Credit Risk 2017

Sydbank Group

Contents

Introduction

Credit risk is the risk of loss as a result of the non-performance by clients and other counterparties of their payment obligations to the Group. Credit risk concerns loans and advances, credit commitments and guarantees as well as market values of derivatives and any holdings.

The most significant credit risks within the Group relate to the Group's loans and advances and guarantees issued to retail and corporate clients. The main focus of this report is a description of the lending and guarantee portfolio which may be compared with loans and advances and guarantees in the 2017 Annual Report.

The correlation between the gross exposure, as shown in "Appendix 1 – Supplementary tables", and loans and advances and guarantees in the 2017 Annual Report is shown in the table below.

Appendix 2 explains some of the terms used in this report.

Gross exposure – credit risk

DKKm	2017	2016
Loans and advances at fair value	5,248	6,092
Loans and advances at amortised cost	64,312	77,191
Loans and advances according to financial statements	**69,560**	**83,283**
Loans and advances to municipalities	(300)	(615)
Undrawn credit commitments	42,202	43,351
Derivatives	1,523	1,924
Repo (deposits)	2,535	1,248
Contingent liabilities etc	15,447	14,730
Gross exposure to retail and corporate clients	**130,967**	**143,921**
Governments incl municipalities	9,377	8,697
Credit institutions	12,225	13,504
Gross exposure – credit risk	**152,569**	**166,122**

Credit and client policy

The Group's overall credit risk is managed according to policies and limits determined and adopted by the Board of Directors.

The Board of Directors lays down the general framework for credit granting and the largest exposures are submitted on a regular basis to the Board of Directors for approval or information.

Employees with a written lending authority may grant approvals. Such authority is adjusted to the employee's client portfolio and the individual client's rating. In connection with new clients employees have limited lending authority.

Retail clients

Credit granting to retail clients is based on the client's disposable amount, wealth and leverage (defined as total household debt divided by household personal income) as well as knowledge of the client.

The objective is that the majority of retail client exposures are approved by the client's branch and that the remaining client exposures are approved by specially appointed heads of credit. Consequently exposures where the client has negative assets of more than DKK 100,000 are approved by heads of credit. Major exposures and highly leveraged exposures are approved centrally by Credits.

Corporate clients

As a rule corporate clients are serviced by the regional head office or by special corporate departments. The Group's largest and most complex exposures are handled by Corporate Banking & Finance. The objective is that all small corporate exposures with satisfactory credit quality are approved at regional level. Medium-size and major exposures are approved centrally by Credits, the Group Executive Management or the Board of Directors.

The Group's credit-related decisions are based on a systematic and structured review of the client's circumstances and industry affiliation. The review is based on all accessible information, including industry analyses and financial statements, and also comprises an assessment of the client's forward-looking business plan and its feasibility.

Credit activities

Credit activities are conducted partly in the retail and corporate departments and partly centrally in Credits. As described below, the Group has developed rating models to assess risks to retail clients, corporate clients and investment clients.

The Group's credit activities are an active element in the Group's efforts to increase its earnings by:

- maintaining and increasing the portfolio of profitable and promising retail, corporate and investment clients
- maintaining and increasing clients' business volume with the Group through a balanced composition of:
  - loans and advances and guarantees
  - deposits
  - payment services transactions
  - trading in securities etc
  - financial instruments
- avoiding/reducing risk of loss by implementing action plans for weak exposures. These action plans involve reducing the Group's exposure as well as hedging risks by securing additional collateral.

Risks in connection with lending must be precalculated on an informed and well-founded basis.

The Group's credit exposure is in particular to clients in Denmark and Northern Germany.

Particular focus is given to weak exposures. The objective is to ensure that the Group's action plans for these exposures are evaluated and adjusted on an ongoing basis to reduce the risk of loss.

Moreover Credits has a department which is assigned to exposures with a significant risk of loss. These exposures are closely monitored and Credits is actively involved in preparing solutions to mitigate the Group's credit risk.

Risk Follow-up

Risk Follow-up is part of the division Risk.

By means of analyses, random sampling and inspections at branches and departments and centrally, Risk Follow-up monitors the credit quality of credit exposures, registrations, impairment charge calculations as well as the compliance with policies and business procedures in general.

This process involves research and analyses using information from the Group's database on all exposures.

Moreover Risk Follow-up conducts regular credit quality analyses of the Group's new exposures as well as regular random sampling of the retail and corporate client portfolios.

Finally Risk Follow-up evaluates on the basis of a credit expert assessment whether the Group's rating models rank clients correctly.

Rating

The Group has developed rating models to manage credit risks to retail, corporate and investment clients. The overriding objective is to constantly monitor the financial circumstances of a client and to identify as early as possible any financial difficulties in order to work out a plan of action in cooperation with the client.

Model development is based on the recommendations submitted by the Basel Committee. Through dialogue with other interested parties in the market (credit institutions, supervisory authorities, rating agencies etc) the Group has ensured that the models comply with market standards.

In connection with the calculation of the Group's Pillar I capital requirement, the Group estimates on an ongoing basis the risk parameters PD, LGD and EAD as regards the Group's retail clients and PD as regards the Group's corporate clients.

PD represents the probability that the client will default on his obligations to the Group within the next 12 months.

LGD represents the proportion of a given exposure that is expected to be lost if the client defaults on his obligations within the next 12 months.

EAD represents the expected size of an exposure, ie how much a client is expected to have drawn on the granted credit facilities at the time of default. In order to calculate EAD a conversion factor (CF) is estimated for the purpose of converting undrawn credit commitments to expected EAD.

The risk parameters are included in the calculation of a number of important internal ratios and key figures concerning the Group's exposure portfolio, including expected loss.

Expected loss is calculated as follows: EAD x PD x LGD.

Furthermore the ratings constitute a vital management tool in the Group's credit process in connection with eg:

- the targeting of sales activities, including pricing
- the assessment and determination of lending authority
- the treatment and follow-up of the risk of loans and credit facilities
- the calculation of collective impairment charges.

Sydbank applies the advanced IRB approach to calculate the capital requirement as regards retail exposures and the foundation IRB approach to calculate the capital requirement as regards corporate exposures.

Sydbank is working on a project with the purpose of gaining approval to apply the advanced IRB approach to calculate the capital requirement as regards corporate exposures. The objective is to gain approval in 2019.

On the basis of the rating models, clients are assigned to rating categories 1-10 where rating category 1 represents the best credit quality and rating category 10 represents the category of clients who have defaulted on their obligations to the Group.

Clients are rated in the 3 partially independent models described below and all models are based on statistical processing of client data for the purpose of classifying clients according to their probability of default (PD) within the next 12 months.

Retail

The retail client model is based primarily on account behaviour. On the basis of this data and inherent statistical correlations, clients are rated according to their probability of default (PD) vis-à-vis the Group within the next 12 months.

Corporate

The corporate client model is based partly on accounting data and partly on financial conduct and is supplemented by appraisals made by the credit officer and/or account manager of the client's current strength profile as well as an industry analysis. It is possible on the basis of a specific assessment to override a rating. All overrides must be approved by the Bank's Credit Committee. As regards the largest clients, ie exposures exceeding 1% of the Group's total capital, calculated ratings are assessed by Credits at least twice a year.

Investment

The investment client model is based on the following:

- Excess cover within the client's investment exposure
- Approved stop loss
- Volatility of the investment portfolio
- Strength profile of the client.

Exposures outside the rating models

The Group has no internal rating model to assess risk as regards credit institutions and public authorities (governments, regions and municipalities). The Danish FSA has approved the Group's use of the Standardised Approach to calculate risk-weighted assets concerning this asset class.

A small fraction of the exposures is not included in the rating models.

