Credit Risk 2012

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 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 2012 Annual Report.

The correlation between the gross exposure, as shown in "Appendix 1 – Supplementary tables", and loans and advances and guarantees in the annual report is shown below.

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

Gross exposure – credit risk

DKKm	2012	2011
Loans and advances at fair value	6,082	7,658
Loans and advances at amortised cost	68,163	68,847
Loans and advances according to financial statements	74,245	76,505
Loans and advances to municipalities	(422)	(534)
Undrawn credit commitments	32,852	28,788
Derivatives	1,813	2,731
Guarantees etc	11,655	9,820
Gross exposure to retail and corporate clients	120,143	117,310
Governments incl municipalities	3,678	6,472
Institutions	34,306	29,985
Shares	1,019	926
Other exposures	1,560	1,476
Gross exposure – credit risk	**160,706**	**156,169**

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 Group's credit activities are planned in accordance with the Group's visions and strategies and must be:
- Competent
- Competitive
- Reliable
- Obliging.

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 more than 90% of retail client exposures are approved by the client's branch and that the remaining client exposures are approved by the regional head office. Major retail client exposures are approved centrally by Credits.

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

Corporate clients
As a rule, corporate clients are served by the regional head office or by special corporate departments. The objective is that all small corporate exposures are approved decentrally 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 the risks to retail clients, SMEs, corporate clients and investment clients.

Furthermore, the Group has an extensive and competent credit organisation which – together with the rating models – ensures focus on the Group's credit risks in the approval process as well as the follow-up process.

The credit organisation is adjusted on an ongoing basis to ensure that its credit rating capacity reflects the Group's development as well as economic conditions.

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 exposures are to the following client segments in particular:
- Retail and corporate clients in Denmark and Northern Germany
- Investment clients in Scandinavia and Germany.

Credit follow-up
Credits is responsible for managing and monitoring credit risks in accordance with the guidelines stipulated by the Board of Directors and the Group Executive Management as well as for internal and external credit risk reporting.

Credit Follow-up monitors developments in credit quality as well as compliance with credit policies.

This process involves research and analyses using information from the Group's database on all exposures as well as dialogue with the individual branches. The objective is to review all the Bank's branches at least every third year.

Moreover, Credit Follow-up conducts annual quality analyses of the Group's new exposures as well as annual sample surveys of the retail and corporate client portfolios.

Finally, Credit Follow-up evaluates on the basis of a credit expert assessment whether the Group's rating systems rank clients correctly. This assessment forms part of the Group's semi-annual validation reports.

All regional corporate departments have identified a number of weak exposures to which particular focus is given and these 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.

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 requirements, the Group estimates on an ongoing basis the risk parameters, PD, LGD and EAD, as regards the Group's retail clients as well as PD as regards the Group's corporate clients.

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

LGD represents the proportion of an exposure that is expected to be lost if the client defaults within the next 12 months.

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

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

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

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

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

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

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

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

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

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

Corporate clients
The corporate client model is based on the client's accounting data supplemented by appraisals made by the credit officer and/or account manager of the corporate 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.

Investment clients
The investment client model is based on:

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

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

A small part of the exposures – primarily exposures taken over from Tønder Bank – is not included in the rating models.

PD scale
In connection with the implementation of a new retail client rating model in November 2011, it has become apparent that a very large number of clients are assigned to the two best rating categories and that the number of clients assigned to the poorest rating categories is rising. This is due the fact that the predictive power of the new rating system is better than the previous system.

To ensure a wider spread in terms of rating categories, the scale regarding PD ratings in rating categories was changed as of December 2012 as regards retail clients whereas the scale for corporate clients will be changed – presumably in 1H 2013 – when a new improved version of the corporate client rating model is implemented.

The new and old PD scales are shown below.

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

The table below shows the rating at year-end 2011 of retail clients in rating categories according to the new as well as the old PD scale. It can be seen that almost half of the loans and advances and guarantees that were previously assigned to rating category 1 have been assigned to a poorer rating category.

DKKm	Retail 31 Dec 2011 – new scale			Retail 31 Dec 2011 – old scale		
Rating category	Loans and advances	Guarantees	%	Loans and advances	Guarantees	%
1	4,692	1,100	21.1	8,655	1,630	37.5
2	5,506	646	22.4	6,303	793	25.8
3	4,508	590	18.6	2,799	348	11.5
4	2,589	344	10.7	1,258	113	5.0
5	2,209	187	8.7	1,774	122	6.9
6	1,054	124	4.3	334	18	1.3
7	426	34	1.7	155	11	0.6
8	461	31	1.8	170	18	0.7
9	720	27	2.7	717	30	2.7
Default	273	1	1.0	273	1	1.0
STD/NR	814	1,126	7.1	814	1,126	7.1
Total	**23,252**	**4,210**	**100.0**	**23,252**	**4,210**	**100.0**

Rating

Loans/advances and guarantees by rating category

DKKm									**2012**
	Corporate **Old PD scale**			Retail **New PD scale**			Total		
Rating category	Loans and advances	Guarantees	%	Loans and advances	Guarantees	%	Loans and advances	Guarantees	%
1	1,888	67	3.7	5,429	1,257	25.0	7,317	1,324	10.8
2	10,636	832	21.6	5,892	624	24.3	16,528	1,456	22.6
3	11,040	1,422	23.5	4,144	636	17.9	15,184	2,058	21.6
4	7,921	816	16.5	1,996	362	8.8	9,917	1,178	13.9
5	5,096	473	10.5	1,428	230	6.2	6,524	703	9.1
6	1,794	165	3.7	770	73	3.1	2,564	238	3.5
7	1,201	38	2.3	264	34	1.1	1,465	72	1.9
8	745	41	1.5	250	8	1.0	995	49	1.3
9	5,086	288	10.1	1,296	45	5.0	6,382	333	8.4
Default	1,740	42	3.4	367	17	1.4	2,107	59	2.7
STD/NR	1,422	296	3.2	711	940	6.2	2,133	1,236	4.2
Total	**48,569**	**4,480**	**100.0**	**22,547**	**4,226**	**100.0**	**71,116**	**8,706**	**100.0**
Individual impairment of loans and advances	2,077			692			2,769		
Collective impairment of loans and advances	133			51			184		
Total	**46,359**	**4,480**		**21,804**	**4,226**		**68,163**	**8,706**	
% of total	68	51		32	49		100	100	

The table above shows that corporate loans and advances (including public authorities) account for 68% of total loans and advances, and loans and advances to retail clients constitute 32%. 65% of the Group's corporate loans and advances are rated in categories 1-4 and 76% of the Group's loans and advances to retail clients are rated in categories 1-4. However it should be noted that the PD scales – see above – are different as regards the two sub-models.

