Risk and Capital Management

2021

JYSKE BANK

Content

Jyske Bank A/S
Vestergade 8-16
DK-8600 Silkeborg
Tel: +45 89 89 89 89
E-mail:
jyskebank@jyske-
bank.dk
www.jyskebank.dk
Business Reg. No.: 17
61 66 17
Prepress and printing:
Jyske Bank

Executive summary

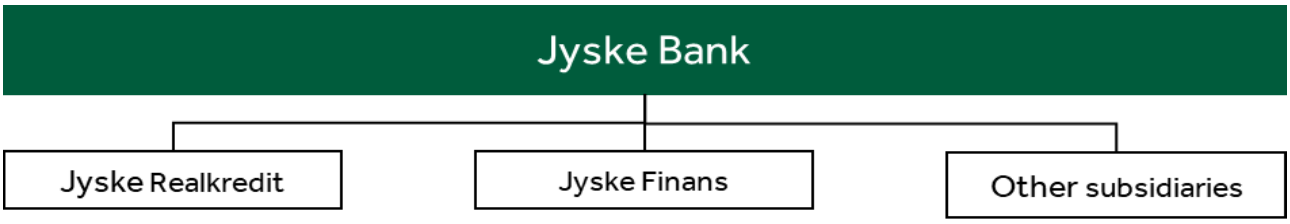
The objective of this report is to offer insight into the Group's internal risk and capital management and the regulatory capital requirements.

The uncertainty caused by the COVID-19 pandemic has been the overarching focus in the past two years, in trying to enlighten and report on the risks associated with such a change in the external environment. However, due to the nature of the crisis, regular risk parameters were not completely adequate and hence, a magnitude of new analyses was required to monitor the Group's risk. However, the Group's portfolio has generally exhibited great resistance against the crisis. The macroeconomic environment exhibits signs of positive development that support the advancement and increase of business activity in 2022.

The capital-management objectives of Jyske Bank for the coming years are a capital ratio within the range 20-22% and a common equity tier 1 capital ratio between 15% and 17%. At these levels, Jyske Bank can absorb the effects of forthcoming legislative changes and at the same time maintain the desired strategic capital buffer. As of end-2021, the Group's capital is above the capital objectives with a common equity tier 1 capital ratio of 18.2% and a capital ratio of 22.8%. The capital ratios above the objective are caused by the bolstering due to the COVID-19 related uncertainties. The capital levels expect to be within the objectives in the coming year.

In 4th quarter 2021, the Group initiated a new share-buyback programme of DKK 1bn. As of February 1^{st,} 2022, this existing programme wes increased by DKK 1bn.

Business model



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

The business model of Jyske Bank Group is organized to offer financial products and other related services to private individuals, businesses, and institutions.
A main component of the Group's business model is to provide loans in exchange for collateral in real estate. The Group's mortgage loans are primarily funded by issuing covered bonds and secondarily by issuing mortgage bonds. It is the Group's ambition to maintain an AAA rating of its covered bonds and mortgage bonds issues.

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

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

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

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

The Jyske Bank Group undertakes financial risks within established limits and to the extent that the risk-adjusted return contributes to the Group's financial goals. Jyske Bank's financial risks consist mainly of credit risk. The Group will undertake credit risk given that the debtor has the necessary ability to service the debt, and that it can be rendered sufficiently probable that the debtor has the intention to repay the credit granted. Failing that, the collateral must have sufficient value as well as stability of value, and it must be expected that the collateral can be liquidated and cover the remaining credit. Hence, it is a requirement that the Group's earnings must match the associated credit risk and capital charge.

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

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

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

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

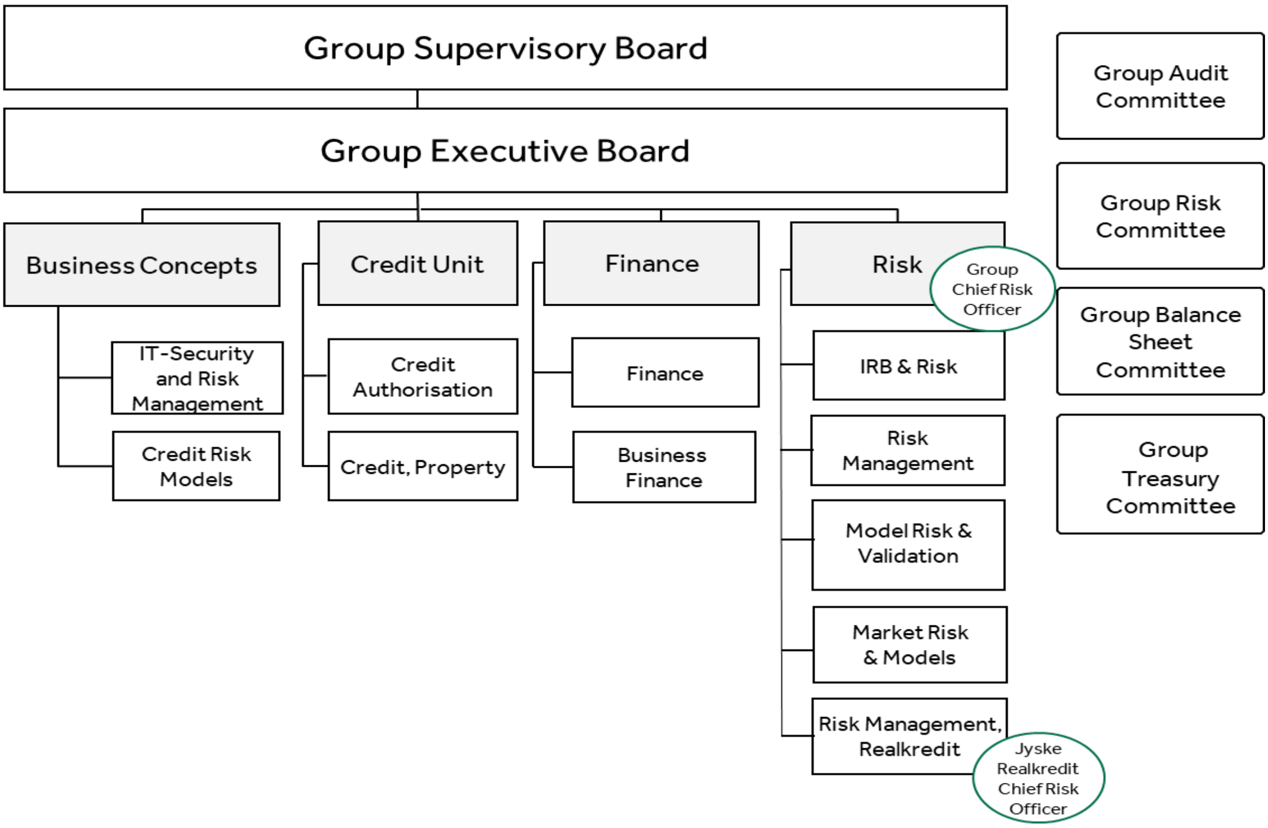
Risk management

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

Risk organisation

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

RISK ORGANISATION



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

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

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

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

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

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

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

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

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

Several committees consider and process risk-related issues:

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

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

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

The main task of the Group Treasury Committee is to ensure that the Group's actual market-risk profile is in line with the intended risk profile and the assessment of market expectations.

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

Risk reporting

The Group Supervisory Board and the Group Executive Board receive regular reports on the risk development and the utilisation of the allocated risk limits and can therefore monitor whether the risk limits are adhered to and evaluate their appropriateness.
The business unit, Risk, continuously focuses on providing relevant and timely analyses to ensure the basis for the most qualified decision making of the management.

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

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

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

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

Internal risk management

In the Group's internal risk management, risk-adjusted target returns are used in the form of RoRC (Return on Regulatory Capital) as a general management tool. RoRC calculations offer an overview of the risk and profitability of the various activities of the Group. RoRC calculations are based on the current valid regulatory capital requirements (CRR2), and the development in the general credit quality of the portfolio, concentration risk and other capital elements are included in the assessment.

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

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

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

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

Supervisory diamond

The supervisory diamond defines several special risk areas including specified limits that institutions should not exceed. The supervisory diamond for Jyske Bank A/S and Jyske Realkredit A/S is shown in the following table.

THE SUPERVISORY DIAMOND FOR JYSKE BANK A/S

	2021	2020
Sum of large exposures < 175% of the adjusted capital base	110%	82%
Increase in loans and advances < 20% annually	8%	-7%
Exposures to property administration and property transactions < 25% of total loans and advances	9%	10%
Liquidity surplus (LCR basis)	188%	169%

At end-2021, Jyske Bank A/S met all the benchmarks of the supervisory diamond.