Loans/advances and guarantees by rating category

DKKm	Corporate			Retail			Total		2017
	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%
1	685	54	1.4	6,015	3,787	36.1	6,700	3,841	13.1
2	11,964	1,516	25.3	5,075	1,988	26.0	17,039	3,504	25.5
3	12,987	1,534	27.2	2,913	1,120	14.8	15,900	2,654	23.0
4	8,283	619	16.7	1,084	460	5.7	9,367	1,079	13.0
5	4,971	492	10.2	706	317	3.8	5,677	809	8.1
6	2,669	251	5.5	335	114	1.7	3,004	365	4.2
7	1,172	72	2.3	120	16	0.5	1,292	88	1.7
8	288	27	0.6	92	21	0.4	380	48	0.5
9	3,498	285	7.1	1,391	182	5.8	4,889	467	6.6
Default	1,145	161	2.4	210	18	0.7	1,355	179	1.9
NR/STD	612	80	1.3	778	448	4.5	1,390	528	2.4
Total	**48,274**	**5,091**	**100.0**	**18,719**	**8,471**	**100.0**	**66,993**	**13,562**	**100.0**
Individual impairment of loans and advances	1,784			597			2,381		
Collective impairment of loans and advances	214			86			300		
Total	**46,276**	**5,091**		**18,036**	**8,471**		**64,312**	**13,562**	
% of total	72	38		28	62		100	100	

The table above shows that corporate loans and advances (including to public authorities) account for 72% (2016: 61%) of total loans and advances, and retail loans and advances constitute 28% (2016: 39%).

The development in the lending mix between corporate clients and retail clients is a consequence of the Group's amended funding agreement, see Focus on retail clients.

71% (2016: 69%) of the Group's corporate loans and advances and guarantees are rated in categories 1-4 and 83% (2016: 82%) of the Group's retail loans and advances are rated in categories 1-4.

Default

According to the Group's rating system, a client is in default if at least 1 of the following events has occurred:

- A write-off has been recorded as regards the client.
- The client has at least 1 non-accrual credit facility.
- An impairment charge/provision has been registered in connection with the client and a loss must be regarded as unavoidable.
- The exposure has been transferred to the Group's central department for non-performing exposures.

Moreover the Group has a procedure in place whereby all exposures in arrears for more than 90 days are either approved or transferred to the department for non-performing exposures.

Rating

Validation

The risk parameters are monitored and validated on an ongoing basis in compliance with the Group's business procedures which reflect Danish FSA requirements, the supplementary guidelines issued by the Committee of European Banking Supervisors (CEBS) as well as internal requirements.

The validation process includes an assessment of:

- model ability to rank clients by default risk
- realised values compared with expected values (backtesting)
- data quality
- model application.

The backtest of the retail client rating model for the period from 1 January 2017 to 31 December 2017 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	55,634	5	17
2	23,382	7	9
3	15,062	32	22
4	6,163	43	25
5	5,149	49	63
6	2,954	50	54
7	1,312	45	54
8	1,072	28	78
9	6,379	336	1,082
Total	**117,107**	**595**	**1,404**

The total number of retail client defaults is 58% (2016: 60%) below the estimated number of defaults. The primary reason is found in rating category 9 where the Group's PD estimates were very prudent during the period compared to the realised default rates.
It is expected that the estimates are prudent. The current degree of prudence is however considered to be very high.

It is estimated that apart from rating category 9 the backtest shows a satisfactory correlation between the number of estimated and realised defaults in each rating category. However it can be noted that during the period the number of realised defaults in rating categories 3 and 4 exceeds the number expected by the model. Such differences may occur from time to time. The Group is working on a re-estimation of the rating model for the purpose of further reducing deviations.

The backtest of the corporate client rating model for the same period shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	404	-	-
2	2,456	-	1
3	2,832	2	4
4	1,784	9	7
5	1,434	8	13
6	754	15	15
7	203	11	8
8	125	18	8
9	1,015	104	163
Total	**11,007**	**167**	**219**

The number of corporate client defaults is 24% (2016: 23%.) below the estimated number of defaults. The difference between estimated and realised defaults is especially found in rating category 9 where PD estimates during the period were very prudent compared to the realised default rates.

The number of realised defaults in rating categories 4, 7 and 8 is higher than expected for the period. The Group estimates that these variations are periodic. The number of clients in rating categories 7 and 8 is very low, which increases the risk of temporary differences in the number of realised and estimated defaults.

The table below shows the average PD for solvency purposes used to calculate the Group's risk exposure amount at the end of the year as well as the realised annual default rates for 2011 to 2017.

%	Corporate		Retail	
Year	PD solvency 31 Dec	Realised default rate	PD solvency 31 Dec	Realised default rate
2017	1.71	1.58	1.18	0.50
2016	2.01	1.83	1.12	0.47
2015	2.35	1.78	1.16	0.55
2014	2.79	2.04	1.03	0.55
2013	3.02	1.94	1.07	0.50
2012	2.04	1.89	0.87	0.50
2011	2.10	1.93	0.67	0.49

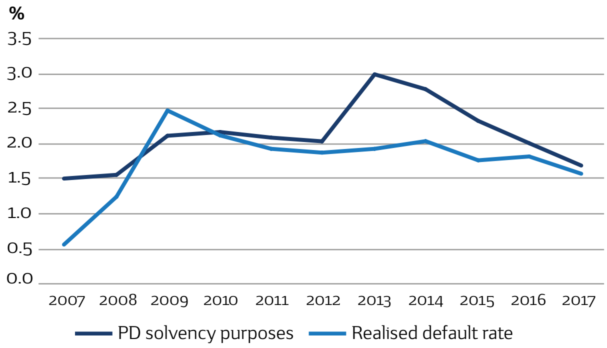
The PD estimate for solvency purposes as regards corporate clients rose considerably in 2013 due to the implementation of the Group's new rating model and a greater degree of prudence in relation to the applied PD estimates for solvency purposes.

The realised default rates as regards retail clients were largely unchanged during the period whereas the PD estimate for solvency purposes increased towards the end of the period. The rise in the PD estimate for solvency purposes is due to a larger number of impairment charges but a greater degree of prudence in relation to the applied PD estimates for solvency purposes has also played a part in this respect.

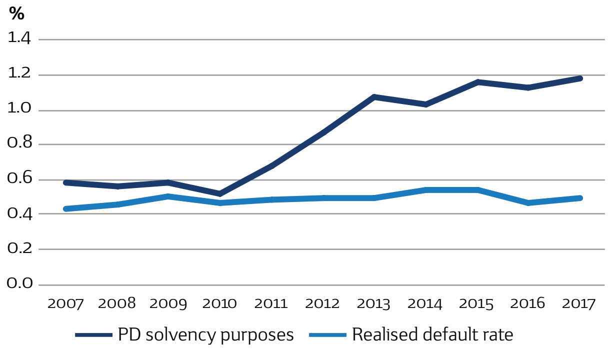
Consequently the Group anticipates that under normal economic conditions the PD estimates for solvency purposes are prudent compared to the realised default rates.

The following 2 figures show PD for solvency purposes and the realised default rate since 2007. As can be seen, PD for solvency purposes is higher than the realised default rate except for 2009 as regards corporate clients.

Probability of default – corporate clients



Probability of default – retail clients



Rating

Loss given default (LGD)

LGD is defined as the proportion of a given exposure that is expected to be lost if the client defaults within the next 12 months.

The size of LGD will vary depending on the category of the borrower as well as the realisable value of any collateral or other type of hedging.

As regards retail clients the Group uses its own estimates of the realisable value of collateral and of the loss on the unsecured part of the exposure.

The realisable value reflects the market value of collateral net of:

- the expected state of assets provided that the exposure is non-performing
- the expected decline in asset values during a recession
- the transferability of the collateral
- model uncertainty.

As regards corporate clients the Group applies supervisory parameters of the Group's collateral as well as of the loss on the unsecured part of the exposure in accordance with the foundation IRB approach. This approach sets a number of limitations as to eligible forms of collateral.

As a consequence of these limitations, the Group cannot deduct a number of assets held as collateral when determining the Pillar I capital requirement.

The table below shows the average estimated and realised LGD of retail clients in default from 2013 to 2017.

Loss given default – retail clients %

Year	Estimated	Realised
2017	70	81
2016	70	64
2015	71	74
2014	69	76
2013	68	71

Comparing estimated and realised LGD rates is difficult as the estimated values reflect the percentage of the loss of the original exposure when the loss has been finally determined and repayments on the exposure can no longer occur. As regards virtually all exposures in default, this period lasts several years and quite often substantial payments are recorded several years after the exposure was in default.

The differences between estimated and realised losses in recent years are considered to be a consequence of the fact that these exposures have only been at the department for non-performing exposures for a relatively short while.

Therefore it is anticipated that in time the estimate of LGD and the realised values of loss will show a good correlation.