Default

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

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

Moreover, the Group has adopted procedures under which all exposures in arrears for more than 90 days are either approved or transferred to the department for non-performing exposures.

Validation

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

The validation process includes an assessment of:

- Model ability to rank clients by default risk
- Realised values compared with expected values (backtesting)
- Data quality
- Model application.

The backtest of the retail client rating model for the period from 1 January 2012 to 31 December 2012 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	39,548	2	12
2	22,616	13	9
3	19,027	20	29
4	10,905	31	46
5	8,023	67	89
6	4,347	69	82
7	1,761	56	75
8	1,390	63	98
9	1,325	206	290
Total	108,942	527	730

Only 72% of the expected defaults were realised. With the exception of rating category 2, the number of realised defaults is considerably lower than expected.

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	91	-	-
2	1,373	1	2
3	2,475	5	11
4	2,507	8	22
5	1,941	21	34
6	818	20	27
7	410	17	19
8	292	9	17
9	808	120	87
Total	10,715	201	219

At the beginning of the period 219 defaults were estimated and 201 were realised. This backtest shows that the model was good at predicting defaults.

The table below shows the average PD for solvency purposes used to calculate the Group's risk-weighted assets at the beginning of the year as well as the realised annual default rates for 2005 to 2012.

%		Corporate		Retail
Year	PD solvency 31 Dec	Realised default rate	PD solvency 31 Dec	Realised default rate
2012	2.04	1.89	0.87	0.50
2011	2.10	1.93	0.67	0.49
2010	2.19	2.12	0.51	0.47
2009	2.12	2.47	0.58	0.51
2008	1.57	1.28	0.55	0.46
2007	1.50	0.59	0.58	0.43
2006	1.74	0.48	0.62	0.38
2005	1.98	0.73	0.71	0.48

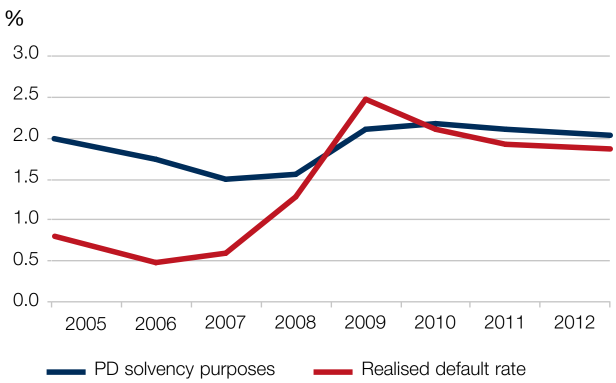
As shown above, PD for solvency purposes decreases from year-end 2005 to year-end 2007 as economic conditions improve and the rating basis changes. PD for solvency purposes increases again at the beginning of 2009 as a result of changed economic conditions relating to the financial crisis.

Since year-end 2010, a slight decline is seen in the realised default rate and the PD estimates for solvency purposes as regards corporate clients whereas an increase is seen in the PD estimates for solvency purposes as regards retail clients and a virtually unchanged default rate. The rise in the PD for solvency purposes in 2011 as regards retail clients is related to the implementation of a new rating model in November 2011, including a greater degree of prudence in relation to the PD estimates for solvency purposes applied.

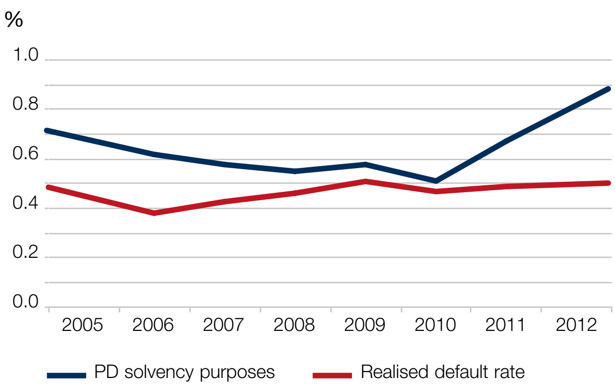
Consequently the Bank anticipates that under normal economic conditions the PD estimates for solvency purposes are prudent compared to the realised default rates. However, in connection with an abrupt decline in economic conditions, as was seen in autumn 2008, it must be expected that the realised default rates may exceed the estimates for a period of time.

The following two charts show PD for solvency purposes and the 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 (PD) – corporate clients



Probability of default (PD) – retail clients



Loss given default (LGD)

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

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

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

The realisable value reflects the market value of collateral net of:
- The expected decline in asset values during a recession
- Transferability of the collateral.

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

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

The table below shows the average estimated and realised LGD rates of retail clients in default from 2005 to 2012.

Loss given default (LGD) – retail clients

%	Estimated	Realised
2012	70	78
2011	68	79
2010	66	82
2009	67	82
2008	67	83
2007	68	76
2006	67	69
2005	67	71

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

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

It is expected that some of the clients will be able to repay part or all of their debts as the economic situation improves. Therefore it is anticipated that estimated loss given default (LGD) and the actual calculated values of loss in time will show good correlation.

Conversion factor (CF)

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

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

The table below shows the average estimated and realised conversion factors of undrawn credit commitments of retail clients in default in the period from 2005 to 2012.

