Risk and Capital Management

2020

JYSKE BANK

Content

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Executive summary

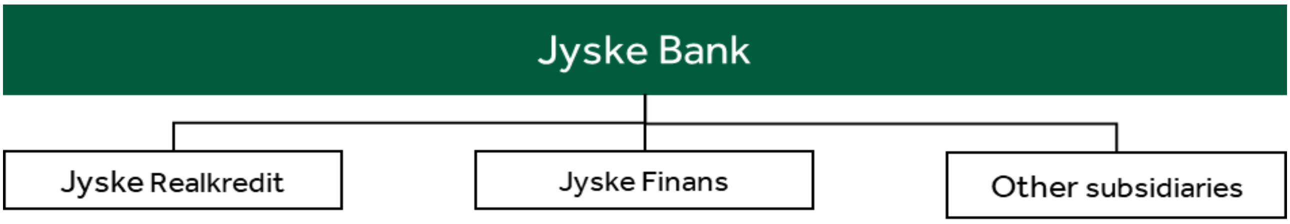
The objective of this report is to offer insight into the Group's internal risk and capital management and the regulatory capital requirements.

The uncertainty caused by the COVID-19 pandemic has been the overarching focus of the year, in trying to enlighten and report on the risks associated with such a change in the external environment. However, due to the nature of the crisis, regular risk parameters were not completely adequate and hence, a magnitude of new analyses was required to monitor the Group's risk. However, the Group's portfolio has generally exhibited great resistance against the crisis.

The capital-management objectives of Jyske Bank for the coming years is a capital ratio within the range 20-22% and a common equity tier 1 capital ratio between 15% and 17%. At these levels, Jyske Bank are able to absorb the effects of forthcoming legislative changes and at the same time maintain the desired strategic capital buffer. As of end-2020, the Group's capital is well above the capital objectives with a common equity tier 1 capital ratio of 17.9% and a capital ratio of 22.9%.The Group accepts the breach of the capital objectives in the short term due to the uncertainty caused by the covid-19 crisis.

The Group has initiated a new share-buyback programme of DKK 750m, which will conclude at latest ultimo September 2021.

Business model



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

The Jyske Bank Group's business model is designed to offer financial products and other related services to private individuals, businesses, and institutions. A main component of the Group's business model is to provide loans in exchange for collateral in real estate. The Group's mortgage loans are primarily funded by issuing covered bonds and secondarily by issuing mortgage bonds. It is the Group's ambition to maintain an AAA rating of its covered 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 jointly-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 primarily offers financial services within Denmark. To further strengthen the domestic focus, the sale of Jyske Bank Gibraltar was finalized in the first half of 2020.

Jyske Bank wishes to operate a company that conducts itself 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 has signed the UN Principles for Responsible Banking (PRB) and the 20 recommendations of the Forum for Sustainable Finance. Both initiatives contribute to the framework and direction of the work on sustainability.

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. Finally, 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 and interest rate risk and foreign exchange risk are the main trading-related market risks. Asset and liability management drives the non-trading-related market-risk, where the interest-rate risk exposure is founded in core banking and mortgage activities as well as funding and liquidity management.

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

Furthermore, the Group strives to minimize operational risk, bearing in mind the related costs.

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

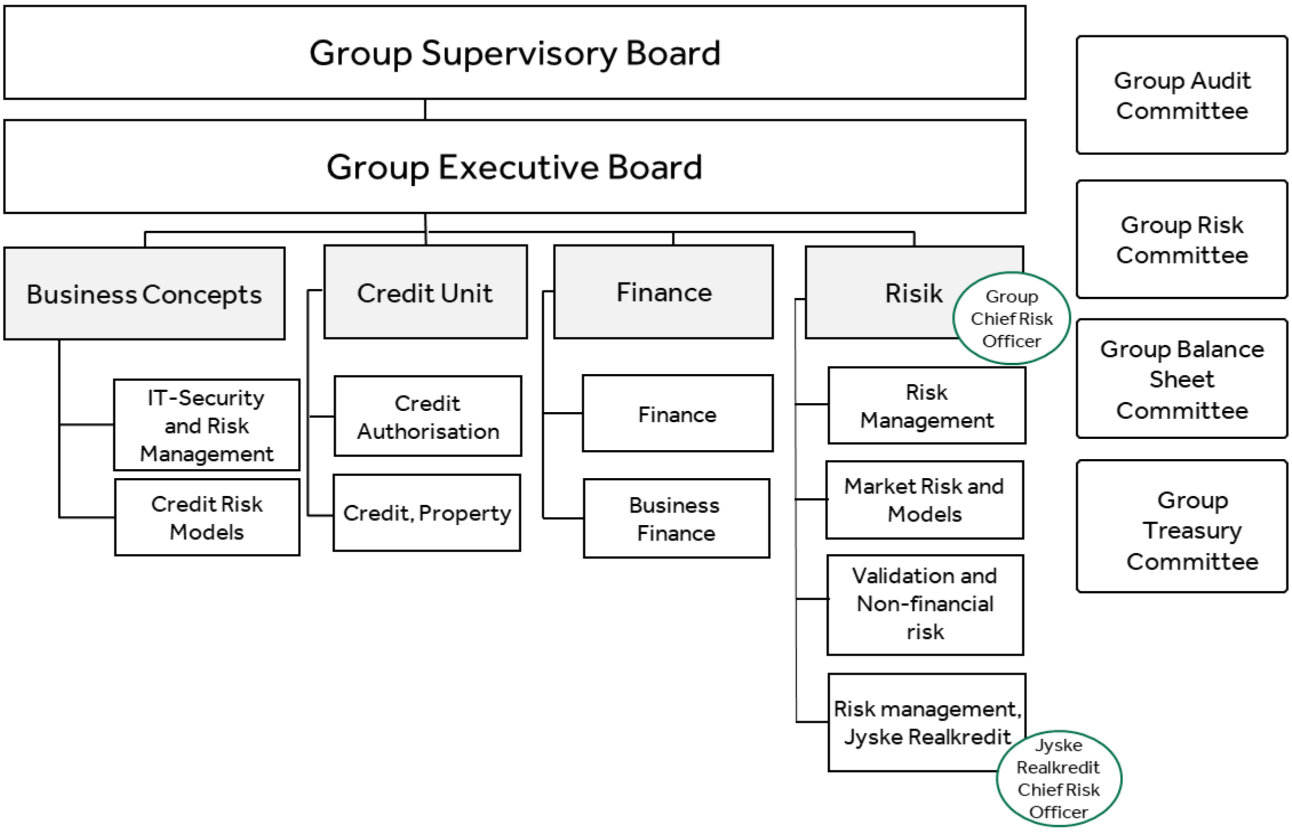
Risk management

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

Risk organisation

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

RISK ORGANISATION



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

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

To achieve efficient risk management, the Group has appointed a Chief Risk Officer at Jyske Realkredit and Jyske Invest in line with regulatory requirements.

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

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

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

The individual organisational units of the Group undertake the day-to-day management of operational risk, including risks related to IT.

Risk management of the specific risk types are more thoroughly described in the chapters covering the 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 in relation to the following are discussed:

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

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 business unit, Risk, continuously focuses on securing a qualified basis for decisions for the management by delivering relevant analyses and timely reporting on the Groups risk profile.

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

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

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

REPORTING TO THE GROUP SUPERVISORY BOARD AND THE GROUP EXECUTIVE BOARD				
	Report	Frequency	Recipient	Contents
OVERALL PICTURE OF RISK	ICAAP report	Annually	Group Supervisory Board, Group Executive Board,	In-depth description of the Group's statement of the capital requirements based on the 8+ method of the Danish FSA. In particular, a more elaborate description og the methodological approach of estimating the capital requirements. Future implications of the Group's capital structure based on sensitivity analyses and projections under various stress scenarios.
	Group capital requirement statement	Quarterly	Group Supervisory Board, Group Executive Board,	Statement of the Group's capital requirement for pillar 1, pillar 2 and additional capital buffers. Hereto, development in risk exposure presented.
	Group risk report	Quarterly	Group Supervisory Board, Group Executive Board,	Information on the quarterly development in the Group's risk along with the status of established risk targets and recovery indicators. The report includes capital projections encompassing all risks in different scenarios. • The credit quality of the Jyske Realkredit and Jyske Bank portfolios is explained, including the development of credit quality, overdraft and risk exposures along with an assessment of concentration risk. Moreover, it provides an overview of the development of the completed credit inspections. Additionally, the annual credit report includes contemporary relevant themes/issues • The Group's overall market-risk exposure based on authority granted at group level is described. The reporting emphasizes the key strategic risk positions at Group Treasury but also includes overall numbers for Jyske Markets and Jyske Realkredit. • The overall balance-sheet development is reported with emphasis on funding structure, refinancing risk and liquidity reserves relative to maturity profiles. • For operational risk, the development in the Group's largest risks as well as realised operational losses over the recent period are reported.
	Financial and risk reporting	Quarterly	Group Supervisory Board, Group Executive Board	Reports on the development of the business units' risk-adjusted results, etc.
	Group balance sheet and liquidity report	Quarterly	Group Executive Board	Information about the development of the Group's balance sheet, capital, risk profile, liquidity as well as funding structure and funding requirements. Overview of supervisory diamond and leverage ratio, etc.
MARKET RISK	Market risk report	Monthly	Group Executive Board	The report describes the Group's overall market risk exposure based on authority granted for both the Group and the three acting units – Group Treasury, Jyske Markets and Jyske Realkredit. Moreover, the report includes a description of liquidity positions that exceed the authorised limits as well as changes in authority granted.
	Balance-sheet, liquidity and funding profile	Monthly	Group Executive Board	Information about the balance-sheet development including changes in the deposits and lending components; the funding structure, refinancing risk and liquidity reserves relative to run-off profile. Access to and pricing of capital markets funding are also reported.
LIQUIDITY RISK	ILAAP	Annually	Group Supervisory Board, Group Executive Board	Annual assessment of the Group's funding and liquidity-adequacy profile with focus on the Group's liquidity status, managerial initiatives throughout the year as well as the development of important key figures.

