Risk and Capital Management

2018

JYSKE BANK

Contents

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Executive summary

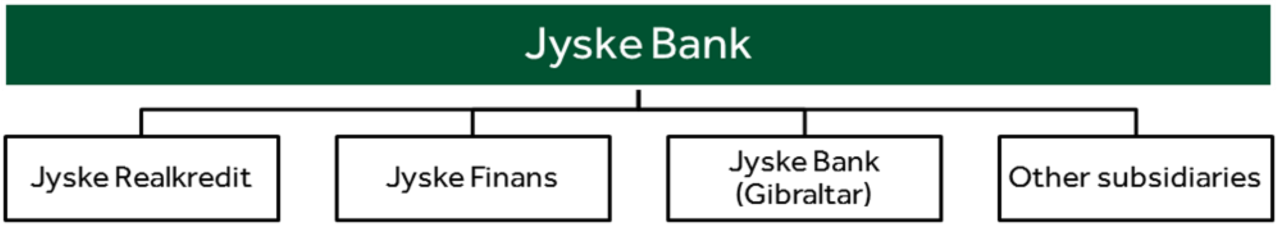
The objective of this report is to offer insight into the Group's internal risk and capital management and the regulatory capital requirements.

Jyske Bank's long-term capital management objective after the implementation of new Basel recommendations (Basel IV) is a capital ratio of 17.5% and a common equity tier 1 capital ratio of 14%. At these levels, Jyske Bank meets the current capital requirements including combined buffer requirements. The phasing-in of Basel IV from 2022 to 2027 will result in increasing risk under pillar 1, to some extent offset by decreasing pillar 2 risk. Consequently, a reduction in the capital ratio of up to 3 percentage points is expected by 2027. As of end-2018, the Group's capital is largely compliant with long term capital objectives with a common equity tier 1 capital ratio of 16.4% and a capital ratio of 20.0%.

Furthermore, the Group aims for a RAC ratio from S&P around 10.5% to maintain the score "strong" in the "Capital & Earnings" category. The RAC of the Group at end-2018 is estimated at 10.3%.

The Group aims to finance new Basel IV requirements by 2022. Surplus capital inclusive of growth and potential acquisitions will be available for dividend and share buy-back programmes. The Group intends to make stable dividend payments.

Business model



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

The Jyske Bank Group's business model is to offer financial products and other related products and services to private individuals, businesses and institutions, primarily in Denmark. The Group's foreign subsidiaries and branches can to some extent offer standard banking products to local businesses and private individuals.

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

An important part of Jyske Bank's business model is to grant loans against collateral in real property. The Group's mortgage loans are primarily funded through the issue of covered bonds and secondarily through the issue of mortgage bonds, governed by the balance principle in Danish mortgage legislation. It is the aim of the Group to maintain an AAA rating of its covered bond issues.

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

Jyske Bank's international subsidiary Jyske Bank Gibraltar offers primarily banking services to local enterprises and personal clients.

Jyske Bank owns and operates accessory activities, including the leasing company Jyske Finans, which support the Group's business model and contribute to fulfilling the financial objectives of clients.

Jyske Bank assumes financial risks within established limits and to the extent the risk-adjusted return contributes to the Group's financial goal. It is to the greatest possible extent attempted to minimise operational risks considering the related costs.

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

Moreover, Jyske Bank assumes market risk when the expected return more than matches the risk. The Group's market risk consists mainly of interest-rate risk. Market risk is managed on the basis of a portfolio approach across instruments and types of risk and hence in consideration of the correlation or lack of correlation for which there is empirical evidence and that is expressed through the risk measurement Value at Risk (VaR). To a lesser degree, the Group assumes option risks.

During periods with high market volatility, positions involving market risk are reduced to the extent necessary for the stated VaR to remain within an acceptable level.

As a consequence of the Group's activities, liquidity risk arises when there is a funding mismatch in the balance sheet because the loan portfolio has a longer duration than its average funding sources. Active liquidity management ensures that there is sufficient liquidity in the short and long term to meet the Group's payment obligations.

At any time, the total risks is adjusted to the Group's risk profile and capital structure according to the Group's capital management objective. This will ensure that Jyske Bank 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 in 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 Group Executive Board has appointed a Group Chief Risk Officer, who is the director of Finance and Risk Management. The 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 financial reporting in the Group as well as the implementation of adviser-oriented financial and risk management tools.

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

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

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

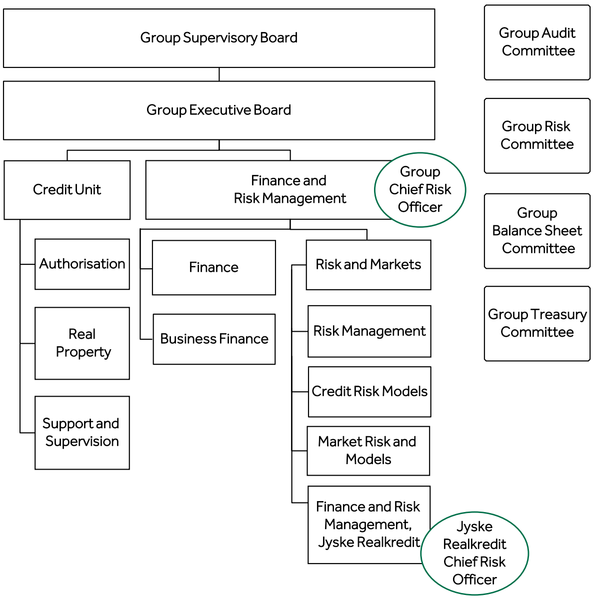
Jyske Bank has three business areas that manage market risk. Strategic market risk is managed by Group Treasury, and investments are in general based on a long-term view of the financial markets. Jyske Markets and Jyske Realkredit manage short-term market risk as part of the servicing of clients' trades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

Similarly, the strategic liquidity risks is managed by Group Treasury, and the short-term operational liquidity risk is managed at Jyske Markets and Jyske Realkredit.

The day-to-day management of operational risk is undertaken by the individual organisational units of the Group.

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

GROUP RISK ORGANISATION



Several committees consider and process risk-related issues:

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

The Group Risk Committee carries out the preliminary consideration of risk-related issues before the final consideration by the Group Supervisory Board. At quarterly meetings and in case of special circumstances, subjects with 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 recovery plan;
- material changes of the model set-up for risk management as well as re-estimation and validation of models;
- internal procedures for risk measurement and management;
- assessment of material products earnings and risk profiles;
- new legislation relating to capital structure or risk management;
- topics of strategic relevance for the Group's overall risk management.

The main task of the Group Treasury Committee is to ensure that the Group's actual market-risk profile is in line with the intended risk profile and the assessment of market expectations. The participants at the monthly meetings are the members of the Group Executive Board responsible for Capital Markets and Finance and Risk Management, the member of the Executive Board for Jyske Realkredit responsible for securities, the heads of Capital Markets and Group Treasury as well as risk-taking employees at Group Treasury and Jyske Realkredit.

The Group's liquidity-risk profile, balance-sheet development and financial structure are assessed by the Group Balance Sheet Committee, which at its quarterly meetings ensures a continuously adequate liquidity-risk profile and balance-sheet structure according to the general guidelines. The participants at the meetings are the members of the Group Executive Board responsible for Capital Markets and Retail & Commercial Banking, the member of the Executive Board for Jyske Realkredit responsible for securities, the Group Chief Risk Officer, the heads of Retail & Corporate Banking, Capital Markets and Group Treasury as well as other key employees of Retail & Corporate Banking and employees in Group Treasury with responsibilities within liquidity, capital and balance-sheet management.

Risk reporting

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

Finance and Risk Management continuously focuses on securing a qualified basis for decisions for management and works on an on-going basis to optimise management reporting.

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

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

Internal risk management

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

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

RAROC is also applied at client and product level to measure results, to assess profitability as well as for pricing 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 are granted to clients in sectors, for instance, which are highly correlated with the market, this will result in higher capital requirements and therefore lower profitability.

Economic capital

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

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

Supervisory diamond

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

THE SUPERVISORY DIAMOND FOR JYSKE BANK A/S

	2018	2017
Sum of large exposures < 175% of the adjusted capital base	76%	72%
Increase in loans and advances < 20% annually	-4%	2%
Exposures to property administration and property transactions < 25% of total loans and advances	10%	9%
Funding-ratio < 1	0.55	0.56
Liquidity surplus (LCR basis)	171%	-

At end-2018, Jyske Bank A/S met all the benchmarks of the supervisory diamond.

THE SUPERVISORY DIAMOND FOR JYSKE REALKREDIT A/S

	2018	2017
Concentration risk < 100%	46.2%	47.5%
Increase in loans and advances < 15% annually in the segment:		
Owner-occupied homes and vacation homes	6.3%	13.3%
Residential rental property	2.6%	7.1%
Agriculture	-	-
Other sectors	4.0%	5.5%
Borrower's interest-rate risk < 25%		
Residential property	19.7%	20.8%
Interest-only schemes < 10%		
Owner-occupied homes and vacation homes	7.3%	7.9%
Loans with frequent interest-rate fixing:		
Refinancing (annually) < 25%	14.7%	19.9%
Refinancing (quarterly) < 12.5%	3.1%	4.7%

At end-2018, Jyske Realkredit A/S met all the benchmarks of the supervisory diamond.

Remuneration

The purposes of the remuneration policy are to:

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

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

Disclosure

The 2018 report on risk and capital management serves as the Group's main medium for disclosure of the information required in CRR. In addition to the report a number of tables on www.investor.jyskebank.com/investorrelations/capitalstructure provide further details on a number of areas as per the transparency requirements from the CRR and the EBA guidelines on disclosures requirements under Part Eight of Regulation (EU) No 575/2013. The Group assesses the need for more frequent disclosure on an ongoing basis with a view to the materiality of the information.

