Credit Risk 2013

Sydbank

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 facilities 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 2013 Annual Report.

The correlation between the gross exposure, as shown in "Appendix 1 – Supplementary tables", and loans and advances and guarantees in the 2013 Annual Report is shown in the table below.

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

Gross exposure – credit risk

DKKm	2013	2012
Loans and advances at fair value	4,885	6,082
Loans and advances at amortised cost	66,592	68,163
Loans and advances according to financial statements	71,477	74,245
Loans and advances to municipalities	(856)	(422)
Undrawn credit commitments	34,684	32,852
Derivatives	1,398	1,813
Guarantees etc	12,615	11,655
Gross exposure to retail and corporate clients	119,318	120,143
Governments incl municipalities	5,871	3,678
Institutions	31,666	34,306
Shares	1,157	1,019
Other exposures	1,893	1,560
Gross exposure – credit risk	**159,905**	**160,706**

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 experience, education and training as well as to the employee's client portfolio and the individual client's rating. In connection with new clients employees have limited lending authority.

Retail clients
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 the regional head office. Major exposures and highly geared exposures are approved centrally by Credits.

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

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

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 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, SMEs, 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 client 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 to the following segments in particular:

- Retail and corporate clients in Denmark and Northern Germany
- Investment clients in Scandinavia and Germany.

All regional corporate departments have identified a number of weak exposures to which particular focus is given and these exposures are analysed and reviewed at least every six months at the initiative of Credits. The objective is to ensure that the Group's action plans for these exposures are evaluated and adjusted on a regular basis.

Moreover Credits has a department which is assigned to exposures with a risk of loss exceeding DKK 5m. These exposures are closely monitored and Credits is actively involved in preparing solutions to mitigate the Group's credit risk.

Risk Follow-up
By means of analyses, random sampling and inspections at the branches and centrally, Risk Follow-up monitors the quality of credit exposures, the quality of documents and registrations 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 as well as dialogue with the individual branches.

Moreover Risk Follow-up conducts annual quality analyses of the Group's new exposures as well as annual sample surveys 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. This assessment forms part of the Group's validation reports.

Risk Follow-up ceased to be part of Credits in 2013 and is now part of the new division Risk.

Rating

The Group has developed rating models to manage credit risks to retail and corporate 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 an 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 exposure at default.

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

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

Furthermore the risk parameters 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.

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 four 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 clients
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.

SMEs
The SME model is to a large extent identical to the retail client model but the data is supplemented by further transaction variables concerning the corporate account relationship.

Corporate clients
The corporate client model is based partly on the client's accounting data and partly on the client's 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 Bank's capital base, the calculated ratings are assessed by Credits at least twice a year.

Investment clients
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 for 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 part of the exposures – primarily exposures acquired from DiBa Bank – is not yet included in the rating models.

PD scale
To ensure a wider spread in terms of rating categories, the scale regarding PD ratings in rating categories was changed as of December 2012 as regards retail clients. The scale for corporate clients was changed as of 30 April 2013 in connection with the implementation of an improved version of the corporate client rating model. As a result the PD scales for retail clients and corporate clients are identical again.

The new and old PD scales are shown below.

%	New PD scale		Old PD scale	
Rating category	PD lower	PD upper	PD lower	PD upper
1	0.00	0.01	0.00	0.03
2	0.01	0.05	0.03	0.17
3	0.05	0.20	0.17	0.49
4	0.20	0.50	0.49	1.02
5	0.50	1.10	1.02	2.13
6	1.10	2.50	2.13	3.21
7	2.50	4.00	3.21	4.07
8	4.00	8.00	4.07	4.66
9	8.00	99.99	4.66	99.99
Default	100.00	100.00	100.00	100.00

The table below shows the rating at year-end 2012 of corporate clients in rating categories according to the new PD scale as well as the old PD scale. The primary result of using the new PD scale is that 14% of loans and advances and guarantees that were previously rated in categories 1-3 are now rated in categories 4-6.

Loans/advances and guarantees by rating category

DKKm	Retail 31 Dec 2012 – new scale			Retail 31 Dec 2012 – old scale		
Rating category	Loans and advances	Guarantees	%	Loans and advances	Guarantees	%
1	647	13	1.2	1,888	67	3.7
2	5,631	249	11.1	10,636	832	21.6
3	10,148	1,361	21.7	11,040	1,422	23.5
4	9,753	875	20.0	7,921	816	16.5
5	8,649	924	18.0	5,096	473	10.5
6	3,222	315	6.7	1,794	165	3.7
7	1,526	76	3.0	1,201	38	2.3
8	1,000	61	2.0	745	41	1.5
9	4,831	268	9.6	5,086	288	10.1
Default	1,740	42	3.4	1,740	42	3.4
STD/NR	1,422	296	3.2	1,422	296	3.2
Total	**48,569**	**4,480**	**100.0**	**48,569**	**4,480**	**100.0**

Rating

Loans/advances and guarantees by rating category

DKKm									2013
	Corporate			Retail			Total		
Rating category	Loans and advances	Guarantees	%	Loans and advances	Guarantees	%	Loans and advances	Guarantees	%
1	1,238	82	2.4	5,545	1,074	26.2	6,783	1,156	10.0
2	8,536	689	17.0	5,233	459	22.5	13,769	1,148	18.8
3	9,985	1,709	21.6	3,546	437	15.7	13,531	2,146	19.7
4	6,875	548	13.7	1,655	223	7.4	8,530	771	11.7
5	5,570	694	11.6	1,134	119	5.0	6,704	813	9.5
6	3,461	240	6.8	757	59	3.2	4,218	299	5.7
7	2,031	154	4.0	207	19	0.9	2,238	173	3.0
8	1,002	100	2.0	177	9	0.7	1,179	109	1.6
9	6,072	250	11.7	1,748	44	7.1	7,820	294	10.2
Default	2,146	83	4.1	364	11	1.5	2,510	94	3.3
STD/NR	2,211	528	5.1	1,294	1,186	9.8	3,505	1,714	6.6
Total	**49,127**	**5,077**	**100.0**	**21,660**	**3,640**	**100.0**	**70,787**	**8,717**	**100.0**
Individual impairment of loans and advances	3,037			1,021			4,058		
Collective impairment of loans and advances	74			63			137		
Total	**46,016**	**5,077**		**20,576**	**3,640**		**66,592**	**8,717**	
% of total	69	58		31	42		100	100	

The table above shows that corporate loans and advances (including public authorities) account for 69% of total loans and advances, and loans and advances to retail clients constitute 31%. 54% of the Group's corporate loans and advances are rated in categories 1-4 and 74% of the Group's loans and advances to retail clients are rated in categories 1-4.