THE SUPERVISORY DIAMOND FOR JYSKE REALKREDIT A/S

	2021	2020
Concentration risk < 100%	46.8%	51.0%
Increase in loans and advances < 15% annually in the segment:		
Owner-occupied homes and vacation homes	-1.2%	-2.1%
Residential rental property	8.3%	5.9%
Agriculture	-	-
Other sectors	-0.5%	6.6%
Borrower's interest-rate risk < 25%		
Residential property	14.9%	16.5%
Interest-only schemes < 10%		
Owner-occupied homes and vacation homes	5.6%	6.0%
Loans with frequent interest-rate fixing:		
Refinancing (annually) < 25%	15.1%	16.2%
Refinancing (quarterly) < 12.5%	1.0%	1.4%

At end-2021, Jyske Realkredit A/S also met all the benchmarks of the supervisory diamond.

Remuneration

The purposes of the remuneration policy are to:

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

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

Disclosure

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

Sustainability

Jyske Bank Group strive to operate a sustainable and responsible business and use the UN Principles for Responsible Banking (PRB) as an overarching approach to the work on integrating sustainability. Our approach "all progress counts" means focusing on supporting customer progress and facilitating our customers' options for making sustainable choices and decisions. Based on this, Jyske Bank are integrating ESG considerations more into the credit process. E.g., are ESG risks qualitatively assessed in the lending process on corporates, and initiatives to further enrich data on clients regarding ESG are a focus that will continue. In addition, the Risk unit has started to assess and quantify climate-related physical risks in the lending portfolio.

Hence, it has been a natural step for Jyske Bank to become a supporter of the Task Force on Climate-related Financial Disclosure (TCFD) which provides guidelines for assessing physical and transitions risks. The journey towards a stronger quantitative focus on climate is for Jyske Bank in its early stage, and the work will in the future contribute to a better integration of climate risk and opportunities in risk management.

Capital management

- During 2021, Jyske Bank has increased the capital base and experienced very low write downs and losses.
- As a result of the strong capital position, above the groups objective, and the macroeconomic situation, the group has initiated a new share buyback programme of DKK 1b in 4th quarter 2021. This programme has been additionally increased with DKK 1bn with effect from 1st quarter

The objective of capital management is to optimise the Group's capital structure given the risk profile.The capital-management objectives of Jyske Bank for the coming years is a capital ratio within the range 20-22% and a common equity tier 1 capital ratio between 15% and 17%. At these levels, Jyske Bank are able to absorb the effects of forthcoming legislative changes and at the same time maintain the desired strategic capital buffer. As of end-2021, the Group's capital is above the capital objectives with a common equity tier 1 capital ratio of 18.2% and a capital ratio of 22.8%. The capital ratio is above the objective due to bolstering related to COVID-19 uncertainties. The capital levels are expected to be within the objectives in the coming year. The addition of the of the buyback programme of DKK 1bn announced ultimo January 2022, will support the convergence between capital ratios and objectives.

S&P's RAC for Jyske Bank Group has been substantial above the critical 10% mark since the change of Economic Risk Score for Denmark mid-2019. End-2021 the Group's RAC reached a level of above 13% against 12.7% end-2020. S&P's RAC is only to a very limited degree expected to be restricting in relation to capital management, since The Group can maintain the score "strong" as long as a RAC above 10% is preserved.

Capital base

At end-2021, the Common Equity Tier 1 capital amounted to 80% of the capital base, an increase of 2 percentage points compared to end-2021. Nonetheless, the level of Common Equity Tier 1 capital is comfortable relative to the CET1 requirements.
The capital base is stated in the subsequent table[1].

CAPITAL BASE		
DKKm	2021	2020
Equity	34,911	33,325
Intangible assets	0	0
Cautious valuation	-285	-360
Share-buyback programme	-272	-750
Other deductions	-102	-21
Common Equity Tier 1 capital	34,252	32,194
Additional Tier 1 capital	3,329	3,539
Tier 1 capital	37,581	35,733
Tier 2 capital	5,275	5,334
Capital base	42,856	41,067
Risk Exposure Amount	188,181	179,426

Because of the COVID-19 pandemic, the Group chose to revoke its announced share-buyback programme back in first quarter of 2020. However, during 2021 the macroeconomic conditions have improved significantly, and is now at a higher activity level than before the outbreak. Combined with the strong capital position of the group, this has led to a share-buyback programme of DKK 1bn starting Q4 2021, as well as the recently announced addition of DKK 1bn, effective primo February 2022. An increase of AT1 capital was successfully executed during Q1 of 2021 to ensure a cost-efficient capital structure. The capital structure is evaluated regularly to maintain an adequate structure.

Situations may arise necessitating a transfer of capital between the companies of the Group. However, the transfer of capital must take place subject to the capital requirements of the individual subsidiaries. There are no obstacles for a quick repayment of claims between parent company and subsidiaries.

Leverage ratio

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

The Group Supervisory Board has adopted a policy for maximum leverage. To ensure a satisfactory development of the balance sheet, the Group's balance sheet is considered in two sub-portfolios as it is assessed that the Group's banking and mortgage activities have different adequate leverage levels. The

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

banking activities of the Group involve a higher risk in respect to liquidity and capital relative to the Group's mortgage activities. Therefore, a higher acceptable leverage is applied to the mortgage activities than to the banking activities.

At end-2021, the leverage ratio for the Group was at 5.4%[2].

LEVERAGE RATIO		
%	2021	2020
Jyske Bank Group	5.4	5.2

ICAAP and capital requirement

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

Capital requirement

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

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

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

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

CAPITAL REQUIREMENTS BY RISK TYPE				
DKKm	2021	% of REA	2020	% of REA
Pillar 1				
Credit risk	13,052	6.9	12,356	6.9
Market risk	858	0.5	824	0.5
Operational risk	1,144	0.6	1,174	0.6
Capital requirement, Pillar 1	15,054	8.0	14,354	8.0
Pillar 2				
Credit risk	4,122	2.2	4,910	2.7
Market risk	1,681	0.9	1,140	0.6
Operational risk	249	0.1	414	0.2
Other	21	0.0	73	0.1
Capital requirement, Pillar 2	6,072	3.2	6,537	3.6
Total	21,127	11.2	20,891	11.6

The higher total capital requirement is attributable to the increase of the total risk exposure amount, which affects the pillar 1 capital requirements. However, the pillar 2 capital requirements have decreased both in nominal terms and relative to REA. This is partly due to a change of methods for calculating the addition relating to CVA risk and a reduction of exposures related to a large customer, as well as an increase of REA. As the total REA has increased, the total capital requirement in percentage of REA has decreased. The increase of REA is caused by increased lending to corporate customers and a more conservative approach to credit risk due to mitigation of uncertainty regarding compliance with new requirements for the Advanced Internal Rating-Based modelling approach. The overall development in REA related to credit risk is further described in the Credit Risk chapter.

The pillar 2 add-ons associated with credit risk is composed of a precautionary buffer related to weak and non-performing exposures. Moreover, capital additions are made for concentration risk and uncertainty in the credit models.

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

A capital addition is made to account for the interest rate risk arising from non-trading-related activities. The capital addition constitutes the biggest loss calculated under 9 different interest rate stress scenarios, including both parallel and twist scenarios.

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

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

The pillar 2 requirement of 3.2% is not statutory but institution specific. Jyske Bank estimates that the requirement will remain stable throughout 2022.

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

The Danish countercyclical buffer was re-activated by the authorities in 2021 with effect from Q3 2022. The buffer will effectively increase to 2% by end of 2022 and it is expected that a further increase, to a level of 2.5%, will be suggested in March 2022. 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.

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

TOTAL CAPITAL REQUIREMENT		
%	TCR	CET1
Requirements		
Pillar 1	8.0	4.5
Pillar 2	3.2	1.8
Systemic risk buffer	1.5	1.5
Capital conservation buffer	2.5	2.5
Countercyclical buffer	0.0	0.0
Total	15.2	10.3
Current level	22.8	18.2

Group recovery plan

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

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

The recovery options can be divided into three different types:

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

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

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

Stress test

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

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

Scenarios

The stress test analyses rest on various macroeconomic scenarios. As a standard, a scenario of the expected development as well a stress scenario (used for long term capital planning), is analysed every quarter. In the past years, an additional number of COVID-19 related scenarios, have been implemented to analyse the impact of the current economic challenges. Scenarios focusing on climate change and increasing interest rates has also been analysed over the past few years.

When defining the stress scenarios, special consideration is given to areas where the group or its subsidiaries are particularly exposed or have exposure deemed to be of high risk and importance for the Group. The severity of the scenarios is on par with or more profound than the stress scenarios applied by the Danish FSA in the yearly stress testing of Danish banks. Selected examples of the applied scenarios appear below.