Capital management

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

Jyske Bank's long-term capital-management objective after the implementation of new Basel recommendations (Basel IV) is a capital ratio of 17.5% and a common equity tier 1 capital ratio of 14%. At these levels, Jyske Bank meets the current capital requirements including combined buffer requirements. The phasing-in of Basel IV from 2022 to 2027 will result in increasing risk under pillar 1, to some extent offset by decreasing pillar 2 risk. Consequently, a reduction in the capital ratio of up to 3 percentage points is expected by 2027. As of end-2018, the Group's capital is largely compliant with long term capital objectives with a common equity tier 1 capital ratio of 16.4% and a capital ratio of 20.0%.

Furthermore, the Group aims for a RAC ratio from S&P around 10.5% to maintain the score "strong" in the "Capital & Earnings" category. The RAC of the Group end-2018 is estimated at 10.3%.

The Group aims to finance new Basel IV requirements by 2022. Surplus capital inclusive of growth and potential acquisitions will be available for dividend and share buy-back programmes. The Group intends to make stable dividend payments.

Capital base

At end-2018, the Common Equity Tier 1 capital amounted to 82% of the capital base, an unchanged percentage compared to end-2017. The capital base is stated in the subsequent table[1].

CAPITAL BASE

DKKm	2018	2017
Equity	31,786	32,023
Intangible assets	-5	-13
Deferred tax assets relating to intangible assets	1	3
Cautious valuation	-296	-271
Diff. between expected losses and impairment charges	0	-174
Share-buyback programme	0	-281
Expected dividend	-520	-522
Other deductions	-18	-14
Common Equity Tier 1 capital	30,948	30,741
Additional Tier 1 capital	3,047	3,209
Other deductions	0	-27
Tier 1 capital	33,995	33,932
Tier 2 capital	3,699	3,631
Other deductions	0	-248
Capital base	37,694	37,306
Risk Exposure Amount	188,433	187,998

The capital structure of the Group is considered cost efficient. Through 2019, adjustments in AT1 and Tier 2 are possible.

It is the intention of the Supervisory Board that, at the Annual General Meeting in March 2019, a motion is made for the distribution of ordinary dividend of DKK 6.12 per share for the financial year 2018.

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

Leverage ratio

The leverage ratio is a risk-neutral measure for the maximum extent of the balance-sheet leverage and is calculated as recommended by The Basel Committee as Tier 1 capital relative to the Group's total non-weighted exposures. The EU has suggested a binding leverage ratio requirement of minimum 3%. The implementation date of this requirement has not been confirmed yet, but the Group navigates as if the requirement already applies.

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

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.

At end-2018, the leverage ratio for the Group was at 5.3%[2].

LEVERAGE RATIO		
%	2018	2017
Jyske Bank Group	5.3	5.4

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 monitoring and ongoing quality assurance, including evaluation of model assumptions. The analyses cover relevant risk factors within each risk type in accordance with current legislation.

The capital requirement expresses the pillar 1 regulatory requirements of 8% of the total risk exposure amount with additions for above normal risk under pillar 2. It thus expresses Jyske Bank's own assessment of the capital requirement given the Group's risk profile and reflects the Group's own data, experience and management.

Jyske Bank is approved to apply the advanced internal rating-based approach (AIRB) to the measurement of credit risk. The approval extends to the application of advanced methods for 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 described in the chapters covering the individual risks.

CAPITAL REQUIREMENTS BY RISK TYPE				
DKKm	2018	% of REA	2017	% of REA
Pillar 1				
Credit risk	12,671	6.7	11,992	6.4
Market risk	1,052	0.6	1,708	0.9
Operational risk	1,351	0.7	1,339	0.7
Capital requirement, Pillar 1	15,075	8.0	15,040	8.0
Pillar 2				
Credit risk	3,846	2.0	2,607	1.4
Market risk	1,050	0.6	826	0.4
Operational risk	371	0.2	694	0.4
Other	82	0.0	23	0.0
Capital requirement, Pillar 2	5,349	2.8	4,150	2.2
Total	20,424	10.8	19,190	10.2

As a result of a reclassification of activities from the trading to the banking book, pillar 1 risk shifted from market risk to credit risk during 2018. The overall pillar 1 requirement remains largely unchanged from end-2017 to end-2018.

Throughout 2018, there was a substantial increase in the pillar 2 requirement, mainly due to capital additions related to credit risk. This is mostly a result of increased awareness and new requirements regarding uncertainty in the credit models. Other changes include increasing pillar 2 requirements in market risk and falling pillar 2 requirement in operational risk. The nature of the capital additions is described below.

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

To address the risk of an adverse development in the interest-rate spread on Danish covered bonds, a

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

market risk capital addition is made on the basis of a stress scenario.

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

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

The pillar 2 requirement of 2.8% is not statutory but institution specific. Jyske Bank estimates that the requirement will remain stable throughout 2019 and show a decreasing trend in the longer term.

In 2018, Jyske Bank was reconfirmed to be a systemically important financial institution (O-SII). Consequently, the Group will be subject to an additional capital buffer requirement of 1.5% going forward from 2019.

A capital conservation buffer of 2.5% is mandatory from 2019 and onwards.

The Danish countercyclical buffer requires institutions to maintain a buffer of 0.5% by 31 March 2019, rising to 1.0% by 30 September 2019. As of December 2018, the Systemic Risk Council recommended a further increase of 0.5% during 2020. Jyske Bank is also subject to countercyclical buffers in the foreign countries in which the Group has exposures. Due to Jyske Bank's low level of foreign exposures, the contribution to the countercyclical buffer from foreign countries is insignificant. Consequently, Jyske Bank expects a countercyclical buffer of 1.0% by end-2019 and 1.5% by end-2020.

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

TOTAL CAPITAL REQUIREMENT

%	TCR	CET1
Requirements		
Pillar 1	8.0	4.5
Pillar 2	2.8	1.6
Systemic risk buffer	1.5	1.5
Capital conservation buffer	2.5	2.5
Countercyclical buffer	1.5	1.5
Total	16.3	11.6
Current level	20.0	16.4

Group recovery plan

The recovery and resolution of credit institutions and investment firms' directive (BRRD) requires financial institutions to draw up recovery plans, which should be used in the unlikely event that the institution should be in serious financial trouble. The Jyske Bank Group is designed to facilitate the continuity of the Group's critical business processes in the event of significant financial stress.

The recovery plan contains a number of recovery options that can be undertaken. These have been tested against different stress scenarios to ensure that the Group is able to recover under different circumstances.

The recovery options can be divided into three different types of recovery options:

- Recovery options aiming to improve the capital ratio of the Group.
- Recovery options aiming to improve the liquidity of the Group.
- Recovery options for which the focus is to improve the profitability by reducing the cost base of the Group either through disposal or cost reductions.

The recovery plan includes recovery indicators, which are quantitative and qualitative 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 in the Group. 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, departments and functions within the Jyske Bank Group, enabling the Danish FSA to get a complete picture of all the significant activities within Jyske Bank.

Stress test

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

Stress testing is used in a number of respects. Stress testing characterised as sensitivity analyses of the impact on the risk measurement from various parameters is applied, as is extensive scenario-based stress-testing of the importance of cyclical changes. 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 analyses are also used, for instance, to assess whether the capital level and the quality of the capital suffice, and consequently whether it is necessary to implement options from the Group's recovery plan. 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 scenarios of various stages of recession in the Danish economy, including for example economic downturn, increasing interest rates and a combination of both. The definition of recession scenarios rests on assessments of the areas deemed to be most at risk and on the circumstances that are of the highest importance for the Group's exposure to risk at the time. The severity of the scenarios is on par with or above the stress scenario applied by the Danish FSA in its yearly stress testing of the 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 and capital structure. The scenario projections are based on model-based calculations as well as expert assessments. Interaction of the methods is ensured, as past experience from the model-based approach is combined with considerations about 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 better 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 in a higher level of risk. Both of these elements reduce the capital buffer compared to the expected scenario.

Despite the large impairment charges under the stress scenario, the outcome of the analyses of the stress scenario shows that both the capital base and the capital ratio will remain at a satisfactory level even under a very severe stress scenario.

APPLIED SCENARIOS	2019 – 2021
Expected scenario	The expected scenario describes the most likely scenario for the Danish economy. The growth in the Danish economy is expected to slow down in the coming years after a long period with higher growth. Low interest rates, optimism and increasing housing prices will help drive demand growth. However, labour shortages might reduce growth opportunities and global economic growth might also slow down, which then will affect Danish exports.
Stress scenario	The stress scenario implies that the global economy enters a recession, which affects Danish exports, consequently reducing private consumptions and investment. The stock market reacts promptly on the starting recession where also GDP decreases significantly and unemployment increases. Interest rates are expected to remain at the current low levels.

DEVELOPMENT IN KEY MACROECONOMIC VARIABLES (DENMARK)	Expected scenario			Stress scenario		
	2019	2020	2021	2019	2020	2021
GDP	1.7%	1.2%	0.8%	1.2%	-5.0%	-1.0%
Private consumption	1.8%	1.6%	1.2%	1.4%	-3.9%	-2.3%
Unemployment rate (gross)	3.2%	3.0%	3.0%	3.4%	6.1%	9.6%
House prices	2.5%	2.4%	0.4%	0.9%	-15.3%	-6.8%
Money-market rate (average for the year)	-0.3%	-0.3%	-0.3%	-0.3%	-0.2%	-0.2%
Bond yield (average for the year)	0.5%	0.5%	0.5%	0.3%	0.3%	0.4%

External stress tests

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

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

New legislation

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

MREL

During 2018 Jyske Bank received its MREL requirements from the Danish FSA. The requirements were, as expected, set at double the current capital requirements for the banking business of the Group and with a different treatment of the mortgage assets within the Group. The Danish FSA also made a grandfathering rule for older non-subordinated senior debt whereby senior debt issued before 1 January 2018 will count towards the fulfilment of the MREL requirement until 31 December 2021. Jyske Bank fulfils the requirements before its commencement. The implementation of the countercyclical buffer of 1% during 2019 will increase the requirements, but the buffer will not count towards the required recapitalisation amount.