Conversion factor (CF)

As regards exposures with undrawn credit commitments, a conversion factor is estimated indicating the expected utilisation of an undrawn credit commitment at the time of default. EAD is then calculated as the amount already drawn plus expected additional drawings until default.

The Group uses its own conversion factor estimates for retail clients whereas the conversion factor for corporate clients is determined in accordance with the Danish FSA's rules on the foundation IRB approach.

The table below shows the average estimated and realised conversion factors for undrawn credit commitments of retail clients in default from 2013 to 2017.

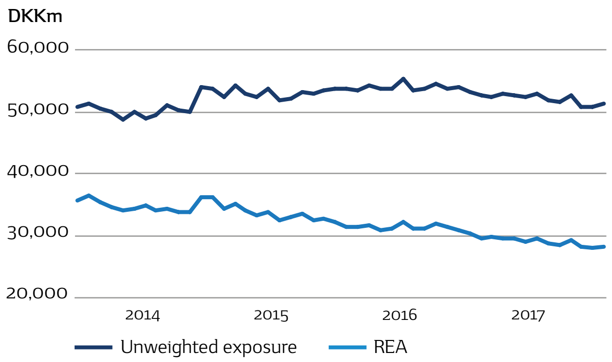
Conversion factor – retail clients %

Year	Estimated	Realised
2017	100	21
2016	99	7
2015	99	26
2014	98	0
2013	99	(12)

As can be seen from the table, the Group's CF estimates as regards retail clients were around 100% throughout the period, corresponding to full recognition of undrawn credit commitments. The realised conversion factors were significantly below this level. The fact that the realised CF was negative in 2013 is attributable to the Group's ability to reduce exposures before the time of default.

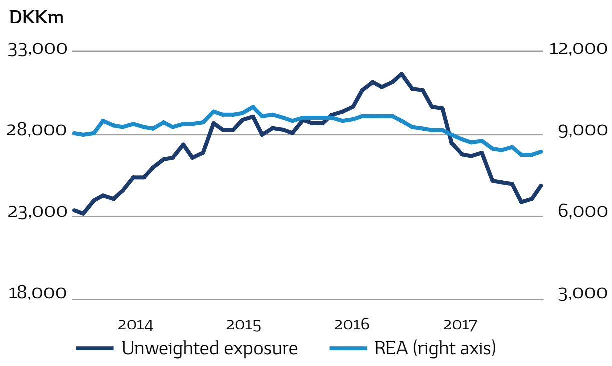
Risk exposure amount (REA)
REA is a function of PD, LGD and EAD. REA appears from "Appendix 1 – Supplementary tables". The figures below show the correlation between the unweighted exposure and REA of corporate clients and retail clients respectively.

REA and unweighted exposure – corporate clients



The positive development in the composition of the Group's exposures to corporate clients by way of growth in exposures to the Group's best clients (rating categories 1-4) as well as the improvement in the ratings of some of the Group's other corporate clients are reflected in the development in the risk weight as regards corporate clients.

REA and unweighted exposure – retail clients



The decline in 2017 in unweighted exposure in relation to retail clients is due to the change in the Group's agreement with Totalkredit on joint funding of mortgage-like loans effective 1 January 2017. The agreement was changed from an offsetting model according to which the Bank covers losses as regards the entire loan to a guarantee model according to which the Bank provides a guarantee for the part of the loan in the LTV range of 60-80%. The Group no longer has a credit risk as regards the part of the loan in the LTV range of 0-60%. As a consequence of the amendment of the agreement, funded mortgage-like loans are only recognised at the guarantee amount for the LTV range of 60-80% of the unweighted exposure.

Industry breakdown

The Group's credit exposure to corporate clients takes into account individual industry prospects. Due to special risk assessments, the Group may deliberately underweight its exposure to a few industries. The table below shows the exposure by way of loans and advances and guarantees to 10 primary industries as well as to retail clients and public authorities. After impairment charges, total loans and advances represent DKK 64,312m. In addition the table shows impaired loans and advances and accumulated impairment charges as well as impairment charges for loans and advances etc for the year by industry etc.

2017 DKKm	Loans/advances before individual impairment charges	Loans/advances after individual impairment charges	Guarantees	Individually impaired loans/ advances	Defaulted loans/ advances
Agriculture, hunting, forestry and fisheries	4,352	3,944	696	900	317
Manufacturing and extraction of raw materials	8,397	8,171	787	439	82
Energy supply etc	2,087	2,064	561	12	3
Building and construction	3,487	3,386	819	131	31
Trade	11,776	11,460	767	647	91
Transportation, hotels and restaurants	3,221	3,077	219	211	32
Information and communication	533	521	10	23	1
Finance and insurance	5,091	4,926	492	263	49
Real property	5,583	5,335	454	375	117
Other industries	3,399	3,258	281	186	26
Total corporate	**47,926**	**46,142**	**5,086**	**3,187**	**749**
Public authorities	348	348	5	-	-
Retail	18,719	18,122	8,471	1,204	174
Collective impairment charges	(300)	(300)	-	-	-
Total	**66,693**	**64,312**	**13,562**	**4,391**	**923**
Agriculture, hunting, forestry and fisheries					
Pig farming	1,216	1,091	214	256	108
Cattle farming	1,016	888	240	300	144
Crop production	1,110	1,054	143	167	17
Other agriculture	1,010	911	99	177	48
Total	**4,352**	**3,944**	**696**	**900**	**317***
Manufacturing and extraction of raw materials					
Iron and metal	1,897	1,821	74	146	20
Food, beverage and tobacco	1,956	1,926	124	79	3
Clothing	1,025	1,022	216	8	0
Other manufacturing and extraction of raw materials	3,519	3,402	373	206	59
Total	**8,397**	**8,171**	**787**	**439**	**82**
Trade					
Wholesale	8,409	8,173	438	507	83
Retail	2,189	2,136	272	92	8
Car dealers and garages	1,178	1,151	57	48	0
Total	**11,776**	**11,460**	**767**	**647**	**91**
Finance and insurance					
Holding companies	1,640	1,546	130	120	44
Financing companies	3,451	3,380	362	143	5
Total	**5,091**	**4,926**	**492**	**263**	**49**
Real property					
Leasing of commercial property	2,473	2,321	267	217	63
Leasing of residential property	1,024	962	132	107	40
Housing associations and cooperative housing associations	1,347	1,347	11	-	-
Purchase, development and sale on own account	538	515	38	35	9
Other related to real property	201	190	6	16	5
Total	**5,583**	**5,335**	**454**	**375**	**117**

As shown below, the accumulated impairment ratio as regards loans and advances constitutes 3.6% and impaired loans and advances represent 6.6% of the total volume of lending. The table shows that 20.7% of loans and advances to agriculture are regarded as impaired and that the relevant impairment charges constitute 45.3%, whereby the impairment ratio for agriculture totals 9.4%. The Group's risk on the exposure to agriculture is described in a separate paragraph. Compared with the figures for 2016, the accumulated impairment ratio as regards loans and advances has gone up from 3.5% to 3.6%.

Impairment of individually impaired loans/advances	Impairment charges for loans/advances etc for the year	Losses reported for the year	Individually Impaired loans/advances as % of loans/advances	Impairment charges as % of impaired loans/advances	Impairment charges as % of loans/advances
408	4	248	20.7	45.3	9.4
226	27	52	5.2	51.5	2.7
23	9	4	0.6	191.7	1.1
101	38	34	3.8	77.1	2.9
316	65	123	5.5	48.8	2.7
144	10	13	6.6	68.2	4.5
12	(1)	2	4.3	52.2	2.3
165	22	11	5.2	62.7	3.2
248	(53)	52	6.7	66.1	4.4
141	14	32	5.5	75.8	4.1
1,784	**135**	**571**	**6.6**	**56.0**	**3.7**
-	-	-	-	-	-
597	(95)	89	6.4	49.6	3.2
-	(91)	-	-	-	-
2,381	**(51)**	**660**	**6.6**	**54.2**	**3.6**
125	7	58	21.1	48.8	10.3
128	(24)	149	29.5	42.7	12.6
56	(1)	17	15.0	33.5	5.0
99	22	24	17.5	55.9	9.8
408	**4**	**248**	**20.7**	**45.3**	**9.4***
76	10	13	7.7	52.1	4.0
30	14	29	4.0	38.0	1.5
3	0	0	0.8	37.5	0.3
117	3	10	5.9	56.8	3.3
226	**27**	**52**	**5.2**	**51.5**	**2.7**
236	89	109	6.0	46.5	2.8
53	(20)	12	4.2	57.6	2.4
27	(4)	2	4.1	56.3	2.3
316	**65**	**123**	**5.5**	**48.8**	**2.7**
94	(3)	5	7.3	78.3	5.7
71	25	6	4.1	49.7	2.1
165	**22**	**11**	**5.2**	**62.7**	**3.2**
152	(19)	11	8.8	70.0	6.1
62	(2)	33	10.4	57.9	6.1
-	-	-	-	-	-
23	(15)	2	6.5	65.7	4.3
11	(17)	6	8.0	68.8	5.5
248	**(53)**	**52**	**6.7**	**66.1**	**4.4**

* In addition collective impairment charges of DKK 75m have been made as regards agriculture, whereby the impairment ratio totals 11.1%.