Processes and models

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

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

Processing of results

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

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

APPLIED SCENARIOS	2022– 2024
Base scenario	The Base scenario describes the most likely scenario for the Danish economy. The projections are made by Jyske Banks macroeconomic experts, based on the current state of the economy. In the current base scenario, the Danish economy is expected to be in a boom in coming years with low and further decreasing unemployment. Interest rates are expected to remain low. Housing prices are expected to stabilize after seeing significant increases in 2021.
Stress scenario	The stress scenario illustrates a situation, where the economy will stay on course in the first half of 2022 followed by a recession beginning in the second half of 2022 that will impact the coming years. Investments are expected to decrease, due to declining consumer and investment confidence. Hereto, foreign demand will decline, affecting employment negatively. The lower investment level (also in terms of Real Estate), combined with the higher unemployment, will disrupt the housing market and lead to falling prices. This will in turn pressure the interest rates, which will be slightly lower than the level implied by the base scenario. The scenario is comparable to a harsh recession.

DEVELOPMENT IN KEY MACROECONOMIC VARIABLES (DENMARK)	Base scenario			Stress scenario		
	2022	2023	2024	2022	2023	2024
GDP %	3.2%	1.7%	1.2%	2.2%	-5.4%	0.0%
Personal consumption %	5.0%	2.1%	1.6%	4.9%	-8.9%	-3.3%
Unemployment rate (gross)	2.4%	2.1%	2.0%	3.0%	6.0%	9.3%
House prices	2.1%	0.7%	0.0%	-0.2%	-20.7%	-5.6%
Money-market rate (average for the year)	-0.31%	-0.26%	-0.13%	-0.31%	-0.26%	-0.13%
Bond yield (average for the year)	0.13%	0.25%	0.65%	0.13%	0.25%	0.65%

External stress tests

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

The Group participates in external stress testing exercises facilitated by the Danish FSA as well as by the EBA and IMF. The Danish FSA conducts annual macroeconomic stress testing exercises, and a large EBA stress testing exercise is conducted at least every second year. However, due to the pandemic, the large EBA stress test, which were originally scheduled to take place in 2020 was conducted in 2021 instead.

MREL

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

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

As of beginning of 2022, the MREL is the higher of

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

The MREL requirement should primarily be fulfilled with senior non-preferred debt (NPS). The implementation of BRRD II allows for 4% of senior debt (equal to the size of the combined buffer requirement) to continue to count as eligible liabilities and fulfil the MREL requirement. Jyske Bank fulfils the MREL requirement by end 2021 and has done so since the introduction of the requirement and that with a substantial margin.

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

Future legislation

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

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

CRD VI/CRR III is the draft set of rules that implements the Basel III recommendations in Europe. The general purpose of CRR was to strengthen the capital structure of the European financial institutions and to ensure a level playing field among European financial institutions.

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

Overall, the phasing-in of Basel IV/CRR III/CRD VI from 2025 will result in increasing REA under pillar 1, and presumably to some extent offset by decreasing pillar 2 risk. These effects are included in the capital planning of the group.

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

EU legislation has introduced rules regarding minimum coverage of loses for non-performing exposures (NPL backstop). The new legislation is implemented, but merely encompasses new exposures from post 26 April 2019, and currently has an effect on pillar 2. The legislation requires institutions to compute a minimum coverage of loss for every non-performing exposure. This is to be compared with the sum of impairments and other reductions in the capital requirement related to the exposure concerned.

Credit risk

- In 2021, impairment levels are affected by the COVID 19 pandemic. Only a slight increase of credit risk has been observed on individual customers. The effect of COVID-19 is expected to be more profound in 2022.

- The risk weighted assets increased. This development is the result of 2 drivers:
    - Increased lending to corporate customers
    - A more conservative approach to credit risk due to mitigation of uncertainty regarding compliance with new requirements for the Advanced Internal Rating-Based modelling approach.

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

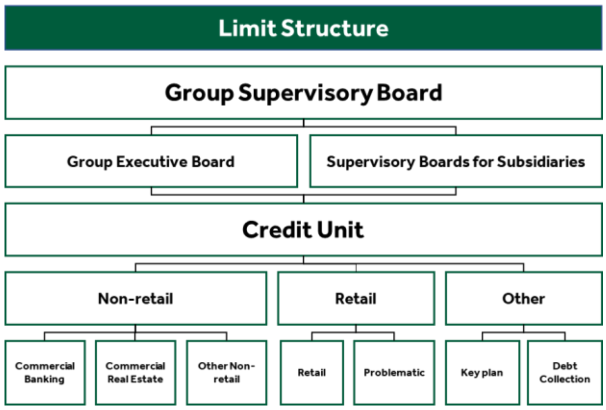
Credit risk is managed through Jyske Bank's credit policy with the objective to keep group risk at an acceptable level in relation to the capital base and business volume of the Group, given the general trend in the Danish economy. Client transactions with the Group must generate a satisfactory long-term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

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

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

Limits and authorisation

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



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

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

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

The credit process and monitoring

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

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

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

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

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

Large exposures
Large exposures are monitored on a regular basis in accordance with CRR, including exposures larger than 10% of the Group's capital base. At end-2021, 2 exposures exceeded 10% of Tier1. Four exposures amounted to between 5% and 7.5% of Tier1, and 3 exposures were between 7.5% and 10% of Tier1.

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

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

The credit-risk models are enhanced on an ongoing basis with a view to be compliant with the forthcoming regulatory requirements, first and foremost the EBA IRB Repair Programme.

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

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

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

At Jyske Realkredit, the PD is translated into 9 rating classes, where rating class 9 designates clients in default. Work is undergoing to harmonise credit-rating models and the amounts of rating classes in the Group. The subsequent table shows the mapping between credit ratings, PD and external ratings at end-2021.

INTERNAL RATINGS AND PD BAND

JB Credit rating	JR Credit rating	PD band (%)	External rating equivalence
1		0.00 - 0.10	Aaa-A3
2	1	0.10 - 0.15	Baa1
3		0.15 - 0.22	Baa2
4		0.22 - 0.33	Baa3
5	2	0.33 - 0.48	Ba1
6		0.48 - 0.70	Ba2
7	3	0.70 - 1.02	Ba3
8		1.02 - 1.48	B1
9	4	1.48 - 2.15	
10	5	2.15 - 3.13	B2
11		3.13 - 4.59	B3
12	6	4.59 - 6.79	Caa1
13		6.79 - 10.21	Caa2
14	7 and 8	10.21 - 25.0	Caa3- C

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

The Group's internal credit ratings and the mapped Jyske Realkredit credit ratings aim to assess the credit risk in a one-year perspective, while external ratings (Aaa - C) aim to assess the credit risk in a longer perspective. The mapping between the internal credit ratings, Jyske Realkredit credit rating and the external credit ratings is based on the currently observed default frequency for companies rated by

IRB PD models by exposure class and business unit

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

Note: Based on number of calibration segments.

Jyske Realkredit and Moody's. The mapping between Jyske Bank credit rating, Jyske Realkredit credit rating, and external credit rating is therefore dynamic. Observations are made on at least a quarterly basis to determine the adequacy of the mapping.
If the credit rating calculated by the model is inadequate, independent credit experts may review the credit rating of corporate clients at the request of the relevant relationship manager.

Credit exposure

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

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

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

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

Collateral

With the objective of limiting credit risk, the need to demand collateral will be considered for each exposure on its merits. As a main rule, clients are required to provide full or partial collateral for their exposures. The Group's mortgage loans are always secured by

mortgages on immovable property, and in a number of cases, guarantees are provided by third parties in connection with cooperation with other financial institutions. In connection with loans for social housing, guarantees are provided by municipalities and the government.
Collateral received is a main element of the Group's assessment of Loss Given Default (LGD). LGD is the part of the Group's total exposure to a client which the Group expects to lose in the event of the client defaulting within the next twelve months. A client's LGD depends on specific factors concerning the client, but also on the commitment and the collateral provided. Overall, LGD also depends on Jyske Bank's ability to collect receivables and liquidate collateral.

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

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

Overall development in exposures and REA

The Group's risk-weighted exposure amount (REA) for credit risk increased 2% during 2021. Exposures treated under the AIRB approach increased by 4% and exposures under the standardised approach decreased by 10%.

Overall, the exposures decreased by 1%. Exposures to corporate customers increased DKK 26 bn in 2021, while repo exposures and government exposures were reduced significantly over the year. The latter of the two has no/low risk weight exposures, which is the reason for exposures and REA moving in opposing directions. This also has a significant impact on the average risk weight for the whole portfolio.

New regulatory rules regarding derivatives (SA-CCR) came into force by Q2-21 in isolation increasing exposures by approximately DKK 3.5 bn due to changes in the calculation methods. This is described further in the counterparty credit risk section.

EAD AND RISK-WEIGHTED EXPOSURE FOR CREDIT RISK

DKKm	2021	2020	Change
EAD	697,854	704,428	-1%
REA for credit risk	156,175	152,751	2%

Note: The risk-weighted exposure amount does not include CVA risk, which at end-2021 amounted to DKK 1,632m compared to DKK 921m at end-2020. Neither does the risk-weighted exposure amount include the more conservative approach to credit risk due to mitigation of uncertainty regarding compliance with new requirements for the Advanced Internal Rating-Based modelling approach. At end-2021 this reservation amounted to DKK 5328m compared to DKK 780m at end-2020

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 risk weighted exposure decreased by 10%. This decrease was primarily the result of the following factors:

- The risk weighted exposure amounts decreased in the exposure classes: covered bonds, corporates, secured on real estate, due to decreased exposures by DKK 3.2 bn.
- The risk weighted exposure amounts have decreased despite increased exposures for the exposure classes Institutions and equity. With regards to Equity this is due to a shift in exposure towards better ratings. For institutions it is due to an increase in repo transactions with a high collateralisation.

