Credit Risk 2014

The Sydbank Group

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 2014 Annual Report.

The correlation between the gross exposure, as shown in "Appendix 1 – Supplementary tables", and loans and advances and guarantees in the 2014 Annual Report is shown in the table below.

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

Gross exposure – credit risk

DKKm	2014	2013
Loans and advances at fair value	6,891	4,885
Loans and advances at amortised cost	68,451	66,592
Loans and advances according to financial statements	**75,342**	**71,477**
Loans and advances to municipalities	(603)	(856)
Undrawn credit commitments	38,125	34,684
Derivatives	2,491	1,398
Repo (deposits)	2,745	-
Contingent liabilities etc	18,089	12,615
Gross exposure to retail and corporate clients	**136,189**	**119,318**
Governments incl municipalities	5,155	5,871
Credit institutions	29,945	31,666
Gross exposure – credit risk	**171,289**	**156,855**

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 specially appointed heads of credit at the regional head offices. Major exposures and highly leveraged retail exposures are approved centrally by Credits.

Credit granting to retail clients is based on the client's disposable amount, wealth and leverage (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 serviced by the regional head office or by special corporate departments. The objective is that all SME exposures with satisfactory credit quality 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 in particular to clients in Denmark and Northern Germany.

All regional corporate departments have identified 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

Risk Follow-up is part of the division Risk.

By means of analyses, random sampling and inspections at the branches and centrally, Risk Follow-up monitors the credit 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.

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

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 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 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 total capital, 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 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 portion of the exposures – primarily exposures acquired from DiBa Bank – is not yet included in the rating models.

Loans/advances and guarantees by rating category

DKKm	Corporate			Retail			Total		2014
	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%
1	949	105	1.9	6,943	2,375	30.8	7,892	2,480	12.0
2	8,400	1,548	17.7	5,751	1,135	22.8	14,151	2,683	19.4
3	11,364	1,311	22.5	3,848	946	15.8	15,212	2,257	20.2
4	8,012	988	16.0	1,619	462	6.9	9,631	1,450	12.8
5	5,655	891	11.6	1,277	284	5.2	6,932	1,175	9.4
6	3,471	529	7.1	634	165	2.6	4,105	694	5.5
7	1,579	343	3.4	180	20	0.7	1,759	363	2.4
8	674	179	1.5	153	29	0.6	827	208	1.2
9	5,468	748	11.0	1,619	89	5.6	7,087	837	9.2
Default	2,267	209	4.4	354	11	1.2	2,621	220	3.3
STD/NR	1,428	219	2.9	1,103	1,260	7.8	2,531	1,479	4.6
Total	**49,267**	**7,070**	**100.0**	**23,481**	**6,776**	**100.0**	**72,748**	**13,846**	**100.0**
Individual impairment of loans and advances	3,028			968			3,996		
Collective impairment of loans and advances	253			48			301		
Total	**45,986**	**7,070**		**22,465**	**6,776**		**68,451**	**13,846**	
% of total	67	51		33	49		100	100	

The table above shows that corporate loans and advances (including public authorities) account for 67% (2013: 69%) of total loans and advances, and retail loans and advances constitute 33% (2013: 31%). 58% (2013: 54%) of the Group's corporate loans and advances are rated in categories 1-4 and 77% (2013: 74%) 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 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 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 2014 to 31 December 2014 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	46,051	10	14
2	21,498	11	9
3	17,169	32	26
4	8,877	27	37
5	6,041	34	66
6	3,533	45	66
7	1,820	64	76
8	1,859	53	130
9	4,274	314	788
Total	**111,122**	**590**	**1,212**

The number of retail client defaults is 51% (2013: 45%) below the estimated number of defaults. The primary reason is found in rating categories 7-9 where the number of realised defaults is less than half 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	356	0	0
2	1,885	2	1
3	2,724	3	3
4	1,526	6	6
5	1,479	16	13
6	1,012	6	20
7	349	9	13
8	252	9	17
9	1,355	173	273
Total	**10,938**	**224**	**346**

The number of corporate client defaults is 35% (2013: 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 2007 to 2014.

%	Corporate		Retail	
Year	PD solvency 31 Dec	Realised default rate	PD solvency 31 Dec	Realised default rate
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
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

As shown above, PD for solvency purposes increases at the beginning of 2009 as a result of changed economic conditions relating to the financial crisis.