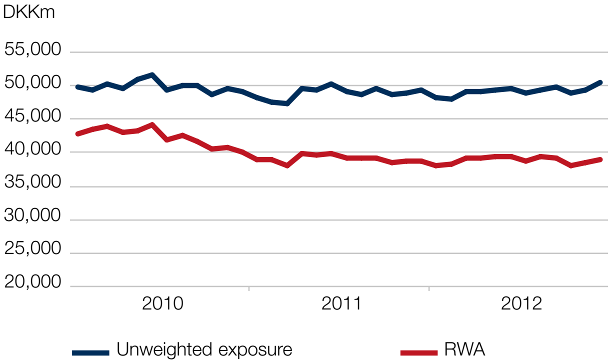
Conversion factor (CF) – retail clients

%	Estimated	Realised
2012	99	(10)
2011	98	32
2010	99	36
2009	96	49
2008	100	103
2007	100	48
2006	100	79
2005	100	84

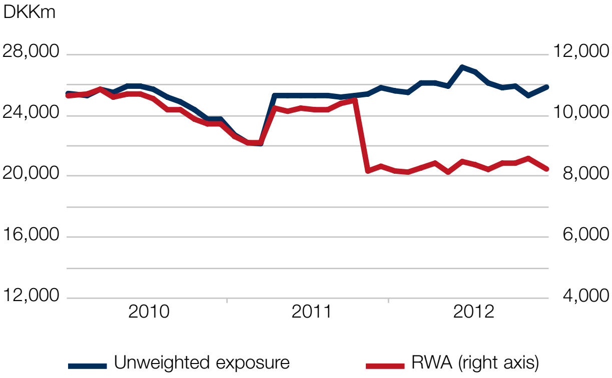
As can be seen from the table, the Group's conversion factor estimates as regards retail clients were around 100% throughout the period, corresponding to full recognition of undrawn credit commitments. The realised conversion factors were significantly lower except for 2008 when the realised value was almost identical to the estimate.

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

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



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



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

Industry breakdown

The composition of the Group's credit exposure to corporate clients must be in line with individual industry prospects and may not deviate materially from the industry diversification of other banks. However, due to special risk assessments, the Group may deliberately underweight its exposure to certain 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 68,163m.

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.

2012 DKKm	Loans and advances before individual impairment charges	Loans and advances after individual impairment charges	Guarantees	Individually impaired loans and advances
Industry				
Agriculture, hunting, forestry and fisheries	6,324	5,757	385	1,230
Manufacturing and extraction of raw materials	5,769	5,616	446	328
Energy supply etc	2,246	2,227	626	41
Building and construction	2,055	1,937	735	201
Trade	9,943	9,709	944	501
Transportation, hotels and restaurants	2,260	2,210	155	114
Information and communication	348	346	28	6
Finance and insurance	7,917	7,466	141	739
Real property	8,231	7,839	638	841
Other industries	2,937	2,846	249	155
Total	**48,030**	**45,953**	**4,347**	**4,156**
Public authorities	539	539	131	
Retail	22,547	21,855	4,228	1,232
Collective impairment charges	(184)	(184)		
Total	**70,932**	**68,163**	**8,706**	**5,388**
Agriculture, hunting, forestry and fisheries				
Pig farming	1,907	1,728	143	431
Cattle farming	1,947	1,665	124	573
Crop production	1,160	1,134	71	62
Other agriculture	1,310	1,230	47	164
Total	**6,324**	**5,757**	**385**	**1,230**
Manufacturing and extraction of raw materials				
Iron and metal	1,376	1,328	105	117
Food, beverage and tobacco	1,181	1,166	42	21
Clothing	638	626	16	19
Other manufacturing and extraction of raw materials	2,574	2,496	283	171
Total	**5,769**	**5,616**	**446**	**328**
Trade				
Wholesale	6,923	6,774	606	354
Retail	2,071	2,014	286	91
Car dealers and garages	949	921	52	56
Total	**9,943**	**9,709**	**944**	**501**
Finance and insurance				
Holding companies	3,101	2,886	68	304
Financing companies	4,816	4,580	73	435
Total	**7,917**	**7,466**	**141**	**739**
Real property				
Leasing of commercial property	3,121	2,935	212	345
Leasing of residential property	1,980	1,862	206	321
Housing associations and private housing societies	1,494	1,494	96	
Purchase, development and sale on own account	1,137	1,077	73	133
Other related to real property	499	471	51	42
Total	**8,231**	**7,839**	**638**	**841**

As shown below the accumulated impairment ratio as regards loans and advances constitutes 3.9% and impaired loans and advances represent 7.6% of the total volume of lending. It must be noted that 19.4% of loans and advances to agriculture are regarded as impaired and that the relevant impairment charges total 46.1%, whereby the impairment ratio for agriculture totals 9.0%. The Group's risk on the exposure to agriculture is described in a separate paragraph.

Compared with the figures for 2011, the accumulated impairment ratio as regards loans and advances has gone up from 2.3% to 3.9%. Apart from agriculture, real property (incl building and construction) and retail clients in particular have recorded a rise in impairment charges of 3.0 percentage points and 1.6 percentage points, respectively. These sectors are described separately.

	Impairment of individually impaired loans and advances	Impairment charges for loans and advances etc for the year	Individually impaired loans and advances as % of loans and advances	Impairment charges as % of impaired loans and advances	Impairment charges as % of loans and advances
	567	129	19.4	46.1	9.0
	153	92	5.7	46.6	2.7
	19	18	1.8	46.3	0.8
	118	91	9.8	58.7	5.7
	234	143	5.0	46.7	2.4
	50	19	5.0	43.9	2.2
	2	1	1.7	33.3	0.6
	451	256	9.3	61.0	5.7
	392	469	10.2	46.6	4.8
	91	81	5.3	58.7	3.1
	2,077	**1,299**	**8.7**	**50.0**	**4.3**
				-	0.0
	692	449	5.5	56.2	3.1
		1			
	2,769	**1,748**	**7.6**	**51.4**	**3.9**
	179	17	22.6	41.5	9.4
	282	75	29.4	49.2	14.5
	26	(3)	5.3	41.9	2.2
	80	40	12.5	48.8	6.1
	567	**129**	**19.4**	**46.1**	**9.0**
	48	27	8.5	41.0	3.5
	15	8	1.8	71.4	1.3
	12	21	3.0	63.2	1.9
	78	36	6.6	45.6	3.0
	153	**92**	**5.7**	**46.6**	**2.7**
	149	99	5.1	42.1	2.2
	57	33	4.4	62.6	2.8
	28	11	5.9	50.0	3.0
	234	**143**	**5.0**	**46.7**	**2.4**
	215	90	9.8	70.7	6.9
	236	166	9.0	54.3	4.9
	451	**256**	**9.3**	**61.0**	**5.7**
	186	161	11.1	53.9	6.0
	118	106	16.2	36.8	6.0
					0.0
	60	121	11.7	45.1	5.3
	28	81	8.4	66.7	5.6
	392	**469**	**10.2**	**46.6**	**4.8**