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

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

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

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

Economic capital
Economic capital is the capital required to cover the Group's unexpected loss one year ahead according to the Group's internal models. Economic capital has been a key element in the management of the Group's risk as well as in the day-to-day financial management.

However, the Group has recently initiated a process, which will gradually replace economic capital with regulatory capital in the RAROC calculations. Thus, RAROC in the Group's internal risk management will increasingly come to reflect the principles in the external solvency assessment including concentration risk and other pillar II capital elements.

The replacement of economic capital with regulatory capital strengthens coherence between internal risk management and the external solvency assessment with the aim of ultimately improving pricing decisions throughout the various levels of the Group.

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

THE SUPERVISORY DIAMOND FOR JYSKE BANK A/S

	2020	2019
Sum of large exposures < 175% of the adjusted capital base	82%	84%
Increase in loans and advances < 20% annually	-10%	-7%
Exposures to property administration and property transactions < 25% of total loans and advances	10%	10%
Funding-ratio < 1	0.48	0.52
Liquidity surplus (LCR basis)	191%	188%

At end-2020, Jyske Bank A/S met all the benchmarks of the supervisory diamond.

THE SUPERVISORY DIAMOND FOR JYSKE REALKREDIT A/S

	2020	2019
Concentration risk < 100%	51.0%	47.9%
Increase in loans and advances < 15% annually in the segment:		
Owner-occupied homes and vacation homes	-2.1%	2.4%
Residential rental property	5.9%	0.2%
Agriculture	-	-
Other sectors	6.6%	6.1%
Borrower's interest-rate risk < 25%		
Residential property	16.5%	17.8%
Interest-only schemes < 10%		
Owner-occupied homes and vacation homes	6.0%	6.4%
Loans with frequent interest-rate fixing:		
Refinancing (annually) < 25%	16.2%	15.0%
Refinancing (quarterly) < 12.5%	1.4%	1.7%

At end-2020, Jyske Realkredit A/S also met all the benchmarks of the supervisory diamond.

Remuneration
The purposes of the remuneration policy are to:

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

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

Disclosure

The 2020 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

- Due to the uncertainty of the COVID-19 pandemic the Group chose to revoke the announced share-buyback in the first quarter of 2020.
- During the year, the Group's portfolio has generally exhibited great resistance against the crisis. As a result, the groups capital ratio has increased from 21.5% in 2019 to 22.9% in 2020, despite a notable write-down of DKK 1 bn.
- The improved capital base has facilitated the approval of the recently announced share-buyback programme of DKK 750m.

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

The capital-management objectives of Jyske Bank for the coming years is a capital ratio within the range 20-22% and a common equity tier 1 capital ratio between 15% and 17%. At these levels, Jyske Bank are able to absorb the effects of forthcoming legislative changes and at the same time maintain the desired strategic capital buffer. As of end-2020, the Group's capital is well above the capital objectives with a common equity tier 1 capital ratio of 17.9% and a capital ratio of 22.9%.The Group accepts to exceed the capital objectives in the short term due to the uncertainty caused by the COVID-19 crisis.

S&P's RAC for Jyske Bank Group has been substantial above the critical 10% mark since the change of Economic Risk Score for Denmark mid-2019. End-2020 the Group's RAC reached the level of 12.7% against 12.1% end-2019. S&P's RAC is only to a very limited degree expected be restricting in relation to capital management, since The Group can maintain the score "strong" as long as a RAC above 10% is preserved.

Capital base

At end-2020, the Common Equity Tier 1 capital amounted to 79% of the capital base, a decrease of 2 percentage points compared to end-2019. Nonetheless, the Common Equity Tier 1 capital has increased in nominal amount and relative to REA.

The capital base is stated in the subsequent table[1].

CAPITAL BASE		
DKKm	2020	2019
Equity	33,325	32,453
Intangible assets	0	-1
Cautious valuation	-360	-366
Share-buyback programme	-750	-404
Other deductions	-21	-27
Common Equity Tier 1 capital	32,194	31,655
Additional Tier 1 capital	3,539	3,619
Tier 1 capital	35,733	35,274
Tier 2 capital	5,334	3,763
Capital base	41,067	39,037
Risk Exposure Amount	179,426	181,448

As a consequence of the COVID-19 pandemic the Group chose to revoke its announced share-buyback programme in the first quarter of 2020. An increase of Tier 2 capital was successfully executed during Q1 of 2020 to ensure a cost efficient capital structure. The capital structure is evaluated regularly to maintain an adequate structure. The Group has initiated a new share-buyback programme of DKK 750m, which will conclude at latest ultimo September 2021.

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. The EU has opted for a binding leverage ratio requirement of minimum 3%. The implementation date of this requirement is June 28th, 2021.

The Group Supervisory Board has adopted a policy for maximum leverage. To ensure a satisfactory development of the balance sheet, the Group's balance sheet is considered in two sub-portfolios as it is assessed that the Group's banking and mortgage activities have different adequate leverage levels. The banking activities of the Group involve a higher risk in respect of liquidity and capital than do the Group's mortgage activities, and therefore a higher acceptable leverage is applied to the mortgage activities than to the banking activities.

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

At end-2020, the leverage ratio for the Group was at 5.2%[2].

LEVERAGE RATIO		
%	2020	2019
Jyske Bank Group	5.2	5.3

ICAAP and capital requirement

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

Capital requirement

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

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

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

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

CAPITAL REQUIREMENTS BY RISK TYPE				
DKKm	2020	% of REA	2019	% of REA
Pillar 1				
Credit risk	12,356	6.9	12,313	6.8
Market risk	824	0.5	928	0.5
Operational risk	1,174	0.6	1274	0.7
Capital requirement, Pillar 1	14,354	8.0	14,516	8.0
Pillar 2				
Credit risk	4,910	2.7	4,042	2.2
Market risk	1,140	0.6	1,206	0.7
Operational risk	414	0.2	391	0.2
Other	73	0.1	123	0.1
Capital requirement, Pillar 2	6,537	3.6	5,747	3.2
Total	20,891	11.6	20,263	11.2

The higher total capital requirement is partly attributable to the increase of credit risk, as an effect of the deterioration of a few large exposures and the uncertainty caused by the COVID-19 pandemic. Hereto, the slight decrease of REA has caused an opposing movement of decreasing nominal capital requirements. The decrease of REA is mainly caused by the reduction of foreign exchange risk and risk from debt instruments. REA related to credit risk is largely unchanged despite exposure to corporate clients decreased. However, the decrease is partly due to the reassignment of corporate clients into the regulatory retail category. Combined with the fact that the exposure was secured by real estate property (low risk weights), the effects on REA was modest. Reversely, the holdings of covered bonds increased by DKK 9.1 bn, but similar to the exposure movements above, the risk weights for covered bonds are low and thus the effect on REA limited. Moreover, REA related to operational risk has decreased by DKK 1.0 bn.

The capital requirement related to pillar 2 has increased from 3.2% to 3.6% of REA. This is primarily related to credit risk. Moreover, the decrease of REA contributes to a more severe effect of the pillar 2 add-ons on the capital requirement measured as a percentage of REA. The overall development in REA related to credit risk is further described in the Credit Risk chapter.

The pillar 2 add-ons associated with credit risk is composed of a precautionary buffer related to weak exposures. Due to the COVID-19 pandemic and the uncertainty that follows an extra cautious assessment has been taken towards weaker exposures. Moreover, capital additions are made for concentration risk and uncertainty in the credit models.

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

To address the credit spread risk of bonds in the trading book a market-risk capital addition is made based on a stress scenario.

A capital addition is made to account for the interest rate risk arising from none trading related activities. The capital addition constitutes the biggest loss calculated under 9 different interest rate stress scenarios, including both parallel and twist scenarios.

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

The pillar 2 requirement of 3.6% is not statutory but institution specific. Jyske Bank estimates that the requirement will remain stable throughout 2021.

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, which in 2019 posed an additional buffer requirement of 1% of REA, was released in the spring of 2020 to counter the effects of the COVID-19 pandemic and the consequences related to the partial lockdown. Jyske Bank is also subject to countercyclical buffers in the foreign countries in which the Group has exposures. Due to Jyske Bank's low level of foreign exposures, the contribution to the countercyclical buffer from foreign countries is insignificant. It is expected that the countercyclical buffer at earliest will be re-introduced medio 2021 with effect medio 2022.