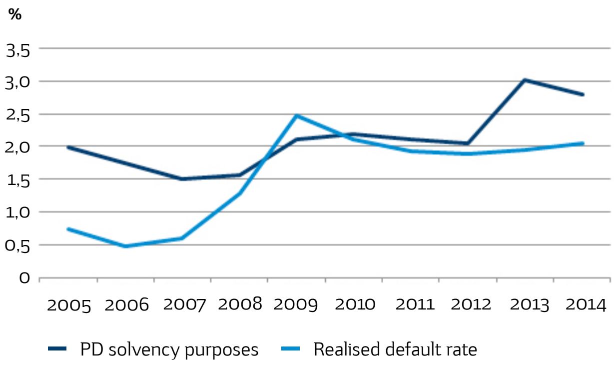
Since year-end 2010 the realised default rate as regards corporate clients has been stable at a slightly lower level than in 2009. However the PD estimate for solvency purposes as regards corporate clients rose considerably in 2013. This is due to the implementation of a new rating model in 2013 and 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.

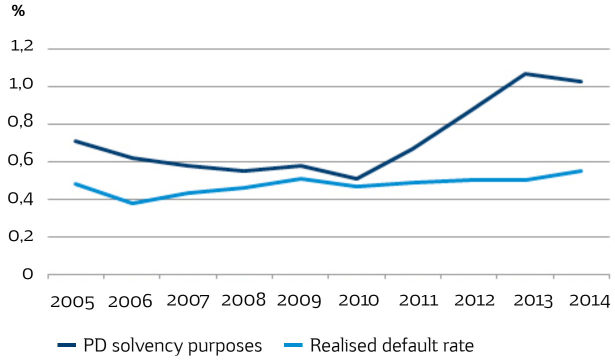
Consequently the Bank anticipates that under normal economic conditions the PD estimates for solvency purposes are prudent compared to the realised default rates.

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 – 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 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 2006 to 2014.

Loss given default (LGD) – retail clients %

Year	Estimated	Realised
2014	71	79
2013	69	76
2012	68	78
2011	68	77
2010	66	81
2009	66	80
2008	66	82
2007	68	74
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 has been impacted in recent years 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 LGD and the realised 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. EAD 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 from 2009 to 2014.

Conversion factor (CF) – retail clients %

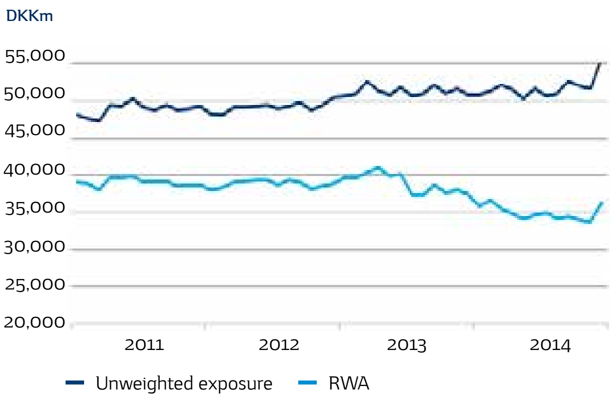
Year	Estimated	Realised
2014	98	0
2013	99	(12)
2012	99	(10)
2011	98	32
2010	99	36
2009	96	49

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 from 2012 to 2013 is attributable to the Group's ability to reduce exposures before the time of default.

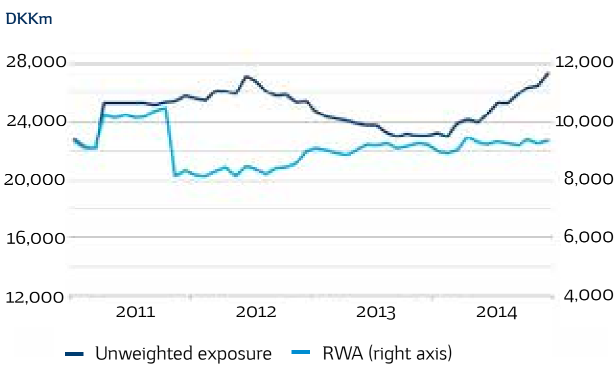
Risk-weighted assets (RWA)

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.

RWA and unweighted exposure – corporate clients



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.

The rise in exposure in 2014 is predominantly attributable to the best rating categories, 1 and 2. Targeted sales efforts concerning own housing loans and mortgage loans primarily aimed at clients in the best rating categories have led to a rise in exposure. As the exposure in the other rating categories has been relatively constant this development has resulted in a decline in average risk weight.