Industry breakdown

The table below shows the Group's loans and advances to industries by rating category. It must be noted that 69% of total loans and advances are rated in categories 1-4 whereas the percentage for agriculture is 39.

Loans and advances by industry and rating category

DKKm							**2012**
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Industry							
Agriculture, hunting, forestry and fisheries	358	2,120	1,586	1,794	228	238	6,324
Manufacturing and extraction of raw materials	1,899	2,664	579	503	75	49	5,769
Energy supply etc	1,451	449	90	164	0	92	2,246
Building and construction	212	1,037	318	286	148	54	2,055
Trade	2,458	5,377	989	798	119	202	9,943
Transportation, hotels and restaurants	324	1,127	439	242	36	92	2,260
Information and communication	228	56	25	25	0	14	348
Finance and insurance	2,690	2,599	854	1,241	484	49	7,917
Real property	2,513	2,011	1,470	1,589	551	97	8,231
Other industries	380	1,477	502	384	99	95	2,937
Public authorities	11	44	37	5	0	442	539
Retail	11,321	6,140	2,199	1,811	367	709	22,547
Total	**23,845**	**25,101**	**9,088**	**8,842**	**2,107**	**2,133**	**71,116**
Individual impairment charges							2,769
Collective impairment charges							184
Total loans and advances							**68,163**
%	33.5	35.3	12.8	12.4	3.0	3.0	100.0

Focus on real property as well as building and construction

According to the Group's credit policy, loans and advances and guarantees to exposures in the property sector as well as the building and construction sector may not exceed 20% of the Group's total lending and guarantee portfolio. Currently the share stands at 14%.

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
- Housing associations and private housing societies
- Clients who mainly invest in properties for subsequent resale
- Other – typically a combination of the above
- Building and construction.

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

DKKm							**2012**
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Real property							
Leasing of commercial property	514	1,271	552	621	126	37	3,121
Leasing of residential property	345	430	567	546	69	23	1,980
Housing associations and private housing societies	1,435	36	5	0	0	18	1,494
Purchase, development and sale on own account	195	178	299	223	229	13	1,137
Other related to real property	24	96	47	199	127	6	499
Total real property	**2,513**	**2,011**	**1,470**	**1,589**	**551**	**97**	**8,231**
Building and construction	212	1,037	318	286	148	54	2,055
Total	**2,725**	**3,048**	**1,788**	**1,875**	**699**	**151**	**10,286**

As shown above, total loans and advances concerning real property as well as building and construction constitute DKK 10,286m, equivalent to 14% of the Group's lending portfolio. 56% of total loans and advances are rated in categories 1-4.

It should be noted that loans and advances to private housing societies and housing associations primarily represent bridging loans which will be replaced by a mortgage loan when construction has been completed.

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, which discourages the enterprises 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 changes. 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 2013. There are no immediate prospects of a rise in renovation activity.

Focus on agriculture

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

DKKm							**2012**
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Agriculture							
Pig farming	51	506	523	705	57	65	1,907
Cattle farming	37	487	461	769	127	66	1,947
Crop production	93	446	438	138	5	40	1,160
Other agriculture	177	681	164	182	39	67	1,310
Total	**358**	**2,120**	**1,586**	**1,794**	**228**	**238**	**6,324**

Agriculture is divided into the following sub-industries:

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

Outlook for agriculture

As shown in the table above, loans and advances to pig and cattle farming represent a large share of loans and advances in the weakest rating categories (7-9 and default). This is further emphasised in the table on page 12 which shows that 22.6% of loans and advances to pig farming and 29.4% of loans and advances to cattle farming are impaired. As regards total agriculture, 19.4% of loans and advances are impaired and at 31 December 2012 impairment charges totalled DKK 567m, equal to 9.0% of loans and advances.

Although the general conditions for the agricultural sector – via increases in food prices and continued low interest rates – were better in 2012 than in 2011 and the agricultural sector's earnings are likely to improve even further in 2013, many farms remain squeezed with too high debt levels and are unable to repay their debt. Some of these squeezed farms will find it difficult to survive a rise in interest rates.

The Group assesses that in 2013 in particular cattle breeders will find it difficult to realise satisfactory results. In addition pig breeders with too low operational efficiency/too large debt will continue to be squeezed in terms of earnings. Consequently it must be expected that the Group will record greater losses on agricultural exposures in 2013 than in 2012 when it realised a total loss of DKK 41m.

Sydbank Agriculture

In terms of organisation the Group set up an agricultural centre in 2012 to service/handle/credit manage all the Group's agricultural clients.

The agricultural centre gathers the competences within the agricultural area in the interest of the Group's risk management as well as with regard to the handling of healthy as well as ailing agricultural clients.

This organisation ensures that the necessary expert knowledge and the competences required to address the needs of a vulnerable industry during times of crisis are gathered and as such may contribute to to solving the challenges facing the agricultural industry in the best possible way for the Group and clients alike.

Focus on retail clients

The table below shows that more than half of loans and advances to retail clients are of less than DKK 500,000. 83% of these loans and advances are rated in categories 1-4. 77% of the entire retail client portfolio is rated in categories 1-4.