Pillar 1 and 2 requirements combined with legal buffer requirements form the total expected capital requirement of the Group as of end-2021.

TOTAL CAPITAL REQUIREMENT		
%	TCR	CET1
Requirements		
Pillar 1	8.0	4.5
Pillar 2	3.6	2.1
Systemic risk buffer	1.5	1.5
Capital conservation buffer	2.5	2.5
Countercyclical buffer	0.0	0.0
Total	15.6	10.6
Current level	22.9	17.9

Group recovery plan

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

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

The recovery options can be divided into three different types:

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

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

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

Stress test

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

Stress testing are 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 in order to test the Group's capacity for loss. An objective of the stress test analyses is to gauge whether the future risk level of a certain scenario can be covered by excess capital, given the Group's earnings, capital policy and management objective as well as its risk profile. The results of the stress test also provide information that allows for evaluation of the sufficiency of the capital level and quality. Thus, giving valuable information regarding whether an effectuation of the Group's recovery plan is necessary. Expected consequences of future regulation are also included in the stress test analyses.

Scenarios

The stress test analyses rest on various macroeconomic scenarios. These include a scenario of the expected development as well as stress scenarios implying a severe recession of the Danish economy. In 2020, a number of COVID-19 related scenarios have been analysed. 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. The severity of the scenarios is on par with or more profound than the stress scenarios applied by the Danish FSA in the yearly stress testing of Danish banks. Selected examples of the applied scenarios appear below.

Processes and models

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

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

Processing of results

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

Despite the large impairments under the stress 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, even under the very severe stress scenario 2 (frontloaded). 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-collateralization requirement are also included in the results of the stress tests.

APPLIED SCENARIOS	2021–2023
Base scenario	The Base scenario describes the most likely scenario for the Danish economy, however the scenario is attached with great uncertainty imposed by the COVID-19 pandemic. The growth in the Danish economy is expected to accelerate the coming years in the aftermath of the negative growth of 2020. Interest rates are expected to increase slightly from the current level. Unemployment is expected to decrease, as jobs are expected to return, when the current restrictions are lifted. Housing prices are expected to increase.
Stress scenario 1 (backloaded)	Stress scenario 1 illustrates a situation, where the economy will recover in the first half of 2021 followed by a recession beginning in the second half of 2021 that will impact the coming years. Investments are expected to decrease, due to declining consumer and investment confidence. Hereto, foreign demand will decline, affecting employment negatively. The lower investment level (also in terms of Real Estate), combined with the higher unemployment, will disrupt the housing market and lead to falling prices. This will in turn pressure the interest rates, which will be slightly lower than the level implied by the base scenario. The scenario is comparable to a harsh recession.
Stress scenario 2 (frontloaded)	Stress scenario 2 describes a situation where the recession initiates immediately after entering 2021. The economic downturn continues through 2022 and 2023. The underlying economic developments are similar to stress scenario 1, but due to the longer duration of recession in stress scenario 2, the economic impact will be more profound. This scenario is comparable to a very harsh scenario.

DEVELOPMENT IN KEY MACROECONOMIC VARIABLES (DENMARK)	Base scenario			Stress scenario 1			Stress scenario 2		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP %	2.8%	3.3%	1.6%	1.4%	-2.9%	0.0%	-1.1%	-2.0%	-0.3%
Personal consumption %	2.1%	3.8%	2.0%	1.6%	-2.3%	-1.1%	1.0%	-1.9%	-1.2%
Unemployment rate (gross)	4.4%	3.8%	3.5%	4.8%	7.8%	10.8%	5.8%	9.4%	12.2%
House prices	4.1%	2.3%	2.0%	0.8%	-13.2%	-10.1%	-5.8%	-17.5%	-4.9%
Money-market rate (average for the year)	-0.25%	-0.25%	-0.20%	-0.30%	-0.30%	-0.25%	-0.30%	-0.30%	-0.25%
Bond yield (average for the year)	-0.34%	-0.24%	-0.08%	-0.40%	-0.35%	-0.30%	-0.40%	-0.35%	-0.30%

External stress tests

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

The Group participates in external stress testing exercises facilitated by the Danish FSA as well as by the EBA and IMF. The Danish FSA conducts annual macroeconomic stress testing exercises, and a large EBA stress testing exercise is conducted at least every second year. However, due to the pandemic the large EBA stress test, which were originally scheduled to take place in 2020 was postponed. Instead the test has been rescheduled and is to be conducted during 2021. Instead EBA conducted 2 Transparency exercises in 2020, whereas it usually only performs once a year.

MREL

The current requirements are set equal to the double of the current capital requirements for the banking business of the Group but with a different treatment of the mortgage assets within the Group.

The MREL requirement should primarily be fulfilled with senior non-preferred debt (NPS). The Danish FSA also made a grandfathering rule for older non-subordinated senior debt whereby senior debt issued before 1 January 2018 will count towards the fulfilment of the MREL requirement until 31 December 2021. The replacement of senior debt will take place as the current senior debt reaches maturity. The first issues of senior non-preferred debt were issued during 2018-2020 and were significantly oversubscribed. The implementation of BRRD II allows for 4% of senior debt to fulfil the buffer requirement. Jyske Bank fulfils the MREL requirement by end 2020. with a substantial buffer.

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.

For more information on the Group's MREL requirement, MREL position, and issued NPS bonds, please see the link below, which is updated on a quarterly basis: investor.jyskebank.com/investorrelations/debt.

Future legislation

Jyske Bank is 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 IV/CRR is the comprehensive set of rules that implements the Basel III recommendations in Europe. The general purpose of CRR was to strengthen the capital structure of the European financial institutions and to ensure a level playing field among European financial institutions. Some parts of CRR II are already in use, but most parts will be implemented from the summer of 2021 and is expected to have only minor effects on the capital requirements.

CRR III is already being drafted by the European Commission and will contain the implementation of what is often referred to as Basel IV. CRR III is expected to be published in a first draft in Q2 2021 and is supposed to be used from January 1st, 2023 and may entail significant changes in the capital requirements for many banks In Europe – including Jyske Bank.

Overall, the phasing-in of Basel IV/CRR III from 2023 will result in increasing REA under pillar 1, to some extent offset by decreasing pillar 2 risk. These effects are included in the capital planning of the group.

Jyske Bank has been approved to apply new definition of defaults from 2021, which is an initial part of the implementation of EBA IRB Repair Programme.

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

Credit risk

- In 2020, impairment levels are affected by the COVID 19 pandemic. Only a slight increase of credit risk has been observed on individual customers. The effect of COVID-19 is expected to be more profound in 2021.

- The risk weighted assets were stable during 2020. The implementation of the SME support factor in Jyske Realkredit led to a minor reduction, which was countered by a slight increase in the default probabilities for corporate clients. Altogether, the risk weighted assets were more or less constant during 2020.

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

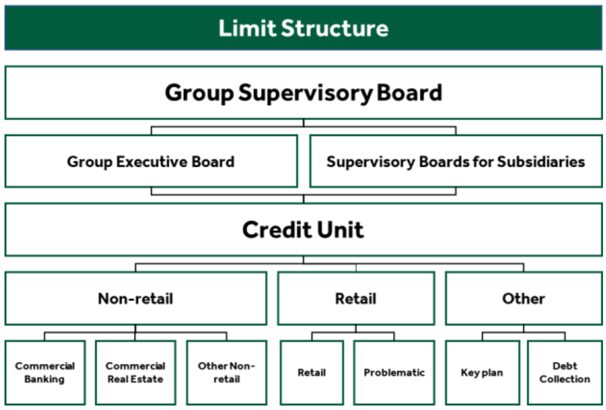
Credit risk is managed through Jyske Bank's credit policy with the objective to keep group risk at an acceptable level in relation to the capital base and business volume of the Group, given the general trend in the Danish economy. Client transactions with the Group must generate a satisfactory long-term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

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

Credit risk is managed 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 offered to the Group's clients and in management reporting.

Limits and authorisation

Jyske Bank attaches great importance to its decentralised credit-authorisation process. The limit structure is in line with the 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 decentrally whereas credit-related decisions for major or more complicated cases are authorised centrally.



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

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

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

The credit process and monitoring

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

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

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

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

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

Large exposures

Large exposures are monitored on a regular basis in accordance with CRR, including exposures larger than 10% of the Group's capital base. At end-2020, no exposures exceeded 10% of the capital base. Four exposures amounted to between 5% and 7.5% of the capital base, and no exposures were between 7.5% and 10% of the capital base.

Risk Models

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

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

The credit-risk models are enhanced on an ongoing basis with a view to be compliant with the forthcoming 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 financing companies, financial institutions and governments. In those cases, external ratings, if available, will primarily form the basis of the internal credit rating of the client.

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

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

At Jyske Realkredit, the PD is translated into 9 rating classes, where rating class 9 designates clients in default. Work is undergoing to harmonise credit-rating models and the amounts of rating classes in the Group. The subsequent table shows the mapping between credit ratings, PD and external ratings at end-2020.

