Credit Risk 2015

Sydbank Group

Sydbank

Contents

Introduction 4
Credit and client policy 5
Rating 6
Industry breakdown 12
Focus on real property as well as building and construction 15
Focus on agriculture 16
Concentration 17
Collateral 19
Impairment charges 21
Financial counterparties 23
Appendix 1 – Supplementary tables 24
Appendix 2 – Glossary 31

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 2015 Annual Report.

The correlation between the gross exposure, as shown in "Appendix 1 – Supplementary tables", and loans and advances and guarantees in the 2015 Annual Report is shown in the table below.

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

Gross exposure – credit risk

DKKm	2015	2014
Loans and advances at fair value	10,183	6,891
Loans and advances at amortised cost	74,275	68,451
Loans and advances according to financial statements	**84,458**	**75,342**
Loans and advances to municipalities	(784)	(603)
Undrawn credit commitments	39,412	38,125
Derivatives	1,797	2,491
Repo (deposits)	2,617	2,745
Contingent liabilities etc	14,155	18,089
Gross exposure to retail and corporate clients	**141,655**	**136,189**
Governments incl municipalities	4,134	5,155
Credit institutions	18,753	29,945
Gross exposure – credit risk	**164,542**	**171,289**

Credit and client policy

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

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

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

Retail clients

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

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

Corporate clients

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

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

Credit activities

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

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

- maintaining and increasing the portfolio of profitable and promising retail, corporate and investment clients
- maintaining and increasing 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 via Credits. The objective is to ensure that the Group's action plans for these exposures are evaluated and adjusted on an ongoing basis.

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

Risk Follow-up

Risk Follow-up is part of the division Risk.

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

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

Rating

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

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

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

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

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

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

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

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

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

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

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

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

Retail

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

Corporate

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

Investment

The investment client model is based on the following:

- excess cover within the client's investment exposure
- approved stop loss
- volatility of the investment portfolio
- strength profile of the client.

Exposures outside the rating models

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

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

Loans/advances and guarantees by rating category

DKKm	Corporate			Retail			Total		2015
	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%
1	1,125	51	2.1	9,445	1,943	34.7	10,570	1,994	14.1
2	10,003	1,644	20.8	7,189	828	24.5	17,192	2,472	22.1
3	12,750	1,096	24.7	4,391	651	15.4	17,141	1,747	21.3
4	9,488	828	18.4	1,791	279	6.3	11,279	1,107	13.9
5	5,180	386	9.9	1,073	149	3.7	6,253	535	7.6
6	3,020	270	5.9	569	89	2.0	3,589	359	4.4
7	948	101	1.9	171	12	0.6	1,119	113	1.4
8	541	76	1.1	136	15	0.5	677	91	0.9
9	4,950	339	9.4	1,697	84	5.4	6,647	423	8.0
Default	1,914	156	3.7	291	11	0.9	2,205	167	2.7
STD/NR	1,104	81	2.1	563	1,409	6.0	1,667	1,490	3.6
Total	**51,023**	**5,028**	**100.0**	**27,316**	**5,470**	**100.0**	**78,339**	**10,498**	**100.0**
Individual impairment of loans and advances	2,682			887			3,569		
Collective impairment of loans and advances	371			124			495		
Total	**47,970**	**5,028**		**26,305**	**5,470**		**74,275**	**10,498**	
% of total	65	48		35	52		100	100	

The table above shows that corporate loans and advances (including public authorities) account for 65% (2014: 67%) of total loans and advances, and retail loans and advances constitute 35% (2014: 33%). 66% (2014: 58%) of the Group's corporate loans and advances and guarantees are rated in categories 1-4 and 81% (2014: 77%) 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 at least one non-accrual credit facility.
- An impairment charge/provision has been registered in connection with the client and a loss must be regarded as unavoidable.
- The exposure has been transferred to the Group's central department for non-performing exposures.

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

Rating

Validation

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

The validation process includes an assessment of:

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

The backtest of the retail client rating model for the period from 1 January 2015 to 31 December 2015 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	49,222	12	15
2	22,786	16	9
3	17,740	24	27
4	8,702	30	36
5	6,690	53	75
6	3,640	48	67
7	2,084	78	87
8	1,788	58	126
9	4,550	319	829
Total	**117,202**	**638**	**1,271**

The number of retail client defaults is 50% (2014: 51%) below the estimated number of defaults. The primary reason is found in rating categories 8-9 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	353	1	0
2	2,124	0	1
3	2,494	6	3
4	1,777	5	7
5	1,520	9	14
6	884	16	17
7	246	5	9
8	172	5	11
9	1,254	142	237
Total	**10,824**	**189**	**299**

The number of corporate client defaults is 37% (2014: 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 are in 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 2008 to 2015.