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

The Group's average risk weight on the standardised approach increased from 7.5% to 8.4% in 2021, which primarily relates to a decrease in exposures in the exposure classes: Sovereign and Regional governments and local authorities with a risk-weight of 0.

BREAKDOWN OF COLLATERAL BY EXPOSURE TYPE ACCORDING TO THE STANDARDISED APPROACH				
DKKm	Exposure	Financial collateral	REA 2021	REA 2020
Central governments or central banks	33,950	1	2	3
Regional governments or local authorities	18,894	6,342	-	-
Public sector entities	140	84	11	30
Multilateral development banks	8,739	7,626	-	-
International organisations	-	-	-	-
Institutions	14,058	4,318	2,412	2,785
Corporates	978	187	549	1,243
Retail	706	242	274	80
Secured by mortgages on immovable property	584	-	190	266
In default	1,354	23	794	817
Exposures associated with particularly high risk	124	2	183	0
Institutions with a short-term credit assessment	-	-	-	-
Covered bonds	50,948	-	5,095	5,320
Equity	1,650	-	1,650	1,845
Other	16	15	1	-
Total 2021	132,141	18,841	11,161	
Total 2020	156,744	33,453		12,388

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

Breakdown of development for AIRB approach

Exposures treated on the AIRB approach increased by DKK 18bn during 2021, while REA increased DKK 4.8bn. Increased banking activities with corporate clients account for this development whereas exposures to retail clients decreased during the year.

The underlying developments of AIRB treated exposures are described below:

- Over the year exposures to corporate customers have increased by DKK 6bn in the banking part of the Group, which relates to all product types except repos.
- The previous setup regarding SME reclassification has been too conservative. A more regulatory aligned approach has been implemented during 2021. As a result, more customers are eligible for SME and SME-Retail treatment.
- Adjusted treatment of defaulted customers to ensure a closer regulatory alignment increased REA with DKK 3.2bn.
- As future regulatory requirements regarding the use of VaR approaches will increase significally, the handling of financial collaterals has been changed, so that the regulatory FCCM method is now used. This change of method reduced the collateral value with DKK 2bn.
- Previously, non-EBA-compliant use of own CCF factors has been handled as a pillar 2 requirement by agreement with the Danish FSA. During 2021 a proper pillar 1 solution have been implemented. The effect of this is an increase in EaD of approximately DKK 7bn. The REA effect corresponds to the previous pillar 2 requirement.
- Decrease in repo exposure in the corporate exposure class of DKK 7.3bn. led to a decrease in the financial collaterals received by DKK 7.7bn. The risk weighted exposure amount did not change significantly because of the high collateralisation level of repo exposures.

The overall REA for the AIRB portfolio increased by DKK 4.8bn during 2021, which relates to the developments described for corporate clients, whereas for retail clients REA decreased by DKK 0.7bn. This was the result of decreasing exposures in Jyske Realkredit, which was not covered by the increase in the banking part.

The Group's average risk weight according to the AIRB approach increased from 24.8% to 24.9% during 2021.

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 2021	REA 2020
Corporates, total	330,514	185,758	49,810	8,186	-	2,731	95,038	89,458
Large corporate clients	227,333	128,327	39,250	2,688	-	1,394	62,159	*64,800*
Specialised lending	296	156	0	-	-	-	74	*213*
SME corporates	102,884	57,276	10,560	5,498	-	1,337	32,805	*24,445*
Retail, total	222,485	185,547	1.946	8,017	-	682	42,637	43,375
Real property, personal	179,199	176,931	72	110	-	-	31,514	*33,461*
Real property, SMEs	9,703	8,616	75	29	-	-	1,597	*4,376*
Other retail, personal	18,271	-	660	5,205	-	36	4,755	*4,014*
Other retail, SMEs	15,313	-	1.139	2,672	-	646	4,771	*1,523*
Total 2021	552,999	371,305	51,757	16,202	-	3,413	137,674	
Total 2020	534,955	368,823	60,423	14,101	9	3,051		132,833

Note: The table does not include securitisations (REA: DKK 1,382m); and other non-credit-obligation assets (REA: DKK 6,378m).

Loan impairment charges and provisions for guarantees

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

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

Risk classifications

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

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

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

Impairment calculations

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

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

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

- An increase in PD for the expected residual maturity of the financial asset of 100% and an increase of 12-month PD of 0.5 percentage point when the 12-month PD at initial recognition was below 1.0%.
- An increase in PD for the expected residual maturity of the financial asset of 100% or an increase of 12-month PD of 2.0 percentage points when the 12-month PD at initial recognition was 1.0% or more.
- The loan is in 30 days past due or more.
- The Group's risk assessment (risk classification), which is based on, among other things, assessment of the client's ability and willingness to comply with his payment obligations, breach of contract/covenants and/or changes in the initial conditions for the client relationship.

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

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

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

Trend in loan impairment charges and provisions for guarantees

The total balance of loan impairment charges and provisions for guarantees amounted to DKK 5.4bn at end-2021 (2020: DKK 5.8bn). The discount balance from acquired assets at end-2021 amounts to DKK 108m against DKK 145m at end-2020. Hence, the total balance of impairment charges and provisions inclusive of discount, amounts to DKK 5.6bn (2020: DKK 6.0bn).

Provisions for financial instruments are recognised in the item value adjustments, and as the negative market value of financial instruments is included in the statement of EAD, the balance of these value adjustments is also shown in the table below. At end-2021, the balance of value adjustments amounted to DKK 58m (2020: DKK 78m).

IMPAIRMENT CHARGES AND PROVISIONS FOR GUARANTEES

DKKm	2021	2020
Balance of impairment charges for loans and advances	4,815	5,210
Balance of provisions for guarantees and liabilities	638	566
Balance of loan-impairment charges and provisions for guarantees	5,453	5,776
Balance of discounts	108	145
Balance of loan-impairment charges and provisions for guarantees incl. balance of discounts	5,561	5,921
Balance of value adjustments	58	78
Balance of loan-impairment charges and provisions for guarantees incl. balance of discounts and balance of value adjustments	5,619	5,999

In 2021, the development in loan-impairment charges and provisions for guarantees amounted to DKK -184m (2020: DKK 1,022m), and Jyske Bank recognised as interest income DKK -34m (2020: DKK -52m) from the discount balance. Hence, the total net effect recognised in the income statement came to DKK -218m (2020: DKK 969m).

The effect from value adjustments on financial instruments came to DKK -20m in 2021 (2020: DKK -24m).

NET EFFECT FROM IMPAIRMENT CHARGES, ETC.

DKKm	2021	2020
Loan-impairment charges and provisions for the year	-150	1,020
Recognised as a loss, not covered by loan-impairment charges/provisions	92	201
Recoveries	-126	-199
Loan-impairment charges and provisions for guarantees	-184	1,022
Recognised discount for assets taken over	-34	-52
Net effect on income statement	-218	969
Value adjustments for financial instruments	-20	-24
Net effect on income statement, inclusive of value adjustments	-239	944

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	6,565	955	-	-	12	-4
Construction	7,903	1,003	134	11	112	-26
Energy supply	12,805	216	18	-	50	-1
Real property	163,286	5,473	2,592	25	1,340	-24
Finance and insurance	106,049	1,117	658	274	527	-85
Manufacturing, mining, etc.	12,677	1,519	843	1	445	80
Commerce	13,587	2,292	329	7	334	13
Information and communication	1,380	53	223	0	152	-79
Agriculture, hunting, forestry and fishing	10,138	779	487	1	398	-177
Transport, hotels and restaurants	7,135	884	234	7	151	-48
Public authorities	16,805	19	-	-	1	0
Other sectors	17,663	1,426	185	5	223	-4
Personal clients	198,783	10,179	3,190	824	1,873	116
Total 2021	574,775	25,916	8,893	1,155	5,619	-239
Total 2020	568,677	21,077	8,931	2,994	5,999	944

EAD for past-due exposures amounted to DKK 1,155m end-2021 (2,994 end-2020). The level has decreased as a result of the implementation of new default guidelines early-2021, which have introduced new arrear-limits and also led to an increased focus on arrears in the business units of Jyske Bank Group. In addition, the Danish economy has generally shown positive rates in 2021 and a part of the Jyske Bank Group's corporate customers have obtained liquidity support via the government COVID-19 help-packages. Overall, this has led to a lower level of arrears. Alignment of the definitions of credit impairment and default from early 2021 implies that the full amount of past-due exposures is impaired.