Industry breakdown

The table below shows the Group's loans and advances to industries by rating category. 73.1% (2016: 75.3%) of rated loans and advances are rated in categories 1-4 whereas the percentage for agriculture is 28.6 (2016: 23.2).

Loans and advances by rating category

DKKm							2017
Industry	1-2	3-4	5-6	7-9	Default	NR/STD	Total
Agriculture, hunting, forestry and fisheries	80	1,165	1,376	1,381	322	28	4,352
Manufacturing and extraction of raw materials	2,819	3,636	1,222	597	101	22	8,397
Energy supply etc	988	811	180	53	51	4	2,087
Building and construction	390	2,248	564	159	116	10	3,487
Trade	2,653	5,918	1,990	1,104	105	6	11,776
Transportation, hotels and restaurants	523	1,587	805	233	37	36	3,221
Information and communication	391	83	23	33	1	2	533
Finance and insurance	2,329	1,717	431	395	56	163	5,091
Real property	1,924	2,137	483	702	332	5	5,583
Other industries	540	1,956	564	298	24	17	3,399
Public authorities	12	12	2	3	-	319	348
Retail	11,090	3,997	1,041	1,603	210	778	18,719
Total	**23,739**	**25,267**	**8,681**	**6,561**	**1,355**	**1,390**	**66,993**
Individual impairment of loans and advances							2,381
Collective impairment of loans and advances							300
Total loans and advances							**64,312**
%	35.4	37.7	13.0	9.8	2.0	2.1	100.0

Focus on agriculture

Agriculture – loans and advances by rating category

DKKm							2017
Sub-industry	1-2	3-4	5-6	7-9	Default	NR/STD	Total
Pig farming	7	379	389	327	110	4	1,216
Cattle farming	-	95	395	385	140	1	1,016
Crop production	31	301	394	361	21	2	1,110
Other agriculture	42	390	198	308	51	21	1,010
Total	**80**	**1,165**	**1,376**	**1,381**	**322**	**28**	**4,352**
%	1.8	26.8	31.6	31.7	7.5	0.6	100.0

Agriculture is divided into the following sub-industries:
- Pig farming
- Cattle farming (beef cattle and dairy cattle)
- Crop production
- Other agriculture (primarily forestry, mink farming and leisure farmers).

Conversion of debt to subordinated loan capital

At year-end 2016 debt concerning 48 agricultural exposures was converted to subordinated loan capital. In 2017 debt concerning an additional 12 agricultural exposures was converted. Consequently debt concerning a total of 60 agricultural exposures has been converted to subordinated loan capital at year-end 2017. A total of DKK 597m had been converted at 31 December 2017 (2016: DKK 496m) and as a consequence of the conversions loans and advances representing approx DKK 230m have been moved from rating categories 9-10 to rating categories 5-8. The subordinated loan capital has been written off for accounting purposes.

As a result of the debt conversions and subsequent write-off, the share of loans and advances in the weakest rating categories (7-9 and default) decreased from 43.8% in 2016 to 39.2% in 2017. This also appears from the table on pages 12-13 which shows that 21.1% (2016: 26.2%) of loans and advances to pig farming and 29.5% (2016: 41.1%) of loans and advances to cattle farming are impaired. As regards total agriculture, 20.7% (2016: 25.7%) of loans and advances are impaired and at year-end 2017 individual impairment charges totalled DKK 408m (2016: DKK 666m), equal to 9.4% (2016: 13.0%) of loans and advances.

In addition to individual impairment charges of DKK 408m, collective impairment charges of DKK 75m (2016: DKK 150m) were made as regards loans and advances to agriculture at year-end 2017. This brings total impairment charges as regards agriculture to 11.1% (2016: 15.9%) of loans and advances.

Outlook for agriculture

Settlement prices in the agricultural sector went up in 2017. As a result the level of earnings in 2017 is expected to be significantly above the normal level.

In January 2018 SEGES published a forecast for earnings in the agricultural sector in 2017 and 2018.

According to the SEGES report, the total operating profit after owners' wages etc of full-time farms is expected to rise from a loss of DKK 1.6bn in 2016 to a profit of DKK 4.5bn in 2017.

The significantly improved prices – of pork as well as milk – are mainly due to increased demand from China and and other Asian countries but also due to larger crops as a result of the "agricultural package" adopted in 2016.

Consequently an average farm is projected to record an operating profit after owners' wages of DKK 0.7m as regards milk producers and DKK 1.3m as regards pig producers.

At the beginning of 2018 average settlement prices of pork as well as milk are expected to be significantly lower than the settlement prices recorded in 2017. As a result a substantial decline in earnings in the agricultural sector is projected compared with 2017.

Pig producers can look forward to an unsatisfactory result and for the majority also a loss in 2018. The forecast for 2018 is DKK 9.06 per kg; the break-even price for most pig producers is DKK 9.20-9.50 per kg.

Milk producers are expected to break even in 2018.

According to SEGES crop producers saw better yields in 2017 than in 2016. However average earnings remain negative after owners' wages. And negative earnings after owners' wages are also projected for 2018.

In other words it seems that 2018 will be a challenging year for Danish farmers, in particular pig producers who may have to sell pork at a price lower than cost price.

Focus on retail clients

At 31 December 2017 loans and advances to retail clients represent DKK 18,719m (2016: DKK 30,746m) – a decline of DKK 12,027m.

Other loans and advances than mortgage-like loans to retail clients constitute DKK 12,452m at 31 December 2017 (2016: DKK 13,912m) – a decline of 10% in 12 months.

At 31 December 2017 mortgage-like loans constitute 34% (2016: 55%) of total loans and advances to retail clients.

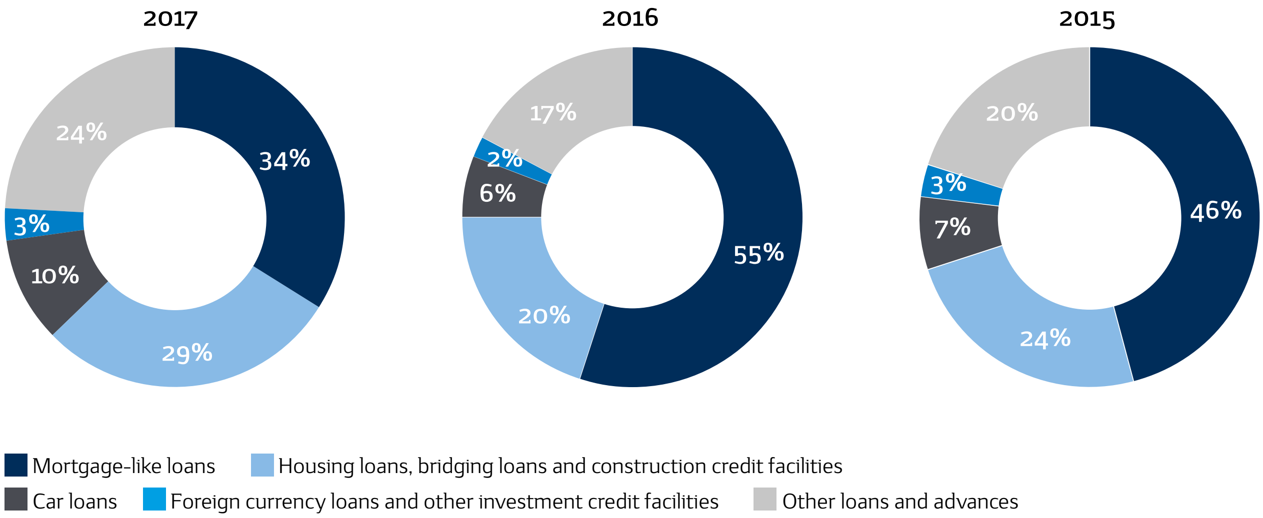
DKK 9,974m of the decrease in mortgage-like loans is attributable to the amended funding agreement.