%	Corporate		Retail	
Year	PD solvency 31 Dec	Realised default rate	PD solvency 31 Dec	Realised default rate
2015	2.35	1.78	1.16	0.55
2014	2.79	2.04	1.03	0.55
2013	3.02	1.94	1.07	0.50
2012	2.04	1.89	0.87	0.50
2011	2.10	1.93	0.67	0.49
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

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.

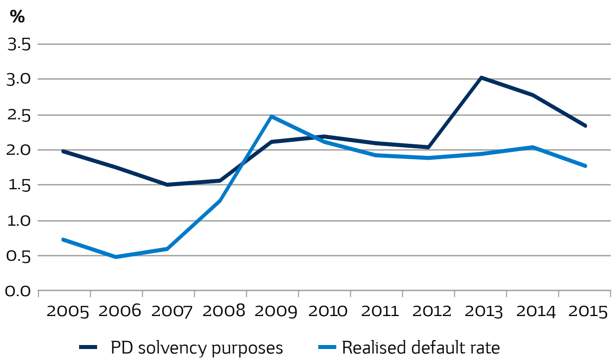
Since year-end 2010 the realised default rate as regards corporate clients has been stable at a slightly lower level than in 2009. The PD estimate for solvency purposes as regards corporate clients rose considerably in 2013 due to the implementation of a new rating model and a greater degree of prudence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

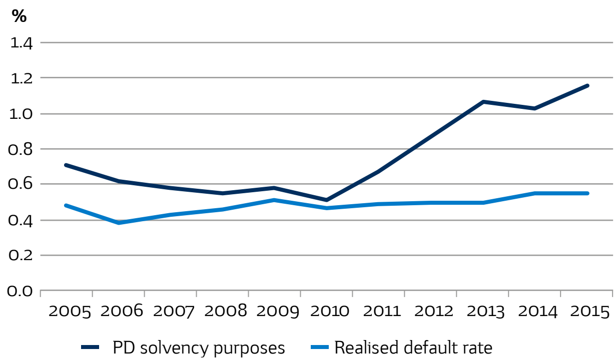
Consequently the Bank anticipates that under normal economic conditions the PD estimates for solvency purposes are prudent compared to the realised default rates.

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 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 2011 to 2015.

Loss given default (LGD) – retail clients %

Year	Estimated	Realised
2015	70	68
2014	69	76
2013	69	72
2012	68	75
2011	68	74

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 the trend in the economy.

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 2011 to 2015.

Conversion factor (CF) – retail clients %

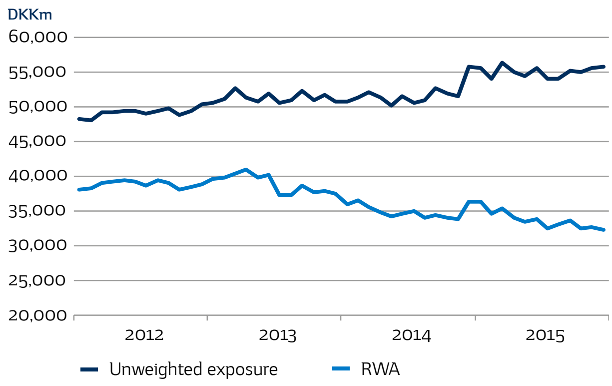
Year	Estimated	Realised
2015	99	26
2014	98	0
2013	99	(12)
2012	99	(10)
2011	98	32

As can be seen from the table, the Group's CF estimates as regards retail clients were around 100% throughout the period, corresponding to full recognition of undrawn credit commitments. The realised conversion factors were significantly below this level. The fact that the realised CF was negative in 2012 and 2013 is attributable to the Group's ability to reduce exposures before the time of default.

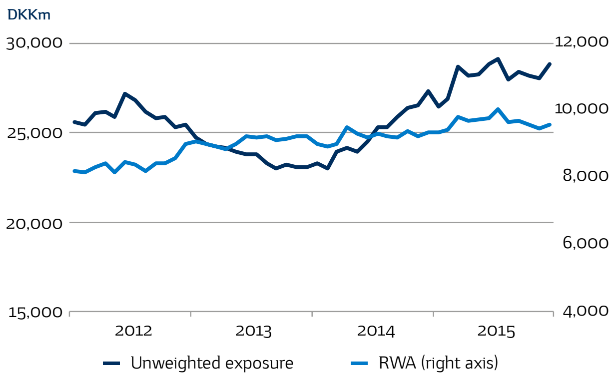
Risk-weighted assets (RWA)

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 rise in exposure in 2014 and 2015 in relation to retail clients 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 Group's credit exposure to corporate clients takes into account individual industry prospects. Due to special risk assessments, the Group may deliberately underweight its exposure to a few industries. The table below shows the exposure by way of loans and advances and guarantees to 10 primary industries as well as to retail clients and public authorities. After impairment charges, total loans and advances represent DKK 74,275m. 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.