Default

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

- A write-off has been recorded as regards the client
- The client has as least one non-accrual credit facility
- An impairment charge/provision has been registered in connection with the client indicating that 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 adopted procedures under which all exposures in arrears for more than 90 days are either approved or transferred to the department for non-performing exposures.

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 2013 to 31 December 2013 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	43,652	6	13
2	22,292	15	9
3	18,155	24	28
4	10,065	29	42
5	6,322	40	67
6	3,760	50	72
7	2,246	55	93
8	2,005	61	138
9	2,583	256	507
Total	111,080	536	969

The number of retail client defaults is 45% below the estimated number of defaults. The primary reason is found in rating categories 7-9 where the number of realised defaults is only half that of the estimated number of defaults.

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	288	-	-
2	1,723	1	1
3	2,412	4	3
4	1,785	4	7
5	1,508	10	13
6	1,154	21	23
7	466	11	18
8	354	18	23
9	933	129	218
Total	10,623	198	306

The number of corporate client defaults is 35% below the estimated number of defaults. The difference between estimated and realised defaults is especially found in rating category 9. As a result of the Danish FSA's clarifications regarding OEI and impairment charges for OEI exposures, a large number of exposures have been moved to rating category 9.

The table below shows the average PD for solvency purposes used to calculate the Group's risk-weighted assets at the beginning of the year as well as the realised annual default rates for 2005 to 2013.

%	Corporate		Retail	
Year	PD solvency 31 Dec	Realised default rate	PD solvency 31 Dec	Realised default rate
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
2010	2.19	2.12	0.51	0.47
2009	2.12	2.47	0.58	0.51
2008	1.57	1.28	0.55	0.46
2007	1.50	0.59	0.58	0.43
2006	1.74	0.48	0.62	0.38
2005	1.98	0.73	0.71	0.48

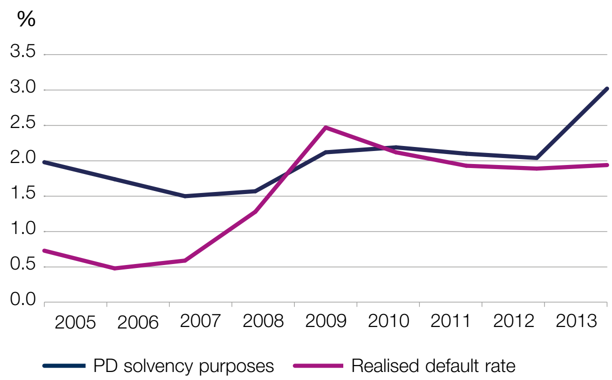
As shown above, PD for solvency purposes decreases from year-end 2005 to year-end 2007 as economic conditions improve and the rating basis changes. PD for solvency purposes increases again at the beginning of 2009 as a result of changed economic conditions relating to the financial crisis.

Since year-end 2010 the realised default rate as regards corporate clients has been stable at a slightly lower level than in 2009-2010. However the PD estimate for solvency purposes as regards corporate clients rose considerably in 2013. This is due to the implementation of a new rating model in May 2013 and a greater degree of prudence in relation to the PD estimates for solvency purposes applied.
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 PD estimates for solvency purposes applied has also played a part in this respect.

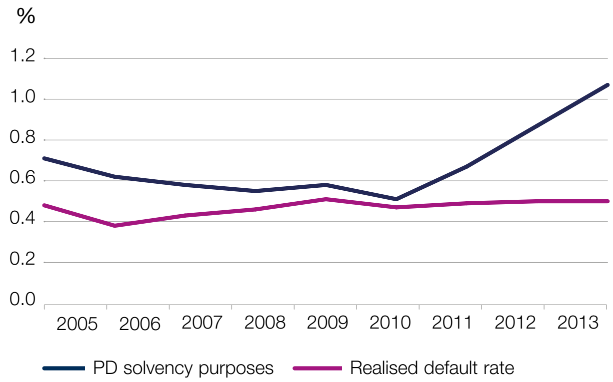
Consequently the Bank anticipates that under normal economic conditions the PD estimates for solvency purposes are prudent compared to the realised default rates.

The following two figures show PD for solvency purposes and the realised default rate since 2005. As can be seen, PD for solvency purposes is somewhat higher than the realised default rate except for 2009 as regards corporate clients.

Probability of default (PD) – corporate clients



Probability of default (PD) – retail clients



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 decline in asset values during a recession
- The transferability of the collateral.

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 rates of retail clients in default from 2005 to 2013.

Loss given default (LGD) – retail clients

%	Estimated	Realised
2013	71	75
2012	70	73
2011	68	78
2010	66	82
2009	67	81
2008	67	82
2007	68	75
2006	67	69

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.

Therefore the differences between estimated and realised losses in recent years are a consequence of the fact that these exposures have only been at the department for non-performing exposures for a relatively short while and that the ability to repay in recent years has been impacted by poor economic conditions.

It is expected that some of the clients will be able to repay part or all of their debt as the economic situation improves. Therefore it is anticipated that in time the estimate of loss given default and the actual calculated values of loss will show 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. Exposure at default is then calculated as the amount already drawn plus expected additional drawings until default.

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

The table below shows the average estimated and realised conversion factors of undrawn credit commitments of retail clients in default in the period from 2006 to 2013.

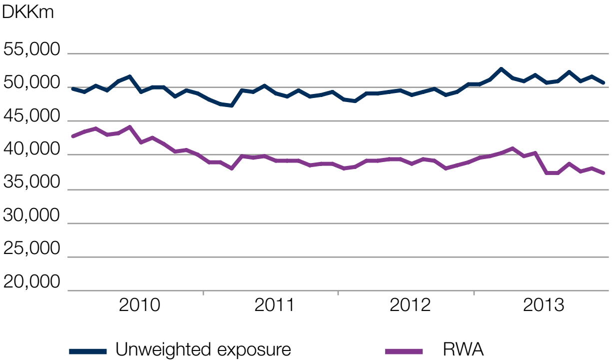
Conversion factor (CF) – retail clients

%	Estimated	Realised
2013	99	(12)
2012	99	(10)
2011	98	32
2010	99	36
2009	96	49
2008	100	103
2007	100	48
2006	100	79

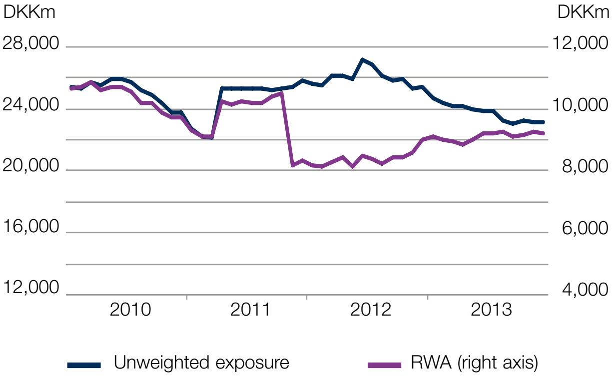
As can be seen from the table, the Group's conversion factor estimates as regards retail clients were around 100% throughout the period, corresponding to full recognition of undrawn credit commitments. The realised conversion factors were significantly lower except for 2008 when the realised value was almost identical to the estimate. The fact that the realised CF has been negative for the past two years is attributable to the Bank's ability to reduce exposures before the time of default.