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

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

New capital requirement regulation by the EU

CRD IV/CRR is the comprehensive set of rules that implements the Basel III recommendations in Europe. The general purpose of CRR was to strengthen the capital structure of the European financial institutions and to ensure a level playing field among European financial institutions. The CRR is currently under revision, and the main changes will be the introduction of the fundamentally revised requirements for the calculation of capital requirements in the trading book (FRTB). CRR2 was politically agreed upon in the EU in the autumn of 2018 and is expected to be published before this year's general election to the European parliament. The current expectation is that the new trading book requirements will be applicable from the beginning of 2022, however with an earlier double reporting start. The new FRTB requirements have already necessitated changes to the current definition of the banking book exposures and the trading book exposures used at Jyske Bank. Another significant change implemented with CRR2 will be a binding Net Stable Funding Ratio (NSFR), which is a ratio with the purpose of ensuring that credit institutions meet certain minimum requirements in relation to their long-term funding of loans and other assets.

New recommendations from BIS

In December 2017, the Bank for International Settlements (BIS) finalised what has often been referred to as the new Basel IV requirements. Despite the fact that the recommendations have now been finalised by the Basel Committee, there are still a number of unanswered questions, which are of great importance for Jyske Bank, especially regarding the calculation of mortgage lending values (MLV). During 2018, Jyske Bank participated in two quantitative impact studies from both the EBA and the Danish FSA.

The "Basel IV package" which was released on 7 December 2017 includes:

- Limitations on the use of the internal rating-based method for calculation of own funds requirements for credit risk. The Basel Committee has recommended introducing certain limitations on the use of internal models for so-called low-default portfolios. Furthermore, the most significant recommendation is the introduction of a so-called input floor, which is a minimum requirement on the estimated loss given default (LGD) used in advanced models. The LGD input floor is a requirement, which will particularly increase the own funds requirements for low-risk mortgage loans.

- The new standardised approach for the determination of credit risk has also been finalised. The new standardised approach will only be of indirect importance to Jyske Bank, as the Group has been approved to use the advanced approach for credit risk. However, due to the so-called output floor, which is a requirement applying to all banks using advanced methods like Jyske Bank, the new standardised approach will have an impact on all banks. Especially banks with low default-risk portfolios like the Jyske Realkredit mortgage-banking unit within Jyske Bank will be particularly impacted by the output floor. Despite the fact that the output floor has now been fixed at 72.5% it is still too early to estimate, with full certainty, what the exact impact will be. Mainly due to the uncertainties regarding the MLV as mentioned above, but also because the implementation in EU legislation is still pending. Jyske Bank has pointed out to the Danish Minister of Industry, Business and Financial Affairs that a review of the pillar 2 requirements in Denmark should go hand in hand with the EU implementation of the new Basel recommendations.
- A new method for calculation of operational risks was also released by the Basel Committee. Early estimates have so far not shown any significant effects from this new method.
- In January 2019, the Basel Committee released an update to the FRTB parameters in that the credit-spread risk for covered bonds including Danish covered bonds was reduced significantly, but is still much higher than indicated by historical movements in bond prices.

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

Credit risk

- Reclassification of exposures in 2018 from trading book to banking book has increased the exposure level in the covered bonds exposure class by DKK 36bn with an average risk weight of 10%.
- Reduced exposures to central banks (DKK -16bn) due to strategic considerations.
- Continued growth in home loans (Retail) and mortgage loans to corporates increased the overall mortgage exposure level as well as REA.

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

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

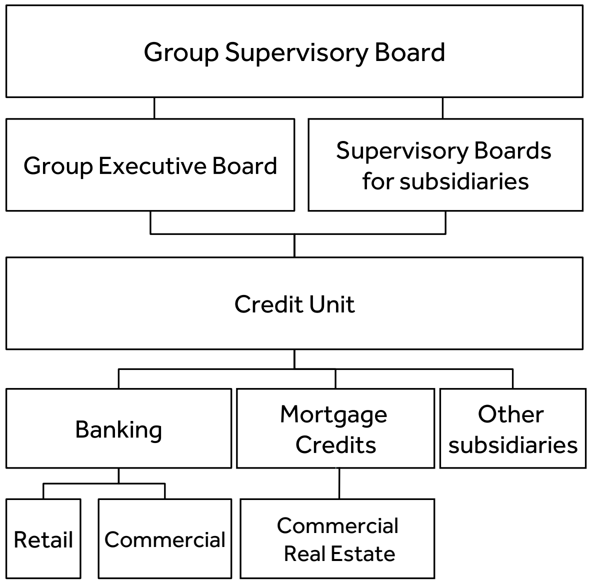
Specific credit policies have been formulated for all areas in which the Group assumes credit risk, and credit-risk levels and desirable types of business have been identified. The policies are regularly adjusted to meet current requirements and adapted to the management tools available to relationship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

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

Limits and authorisation

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

LIMIT STRUCTURE



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. 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 two departments: Risk Management and Credit Risk Supervision. Both of these departments are separated from client-oriented functions.

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-2018, 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 on-going basis with a view to be fully compliant with the forthcoming regulatory requirements, first and foremost the EBA guidelines when these apply from 2021.

Credit assessment and PD

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

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

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

At Jyske Realkredit, the PD is translated into 9 rating classes, where rating class 9 designates clients in default. Work is undergoing to harmonise credit rating models and the amounts of rating classes in the Group from 2021.

The subsequent table shows the mapping between credit ratings, PD and external ratings at end-2018.

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	B1-B2
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 - 20.0	Caa3/Ca / C

Note: Jyske Realkredit's rating class 8 includes PDs above 20%.

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

If the credit rating calculated by the model is considered to be inadequate, independent credit experts 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 increased by 6% in 2018, which is the result of an increase by 6% related to the AIRB approach and a 10% increase related to the standardised approach. Overall, the exposures increased by 6%. The increased exposure level was primarily associated with a strategic reclassification of certain exposures in Group Treasury from trading to banking book in order to clearly separate trading-related activities from activities related to the asset and liability management.

EAD AND RISK-WEIGHTED EXPOSURE FOR CREDIT RISK			
DKKm	2018	2017	Change
EAD	628,076	591,838	6%
REA for credit risk	157,329	148,654	6%

Note: The risk-weighted exposure amount does not include CVA risk, which at end-2018 amounted to DKK 1,062m compared to DKK 1,252m at end-2017.

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

Breakdown of development for standardised approach

For the standardised approach, the 35.5% increase of the exposure level is primarily a result of the following factors:

- Increase in exposures of DKK 35.6bn related to the reclassification of exposures from trading to banking book as described in the market risk section. The exposures in question are all qualified for covered bond treatment in the banking book.
- Decrease of DKK 16.1bn in central banks exposures mainly because of an active decision to reduce EUR liquidity surplus in ECB.
- Increase of DKK 6.6bn in central government exposures as a result of increased holdings of government bonds.
- Increase of DKK 4.1bn in exposures related to repurchase transactions, which are primarily driven by increases in the exposure classes institutions and multilateral development banks.

All of the developments described have low 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.

The overall REA development relating to the standardised approach can be attributed to the following factors:

- REA related to the equity exposure class decreased by DKK 2.9bn in 2018 because of the sale of shares in Nordjyske Bank.
- The previously mentioned increase in the covered bonds exposure class leads to an increase in REA of DKK 3.5bn.
- Increased business volume related to a few big clients is the main REA driver behind the growth of DKK 1.3bn in the institution exposure class as these exposures are unsecured.

The Group's average risk weight according to the standardised approach decreased from 20.1% to 16.3% throughout 2018, which relates to the previously described factors.

BREAKDOWN OF COLLATERAL BY EXPOSURE TYPE ACCORDING TO THE STANDARDISED APPROACH				
DKKm	Exposure	Financial collateral	REA 2018	REA 2017
Central governments or central banks	14,191	607	8	-
Regional governments or local authorities	10,809	3,245	-	-
Public sector entities	294	199	19	15
Multilateral development banks	8,891	8,493	-	-
International organisations	-	-	-	-
Institutions	21,996	7,712	4,228	3,704
Corporates	2,799	911	1,451	1,657
Retail	1,166	789	267	276
Secured by mortgages on immovable property	1,915	-	673	697
In default	1,726	41	1,112	1,388
Exposures associated with particularly high risk	0	0	0	-
Institutions with a short-term credit assessment	-	-	-	-
Covered bonds	37,688	-	3,769	210
Equity	2,223	-	4,786	7,657
Total 2018	103,696	21,997	16,313	
Total 2017	77,733	22,396		15,604

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 are highly correlated with the level of provisions associated. According to the standardised approach, real-property collateral equals the exposure class secured by mortgages on immovable property and is consequently not displayed explicitly.

Breakdown of development for AIRB approach

Exposures treated on the AIRB approach increased by DKK 10bn during 2018. Corporate clients account for the majority of this development.

For corporate clients the exposure increase of DKK +8.3bn is related to the following factors:

- Increased mortgage lending to corporate clients in Jyske Realkredit A/S (DKK 8.8bn), which is associated with an increase in real property collaterals. Associated REA increased by DKK 1.5bn.
- Reduced amount of repurchase transactions treated on the AIRB approach of DKK 6.6bn with an associated decrease in financial collaterals. The REA effect of the development in repurchase agreements is low because of the high associated collateralisation.
- An increase in exposures relating to financial instruments of DKK 1.9bn, which is mainly associated with increased exposures to pension funds with good ratings. The REA increase of DKK +0.6bn is associated with a few clients with reduced collaterals.
- Exposures relating to core banking products (accounts and commitments) in Jyske Bank A/S increased by DKK 4.8bn over the year. This was mainly a result of increased exposures to a few large corporate clients; but the general corporate portfolio also increased in volume. The associated REA for the described development was an increase of DKK 4bn over the year.
- The increase of DKK 2.7bn in the Retail exposure class was primarily related to the continuous sales of home loans in Jyske Bank A/S, which were subsequently transferred to and funded at Jyske Realkredit A/S. From end-Q3 the sale of mortgage loans in Jyske Bank has changed from a setup of transferring loans to Jyske Realkredit, to a setup where Jyske Realkredit's mortgage loans are sold directly to the clients. This has a minor impact on the average risk weight, as new loans initially get a higher risk weight than before, which is expected to decrease over time. This means that the REA – in the short run – has a relatively large increase compared to the increase in exposure.