The funding agreement was changed from an offsetting model according to which the Bank covers losses as regards the entire loan to a guarantee model according to which the Bank provides a guarantee for the part of the loan in the LTV range of 60-80%. As a consequence of the amendment of the agreement, funded mortgage-like loans are not recognised in the Group's balance sheet.

Total credit intermediation to retail clients by product type

DKKm Product type	2017	2016	2015
Mortgage-like loans	6,267	16,834	12,682
Housing loans, bridging loans and construction credit facilities	5,407	6,014	6,546
Car loans	1,946	1,973	1,884
Foreign currency loans and other investment credit facilities	526	694	769
Other loans and advances	4,573	5,231	5,435
Total loans and advances	**18,719**	**30,746**	**27,316**
Funded loans and advances – off-balance sheet	9,974	-	-
Arranged mortgage loans – Totalkredit	58,088	58,278	63,064
Total credit intermediation	**86,781**	**89,024**	**90,380**

Total loans and advances to retail clients – by product type



The tables below show that a substantial part of the decline in loans and advances to retail clients was in rating categories with low risk. At 31 December 2017 loans and advances to clients in the 4 best rating categories represent DKK 15,087m (2016: DKK 26,439m) – a decline of DKK 11,352m, primarily attributable to the amended funding agreement.

At 31 December 2017 the share of loans and advances to clients in the 4 best rating categories constitutes 80.5% (2016: 85.9%).

Outlook for retail clients

Low unemployment combined with a rise in house prices and extremely low interest rates contribute to a low credit risk as regards retail clients.

Based on these fundamental factors low impairment charges as regards retail clients are expected in the year ahead.

Net impairment charges as regards retail clients in 2017 totalled an income of DKK 95m (2016: income of DKK 38m). In other words impairment charges were very low in these years.

Loans and advances to retail clients – by product type and rating category

DKKm								2017
Product type	1-2	3-4	5-6	7-9	Default	NR/STD	Total	%
Mortgage-like loans	4,750	1,034	261	215	7	-	6,267	33.5
Housing loans, bridging loans and construction credit facilities	3,199	1,228	283	662	29	6	5,407	28.9
Car loans	832	233	54	54	2	771	1,946	10.4
Foreign currency loans and other investment credit facilities	221	219	38	44	3	1	526	2.8
Other loans and advances	2,088	1,283	405	628	169	-	4,573	24.4
Total	**11,090**	**3,997**	**1,041**	**1,603**	**210**	**778**	**18,719**	**100.0**
%	59.2	21.4	5.5	8.6	1.1	4.2	100.0	

DKKm								2016
Product type	1-2	3-4	5-6	7-9	Default	NR/STD	Total	%
Mortgage-like loans	12,991	2,985	533	313	12	-	16,834	54.7
Housing loans, bridging loans and construction credit facilities	3,446	1,473	386	667	36	6	6,014	19.6
Car loans	877	276	67	55	3	695	1,973	6.4
Foreign currency loans and other investment credit facilities	351	194	63	82	4	-	694	2.3
Other loans and advances	2,382	1,464	484	690	211	-	5,231	17.0
Total	**20,047**	**6,392**	**1,533**	**1,807**	**266**	**701**	**30,746**	**100.0**
%	65.2	20.7	5.0	5.9	0.9	2.3	100.0	

Concentration

Under the EU's Capital Requirements Regulation (CRR), exposures to a single client or a group of connected clients, after the deduction of particularly secure claims, may not exceed 25% of total capital. The compliance with these rules is reported to the Danish FSA on a quarterly basis.

The table below shows the exposures which after the deduction of particularly secure claims constitute 10% or more of total capital.

DKKm	2017	2016
Exposure > 20% of total capital	-	-
Exposure 10-20% of total capital	-	-
Total	**-**	**-**
% of total capital	-	-

At year-end 2017 and year-end 2016 no exposure after the deduction of particularly secure claims constitutes 10% or more of total capital.

According to CRR the 20 largest exposures may not exceed 150% of the Group's Common Equity Tier 1 capital. The limit is thus fixed under the Supervisory Diamond's threshold of 175% (applicable from 1 January 2018) of Common Equity Tier 1 capital.

At year-end 2017 the 20 largest exposures – according to CRR – represent 132% (2016: 127%) of Common Equity Tier 1 capital.

In addition to calculating exposures according to CRR, Sydbank uses an internal exposure concept – BIS group – that consolidates clients that are interdependent as a result of any knock-on effect. Consequently 1 CRR group may consist of several BIS groups but 1 BIS group cannot form part of several CRR groups.

Credit policy

In accordance with its credit policy, the Group does not wish to be dependent on or have exposures to large single clients. This implies among other factors that the following must be observed as the exposures are always calculated according to the principles for BIS groups:

- The 10 largest exposures may, as a rule, not exceed 10% of the Group's total exposure portfolio (however excluding exposures to credit institutions, investment funds and public enterprises).
- After deduction of the loan value of any collateral, the 10 largest exposures may not exceed 5% of the total exposure portfolio (however excluding exposures to credit institutions, investment funds and public enterprises).
- The 20 largest exposures may not exceed 125% of the Group's total capital.

At year-end 2017 the 10 largest exposures represent 5.1% (2016: 4.9%) of the Group's total exposure portfolio.

After deduction of the loan value of any collateral, the 10 largest BIS exposures constitute 4.6% (2016: 4.3%) of the total exposure portfolio.

At year-end 2017 the 20 largest BIS exposures represent 86% (2016: 105%) of the Group's total capital.

No exposure (however excluding exposures to credit institutions, investment funds and public enterprises) represents more than 10% of the Group's Tier 1 capital.

Loans and advances to corporate clients by amount/rating

DKKm								2017
Amount	1-2	3-4	5-6	7-9	Default	NR/STD	Total	%
0-1	327	768	333	302	49	-	1,779	3.7
1-5	1,160	2,992	1,565	1,081	270	-	7,068	14.6
5-10	844	2,342	1,142	880	230	-	5,438	11.3
10-20	1,086	2,466	1,277	649	213	-	5,691	11.8
20-50	2,260	3,668	1,499	1,022	316	-	8,765	18.1
50-100	2,033	2,643	894	552	67	-	6,189	12.8
100-200	1,517	3,895	522	187	-	-	6,121	12.7
200-500	1,882	2,496	408	285	-	-	5,071	10.5
500-	1,540	-	-	-	-	-	1,540	3.2
NR/STD	-	-	-	-	-	612	612	1.3
Total	**12,649**	**21,270**	**7,640**	**4,958**	**1,145**	**612**	**48,274**	**100.0**
%	26.2	44.1	15.8	10.3	2.4	1.2	100.0	

The table below shows loans and advances to the Group's 100 largest BIS groups by industry and rating category. Since a BIS group often comprises several industries, the loans and advances to some industries in some rating categories may be modest.

The 100 largest BIS groups represent a total of 27.9% (2016: 22.8%) of the Group's total loans and advances. 83.5% (2016: 82.8%) of these loans and advances are rated in categories 1-4. Moreover loans and advances to agriculture as regards these 100 largest clients represent 2.6% (2016: 3.3%).