2015 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	5,912	4,885	356	1,891	628
Manufacturing and extraction of raw materials	7,174	6,991	661	350	34
Energy supply etc	2,618	2,586	894	43	35
Building and construction	2,532	2,430	889	164	62
Trade	11,866	11,432	962	751	151
Transportation, hotels and restaurants	3,182	3,118	215	111	15
Information and communication	303	283	9	36	7
Finance and insurance	6,335	6,119	75	388	190
Real property	6,818	6,396	649	726	297
Other industries	3,349	3,167	253	290	106
Total corporate	**50,089**	**47,407**	**4,963**	**4,750**	**1,525**
Public authorities	934	934	65	-	-
Retail	27,316	26,429	5,470	1,523	225
Collective impairment charges	(495)	(495)	-	-	-
Total	**77,844**	**74,275**	**10,498**	**6,273**	**1,750**
Agriculture, hunting, forestry and fisheries					
Pig farming	1,702	1,421	95	592	176
Cattle farming	1,712	1,113	86	996	345
Crop production	1,270	1,220	116	103	27
Other agriculture	1,228	1,131	59	200	80
Total	**5,912**	**4,885**	**356**	**1,891**	**628**
Manufacturing and extraction of raw materials					
Iron and metal	1,720	1,640	148	175	9
Food, beverage and tobacco	1,520	1,514	108	10	2
Clothing	660	654	42	11	5
Other manufacturing and extraction of raw materials	3,274	3,183	363	154	18
Total	**7,174**	**6,991**	**661**	**350**	**34**
Trade					
Wholesale	8,712	8,434	559	494	94
Retail	2,006	1,893	346	184	48
Car dealers and garages	1,148	1,105	57	73	9
Total	**11,866**	**11,432**	**962**	**751**	**151**
Finance and insurance					
Holding companies	2,586	2,430	34	242	137
Financing companies	3,749	3,689	41	146	53
Total	**6,335**	**6,119**	**75**	**388**	**190**
Real property					
Leasing of commercial property	3,201	3,000	384	342	125
Leasing of residential property	1,191	1,069	184	206	67
Housing associations and cooperative housing associations	1,782	1,782	7	0	0
Purchase, development and sale on own account	516	441	52	146	85
Other related to real property	128	104	22	32	20
Total	**6,818**	**6,396**	**649**	**726**	**297**

As shown below, the accumulated impairment ratio as regards loans and advances constitutes 4.6% and impaired loans and advances represent 8.0% of the total volume of lending. The table shows that 32% of loans and advances to agriculture are regarded as impaired and that the relevant impairment charges constitute 54.3%, whereby the impairment ratio for agriculture totals 17.4%. The Group's risk on the exposure to agriculture is described in a separate paragraph. Compared with the figures for 2014, the accumulated impairment ratio as regards loans and advances has gone down from 5.5% to 4.6%.

Impairment of individually impaired loans/advances	Impairment charges for loans/advances etc for the year	Losses reported for the year	Individually impaired loans/ advances as % of loans/advances	Impairment charges as % of impaired loans/advances	Impairment charges as % of loans/ advances
1,027	116	201	32.0	54.3	17.4*
183	(4)	36	4.9	52.3	2.6
32	5	4	1.6	74.4	1.2
102	7	58	6.5	62.2	4.0
434	14	79	6.3	57.8	3.7
64	2	5	3.5	57.7	2.0
20	(3)	3	11.9	55.6	6.6
216	(40)	103	6.1	55.7	3.4
422	10	143	10.6	58.1	6.2
182	9	25	8.7	62.8	5.4
2,682	**116**	**657**	**9.5**	**56.5**	**5.4**
-	-	-	-	-	-
887	6	206	5.6	58.2	3.2
-	194	-	-	-	-
3,569	**316**	**863**	**8.0**	**56.9**	**4.6**
281	36	75	34.8	47.5	16.5
599	71	69	58.2	60.1	35.0
50	3	9	8.1	48.5	3.9
97	6	48	16.3	48.5	7.9
1,027	**116**	**201**	**32.0**	**54.3**	**17.4***
80	(3)	8	10.2	45.7	4.7
6	0	18	0.7	60.0	0.4
6	(4)	0	1.7	54.5	0.9
91	3	10	4.7	59.1	2.8
183	**(4)**	**36**	**4.9**	**52.3**	**2.6**
278	(2)	53	5.7	56.3	3.2
113	14	20	9.2	61.4	5.6
43	2	6	6.4	58.9	3.7
434	**14**	**79**	**6.3**	**57.8**	**3.7**
156	(13)	76	9.4	64.5	6.0
60	(27)	27	3.9	41.1	1.6
216	**(40)**	**103**	**6.1**	**55.7**	**3.4**
201	7	41	10.7	58.8	6.3
122	(3)	32	17.3	59.2	10.2
0	0	0	0.0	-	0.0
75	2	37	28.3	51.4	14.5
24	4	33	25.0	75.0	18.8
422	**10**	**143**	**10.6**	**58.1**	**6.2**

* In addition a collective impairment charge of DKK 225m has been made as regards agriculture, whereby the impairment ratio totals 21.2%.