Overall REA for the AIRB portfolio has increased by DKK 8.8bn during 2018, which is primarily related to the corporate exposure class increase of DKK +5.9bn.

The Group's average risk weight according to the AIRB approach increased from 24.9% to 26.1% over the year.

BREAKDOWN OF COLLATERAL BY COLLATERAL TYPE FOR EXPOSURE ACCORDING TO THE AIRB APPROACH								
		Collateral						
DKKm	Exposure	Real property collateral	Financial Collateral	Physical collateral	Other funded collateral	Guarantee collateral	REA 2018	REA 2017
Corporates, total	293,592	164,767	40,833	9,810	22	2,694	90,190	84,319
Large corporate clients	*222,043*	*156,733*	*21,585*	*3,108*	*4*	*606*	*64,928*	*57,520*
Specialised lending	*388*	-	-	-	-	-	*257*	*711*
SME corporates	*71,160*	*8,034*	*19,248*	*6,702*	*18*	*2,088*	*25,004*	*26,088*
Retail, total	222,310	190,641	1,554	6,663	4	49	44,417	41,506
Real property, personal	*191,431*	*186,820*	-	-	-	-	*36,348*	*32,665*
Real property, SMEs	*6,049*	*3,821*	-	-	-	-	*1,630*	*1,941*
Other retail, private	*18,192*	*0*	*1,164*	*4,805*	*0*	*31*	*4,599*	*4,632*
Other retail, SMEs	*6,638*	-	*390*	*1,857*	*4*	*18*	*1,839*	*2,268*
Total 2018	515,902	355,408	42,387	16,472	27	2,743	134,606	
Total 2017	504,982	339,449	47,921	15,320	25	2,480		125,825

Note: The above does not include collateral of DKK 0,3bn at end-2018 recognised with a direct substitution impact, where exposures are transferred to other counterparties as part of a guarantee arrangement. Furthermore, the table does not include securitisations (R EA: DKK +27m; 17%) and other non-credit-obligation assets (REA: DKK -842m; -12%), where the latter is a result of the sale of properties; the Jyske Realkredit headquarter being the largest contributor.

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 the 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
- Loans with a significant increase in credit risk
- Loans that are credit-impaired

Risk categories

The Group divides exposures with objective evidence of impairment into up to three categories: exposures with low, high and full risk. The latter two risk categories consist of defaulted clients.

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

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 various 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. Exposures at stage 3 are considered to be non-performing and are by definition the same as used in the Group's advanced IRB setup. The Annual Report provides more information on the definitions for default and rating classes in note 50.

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

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

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

- The loan is in 30 days arrear or more.

- Client adviser'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, possible arrears and/or changes in the initial conditions for the client relationship.

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

The 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 5.6bn at end-2018 (2017: DKK 5.2bn). The discount balance from acquired assets at end-2018 amounts to DKK 0.3bn against DKK 0.5bn at end-2017. Hence, the total balance of impairment charges and provisions inclusive of discount amounts to DKK 6.0bn (2017: DKK 5.7bn).

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-2018, the balance of value adjustments amounted to DKK 87m (2017: DKK 81m).

IMPAIRMENT CHARGES AND PROVISIONS FOR GUARANTEES		
DKKm	2018	2017
Balance of impairment charges for loans and advances	5,250	4,816
Balance of provisions for guarantees and liabilities	364	342
Balance of loan impairment charges and provisions for guarantees	5,614	5,158
Balance of discounts	303	499
Balance of loan impairment charges and provisions for guarantees incl. balance of discounts	5,917	5,657
Balance of value adjustments	87	81
Balance of loan impairment charges and provisions for guarantees incl. balance of discounts and balance of value adjustments	6,004	5,738

In 2018, the development in loan impairment charges and provisions for guarantees amounted to DKK 608m (2017: DKK 178m), and Jyske Bank recognised as interest income DKK -139m (2017: DKK 274m) from the discount balance. Hence, the total net effect recognised in the income statement came to DKK 468m (2017: DKK 452m).

The effect from value adjustments on financial instruments came to DKK 6m in 2018 (2017: DKK 134m).

NET EFFECT FROM IMPAIRMENT CHARGES, ETC.		
DKKm	2018	2017
Loan impairment charges and provisions for the year	383	175
Recognised as a loss, not covered by loan impairment charges/provisions	463	-318
Recoveries	-238	322
Loan impairment charges and provisions for guarantees	608	178
Recognised discount for assets taken over	-139	274
Net effect on income statement	468	452
Value adjustments for financial instruments	6	134
Net effect on income statement, inclusive of value adjustments	474	586

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	10,275	1,207	0	0	8	2
Construction	6,461	649	140	6	87	-6
Energy supply	6,102	276	37	0	74	15
Real property	142,841	7,823	2,952	1,740	1,017	13
Finance and insurance	66,344	4,267	1,014	15	655	-79
Manufacturing, mining, etc.	10,334	1,238	520	5	300	176
Commerce	15,671	1,835	336	4	277	37
Information and communication	1,008	421	60	0	54	12
Agriculture, hunting, forestry and fishing	8,144	1,934	1,363	0	1,167	11
Transport, hotels and restaurants	6,982	855	152	3	133	21
Public authorities	11,052	356	0	0	0	0
Other sectors	17,364	1,268	277	43	263	52
Personal clients	212,111	11,418	4,135	1,387	1,969	221
Total 2018	514,689	33,546	10,986	3,204	6,004	474
Total 2017	477,377	26,366	13,338	2,885	5,738	586

The table above displays EAD for accounting purposes broken down by sector and stages. EAD for past due exposures amounted to DKK 3,204m at end-2018.

Agriculture, hunting, forestry and fishing make up the most risky sector for the Group in terms of balance of impairment charges as a percentage of total EAD and amounted to 10.2% at end-2018. The situation is still expected to be critical going forward due to a low level of price expectations and a reduction of yield as an effect of drought.

The balance of impairment charges for real property as a percentage of total EAD amounted to 0.7% at end-2018. Improvements have been observed due to higher prices of commercial properties, but in general, the price development has slowed down.

The balance of impairment charges for personal clients as a percentage of total EAD is continuously low and amounted to 0.9% at end-2018.

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 and EAD are validated at least annually. The validation includes stability testing and back-testing, and its objective is to reveal any areas which require special attention. 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 purpose of stability testing is to monitor whether the estimated parameters of the models are stable over time. The identification of structural breaks and systematic parameter 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.

The AIRB parameters used for the calculation of the own funds requirement are compared below to the corresponding realised figures. These various measurements are conceptually different and cannot be compared directly. For instance, the AIRB parameters for LGD are based on recession estimates. Also, the PD estimates are so-called hybrid parameters that are expected to be between the actual and the long-term default levels.

The figures relate to AIRB clients with Jyske Bank A/S. Following the merger of Jyske Bank and Jyske Realkredit in 2014, the AIRB risk models will be adjusted over the coming years to cover both companies. The realised figures were lower than or at level with the estimated figures for PD, LGD and expected loss.

PD					
	Exposure to corporates	Qualified revolving retail exposures	Exposure to retail clients secured against real property	Other retail exposures	Total
2018					
Realised	2.16%		0.39%	0.58%	0.64%
Estimated	2.33%		0.73%	1.02%	1.03%
2017					
Realised	1.70%		0.34%	0.54%	0.56%
Estimated	2.54%		0.83%	1.11%	1.12%
2016					
Realised	1.85%		0.47%	0.61%	0.65%
Estimated	2.96%		0.91%	1.18%	1.22%
2015					
Realised	3.08%		0.63%	1.07%	1.07%
Estimated	3.33%		0.76%	1.07%	1.13%
2014					
Realised	3.48%	0.43%	0.57%	0.94%	0.84%
Estimated	2.69%	0.72%	0.80%	1.43%	1.02%

LGD	Exposure to corporates	Qualified revolving retail exposures	Exposure to retail clients secured against real property	Other retail exposures	Total
2018					
Realised	21.11%		21.17%	47.07%	36.68%
Estimated	36.15%		20.02%	50.21%	41.87%
2017					
Realised	22.73%		20.45%	48.79%	38.72%
Estimated	40.27%		20.23%	48.55%	42.01%
2016					
Realised	26.34%		16.97%	47.41%	38.09%
Estimated	39.43%		22.55%	47.77%	41.97%
2015					
Realised	27.35%		15.95%	45.09%	37.66%
Estimated	39.80%		22.17%	47.86%	42.82%
2014					
Realised	27.26%	49.94%	21.01%	37.91%	36.75%
Estimated	37.88%	58.16%	21.82%	51.40%	44.04%

EXPECTED LOSS	Exposure to corporates	Qualified revolving retail exposures	Exposure to retail clients secured against real property	Other retail exposures	Total
2018					
Realised	0.20%		0.11%	0.38%	0.20%
Estimated	0.34%		0.17%	0.60%	0.34%
2017					
Realised	0.12%		0.06%	0.24%	0.12%
Estimated	0.48%		0.19%	0.74%	0.44%
2016					
Realised	0.19%		0.11%	0.40%	0.19%
Estimated	0.51%		0.24%	0.82%	0.49%
2015					
Realised	0.30%		0.11%	0.64%	0.29%
Estimated	0.65%		0.17%	0.68%	0.54%
2014					
Realised	0.48%	0.19%	0.17%	0.40%	0.40%
Estimated	0.68%	0.36%	0.28%	0.78%	0.60%

Counterparty credit risk

- At end-2018, the level of counterparty credit-risk exposure was almost unchanged compared to end-2017.
- During 2018, the Group analysed the consequences of the upcoming EMIR requirements on Initial Margin, which the Group will be obliged to fulfil in 2020. The analysis shows that the rules will have marginal impact on the Group's counterparty credit risk.