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

Risk-weighted assets (RWA) and unweighted exposure – corporate clients



Risk-weighted assets (RWA) and unweighted exposure – retail clients



The decline in RWA as regards retail clients in late 2011 is due to the implementation of an improved rating system for retail clients. The predictive power of the new model is better than that of the model used until then and as a result more clients are rated in either better or poorer rating categories. The change in rating of clients results in lower RWA but also a higher expected loss (EL).

Industry breakdown

The composition of the Group's credit exposure to corporate clients must be in line with individual industry prospects and may not deviate materially from the industry diversification of other banks. 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 66,592m.
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.

2013 DKKm	Loans and advances before individual impairment charges	Loans and advances after individual impairment charges	Guarantees	Individually impaired loans and advances	Defaulted loans and advances
Corporate					
Agriculture, hunting, forestry and fisheries	6,647	5,666	412	1,598	326
Manufacturing and extraction of raw materials	6,052	5,818	633	420	100
Energy supply etc	2,156	2,138	754	31	25
Building and construction	2,281	2,137	899	275	104
Trade	9,693	9,257	1,041	645	159
Transportation, hotels and restaurants	2,869	2,800	168	140	18
Information and communication	435	426	12	14	1
Finance and insurance	6,492	6,129	120	632	279
Real property	8,284	7,684	681	1,122	502
Other industries	3,206	3,023	251	274	90
Total corporate	**48,115**	**45,078**	**4,971**	**5,151**	**1,604**
Public authorities	1,012	1,012	106		
Retail	21,660	20,639	3,640	1,719	301
Collective impairment charges	(137)	(137)			
Total	**70,650**	**66,592**	**8,717**	**6,870**	**1,905**
Agriculture, hunting, forestry and fisheries					
Pig farming	2,018	1,773	101	466	56
Cattle farming	2,005	1,424	129	842	188
Crop production	1,354	1,314	97	84	17
Other agriculture	1,270	1,155	85	206	65
Total	**6,647**	**5,666**	**412**	**1,598**	**326**
Manufacturing and extraction of raw materials					
Iron and metal	1,532	1,439	99	162	48
Food, beverage and tobacco	1,040	1,026	58	21	2
Clothing	558	541	74	27	7
Other manufacturing and extraction of raw materials	2,922	2,812	402	210	43
Total	**6,052**	**5,818**	**633**	**420**	**100**
Trade					
Wholesale	6,769	6,509	542	373	61
Retail	2,012	1,869	435	216	85
Car dealers and garages	912	879	64	56	13
Total	**9,693**	**9,257**	**1,041**	**645**	**159**
Finance and insurance					
Holding companies	2,697	2,482	80	364	165
Financing companies	3,795	3,647	40	268	114
Total	**6,492**	**6,129**	**120**	**632**	**279**
Real property					
Leasing of commercial property	3,360	3,127	383	385	208
Leasing of residential property	2,015	1,791	164	489	169
Housing associations and cooperative housing associations	1,466	1,466	1	0	0
Purchase, development and sale on own account	1,086	964	64	221	115
Other related to real property	357	336	69	27	10
Total	**8,284**	**7,684**	**681**	**1,122**	**502**

As shown below, the accumulated impairment ratio as regards loans and advances constitutes 5.7% and impaired loans and advances represent 9.7% of the total volume of lending. The table shows that 24% of loans and advances to agriculture are regarded as impaired and that the relevant impairment charges constitute 61.4%, whereby the impairment ratio for agriculture totals 14.8%. The Group's risk on the exposure to agriculture is described in a separate paragraph.

Compared with the figures for 2012, the accumulated impairment ratio as regards loans and advances has gone up from 3.9% to 5.7%. Apart from agriculture, impairment charges for real property (incl building and construction) have increased in particular, namely by 3.0 percentage points. The impairment ratio as regards retail clients has gone up by 1.6% to 4.7%. All three sectors are described separately.

Impairment of individually impaired loans and advances	Impairment charges for loans and advances etc for the year	Losses reported for the year	Individually impaired loans and advances as % of loans and advances	Impairment charges as % of impaired loans and advances	Impairment charges as % of loans and advances
981	520	122	24.0	61.4	14.8
234	115	48	6.9	55.7	3.9
18	2	2	1.4	58.1	0.8
144	57	42	12.1	52.4	6.3
436	227	88	6.7	67.6	4.5
69	37	25	4.9	49.3	2.4
9	7	1	3.2	64.3	2.1
363	68	133	9.7	57.4	5.6
600	333	118	13.5	53.5	7.2
183	107	39	8.5	66.8	5.7
3,037	**1,473**	**618**	**10.7**	**59.0**	**6.3**
1,021	388	160	7.9	59.4	4.7
4,058	**1,861**	**778**	**9.7**	**59.1**	**5.7**
245	96	11	23.1	52.6	12.1
581	380	99	42.0	69.0	29.0
40	15	0	6.2	47.6	3.0
115	30	12	16.2	55.8	9.1
981	**520**	**122**	**24.0**	**61.4**	**14.8**
93	43	8	10.6	57.4	6.1
14	1	3	2.0	66.7	1.3
17	12	10	4.8	63.0	3.0
110	58	27	7.2	52.4	3.8
234	**115**	**48**	**6.9**	**55.7**	**3.9**
260	141	57	5.5	69.7	3.8
143	78	27	10.7	66.2	7.1
33	8	4	6.1	58.9	3.6
436	**227**	**88**	**6.7**	**67.6**	**4.5**
215	56	21	13.5	59.1	8.0
148	12	112	7.1	55.2	3.9
363	**68**	**133**	**9.7**	**57.4**	**5.6**
233	115	48	11.5	60.5	6.9
224	136	22	24.3	45.8	11.1
0	0	0	0.0	-	0.0
122	96	36	20.3	55.2	11.2
21	(14)	12	7.6	77.8	5.9
600	**333**	**118**	**13.5**	**53.5**	**7.2**

Industry breakdown

The table below shows the Group's loans and advances to industries by rating category. It should be noted that 60% of total loans and advances are rated in categories 1-4 whereas the percentage for agriculture is 32.

