for all high-risk models. These models are subject to both initial validation and afterwards periodic validations by the validation unit.

The results of the validations performed by the validation unit are logged in a repository, which together with the model inventory and MRM function's review of the business units work with models are the basis of the evaluation the Group's model risk, which is regularly reported to the Group Risk Committee.

Acquisition of Handelsbanken Denmark

The Group's acquisition of Handelsbanken Denmark and ongoing work to integrate organisations, business models and IT-platforms, has implied an extraordinary temporary increase in the operational risk level in the Group. Management of operational risk related to integration work has high priority throughout 2023. However, given the amount, complexity and strict timetable of the integration programme, a temporary capital add-on has been taken in pillar 2 to account for the extraordinary increase in operational risk for the duration of the integration programme.

Breakdown of losses



The breakdown of operational losses registered in 2022 by category shows that most incidents are related to external fraud or execution, delivery, and process management. These two categories make up 87% of total incidents and 84 % of total losses. External fraud alone accounted for 51 % of loss incidents while execution, delivery and process management alone accounted for 65 % of the total loss.

The registration 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 rank 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-2022, the overall own funds requirement for the Group amounted to DKK 1,171m against DKK 1,144m at end-2021. The increase in the own funds requirement is primarily due to increasing net income in the three years covered by the 2022 calculation.

In addition to the above-mentioned own funds requirement for operational risk, an addition of DKK 202m has been separately added due to the purchase of Handelsbanken Denmark to cover the operational risks of those assets. The total own funds requirement for operational risk thus becomes 1,373m DKK.

Management declaration

Jyske Bank is required to publish a risk statement along with a board declaration on the sufficiency of the risk management arrangements.

This is in line with article 435 (1) of the capital requirements regulation (CRR).

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 by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy.

Risk statement: a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set 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 the 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 compliance with the implemented policies and instructions. The Group Executive Board finds that the Group has adequate risk management arrangements in place considering 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 ensure 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 adjusts 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 engenders 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 daily to comply with the liquidity policy implemented by the Group Supervisory Board.

Moreover, the group faces non-financial risks. The operational risk policy seeks to ensure that the Group's exposure to operational risk and resultant losses are 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 receive 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.
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 always 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. 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, as well as the capital buffers.
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 determine this based on the current economic situation.
Counterparty credit risk	The risk of loss due to a counterparty failing to fulfil its obligations.

CRD	The Capital Requirements Directive is a series of EU directives, which through a number of changes continually has been implemented in the Danish Financial Business Act. Currently the 5th edition of the CRD is the latest addition to the Danish legislation which is currently enacted. The legislator in EU is currently developing the 6th edition of the CRD which is expected to enter into force in 2025.
Credit risk	The risk of loss caused by clients' or counterparties' 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.
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 over 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 ahead based on internal capital models. Economic capital was previously used for pricing but was recently replaced by regulatory capital for the dominating part of the credit portfolio.
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).
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 over 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.
NPL backstop	Rules regarding minimum loss coverage for non-performing exposures. The new legislation is implemented in Jyske Bank Group, and encompasses new exposures from post 26 April 2019, and affects the calculation of tier 1 capital and pillar 2.
O-SII	Other systemically important institutions, the systemic importance classification of Jyske Bank.
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.
Regulatory capital	The capital required to cover the Group's unexpected loss one year ahead based on the principles defined in the current regulatory capital requirements (CRR2), concentration risk as well as other capital add-ons or deviations deemed relevant for pricing decisions.
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 classifications	Jyske Bank's exposures at risk are broken down into three risk classifications: low (1), high (2) and full (3) risk. Risk classifications 2 and 3 are termed defaulted. The risk classifications 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.
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.