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

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

Policy and management

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

Jyske Bank calculates its daily exposure to individual counterparties within the Group's counterparty credit-risk management system. These exposures are included in the credit-risk management in line with other credit exposures. Counterparties are granted lines in accordance with the instructions in force after risk assessment of the individual counterparty. The lines are reviewed at least once a year or in case of a change in the 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 change in market values, 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 give the Group the right to net market values of derivative trades in case of counterparty default
- Attaching collateral management agreements to the master netting agreements, which entitles the Group to collateral in case the counterparty's debt to Jyske Bank exceeds an agreed amount

The table below shows to which extent the Group clears derivatives through a CCP. Of the total amount of principals not cleared in 2018, over 90% was covered by netting and collateral agreements.

OTC DERIVATIVES - NOTIONAL AMOUNT

DKKm	2018	2017
CCP	895,405	914,711
Non-CCP	1,301,336	1,364,000
- Collateralized	*1,212,517*	*1,303,497*
- Non-collateralizec	*88,819*	*60,503*
Total	**2,196,741**	**2,278,711**

As from 2020 the Group will be obliged to fulfil the EMIR requirements on Initial Margin for non-cleared derivatives. An examination done during 2018 has shown that the consequences on counterparty credit risk are negligible.

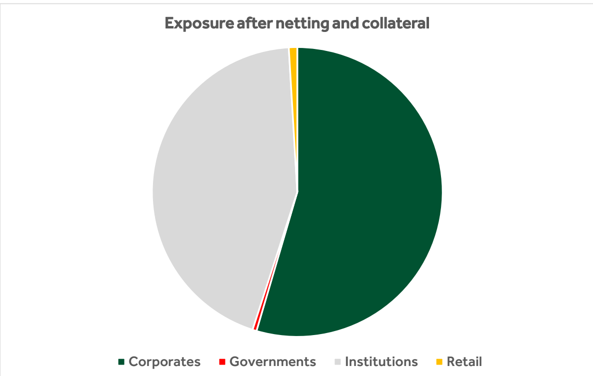
Risk profile

Jyske Bank measures counterparty credit risk in terms of the market value of a portfolio with a given counterparty, which takes into account any allowed netting and collateral exchanged with the counterparty. The table below shows the Group's exposure at end-2018.

COUNTERPARTY CREDIT RISK EXPOSURE		
DKKm	2018	2017
Gross exposure	29,888	31,849
Effect of netting	23,368	24,878
Exposure after netting	6,520	6,971
Effect of collateral	433	1,111
Exposure after netting and collatera	6,087	5,860

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-2018, the Group's collateral holdings mostly consisted of cash, however, some agreements also allowed exchange of collateral in the form of government bonds issued in Denmark, the United States, Germany and France and Danish mortgage bonds.

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



At end-2018, the Groups total exposure, after taking into account any netting and collateral allowed, amounted to DKK 6.1bn of which over 98% was towards the corporate and institutions segments.

The Group's portfolio of credit-default swaps (CDS) is limited, and the net nominal exposure amounts to DKK 309m at end-2018 divided on 5 bought and 4 sold contracts. Underlying exposures consist of individual government credits and credit indices.

Wrong Way Risk

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

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

Own funds requirements

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

The own funds requirement for counterparty credit risk is reported as a part of the own funds requirement for credit risk.

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

The total capital requirement from counterparty credit risk, EAD and CVA, is almost unchanged compared to end-2017.

Market risk

- The market-risk exposure from the trading related activities was marginally reduced in 2018 – primarily due to market uncertainty related to macro-political events like Brexit, the risk of a trade war and negotiations regarding the state budget in Italy.
- Low interest rates dominated the banking book interest-rate risk management - a moderate but still positive interest-rate risk profile has been maintained as a partial hedge of the negative interest-rate risk from deposits.
- In early 2018, Jyske Bank did a strategic reclassification of activities within the trading book to the banking book. The reclassification was initiated from a governance perspective to secure consistency to future regulative framework.

Jyske Bank assumes market risk as a result of position-taking in the financial markets and general banking and mortgage-banking operations.

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.

Certain financial instruments include elements of credit risk. This type of credit risk is managed and monitored in parallel with market risk.

The market-risk framework has proven strong during the different financial crises.

Policy and responsibility

The Group Supervisory Board lays down the market risk policy and relevant limits, stating the Group's risk profile for the area of market risk. The policy is implemented in a number of limits delegated to the Group Executive Board.

The limits are further restricted before being delegated to the three heads of Jyske Markets, Group Treasury and Jyske Realkredit, respectively. Those three business units are the sole units of the Jyske Bank Group that may assume significant market risk.

The limits delegated to Jyske Markets and Jyske Realkredit have been adjusted in such a way that they primarily support the daily trading volume and the clients' repayment and raising of mortgage loans. Strategic positions are mainly taken by Group Treasury as reflected by the limit delegated to the unit.

Operations in accordance with the respective limits are supported by detailed procedures.

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 positions which exceed the pre-determined limits or are in conflict with the risk-management policy. The Group Supervisory Board and Internal Audit are notified immediately if positions exceed the overall authority of the Group Executive Board.

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

Monitoring and reporting of market risk take place through a risk-management system which is developed by Jyske Bank and integrated with Jyske Bank's trading systems as well as other systems for the handling of Jyske Bank's regular banking and mortgage operations.

Market risk profile

In the management of market risk, there is a distinction of trading-related market risks and market risk arising from asset and liability management like the management of core banking and mortgage-lending activities.

In the trading portfolios market risks arise primarily from trading activities 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.

Management of market risks related to asset and liability management is handled in the banking book as part of the responsibility delegated to Group Treasury. In the banking book market risk originates from exposure to interest-rate risk founded in core banking and mortgage-lending activities as well as funding and liquidity management.

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

Market uncertainty and a reduction of risk exposures characterized the trading-related activities in 2018. Low interest rates and alternating news concerning Brexit and a potential trade war lead to a lower risk appetite. Key risk figures were kept at a relatively low level relative to the accepted level with seasonal fluctuations driven partly by market-making activities related to Danish mortgage bonds, Nordic FX and investment funds. Throughout the year the trading portfolio was characterized by interest-rate risk in the short-term segment, the FX risk is concentrated in EUR and a diversified portfolio of investment funds drove the equity risk. A strategic equity portfolio was reduced significantly, leaving the Group with a minor portfolio of single shares.

In addition, a strategic reclassification of activities within the trading book to the banking book affected the management of market risk in 2018. By the first quarter of 2018, Jyske Bank re-classified a large part of its balance sheet, which has traditionally been part the trading book as banking book activities to clearly separate trading-related activities from activities related to the asset and liability management of the Group. The reclassification was not driven by a change in the market-risk strategy but from a governance perspective to secure the right foundation of the Group's market-risk framework.

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

Own funds requirements for market risk

Because of the reclassification of trading activities mentioned above the own funds requirement for market risk was reduced in 2018. This was offset by a higher pillar 2 market-risk capital charge. In addition, a reduction in the risk exposure in the second half of 2018 led to a further reduction in own funds requirement primarily driven by a lower exposure to interest-rate risk and a reduced equity risk.

OWN FUNDS REQUIREMENT FOR MARKET RISK				
DKKm	2018		2017	
Risk type	REA	Own funds requirements	REA	Own funds requirements
Debt instruments	8,129	650	14,987	1,199
Shares, etc.	3,074	246	4,398	352
Commodities	-	-	-	-
Currency position	1,953	156	1,970	158
Total	13,156	1,052	21,355	1,708

Management of market risk

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, i.e. by calculating the delta, gamma and vega risks of the positions.

The measurement of Jyske Bank's market risk takes into account all products; products in as well as outside the trading portfolio.

Interest-rate risk

Interest-rate risk is defined as the risk resulting from a general rise in interest rates of 1 percentage point (Interest-rate risk 1). The measure expresses the percentage gain or loss generated by a simultaneous 1-percentage point shift in all yield curves.

To compensate for the simple assumptions in Interest-rate risk 1 Jyske Bank measures and limits the loss Jyske Bank can suffer from eight different interest-rate scenarios like curve twists.

Interest-rate risk is calculated on the basis of agreed payments. 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.

Risk management of the Group's portfolio of mortgage bonds is supplemented with limits for and measurement of credit-spread risk.

Interest-rate risk in the banking book

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

The asset and liability management of the Group primarily drives the interest-rate risk in the banking book.

This means, that a number of activities and risk factors drive the interest-rate risk; from funding and liquidity risk to the measurement of the interest-rate risk from non-maturing deposits.

The interest-rate risk in the banking book is managed by hedging across different instrument types and in consideration of accounting principles.

Currency risk

Jyske Bank's currency 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 physical equity 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.

Moreover, Jyske Bank limits individual exposures to equities in order to limit the concentration risk.

Shares not held for trading

The shares not included in the trading portfolio are primarily financial sector shares relating to the ordinary operating activity of the Group.

SHARES NOT HELD FOR TRADING				
DKKm	2018	2017	Unrealised gain	Realised gain
Total	2,850	3,119	152	575

The holding decreased in 2018 primarily due to sell-off, which has materialized in a realised gain.

Shares not held for trading form part of the basis for Jyske Bank's ordinary business activities. The shares are booked at fair value as described in the accounting policies set out 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.

Exposure to credit risk on bond holdings

Exposure to credit risk on financial instruments relates to Jyske Bank's bond holdings. The credit element is not entirely reflected in the credit-spread risk measure and must therefore be managed separately.

Jyske Bank manages its exposure to credit risk on the bond holdings 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.

Finally, a concentration risk limit has been defined geographically and for individual exposures.