Industry breakdown

The composition of the Group's credit exposure to corporate clients must be in line with 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 68,451m.
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.
As shown below, the accumulated impairment ratio as regards

2014 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	6,301	5,325	2,371	1,767	524
Manufacturing and extraction of raw materials	6,499	6,272	667	472	48
Energy supply etc	2,353	2,333	616	49	47
Building and construction	2,234	2,097	885	223	127
Trade	11,015	10,537	1,034	816	178
Transportation, hotels and restaurants	2,865	2,793	189	160	5
Information and communication	534	506	14	42	11
Finance and insurance	6,014	5,649	117	538	294
Real property	7,130	6,563	713	944	421
Other industries	3,525	3,367	381	284	63
Total corporate	**48,470**	**45,442**	**6,987**	**5,295**	**1,718**
Public authorities	797	797	83		
Retail	23,481	22,513	6,776	1,569	312
Collective impairment charges	(301)	(301)			
Total	**72,447**	**68,451**	**13,846**	**6,864**	**2,030**
Agriculture, hunting, forestry and fisheries					
Pig farming	1,853	1,565	571	582	148
Cattle farming	1,845	1,305	1,032	897	309
Crop production	1,381	1,339	419	100	23
Other agriculture	1,222	1,116	349	188	44
Total	**6,301**	**5,325**	**2,371**	**1,767**	**524**
Manufacturing and extraction of raw materials					
Iron and metal	1,555	1,460	96	198	22
Food, beverage and tobacco	1,065	1,040	70	24	12
Clothing	584	569	71	26	0
Other manufacturing and extraction of raw materials	3,295	3,203	430	224	14
Total	**6,499**	**6,272**	**667**	**472**	**48**
Trade					
Wholesale	8,301	8,011	550	530	82
Retail	1,789	1,646	434	219	83
Car dealers and garages	925	880	50	67	13
Total	**11,015**	**10,537**	**1,034**	**816**	**178**
Finance and insurance					
Holding companies	2,535	2,308	60	326	200
Financing companies	3,479	3,341	57	212	94
Total	**6,014**	**5,649**	**117**	**538**	**294**
Real property					
Leasing of commercial property	3,240	2,965	392	434	200
Leasing of residential property	1,621	1,470	210	284	71
Housing associations and cooperative housing associations	1,335	1,335	1	0	0
Purchase, development and sale on own account	686	570	63	197	135
Other related to real property	248	223	47	29	15
Total	**7,130**	**6,563**	**713**	**944**	**421**

loans and advances constitutes 5.5% and impaired loans and advances represent 9.4% of the total volume of lending. The table shows that 28% of loans and advances to agriculture are regarded as impaired and that the relevant impairment charges constitute 55.2%, whereby the impairment ratio for agriculture totals 15.5%. The Group's risk on the exposure to agriculture is described in a separate paragraph.

Compared with the figures for 2013, the accumulated impairment ratio as regards loans and advances has gone down from 5.7% to 5.5%. Apart from impairment charges for agriculture, impairment charges for real property (incl building and construction) have increased in particular, namely by 0.7 percentage points. Both sectors are described separately.

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
976	76	118	28.0	55.2	15.5*
227	28	68	7.3	48.1	3.5
20	17	22	2.1	40.8	0.8
137	9	25	10.0	61.4	6.1
478	86	84	7.4	58.6	4.3
72	3	12	5.6	45.0	2.5
28	15	3	7.9	66.7	5.2
365	65	32	8.9	67.8	6.1
567	161	219	13.2	60.1	8.0
158	50	131	8.1	55.6	4.5
3,028	**510**	**714**	**10.9**	**57.2**	**6.2**
968	33	141	6.7	61.7	4.1
	164				
3,996	**707**	**855**	**9.4**	**58.2**	**5.5**
288	47	31	31.4	49.5	15.5
540	(6)	39	48.6	60.2	29.3
42	17	5	7.2	42.0	3.0
106	18	43	15.4	56.4	8.7
976	**76**	**118**	**28.0**	**55.2**	**15.5***
95	12	27	12.7	48.0	6.1
25	8	5	2.3	104.2	2.3
15	0	0	4.5	57.7	2.6
92	8	36	6.8	41.1	2.8
227	**28**	**68**	**7.3**	**48.1**	**3.5**
290	72	45	6.4	54.7	3.5
143	6	33	12.2	65.3	8.0
45	8	6	7.2	67.2	4.9
478	**86**	**84**	**7.4**	**58.6**	**4.3**
227	53	22	12.9	69.6	9.0
138	12	10	6.1	65.1	4.0
365	**65**	**32**	**8.9**	**67.8**	**6.1**
275	103	79	13.4	63.4	8.5
151	22	31	17.5	53.2	9.3
0	0	0	0.0	-	0.0
116	31	96	28.7	58.9	16.9
25	5	13	11.7	86.2	10.1
567	**161**	**219**	**13.2**	**60.1**	**8.0**

* In addition a collective impairment charge of DKK 125m has been made as regards agriculture, whereby the impairment ratio totals 17.5%.

