Gearing and investment guidelines

Jyske Bank Invest Loan

Description of the rules applicable to the gearing and investment of assets placed as security for a Jyske Bank Invest Loan established through

Jyske Bank Private Banking Copenhagen, Denmark

As different types of assets involve different types of risk – credit risk and market risk – Jyske Bank has calculated different collateral values for different types of asset classes. In other words, the higher the risk, the lower the collateral value.

In addition, specific rules apply to rating, the breakdown of investments by amount and sector, as well as to market liquidity. The requirements are set out in the specifications for each asset class below.

The asset classes acceptable to Jyske Bank as security are indicated below together with the matching collateral value. It is, however, a condition that accounts are kept and securities lodged with Jyske Bank.

Jyske Bank calculates the Invest Loan collateral margin on the basis of a system whereby the collateral value is rated green, amber and red.

To illustrate the various degree of risk, the notes below include calculation examples, and a purely hypothetical Invest Loan portfolio has been added to illustrate the calculation of the collateral margin.

These margin rules are composed to be in accordance with Regulation X, Regulation U and the Single Credit Rule

Asset class	**Green collateral value** % of the asset market value	**Amber collateral value** % of the asset market value	**Red collateral value** % of the asset market value
Cash balance [Note 1)]	85	90	95
Bonds [Note 2)]	80	85	95
Equities incl. convertible bonds [Note 3)]	67	75	90
US-securities [Note 4)]	50	65	85
Corporate bonds [Note 5)]	Collateral value similar to that of a bond or equity depending on current rating.		
Emerging Market securities [Note 6)]	50	65	85
Mutual fund certificates [Note 7)]	To be determined separately on the basis of the fund risk profile.		
Structured products [Note 8)]	To be determined separately on the basis of the product risk profile.		

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Invest Loan – calculation of collateral margin

The calculation of the Invest Loan collateral margin is based on the relative risk associated with each of the asset classes placed as security for the loan.

The higher the risk defined by the Bank, the lower the collateral value, i.e. the collateral margin increases compared with the loan value.

The collateral value of low risk assets, on the other hand, is higher, i.e. the collateral margin decreases compared with the loan value.

In the event that the value of the collateral falls below a pre-defined percentage compared with the loan value, the collateral will be rated amber, and the Bank may demand that further collateral be provided.

In the event that the value of the collateral deteriorates even further, the collateral will be rated red, and the Bank shall be entitled to realise the collateral and redeem the loan without notice.

Calculation example

Below is an example of the calculation of green, amber and red collateral values for a purely hypothetical Invest Loan, the collateral of which includes the above-mentioned types of assets.

Asset classes	***Asset market value***	***Green*** *collateral value*		***Amber*** *collateral value*		***Red*** *collateral value*	
		%	*Amount*	*%*	*Amount*	*%*	*Amount*
Cash	*1,000*	*85%*	*850*	*90%*	*900*	*95%*	*950*
Bonds	*1,000*	*80%*	*800*	*85%*	*850*	*95%*	*950*
Equities	*1,000*	*67%*	*670*	*75%*	*750*	*90%*	*900*
US-securities	*1,000*	*50%*	*500*	*65%*	*650*	*85%*	*850*
Emerging market - equity	*1,000*	*50%*	*500*	*65%*	*650*	*85%*	*850*
Emerging Market - bond	*1,000*	*50%*	*500*	*65%*	*650*	*85%*	*850*
Bond fund	*1,000*	*80%*	*800*	*85%*	*850*	*95%*	*950*
Emerging market country fund	*1,000*	*50%*	*500*	*65%*	*650*	*85%*	*850*
	8,000		***5,120***		***5,950***		***7,150***

Equity - (A)	*4,000*
Loan – (B)	*4,000*
Total investment - (A+B)	***8,000***

In the above example, the client's equity capital amounts to 4,000 – cash 1,000 and bond, equities and US-securities totalling 3,000.

On the basis of this collateral, the client borrows 4,000 for further investments. The market value of his total investments now amounts to 8,000.

As long as the market value of the client's loan is below the amber limit (5,950), no further collateral must be provided.

Where the loan market value increases to 5,950, the custodian Bank may be entitled to demand further collateral to be

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applied towards reducing the loan market value to 5,120, corresponding to the green collateral value, or so that the green collateral value of the existing collateral plus the additional collateral make up at least 5,950. Likewise, the market value of the total assets may decline causing the collateral value to decline compared with the loan market value. Where the amber collateral value falls to 4,000, corresponding to the loan market value, the custodian Bank may be entitled to demand further collateral, which may be applied towards reducing the loan market value to the level of the green collateral value or so that the green collateral value of the existing collateral plus the additional collateral make up at least 4,000. The same argument applies to red collateral value. Where the red collateral value falls to 4,000, corresponding to the loan market value, the custodian Bank may without notice be entitled to realise the collateral provided with a view to redeeming the loan.