Loans and advances to 100 largest BIS groups by industry/rating category

DKKm								2017
Industry/rating category	1-2	3-4	5-6	7-9	Default	NR/STD	Total	%
Agriculture, hunting, forestry and fisheries	-	269	-	210	-	-	479	2.6
Manufacturing and extraction of raw materials	1,328	1,429	287	-	-	-	3,044	16.3
Energy supply etc	628	242	1	-	-	-	871	4.7
Building and construction	1	1,209	261	5	-	-	1,476	7.9
Trade	1,491	2,997	336	605	-	-	5,429	29.0
Transportation, hotels and restaurants	-	525	347	-	4	-	876	4.7
Information and communication	317	-	-	-	-	-	317	1.7
Finance and insurance	1,476	531	95	-	18	142	2,262	12.1
Real property *	1,232	931	106	-	67	201	2,537	13.6
Other industries	88	799	141	-	-	-	1,028	5.5
Public authorities	-	-	-	-	-	245	245	1.3
Retail	3	118	8	3	-	-	132	0.6
Total	**6,564**	**9,050**	**1,582**	**823**	**89**	**588**	**18,696**	**100.0**
%	35.1	48.4	8.5	4.4	0.5	3.1	100.0	

* DKK 758m of the real property loans and advances of DKK 2,537m derives from bridging loans to non-profit housing associations which will be replaced by mortgage loans when construction has been completed.

The table below shows the size of the Group's corporate clients according to the client's net turnover/assets (assets if the client's net turnover is not available).

Corporate clients by size of enterprise/rating category, excluding default

%						2017
Rating category Net turnover/assets (DKKm)	1-2	3-4	5-6	7-9	Total	Loans/advances and guarantees
0-25	21	39	21	19	100	22
25-50	23	41	22	14	100	7
50-100	21	49	22	8	100	11
100-200	24	50	18	8	100	11
200-400	36	46	11	7	100	12
400-	34	49	11	6	100	34
NA	21	39	23	17	100	3
Total	**28**	**46**	**16**	**10**	**100**	**100**

Collateral

The Group aims to mitigate the risk on individual exposures by way of charges on assets, netting agreements and guarantees.

The most frequent types of charges include mortgages and charges on financial assets (shares, bonds and units).

The Group receives different kinds of guarantees for exposures. Many of these are provided by companies or individuals who have a group relationship with the debtor.

The Group assesses on an ongoing basis the value of collateral provided. The value is determined as the expected net proceeds on realisation.

The 2 tables below illustrate the breakdown of collateral by type and rating category respectively.

Collateral received and types of collateral

DKKm	2017	2016
Loans and advances at fair value	5,248	6,092
Loans and advances at amortised cost	64,312	77,191
Guarantees	13,562	11,385
Credit exposure for accounting purposes	83,122	94,668
Collateral value	44,161	51,016
Total unsecured	**38,961**	**43,652**
Types of collateral		
Real property	12,187	20,532
Financial collateral	10,803	11,708
Leased assets, mortgages etc	5,428	5,096
Floating charges, operating equipment etc	6,227	6,366
Guarantees	1,188	1,294
Other items of collateral	262	233
Total collateral used	36,095	45,229
Particularly secured transactions (mortgage guarantees)	8,066	5,787
Total	**44,161**	**51,016**

In the event that the Group uses collateral that is not immediately convertible into liquid holdings, it is the Group's policy to dispose of such assets as quickly as possible. In 2017 repossessed equipment as well as real property taken over in connection with non-performing exposures amounted to DKK 13m (2016: DKK 62m). Leased assets are assessed and depreciated on an ongoing basis. As a result the calculated collateral as regards the Group's leasing activities will decline during periods of lower leased asset prices.

Mortgages on real property have fallen by DKK 8,345m from DKK 20,532m in 2016 to DKK 12,187m in 2017. The decrease is primarily attributable to the amended funding agreement.

Financial collateral has decreased by DKK 905m from DKK 11,708m in 2016 to DKK 10,803m in 2017, which is primarily attributable to the decline in loans and advances at fair value which have gone down by DKK 844m.
Loans and advances at fair value are repo loans and advances with financial collateral.

The table below shows the size of loans and advances, guarantees as well as collateral according to rating category. The value of collateral is assessed relative to loans and advances and guarantees. Excess collateral is not included in the calculation of collateral. 53.1% (2016: 53.9%) of the Group's loans and advances is covered via collateral.

Collateral by rating category

DKKm Rating category	Loans/advances	Guarantees	Collateral value	2017 Unsecured
1	8,003	3,841	9,364	2,480
2	20,037	3,504	13,220	10,321
3	16,847	2,654	8,631	10,870
4	9,367	1,079	4,642	5,804
5	5,677	809	2,924	3,562
6	3,004	365	1,574	1,795
7	1,292	88	414	966
8	380	48	142	286
9	4,889	467	2,172	3,184
Default	1,355	179	639	895
NR/STD	1,390	528	439	1,479
Total	**72,241**	**13,562**	**44,161**	**41,642**
Individual impairment of loans and advances	2,381			2,381
Collective impairment of loans and advances	300			300
Total	**69,560**	**13,562**	**44,161**	**38,961**

Impairment charges

Where there is objective evidence of impairment of loans and advances or amounts owed, individual impairment calculation is effected. The impairment charge equals the difference between the carrying amount of the loan/advance and the present value of expected future cash flows from the loan/advance including the realisation of any collateral held. Determination of the expected future cash flows is based on the most likely outcome.

Clients with exposures subject to objective evidence of impairment but who have not defaulted on their obligations are downgraded to rating category 9 while clients in default are downgraded to rating category 10.

Loans and advances without objective evidence of impairment are collectively assessed for impairment. Such assessments concern groups of loans and advances with uniform credit risk characteristics. The models applied are based on classifications where group classification is defined by clients' current ratings. Collective impairment charges are determined by the rating at the balance sheet date compared with the rating on the establishment of the loan/advance. The consequence of rating changes as regards the groups' future cash flows is determined on a net basis.

The cash flows are specified by means of parameters used to calculate the capital requirement as well as historical loss data adjusted for accounting purposes. Where the Group becomes aware that deteriorations or improvements which the models have not yet taken fully into account have occurred at the balance sheet date, the impairment charge is adjusted accordingly.

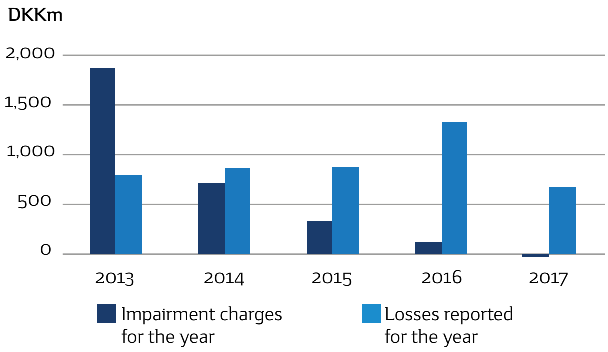
Impairment calculation is effected quarterly in a process managed by the centralised credit organisation.

Impairment charges for bank loans and advances etc constitute minus DKK 51m in 2017 compared with DKK 87m in 2016.

At year-end 2017 collective impairment charges amount to DKK 300m. Agriculture accounts for DKK 75m.

The figure below shows the development in impairment charges for bank loans and advances from 2013 to 2017 as well as reported losses.

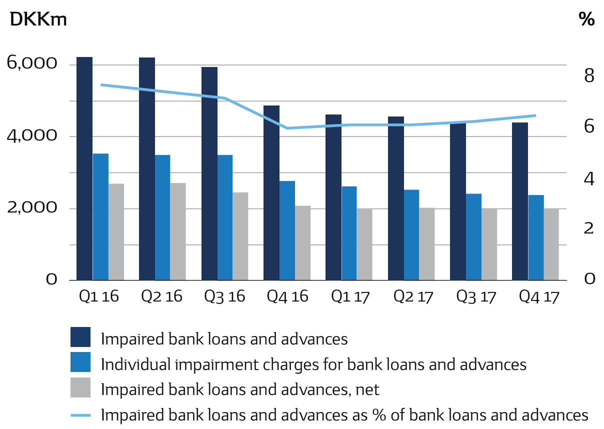
Impairment charges etc and reported losses



Reported losses in 2017 total DKK 660m (2016: DKK 1,333m). DKK 100m (2016: DKK 496m) concerns loans and advances that have been written off and converted to subordinated loan capital as regards agricultural exposures.

The figure and the table below show the development in impaired bank loans and advances and the relevant impairment charges. Impaired bank loans and advances declined from DKK 4,862m in Q4 2016 to DKK 4,391m in Q4 2017. During this period accumulated individual impairment charges for bank loans and advances decreased from DKK 2,726m to DKK 2,381m.