Securitisations

Jyske Bank's activities within securitisation are linked to investment in tranches issued by other institutions and legal entities. Thus Jyske Bank acts neither as an issuer nor as an exposure provider. Investment is made in traditional securitisations and distributed on the following securitisation types:

- RMBS (Residential Mortgage Backed Securities), primarily consisting of AAA-rated senior tranches.
- CLOs/CDOs consisting of AAA and AA senior tranches.

No investments are made in re-securitisations.

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

The securitisation types and the geographical exposure of the underlying assets of the portfolio are shown in the table below, from which it appears that the exposure is concentrated in both USA and Europe.

EXPOSURE TYPES FOR SECURITISATIONS					
DKKm	European	American	Other	Total 2018	Total 2017
RMBSs	497	-	-	497	978
CLO	505	913	339	1757	2,341
ABS and CDO	-	1	-	1	1
Total 2018	1,002	914	339	2,255	3,321
Total 2017	1,407	1,323	591	3,321	

In 2018, Jyske Bank reduced the portfolio of securitizations, net, significantly. The fall was mainly caused by redemptions. Despite the portfolio reduction new investments of good credit quality and with senior status - as in accordance with the risk-management policy - were made in 2018.

It appears from the table below that the most important changes took place in top-rating securitisations. The main underlying investments of the tranches are US and European bank and housing loans.

BREAKDOWN OF RATINGS (Standard & Poor's / Moody's)		
DKKm	2018	2017
AAA / Aaa	1,839	2,699
AA / Aa	359	502
A / A	57	120
BBB / Baa	-	-
BB/Ba	-	-
Lower or no rating	-	-
Total	2,255	3,321

Own funds requirements for securitisations

The portfolio of securitisations is part of the banking book and Jyske Bank applies a rating-based method in the calculation of the own funds requirement. The own funds requirement for securitisations decreased in 2018. Despite of new investments in securitisations of good credit quality, redemptions in the portfolio more than equalled this which in net value caused the own funds requirements for securitisations to decrease in 2018. The own funds requirement according to risk weights appears below. The portfolio was characterised by high concentration in the low-risk weight ranges.

OWN FUNDS REQUIREMENT FOR SECURITISATIONS				
DKKm	2018		2017	
Risk weight - ranges	Exposure	Own funds requirements	Exposure	Own funds requirements
< 20%	2,202	14	3,254	21
≤ 20% < 50%	53	1	67	1
≤ 50% < 100%	-	-	-	-
≤ 100% < 1,250%	-	-	-	-
1,25%	-	-	-	-
Total	2,255	15	3,321	22
Of which in the trading portfolio	-	-	1,263	10

Liquidity risk

- During 2018 the Group maintained a very high degree of excess coverage in terms of the stress-based internally delegated limits and guidelines.
- The composition of the Group's liquidity buffer has changed slightly during 2018. EUR deposits at the ECB have been reduced significantly and the Group's position in Danish mortgage bonds has been increased.
- The Group has already since 2017 been fully compliant with the new liquidity ratio, a 90-day simplified LCR in the Danish FSA's supervisory diamond. The ratio came into force on 30 June 2018
- The mortgage-related refinancing risk remained stable at a moderate level throughout 2018.
- Deposit and money-market rates were persistently negative during 2018. Deposits declined slightly through the year but remain at a structurally high level.
- During 2018 capital-market volatility as well as credit spreads across all asset classes increased significantly, in sharp contrast to the market development in 2017. The risk-off sentiment persisted throughout the year.
- As part of the gradual replacement of the Group's old preferred senior debt with the new MREL eligible non-preferred senior debt, Jyske Bank issued two non-preferred senior bonds (totalling EUR 670m) during 2018.

Liquidity risk occurs due to funding mismatch in the balance sheet. The Group's liquidity risk can primarily be attributed to its bank-lending activities as the bank-loan portfolio has a longer contractual duration than its average funding sources. The liquidity risk at Jyske Realkredit is limited due to the adherence to the balance principle of the mortgage legislation for covered bonds.

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 in due time can honour its payment obligations by having reasonable funding costs.

Organisation, management and monitoring

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

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

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

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

Group liquidity flows

Short-term liquidity management

Short-term operational liquidity is managed by Jyske Markets, 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 interbank money markets. Jyske Markets has been granted specific limits for the maximum placement of longer-term deposits in the same markets. Short-term funding in these markets forms part of the overall Group limits for short-term funding within strategic liquidity management.

Strategic liquidity management

Strategic liquidity is managed by Group Treasury based on measurement of the Group's liquidity position in various stress scenarios. The asset side of the liquidity balance is broken down and grouped in order of liquidity whereas the financial liabilities are grouped according to expected run-off risk in various scenarios. In relevant stress scenarios, the liquidity buffer is used to cover negative payment gaps.

Group Treasury uses three scenarios to manage the Group's liquidity- and funding risk profile; a severe Jyske Bank-specific stress scenario with a short critical survival horizon of 90 days (scenario 1), a broad-sector stress scenario with a survival horizon of six months (scenario 2) and a capital-market stress scenario with a survival horizon of at least one year (scenario 3). Group Treasury is responsible for ensuring that the Group can at all times meet the critical survival horizons in the three scenarios used in strategic management.

For more detailed information on the stress scenarios used, see the Group's Annual Report 2018.

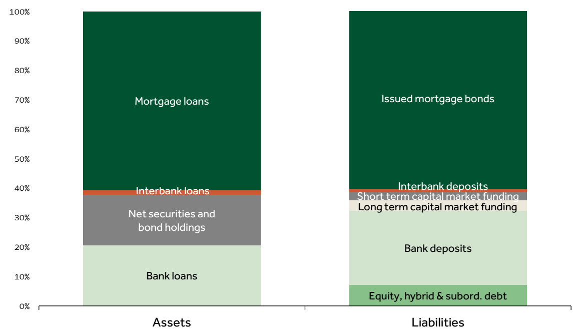
Liquidity contingency plan

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

During 2018, Jyske Bank had a very high degree of excess coverage in terms of the stress-based internally delegated limits and guidelines.

Group funding structure

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



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

In addition to mortgage bonds, the Group's primary source of funding is deposits from clients, and it has a sound and well-diversified client deposit base. As reflected in the chart, client deposits funded 120% of the bank loans at end-2018, which is unchanged compared to the end of 2017.

The Group's deposit surplus contributes to the funding of the Group's net holdings of securities[3]. Other important funding sources are primarily short- and long-term bonds issued in the international capital markets. In addition, Jyske Markets funds its own wholesale-related activities by taking up unsecured 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 are not pledged as collateral or used in the day-to-day operations of the Group. Such assets may 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

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

at the ECB or the Danish central bank, certificates of deposit with the Danish central bank.

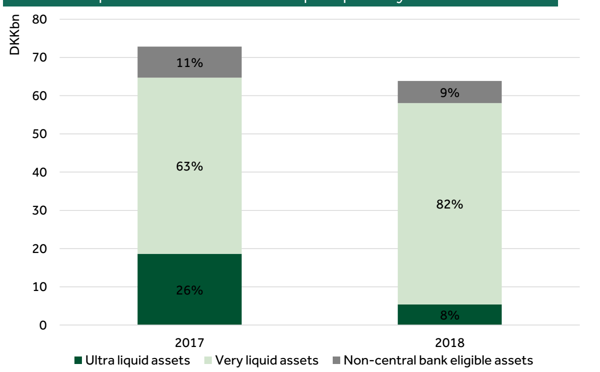
2) Very liquid assets (central bank eligible)
Assets eligible for borrowing transactions in the Danish central bank or the ECB: Danish government and mortgage bonds and covered bonds, European covered bonds, RMBS and government bonds.

3) Non-central bank eligible assets (not eligible at central banks): Other negotiable securities with a longer realisation time frame. 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. It is thus Jyske Bank's policy that it must be able to meet the limit of the survival horizon of stress scenario 1 merely by freeing assets from liquidity groups 1 and 2.

At end-2018, Jyske Bank had a definite overweight of very liquid assets as illustrated by the below chart. The overall composition of the buffer, however, changed slightly compared to 2017 as deposits at the ECB were at a significantly lower level at end-2018.

Development in the Group liquidity buffer



The table below shows the development of Jyske Bank's liquidity buffer over a 12-month period under stress scenario 3. At end-2018, the Group's liquidity buffer amounted to DKK 64bn against DKK 73bn at end-2017. The reserve consists mainly of Danish mortgage bonds and covered bonds. DKK 58bn of the buffer is eligible at either the Danish Central Bank or the ECB.

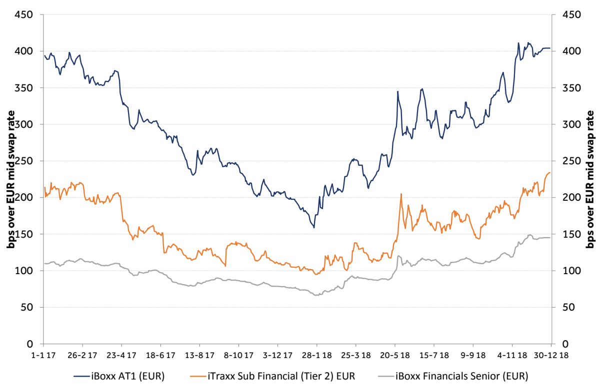
Liquidity reserve and run-off

DKKbn	2018	2017	index 18/17
Beginning of period	63.9	72.8	88
3 months	52.0	54.2	96
6 months	46.1	49.6	93
9 months	41.7	47.8	87
12 months	39.4	42.8	92
24 months	34.1	42.0	81

Capital markets

As reflected in the below graph the development in the international capital markets during 2018 is in sharp contrast to 2017. After a positive start to 2018, sentiment turned quite abruptly in February. Market volatility as well as credit spreads across all asset classes increased significantly. The risk-off sentiment persisted throughout the year with an acceleration in the widening of credit spreads and lack of market liquidity especially during the second half of 2018.

Development in credit spreads 2017 & 2018



At end-2018, senior unsecured debt issued under the EMTN programme amounted to DKK 19.6bn (EUR 2.6bn) against DKK 15.8bn (EUR 2.1bn) at end-2017. Outstanding issues of subordinated Tier 2 notes remained unchanged at DKK 3.3bn (EUR 0.4bn).