Notes	
Re 1) - Cash balance	The official currency rating must be at least BBB-/Baa3 as stated by the international rating agencies Standard & Poor's and Moody's. Diversification requirements – currency risk: If the account base currency is rated lower than A-/A3 by the two rating agencies, the balance in said currency shall not exceed the investor's equity capital. Example: An account balance of 100, in a currency rated e.g. BBB/Baa1, is placed as security for an Invest Loan of 400. The total amount for investment including the account balance then amounts to 500; the equity capital is 100. According to the above requirement, the account balance shall not account for more than 100 of the total investment.

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<td>Re 2) –
Bonds</td>
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Diversification requirement – credit risk: If the bond issue is rated higher or equal to A-/A3 by the international rating agencies Standard & Poor's or Moody's, the credit risk on the bond issuer need not be diversified. In other words, the total amount may be invested in a single bond. If, on the other hand, the bond issuer is rated below A-/A3 but at least BBB-/Baa3, an investment in this particular issue shall not account for more than the investor's equity capital.

Diversification requirements – currency risk: If the above-mentioned bond issue is denominated in a currency which is rated lower than A-/A3 but at least BBB-/Baa3 by the two rating agencies, it shall not account for more than the investor's equity capital.

Example: Diversification is required in terms of currency in connection with a bond issue with a A-/A3 credit rating denominated in a currency rated e.g. BBB+/Baa1. In that case, the investment shall not account for more than the investor's equity capital.

<table>
<tr><td>Equity</td><td>100</td></tr>
<tr><td>Invest Loan</td><td>400</td></tr>
<tr><td>Total investment proceeds</td><td>500</td></tr>
</table>

<table>
<tr><td>Bond issuer and issue currency rated = A-/A3</td><td>=</td><td>The total proceeds of 500 may be invested in this one bond.</td></tr>
<tr><td>Bond issuer is rated ≥A-/A3, but the issue currency is rated ≤BBB+/Baa1 and >BB+/Ba1</td><td>=</td><td>No more than 100 (equal to equity capital) must be invested in this bond.</td></tr>
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<td>Re 3) -
Equities incl. convertible bonds)</td>
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Diversification requirement – credit risk: For an Invest Loan backed by equities only, said equities must be spread over at least 6 different issues and at least 3 sectors.

In addition, no single equity investment shall account for more than 50% of the investor's equity capital at the time of purchase.

Example:

<table>
<tr><td>Equity</td><td>100</td></tr>
<tr><td>Invest Loan</td><td>200</td></tr>
<tr><td>Total investment proceeds</td><td>300</td></tr>
</table>

The spreading of the investment proceeds over 6 titles equals a maximum investment in a single title of 50 or 50% of the equity capital.

Rating: The rating of the country in which the company is domiciled must be at least BBB-/Baa3.

Market liquidity: A company's market capitalisation must be at least DKK 500m/EUR 70m, and the equities must be listed on a recognised stock exchange. In addition, the equity must be liquid at the time of purchase. Jyske Bank decides whether or not an equity is deemed liquid at the time of investment.
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<td>Re 4) -</td>
<td>Regulation X applies to U.S. borrowers who borrow money for the purpose of acquiring US-securities. These are defined as most securities issued by U.S. companies and listed on</td>
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US-securities	U.S. exchanges, as well as securities convertible into such securities. JGAM will ensure that the initial margin on US-securities is not higher than 50%. The maintenance margins may be higher (see the table of asset classes and collateral values).

Re 5) - Corporate bonds	Corporate bonds rated at least BBB-/Baa3 are treated as bonds, cf. Re 2) – bonds, above. Corporate bonds rated BB+/Ba1 or lower are treated as equities, cf. Re 3) – equities, above.

Re 6) – Emerging Market securities

Exposure in Emerging Markets must in general be regarded as high risk investments. Emerging Markets are divided in to two country-groups with **moderate** and **high** risk respectively. The guidelines for these two groups of Emerging Markets countries differ, cf. below, but the collateral value is the same, namely 50% (green collateral value).

The group of countries with **moderate** risk consist of countries rated BB+/Ba1, and the group of countries with **high** risk consist of countries rated from B1/B+ to BB/Ba2.

For the group of countries with **moderate** risk the following guidelines apply:

Diversification requirement – credit risk: For an Invest Loan backed by emerging market equities and/or bonds only, the portfolio must be spread over at least **6 different** issues.

Where assets are placed in emerging market equities only, said equities must be from at least three sectors.

In addition, investments in any one emerging market country and/ or currency shall not account for more than 50% of the investor's equity capital at the time of purchase.

Example:		Investment	Amount	Share of equity capital	
Equity	300	Equity no. 1 in country A	75	= 25,00%	= 50%
Invest Loan	300	Equity no. 2 in country A	75	= 25,00%	
Total investment proceeds	600	Equity no. 1 in country B	150	= 50,00%	
		Bond no. 1 in country C	150	= 50,00%	
		Bond no. 1 in country D	50	= 16,67%	= 50%
		Bond no. 2 in country D	50	= 16,67%	
		Bond no. 3 in country D	50	= 16,67%	

Market liquidity:
An emerging market company's market capitalisation must be at least DKK 500m/EUR 70m, and the equities must be listed on a recognised stock exchange. In addition, the share must be liquid at the time of purchase.