Industry breakdown

The table below shows the Group's loans and advances to industries by rating category. 72% (2014: 67%) of rated loans and advances are rated in categories 1-4 whereas the percentage for agriculture is 23 (2014: 24).

Loans and advances by rating category

DKKm							2015
Industry	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Agriculture, hunting, forestry and fisheries	124	1,235	1,544	2,247	663	99	5,912
Manufacturing and extraction of raw materials	1,952	3,600	1,011	553	38	20	7,174
Energy supply etc	1,370	932	165	103	35	13	2,618
Building and construction.	272	1,261	558	253	173	15	2,532
Trade	1,863	6,788	2,101	1,026	166	(78)	11,866
Transportation, hotels and restaurants	624	1,708	368	389	35	58	3,182
Information and communication	40	179	34	42	7	1	303
Finance and insurance	2,092	2,473	819	678	228	45	6,335
Real property	2,059	2,361	1,082	859	446	11	6,818
Other industries	710	1,681	492	278	123	65	3,349
Public authorities	22	20	26	11	-	855	934
Retail	16,634	6,182	1,642	2,004	291	563	27,316
Total	**27,762**	**28,420**	**9,842**	**8,443**	**2,205**	**1,667**	**78,339**
Individual impairment of loans and advances							3,569
Collective impairment of loans and advances							495
Total loans and advances							**74,275**
%	35.4	36.3	12.6	10.8	2.8	2.1	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 15% of the Group's total lending and guarantee portfolio. Currently the share stands at 12.3% (2014: 12.7%).

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							2015
Sub-industry	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Leasing of commercial property	533	1,300	660	506	194	8	3,201
Leasing of residential property	65	554	264	217	90	1	1,191
Cooperative housing associations/ non-profit housing associations	1,415	355	11	-	-	1	1,782
Purchase, development and sale on own account	23	134	99	118	142	-	516
Other related to real property	23	18	48	18	20	1	128
Total real property	**2,059**	**2,361**	**1,082**	**859**	**446**	**11**	**6,818**
Building and construction	272	1,261	558	253	173	15	2,532
Total	**2,331**	**3,622**	**1,640**	**1,112**	**619**	**26**	**9,350**
%	24.9	38.7	17.5	11.9	6.6	0.4	100.0

As shown above, total loans and advances concerning real property as well as building and construction constitute DKK 9,350m (2014: DKK 9,364m), equivalent to 11.9% (2014: 12.9%) of the Group's lending portfolio. 63.7% (2014: 53.9%) 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 0.7%.

Outlook

Leasing of commercial property

The commercial rental property market is divided. Good properties in prime locations in the largest cities are characterised by satisfactory letting levels at increasing prices. However properties outside the largest cities still have high vacancy rates, affecting rent negatively. Expectations are that this market will remain under pressure.

Leasing of residential property

Low interest rates have pushed up the prices of residential rental properties in prime locations. In some large towns the return on residential rental properties is in some cases so low that even small interest rate increases could result in declining property values. In regions with dwindling populations the increase in property values has been modest. This development is expected to continue until Danish economic growth is more robust.

Building and construction

The industry is sensitive to market fluctuations and the more favourable conditions for growth throughout 2015 have prompted higher construction activity. Competition is fierce, putting pressure on earnings but in many cases market participants have implemented efficiency measures and therefore earnings in the industry are expected to improve given the projected growth in the Danish economy.

Focus on agriculture

Agriculture – loans and advances by rating category

DKKm							2015
Sub-industry	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Pig farming	7	306	413	788	183	5	1,702
Cattle farming	-	125	397	829	357	4	1,712
Crop production	47	396	435	359	28	5	1,270
Other agriculture	70	408	299	271	95	85	1,228
Total	**124**	**1,235**	**1,544**	**2,247**	**663**	**99**	**5,912**
%	2.1	20.9	26.1	38.0	11.2	1.7	100.0

Agriculture is divided into the following sub-industries:

- Pig farming
- Cattle farming (beef cattle and dairy cattle)
- Crop production
- Other agriculture (primarily forestry, mink farming and leisure farmers).

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 34.8% (2014: 31.4%) of loans and advances to pig farming and 58.2% (2014: 48.6%) of loans and advances to cattle farming are impaired. As regards total agriculture, 32% (2014: 28%) of loans and advances are impaired and at year-end 2015 individual impairment charges totalled DKK 1,027m (2014: DKK 976m), equal to 17.4% (2014: 15.5%) of loans and advances.