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 rating and the external credit ratings is based on the currently observed default frequency for companies rated by Jyske Realkredit and Moody's. The mapping between Jyske Bank credit rating, Jyske Realkredit credit rating, and external credit rating is therefore dynamic. Observations are made on at least a quarterly basis to determine the adequacy of the mapping.

IRB PD models by exposure class and business unit

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

Note: Based on number of calibration segments.

If the credit rating calculated by the model is considered to be 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 course of the next twelve months. A client's overall EAD depends on client-specific factors and the specific products held by the client. For most product types, EAD is calculated on the basis of statistical models while a few product types are based on expert models.

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

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

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

Collateral

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

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

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

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

Overall development in exposures and REA

The Group's risk-weighted exposure amount (REA) for credit risk end-2020, is nearly identical to the level of end-2019. Exposures treated under the AIRB approach increased by 1% and exposures under the standardised approach decreased by 7%.

Overall, the exposures increased by 1%. The groups repo exposure was at a relatively high level during 2020. Starting 2020 at 99bn and ending 2020 at 84bn. Therefore, the repo exposure decreased by 15bn during the year. An exposure decrease which was equalised due to small increases in other exposure categories. The repurchase transactions is therefore still a big part of the total Group exposure, but as repurchase transactions have a high degree of collateralisation they have a little impact on the overall risk weighted exposure amount. This also has a significant impact on the average risk weight for the whole portfolio.

EAD AND RISK-WEIGHTED EXPOSURE FOR CREDIT RISK

DKKm	2020	2019	Change
EAD	704,428	695,814	1%
REA for credit risk	152,751	152,843	0%

Note: The risk-weighted exposure amount does not include CVA risk, which at end-2020 amounted to DKK 921m compared to DKK 1,069m at end-2019.

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

Breakdown of development for standardised approach

For the standardised approach, there was a decrease in the risk weighted exposure of 7%. This decrease was primarily the result of the following factors:

- The risk weighted exposure amounts in the exposure classes: Institutions, corporates, equity and defaulted exposures decreased by DKK 1.3 bn
- The risk weighted exposure amounts increased by DKK 0.9 bn in the covered bond exposure class as the holdings increased by DKK 9.1 bn to a total of DKK 53 bn, as a result of the ongoing liquidity management.

All of the developments described have little impact on REA as the covered bonds in question qualify for a 10% risk weight, the central government and central bank exposures are 0% risk weighted, and repurchase transactions have very low risk weights because of the high collateralisation levels associated with these transactions.

Where 2019 saw a significant decrease in the equity exposure class due to the sale of shares in the mortgage bank DLR, the equity exposure only saw a minor decrease in 2020. This decrease was again primarily driven by a small reduction in the groups holding of DLR shares as part of the ordinary shareholder agreement between the DLR shareholders.

The Group's average risk weight according to the standardised approach decreased from 7.5% to 6.3% in 2020, which primarily relates to an increase in deposits with the German and the Danish national banks.

BREAKDOWN OF COLLATERAL BY EXPOSURE TYPE ACCORDING TO THE STANDARDISED APPROACH				
DKKm	Exposure	Financial collateral	REA 2020	REA 2019
Central governments or central banks	46,731	1,510	3	4
Regional governments or local authorities	15,019	7,191	0	0
Public-sector entities	230	81	30	19
Multilateral development banks	12,321	11,623	0	0
International organisations	0	0	0	0
Institutions	23,254	12,212	2,785	3.658
Corporates	2,287	523	1,243	1,320
Retail	406	295	80	234
Secured by mortgages on immovable property	793	0	266	654
In default	1,515	17	817	1,109
Exposures associated with particularly high risk	0	0	0	0
Institutions with a short-term credit assessment	0	0	0	0
Covered bonds	53,201	0	5,320	4.407
Equity	988	0	1,845	1.933
Total 2020	156,744	33,453	12,388	
Total 2019	146,392	48,903		13,338

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

Breakdown of development for AIRB approach
Exposures treated on the AIRB approach decreased by DKK 1.5 bn during 2020. Falling banking activities with corporate clients account for the majority of this development.

The underlying developments of AIRB treated exposures are described below:

- A decrease in the corporate client exposure class, related to lending, secured by real estate property. Partly due to the COVID-19 pandemic, but mostly due to a technical reassignment of a large groups of customers, which was reassigned to the regulatory retail category (SME). Generally, the risk weights are relative low for exposures secured by real estate and therefore the risk weighted amount for the corporate exposure class was largely unchanged despite the fall in the exposure.
- Decrease in the Repo exposure in the corporate exposure class, which led to a decrease in the financial collateral received by DKK 1.4 bn. Again, the risk weighted exposure amount did not change significantly due to the reduction in Repo exposures, because of the collateralisation of repo exposures.
- SME-related exposures (excl. repurchase and derivative transactions) increased over the year with DKK 16.6 bn, with an associated REA increase of DKK 0.2 bn. This is a result of the reassignment of corporate clients in Jyske Realkredit to the SME exposure classes according to CRR articles 147 (5) and 501.

The overall REA for the AIRB portfolio decreased by DKK 1.1 bn during 2020, which relates to the developments described for corporate clients, and an increasing REA for retail clients of DKK 1.0 bn mainly as a result of the assignment of corporate client reassigned to the regulatory retail exposure class

The Group's average risk weight according to the AIRB approach increased from 24.6% to 24.8% during 2020.

BREAKDOWN OF COLLATERAL BY COLLATERAL TYPE FOR EXPOSURE ACCORDING TO THE AIRB APPROACH								
	Exposure	Collateral					REA 2020	REA 2019
DKKm		Real property collateral	Financial Collateral	Physical collateral	Other funded collateral	Guarantee collateral		
Corporates, total	303,969	164,368	59,578	6,832	9	3,017	89,458	88,236
Large corporate clients	230,520	146,641	38,582	2,367	4	1,063	64,800	*66,334*
Specialised lending	316	-	-	-	-	-	213	*161*
SME corporates	73,134	17,726	20,995	4,466	5	1,954	24,445	*21,741*
Retail, total	230,986	204,455	845	7,269	0	34	43,375	43,455
Real property, personal	186,466	182,778	-	-	-	-	33,461	*35,792*
Real property, SMEs	23,060	21,677	-	-	-	-	4,376	*1,619*
Other retail, personal	15,793	-	562	5,327	0	19	4,014	*4,199*
Other retail, SMEs	5,667	0	283	1,942	0	15	1,523	*1,845*
Total 2020	534,955	368,823	60,423	14,101	9	3,051	132,833	
Total 2019	536,404	364,761	59,139	17,715	14	3,110		131,692

Note: The table does not include securitisations (REA: DKK +338m) ; and other non-credit-obligation assets (REA: DKK -621m).

Loan impairment charges and provisions for guarantees

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

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

Risk classifications

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

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

On an ongoing basis - and at least quarterly - the Group assesses whether objective evidence of impairment relating to the Group's clients has emerged. The Annual Report provides more information on the definitions for default and rating classes in note 50.

Impairment calculations

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

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

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

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

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

- The loan is in 30 past due or more.

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

In addition to the calculations, a managerial assessment is made of the ability of the models and the expert assessing impairment calculations to 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

The total balance of loan impairment charges and provisions for guarantees stood at DKK 5.8 bn at end-2020 (2019: DKK 5.2 bn). The discount balance from acquired assets at end-2020 amounts to DKK 145m against DKK 223m at end-2019. Hence, the total balance of impairment charges and provisions inclusive of discount amounts to DKK 6.0 bn (2019: DKK 5.6 bn).

Provisions for financial instruments are recognised in the item value adjustments, and as the negative market value of financial instruments is included in the statement of EAD, the balance of these value adjustments is also shown in the table below. At end-2020, the balance of value adjustments amounted to DKK 78m (2019: DKK 103m).

IMPAIRMENT CHARGES AND PROVISIONS FOR GUARANTEES		
DKKm	2020	2019
Balance of impairment charges for loans and advances	5,210	4,861
Balance of provisions for guarantees and liabilities	566	373
Balance of loan-impairment charges and provisions for guarantees	5,776	5,234
Balance of discounts	145	223
Balance of loan-impairment charges and provisions for guarantees incl. balance of discounts	5,921	5,457
Balance of value adjustments	78	103
Balance of loan-impairment charges and provisions for guarantees incl. balance of discounts and balance of value adjustments	5,999	5,559

In 2020, the development in loan-impairment charges and provisions for guarantees amounted to DKK 1,022m (2019: DKK -23m), and Jyske Bank recognised as interest income DKK -52m (2019: DKK -78m) from the discount balance. Hence, the total net effect recognised in the income statement came to DKK 969m (2019: DKK -101m).

The effect from value adjustments on financial instruments came to DKK -25m in 2020 (2019: DKK 16m).