Loans and advances by industry and rating category

DKKm							**2013**
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Industry							
Agriculture, hunting, forestry and fisheries	362	1,773	1,533	2,433	350	196	6,647
Manufacturing and extraction of raw materials	1,711	2,250	1,103	845	101	42	6,052
Energy supply etc	1,156	345	372	133	114	36	2,156
Building and construction	247	717	618	443	156	100	2,281
Trade	1,272	4,540	1,946	1,554	175	206	9,693
Transportation, hotels and restaurants	704	1,168	425	425	46	101	2,869
Information and communication	164	157	40	47	1	26	435
Finance and insurance	2,346	1,856	894	1,102	365	(71)	6,492
Real property	1,345	2,609	1,395	1,735	735	465	8,284
Other industries	460	1,387	689	375	102	193	3,206
Public authorities	7	59	17	13	1	915	1,012
Retail	10,778	5,200	1,890	2,132	364	1,296	21,660
Total	**20,552**	**22,061**	**10,922**	**11,237**	**2,510**	**3,505**	**70,787**
Individual impairment charges							4,058
Collective impairment charges							137
Total loans and advances							**66,592**
%	29.0	31.2	15.4	15.9	3.5	5.0	100.0

Focus on real property as well as building and construction

According to the Group's credit policy, loans and advances and guarantees regarding exposures in the property sector as well as the building and construction sector may not exceed 20% of the Group's total lending and guarantee portfolio. Currently the share stands at 14.9%.

In the table below, the two primary industries are divided into the following sub-industries:

- Clients who mainly invest in properties that are let out for commercial use
- Clients who mainly invest in properties that are let out for residential use
- Cooperative housing associations and non-profit housing associations
- Clients who mainly invest in properties for subsequent resale
- Other – typically a combination of the above
- Building and construction.

Real property as well as building and construction – loans and advances by sub-industry and rating category

DKKm							2013
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Real property							
Leasing of commercial property	457	880	742	747	254	280	3,360
Leasing of residential property	173	524	390	641	203	84	2,015
Cooperative housing associations and non-profit housing associations	527	882	5	1	0	50	1,466
Purchase, development and sale on own account	147	278	198	255	171	37	1,086
Other related to real property	40	45	60	92	107	14	357
Total real property	**1,345**	**2,609**	**1,395**	**1,735**	**735**	**465**	**8,284**
Building and construction	247	717	618	443	156	100	2,281
Total	**1,592**	**3,326**	**2,013**	**2,178**	**891**	**565**	**10,565**

As shown above, total loans and advances concerning real property as well as building and construction constitute DKK 10,565m, equivalent to 14.9% of the Group's lending portfolio. 46.5% of total loans and advances are rated in categories 1-4.

It should be noted that loans and advances to non-profit housing associations and cooperative housing associations are primarily bridging loans which will be replaced by a mortgage loan when construction has been completed. The quality of these loans is considered good and the exposure in rating categories 5-default is only 0.4%.

Outlook

Leasing of commercial property

The commercial rental property market is expected to remain under pressure due to weak economic prospects. Earnings and liquidity are squeezed in many enterprises and this discourages them from investing and expanding. Enterprises are to a greater extent focused on cutting costs, for instance rental costs. The commercial property market is expected to remain weak.

Leasing of residential property

Although there are signs of strong demand for rented accommodation in central Copenhagen as well as in the largest university town centres, substantial parts of the industry remain under pressure. Investor interest among professionals is predominantly in large and well-located properties in the largest towns. Poorly located properties and properties with uncertain cash flows will remain under severe pressure. It is expected that property investors will continue to demand high returns on properties outside the largest towns.

Building and construction

The building industry is highly sensitive to market fluctuations and is hard hit by the weak economic conditions. There are no prospects of any change. The market is characterised by few new building permits and it is likely that the volume of housing starts will remain under pressure also in 2014. There are no immediate prospects of a rise in renovation activity.

Focus on agriculture

Agriculture – loans and advances by sub-industry and rating category

DKKm							**2013**
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Agriculture							
Pig farming	50	529	536	800	56	47	2,018
Cattle farming	21	244	391	1,098	204	47	2,005
Crop production	166	483	342	313	17	32	1,354
Other agriculture	125	516	263	222	73	71	1,270
Total	**362**	**1,773**	**1,533**	**2,433**	**350**	**196**	**6,647**

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).

Outlook for agriculture

As shown in the table above, loans and advances to pig and cattle farming represent a large share of loans and advances in the weakest rating categories (7-9 and default). This is further emphasised in the table on page 12 which shows that 23.1% of loans and advances to pig farming and 42% of loans and advances to cattle farming are impaired. As regards total agriculture, 24% of loans and advances are impaired and at year-end 2013 impairment charges totalled DKK 981m, equal to 14.8% of loans and advances.

Even though the general conditions for the agricultural sector were favourable in 2013 and earnings are likely to remain at this level in 2014, many farms remain squeezed with too high debt levels and are unable to repay their debt. Some of these struggling farms will find it difficult to survive a rise in interest rates.

It is also the Group's assessment that especially debt-ridden farms and farms with low operational efficiency will find it difficult to produce acceptable results in 2014.

Sydbank Agriculture

Customer service and credit management of all the Group's agricultural clients is carried out under one roof at the agricultural centre.

The agricultural centre gathers the competences within the agricultural area not only on account of the Group's risk management but also to service healthy as well as ailing agricultural clients.

This organisation ensures that the necessary expert knowledge and the competences required to address the needs of a troubled industry are gathered and as such can help to solve the challenges facing the agricultural industry in the best possible way for the Group and clients alike.

Focus on retail clients

The table below shows that more than half of the loans and advances to the retail segment are of less than DKK 500,000. 76% of these loans and advances are rated in categories 1-4. 74% of the entire retail client portfolio is rated in categories 1-4.