In addition to individual impairment charges of DKK 1,027m, collective impairment charges of DKK 225m (2014: DKK 125m) were made as regards loans and advances to agriculture at year-end 2015. This brings total impairment charges as regards agriculture to 21.2% (2014: 17.5%) of loans and advances.

At the beginning of 2016 the prospects for earnings in agriculture in 2016 are bleak.

A large supply combined with lower demand have prompted very low settlement prices with a considerable impact on earnings in agriculture, especially for pig producers and milk producers. Consequently average earnings in agriculture were negative in 2015. It looks like the unsustainable and unsatisfactory earnings in agriculture will continue in 2016.

Settlement prices for milk and pigs remain very low. The quotation for pork of DKK 8.70 per kg at the beginning of 2016 is lower than SEGES's forecast for Q1 2016 which projects an average quotation for pork of DKK 9.00 per kg. The settlement price for milk is in line with the forecast and represents DKK 2.37 including additions and subsequent payments etc, which is below the production price for the vast majority of milk producers.

The forecast for industry earnings in 2015-2017 published by SEGES in September 2015 shows that earnings expectations for 2016 are only marginally better than in 2015. An average loss of approximately DKK 20,000 per farm is estimated in 2015. The result in 2016 is expected to rise to a profit of DKK 67,000 for an average farm.

The projected profit in 2016 covers the fact that the improvement mainly comes from pig farming where the average result is expected to rise from a loss of DKK 327,000 in 2015 to a profit of DKK 73,000 in 2016. The improvement is due to a slight rise in the quotation for pork and the fact that feed prices are expected to remain at a low level.

Earnings vary considerably from farm to farm. The best third of farmers can look forward to relatively satisfactory results; they are able to generate profits continuously, also during recessions.

Milk producers face the largest challenges. However this does not apply to organic producers who are seeing substantial demand and satisfactory settlement prices. According to SEGES's forecasts, an average milk producer will record a loss of DKK 211,000 in 2016 compared to a loss of DKK 116,000 in 2015. SEGES projects that settlement prices for milk will rise in 2016.

As an ongoing consequence of the low settlement prices, a large number of farms are expected to change owners in the course of 2016.

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	2015	2014
Exposure > 20% of total capital	-	-
Exposure 10-20% of total capital	-	-
Total	-	-
% of total capital	-	-

At year-end 2015 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 2015 the 10 largest exposures represent 5.5% (2014: 4.2%) of the Group's total credit portfolio.

After deduction of the loan value of any collateral, the 10 largest BIS exposures constitute 4.6% (2014: 4.0%) 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								2015
Amount	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
0-1	310	863	533	428	61	-	2,195	4.3
1-5	1,052	3,172	2,087	1,510	444	-	8,265	16.2
5-10	721	2,225	1,427	1,134	467	-	5,974	11.7
10-20	753	2,596	1,449	1,447	542	-	6,787	13.3
20-50	1,623	3,827	1,802	1,351	299	-	8,902	17.5
50-100	1,832	3,405	901	568	101	-	6,807	13.3
100-200	1,926	4,029	-	-	-	-	5,955	11.7
200-500	2,288	2,122	-	-	-	-	4,410	8.6
500-	621	-	-	-	-	-	621	1.2
STD/NR	-	-	-	-	-	1,107	1,107	2.2
Total	**11,126**	**22,239**	**8,199**	**6,438**	**1,914**	**1,107**	**51,023**	**100.0**
%	21.8	43.6	16.1	12.6	3.8	2.1	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 23% (2014: 22%) of the Group's total loans and advances. 86.7% (2014: 72.4%) of these loans and advances are rated in categories 1-4. Moreover loans and advances to agriculture as regards these 100 largest clients represent 2.8% (2014: 4.5%).

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

DKKm								2015
Industry/rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
Agriculture, hunting, forestry and fisheries	-	270	103	119	-	-	492	2.8
Manufacturing and extraction of raw materials	714	1,167	182	-	-	-	2,063	11.6
Energy supply etc	954	225	-	-	-	-	1,179	6.6
Building and construction	104	395	73	6	-	-	578	3.3
Trade	1,238	4,062	369	-	-	-	5,669	32.0
Transportation, hotels and restaurants	288	649	-	-	4	-	941	5.3
Information and communication	-	-	-	1	-	-	1	0.0
Finance and insurance	1,114	967	59	235	87	-	2,462	13.9
Real property *	1,598	825	261	-	-	164	2,848	16.1
Other industries	112	595	-	-	-	-	707	4.0
Public authorities	-	-	-	-	-	674	674	3.8
Retail	67	29	15	17	-	-	128	0.6
Total	**6,189**	**9,184**	**1,062**	**378**	**91**	**838**	**17,742**	**100.0**
%	34.9	51.8	6.0	2.1	0.5	4.7	100.0	