	The market capitalisation of emerging market bonds must be at least DKK 500m/EUR 70m, and the bonds must be listed on a recognised stock exchange. In addition, the bond must be liquid at the time of purchase. Jyske Bank decides whether or not a share or a bond is deemed liquid at the time of investment. For the group of countries with **high** risk the following guidelines apply: Assets in this group of countries must not exceed 20% of a client's investment portfolio and a maximum of 10% in any one country and/or this country's currency. The following assets can be included: • Government bonds and other bonds where the issuer is investment grade rated. • Mutual and investment funds (with underlying bonds and shares etc.) • Structured products approved by Jyske Bank. Shares in individual companies **cannot** be included. Except for shares in individual companies which cannot be included, the general rules for market liquidity and stock exchange listing applies.

Re 7) – mutual funds	Mutual funds must comply with the UCITS rules or must be non-geared open-ended funds subject to daily pricing. The collateral value of a given fund issued by a mutual fund group is determined by Jyske Bank on the basis of the investments made by the fund as set out in the fund's articles of association. Thus, current fund investments do not determine the collateral value. Diversification: Mutual fund investments are typically spread over a large number of issuers, and are thus not subject to any specific requirements in this regard. One exception, however, being emerging market funds which subject to the articles of association invest in a single country. The total investment of such a fund shall not account for more than 50% of the investor's equity capital at the time of purchase.

Re 8 – structured products	Collateral value and conditions are determined by Jyske Bank on the basis of an evaluation of the actual product, including the assets invested in and other risk factors.

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Ratings

Credit quality – long-term debt				
S & P	**Moody's**		***Credit quality***	***Comments***
AAA	Aaa	Investment grade	Highest quality	*Minimal risk*
AA+ AA AA-	Aa1 Aa2 Aa3	Investment grade	Very high quality	*Issuers in this category are all of good quality The difference between AAA and Aaa is that it is considered slightly more uncertain whether a change in fundamental conditions will adversely affect the good quality.*
A+ A A-	A1 A2 A3	Investment grade	High quality	*Well-established issuers of good to medium quality Adequate debt servicing ability. Low risk that future economic changes may adversely affect debt servicing ability.*
BBB+ BBB BBB-	Baa1 Baa2 Baa3	Investment grade	Good credit quality	*Issue of medium quality. Adequate debt servicing ability. Future changes may possibly have an adverse effect on debt servicing ability. Speculative elements.*
BB+ BB BB-	Ba1 Ba2 Ba3	Speculative grade	Speculative	*Speculative elements. There is a risk that the issuer will be unable to fulfil its debt servicing obligation.*
B+ B B-	B1 B2 B3	Speculative grade	Highly speculative	*Many speculative elements. There is a considerable risk that the issuer will be unable to meet its debt servicing ability.*
CCC+ CCC CCC- CC C	Caa1 Caa2 Caa3 Ca C	Speculative grade	High default risk	*Poor quality. Considerable speculative elements. Very negative outlook.*
D		Speculative grade	Suspension of payments	

S & P = *Standard & Poor's* — *Further information: www.standardandpoors.com*

Moody's = *Moody's Investors Service* — *Further information: www.moodys.com*

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Glossary	
Collateral value	The share of the asset market price expressed as a percentage or an amount, on which the Bank is willing to grant a loan. Example: Where the asset market value of 100 has been assigned a collateral value of 80% by Jyske Bank, the Bank may lend 80 to obtain adequate security.
Equity	Equity is the difference between the asset market value and the loan for which the asset has been placed as security. Example: If the asset market value is 100, the loan market value is 80, the equity is 20.
Emerging Markets	In broad terms, an emerging market country is a country making an effort to change and improve its economy in an attempt to bring it to the level of that of more prosperous nations. An investment in securities issued by emerging market countries or by companies domiciled in an emerging market economy is highly risky. The high level of risk is a result of the fact that emerging markets are at stage of development which may lead to unexpected political and economic events. The value of emerging market equities, bonds and currencies is therefore subject to considerable and sudden fluctuations.
Convertible bonds	A convertible bond may be one of two things : • proof that you have lent a company a certain sum of money on which you regularly receive interest. • a right, but on an obligation, to redeem the bond on a certain future date in return for a predefined number of shares in the company.
Open-ended	An open-ended mutual fund sells fund units on a continuous basis and buys units whenever an investor wishes to sell units. The majority of mutual funds are open-ended funds.
Rating	Rating means grading or marking. In this document rating is used to denote the marking of the creditworthiness of a given security, currency and/or country. The ”marks” referred to in this document are those of the two large and well-recognised credit rating agencies Standard & Poor’s and Moody’s Investors Service. For further information on ratings, please see the table above.
Structured products	Structured products are financial products designed to for instance ensure the repayment of the investor’s original investment if he/she keeps the investment until the date of expiry, while at the same time offering a share in the increase of a particular equity index or currency. There are many types of structured products, and accordingly Jyske Bank assigns each product a specific collateral value based on a thorough assessment of the risk associated with each product.
UCITS	**U**ndertakings for **C**ollective **I**nvestment in **T**ransferable **S**ecurities. This particular EU directive regulates the operations of mutual funds.