Loans and advances to retail clients – by amount and rating category

DKKm								2013
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR*)	Total	%
Amount								
< DKK 100,000	861	490	179	153	19	232	1,934	9.0
DKK 100,000-500,000	6,305	2,509	863	910	83	733	11,402	52.6
DKK 500,000-1,000,000	1,886	928	294	364	59	140	3,671	16.9
DKK 1-2m	897	512	227	278	59	55	2,028	9.4
DKK 2-5m	497	431	155	210	60	22	1,375	6.3
DKK 5-10m	205	170	90	116	48	13	642	3.0
> DKK 10m	127	160	83	101	36	9	516	2.4
STD/NR						92	92	0.4
Total	**10,778**	**5,200**	**1,890**	**2,132**	**364**	**1,296**	**21,660**	**100.0**
%	49.8	24.0	8.7	9.8	1.7	6.0	100.0	

*) Loans and advances acquired from DiBa Bank of DKK 1,202m are not rated.

Shown below is the same table for 2012. It should be noted that there is a decline in the share of loans and advances to clients in rating categories 3-4 whereas there is an increase in the poorest rating categories (7-9 and default).

Loans and advances to retail clients – by amount and rating category

DKKm								2012
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
Amount								
< DKK 100,000	854	548	196	132	16		1,746	7.8
DKK 100,000-500,000	6,279	2,818	985	682	90		10,854	48.1
DKK 500,000-1,000,000	2,026	1,087	377	300	48		3,838	17.0
DKK 1-2m	1,012	655	234	253	50		2,204	9.8
DKK 2-5m	651	551	167	187	65		1,621	7.2
DKK 5-10m	210	260	101	119	24		714	3.2
> DKK 10m	289	221	139	138	74		861	3.8
STD/NR *)						709	709	3.1
Total	**11,321**	**6,140**	**2,199**	**1,811**	**367**	**709**	**22,547**	**100.0**
%	50.2	27.2	9.8	8.0	1.6	3.2	100.0	

*) DKK 709m derives from the activities acquired from Tønder Bank and is not broken down by amount.

Focus on retail clients

Loans and advances to retail clients – by type of loan or advance

DKKm

Type of loan or advance	2013
Housing loans, bridging loans and construction credit facilities	12,099
Car loans	940
Currency loans and investment credit facilities	827
Other loans and advances	7,794
Total	**21,660**

As shown above, just over half of the loans and advances to retail clients are for residential property purposes.

In order to illustrate the risk in the retail client portfolio, the table shows the breakdown by region of loans and advances to retail clients as well as the share of loans and advances that are impaired.

Loans and advances to retail clients – by region

2013 Region	Share %	Including subject to OEI %
Copenhagen	11.4	6.8
North Zealand	3.5	7.8
Zealand	10.7	7.7
Funen	10.2	11.3
South and West Jutland	39.9	7.2
East Jutland	18.1	8.3
North Jutland	2.1	5.6
Outside Denmark etc	4.0	9.8
Total	**100.0**	**7.9**

The table shows that the largest shares of loans and advances subject to OEI are to retail clients living in North Zealand, Zealand and Funen. The largest share of loans and advances to retail clients is in South and West Jutland where the Bank has many core clients; the share of loans and advances subject to OEI in this area is below average.

Outlook for retail clients
Despite an improvement in the housing market in 2013, property prices remain well below prices in 2007. In 2013 it was 10 years since the first interest-only mortgages were granted and the interest-only period is usually 10 years. The drop in property prices combined with the possible imminent expiry of the interest-only option may strain clients' finances to such an extent that the risk of loss will increase. The number of Danish homeowners whose interest-only periods are about to expire will rise in the years to come.

Concentration

Under section 145 of the Danish Financial Business Act, exposures to a single client or a group of mutually connected clients, after the deduction of particularly secure claims, may not exceed 25% of the capital base. 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 the capital base.

Gross exposure – credit risk

DKKm	2013	2012
Exposure > 20% of capital base	-	-
Exposure 10-20% of capital base	2,943	2,446
Total	**2,943**	**2,446**
% of capital base	25.8	21.6

The exposures of 25.8% of the Group's capital base are to two major Danish credit institutions.

In addition to calculating exposures according to section 145 of the Danish Financial Business Act, Sydbank uses an internal exposure concept – BIS group – that consolidates clients that are interconnected as a result of any knock-on effect. Consequently one section 145 group may consist of several BIS groups but one BIS group cannot form part of several section 145 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 credit 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 credit portfolio (however excluding exposures to credit institutions, investment funds and public enterprises).
- As a main rule, no exposure to a single client may exceed 10% of the Group's core capital (however excluding exposures to credit institutions, investment funds and public enterprises).

At year-end 2013 the 10 largest exposures represent 4.5% of the Group's total credit portfolio. After deduction of the loan value of collateral, the 10 largest BIS exposures constitute 4.1% of the total credit portfolio. No exposure (however excluding exposures to credit institutions, investment funds and public enterprises) represents more than 10% of the Group's core capital.

Loans and advances to corporate clients – by amount and rating category

DKKm								2013
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
Amount								
0-1	276	1,023	647	489	65	283	2,783	5.7
1-5	1,141	3,237	2,189	1,902	400	326	9,195	18.7
5-10	672	2,112	1,523	1,661	512	140	6,620	13.5
10-20	831	2,380	1,726	1,956	452	180	7,525	15.3
20-50	2,000	3,211	2,284	1,947	533	162	10,137	20.6
50-100	1,504	2,051	535	932	184		5,206	10.6
100-200	1,220	2,177	127	218			3,742	7.6
200-500	1,622	669					2,291	4.7
500-	508						508	1.0
STD/NR						1,120	1,120	2.3
Total	**9,774**	**16,860**	**9,031**	**9,105**	**2,146**	**2,211**	**49,127**	**100.0**
%	19.9	34.3	18.4	18.5	4.4	4.5	100.0	

The table shows total loans and advances per client. 74% of the corporate client portfolio represents loans and advances to corporate clients of DKK 50m or less.

Concentration

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 20% of the Group's total loans and advances. 71.4% of these loans and advances are rated in categories 1-4. Moreover loans and advances to agriculture as regardsr these 100 largest clients represent 4.1%.