Individually impaired bank loans and advances

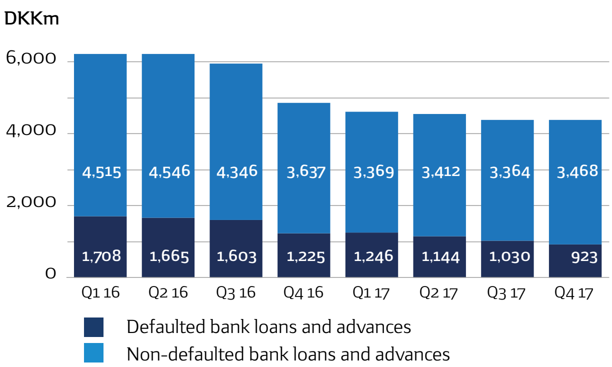


Individually impaired bank loans and advances

DKKm	2017	2016
Non-defaulted bank loans and advances	3,468	3,637
Defaulted bank loans and advances	923	1,225
Impaired bank loans and advances	**4,391**	**4,862**
Impairment of individually impaired bank loans and advances	2,381	2,726
Impaired bank loans and advances after impairment charges	**2,010**	**2,136**
Impaired bank loans and advances as % of bank loans and advances before impairment charges	6.6	6.1
Impairment charges as % of bank loans and advances before impairment charges	3.6	3.4
Impaired as % of impaired bank loans and advances	54.2	56.1
Impairment charges as % of defaulted bank loans and advances	258.0	222.5

The figure below shows the breakdown of impaired bank loans and advances in terms of defaulted bank loans and advances and non-defaulted bank loans and advances. As shown in the figure, the majority of impaired loans and advances concern non-defaulted bank loans and advances. Defaulted bank loans and advances have declined by DKK 785m since Q1 2016 whereas non-defaulted bank loans and advances have fallen by DKK 1,047m.

Breakdown of impaired bank loans and advances



Financial counterparties

Trading in securities, currencies and derivatives as well as payment services etc involve exposure to financial counterparties in the form of delivery risk or credit risk.

Delivery risk is the risk that the Group does not receive payments or securities in connection with the settlement of securities or currency transactions equalling the securities or payments delivered by the Group.

Management grants delivery risk lines and credit risk lines to financial counterparties based on the risk profile of the individual counterparty which is assessed in terms of rating, earnings, capital position as well as the size of the financial counterparty. Risks and lines to financial counterparties are monitored continuously.

The Group participates in an international foreign exchange settlement system, CLS®, which aims to reduce delivery risk. In CLS® payment is made on the net position for each currency, and only 1 amount for each currency is paid or received. In addition this net exposure is only to 1 counterparty, who is the Group's partner in the system.

The Group aims to mitigate credit risk to financial counterparties in many ways, eg by concluding netting agreements (ISDA agreements). Moreover the Group has entered into agreements (CSA agreements) with all significant counterparties to ensure credit risk mitigation of derivatives. Exposures are calculated on a daily basis after which the parties settle collateral. Consequently exposures are reset in all material respects on a daily basis. The agreements are managed by Securities & International Transactions.

Appendix 1 – Supplementary tables

The Group's credit exposure

DKKm							2017
Exposure category	Approach	Gross exposure	Credit risk mitigation	Effect of conversion factors	Exposure (un-weighted)	REA	Average exposure for the year
Corporate clients	STD	613	0	(198)	415	413	917
	IRB	98,490	(12,030)	(34,997)	51,463	28,131	98,604
Retail clients	STD	985	(1)	(3)	982	734	940
	IRB	30,879	(5,966)	(59)	24,854	8,271	33,407
Total corporate and retail clients		**130,967**	**(17,997)**	**(35,257)**	**77,714**	**37,549**	**133,868**
Governments incl municipalities	STD	9,377	0	(990)	8,387	11	8,906
Credit institutions	STD	12,225	(7,611)	(406)	4,208	1,372	11,941
Total		**152,569**	**(25,608)**	**(36,653)**	**90,309**	**38,932**	**154,715**
Share IRB (%)		85	70	96	84	93	85
Share STD (%)		15	30	4	16	7	15
							2016
Corporate clients	STD	2,719	(1,838)	(199)	682	605	2,767
	IRB	100,144	(10,811)	(35,880)	53,453	30,305	99,627
Retail clients	STD	874	(1)	(3)	870	648	806
	IRB	40,184	(9,350)	(79)	30,755	9,200	39,233
Total corporate and retail clients		**143,921**	**(22,000)**	**(36,161)**	**85,760**	**40,758**	**142,433**
Governments incl municipalities	STD	8,697	0	(991)	7,706	20	6,379
Credit institutions	STD	13,504	(9,851)	(476)	3,177	904	16,361
Total		**166,122**	**(31,851)**	**(37,628)**	**96,643**	**41,682**	**165,173**
Share IRB (%)		84	63	96	87	95	84
Share STD (%)		16	37	4	13	5	16

Appendix 1 – Supplementary tables

Credit exposure by industry

DKKm Industry/exposure category	Corporate clients	Retail clients	Other	Total	2017 %
Agriculture, hunting, forestry and fisheries	6,977	69		7,046	5.4
Manufacturing and extraction of raw materials	15,172	32		15,204	11.6
Energy supply etc	4,526	3		4,529	3.5
Building and construction	7,350	74		7,424	5.7
Trade	21,584	86		21,670	16.5
Transportation, hotels and restaurants	6,722	64		6,786	5.2
Information and communication	1,011	15		1,026	0.8
Finance and insurance	9,106	207		9,313	7.1
Repo/reverse	7,633	72		7,705	5.9
Real property	9,544	153		9,697	7.4
Other industries	5,645	183		5,828	4.4
Sector guarantees	312	0		312	0.2
Retail	3,521	30,906		34,427	26.3
Total corporate and retail clients	**99,103**	**31,864**		**130,967**	**100.0**
Governments incl municipalities			9,377	9,377	
Credit institutions, repo/reverse			7,427	7,427	
Credit institutions, other			4,761	4,761	
Sector guarantees			37	37	
Total	**99,103**	**31,864**	**21,602**	**152,569**	

Credit exposure by industry

DKKm Industry/exposure category	Corporate clients	Retail clients	Other	Total	2016 %
Agriculture, hunting, forestry and fisheries	7,596	89		7,685	5.3
Manufacturing and extraction of raw materials	14,475	42		14,517	10.1
Energy supply etc	5,027	4		5,031	3.5
Building and construction	6,732	91		6,823	4.7
Trade	21,109	127		21,236	14.8
Transportation, hotels and restaurants	6,257	79		6,336	4.4
Information and communication	929	16		945	0.7
Finance and insurance	16,880	206		17,086	11.9
Repo/reverse	5,953	62		6,015	4.2
Real property	10,728	181		10,909	7.6
Other industries	2,167	840		3,007	2.0
Sector guarantees	303	0		303	0.2
Retail	4,707	39,321		44,028	30.6
Total corporate and retail clients	**102,863**	**41,058**		**143,921**	**100.0**
Governments incl municipalities			8,697	8,697	
Credit institutions, repo/reverse			9,822	9,822	
Credit institutions, other			3,649	3,649	
Sector guarantees			33	33	
Total	**102,863**	**41,058**	**22,201**	**166,122**	

Appendix 1 – Supplementary tables

Credit exposure to corporate clients by rating category (IRB)

DKKm						2017
			Exposure-weighted, average			
Rating category	Gross exposure	Exposure after effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	REA
1	4,375	3,585	0.03	10.9	3.5	127
2	31,755	17,753	0.04	30,6	11.1	1,970
3	28,203	17,163	0.12	39.4	27.3	4,682
4	13,990	9,352	0.40	43.6	55.8	5,216
5	8,003	5,730	0.91	44.0	78.0	4,471
6	4,090	3,073	1.89	43.0	91.4	2,807
7	1,656	1,341	3.73	44.7	123.6	1,658
8	371	312	6.28	44.3	124.8	390
9	4,657	3,878	13.06	44.1	175.6	6,810
Default	1,390	1,306	100.00	44.1	0.0	-
Total	**98,490**	**63,493**				**28,131**

						2016
1	4,447	2,671	0.03	19.2	6.2	166
2	30,479	16,634	0.04	32.6	11.9	1,974
3	28,868	17,616	0.13	37.9	26.7	4,711
4	15,548	10,567	0.41	42.8	54.7	5,903
5	7,713	5,784	0.91	43.7	78.9	4,394
6	4,176	3,289	1.97	43.9	96.1	3,162
7	1,623	1,329	3.88	43.8	115.9	1,540
8	846	712	6.44	43.7	133.5	951
9	4,790	4,108	15.88	44.0	182.7	7,504
Default	1,653	1,554	100.00	44.0	0.0	-
Total	**100,144**	**64,264**				**30,305**

The table above shows the breakdown by rating of the gross exposure of corporate clients after the deduction of the conversion factor as well as exposure-weighted LGD, PD and average risk weight. The average risk weight is determined according to the Danish executive order on capital adequacy as a function of LGD and PD. REA is calculated as the exposure after the conversion factor multiplied by the risk weight.