Impairment levels are in 2020-2021 affected by the COVID-19 pandemic. Higher levels of defaults have not yet been observed in the portfolio but is expected to increase in 2022. The expectation of an increase in default levels has led to an increase in impairment charges. The Annual Report provides more detailed information in note 67.

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

The balance of impairment charges for Agriculture, hunting, forestry, and fishing as a percentage of total EAD is declining and amounted to 3.5% at end-2021 (5.9% end-2020).
The balance of impairment charges for real property as a percentage of total EAD amounted to 0.8% at end-2021, which is the same level compared to 2020.

The balance of impairment charges for personal clients as a percentage of total EAD is continuously low and amounted to 0.9% at end-2021.

Re-estimation and validation of models

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

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

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

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

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

Counterparty credit risk

- The Groups overall non-CCP exposure has decreased during 2021, primarily due to increase in interest rates and FX rate fluctuations.
- The transition to new regulatory requirements for own funds on counterparty credit risk, SA-CCR, gave rise to an increase in counterparty exposure of approximately DKK 3.5bn, compared to the old method at the time of the transition.

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

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

Policy and management

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

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

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

Risk reduction

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

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

- Clearing through a Central Counterparty (CCP)
- Requiring master netting agreements, which gives the Group the right to net market values of derivative trades in case 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 2021, over 90% was covered by netting and collateral agreements.

OTC DERIVATIVES - NOTIONAL AMOUNT		
DKKm	2021	2020
CCP	1,040,761	1,077,171
Non-CCP	1,158,695	1,173,907
- Collateralized	*1,055,349*	*1,085,348*
- Non-collateralized	*100,345*	*88,559*
Total	2,198,506	2,251,078

From September 2021 the Group was obliged to fulfil the EMIR requirements on Initial Margin for non-cleared derivatives. It is the Group's expectation, that they will be exempted by the Initial Margin Threshold of EUR 50m, and therefore the Group has entered into Threshold Monitor agreements with its financial counterparties.

Risk Profile

Jyske Bank measures counterparty credit risk in terms of the market value of a portfolio with a given counterparty, taking into account any allowed netting and collateral exchanged with the counterparty. The table below shows the Group's exposure at end-2021 for counterparties except CCPs.

COUNTERPARTY CREDIT RISK EXPOSURE		
DKKm	2021	2020
Gross exposure	24,980	31,900
Effect of netting	16,400	22,649
Exposure after netting	8,580	9,251
Effect of collateral	3,723	2,952
Exposure after netting and collateral	4,857	6,298

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

Agreements on collateral with financial counterparties and large corporate clients are mutual agreements, which means that Jyske Bank must pay margin for the counterparty if the market value in favour of the counterparty exceeds an agreed limit. At end-2021 roughly half of the Groups collateral holdings consisted of cash, the other half was composed by securities in the form of government bonds issued in Denmark, the United States, Germany and France and Danish mortgage bonds.

Wrong Way Risk

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

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

Own funds requirements

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

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

Mid-2021 Jyske Bank Group implemented new standard requirements under CRRII, SA-CCR, which led to an increase in EAD of approximately DKK 3.5bn, due to the following changes in the calculation method:

- Alpha factor (1.4) applied to all exposures
- Increased risk weights for short dated FX and interest rate positions
- Additional FX risk on commodity trades

Market risk

- Market-risk exposure from trading-related activities was primarily driven by client flow and was in general kept at a moderate level in 2021. Credit spreads on Danish callable mortgage bonds have been volatile through the year, affecting trading activities.
- The negative interest rates continued to dominate the banking book interest-rate risk management. The negative interest-rate risk from deposits was further reduced in 2021 through lower boundaries for when paying negative interest rates, and the hedge on the remaining negative interest-rate from deposits was increased.

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

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

Governance and responsibility

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

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

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

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

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

Monitoring and reporting

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

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

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

Market risk management

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

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

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

Non-trading-related market-risk exposure arises from asset and liability management and is placed in the banking book. The exposure originates from exposure to interest-rate risk founded in core banking and mortgage-lending activities as well as funding and liquidity management. In addition, the Group holds a portfolio of shares not held for trading, which is primarily relating to the ordinary operating activity of the Group.

Developments in market risk

The market risk exposure from the trading related activities is in large driven by market-making activities related to Danish mortgage bonds, Nordic FX and investment funds. The FX risk is concentrated in EUR and a diversified portfolio of investment funds drove the equity risk. The Group has only a minor portfolio of single shares. The credit spreads on danish callable mortgage bonds have been volatile through the year. Narrowed credit spreads decreased the demand for the bonds in the beginning of the year. The demand for the bonds was increased in the last quarter of the year as spreads widened. With interest rates increasing in the 5-20-year segment the prepayment levels and hence reinvestments have furthermore been low.

Management of the market-risk profile related to asset and liability management continued to focus on negative interest rates and reducing the negative impact from the core business. The negative interest-rate risk from deposits was further reduced in 2021 and the partial hedge of the remaining risk was increased.

Own funds requirements for market risk

During 2021, REA from market risk increased by DKK 429m to DKK 10.7bn. Risk from debt instruments and Groups' equity portfolio is increased during 2021, whereas the market risk from foreign exchange risk is reduced marginally.

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

OWN FUNDS REQUIREMENT FOR MARKET RISK

DKKm	2021		2020	
Risk type	REA	OFR*	REA	OFR*
Debt instruments	8,008	641	7,637	611
Equity	2,208	177	2,002	160
Commodity	-	-	-	-
Foreign exchange	506	41	655	52
Total	10,723	858	10,294	824

Note: OFR = Own funds requirements

Methodologies

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

Interest-rate risk

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

Interest-rate risk is calculated on contractual cash flows. Jyske Bank has not fixed-rate balances without an agreed due date. Certain loans are fixed-rate loans and can be prepaid. Jyske Bank has developed a risk-management model that adjusts the key-risk figures for mortgage bonds for the built-in option element of the bonds. Therefore, callable mortgage bonds are included in the interest-rate risk with the option-adjusted duration.

Interest-rate risk in the banking book

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

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

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

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

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

INTEREST-RATE RISK IN THE BANKING BOOK

DKKm	2021		2020	
	+50bp	-50bp	+50bp	-50bp
DKK	208	-194	506	-252
EUR	121	-114	71	-68
Other	-7	7	1	-1
Total	322	-301	578	-321

A sudden parallel increase in interest rates would positively impact the Group's economic value from the banking-book positions, whereas decreases in interest rates reduce the economic value.

The sensitivity to falling interest rates decreased from DKK -321 million in 2020 to DKK -301 million in 2021. Rates on non-maturing deposits have been of highest attention in the Group since 2018, leading the Group to implement negative interest rates for private clients during the following years. This is the primary reason for the decrease in the sensitivity to falling interest rates. Secondly, the hedge has been marginally increased.

Foreign-exchange risk

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

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

Equity risk

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

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

Equity exposure not included in the trading portfolio is primarily financial-sector shares relating to the ordinary operating activity of the Group. New investments during 2021 increases the holding marginally.

SHARES NOT HELD FOR TRADING

DKKm	2021	2020	Unrealised gain	Realised gain
Total	1,543	1,466	161	32

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

Commodity risk

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

Credit-risk exposure

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

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

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

Securitisations

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

- RMBS primarily consisting of AAA-rated senior tranches.
- CLOs consisting only of AAA.

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

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

The level of the underlying market and credit risks in securitisations is monitored continuously and is analysed at least every quarter. The analyses are based on trustee reports and information from rating agencies or other external sources. The securitisation types and the geographical exposure of the underlying assets of the portfolio are depicted in the table below.

EXPOSURE TYPES FOR SECURITISATIONS					
DKKm	European	American	Other	Total 2021	Total 2020
RMBS	136	-	-	136	186
CLO	4,335	2,284	-	6,620	6,365
ABS	-	1	-	1	1
Total 2021	4,472	2,285	-	6,756	6,552
Total 2020	3,938	2,614	-	6,552	

The Group increased the portfolio of securitizations slightly during 2021. All new investments in CLO have an AAA-rating and senior status in accordance with the Market Risk Policy. In the table below, the current investments are broken down by the current rating.

BREAKDOWN OF RATINGS (Standard & Poor's / Moody's)		
DKKm	2021	2020
AAA / Aaa	6,620	6,366
AA / Aa	109	185
A /A	11	1
BBB / Baa	0	-
BB/Ba	-	-
Lower or no rating	-	-
Total	6,756	6,552

Own funds requirements for securitisations
Jyske Bank applies the external ratings-based approach (SEC-ERBA) for the calculation of the own funds requirements. The requirements for securitisations were slightly higher in 2021 in line with the increased exposure taken during the year.