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

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

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

Shown below is the same table for 2011 where the new PD scale has been used. It is noted that the share of loans and advances to clients in rating categories 1-2 rises and so does the number of clients in the poorest rating categories (7-9 and default).

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

DKKm								2011
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
Amount								
< DKK 100,000	744	621	270	105	15		1,755	7.5
DKK 100,000-500,000	5,508	2,999	1,497	615	64		10,683	45.9
DKK 500,000-1,000,000	1,868	1,286	527	267	49		3,997	17.3
DKK 1-2m	1,015	880	369	236	36		2,536	10.9
DKK 2-5m	557	792	246	195	50		1,840	7.9
DKK 5-10m	258	316	112	120	21		827	3.6
> DKK 10m	248	203	242	69	38		800	3.4
STD/NR *)						814	814	3.5
Total	**10,198**	**7,097**	**3,263**	**1,607**	**273**	**814**	**23,252**	**100.0**
%	43.9	30.5	14.0	6.9	1.2	3.5	100.0	

*) DKK 814m derives from the Group's subsidiary bank in Switzerland and is not broken down by amount. These loans and advances were settled in 2012.

Focus on retail clients

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

Type of loan or advance	DKKm
Housing loans, bridging loans and construction credit facilities	11,459
Car loans	921
Currency loans and investment credit facilities	908
Other loans and advances	9,259
Total	**22,547**

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

In 2H 2012 the Group carried out a focused review of retail client exposures to assess the risk in a forward-looking perspective, cf also the Danish FSA's more stringent impairment rules concerning retail clients with housing loans – including whether there is objective evidence of impairment (OEI). As a result of this activity impairment charges of around DKK 325m were carried as regards retail clients in Q4.

In order to illustrate the risk in the retail client portfolio the following is shown:

- The distribution by age of loans and advances to retail clients and the share of exposures subject to OEI.
- The distribution by region of loans and advances to retail clients and the share of loans and advances subject to OEI.

Loans and advances to retail clients – by age

2012 **Age**	Share %	Including subject to OEI %
-30	10.4	4.2
31-50	45.8	6.6
51-65	28.1	5.7
66-	15.7	5.3
Total	**100.0**	**5.9**

2011 **Age**	Share %	Including subject to OEI %
-30	11.2	4.1
31-50	46.6	3.2
51-65	27.9	2.3
66-	14.3	1.5
Total	**100.0**	**2.8**

It can be seen that:

- the largest share of loans and advances to retail clients is to households where the oldest member of the household is between 31 and 50
- the share of loans and advances subject to OEI is highest in the same age group
- The share of loans and advances subject to OEI has grown significantly from 2011 to 2012.

Loans and advances to retail clients – by region

2012 **Region**	Share %	Including subject to OEI %
Copenhagen	13.7	7.9
North Zealand	1.8	10.8
Zealand	7.3	6.7
Funen	10.8	5.9
South and West Jutland	30.6	3.3
Central Jutland	12.3	6.4
East Jutland	17.4	6.4
North Jutland	2.2	5.1
Outside Denmark etc	3.9	12.1
Total	**100.0**	**5.9**

It can be seen that:

- the largest shares of loans and advances subject to OEI are to retail clients living in North Zealand and outside Denmark; the exposure in these areas is very limited
- the largest share of loans and advances to retail clients is in South and West Jutland; the share of loans and advances subject to OEI in this area is modest.

Outlook for retail clients

Many retail clients have mortgaged their real property by way of floating-rate mortgage loans and in many cases have also opted for a 10-yr interest-only period. As a consequence of the decline in property prices since their peak in 2007/2008, it must be expected that a number of households will not be able to renew the interest-only option on unchanged terms. Therefore there is a risk of loss on these households - a loss that will increase if the interest rate starts to go up. Declining real wages and high unemployment contribute to intensifying this trend.

Concentration

Under section 145 of the Danish Financial Business Act, exposures to a single client or a group of mutually connected clients, after the deduction of particularly secure claims, may not exceed 25% of the capital base. The compliance with these rules is reported to the Danish FSA on a quarterly basis.

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

Gross exposure – credit risk

DKKm	2012	2011
Exposure > 20% of capital base	-	-
Exposure 10-20% of capital base	2,446	2,995
Total	**2,446**	**2,995**
% of capital base	21.6	26.3

The exposures of 21.6% of the Group's capital base are to two major Danish credit institutions.

In addition to calculating exposures according to section 145 of the Danish Financial Business Act, Sydbank uses an internal exposure concept – BIS group – that consolidates clients that are interconnected as a result of any knock-on effect. Consequently one section 145 group may consist of several BIS groups but one BIS group cannot form part of several section 145 groups.

Credit policy

In accordance with its credit policy, the Group does not wish to be dependent on or have exposures to large single exposures. 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 the deduction of the loan value of any collateral, the 10 largest exposures may not exceed 5% of the total credit portfolio (however excluding exposures to credit institutions, investment funds and public enterprises).
- As a main rule no exposure to a single client may exceed 10% of the Group's core capital (however excluding exposures to credit institutions, investment funds and public enterprises).

At year-end 2012 the 10 largest exposures represent 5.0% of the Group's total credit portfolio. After the deduction of the loan value of collateral, the 10 largest BIS exposures constitute 4.6% of the total credit portfolio. No exposure (however excluding exposures to credit institutions, investment funds and public enterprises) represents more than 10% of the Group's core capital.

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

DKKm							2012
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Amount							
0-1	227	1,183	667	406	75	71	2,629
1-5	1,098	3,887	1,878	1,472	353	52	8,740
5-10	995	2,526	1,383	1,247	364	33	6,548
10-20	1,219	2,962	1,265	1,623	371	12	7,452
20-50	2,152	4,180	1,444	1,494	375	32	9,677
50-100	1,580	1,574	253	790	202	168	4,567
100-200	2,218	1,783	0	0	0	194	4,195
200-500	2,416	866	0	0	0	0	3,282
500-	619	0	0	0	0	0	619
STD/NR *)						860	860
Total	**12,524**	**18,961**	**6,890**	**7,032**	**1,740**	**1,422**	**48,569**

*) DKK 860m derives from the activities taken over from Tønder Bank and is not broken down by amount.