Industry breakdown

The table below shows the Group's loans and advances to industries by rating category. 67% (2013: 63%) of rated loans and advances are rated in categories 1-4 whereas the percentage for agriculture is 24 (2013: 33).

Loans and advances by rating category

DKKm							2014
Industry	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Agriculture, hunting, forestry and fisheries	190	1,314	1,616	2,462	589	130	6,301
Manufacturing and extraction of raw materials	1,750	3,061	895	720	59	14	6,499
Energy supply etc	1,200	723	273	104	47	6	2,353
Building and construction	217	952	422	398	182	63	2,234
Trade	1,600	5,270	2,635	1,260	198	52	11,015
Transportation, hotels and restaurants	176	1,797	384	386	29	93	2,865
Information and communication	201	257	24	39	11	2	534
Finance and insurance	1,939	2,186	779	770	332	8	6,014
Real property	1,499	2,325	1,295	1,259	720	32	7,130
Other industries	569	1,439	783	310	100	324	3,525
Public authorities	8	52	20	13	0	704	797
Retail	12,694	5,467	1,911	1,952	354	1,103	23,481
Total	**22,043**	**24,843**	**11,037**	**9,673**	**2,621**	**2,531**	**72,748**
Individual impairment charges							3,996
Collective impairment charges							301
Total loans and advances							**68,451**
%	30.3	34.1	15.2	13.3	3.6	3.5	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 17.5% of the Group's total lending and guarantee portfolio. Currently the share stands at 12.7% (2013: 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 rating category

DKKm							2014
Sub-industry	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Leasing of commercial property	346	1,255	672	677	281	9	3,240
Leasing of residential property	264	407	370	424	135	21	1,621
Cooperative housing associations/ non-profit housing associations	812	516	6	0	0	1	1,335
Purchase, development and sale on own account	51	110	189	137	198	1	686
Other related to real property	26	37	58	21	106	0	248
Total real property	**1,499**	**2,325**	**1,295**	**1,259**	**720**	**32**	**7,130**
Building and construction	217	952	422	398	182	63	2,234
Total	**1,716**	**3,277**	**1,717**	**1,657**	**902**	**95**	**9,364**

As shown above, total loans and advances concerning real property as well as building and construction constitute DKK 9,364m (2013: DKK 10,565m), equivalent to 12.9% (2013: 14.9%) of the Group's lending portfolio. 53.9% (2013: 49.2%) of rated loans and advances are rated in categories 1-4.

It should be noted that loans and advances to cooperative housing associations and non-profit housing associations are primarily bridging loans which will be replaced by mortgage loans when construction has been completed. The credit 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 2015. There are no immediate prospects of a rise in renovation activity.

Focus on agriculture

Agriculture – loans and advances by rating category

DKKm							2014
Sub-industry	**1-2**	**3-4**	**5-6**	**7-9**	**Default**	**STD/NR**	**Total**
Pig farming	10	347	467	849	177	3	1,853
Cattle farming	4	157	400	955	329	0	1,845
Crop production	76	435	350	407	23	90	1,381
Other agriculture	100	375	399	251	58	39	1,222
Total	**190**	**1,314**	**1,616**	**2,462**	**589**	**130**	**6,301**

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 pages 12-13 which shows that 31.4% (2013: 23.1%) of loans and advances to pig farming and 48.6% (2013: 24%) of loans and advances to cattle farming are impaired. As regards total agriculture, 28% (2013: 24%) of loans and advances are impaired and at year-end 2014 individual impairment charges totalled DKK 976m (2013: DKK 981m), equal to 15.5% (2013: 14.8%) of loans and advances.

In addition to individual impairment charges of DKK 976m a collective impairment charge of DKK 125m has been made as regards loans and advances to agriculture. This brings total impairment charges as regards agriculture to 17.5% of loans and advances.

At the beginning of 2015 the prospects for earnings in agriculture in 2015 are very bleak.

On the basis of forecasts prepared by the Knowledge Centre for Agriculture in December 2014 an average farm is expected to generate an operating loss of around DKK 100,000 for 2015 before payment of the owner's labour.

These earnings must be compared with an expected realised operating profit of around DKK 300,000 for 2014 and around DKK 730,000 for 2013.

The substantial drop in earnings is primarily due to the following factors:

- Russia's embargo on agricultural products from the EU
- Significantly lower demand from China
- Increased global production of food.

The negative trend in earnings and the prospects for 2015 concern primarily pig and milk producers. Pig producers are expected to record an average decline in earnings of around DKK 1m from 2013 to 2015.