OWN FUNDS REQUIREMENT FOR SECURITISATIONS				
DKKm	2021		2020	
Risk weight - ranges	Exposure	OFR*	Exposure	OFR*
≤ 20%	6,620	106	6,366	102
> 20% ≤ 50%	136	5	185	6
> 50% ≤ 100%	17	0	1	-
> 100% < 1,250%	-	-	-	-
1,250% / deduction	-	-	-	-
Total	6,756	111	6,552	108
Of which in the trading portfolio	-	-	-	-

Note: OFR = Own funds requirements

Liquidity risk

- During 2021, the Group maintained a very high degree of excess coverage in terms of the stress-based internally delegated limits and guidelines.
- For the regulatory liquidity measures LCR and NSFR the Group also maintained a high excess coverage to both internal delegated limits and to a very high extend the regulatory limits.
- During 2021, the Group took advantage of the constructive market conditions to issue five public bonds in all asset classes from EUR covered to AT1 capital at attractive credit spreads.

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

Objective and overall setup

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

Organisation, management, and monitoring

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

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

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

The Group's responsibility for issuing bonds in the capital market is centralised at Group Treasury. As a mortgage-credit institution, Jyske Realkredit must comply with mandatory over-collateralization within the scope of the privileged position of covered bond investors in a bankruptcy scenario. In a scenario with declining real estate prices, Jyske Realkredit may need to have liquidity injected into its capital centres from Jyske Bank to fund supplementary collateral and to ensure the capital centre's compliance with S&P's OC requirements.

Short-term liquidity management

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

Strategic liquidity management

Strategic liquidity is managed by Group Treasury. Measurement of the Group's liquidity position in various stress scenarios is a cornerstone in managing the Groups strategic liquidity risk profile. The asset side of the liquidity balance is broken down and grouped in order of liquidity whereas the financial liabilities are grouped according to expected run-off risk in various scenarios. In the three current relevant stress scenarios, the Group's liquidity buffer is used to cover negative payment gaps. In addition to the survival horizon in these stress scenarios, the Group's compliance with the LCR ratio in stress scenarios is monitored. Three scenarios are used: an idiosyncratic scenario, a capital market/recession scenario and a combination scenario.

For more detailed information on the stress scenarios used, see the Group's Annual Report 2021.

Liquidity contingency plan

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

During 2021, Jyske Bank had a very high degree of excess coverage in terms of the stress-based internally delegated limits and guidelines.

Group funding structure

The Group's largest funding source is covered bonds and mortgage bonds issued by Jyske Realkredit which according to the balance principle of the Danish mortgage legislation fund Jyske Realkredits mortgage loans. Total covered bonds and mortgage bonds amounted to DKK 340 bn corresponding to 53% of the balance sheet at the end of 2021. The Group's second largest source of funding is customer deposits representing DKK 117 bn (18 % of the balance sheet). The deposit base is granular and well-diversified reflecting a broad client base of private customers as well as small and medium-sized companies. Other important funding sources are primarily short- and long-term bonds issued in the international capital markets. In addition, Jyske Markets funds its own wholesale-related activities by taking up unsecured as well as secured loans in the wholesale fixed-term and interbank markets. Continuous activity in the above-mentioned markets enhances the possibility of refinancing short-term positions and is a natural part of the business of Jyske Markets.

The Group's liquidity buffer

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

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

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

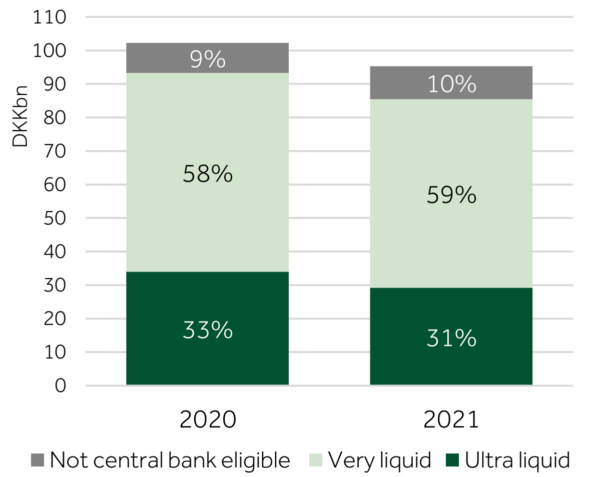
2) Very liquid assets (central bank eligible)
   Assets eligible for borrowing transactions in the Danish central bank or the ECB: Danish government-, mortgage-, and covered bonds, as well as European covered bonds, residential mortgage-backed securities (RMBS) and government bonds.

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

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

At end-2021, the Group's liquidity buffer amounted to DKK 95bn compared to DKK 102bn end-2020.

Development in the Group liquidity buffer



As reflected in the above chart the reserve consists mainly of ultra-liquid or very liquid assets such as central bank deposits and Danish mortgage bonds and covered bonds. End of 2021 DKK 85 bn of the buffer was eligible at either the Danish Central Bank or the ECB.

Capital markets & issuance activity

Contrary to 2020, credit spreads remained low and overall stable during 2021, and risk sentiment was supportive for new issues for most of the year. COVID-19 was only a minor sentiment driver. The main theme for 2021 quickly became inflation, and rising interest rates.

As reflected in the chart below the 4th quarter of 2021 saw increased volatility.

Development in credit spreads 2020-2021

Main drivers were uncertainty about the economic recovery, fear of inflation not being only transitory, continued supply chain challenges and short-term nervousness around the new COVID-19 mutation Omikron. Combined with Central Banks announcements to end or reduce their massive asset purchase programs and tighten monetary policy faster than anticipated, market volatility increased, and interest rates rose towards the end of the year

The Jyske Bank Group took advantage of the attractive market conditions during 2021, to issue a total of five public benchmark transactions, incl. of the first double tranche Nordic Tier 2 and an inaugural green bond. An overview of the transactions is provided in the table below:

	Maturity/call date	Credit spread
EUR 500m covered bond (value 20.01.2021)	01.10.2027	3M CIBOR -10 bp
NOK 1bn Tier 2 (value 24.03.2021)	26.03.2031 (call 2026)	3M CIBOR + 100 bp
SEK 1bn Tier 2 (value 24.03.2021)	26.03.2031 (call 2026)	3M CIBOR + 100 bp
EUR 200 mio. AT1 (value 04.06.2021)	Uendelig (call 2028)	3M CIBOR + 350 bp
EUR 500m NPS (green bond) (value 02.09.2021)	02.09.2026 (call 2025)	3M CIBOR + 30 bp
EUR 500m PS (value 17.11.2021)	17.02.2028 (call 2027)	3M CIBOR +25 bp

At end-2021, senior unsecured debt amounted to DKK 24.1bn (EUR 3.2bn) against DKK 25bn (EUR 3.4 bn) at end-2020. Outstanding CRDIV compliant issues of subordinated Tier 2 notes and AT1 capital amounted to respectively DKK 5.2 bn (EUR 0.6 bn) and DKK 3.3bn (EUR 0.4bn) end of 2021 compared to DKK 4.7bn (EUR 0.6bn) and DKK 3.3bn (EUR 0.4bn) end of 2020.

At end-2021, outstanding bonds under the CP programme amounted to DKK 51 bn (EUR 6.8 bn) compared to DKK 42 bn (EUR 5.6 bn) end-2020.

Group refinancing risk

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

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

Refinancing risk covered bonds

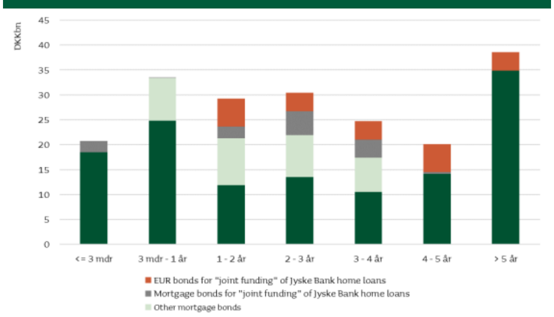
Through Jyske Realkredit the Group is a major issuer in the Danish market for SDOs and has a high dependency on secured capital-market funding on a covered bond basis.

Jyske Realkredits outstanding volume of covered bonds and mortgage bonds decreased from DKK 346 bn at end-2020 to DKK 344bn at end-2021 despite an increase in mortgage lending during 2021. The reduction in the outstanding volume of covered bonds thus reflects the decreasing bond prices in the Danish covered bond market during 2021.

Overall, the refinancing risk from mortgage activities continued to decline through 2021 as an increasing number of customers still opt for long fixed rate callable mortgages.

Long fixed-rate callable covered bonds have no refinancing risk. The proportion of loans with refinancing risk amounts to DKK 197.3bn and 58% of Jyske Realkredits lending volume. The maturity profile for mortgage loans with refinancing risk, as of end-2021, 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.