The table shows total loans and advances per client. 72% of the portfolio represents loans and advances to corporate clients of DKK 50m or less.

Concentration

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

The 100 largest BIS groups represent a total of 22% of the Group's total loans and advances. 82% of these loans and advances are rated in categories 1-4. Moreover, loans and advances to agriculture for these 100 largest clients represent 1.7%.

Loans and advances to the 100 largest BIS groups

DKKm								**2012**
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
Industry								
Agriculture, hunting, forestry and fisheries	11	18	141	92			262	1.7
Manufacturing and extraction of raw materials	550	669	45				1,264	8.2
Energy supply etc	1,038	104		91		76	1,309	8.5
Building and construction	23	269	78	1			371	2.4
Trade	1,682	2,567	118	218			4,585	29.8
Transportation, hotels and restaurants	173	224	80	50			527	3.4
Information and communication	205						205	1.3
Finance and insurance	1,614	713	16	406	234		2,983	19.4
Real property	1,753	578	213	344	97		2,985	19.4*
Other industries	2	326	8	104			440	2.9
Public authorities						298	298	2.0
Retail	2	45	66	13	32		158	1.0
Total	**7,053**	**5,513**	**765**	**1,319**	**363**	**374**	**15,387**	**100.0**
%	45.8	35.8	5.0	8.6	2.4	2.4	100.0	

* It should be noted that the loans and advances of DKK 2,985m to real property include DKK 1,140m in bridging loans to private housing societies which will be replaced by a mortgage loan when construction is completed.

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

Corporate clients by size of enterprise, excluding default

%							**2012**
Rating category	1-2	3-4	5-6	7-9	Total	Number of BIS groups	Loans/advances and guarantees
Net turnover/assets (DKKm)							
0-25	18	36	21	25	100	46	29
25-50	15	45	22	18	100	6	9
50-100	20	49	17	14	100	4	11
100-200	24	48	19	9	100	2	8
200-400	26	46	12	16	100	1	8
400-	47	48	2	3	100	1	23
NA	32	33	19	16	100	40	12
Total	**27**	**43**	**15**	**15**	**100**	**100**	**100**

According to the table, corporate clients who have a net turnover/ assets of less than DKK 25m represent 46% of the Group's corporate clients measured by number. Measured by volume the share of this segment constitutes 29% of the Group's loans and advances.

The table also shows that the rating is generally higher, the larger the enterprise.

Collateral

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

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

The Group receives different kinds of guarantees for exposures. Many of these are provided by companies or individuals who have a group relationship with the debtor. For precautionary reasons no independent value is attached to such guarantees.

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

As regards the most frequent types of collateral, the Group has established models that estimate the value of the assets in question. As regards types of collateral where no valuation model exists, the value is determined on the basis of expert assessments.

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

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

Breakdown of collateral by rating category

DKKm					**2012**
	Loans and advances	Guarantees	EAD	Collateral	EAD unsecured
1	7,317	1,324	13,845	3,115	10,730
2	16,528	1,456	24,934	9,930	15,004
3	15,184	2,058	18,793	4,947	13,846
4	9,917	1,178	11,558	3,381	8,177
5	6,524	703	7,542	2,314	5,228
6	2,564	238	2,896	660	2,236
7	1,465	72	1,672	375	1,297
8	995	49	1,085	217	868
9	6,382	333	6,774	1,277	5,497
Default	2,107	59	2,177	434	1,743
STD/NR	2,133	1,236			
Total	**71,116**	**8,706**	**91,276**	**26,650**	**64,626**
Individual impairment of loans and advances	2,769				
Collective impairment of loans and advances	184				
Total	**68,163**				

Collateral

As shown below, the Group's EAD regarding clients in rating category 2 is DKK 24,934m, of which the unsecured portion 0-20% represents DKK 8,135m, ie collateral has been provided as regards 80-100% of this EAD. Similarly DKK 12,923m has an unsecured portion of 80-100%, which means that collateral has been provided as regards 0-20% of this EAD.

EAD by unsecured portion and rating category

DKKm	0-20%	20-40%	40-60%	60-80%	80-100%	**2012** Total
Rating category						
1	1,680	358	533	2,069	9,205	13,845
2	8,135	427	982	2,467	12,923	24,934
3	2,057	1,034	2,330	2,593	10,779	18,793
4	1,327	797	1,439	1,916	6,079	11,558
5	983	563	851	1,233	3,912	7,542
6	193	121	425	428	1,729	2,896
7	56	97	209	325	985	1,672
8	45	35	115	211	679	1,085
9	235	302	504	1,288	4,445	6,774
Default	137	70	202	381	1,387	2,177
Total	**14,848**	**3,804**	**7,590**	**12,911**	**52,123**	**91,276**

Impairment charges

Where there is objective evidence of impairment of loans and advances or amounts owed, individual impairment charges are recorded. The charge equals the difference between the carrying amount of the loan/advance and the present value of the 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 are not in default are automatically downgraded to rating category 9 while clients in default are automatically downgraded to rating category 10.

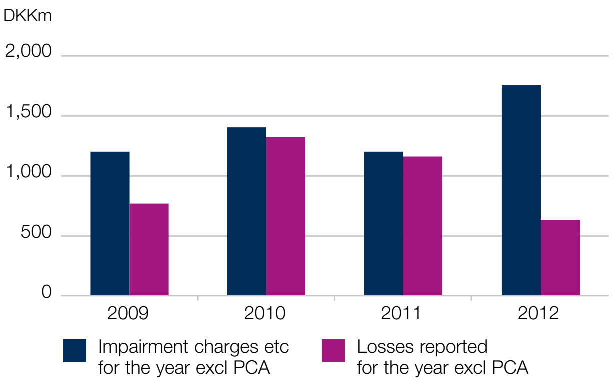
Loans and advances without objective evidence of impairment are collectively assessed for impairment. Such assessments concern groups of loans and advances with uniform credit risk characteristics. The models applied are based on classifications where group classification is defined by clients' current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