Profits vary considerably. Farmers with high debt ratios and low efficiency rates will find it difficult to survive for a protracted period of time with low settlement prices.

In 2013 and 2014 a number of the Bank's agricultural clients were only able to service their debts because of the relatively high settlement prices. Now it will be difficult for them to balance their finances and some of them will be forced to cease production and abandon their farms.

As a consequence of the currently very low settlement prices a large number of farms are expected to change owners in the course of 2015.

The Bank continues to project that in the longer term market developments will near a level where the vast majority of farmers will be able to balance their finances – not least due to continued very low interest rates.

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.

Gross exposure – credit risk

DKKm	2014	2013
Exposure > 20% of total capital	-	-
Exposure 10-20% of total capital	-	2,943
Total	-	**2,943**
% of total capital	-	25.8

At year-end 2014 no exposure after the deduction of particularly secure claims constitutes 10% or more of total 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 one CRR group may consist of several BIS groups but one 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 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 Tier 1 capital (however excluding exposures to credit institutions, investment funds and public enterprises).

At year-end 2014 the 10 largest exposures represent 4.2% (2013: 4.5%) of the Group's total credit portfolio. After deduction of the loan value of any collateral, the 10 largest BIS exposures constitute 4.0% (2013: 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 Tier 1 capital.

Loans and advances to corporate clients by rating category

DKKm								2014
Amount	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
0-1	266	985	591	467	61		2,370	4.8
1-5	992	3,172	2,115	1,679	463		8,421	17.1
5-10	639	1,962	1,554	1,361	592		6,108	12.4
10-20	1,022	3,010	1,424	1,829	495		7,780	15.8
20-50	1,896	3,313	1,852	1,625	468		9,154	18.6
50-100	1,717	3,249	741	517	188		6,412	13.0
100-200	1,080	2,081	283	243			3,687	7.5
200-500	1,737	1,604	566				3,907	7.9
STD/NR						1,428	1,428	2.9
Total	**9,349**	**19,376**	**9,126**	**7,721**	**2,267**	**1,428**	**49,267**	**100.0**
%	19.0	39.3	18.5	15.7	4.6	2.9	100.0	

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 22% (2013: 20%) of the Group's total loans and advances. 72.4% (2013: 71.4%) of these loans and advances are rated in categories 1-4. Moreover loans and advances to agriculture as regards these 100 largest clients represent 4.5% (2013: 4.1%).

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

DKKm								2014
Industry/rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
Agriculture, hunting, forestry and fisheries		182	159	337	30		708	4.5
Manufacturing and extraction of raw materials	496	955	242	24			1,717	10.9
Energy supply etc	809	341					1,150	7.3
Building and construction		266	15	86	3		370	2.4
Trade	947	2,649	1,196	393			5,185	33.1
Transportation, hotels and restaurants		896		2	4		902	5.8
Information and communication	171	138					309	2.0
Finance and insurance	1,205	513	88	312	86		2,204	14.0
Real property *	777	654	188	135	137	158	2,049	13.1
Other industries	96	268	90		1		455	2.9
Public authorities						540	540	3.4
Retail	5	5	56	28			94	0.6
Total	**4,506**	**6,867**	**2,034**	**1,317**	**261**	**698**	**15,683**	**100.0**
%	28.6	43.8	13.0	8.4	1.7	4.5	100.0	

* DKK 745m of the real property loans and advances of DKK 2,049m 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 rating category/size of enterprise, excluding default

%						2014
Rating category Net turnover/assets (DKKm)	1-2	3-4	5-6	7-9	Total	Loans/advances and guarantees
0-25	10	32	30	28	100	27
25-50	16	43	20	21	100	9
50-100	16	39	22	23	100	11
100-200	19	43	23	15	100	10
200-400	19	43	21	17	100	11
400-	39	49	8	4	100	26
NA	18	49	21	12	100	6
Total	**21**	**42**	**20**	**17**	**100**	**100**

Collateral

The Group aims to mitigate the risk on individual transactions 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 two tables below illustrate the breakdown of collateral by type and rating category, respectively.

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. Approximately 48% of the Group's loans and advances is covered via collateral.