Credit exposure to retail clients by rating category (IRB)

DKKm Rating category	Gross exposure	Exposure after effect of conversion factors	Exposure-weighted, average PD (%)	LGD (%)	Risk weight (%)	2017 REA
1	13,977	13,950	0.03	60.1	6.1	850
2	8,160	8,145	0.04	55.0	6.8	553
3	4,060	4,048	0.14	57.7	18.5	748
4	1,371	1,367	0.39	59.2	38.0	519
5	868	867	1.20	58.3	75.1	651
6	406	406	1.85	60.7	88.8	360
7	129	130	3.84	56.9	97.2	126
8	132	132	7.15	63.0	160.2	212
9	1,571	1,570	15.98	58.8	233.5	3,666
Default	205	205	100.00	60.4	285.9	586
Total	**30,879**	**30,820**	-	-	-	**8,271**

						2016
1	18,261	18,226	0.03	56.1	5.6	1,028
2	10,947	10,933	0.04	52.0	6.4	701
3	5,448	5,423	0.14	54.8	17.6	952
4	1,706	1,703	0.39	55.5	36.1	615
5	1,093	1,091	1.19	55.7	72.1	787
6	564	564	1.89	55.2	83.7	472
7	123	123	4.04	60.1	123.7	152
8	135	134	7.06	53.6	127.5	171
9	1,654	1,655	16.66	57.8	232.0	3,832
Default	253	253	100.00	66.5	193.8	490
Total	**40,184**	**40,105**				**9,200**

Appendix 1 – Supplementary tables

Credit exposure by client's country of domicile

DKKm					2017
	Denmark	Germany	Switzerland	Other	Total
Corporate clients	88,276	5,507	1,485	3,835	99,103
Retail clients	30,735	431	203	495	31,864
Total corporate and retail clients	**119,011**	**5,938**	**1,688**	**4,330**	**130,967**
Governments incl municipalities	9,295	4	0	78	9,377
Credit institutions	9,190	691	22	2,322	12,225
Total	**137,496**	**6,633**	**1,710**	**6,730**	**152,569**

					2016
Corporate clients	91,064	5,504	754	5,541	102,863
Retail clients	39,808	489	98	663	41,058
Total corporate and retail clients	**130,872**	**5,993**	**852**	**6,204**	**143,921**
Governments incl municipalities	8,609	0	0	88	8,697
Credit institutions	5,546	375	84	7,499	13,504
Total	**145,027**	**6,368**	**936**	**13,791**	**166,122**

Credit exposure by exposure category and maturity

DKKm	Non-allocated	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years	2017 Total
Corporate clients	-	55,962	27,673	9,437	6,031	99,103
Retail clients	-	9,664	3,368	3,449	15,383	31,864
Total corporate and retail clients	**-**	**65,626**	**31,041**	**12,886**	**21,414**	**130,967**
Governments incl municipalities	439	7,978	918	26	16	9,377
Credit institutions	-	12,087	138	0	0	12,225
Total	**439**	**85,691**	**32,097**	**12,912**	**21,430**	**152,569**

						2016
Corporate clients	-	57,182	29,983	8,978	6,720	102,863
Retail clients	-	15,052	3,411	3,895	18,700	41,058
Total corporate and retail clients	**-**	**72,234**	**33,394**	**12,873**	**25,420**	**143,921**
Governments incl municipalities	441	7,356	859	27	14	8,697
Credit institutions	-	13,258	239	-	-	13,504
Total	**441**	**92,848**	**34,492**	**12,900**	**25,441**	**166,122**

The table shows the maturity of the Group's exposures broken down into different segments. According to the Group's documents, the majority of corporate exposures can be terminated at very short notice and retail exposures can normally be terminated at a notice of 3 months.

Appendix 1 – Supplementary tables

Credit exposure by credit quality

DKKm	Corporate clients	Retail clients	Other	2017 Total
Neither past due nor impaired	97,509	30,682	21,602	149,793
Past due but not impaired	45	53	-	98
Impaired after impairment charges	1,549	1,129	-	2,678
Total	**99,103**	**31,864**	**21,602**	**152,569**
				2016
Neither past due nor impaired	101,184	40,391	22,201	163,776
Past due but not impaired	40	45	-	85
Impaired after impairment charges	1,639	622	-	2,261
Total	**102,863**	**41,058**	**22,201**	**166,122**

Impaired amounts owed include amounts owed by clients where there is objective evidence of individual impairment. Past due amounts consist of loans and advances from a client's first day of arrears where there is no objective evidence of impairment. A very limited share of past due amounts concerns high credit risk clients.

Past due amounts

DKKm	Corporate clients	Retail clients	2017 Total	Corporate clients	Retail clients	2016 Total
0-30 days	44	47	91	39	43	82
31-60 days	1	5	6	1	2	3
61-90 days	-	1	1	-	-	-
Total	**45**	**53**	**98**	**40**	**45**	**85**

Impairment charges for loans and advances etc recognised in the income statement

DKKm	2017	2016
Impairment and provisions	(64)	(88)
Write-offs	148	342
Recovered from debt previously written off	135	167
Total	**(51)**	**87**

Individually impaired loans/advances and guarantees as well as impairment charges and provisions by client's country of domicile

DKKm			2017			2016
	Individually impaired loans/ advances and guarantees	Individual impairment and provisions	Impaired loans/ advances and guarantees after impairment charges	Individually impaired loans/ advances and guarantees	Individual impairment and provisions	Impaired loans/ advances and guarantees after impairment charges
Denmark	5,025	2,446	2,579	5,001	2,715	2,286
Germany	136	100	36	96	76	20
Other	70	7	63	67	61	6
Total	**5,231**	**2,553**	**2,678**	**5,164**	**2,852**	**2,312**

Appendix 2 – Glossary

CEBS	Committee of European Banking Supervisors.
CF	Conversion Factor, ie the proportion of the undrawn credit commitment that the client is expected to have drawn at default.
CLS®	Continuous Linked Settlement. A settlement system operating on the principle of "payment on delivery", which minimises the settlement risk of currency transactions concluded between CLS® participants.
CSA	Credit Support Annex. The part of an ISDA agreement that concerns collateral.
Default	When a client is not expected to honour all of his payment obligations.
EAD	Exposure At Default. EAD represents the expected size of an exposure, ie how much a client is expected to owe at the time of default.
Gross exposure	Loans and advances, undrawn credit commitments, interest receivable, repo/reverse transactions and guarantees as well as counterparty risk on derivatives. The exposure is determined after impairment charges and provisions.
IRB	Internal Ratings Based approach to manage credit risk and calculate the capital requirement as regards credit risk.
ISDA agreement	Agreement where the mutual rights and obligations of 2 or more parties are netted. Credit risk is mitigated by means of netting agreements.
LGD	Loss Given Default. LGD represents the proportion of a given exposure that is expected to be lost if the client defaults within the next 12 months.
Net exposure	Gross exposure after inclusion of the conversion factor and after deduction of collateral.
PD	Probability of Default. Probability that a client will default on his obligations within the next 12 months.
REA	Risk exposure amount calculated in accordance with prevailing capital adequacy rules.
STD	Standardised approach to calculate credit risk.
Unsecured portion	Following a cautious assessment of collateral provided, the portion of an exposure for which collateral does not exist.

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