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

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

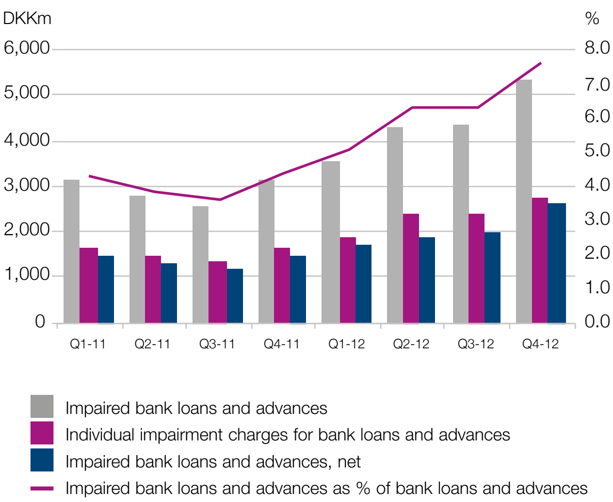
Impairment charges for bank loans and advances constitute DKK 1,748m in 2012 compared with DKK 1,195m in 2011. The increase is a result of the Danish FSA's new tightened impairment rules, especially as regards bank loans and advances secured on real property. The figure below shows the development in individual impairment charges for bank loans and advances from 2009 to 2012 as well as the reported losses. It appears that while the period has seen a rise in impairment charges, there has also been a decline in reported losses.

Impairment charges etc and reported losses



The figure and the table below show the development in impaired bank loans and advances and the relevant impairment charges. Impaired bank loans and advances rose from DKK 3,141m in Q4 2011 to DKK 5,388m in Q4 2012. In the same period accumulated individual impairment charges for bank loans and advances rose from DKK 1,644m to DKK 2,769m. This is due in part to the Danish FSA's tightened impairment rules for bank loans and advances.

Individually impaired bank loans and advances



Impairment charges

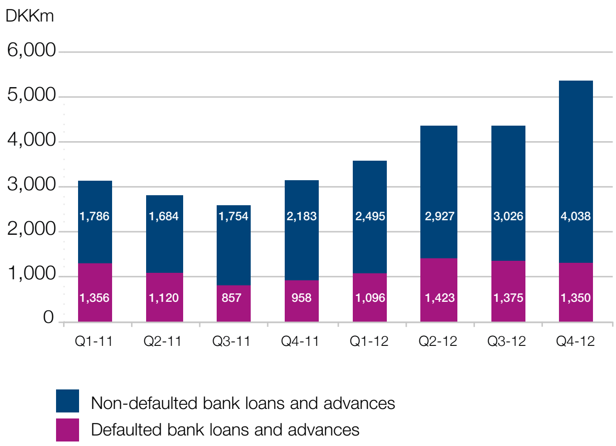
Individually impaired bank loans and advances

DKKm	2012	2011
Non-defaulted bank loans and advances	4,038	2,183
Defaulted bank loans and advances	1,350	958
Impaired bank loans and advances	5,388	3,141
Impairment of individually impaired bank loans and advances	2,769	1,644
Impaired bank loans and advances after impairment charges	2,619	1,497
Impaired bank loans and advances as % of bank loans and advances before impairment charges	7.6	4.4
Impairment charges as % of bank loans and advances before impairment charges	3.9	2.3
Impaired as % of impaired bank loans and advances	51.4	52.3
Impairment charges as % of defaulted bank loans and advances	205.1	171.6

It is seen that impairment charges as % of defaulted bank loans and advances have risen to 205% in 2012.

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 may be seen the rise in impaired bank loans and advances is primarily ascribable to non-defaulted bank loans and advances. This illustrates that even though the volume of impaired bank loans and advances has risen as a result of the tightened impairment rules, defaulted bank loans and advances have remained unchanged for a long period of time.

Impaired bank loans and advances



Financial counterparties

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

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

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

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

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

Appendix 1 – Supplementary tables

The Group's credit exposure

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

DKKm							**2011**
Corporate clients	STD	1,574	0	(211)	1,363	1,363	2,615
	IRB	82,884	(13,060)	(21,863)	47,961	38,763	82,202
Retail clients	STD	159	0	(4)	155	116	300
	IRB	32,693	(6,597)	(262)	25,834	8,343	32,788
Total corporate and retail clients		**117,310**	**(19,657)**	**(22,340)**	**75,313**	**48,585**	**117,905**
Governments etc	STD	6,472	(953)	(1,344)	4,175	0	4,583
Institutions	STD	29,985	(22,557)	(993)	6,435	1,316	25,638
Shares	STD	926			926	926	886
Other exposures		1,476			1,476	1,476	1,510
Total		**156,169**	**(43,167)**	**(24,677)**	**88,325**	**52,303**	**150,522**
Share IRB (%)		75	46	90	85	93	77
Share STD (%)		25	54	10	15	7	23

Credit exposure by industry

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

DKKm					2011
Agriculture, hunting, forestry and fisheries	8,577	318		8,895	7.6
Manufacturing and extraction of raw materials	9,474	95		9,569	8.2
Energy supply etc	2,033	31		2,064	1.7
Building and construction	3,957	164		4,121	3.5
Trade	14,454	285		14,739	12.6
Transportation, hotels and restaurants	3,086	137		3,223	2.7
Information and communication	267	31		298	0.3
Finance and insurance	14,723	562		15,285	13.0
Repo/reverse	7,638	24		7,662	6.5
Real property	10,901	799		11,700	10.0
Other industries	4,820	600		5,420	4.6
Sector guarantees	243			243	0.2
Retail	4,285	29,806		34,091	29.1
Total corporate and retail clients	**84,458**	**32,852**		**117,310**	**100.0**
Governments etc			6,472	6,472	
Institutions, repo/reverse			23,023	23,023	
Institutions, other			6,940	6,940	
Sector guarantees			22	22	
Shares			926	926	
Assets without counterparty			1,476	1,476	
Total	**84,458**	**32,852**	**38,859**	**156,169**	