At end-2018, outstanding bonds under the CP programme amounted to DKK 15.4bn (EUR 2.1bn) against DKK 16bn (EUR 2.2bn) at end-2017. The weighted residual maturity of the CP outstandings as of end-2018, was 5.5 months compared to 5 months at end-2017. Although the Group's need for short senior funding remained low also in 2018 it remains of strategic importance for the Group to maintain liquidity in the CP programme.

Group refinancing risk

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

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

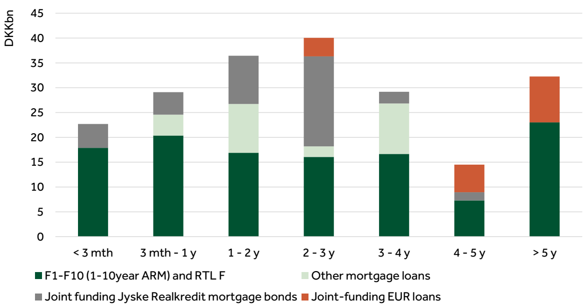
Refinancing risk covered bonds

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

Jyske Realkredit's outstanding volume of covered bonds and mortgage bonds increased from DKK 302.5bn at end-2017 to DKK 324.2bn at end-2018. The refinancing risk from mortgage activities remained moderate during 2018 following a significant reduction during 2016, ensuring Group compliance with the (expected) NSFR as well as the Danish FSA's supervisory diamond.

Long fixed-rate callable covered bonds have no refinancing risk. The proportion of SDOs with refinancing risk amounts to DKK 215.8bn and 66% of Jyske Realkredit's total outstanding volume of covered bonds. The maturity profile for mortgage loans with refinancing risk, as of end-2018, is illustrated in the chart below.

Maturity profile for SDOs with refinancing risk



Refinancing of senior debt and capital instruments

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

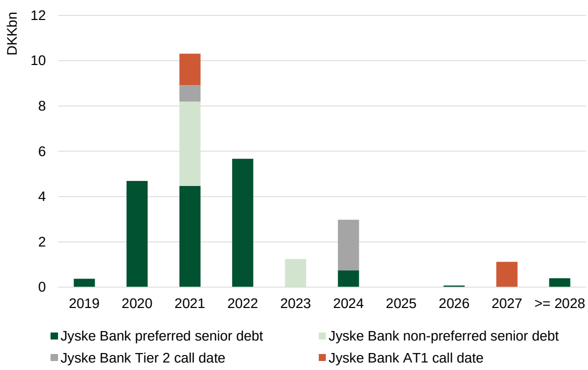
Furthermore, monitoring and assessing the structure and quality of the deposit base is imperative to assess the overall need for longer-dated funding to hedge overall refinancing risk.

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

The run-off of wholesale fixed-term deposits, interbank deposits, CP and EMTN issues is monitored and managed via the internal stress scenario 1. 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 Basel III-compliant capital instruments as of end- 2018 is illustrated in the chart below.

Maturity profile/call date profile



Debt buffer requirement at Jyske Realkredit

As part of the Danish BRRD framework, mortgage credit institutions are required to establish a debt buffer equal to 2% of their total (unweighted) mortgage lending to facilitate a more flexible resolution process. The debt buffer requirement is gradually implemented from 2016 until 2020, with 60% in 2017, 80% in 2018, 90% in 2019 and the full 100% in 2020.

Capital available is the capital not used to comply with the minimum capital requirement from the Danish FSA, and senior debt. Jyske Realkredit will at any given time have adequate access to capital and funding to fulfil the debt-buffer requirement.

MREL & issuance of non-preferred senior debt

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

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

The Group plans to issue a total of EUR 2.5bn in NPS before the end of 2021. As part of the gradual replacement of the Group's old preferred senior debt with new non-preferred senior debt, Jyske Bank issued two non-preferred senior bonds (totalling EUR 670m) during 2018:

Issued non-preferred senior debt

Currency	Size	Value date	Maturity date	Credit spread
SEK	1.75bn	09-07-2018	09-07-2023	3M stibor + 1.05 % (3M cibor + 0.75 %)
EUR	500m	12-05-2018	12-03-2021	EUR m/s + 1 % (3M cibor + 0.87 %)

Funding plans

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

Compliance with MREL and the debt buffer requirement

As illustrated in the table below Jyske Realkredit fully complies with the debt buffer requirement based on its high capitalisation.

Debt buffer in Jyske Realkredit

	Requirement (%)	Requirement (DKKbn)	Capital availabe to fulfil the requirement (DKKbn)
2017	1.2%	3.709	7.723
2018	1.6%	5.238	7.767

As of end-2018, Jyske Bank already fulfils the expected MREL requirement coming into force on 1 July 2019.

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

Liquidity risk legislation and supervisory diamond

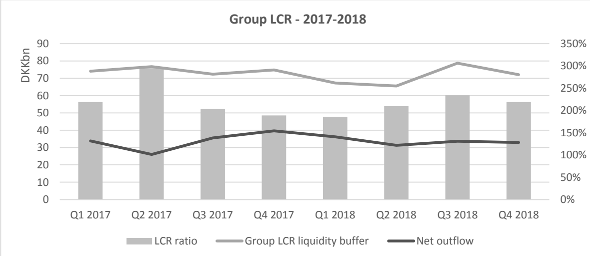
The critical survival horizon for the Group's stress scenario 1 remains a key short-term limit and part of overall liquidity risk management, together with a daily adjusted version of the LCR.

As of end-2018, the Group's LCR was 219% compared to 189% as of end-2017. The composition of the Group's LCR buffer net of haircuts as of end-2018 is shown below:

Group LCR liquidity buffer

Asset classes	DKKbn	%
Level 1a	31.3	43.4%
Level 1b	38.0	52.8%
Level 2a+2b	2.7	3.8%
Total	72.1	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 graph below.



Currently, the Group's minimum target for the LCR is a Group LCR of 150%, with some flexibility regarding the actual composition of the buffer.

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-2018.

On 30 June 2018, the Danish Financial Supervisory Authority's new liquidity ratio in the supervisory diamond came into force. 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 2018, the Group's ratio could be calculated at 170.8%.

With the political agreement on the EU Risk Reduction Measures in December 2018, it is now clear that the Net Stable Funding Ratio will become a statutory requirement within the next year or two. It is expected of the political agreement that Danish mortgage bonds containing the so-called "maturity extension trigger" will be recognised as "closely related to the loans" which means that NSFR compliance at Jyske Realkredit will be relatively easy to achieve. At Group level, Jyske Bank was fully NSFR-compliant throughout 2018 with the current tougher Basel recommendations and the Group NSFR as of end-2018 was 103.1% compared to 103.6% at end-2017.

Funding in the supervisory diamond

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

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

Loans with frequent interest-rate fixing			
	Benchmark	2018	2017
- refinancing (annually) *	< 25 %	14.7%	19.9 %
- refinancing (quarterly)	< 12.5 %	3.1%	4.7 %
*)Last 12 months			

Asset encumbrance

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

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

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

DKKbn	End 2017		End 2018	
	Group	Jyske Bank A/S	Group	Jyske Bank A/S
Total encumbered assets	**397.6**	**49.7**	**398.9**	**68.4**
of which: derivatives collateral	24.0	24.0	36.9	36.8
of which: REPO	21.9	22.5	29.5	30.2
of which: Central Bank funding	1.9	1.9	0.0	0.0
of which: SDO-issuance	344.1	0.0	324.5	0.0
of which: other assets	0.0	1.1	0.0	1.4
Total assets	**601.7**	**280.3**	**597.4**	**295.7**
Encumbrance ratio	**66.1%**	**17.7%**	**66.8%**	**23.1%**

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

Credit ratings

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

Based on the Group's expected issuance of EUR 2.5bn of additional loss absorbing capital ("ALAC") before the end of 2021, Jyske Bank's issuer rating of A-/A-2 was granted a positive outlook by S&P in April 2018.

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

During 2018 S&P affirmed their stable outlook on Jyske Banks SACP. The S&P rating reflects that S&P expects that the Group can maintain a Risk Adjusted Capital Ratio ("RAC") above 10% over the next two years. The rating is supported by S&P's recognition of the flexibility in the Group's capital adjustment policy. S&P considers Jyske Bank to have great flexibility to reduce dividends and share buybacks if it will be necessary to support the Group's rating. In addition, the rating reflects that S&P recognizes the Group's efforts to improve long-term stability of earnings through successful growth in the bank's mortgage products, resulting in an increased diversification in the loan portfolio and a general reduction of the risk profile.

Jyske Realkredit issues mortgage bonds from Jyske Realkredit's Capital Centre E (SDO), which is 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-2018, the capital requirement from S&P totalled DKK 10.8bn against DKK 11.3bn at end-2017.

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	
Short term unsecured rating (preferred ser	A-2	positive	from Capital Center E	AAA
Long-term unsecured rating (preferred ser	A-	positive		
Long-term non-preferred senior ("NPS")	BBB+	stable	UCITS-compliant mortgage	
Tier 2	BBB	stable	bonds from Capital Center B	AAA
Additional Tier 1 (AT1)	BB+	stable	and the General Capital Center	

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

Operational risk

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

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

Policy

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

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

In the policy, the Group Supervisory Board has determined an upper limit to how many large risks the Group may assume. There was no limit breached throughout 2018.

Risk identification and assessment

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

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

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

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

Management and monitoring

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

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

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

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

Development of operational risk

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

An IT inspection by the Danish Financial Supervisory Authority's (the FSA) in 2016 resulted in six general orders in the fall of 2017 which mainly commented on the Group's methods and practices for IT security and risk management – not its security operations. Many enhancements have been made in order to address these orders, and it is expected that a large portion of the observations of the FSA and the orders will have been addressed by the second quarter of 2019. Jyske Bank has an extraordinary add-on to the pillar 2 capital requirement to address the outstanding issues.