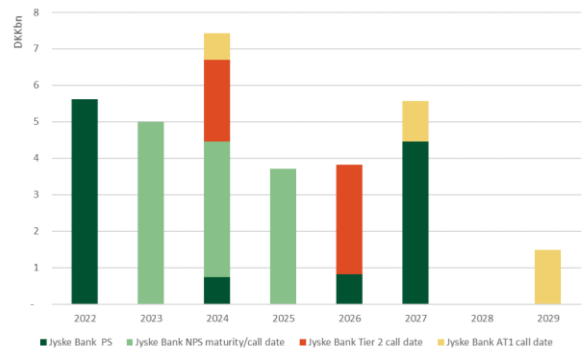
Furthermore, monitoring and assessing the structure and quality of the deposit base is imperative to assess the overall need for longer-dated funding to hedge overall refinancing risk.

The Jyske Bank Group has a high-quality deposit base with a high proportion of small deposits from SMEs and private individuals and "core deposits" represents approximately 71% of bank lending.

The run-off of wholesale fixed-term deposits, interbank deposits, CP and EMTN issues is monitored and managed via the use of stress scenarios to make sure that the Group does not become structurally dependent on these founding sources. In addition, the Group has limitations on the amount of senior debt maturing within a rolling 12- month horizon.

The run-off profile of the Group's preferred and non-preferred senior debt and the issuer call date profile of outstanding capital instruments as of end-2021 is illustrated in the following chart.

Maturity profile/call date profile



Debt buffer requirement at Jyske Realkredit

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

MREL & MREL eligible debt

From 1st of January 2022 the Group requirement that the sum of the Group's capital instruments and bail-inable liabilities must be above 8 % of the Group's total liabilities and own funds (TLOF) comes into force. Due to the reactivation of the countercyclical buffer ("CCyB") at 1 % from 30 September 2022 the 8 % requirement will, however, only temporarily be the binding MREL requirement. On 31 December 2022 the CCyB requirement will be raised further to 2 %. Consequently, as from 4th quarter of 2022, the general MREL requirement consisting of the sum of the MREL requirement for banking activities plus the capital and debt buffer requirement in Jyske Realkredit will again be the binding requirement. Group capital that is utilized towards the mortgage bank's capital and debt buffer requirements is not eligible to count towards the MREL requirement for banking activities.

The subordination requirement for MREL for banking activities has been set by the Danish FSA at 27.3 % of the risk weighted exposure for banking activities until 30 September 2022 where it will increase to 28.3 % due to the reactivation of the CCyB.

Implementation of the amendments to the European Crisis Management Directive (BRRD II), introduced a subordination cap on the MREL requirement (for banking activities). The subordination cap allows Jyske Bank to meet part of the MREL requirement with PS debt. The total MREL requirement for banking activities incl. of the non-subordinated allowance will be respectively 31.3 % and 33.3 % from 1 January 2022 and from 30 September 2022.

To ensure ongoing compliance with statutory requirements, including an internal buffer to statutory requirements, Jyske Bank expects to have approx. DKK 18-20bn MREL eligible debt instruments, of which DKK 4-5bn PS debt and DKK 14-15bn NPS debt outstanding in the market.

Liquidity risk legislation and supervisory diamond

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

As of end-2021, the Group's LCR was 448% compared to 339% as of end-2020. The yearly development in the underlying liquidity buffer and net liquidity outflow is shown in the table below. Furthermore, the composition of the Group's LCR buffer net of haircuts as of end-2021 is shown:

Group LCR 2020-2021	2020	2021
Liquidity buffer	110.6	106.3
Net outflow	32.7	23.7
LCR	339%	448%

Group LCR liquidity buffer 2021		
Asset classes	DKK bn	%
Level 1a	64.1	60.3%
Level 1b	38.2	35.9%
Level 2a+2b	4.0	3.8%
Total	106.3	100%

The minimum target for the LCR is 120% for the Group as well as at bank level.

As a Danish SIFI, Jyske Bank must also comply with a modified LCR requirement in EUR. Jyske Bank is fully compliant with a substantial buffer to the 100% requirement as of end-2021.

The Danish Financial Supervisory Authority introduced a new liquidity ratio in the supervisory diamond at mid-2018. The ratio is a simplified version of LCR. The liquidity reserve has no minimum requirement for the proportion of 1a assets and holdings of own SDOs are included, but the survival horizon is extended to 90 days. At the end of 2021, the Group's ratio was calculated at 188% compared to 169% end of 2020.

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

At Group level, Jyske Bank was fully NSFR-compliant throughout 2021. The Group NSFR as of end-2021 was 138% compared to a pro forma level of 152% at end-2010 (calculated on basis of EU-definition).

Funding plans

During 2022, the issuance of a EUR 500m benchmark bond in NPS format is expected. Depending on the balance sheet development, this issue may be supplemented by further issuance of NPS and/or PS debt.

Asset encumbrance

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

	End of Q4 2021		End of Q4 2020	
	Group	Jyske bank A/S	Group	Jyske bank A/S
Total encumbered assets	416.62	57.54	436.25	75.26
of which: derivatives collateral	24.79	24.73	33.62	33.62
of which: REPO	22.85	32.81	22.24	37.29
of which: Central Bank funding	0.00	0.00	3.26	3.26
of which: SDO-issuance	368.62	0.00	376.51	0.00
of which: other assets	0.00	0.00	0.00	1.09
Total assets	647.12	314.88	672.65	335.40
Encumbrance ratio	64.4%	18.3%	64.9%	22.4%

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

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

As the amounts in the table above suggest[3], the issuance of covered bonds out of Jyske Realkredit is by far the most substantial source of encumbrance. Issuance of covered bonds is a long-term and strategically important instrument to ensure stable and attractive funding.

Credit ratings

The Jyske Bank Group is rated by Standard & Poor's (S&P). Jyske Realkredit has the same rating as Jyske Bank. During 2021 there has been no change to neither Jyske Banks SACP of A- nor the issuer rating of A/A-1. Jyske Bank's stand-alone credit profile ("SACP") has been A- with a stable outlook since 2011.

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

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

The capital requirement to maintain the AAA rating for Jyske Realkredit's capital centres is assessed continuously by S&P, among other things, based on Jyske Realkredit's issuer rating as well as the growth and composition of the loan portfolio at the capital centres. At end-2021, the *overcollateralization* requirement from S&P totalled DKK 8.2 bn against DKK 8.4bn at end-2020.

Standard & Poor's ratings

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

Operational risk

- The operational risk exposure at the Jyske Bank Group has throughout 2021 remained at a stable and acceptable level.
- Control environments are generally sound as indicated by a continuation of small operational losses.
- The Group recognizes cyber risk among the top operational risks. Throughout 2021, Jyske Bank continued its IT security activities and launched further initiatives to combat cyber threats and improve the overall security of the IT infrastructure.
- Fighting financial crime continues to remain a high priority effort in the Jyske Bank Group. To reduce risks of being abused for illegal purposes, the bank has continuously introduced mitigating measures that go beyond the bank's legal obligations.

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

Policy

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

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

Risk identification and assessment

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

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

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

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

The Operational Risk Function acts as the 2nd line of defence and supports and facilitates the Group's business units throughout the RCSA process as well as challenges and ensures the quality of the work. The Operational Risk Function is centralised, in order to achieve consistency across the Group.

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

Management and monitoring

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

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

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

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

Cyber security

The Group recognizes cyber risk among the top operational risks. Throughout 2021, Jyske Bank continued its IT security activities and launched further initiatives to combat cyber threats and improve the overall security of the IT infrastructure.

Spurred by global and national increases in cyber threat trends, stating cyber threat level at its highest yet, additional investments in cyber defense capabilities at Jyske Bank and main suppliers were given high priority in 2021. Technology adoption of best practice tools and cyber defense methods were initiated to provide further leverage to cyber defense capabilities. This resulted in our Security Operation Centre being awarded the TF CSIRT accreditation 2021 which only a handful of companies hold in Denmark. In 2021 the focus has been on maintaining a high level of proficiency and efficiency among our resources and staying alert and proactive on any movements in the threat landscape.

While the Group sees multiple indicators of attack attempts in day-to-day monitoring and combat of cyber events, it has not seen any sophisticated and directly targeted attempts– proving that the Group is maintaining its strategy well in terms of managing the attack surface. No events have inflicted damage or noticeable impact at Jyske Bank nor its main suppliers. The Group has, however, observed some of its large customers and partners being impacted by events, yet still without cascading impact on Jyske Bank.

The Group has not experienced any material losses stemming from cyber-attacks in 2021. The anticipation is moderate cyber threat activity against Jyske Bank in 2022, though the Group does realize the volatility of cyber threats as well as the motives for pointing out targets.

Focus of the initiatives in 2022 remains on improving the overall security posture, with special focus on leveraging recovery capabilities and raising the efficiency in recovering from cyber impact. Further, the Group anticipates that supply chain risks will increase, and cyber events will occur in 2022. Therefore, focus will be on reducing these risks. The Group realizes that the nature of cyber threats may develop in unknown directions and the fact that it must enhance IT capabilities and train recovery procedures to be as prepared as possible for impact.