Collateral received and types of collateral

DKKm	2014	2013
Loans and advances at fair value	6,891	4,885
Loans and advances at amortised cost	68,451	66,592
Guarantees	13,846	8,717
Credit exposure for accounting purposes	89,188	80,194
Collateral value	45,126	33,820
Total unsecured	**44,062**	**46,374**
Types of collateral:		
Real property	11,654	8,780
Financial collateral	13,487	11,449
Leased assets, mortgages etc	4,222	4,322
Floating charge, operating equipment etc	5,396	4,048
Guarantees	1,263	1,088
Other items of collateral	488	594
Total collateral used	36,510	30,281
Particularly secured transactions (mortgage guarantees)	8,616	3,539
Total	**45,126**	**33,820**

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. Real property will be handed over to an estate agent. Repossessed leased equipment will be sold as quickly as possible. In 2014 repossessed equipment as well as real property taken over in connection with non-performing exposures amounted to DKK 22m (2013: DKK 44m). 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 falling prices of leased assets.

Collateral

Collateral by rating category

DKKm Rating category	Loans/advances	Guarantees	Collateral value	2014 Unsecured
1	7,892	2,480	6,938	3,434
2	20,347	2,683	13,797	9,233
3	15,907	2,257	7,627	10,537
4	9,631	1,450	4,235	6,846
5	6,932	1,175	3,740	4,367
6	4,105	694	2,103	2,696
7	1,759	363	877	1,245
8	827	208	450	585
9	7,087	837	2,725	5,199
Default	2,621	220	776	2,065
STD/NR	2,531	1,479	1,858	2,152
Total	**79,639**	**13,846**	**45,126**	**48,359**
Individual impairment of loans and advances	3,996			3,996
Collective impairment of loans and advances	301			301
Total	**75,342**			**44,062**

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 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.

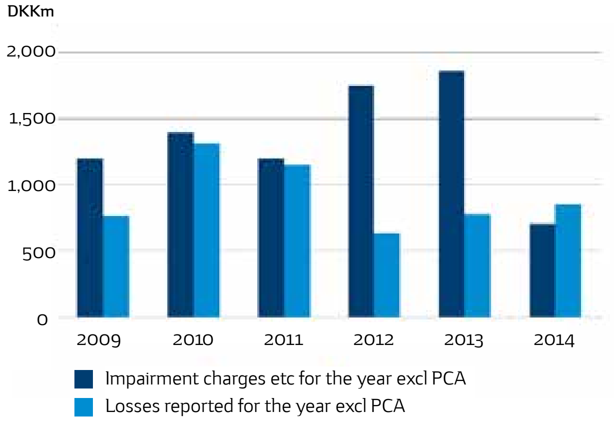
Impairment calculation is effected quarterly in a process managed by the centralised credit organisation.

Impairment charges for bank loans and advances constitute DKK 707m in 2014 compared with DKK 1,861m in 2013. The decline is primarily due to extraordinary impairment charges in 2013.

At year-end 2014 collective impairment charges amount to DKK 301m. Agriculture accounts for DKK 125m.

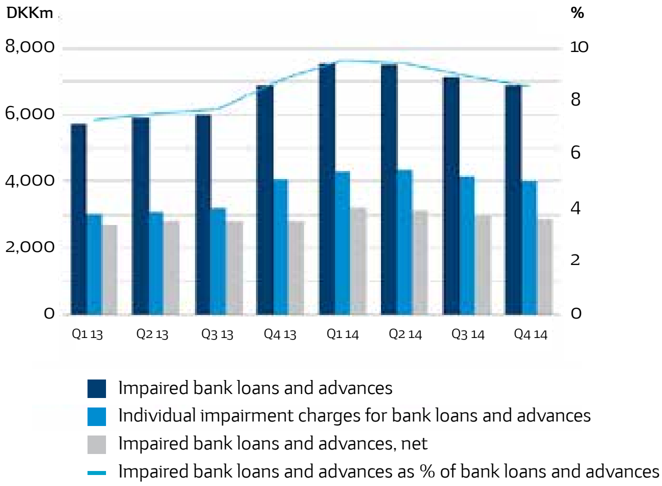
The figure below shows the development in impairment charges for bank loans and advances from 2009 to 2014 as well as the reported losses.

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 declined from DKK 6,870m in Q4 2013 to DKK 6,864m in Q4 2014. During this period accumulated individual impairment charges for bank loans and advances decreased from DKK 4,058m to DKK 3,996m.