Loans and advances to the 100 largest BIS groups

DKKm								2013
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
Industry								
Agriculture, hunting, forestry and fisheries	8	165		414			587	4.1
Manufacturing and extraction of raw materials	887	190	215	159			1,451	10.1
Energy supply etc	869	3	144		88	11	1,115	7.8
Building and construction		229	108	7	5		349	2.4
Trade	759	2,266	415	468			3,908	27.2
Transportation, hotels and restaurants	388	506		7	28		929	6.5
Information and communication	141						141	1.0
Finance and insurance	1,228	495	85	385	33		2,226	15.5
Real property *	122	227		1	6	6	362	2.5
Other industries	2	326	8	104			440	2.9
Public authorities						619	619	4.3
Retail	2	36	13	28			79	0.6
Total	**4,932**	**5,315**	**1,097**	**1,868**	**346**	**799**	**14,357**	**100.0**
%	34.4	37.0	7.6	13.0	2.4	5.6	100.0	

* DKK 897m of the real property loans and advances of DKK 2,591m 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, excluding default

%						2013
Rating category	1-2	3-4	5-6	7-9	Total	Loans/advances and guarantees
Net turnover/assets (DKKm)						
0-25	9	35	25	31	100	27
25-50	18	37	26	19	100	9
50-100	17	31	35	17	100	10
100-200	14	48	20	18	100	9
200-400	25	33	16	26	100	10
400-	40	46	7	7	100	23
NA	19	41	22	18	100	12
Total	**21**	**39**	**20**	**20**	**100**	**100**

As shown in the table, the Bank has many small corporate clients. 27% of the Bank's loans and advances and guarantees are to enterprises with a turnover/assets of less than DKK 25m. The table also shows that the Bank's large clients have good ratings. 86% of the Bank's loans and advances and guarantees to enterprises with a turnover/assets exceeding DKK 400m are to enterprises rated in categories 1-4.

Collateral

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

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. For precautionary reasons, no independent collateral value is attached to such guarantees.

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

The two tables below illustrate the breakdown of collateral by rating category and by unsecured portion, respectively.

The table below shows the size of loans and advances and guarantees as well as EAD calculated according to rating category. EAD is an estimate of the balance if the client defaults and thereby takes into account the fact that the client will often make further drawings on his undrawn credit commitments until the time of default. The value of collateral is assessed relative to EAD. Approximately 30% of the Group's EAD is covered via collateral.

Collateral by rating category

DKKm					**2013**
	Loans and advances	Guarantees	EAD	Collateral	EAD unsecured
1	6,783	1,156	12,967	2,932	10,035
2	13,769	1,148	21,364	9,345	12,019
3	13,531	2,146	17,147	4,931	12,216
4	8,530	771	9,668	2,767	6,901
5	6,704	813	7,651	2,284	5,367
6	4,218	299	4,545	1,359	3,186
7	2,238	173	2,380	608	1,772
8	1,179	109	1,381	416	965
9	7,820	294	8,082	1,716	6,366
Default	2,510	94	2,621	455	2,166
STD/NR	3,505	1,714			
Total	**70,787**	**8,717**	**87,806**	**26,813**	**60,993**
Individual impairment of loans and advances	4,058				
Collective impairment of loans and advances	137				
Total	**66,592**				

Collateral

As shown below, the Group's EAD regarding clients in rating category 2 is DKK 21,364m, of which the unsecured portion 0-20% represents DKK 7,526m, ie collateral has been provided as regards 80-100% of this EAD. Similarly, DKK 10,007m has an unsecured portion of 80-100%, which means that collateral has been provided as regards 0-20% of this EAD.

EAD by unsecured portion and rating category

DKKm	0-20%	20-40%	40-60%	60-80%	80-100%	**2013** Total
Rating category						
1	1,335	437	939	2,155	8,101	12,967
2	7,526	615	1,042	2,174	10,007	21,364
3	2,419	1,061	1,207	3,019	9,441	17,147
4	1,172	688	969	1,711	5,128	9,668
5	901	423	1,543	963	3,821	7,651
6	319	464	824	759	2,179	4,545
7	252	97	277	438	1,316	2,380
8	109	111	272	155	734	1,381
9	379	481	895	1,254	5,073	8,082
Default	146	84	188	353	1,850	2,621
Total	**14,558**	**4,461**	**8,156**	**12,981**	**47,650**	**87,806**

Impairment charges

Where there is objective evidence of impairment of loans and advances or amounts owed, individual impairment charges are recorded. The 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 automatically downgraded to rating category 9 while clients in default are automatically 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 classifications. 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.

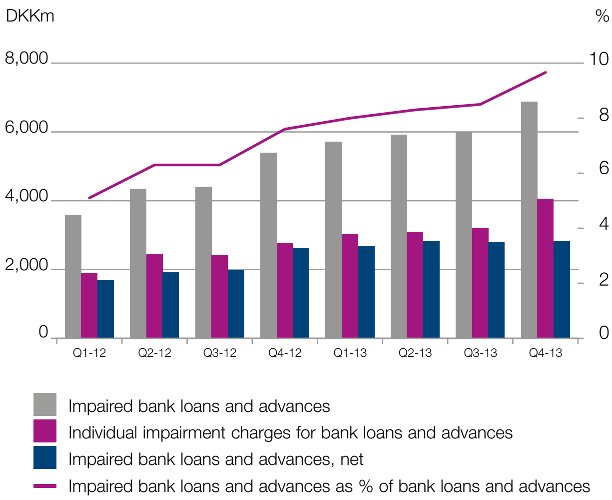
Impairment charges for bank loans and advances constitute DKK 1,861m in 2013 compared with DKK 1,748m in 2012. The increase is primarily due to extraordinary impairment charges.

The figure below shows the development in individual impairment charges for bank loans and advances from 2009 to 2013 as well as the reported losses.

Impairment charges etc and reported losses

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 rose from DKK 5,388m in Q4 2012 to DKK 6,870m in Q4 2013. During this period, accumulated individual impairment charges for bank loans and advances rose from DKK 2,769m to DKK 4,058m.

Individually impaired bank loans and advances



Impairment charges

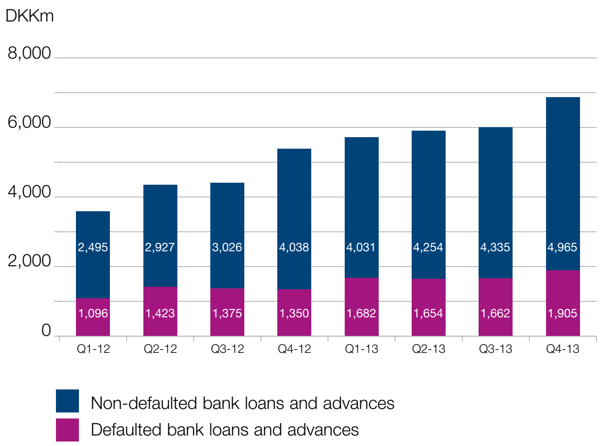
Individually impaired bank loans and advances		
DKKm	**2013**	**2012**
Non-defaulted bank loans and advances	4,965	4,038
Defaulted bank loans and advances	1,905	1,350
Impaired bank loans and advances	6,870	5,388
Impairment of individually impaired bank loans and advances	4,058	2,769
Impaired bank loans and advances after impairment charges	2,812	2,619
Impaired bank loans and advances as % of bank loans and advances before impairment charges	9.7	7.6
Impairment charges as % of bank loans and advances before impairment charges	5.7	3.9
Impaired as % of impaired bank loans and advances	59.1	51.4
Impairment charges as % of defaulted bank loans and advances	213.0	205.1

It is seen that impairment charges as % of defaulted bank loans and advances have risen to 213% in 2013.