NET EFFECT FROM IMPAIRMENT CHARGES, ETC.		
DKKm	2020	2019
Loan-impairment charges and provisions for the year	1,020	-56
Recognised as a loss, not covered by loan-impairment charges/provisions	201	302
Recoveries	-199	-269
Loan-impairment charges and provisions for guarantees	1,022	-23
Recognised discount for assets taken over	-52	-78
Net effect on income statement	969	-101
Value adjustments for financial instruments	-25	16
Net effect on income statement, inclusive of value adjustments	944	-85

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

DKKm	EAD for exposures at stage 1	EAD for exposures at stage 2	EAD for exposures at stage 3	EAD for past-due exposures	Balance of loan-impairment charges and provisions for guarantees incl. discounts and value adjustment	Net effect from impairment charges and provisions for guarantees
Banks and mortgage-credit institutions	11,264	1,086	-	-	19	10
Construction	7,511	592	147	6	144	4
Energy supply	7,790	67	37	-	46	13
Real property	160,328	3,992	2,537	1,850	1,269	315
Finance and insurance	105,855	612	838	10	644	180
Manufacturing, mining, etc.	11,499	1,526	283	1	368	147
Commerce	13,581	1,309	306	10	352	75
Information and communication	1,065	65	255	0	239	-49
Agriculture, hunting, forestry and fishing	7,787	812	732	4	549	-244
Transport, hotels and restaurants	6,918	443	209	5	176	63
Public authorities	15,696	-	-	-	0	0
Other sectors	17,356	1,385	221	17	251	53
Personal clients	202,026	9,188	3,366	1,091	1,942	377
Total 2020	568,677	21,077	8,931	2,994	5,999	944
Total 2019	550,062	25,329	9,948	2,820	5,559	-85

EAD for past-due exposures amounted to DKK 2,994m of which DKK 2,914m are impaired at end-2020. Individual assessment of credit risk implies that the full amount of past-due exposures is not considered to be impaired.

Impairment levels are in 2020 affected by the COVID-19 pandemic. Higher levels of defaults have not yet been observed in the portfolio, but is expected to increase in 2021. The expectation of an increase in default levels has led to an increase in impairment charges. The Annual Report provides more detailed information in note 68.

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 Agriculture, hunting, forestry and fishing as a percentage of total EAD is declining and amounted to 5.9% at end-2020. (8.5% end-2019).

The balance of impairment charges for real property as a percentage of total EAD amounted to 0.8% at end-2020.

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

Re-estimation and validation of models

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

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

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

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

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

Counterparty credit risk

- The effect of netting at end-2020 decreased compared to end-2019, however the increased counterparty credit risk exposure was offset by collateral, making the overall exposure almost equivalent to the level end-2019

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

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

Policy and management

Jyske 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 for 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 reducing the risk of settlement risk on foreign exchange derivative transactions between participants of the system.

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

- Clearing through a Central Counterparty (CCP).
- Requiring master netting agreements, which gives the Group the right to net market values of derivative trades in case og 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 2020, over 90% was covered by netting and collateral agreements.

OTC DERIVATIVES - NOTIONAL AMOUNT		
DKKm	2020	2019
CCP	1,077,171	893,683
Non-CCP	1,173,907	1,209,757
- Collateralized	1,085,348	1,115,606
- Non-collateralized	88,559	94,151
Total	2,251,078	2,103,440

From September 2021 the Group will be obliged to fulfil the EMIR requirements on Initial Margin for non-cleared derivatives. An examination has shown that the consequences on counterparty credit risk are negligible, since the Group expects to be exempted by the Initial Margin Threshold of EUR 50m.

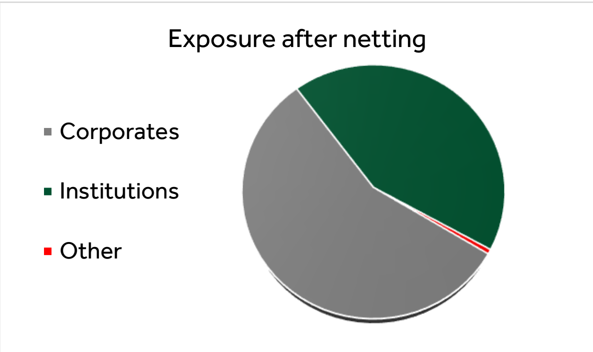
Risk Profile

Jyske Bank measures counterparty credit risk in terms of the market value of a portfolio with a given counterparty, which takes into account any allowed netting and collateral exchanged with the counterparty. The table below shows the Groups exposure at end-2020 for counterparties except CCPs.

COUNTERPARTY CREDIT-RISK EXPOSURE		
DKKm	2020	2019
Gross exposure	31,900	36,766
Effect of netting	22,649	30,324
Exposure after netting	9,251	6,442
Effect of collateral	2,952	597
Exposure after netting and collateral	6,298	5,845

Agreements on collateral with financial counterparties and large corporate clients are mutual agreements, which means that Jyske Bank must pay margin for the counterparty if the market value in favour of the counterparty exceeds an agreed limit. At end-2020 the Groups collateral holdings mostly consisted of cash, however some agreements also allowed exchange of collateral in the form of government bonds issued in Denmark, the United States, Germany and France and Danish mortgage bonds.

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



At end-2020 the Groups total exposure, after taking into account any netting allowed, amounted to DKK 9.3 bn of which over 99% was towards the corporate and institutions segments

The Groups portfolio of Credit Default Swaps (CDS) is limited and the net nominal exposure amounts to DKK 300m at end-2019 divided on 4 bought and 3 sold contracts. Underlying exposures consists of individual government credits and credit indices.

Wrong-Way Risk

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

Specific wrong way risk (SWWR) arises when the exposure to a counterparty is positively correlated with the probability of default of that counterparty due to the type of transaction with the counterparty.

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

Own funds requirements

Capital must be set aside for counterparty credit risk in accordance with CRR. Jyske Bank calculates its capital requirements using the Current Exposure Method (CEM), in which the exposure at default (EAD) is calculated as the current market value of a portfolio recognising allowed netting and collateral exchanged plus an add-on for potential future credit risk exposure in which a maximum of 60% netting of the risk is allowed. The own funds requirement for counterparty credit risk is reported as a part of the own funds requirement for credit risk. Jyske Bank is currently implementing the new standard capital requirements under CRRII, SA-CCR, which is set to be implemented by mid-2021. The implementation is estimated to cause an increase in the capital requirements, primarily due to the IMM alpha factor of 1.4 which is introduced in SA-CCR.

Furthermore, capital must be set aside to cover the Credit Valuation Adjustment (CVA) risk. 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.

The capital requirement from counterparty credit risk, EAD, is almost unchanged compared to end-2019 whereas the capital charge, CVA, decreased due to better credit quality of the Groups institutional counterparties.

Market risk

- The COVID-19 crisis had a thorough effect on the financial markets, during 2020, with exceptionally high market volatility across all asset classes during March and April. Market risk exposure from trading related activities was reduced during the turbulent months. Market-risk exposure from trading-related activities was primarily driven by client flow and was in general kept at a moderate level in 2020.
- Low interest rates dominated the banking book interest-rate risk management, and the implementation of negative interest rates was the main focus of attention during 2020. The negative interest-rate risk from deposits was reduced in line with this implementation and the hedge of the remaining risk increased marginally.

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

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

Governance and responsibility

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

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

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

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

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

Monitoring and reporting

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

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

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

Market risk management

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

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

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

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

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

Developments in market risk

The COVID-19 crisis had a thorough effect on the financial markets, during 2020, with exceptionally high market volatility during March and April.

The market risk exposure from the trading related activities was reduced during the turbulent months in the spring. Key risk figures were in large driven by market-making activities related to Danish mortgage bonds, Nordic FX and investment funds. The FX risk is concentrated in EUR and a diversified portfolio of investment funds drove the equity risk. The Group has only a minor portfolio of single shares. High demand and high prepayment rates on Danish convertible bonds continue to affect turnover in the market in general and has a large impact on the day to day risk management of interest rate related risks in the trading book.

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

Own funds requirements for market risk

During 2020, REA from market risk declined by DKK -1.3 billion to DKK 10.3 billion. Foreign exchange risk and risk from debt instruments is reduced during 2020, whereas the market risk from the Group's equity portfolio is increased marginally.

OWN FUNDS REQUIREMENT FOR MARKET RISK

DKKm	2020		2019	
Risk type	REA	OFR*	REA	OFR*
Debt instruments	7,637	611	8,228	658
Equity	2,002	160	1,860	149
Commodity	-	-	-	-
Foreign exchange	655	52	1,517	121
Total	10,294	824	11,606	928

Note: OFR = Own funds requirements

Methodologies

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

Interest-rate risk

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

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

Interest-rate risk in the banking book

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

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

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

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

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

INTEREST-RATE RISK IN THE BANKING BOOK				
DKKm	2020		2019	
	+50bp	-50bp	+50bp	-50bp
DKK	506	-252	286	-819
EUR	71	-68	60	-63
Other	1	-1	-4	4
Total	578	-321	342	-878

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 decreased from DKK -878 million in 2019 to DKK -321 million in 2020. Rates on non-maturing deposits have been of highest attention in the Group since 2018, leading the Group to implement negative interest rates for private clients during the fall of 2019 and spring of 2020. This is the primary reason for the decrease in the sensitivity to falling interest rates. Secondly the hedge has been marginally increased.

Foreign-exchange risk

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

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

Equity risk

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

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

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

SHARES NOT HELD FOR TRADING				
DKKm	2020	2019	Unrealised gain	Realised gain
Total	1,466	1,729	141	47

The holding decreased in 2020 primarily due to sell-off.