* DKK 1,246m of the real property loans and advances of DKK 2,848m 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

%						2015
Rating category Net turnover/assets (DKKm)	1-2	3-4	5-6	7-9	Total	Loans/advances and guarantees
0-25	13	36	26	25	100	24
25-50	17	46	24	13	100	8
50-100	17	40	25	18	100	11
100-200	20	51	18	11	100	11
200-400	38	38	13	11	100	11
400-	35	57	5	3	100	30
NA	19	48	20	13	100	5
Total	**24**	**46**	**17**	**13**	**100**	**100**

Collateral

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

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

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

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

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

Collateral received and types of collateral

DKKm	2015	2014
Loans and advances at fair value	10,183	6,891
Loans and advances at amortised cost	74,275	68,451
Guarantees	10,498	13,846
Credit exposure for accounting purposes	94,956	89,188
Collateral value	50,254	45,126
Total unsecured	**44,702**	**44,062**
Types of collateral:		
Real property	16,534	11,654
Financial collateral	16,410	13,487
Leased assets, mortgages etc	4,624	4,222
Floating charges, operating equipment etc	6,404	5,396
Guarantees	1,047	1,263
Other items of collateral	452	488
Total collateral used	45,471	36,510
Particularly secured transactions (mortgage guarantees)	4,783	8,616
Total	**50,254**	**45,126**

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 2015 repossessed equipment as well as real property taken over in connection with non-performing exposures amounted to DKK 32m (2014: DKK 22m). 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

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 and excess collateral is not included in the calculation of collateral. Approximately 53% of the Group's loans and advances is covered via collateral.

Collateral by rating category

DKKm Rating category	Loans/advances	Guarantees	Collateral value	2015 Unsecured
1	11,583	1,994	9,744	3,833
2	24,688	2,472	16,279	10,881
3	18,815	1,747	9,237	11,325
4	11,279	1,107	4,538	7,848
5	6,253	535	3,149	3,639
6	3,589	359	1,651	2,297
7	1,119	113	505	727
8	677	91	335	433
9	6,647	423	2,597	4,473
Default	2,205	167	763	1,609
STD/NR	1,667	1,490	1,456	1,701
Total	**88,522**	**10,498**	**50,254**	**48,766**
Individual impairment of loans and advances	3,569			3,569
Collective impairment of loans and advances	495			495
Total	**84,458**	**10,498**	**50,254**	**44,702**

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.

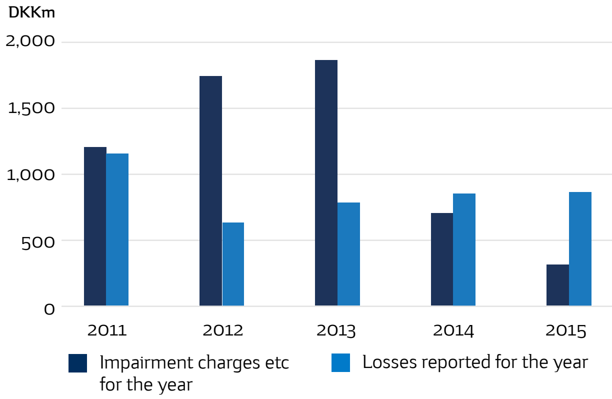
Impairment calculation is effected quarterly in a process managed by the centralised credit organisation.

Impairment charges for bank loans and advances etc constitute DKK 316m in 2015 compared with DKK 707m in 2014.

At year-end 2015 collective impairment charges amount to DKK 495m. Agriculture accounts for DKK 225m.

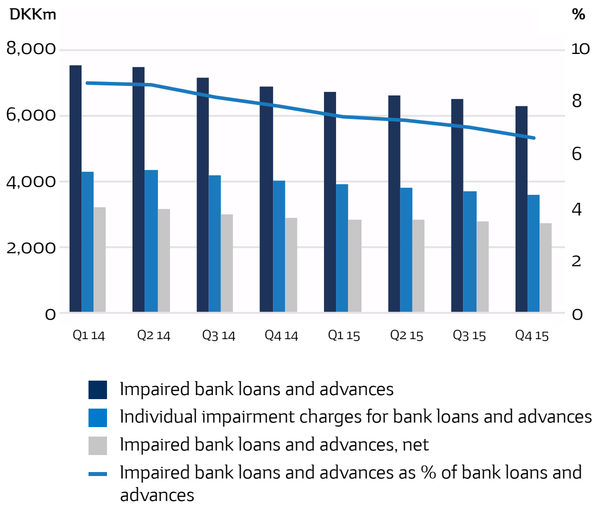
The figure below shows the development in impairment charges for bank loans and advances from 2011 to 2015 as well as the reported losses.