Individually impaired bank loans and advances



Impairment charges

Individually impaired bank loans and advances

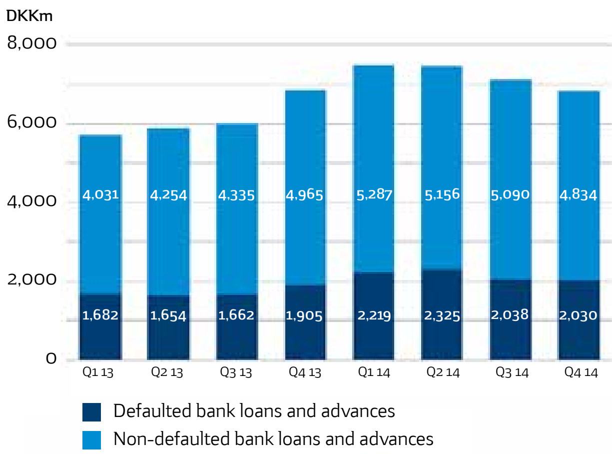
DKKm	2014	2013
Non-defaulted bank loans and advances	4,834	4,965
Defaulted bank loans and advances	2,030	1,905
Impaired bank loans and advances	**6,864**	**6,870**
Impairment of individually impaired bank loans and advances	3,996	4,058
Impaired bank loans and advances after impairment charges	**2,868**	**2,812**
Impaired bank loans and advances as % of bank loans and advances before impairment charges	9.4	9.7
Impairment charges as % of bank loans and advances before impairment charges	5.5	5.7
Impaired as % of impaired bank loans and advances	58.2	59.1
Impairment charges as % of defaulted bank loans and advances	196.8	213.0

It is seen that impairment charges as % of defaulted bank loans and advances currently stand at 197 at year-end 2014.

The rise in defaulted bank loans and advances from DKK 1,905m at year-end 2013 to DKK 2,030m at year-end 2014 is primarily due to the fact that several exposures within 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 348m since Q1 2013 whereas non defaulted bank loans and advances have gone up by DKK 803m.

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 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								2014
Exposure category	Approach	Gross exposure	Credit risk mitigation	Effect of conversion factors	Exposure (unweighted)	RWA	Average exposure for the year
Corporate clients	STD	2,637	(31)	(699)	1,907	1,274	1,732
	IRB	97,576	(13,630)	(29,806)	54,140	36,384	90,568
Retail clients	STD	2,065	(12)	(348)	1,705	1,182	3,085
	IRB	33,911	(6,427)	(133)	27,351	9,355	31,673
Total corporate and retail clients		**136,189**	**(20,100)**	**(30,986)**	**85,103**	**48,195**	**127,058**
Governments etc	STD	5,155	0	(2,045)	3,110	46	4,477
Institutions	STD	29,945	(25,044)	(411)	4,490	1,176	25,981
Total		**171,289**	**(45,144)**	**(33,442)**	**92,703**	**49,417**	**157,516**
Share IRB (%)		77	44	90	88	93	78
Share STD (%)		23	56	10	12	7	22

							2013
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 etc	STD	5,871		(1,831)	4,040	0	5,044
Institutions	STD	31,666	(25,058)	(498)	6,110	1,279	27,135
Total		**156,855**	**(39,973)**	**(29,794)**	**87,088**	**51,161**	**149,700**
Share IRB (%)		73	37	88	84	91	77
Share STD (%)		27	63	12	16	9	23

Credit exposure by industry

DKKm Industry/exposure category	Corporate clients	Retail clients	Other	Total	2014 %
Agriculture, hunting, forestry and fisheries	10,659	602		11,261	8.3
Manufacturing and extraction of raw materials	12,475	163		12,638	9.3
Energy supply etc	4,755	80		4,835	3.6
Building and construction	5,305	328		5,633	4.1
Trade	19,576	362		19,938	14.6
Transportation, hotels and restaurants	4,783	305		5,088	3.7
Information and communication	1,048	39		1,087	0.8
Finance and insurance	10,218	422		10,640	7.8
Repo/reverse	9,324	166		9,490	7.0
Real property	11,411	641		12,052	8.8
Other industries	6,496	957		7,453	5.5
Sector guarantees	278	0		278	0.2
Retail	3,885	31,911		35,796	26.3
Total corporate and retail clients	**100,213**	**35,976**		**136,189**	**100.0**
Governments etc			5,155	5,155	
Institutions, repo/reverse			25,557	25,557	
Institutions, other			4,359	4,359	
Sector guarantees			29	29	
Total	**100,213**	**35,976**	**35,100**	**171,289**	

					2013
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	0.9
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			307	0.2
Retail	3,697	29,250		32,947	27.6
Total corporate and retail clients	**86,485**	**32,833**		**119,318**	**100.0**
Governments etc			5,871	5,871	
Institutions, repo/reverse			25,975	25,975	
Institutions, other			5,666	5,666	
Sector guarantees			25	25	
Total	**86,485**	**32,833**	**37,537**	**156,855**	

Appendix 1 – Supplementary tables

Credit exposure to corporate clients by rating category (IRB)