Dialogue with the Danish Financial Supervisory Authority (the FSA) concerning completion of specific orders on areas to improve following an IT inspection in 2016, is still ongoing. One significant order on IT Security Management was confirmed closed in 2021 and the remaining orders except for one are under review for closure in H1 2022. The last FSA order will be closed when a new test of the Group's business continuity plan has been completed. The FSA commented in the inspection on the Group's methods and practices for IT security and risk management – not its security operations.

Following this IT inspection, Jyske Bank made an extraordinary add-on to the pillar 2 capital requirement to address the issues pointed out by the FSA. Based on an assessment of the current status and taking into account the significant progress in addressing the FSA orders, the Group has decided to reduce the extraordinary add-on to the pillar 2 capital requirement to roughly half the original amount, applicable from Q4 2021.

Financial crime

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

Jyske Bank runs a high inherent risk of being misused for money laundering purposes and terrorist financing due to the bank's size and business volume. With the aim of strengthening and improving our measures to prevent financial crime, we are continuously analysing our risk exposure within the area.

In 2021, focus has been on several special initiatives, which will continue into 2022:
Over the years, Jyske Bank has reduced the number of foreign clients without a connection to Denmark. The Group is adapting its target group in the Private Banking segment to focus on Danes living abroad. In the future, the Group will not service other clients in Europe unless they have a connection to Denmark. Due to the increased risk of Private Banking

customers as well as foreign customers, a special effort has been launched with the aim of raising customer due diligence on these customer groups.

To ensure that employees are able to identify potentially suspicious behaviour, suspicious transactions and to take appropriate action, training of employees is carried out on an ongoing basis. From 2021 the bank has chosen to develop the AML training in house in order to target the individual needs of the different employee groups to a higher degree. The training program has been launched continuously in 2021.

In December 2020 the bank lowered the ATM withdrawal and deposit limits. This initiative has resulted in a high decrease in the flow of cash in the Bank.

During 2021, monitoring of clients and transactions triggered more than 25,000 alerts. Alerts are handled manually by a centralized team. The team conducts a thorough investigation of the alerts and assesses if the alert gives rise to suspicion and must be reported to the Danish Financial Intelligence Unit (FIU). In 2021 3,335 cases were reported to the FIU.

In 2020, the bank received the Danish Financial Supervisory Authority's report on the inspection of the bank's anti-money laundering transaction monitoring. The report contained two orders, both of which have been resolved. With this, all previous orders are resolved. The bank is continuously under supervision and has also had an inspection in 2021, but has not yet received the report from the Danish FSA.

External fraud continues to pose a threat to the Group and its clients. The nature of external fraud is ever evolving as criminals find inventive ways of trying to stay ahead of the control scheme. Fraud in the form of vishing accounts for the majority of the Group's losses in the external fraud category. The Group is aware of the threat related to this area and acknowledges that improvements in controls are constantly needed to keep losses from fraudulent attempts at bay.

Outsourcing
The Group has throughout 2021 made progress regarding governance and management of risks related to outsourcing.

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

Contracts with the Group's main outsourcing partners, JN Data and Bankdata, have been updated in order to fulfil new regulatory requirements and will be signed in the first quarter of 2022. Furthermore, the Group's outsourcing policy has been updated to meet new regulatory requirements.
The Operational Risk Function works in close collaboration with Group IT Security and the Head of Group Outsourcing to further strengthen identification, assessment and management of risks related to outsourcing in the Group going into 2022.

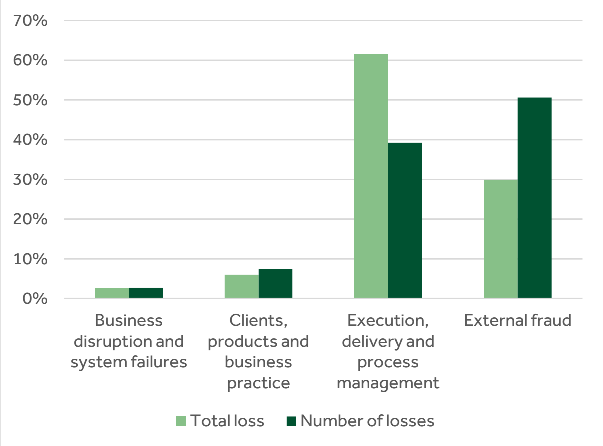
Data protection
The General Data Protection Regulation (GDPR) has received much attention in the Group throughout 2021. Efforts to ensure compliance in relation to the processing of personal data have resulted in significant progress in several areas. Overall operational risks related to the GDPR are acknowledged and well-understood.

The Operational Risk Function works in close collaboration with the Group's Data Protection Officer (DPO) to strengthen the integration of risks related to GDPR into the RCSA-analyses that are carried out throughout the Group. The Group's DPO provides concrete observations to support the identification of GDPR risks before each RCSA-analysis is initiated, as well as contributes to the review and quality-assurance process of the analysis.

Model risk
Model risk constitutes an important and still growing risk type within non-financial risk, due to an increase in digitalization and need for efficient data-driven processes and decisions. The application of models to support decision making may result in risk due to errors in the development, operationalization, and application of models. Model risk is governed by the Group's Model Risk Policy, which defines the Group's framework for managing model risk.

Model owners are responsible for model risk connected to their models, while the Model Risk Management (MRM) function is the Group's second line of defense concerning model risk and is responsible for overseeing model risk. This is done by reviewing the model owners' adherence to the Model Risk Policy and analysing the handling of observations made by the validation unit. The latter is done through the Group's model database. The MRM function reports on the status and development in model risk to among others the Group's Model Risk Management Committee.

BREAKDOWN OF LOSSES



The breakdown of operational losses registered in 2021 by category shows that most incidents are related to external fraud or execution, delivery and process management. These two categories make up 90% of total incidents and 91% of total losses. The costliest category was execution, delivery and process management, accounting for 61% of all losses.

The registration of errors only includes direct losses that are recognised separately, for instance, compensation to clients, loss of means and extra expenses. Therefore, a category such as business disruption and system failures 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-2021, the overall own funds requirement for the Group amounted to DKK 1,144m against DKK 1,174m at end-2020. The decrease in the own funds requirement is primarily due to decreasing net income in the three years covered by the 2021 calculation.

Management declaration

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

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

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

Board declaration

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

Risk Statement

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

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

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

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

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

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

Group Executive Board

Anders Christian Dam	Per Skovhus
Niels Erik Jakobsen	Peter Schleidt

Appendix: Definitions

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

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

Liquidity risk	The risk of Jyske Bank not being able to generate or obtain sufficient liquidity at a reasonable price to meet its payment obligations or ultimately being unable to meet its obligations as they fall due.
Market risk	The risk of loss caused by a change in the market value of the Group's assets and liabilities caused by price changes in the financial markets.
MREL	Minimum requirements for own funds and eligible liabilities.
O-SII	Other systemically important institutions, the systemic importance classification of Jyske Bank.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.
Own funds requirements	The own funds requirement is the amount of capital that the Group must hold to maintain its banking licence. The determination is based on statutory formulas, which prescribe how the total risk exposure must be measured. The own funds requirement is 8% of this.
PD	Probability of Default. The probability of a given client defaulting within the next twelve months.
Pillar 1	The regulatory capital requirement of 8% of the total risk exposure.
Pillar 2	The part of the Group's capital requirements that exceeds the own funds requirements.
RAC	Risk-adjusted capital.
REA	Risk Exposure Amount or Risk-weighted Exposure Amount.
Retail	In relation to the CRD, the 'Retail' category covers personal clients and small- and medium-sized enterprises. The latter must meet certain criteria to rank as retail clients.
Risk category	Jyske Bank's exposures at risk are broken down into three categories: low (1), high (2) and full (3) risk. Risk categories 2 and 3 are termed defaulted. The risk categories are also applied in the Group's set-up for impairment recognition.
Risk-weighted exposure amount	The risk-weighted exposure amount or the risk exposure amount is calculated according to the capital requirements regulation.
RMBS	Residential Mortgage Backed Securities.
SACP	Stand-alone credit profile.
Settlement risk	The risk of loss caused by the non-fulfilment of payment obligations agreed between Jyske Bank and its counterparties.
SDO	CRD-compliant covered bonds. Loans secured against real property.
Supplementary collateral	For loans funded through the issue of covered bonds, supplementary collateral must be provided if LTV exceeds the loan-to-value limit as individual loans must at all times comply with the established loan-to-value limits for the type of real property in question.
Tier 1 capital	The sum of Common Equity Tier 1 capital and additional Tier 1 capital.
Trustee report	A status report from the securitisation's trustee describing the underlying loan portfolio of the securitisation and the development of this to be used by investors, among others.

VaR	Value at Risk expresses the anticipated maximum risk of loss over a given period based on historical price and correlation developments.
NPL backstop	Rules regarding minimum coverage of loses for non-performing exposures. The new legislation is implemented, but merely encompasses new exposures from post 26 April 2019, and currently influences pillar 2.