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 6,864m in Q4 2014 to DKK 6,273m in Q4 2015. During this period accumulated individual impairment charges for bank loans and advances decreased from DKK 3,996m to DKK 3,569m.

Individually impaired bank loans and advances



Impairment charges

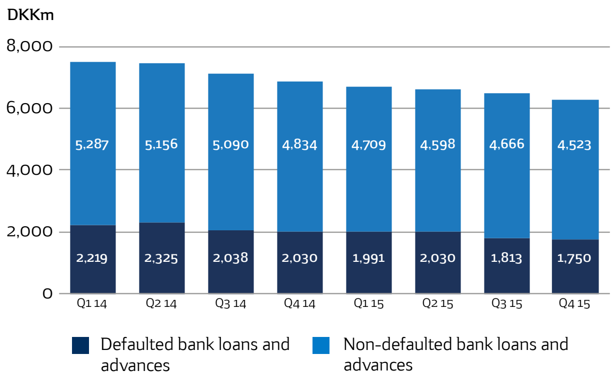
Individually impaired bank loans and advances

DKKm	2015	2014
Non-defaulted bank loans and advances	4,523	4,834
Defaulted bank loans and advances	1,750	2,030
Impaired bank loans and advances	**6,273**	**6,864**
Impairment of individually impaired bank loans and advances	3,569	3,996
Impaired bank loans and advances after impairment charges	**2,704**	**2,868**
Impaired bank loans and advances as % of bank loans and advances before impairment charges	8.0	9.4
Impairment charges as % of bank loans and advances before impairment charges	4.6	5.5
Impaired as % of impaired bank loans and advances	56.9	58.2
Impairment charges as % of defaulted bank loans and advances	203.9	196.8

It is seen that impairment charges as % of defaulted bank loans and advances currently stand at 203.9% at year-end 2015.

The figure below shows the breakdown of impaired bank loans and advances in terms of defaulted bank loans and advances and non-defaulted bank loans and advances. As shown in the figure, the majority of impaired loans and advances concern non-defaulted bank loans and advances. Defaulted bank loans and advances have declined by DKK 469m since Q1 2014 whereas non-defaulted bank loans and advances have fallen by DKK 764m.

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 Exposure category	Approach	Gross exposure	Credit risk mitigation	Effect of conversion factors	Exposure (unweighted)	RWA	2015 Average exposure for the year
Corporate clients	STD	2,198	(974)	(352)	872	767	1,757
	IRB	101,909	(16,260)	(31,678)	53,971	32,241	98,113
Retail clients	STD	760	(1)	(9)	750	553	1,362
	IRB	36,788	(7,848)	(67)	28,873	9,583	35,247
Total corporate and retail clients		**141,655**	**(25,083)**	**(32,106)**	**84,466**	**43,144**	**136,479**
Governments incl municipalities	STD	4,134	0	(1,571)	2,563	30	8,274
Credit institutions	STD	18,753	(12,558)	(384)	5,811	1,757	21,207
Total		**164,542**	**(37,641)**	**(34,061)**	**92,840**	**44,931**	**165,960**
Share IRB (%)		84	64	93	89	93	80
Share STD (%)		16	36	7	11	7	20
							2014
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 incl municipalities	STD	5,155	0	(2,045)	3,110	46	4,477
Credit 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

Credit exposure by industry

DKKm Industry/exposure category	Corporate clients	Retail clients	Other	Total	2015 %
Agriculture, hunting, forestry and fisheries	8,141	118		8,259	5.8
Manufacturing and extraction of raw materials	12,984	60		13,044	9.2
Energy supply etc	5,426	6		5,432	3.8
Building and construction	5,588	118		5,706	4.0
Trade	20,915	162		21,077	14.9
Transportation, hotels and restaurants	5,676	102		5,778	4.1
Information and communication	803	21		824	0.6
Finance and insurance	10,379	273		10,652	7.5
Repo/reverse	12,343	170		12,513	8.9
Real property	10,707	260		10,967	7.8
Other industries	6,550	388		6,938	4.9
Sector guarantees	310	0		310	0.2
Retail	4,285	35,870		40,155	28.3
Total corporate and retail clients	**104,107**	**37,548**		**141,655**	**100.0**
Governments incl municipalities			4,134	4,134	
Credit institutions, repo/reverse			12,944	12,944	
Credit institutions, other			5,776	5,776	
Sector guarantees			33	33	
Total	**104,107**	**37,548**	**22,887**	**164,542**	

					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 incl municipalities			5,155	5,155	
Credit institutions, repo/reverse			25,557	25,557	
Credit institutions, other			4,359	4,359	
Sector guarantees			29	29	
Total	**100,213**	**35,976**	**35,100**	**171,289**	

Appendix 1 – Supplementary tables

Credit exposure to corporate clients by rating category (IRB)