DKKm Rating category	Gross exposure	Exposure after effect of conversion factors	Exposure-weighted, average PD (%)	LGD (%)	Risk weight (%)	2014 RWA
1	3,388	2,013	0.0	35.5	11.8	237
2	31,017	19,330	0.0	21.9	7.5	1,446
3	22,437	14,253	0.1	40.3	28.4	4,053
4	13,818	9,285	0.4	43.4	55.2	5,127
5	8,724	6,859	0.9	43.2	75.0	5,143
6	5,145	4,301	2.0	43.1	91.1	3,920
7	2,324	1,959	3.8	44.0	120.5	2,360
8	970	880	6.4	44.2	130.2	1,146
9	7,218	6,447	18.9	43.8	200.9	12,952
Default	2,533	2,443	100.0	43.7	0.0	0
Total	**97,574**	**67,770**	-	-	-	**36,384**

						2013
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**

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.

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 (%)	2014 RWA
1	13,428	13,375	0.0	58.8	6.0	800
2	8,311	8,285	0.0	53.5	6.8	563
3	5,748	5,712	0.1	57.1	18.2	1,042
4	2,214	2,204	0.4	58.3	36.7	810
5	1,439	1,435	1.2	58.5	73.2	1,051
6	669	666	1.8	56.3	85.5	570
7	179	178	4.0	60.1	114.2	203
8	167	167	6.9	59.9	142.8	238
9	1,460	1,459	17.4	59.4	239.5	3,495
Default	296	296	100.0	71.6	196.7	583
Total	**33,911**	**33,777**	-	-	-	**9,355**

						2013
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**

Appendix 1 – Supplementary tables

Credit exposure by clients' country of domicile

DKKm						2014
	Denmark	Germany	Switzerland	Norway	Other	Total
Corporate clients	88,381	5,837	833	13	5,149	100,213
Retail clients	34,550	446	187	258	535	35,976
Total corporate and retail clients	**122,931**	**6,283**	**1,020**	**271**	**5,684**	**136,189**
Governments etc	5,041	29	0	4	81	5,155
Institutions	10,307	483	36	12,976	6,143	29,945
Total	**138,279**	**6,795**	**1,056**	**13,251**	**11,908**	**171,289**

						2013
Corporate clients	74,004	5,357	714	17	6,392	86,484
Retail clients	31,428	554	69	280	502	32,833
Total corporate and retail clients	**105,432**	**5,911**	**783**	**297**	**6,894**	**119,317**
Governments etc	5,806	16	2	5	43	5,872
Institutions	21,116	922	118	5,107	4,403	31,666
Total	**132,354**	**6,849**	**903**	**5,409**	**11,340**	**156,855**

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	2014 Total
Corporate clients		57,344	27,815	7,832	7,222	100,213
Retail clients		11,022	5,735	4,862	14,357	35,976
Total corporate and retail clients		**68,366**	**33,550**	**12,694**	**21,579**	**136,189**
Governments etc	542	3,483	1,123	0	7	5,155
Institutions		29,796	149	0	0	29,945
Total	**542**	**101,645**	**34,822**	**12,694**	**21,586**	**171,289**

						2013
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
Total	**564**	**96,523**	**26,852**	**12,450**	**20,466**	**156,855**

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	2014 Total
Neither past due nor impaired	97,419	34,736	35,100	167,255
Past due but not impaired	69	44		113
Impaired after impairment charges	2,725	1,196		3,921
Total	**100,213**	**35,976**	**35,100**	**171,289**
				2013
Neither past due nor impaired	84,205	31,461	37,537	153,203
Past due but not impaired	61	48		109
Impaired after impairment charges	2,219	1,324		3,543
Total	**86,485**	**32,833**	**37,537**	**156,855**

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	2014 Total	Corporate clients	Retail clients	2013 Total
0-30 days	66	41	107	58	45	103
31-60 days	3	2	5	2	2	4
61-90 days	0	1	1	1	1	2
Total	**69**	**44**	**113**	**61**	**48**	**109**

Impairment charges for loans and advances recognised in the income statement

DKKm	2014	2013
Impairment and provisions	610	1,723
Write-offs	183	279
Recovered from debt previously written off	86	141
Total	**707**	**1,861**

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

DKKm			2014			2013
	Individually impaired loans/ advances and guarantees	Individual impairment and provisions	Impaired loans/ advances after impairment charges	Individually impaired loans/ advances and guarantees	Individual impairment and provisions	Impaired loans/ advances after impairment charges
Denmark	7,777	3,924	3,853	7,477	3,975	3,502
Germany	135	104	31	148	117	31
Other	120	83	37	82	72	10
Total	**8,032**	**4,111**	**3,921**	**7,707**	**4,164**	**3,543**

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 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 calculation must be effected.
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.

Overskrift

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