Bankdata, which provides IT solutions to Jyske Bank, is working on new capital market IT solutions. This increases the operational risk while the project lasts. A large number of critical systems used for trading, position management, risk management and settling will be changed during this project. Jyske Bank has an extraordinary add-on to the pillar 2 capital requirement to take these temporary changed conditions into account. Once implemented, the new IT solutions are expected to decrease the operational risk.

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

In 2018, Jyske Bank experienced one incident of internal fraud. This episode has triggered new and better processes and controls.

For the past two years Jyske Bank has not been exposed to robbery or attempted robbery.

Cyber security

The Group recognises cyber risk among the top operational risks. Throughout 2018, Jyske Bank intensified its IT security activities and launched new initiatives to combat cyber threats and improve the overall security of the IT infrastructure.

Spurred by global and national increases in cyber threat trends, stating cyber threat level at its highest yet, additional investments in cyber defence capabilities at Jyske Bank and main suppliers were given high priority in 2018. Technology adoption of best practice tools and cyber defence methods was initiated. Most significantly, advances have been achieved in identification of and detection capabilities for cyber threats.

Despite the very high threat level in 2018, and constant pressure on the Group's defense systems, Jyske Bank has not been specifically targeted in any cyber attacks employing moderate to high sophistication attack methods. Nor have we seen any material losses stemming from cyber attacks (online fraud not included). We anticipate moderate cyber threat activity against Jyske Bank in 2019, though we do realize the volatility of cyber threats as well as the motives for pointing out targets.

The focus of the Group's cyber security enhancements is primarily to significantly improve the security position, which is accessible externally, in order to deter cyber attack attempts. Further, we focus on significantly improving identification, detection and response capabilities for cyber security management to a top quartile level. Implementation of these enhancements will continue at high pace throughout 2019, with milestone deliverables already in the first quarter of 2019.

Anti-Money Laundering

Due to the nature of our business involving several foreign counterparts Jyske Bank 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 risks involved in the entire money-laundering area, which may lead to losses and reputational risk, and we continuously work on initiatives aimed at reducing such risks. In the past year Jyske Bank decided to stop handling of the DKK 1,000 banknote, and from 1 January 2019, Jyske Bank no longer creates accounts for companies not being audited.

On the basis of higher data quality, Jyske Bank particularly focuses on a reduction of risks based on improvements of the quality of client data – both in the form of ongoing updates and in connection with the registration of new clients. The tasks in connection with the registration of new clients have been centralised, thus ensuring a uniform validation of data. Also, endeavours are being made to digitalise and streamline the processes with a view to reducing sources of human errors.

Correct data is a crucial condition for the implementation of secure monitoring of the clients and their transactions. To reduce the operational risks, employees are trained at regular intervals, and new employees immediately go through an e-learning program in the anti-money laundering area ensuring that Jyske Bank's employees are aware of the risk of money laundering in connection with all interactions with clients.

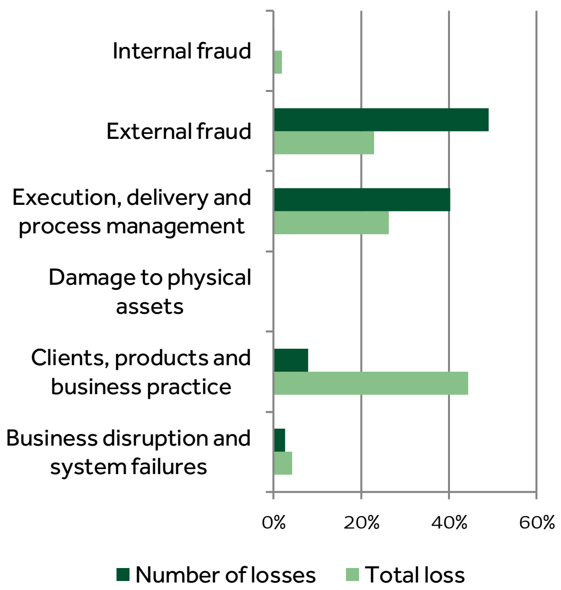
In November 2018, Jyske Bank received the report on the FSA's anti-money laundering inspection at Jyske Bank. The FSA notes that Jyske Bank has implemented material measures in the area, and that Jyske Bank has given high priority to measures preventing money laundering and the financing of terrorism. The report which includes six orders focuses on strengthening of processes and control in the anti-money laundering area. No specific instances of abuse of Jyske Bank for money laundering purposes were found. On the basis of the report, a number of activities have been initiated, and we now expect to have fulfilled all orders at the end of the third quarter of 2019.

Breakdown of losses

The breakdown of operational losses registered in 2018 by category shows that a good part of the errors occur due to manual errors when executing orders and agreements or due to external fraud. External fraud can to a great extent be ascribed to payment card fraud. The majority of the losses are, however, of a limited size.

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

Breakdown of losses



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

Own funds requirement for operational risk

The own funds requirement for Jyske Bank is determined by means of the standardised approach. At end-2018, the overall own funds requirement for the Group amounted to DKK 1,351m against DKK 1,339m at end-2017. The marginal increase in the own funds requirement is primarily due to a slight increase in net income in the three years covered by the calculation.

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.
ARM	Adjustable-Rate Mortgage.
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.
BIS	Bank for International Settlements, an international organisation which fosters international monetary and financial cooperation and serves as a bank for central banks.
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	Collaterized 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. This is determined by the authorities taking into account the current economic situation.
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.
CP	Commercial Paper. Short-term debt instruments (which may be, but are not necessarily, zero-coupon instruments) with maturities up to a year.
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.
CSA	Credit support annex. An annex to an ISDA contract, under which Jyske Bank is entitled to collateral if a counterparty's negative market values exceed an agreed maximum. Jyske Bank must put up margin for the counterparty if the market value in favour of the counterparty exceeds an agreed limit.
Currency risk	The risk of loss caused by changing exchange rates.
CVA Risk Charge	Credit Value Adjustment risk charge. The potential net loss that may occur in the portfolio of derivatives if in the future the credit quality among counterparties deteriorates.
Default	An exposure is termed 'defaulted' if the borrower is expected not to meet all his obligations towards the Group (high and full risk).
Defaulted exposures	Defaulted clients and past due exposures.
EAD	Exposure At Default. The estimated exposure, should the client default in the course of the next twelve months.
EBA	European Banking Authority.
ECB	European Central Bank.
Economic capital	The capital required to cover the Group's unexpected loss one year into the future. Economic capital covers credit risk, market risk and business risk.
EMTN	European Medium Term Notes. Typically with maturities of between two and ten years.
EPE	Expected Positive Exposure. A method for estimating EAD for derivatives.
Equity risk	The risk of loss caused by changing equity prices.
ICAAP	Internal Capital Adequacy Assessment Process. The process assessing the capital requirement.
IFRS	International Financial Reporting Standards.

ILAAP	Internal Liquidity Adequacy Assessment Process. The Group's own determination and assessment of liquidity position and liquidity risk.
Impaired exposures	Exposures for which impairment charges have been made individually.
Interest-rate risk	The risk of loss caused by changing market rates.
ISDA	International Swap and Derivative Association. The Association has formulated standardised agreements to be entered with a counterparty. Under such agreements Jyske Bank has the right to apply netting to derivatives transactions.
JB credit rating	A rating on a scale from 1 to 14, where 1 is the highest credit quality (the lowest PD) and 14 the lowest credit quality (the highest PD).
Joint funding	A financial institution may fund loans secured against real property through covered bonds issued by another financial institution or mortgage-credit institution.
Leverage ratio	The leverage ratio is Tier 1 capital relative to the Group's total non-weighted exposures.
LGD	Loss Given Default. The proportion of a given exposure which is expected to be lost if the client defaults in the course of the next twelve months.
Liquidity risk	The risk of Jyske Bank not being able to generate or obtain sufficient liquidity at a reasonable price to meet its payment obligations or ultimately being unable to meet its obligations as they fall due.
Market risk	The risk of loss caused by a change in the market value of the Group's assets and liabilities caused by price changes in the financial markets.
MREL	Minimum requirements for own funds and eligible liabilities.
O-SII	Other systemically important institutions, the systemic importance classification of Jyske Bank.
OAS risk	Option Adjusted Spread, the interest-rate spread defined as the risk premium related to investing in a mortgage bond compared to the equivalent swap rate. The risk premium can be related to credit risk, illiquidity and for convertible bonds the conversion right.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Own funds requirements	The own funds requirement is the amount of capital that the Group must hold to maintain its banking licence. The determination is based on statutory formulas which prescribe how the total risk exposure must be measured. The own funds requirement is 8% of this.
PD	Probability of Default. The probability of a given client defaulting within the next twelve months.
Pillar 1	The regulatory capital requirement of 8% of the total risk exposure.
Pillar 2	The part of the Group's capital requirements that exceeds the own funds requirements.
RAC	Risk-adjusted capital.
REA	Risk Exposure Amount or Risk-weighted Exposure Amount.
Retail	In relation to the CRD, the ‘Retail’ category covers personal clients and small- and medium-sized enterprises. The latter must meet certain criteria to rank as retail clients.

Risk category	Jyske Bank's exposures at risk are broken down into three categories: low (1), high (2) and full (3) risk. Risk categories 2 and 3 are termed defaulted. The risk categories are also applied in the Group's set-up for impairment recognition.
Risk-weighted exposure amount	The risk-weighted exposure amount or the risk exposure amount is calculated according to the capital requirements regulation.
RMBS	Residential Mortgage Backed Securities.
RW	Risk weighting according to the capital requirement regulations in force. Risk weightings are applied to the assets to reach the risk-weighted exposure amount.
SACP	Stand-alone credit profile.
Settlement risk	The risk of loss caused by the non-fulfilment of payment obligations agreed between Jyske Bank and its counterparties.
SDO	CRD-compliant covered bonds. Loans secured against real property.
SSB	Senior Secured Bonds. Capital instrument used to meet the requirement of supplementary collateral.
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.