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

Commodity risk

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

Credit-risk exposure

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

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

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

Securitisations

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

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

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

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

EXPOSURE TYPES FOR SECURITISATIONS					
DKKm	European	American	Other	Total 2020	Total 2019
RMBS	186	-	-	186	286
CLO	3,752	2,613	-	6,365	5,933
ABS	-	1	-	1	1
Total 2020	3,938	2,614	-	6,552	6,220
Total 2019	3,837	2,283	-	6,220	

The Group increased the portfolio of securitizations during 2020. All new investments in CLOs have an AAA-rating, broken down in the table below, and with senior status in accordance with the Market Risk Policy.

BREAKDOWN OF RATINGS (Standard & Poor's / Moody's)		
DKKm	2020	2019
AAA / Aaa	6,366	5,902
AA / Aa	185	269
A /A	1	51
BBB / Baa	-	-
BB/Ba	-	-
Lower or no rating	-	-
Total	6,552	6,220

Own funds requirements for securitisations

Jyske Bank applies a rating-based method in the calculation of the own funds requirement. The requirement for securitisations was higher in 2020 in line with the increased exposure taken during the year.

OWN FUNDS REQUIREMENT FOR SECURITISATIONS				
DKKm	2020		2019	
Risk weight - ranges	Exposure	OFR*	Exposure	OFR*
≤ 20%	6,366	102	6,180	80
> 20% ≤ 50%	185	6	42	1
> 50% ≤ 100%	1	0	-	-
> 100% < 1,250%	-	-	-	-
1,250% / deduction	-	-	-	-
Total	6,552	108	6,220	81
Of which in the trading portfolio	-	-	-	-

Note: OFR = Own funds requirements

Liquidity risk

- During 2020, the Group maintained a very high degree of excess coverage in terms of the stress-based internally delegated limits and guidelines.
- Deposits saw only a minor decline during 2020 despite further lowering of the threshold for negative deposit rates for private clients and a further lowering of the deposit rate for corporate deposits.
- End of Q1 and the beginning of Q2 were dominated by high volatility and radical widening of credit spreads caused by the COVID-19 pandemic outbreak. However, 2nd half of 2020 was characterised by a continuous tightening of credit spreads and attractive issuance conditions across all asset classes.
- Prior to the spring 2020 volatility the Group issued EUR 200m 11NC6 Tier 2 debt on attractive terms and in October the constructive market conditions were used to issue the Groups 3rd non preferred senior bond, a EUR 500m 5NC4.

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 real estate prices due to regulatory overcollaterisation requirements.

Objective and overall setup

The Group Supervisory Board determines the liquidity profile expressed as the balance between the risk level and the Group's costs of managing liquidity risk. Jyske Bank's liquidity management must ensure adequate short- and long-term liquidity so the Group can in due time honour its payment obligations by having reasonable funding costs. The risk level is reassessed on an ongoing basis, taking into account current market and economic conditions in Denmark and the financial sector.

Organisation, management and monitoring

The Group Supervisory Board has implemented 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, 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 operational limits to those operationally responsible in Jyske Bank, who on a daily basis 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 market 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 overcollateralization 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 over-collateralisation requirements (OC requirements).

Short-term liquidity management

Jyske Markets manage short-term operational liquidity, which is active in the international money markets as a trader in all major currencies and related derivatives and as a market-maker in the Nordic inter-bank money markets. 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 used: 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 2020.

Liquidity contingency plan

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

During 2020, 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 Realkredits mortgage loans. Total covered bonds and mortgage bonds amounted to DKK 349 bn corresponding to 52% of the balance sheet at the end of 2020. The Group's second largest source of funding is customer deposits representing DKK 128 bn (19 % 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 takes into account haircuts of the relevant assets.

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

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

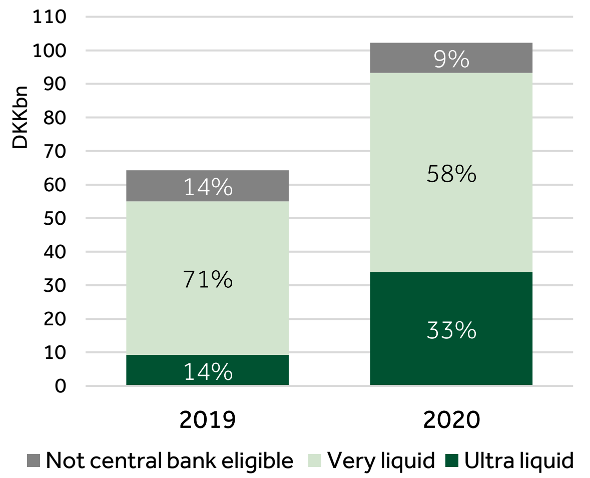
2) Very liquid assets (central bank eligible)
   Assets eligible for borrowing transactions in the Danish central bank or the ECB: Danish government and mortgage bonds and covered bonds, European covered bonds, RMBS and government bonds.

3) Non-central bank eligible assets: Other negotiable securities with a longer realisation period. Securities in this group consist primarily of assets denominated in currencies other than DKK and EUR as well as emerging-market bonds, corporate and structured bonds and equities.

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

At end-2020, the Group's liquidity buffer amounted to DKK 102 bn compared to DKK 64 bn end-2019.

Development in the Group liquidity buffer



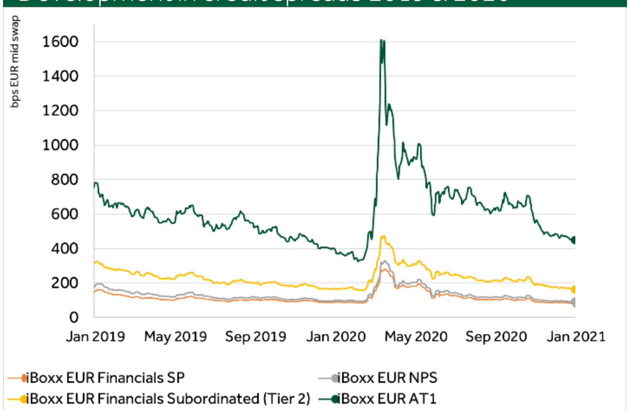
As reflected in the above chart the reserve consists mainly of ultra-liquid or very liquid assets such as central bank deposits and Danish mortgage bonds and covered bonds. End of 2020 DKK 93 bn of the buffer was eligible at either the Danish Central Bank or the ECB.

The significant increase in the liquidity reserve during 2020 reflects very attractive funding conditions in the CP market. The increase in the liquidity buffer is mainly attributed to an increase in deposits at the ECB.

Capital markets & issuance activity

As reflected in the chart below, the beginning of 2020 continued the 2019 trend of declining credit spreads. However, with the outbreak of the covid-19 pandemic sentiment quickly shifted to risk-off, high volatility and an extreme widening in credit spreads not seen since the financial crisis. A rapid and massive response from the central banks ensuring the availability of vast liquidity and low interest rates as well as large government aid packages to keep the hand under the economies turned the market mood relatively quickly. Consequently, the risk-on mood returned quickly to the international capital markets and especially the second half of 2020 was characterized by a continuous strong tightening of credit spreads across all asset classes

Development in credit spreads 2019 & 2020



In January Jyske Bank issued EUR 200m of Tier 2 debt in the format of an 11-year maturity with an issuer call right after 6 year at attractive terms of EUR m/s + 145 bps (3M cibor + 130bps).

In October Jyske Bank used the return of very attractive market conditions to issue a NPS bond of EUR 500m in the format of a 5-year bond with an issuer call right after 4 years. The credit spread was EUR m/s + 88 bps (3M cibor + 68 bps).

At end-2020, senior unsecured debt amounted to DKK 25 bn (EUR 3.4 bn) against DKK 25.5 bn (EUR 3.4 bn) at end-2019. Outstanding issues of subordinated Tier 2 notes amounted to DKK 4.7 bn (EUR 0.6 bn) end of 2020 compared to DKK 3.3 bn (EUR 0.4 bn) end of 2019.

At end-2020, outstanding bonds under the CP programme amounted to DKK 42 bn (EUR 5.6 bn) compared to DKK 16 bn (EUR 2.1 bn) end-2019.

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

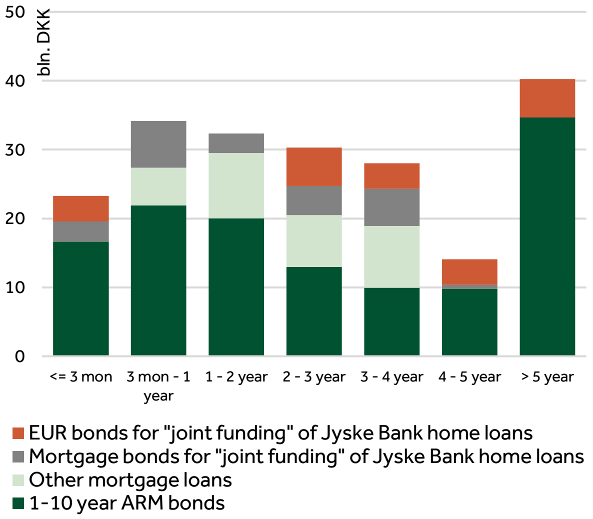
Through Jyske Realkredit the Group is a major issuer in the Danish market for SDOs and has a high dependency on secured capital-market funding on a covered bond basis.