DKKm						2015
		Exposure after	Exposure-weighted, average			RWA
Rating category	Gross exposure	effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	
1	3,290	1,999	0.0	33.5	11.0	220
2	34,173	22,293	0.0	22.4	8.3	1,845
3	26,111	16,470	0.1	38.3	26.6	4,386
4	15,712	10,998	0.4	42.9	56.4	6,205
5	7,864	5,829	0.9	42.6	72.3	4,212
6	4,355	3,503	0.2	4.3	9.2	3,228
7	1,306	992	3.8	43.5	109.5	1,086
8	662	583	6.7	44.3	132.6	773
9	6,252	5,525	16.4	43.0	186.2	10,286
Default	2,184	2,039	100.0	44.2	0.0	-
Total	**101,909**	**70,231**				**32,241**

						2014
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	-
Total	**97,574**	**67,770**				**36,384**

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						2015
		Exposure after	Exposure-weighted, average			RWA
	Gross	effect of				
Rating category	exposure	conversion factors	PD (%)	LGD (%)	Risk weight (%)	
1	15,882	15,845	0.0	57.7	5.8	920
2	9,540	9,525	0.0	52.9	6.6	624
3	5,301	5,293	0.1	56.4	18.3	968
4	1,845	1,841	0.4	56.7	36.3	668
5	1,238	1,237	1.2	55.0	69.6	861
6	622	621	0.2	5.5	8.2	509
7	180	180	4.0	55.7	108.7	195
8	152	152	7.0	57.1	131.1	199
9	1,714	1,714	17.0	59.1	237.4	4,069
Default	314	313	100.0	71.6	182.0	570
Total	**36,788**	**36,721**				**9,583**

						2014
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**

Appendix 1 – Supplementary tables

Credit exposure by clients' country of domicile

DKKm					2015
	Denmark	Germany	Norway	Other	Total
Corporate clients	90,681	5,479	80	7,867	104,107
Retail clients	36,183	465	201	699	37,548
Total corporate and retail clients	**126,864**	**5,944**	**281**	**8,566**	**141,655**
Governments incl municipalities	4,037	3	19	75	4,134
Credit institutions	5,104	1,774	9,872	2,003	18,753
Total	**136,005**	**7,721**	**10,172**	**10,644**	**164,542**
					2014
Corporate clients	88,381	5,837	13	5,982	100,213
Retail clients	34,550	446	258	722	35,976
Total corporate and retail clients	**122,931**	**6,283**	**271**	**6,704**	**136,189**
Governments incl municipalities	5,041	29	4	81	5,155
Credit institutions	10,307	483	12,976	6,179	29,945
Total	**138,279**	**6,795**	**13,251**	**12,964**	**171,289**

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	2015 Total
Corporate clients	-	62,699	25,994	8,289	7,125	104,107
Retail clients	-	10,747	3,482	4,065	19,254	37,548
Total corporate and retail clients	**-**	**73,446**	**29,476**	**12,354**	**26,379**	**141,655**
Governments incl municipalities	515	2,538	1,042	30	9	4,134
Credit institutions	-	18,601	152	-	-	18,753
Total	**515**	**94,585**	**30,670**	**12,384**	**26,388**	**164,542**

						2014
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 incl municipalities	542	3,483	1,123	-	7	5,155
Credit institutions	-	29,796	149	-	-	29,945
Total	**542**	**101,645**	**34,822**	**12,694**	**21,586**	**171,289**

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	2015 Total
Neither past due nor impaired	101,821	36,199	22,887	160,907
Past due but not impaired	48	56	-	104
Impaired after impairment charges	2,238	1,293	-	3,531
Total	**104,107**	**37,548**	**22,887**	**164,542**
				2014
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**

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	2015 Total	Corporate clients	Retail clients	2014 Total
0-30 days	46	54	100	66	41	107
31-60 days	1	1	2	3	2	5
61-90 days	1	1	2	-	1	1
Total	**48**	**56**	**104**	**69**	**44**	**113**

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

DKKm	2015	2014
Impairment and provisions	227	610
Write-offs	200	183
Recovered from debt previously written off	111	86
Total	**316**	**707**

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

DKKm			2015			2014
	Individually impaired loans/ advances and guarantees	Individual impairment and provisions	Impaired loans/ advances and guarantees after impairment charges	Individually impaired loans/ advances and guarantees	Individual impairment and provisions	Impaired loans/ advances and guarantees after impairment charges
Denmark	6,994	3,505	3,489	7,777	3,924	3,853
Germany	120	94	26	135	104	31
Other	104	88	16	120	83	37
Total	**7,218**	**3,687**	**3,531**	**8,032**	**4,111**	**3,921**

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.

Sydbank A/S
Peberlyk 4
6200 Aabenraa, Denmark

Tel +45 74 37 37 37
sydbank.dk
info@sydbank.dk

CVR No DK 12626509