The rise in defaulted bank loans and advances from DKK 1,350m at year-end 2012 to DKK 1,905m at year-end 2013 is primarily due to the fact that several exposures within the industries real property and agriculture are now considered so risky that a loss is regarded as unavoidable, which is why these exposures are now considered to be in default.

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 risen by DKK 809m since Q1 2012 whereas non-defaulted bank loans and advances have gone up by DKK 2,470m.

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 and size. 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 one amount for each currency is paid or received. In addition this net exposure is only to one 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 Operations.

Appendix 1 – Supplementary tables

The Group's credit exposure

DKKm **Exposure category**	Approach	Gross exposure	Credit risk mitigation	Effect of conversion factors	Exposure (unweighted)	RWA	**2013** Average exposure for the year
Corporate clients	STD	1,570	(35)	(403)	1,132	1,146	1,288
	IRB	84,915	(8,971)	(26,088)	49,856	37,485	85,073
Retail clients	STD	3,709	(33)	(834)	2,842	2,015	1,572
	IRB	29,124	(5,876)	(140)	23,108	9,236	29,588
Total corporate and retail clients		**119,318**	**(14,915)**	**(27,465)**	**76,938**	**49,882**	**117,521**
Governments	STD	5,871		(1,831)	4,040	0	5,044
Institutions	STD	31,666	(25,058)	(498)	6,110	1,279	27,135
Shares	STD	1,157			1,157	1,157	1,044
Other exposures		1,893			1,893	1,893	1,733
Total		**159,905**	**(39,973)**	**(29,794)**	**90,138**	**54,211**	**152,477**
Share IRB (%)		72	37	88	83	89	76
Share STD (%)		28	63	12	17	11	24

							2012
Corporate clients	STD	1,282	(5)	(368)	909	1,029	874
	IRB	85,974	(10,794)	(24,597)	50,583	39,220	82,761
Retail clients	STD	1,679	(9)	(319)	1,351	941	213
	IRB	31,208	(5,584)	(191)	25,433	8,997	32,156
Total corporate and retail clients		**120,143**	**(16,392)**	**(25,475)**	**78,276**	**50,187**	**116,004**
Governments etc	STD	3,678	0	(1,626)	2,052	0	5,965
Institutions	STD	34,306	(27,902)	(912)	5,492	1,141	31,769
Shares	STD	1,019			1,019	1,019	957
Other exposures		1,560			1,560	1,560	1,540
Total		**160,706**	**(44,294)**	**(28,013)**	**88,399**	**53,907**	**156,235**
Share IRB (%)		74	37	88	88	92	74
Share STD (%)		26	63	12	12	8	26

Credit exposure by industry

DKKm					2013
Industry/exposure category	Corporate clients	Retail clients	Other	Total	%
Agriculture, hunting, forestry and fisheries	8,500	417		8,917	7.5
Manufacturing and extraction of raw materials	11,048	147		11,195	9.4
Energy supply etc	4,102	49		4,151	3.5
Building and construction	4,848	251		5,099	4.3
Trade	16,741	494		17,235	14.4
Transportation, hotels and restaurants	4,135	198		4,333	3.6
Information and communication	962	63		1,025	0.8
Finance and insurance	10,610	451		11,061	9.3
Repo/reverse	4,839	47		4,886	4.1
Real property	11,517	810		12,327	10.3
Other industries	5,179	656		5,835	4.9
Sector guarantees	307	0		307	0.3
Retail	3,503	29,972		33,475	27.9
Total corporate and retail clients	**87,256**	**32,887**		**120,143**	**100.0**
Governments			3,678	3,678	
Institutions, repo/reverse			28,338	28,338	
Institutions, other			5,942	5,942	
Sector guarantees			26	26	
Shares			1,019	1,019	
Assets without counterparty			1,560	1,560	
Total	**87,256**	**32,887**	**40,563**	**160,706**	

					2012
Agriculture, hunting, forestry and fisheries	8,312	362		8,674	7.2
Manufacturing and extraction of raw materials	10,245	117		10,362	8.6
Energy supply etc	3,947	32		3,979	3.3
Building and construction	4,404	197		4,601	3.8
Trade	16,432	382		16,814	14.0
Transportation, hotels and restaurants	3,449	162		3,611	3.0
Information and communication	550	50		600	0.5
Finance and insurance	12,344	328		12,672	10.5
Repo/reverse	6,219	53		6,272	5.2
Real property	12,694	618		13,312	11.1
Other industries	4,856	614		5,470	4.6
Sector guarantees	301			301	0.3
Retail	3,503	29,972		33,475	27.9
Total corporate and retail clients	**87,256**	**32,887**		**120,143**	**100.0**
Governments			3,678	3,678	
Institutions, repo/reverse			28,338	28,338	
Institutions, other			5,942	5,942	
Sector guarantees			26	26	
Shares			1,019	1,019	
Assets without counterparty			1,560	1,560	
Total	**87,256**	**32,887**	**40,563**	**160,706**	

Appendix 1 – Supplementary tables

Credit exposure to corporate clients by rating category (IRB)

						2013
		Exposure	Exposure-weighted, average			
Rating category	Gross exposure (DKKm)	after effect of conversion factors (DKKm)	PD (%)	LGD (%)	Risk weight (%)	RWA (DKKm)
1	3,763	2,396	0.0	39.7	13.3	318
2	23,370	14,248	0.0	25.7	9.2	1,307
3	20,702	12,196	0.1	41.7	31.0	3,783
4	11,049	7,705	0.4	43.5	58.2	4,485
5	7,956	6,198	0.9	43.5	80.9	5,016
6	4,712	3,835	2.0	43.4	101.7	3,901
7	2,613	2,196	3.8	43.9	126.8	2,784
8	1,429	1,266	7.1	44.2	152.0	1,925
9	6,909	6,441	20.1	43.4	216.8	13,966
Default	2,412	2,346	100.0	44.1	-	0
Total	**84,915**	**58,827**	**-**	**-**	**-**	**37,485**

						2012
1	5,774	4,136	0.0	32.6	13.0	536
2	27,052	17,368	0.1	27.9	21.2	3,681
3	19,880	13,024	0.4	41.3	56.5	7,362
4	12,560	9,026	0.9	42.9	78.4	7,078
5	7,609	5,934	1.7	41.5	92.5	5,490
6	2,474	2,038	3.3	43.4	115.9	2,362
7	1,564	1,377	4.8	43.7	128.7	1,773
8	905	829	5.7	43.9	140.8	1,168
9	6,146	5,692	10.3	43.2	171.6	9,770
Default	2,010	1,953	100.0	43.2	-	0
Total	**85,974**	**61,377**	**-**	**-**	**-**	**39,220**

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. RWA is calculated as the exposure after the conversion factor multiplied by the risk weight.