Jyske Realkredit's outstanding volume of covered bonds and mortgage bonds decreased from DKK 357 bn at end-2019 to DKK 349 bn at end-2020 despite an increase in mortgage lending during 2020. The reduction in the outstanding volume of covered bonds thus reflects that the prefinancing /remortgaing activity end of 2020 was lower than in 2019.

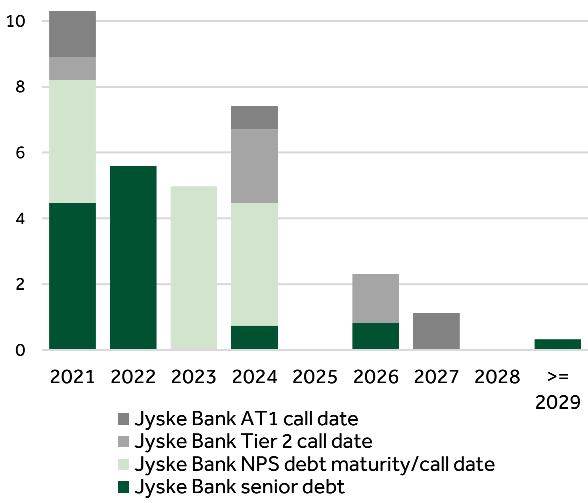
Overall the refinancing risk from mortgage activities continued to decline through 2020 as an increasing number of customers still opt for long fixed rate callable mortgages.

Long fixed-rate callable covered bonds have no refinancing risk. The proportion of loans with refinancing risk amounts to DKK 202.5 bn and 59% of Jyske Realkredit's lending volume. The maturity profile for mortgage loans with refinancing risk, as of end-2020, is illustrated in the chart below.

Maturity profile for SDOs with refinancing risk



Maturity profile/call date profile



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 80% 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. In addition, the Group has limits on the maximum funding in each separate short-term funding market and a rolling 12-month guideline on the maximum amount of senior debt maturing within a 12- month horizon.

The run-off profile of the Group's preferred and non-preferred senior debt and the issuer call date profile of outstanding capital instruments as of end-2020 is illustrated in the chart below.

Debt buffer requirement at Jyske Realkredit

As part of the Danish BRRD framework, mortgage-credit institutions are required to establish a debt buffer equal to 2% of their total (unweighted) mortgage lending to facilitate a more flexible resolution process. The debt buffer requirement was fully implemented in 2020.

MREL & MREL eligible debt

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

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

From 1 January 2022 the sum of the group's capital instruments and bail-inable liabilities must be above 8% of the group's total liabilities and own funds (TLOF). Group capital that is utilised towards the mortgage bank's capital and debt buffer requirements is not eligible to count towards the MREL requirement.

The release of the countercyclical buffer in March 2020 reduced the Group's need for NPS debt. Furthermore, the implementation of the amendments to the European Crisis Management Directive (BRRD II), introduced a subordination cap on the MREL requirement (for banking activities) which in Denmark was applicable already from 1 May 2020. The subordination cap allows Jyske Bank to meet part of the MREL requirement with PS debt.

When the MREL requirements have been fully phased in at the beginning of 2022, Jyske Bank expects a need (including an internal buffer in relation to statutory requirements) of DKK 18 – 20 bn in MREL eligible debt instruments, of which DKK 4-5 bn PS debt and DKK 14-15 bn NPS debt.

Liquidity risk legislation and supervisory diamond

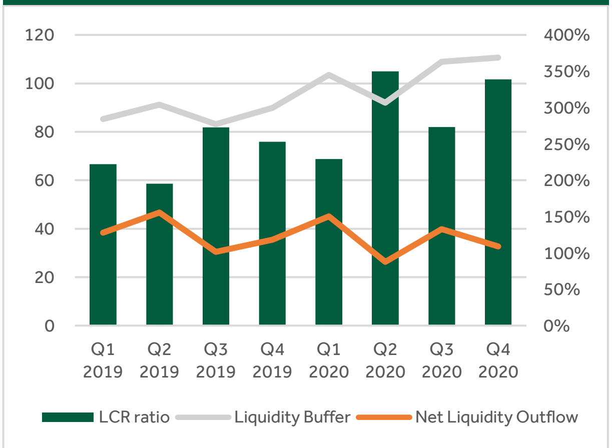
The daily calculation of the LCR ratio is the key short-term limit for liquidity risk management.

As of end-2020, the Group's LCR was 339% compared to 253% as of end-2019. The composition of the Group's LCR buffer net of haircuts as of end-2020 is shown below:

Group LCR liquidity buffer		
Asset classes	mia. DKK	%
Level 1a	59.3	53.6%
Level 1b	46.6	42.1%
Level 2a+2b	4.8	4.3%
Total	110.6	100%

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

Group LCR 2019-2020



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

As a Danish SIFI, Jyske Bank must also comply with a modified LCR requirement in EUR. Jyske Bank is fully compliant with a substantial buffer to the 100% requirement as of end-2020.

The Danish Financial Supervisory Authority introduced a new liquidity ratio in the supervisory diamond at mid-2018. The ratio is a simplified version of LCR. The liquidity reserve has no minimum requirement for the proportion of 1a assets and holdings of own SDOs are included, but the survival horizon is extended to 90 days. At the end of 2020, the Group's ratio was calculated at 172% compared to 188% end of 2019.
Net Stable Funding Ratio will become a statutory requirement as of end June 2021. The political agreement included a paragraph recognizes the virtues of the so-called "maturity extension trigger" in the Danish mortgage bond legislation. This means, that as all bonds will be "closely related to the loans" ("regulatory match") NSFR compliance at Jyske Realkredit will be relatively easy to achieve because other limitations are more restrictive.

At Group level, Jyske Bank was fully NSFR-compliant throughout 2020 with the current tougher Basel recommendations and the Group NSFR as of end-2020 was 152% compared to a pro forma level of 135% at end-2019 (calculated on basis of EU-definition).

Funding plans

During 2021, the issuance of PS debt in EUR benchmark format is expected. Depending on the balance sheet development, this issue will be supplemented by issuance of NPS debt.

Asset encumbrance

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

	End of Q4 2020		End of Q3 2019	
	Group	Jyske bank A/S	Group	Jyske bank A/S
Total encumbered assets	436.2	75.3	446.1	80.1
of which: derivatives collateral	33.6	33.6	27.1	27.1
of which: REPO	22.2	37.3	34.0	47.6
of which: Central Bank funding	3.3	3.3	3.8	3.8
of which: SDO-issuance	376.5	0.0	379.6	0.0
of which: other assets	0.0	1.1	0.0	1.1
Total assets	672.6	335.4	649.6	304.1
Encumbrance ratio	64.9%	22.4%	68.7%	26.3%

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

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

As the amounts in the above table [3] 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 2020 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, on the basis of Jyske Realkredit's issuer rating as well as the growth and composition of the loan portfolio at the capital centres. At end-2020, the *overcollateralization* requirement from S&P totalled DKK 8.4 bn against DKK 11.6 bn at end-2019.

Standard & Poor's ratings

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

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

Operational risk

- Operational risk is at an acceptable level and subject to continuous managerial attention.
- Impacts from the COVID-19 pandemic on operational risk exposures have been effectively managed.
- Financial crime and cyber security have top priority.

Jyske Bank is exposed to potential losses as a result of operational risk, including inexpedient processes, human errors, IT errors as well as 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 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 the operational risk as well as the Group's risk appetite for the area.

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 supplements and strengthens the ability to manage operational risk effectively in the Group.

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

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.

Registration is made of all operational errors or incidents in the Group that causes 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.

Each business unit maps out the risks that are significant, with reference to internal and external events, and 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.

The Operational Risk Function acts as the 2nd 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, in order to achieve consistency across the Group.

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 a 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.

Further, 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.

General development of operational risk

In the spring of 2020, the overarching change to the operational risk exposure in the Group came as a result of the outbreak of the COVID-19 pandemic. Immediately following the outbreak and subsequent lock-down, the centralised business continuity committee worked swiftly and effectively together with local business continuity committees and the Operational Risk Function to ensure effective adjustment of work processes while keeping areas in need of specific attention in mind.

The Operational Risk Function conducted a group-wide sensitivity analysis of the entire operational risk landscape and identified a number of specific areas in need of extraordinary attention given the changes in work processes that resulted from the pandemic (increased remote work, inability to meet clients in person, etc.). Insights from this analysis were immediately communicated to the centralised business continuity committee and senior management.

As a result of joint and effectively coordinated efforts across the Group, loss of productivity and increases in operational risk exposures have been kept to a minimum and managed effectively throughout the pandemic.

Among other significant events affecting operational risk exposure in the Group in 2020, two deserve particular mention.

- The Group's retail division has undergone major restructuring with changes in management structure and closing of branches as some of the most notable.
- The business development division of the Group has implemented a major organisational change which has seen a full-scale implementation of agile principles and roles for all employees and all levels of management.

The Group maintains an add-on to the pillar 2 capital requirement, to address the temporary increase in operational risk resulting particularly from the latter of these events. This add-on will likely be removed during 2021.

Cyber security

The Group recognizes cyber risk among the top operational risks. Throughout 2020, 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, stating cyber threat level at its highest yet, additional investments in cyber defense capabilities at Jyske Bank and main suppliers were given high priority in 2019 and further in 2020. Technology adoption of best practice tools and cyber defense methods was initiated to provide further leverage to cyber defense capabilities. In 2020 the focus has been on harvesting the maximum benefit of these investments and building up and maintaining a high level of proficiency and efficiency among our resources. Multiple indicators of these achievements have been observed in day-to-day combating of cyber events where none have inflicted damage or noticeable impact at Jyske Bank nor its main suppliers. Further, advanced cyber testing (Red Team testing in accordance with the Tiber-DK framework) has been conducted which spanned a variety of advanced and probable attack scenarios. This test confirmed Jyske Bank's high cyber resilience level as simulated advanced threat actors did not succeed in their Red Team test activities.

Despite the very high national threat level in 2020, and constant pressure on the Group's defense systems, Jyske Bank has not been specifically targeted in any advanced cyberattacks employing moderate to high sophistication attack methods. Nor have defense systems and security measures been strained with the outbreak of COVID-19, however, a shift in attack vectors was seen when threat actors tried to capitalize on global fear and changes in work habits (increased remote work) and used this in attack campaigns against customers and employees of Jyske Bank. The Group has not experienced any material losses stemming from cyber-attacks in 2020. We anticipate moderate cyber threat activity against Jyske Bank in 2021, though we do realize the volatility of cyber threats as well as the motives for pointing out targets.

While significant achievements have been made overall on cyber resilience, and especially on detection and response capabilities, for which international accreditation has been achieved, the focus of the Group's cyber security enhancements continues into 2021. Focus of the initiatives remains on improving the overall security posture, with special focus on leveraging recovery capabilities and raising our efficiency in recovering from cyber impact. We do this as we realize that the nature of cyber threats may develop in unknown directions and the fact that we must enhance IT capabilities and train recovery procedures to be as prepared as possible for impact.

Dialogue with the Danish Financial Supervisory Authority (the FSA) concerning completion of specific orders on areas to improve following an IT inspection in 2016, is still ongoing. The FSA commented in the inspection on the Group's methods and practices for IT security and risk management – not its security operations. Following this IT inspection, Jyske Bank made an extraordinary add-on to the pillar 2 capital requirement to address the issues pointed out by the FSA.

The Group has, as a conservative measure, chosen to maintain the full amount of the capital add-on to the pillar 2 capital requirement, until all issues have been fully resolved and recognised as such by the FSA.

Financial crime

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

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

During 2020, monitoring of clients and transactions triggered nearly 30,000 alerts. Alerts are handled manually, and employees responsible for processing alerts conduct a thorough investigation and assessment of the need to notify authorities. 3,368 cases were reported to the Danish Money Laundering Secretariat in 2020.

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

In August 2020, the Group received the report on the Danish FSA's anti-money laundering inspection at Jyske Bank. The report included two orders (a) and (b).

(a) related to the functionality of the Group's automated monitoring system which allowed the option of overriding alarms relating to individual customers. As a remedial action, the Group has among other things established new processes through a protocol which has laid the ground rules for how, and under what circumstances, alarms may be suppressed.

(b) requires that the bank should harness its background knowledge of the customers to ensure that alarms are generated whenever a customer's behaviour deviates from normal patterns. In addition, the injunction requires that the Group should monitor changes in customers' behavioural patterns. New automated monitoring scenarios have been implemented and experiences from this area will be leveraged in the development of scenarios for other customer segments. It is the Group's aim to have all required scenarios established by May 1st, 2021, by which date it is expected that scenarios for monitoring changes in customer behaviour are in place and operational. As for now, the Group considers the order partly solved.

External fraud continues to pose a threat to the Group and its clients. The nature of external fraud is ever evolving as criminals find inventive ways of trying to stay ahead of the control scheme. Fraud in the form of vishing poses the biggest threat to the Group and has historically accounted for the majority of the Group's losses in the external fraud category.

In 2020 the Group and Bankdata have made substantial improvements to the control scheme guarding against external fraud. As a result, the losses from external fraud in the second half of 2020 are significantly lower than in the first half. The Group will continually work to improve controls in this area going forward.

Outsourcing

The Group has throughout 2020 made considerable progress regarding governance and management of risks related to outsourcing.

A new policy for outsourcing has been approved by the Group Supervisory Board and a Head of Group Outsourcing has been appointed. The Head of Group Outsourcing sits in the 1st line of defense and is responsible for management, monitoring and control throughout the Group.

The Operational Risk Function works in close collaboration with IT Security and Risk Management and the Head of Group Outsourcing to further strengthen awareness as well as identification, assessment and management of risks related to outsourcing in the Group going into 2021.

Data protection

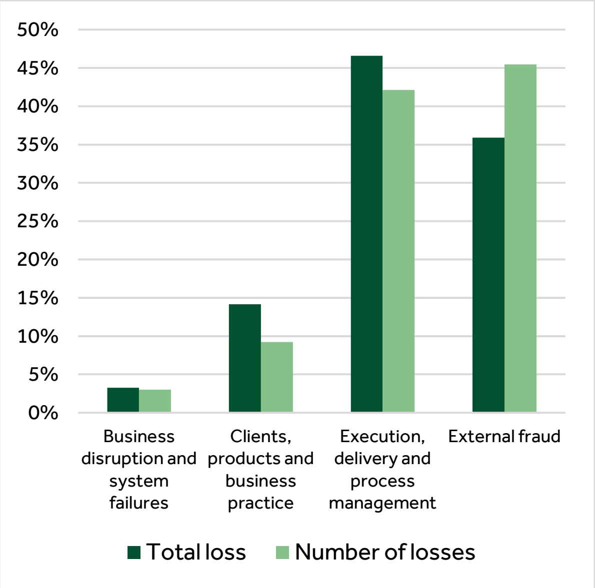
The General Data Protection Regulation (GDPR) has received much attention in the Group throughout 2020 and efforts to ensure compliance and proper treatment of client data have resulted in significant progress in several areas. Operational risks related to the GDPR are acknowledged and well-understood.

The Operational Risk Function works in close collaboration with the Group's Data Protection Officer as well as IT Security and Risk Management to further strengthen the management of risks related to the GDPR going into 2021.

Model risk

Model risk is recognized in the Group as a non-financial risk area of growing importance needing an increasing amount of dedicated attention as the use and prevalence of models continue to increase. As a result, work to strengthen the management of model risk was intensified in 2020. A separate policy for model risk was approved by the Group Supervisory Board at end-2019 and throughout 2020 effort has been put into building an effective framework for model risk management and to strengthen model governance in the Group.

Breakdown of losses



The breakdown of operational losses registered in 2020 by category shows that the vast majority of incidents are related to external fraud or execution, delivery and process management. These two categories make up 88% of total incidents and 82% of total losses. The costliest category was execution, delivery and process management, accounting for 47% of all losses.

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-2020, the overall own funds requirement for the Group amounted to DKK 1,174m against DKK 1,274m at end-2019. The decrease in the own funds requirement is primarily due to a decrease in net income in the three years covered by the calculation.

Management declaration

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

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

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

Board declaration

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

Risk Statement

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

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

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

The business model 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 on a daily basis 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 is at an acceptable level in relation to the Group's overall objectives. The Policy is approved by the Group Supervisory Board at least once a year.

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

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

Appendix: Definitions

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

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

LGD	Loss Given Default. The proportion of a given exposure which is expected to be lost if the client defaults in the course of the next twelve months.
Liquidity risk	The risk of Jyske Bank not being able to generate or obtain sufficient liquidity at a reasonable price to meet its payment obligations or ultimately being unable to meet its obligations as they fall due.
Market risk	The risk of loss caused by a change in the market value of the Group's assets and liabilities caused by price changes in the financial markets.
MREL	Minimum requirements for own funds and eligible liabilities.
O-SII	Other systemically important institutions, the systemic importance classification of Jyske Bank.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Own funds requirements	The own funds requirement is the amount of capital that the Group must hold to maintain its banking licence. The determination is based on statutory formulas, which prescribe how the total risk exposure must be measured. The own funds requirement is 8% of this.
PD	Probability of Default. The probability of a given client defaulting within the next twelve months.
Pillar 1	The regulatory capital requirement of 8% of the total risk exposure.
Pillar 2	The part of the Group's capital requirements that exceeds the own funds requirements.
RAC	Risk-adjusted capital.
REA	Risk Exposure Amount or Risk-weighted Exposure Amount.
Retail	In relation to the CRD, the 'Retail' category covers personal clients and small- and medium-sized enterprises. The latter must meet certain criteria to rank as retail clients.
Risk category	Jyske Bank's exposures at risk are broken down into three categories: low (1), high (2) and full (3) risk. Risk categories 2 and 3 are termed defaulted. The risk categories are also applied in the Group's set-up for impairment recognition.
Risk-weighted exposure amount	The risk-weighted exposure amount or the risk exposure amount is calculated according to the capital requirements regulation.
RMBS	Residential Mortgage Backed Securities.
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.