The breakdown for 2012 has been adapted to the new PD scale, see page 7.

Credit exposure to retail clients by rating category (IRB)

			Exposure-weighted, average			2013
Rating category	Gross exposure (DKKm)	Exposure after effect of conversion factors (DKKm)	PD (%)	LGD (%)	Risk weight (%)	RWA (DKKm)
1	10,626	10,572	0.0	57.0	5.8	614
2	7,014	6,998	0.0	53.1	6.8	477
3	5,094	5,070	0.1	55.6	18.7	948
4	1,972	1,964	0.4	59.7	40.4	793
5	1,485	1,454	1.1	58.4	73.6	1,070
6	714	710	1.9	58.6	93.0	661
7	182	181	4.1	59.0	119.3	216
8	236	235	6.9	52.6	135.4	319
9	1,526	1,525	17.7	57.6	241.9	3,689
Default	275	275	100.0	68.5	-	449
Total	**29,124**	**28,984**	**-**	**-**	**-**	**9,236**

						2012
1	10,543	10,483	0.0	57.3	5.8	612
2	7,780	7,755	0.0	52.3	6.6	515
3	5,835	5,810	0.1	55.6	18.8	1,094
4	2,557	2,539	0.4	57.6	39.3	999
5	1,771	1,712	1.1	58.2	72.7	1,244
6	864	860	1.9	56.9	91.8	790
7	295	295	4.0	54.4	111.4	328
8	256	256	7.2	55.4	137.5	352
9	1,082	1,082	19.5	58.7	247.5	2,678
Default	225	225	100.0	68.4	-	385
Total	**31,208**	**31,017**	**-**	**-**	**-**	**8,997**

Appendix 1 – Supplementary tables

Credit exposure by clients' country of domicile

DKKm					2013
	Denmark	Germany	Switzerland	Other	Total
Corporate clients	74,004	5,357	714	6,410	86,485
Retail clients	31,428	554	69	782	32,833
Total corporate and retail clients	**105,432**	**5,911**	**783**	**7,192**	**119,318**
Governments	5,806	16	2	47	5,871
Institutions	21,116	922	118	9,510	31,666
Shares	1,157				1,157
Other exposures	1,806	87			1,893
Total	**135,317**	**6,936**	**903**	**16,749**	**159,905**

					2012
Corporate clients	75,567	4,730	789	6,170	87,256
Retail clients	31,421	611	73	782	32,887
Total corporate and retail clients	**106,988**	**5,341**	**862**	**6,952**	**120,143**
Governments etc	3,601	44	2	31	3,678
Institutions	30,317	127	40	3,822	34,306
Shares	1,019				1,019
Other exposures	1,473	87			1,560
Total	**143,398**	**5,599**	**904**	**10,805**	**160,706**

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	2013 Total
Corporate clients		50,253	22,173	7,334	6,725	86,485
Retail clients		11,649	3,662	5,112	12,410	32,833
Total corporate and retail clients		**61,902**	**25,835**	**12,446**	**19,135**	**119,318**
Governments etc	564	4,480	818	1	8	5,871
Institutions		30,141	199	3	1,323	31,666
Shares	1,157					1,157
Other exposures	1,893					1,893
Total	**3,614**	**96,523**	**26,852**	**12,450**	**20,466**	**159,905**

						2012
Corporate clients		52,781	21,307	7,760	5,408	87,256
Retail clients		11,659	8,613	3,199	9,416	32,887
Total corporate and retail clients		**64,440**	**29,920**	**10,959**	**14,824**	**120,143**
Governments etc	616	2,271	771	9	11	3,678
Institutions		34,006	300			34,306
Shares	1,019					1,019
Other exposures	1,560					1,560
Total	**3,195**	**100,717**	**30,991**	**10,968**	**14,835**	**160,706**

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 three months.

Appendix 1 – Supplementary tables

Credit exposure by credit quality

DKKm	Corporate clients	Retail clients	Other	2013 Total
Neither past due nor impaired	84,114	31,445	40,587	156,146
Past due but not impaired	61	48		109
Impaired after impairment charges	2,310	1,340		3,650
Total	**86,485**	**32,833**	**40,587**	**159,905**
				2012
Neither past due nor impaired	84,957	32,281	40,563	157,801
Past due but not impaired	46	51	-	97
Impaired after impairment charges	2,253	555	-	2,808
Total	**87,256**	**32,887**	**40,563**	**160,706**

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			2013			2012
	Corporate clients	Retail clients	Total	Corporate clients	Retail clients	Total
0-30 days	58	45	103	43	48	91
31-60 days	2	2	4	2	2	4
61-90 days	1	1	2	1	1	2
Total	**61**	**48**	**109**	**46**	**51**	**97**

Impairment charges for loans and advances recognised in the income statement

DKKm	2013	2012
Impairment and provisions	1,723	1,387
Write-offs	279	433
Recovered from debt previously written off	141	72
Total	**1,861**	**1,748**

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

DKKm			2013			2012
	Individually impaired loans/advances and guarantees	Individual impairment and provisions	Impaired after impairment charges	Individually impaired loans/advances and guarantees	Individual impairment and provisions	Impaired after impairment charges
Denmark	7,477	3,877	3,600	5,477	2,700	2,777
Germany	148	117	31	97	82	15
Other	82	64	19	67	51	16
Total	**7,707**	**4,058**	**3,650**	**5,641**	**2,833**	**2,808**

Appendix 2 – Glossary

CEBS	The 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 two 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.
OEI	Objective evidence of impairment and therefore impairment charges must be calculated.
PD	Probability of Default. Probability that a client will default on his obligations within the next 12 months.
RWA	Risk-Weighted Assets. Risk-weighted assets 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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