Appendix 1 – Supplementary tables

Credit exposure to corporate clients by rating category (IRB)

						2012
		Exposure	Exposure-weighted, average			
	Gross	after effect of				
	exposure	conversion			Risk weight	RWA
Rating category	(DKKm)	factors (DKKm)	PD (%)	LGD (%)	(%)	(DKKm)
1	5,774	4,136	0.0	32.6	13.0	536
2	27,052	17,368	0.1	27.9	21.2	3,681
3	19,880	13,024	0.4	41.3	56.5	7,362
4	12,560	9,026	0.9	42.9	78.4	7,078
5	7,609	5,934	1.7	41.5	92.5	5,490
6	2,474	2,038	3.3	43.4	115.9	2,362
7	1,564	1,377	4.8	43.7	128.7	1,773
8	905	829	5.7	43.9	140.8	1,168
9	6,146	5,692	10.3	43.2	171.6	9,770
Default	2,010	1,953	100.0	43.2	-	0
Total	**85,974**	**61,377**	**-**	**-**	**-**	**39,220**

						2011
1	6,501	5,071	0.0	24.8	9.8	498
2	24,201	15,641	0.1	24.2	18.4	2,881
3	16,632	11,104	0.5	41.2	57.8	6,419
4	12,809	9,495	0.9	42.7	78.8	7,480
5	9,540	7,704	1.7	41.6	94.2	7,258
6	3,344	2,897	3.3	42.2	112.3	3,254
7	2,302	2,088	4.7	42.4	125.8	2,627
8	2,021	1,828	5.6	42.9	136.7	2,498
9	3,687	3,433	10.8	42.6	170.3	5,848
Default	1,847	1,760	100.0	43.8	-	0
Total	**82,884**	**61,021**	**-**	**-**	**-**	**38,763**

The table above shows the breakdown by rating of corporate clients' gross exposures 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)

			Exposure-weighted, average			2012
Rating category	Gross exposure (DKKm)	Exposure after effect of conversion factors (DKKm)	PD (%)	LGD (%)	Risk weight (%)	RWA (DKKm)
1	10,543	10,483	0.0	57.3	5.8	612
2	7,780	7,755	0.0	52.3	6.6	515
3	5,835	5,810	0.1	55.6	18.8	1,094
4	2,557	2,539	0.4	57.6	39.3	999
5	1,771	1,712	1.1	58.2	72.7	1,244
6	864	860	1.9	56.9	91.8	790
7	295	295	4.0	54.4	111.4	328
8	256	256	7.2	55.4	137.5	352
9	1,082	1,082	19.5	58.7	247.5	2,678
Default	225	225	100.0	68.4	-	385
Total	**31,208**	**31,017**	**-**	**-**	**-**	**8,997**

						2011
1	9,827	9,728	0.0	56.6	5.9	571
2	8,406	8,369	0.0	50.9	6.6	556
3	6,557	6,522	0.2	53.2	18.2	1,187
4	3,244	3,222	0.4	56.6	38.8	1,251
5	2,265	2,199	1.1	56.7	71.2	1,566
6	934	931	1.9	56.0	87.9	819
7	342	342	3.9	54.6	102.9	352
8	309	309	7.0	57.3	131.2	405
9	571	571	22.2	57.4	229.2	1,308
Default	238	238	100.0	63.1	137.7	328
Total	**32,693**	**32,431**	**-**	**-**	**-**	**8,343**

The breakdown for 2011 has been adapted to the new PD scale, see page 7.

Appendix 1 – Supplementary tables

Credit exposure by clients' country of domicile

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

DKKm					2011
Corporate clients	71,940	4,146	345	8,027	84,458
Retail clients	30,970	622	71	1,189	32,852
Total corporate and retail clients	**102,910**	**4,768**	**416**	**9,216**	**117,310**
Governments etc	6,363	96	13	-	6,472
Institutions	25,344	790	1,361	2,490	29,985
Shares	926	-	-	-	926
Other exposures	1,342	85	29	20	1,476
Total	**136,885**	**5,739**	**1,819**	**11,726**	**156,169**

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

DKKm						2011
Corporate clients	-	53,728	17,873	7,488	5,369	84,458
Retail clients	-	11,886	8,851	3,490	8,625	32,852
Total corporate and retail clients	**-**	**65,614**	**26,724**	**10,978**	**13,994**	**117,310**
Governments etc	680	5,100	669	10	13	6,472
Institutions	-	29,214	711	60	-	29,985
Shares	926	-	-	-	-	926
Other exposures	1,476	-	-	-	-	1,476
Total	**3,082**	**99,928**	**28,104**	**11,048**	**14,007**	**156,169**

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	**2012** Total
Neither past due nor impaired	84,957	32,281	40,563	157,801
Past due but not impaired	46	51	-	97
Impaired after impairment charges	2,253	555	-	2,808
Total	**87,256**	**32,887**	**40,563**	**160,706**
DKKm				**2011**
Neither past due nor impaired	82,937	32,525	38,859	154,321
Past due but not impaired	78	54	-	132
Impaired after impairment charges	1,443	273	-	1,716
Total	**84,458**	**32,852**	**38,859**	**156,169**

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			**2012**			**2011**
	Retail clients	Corporate clients	Total	Retail clients	Corporate clients	Total
0-30 days	48	43	91	51	76	127
31-60 days	2	2	4	2	1	3
61-90 days	1	1	2	1	1	2
Total	**51**	**46**	**97**	**54**	**78**	**132**

Impairment of loans and advances recognised in the income statement

DKKm	2012	2011
Impairment and provisions	1,387	681
Write-offs	433	559
Recovered from debt previously written off	72	42
Total	**1,748**	**1,198**

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

DKKm			**2012**			**2011**
	Individually impaired loans/advances and guarantees	Individual impairment and provisions	Impaired after impairment charges	Individually impaired loans/advances and guarantees	Individual impairment and provisions	Impaired after impairment charges
Denmark	5,477	2,700	2,777	3,247	1,563	1,684
Germany	97	82	15	99	87	12
Other	67	51	16	39	19	20
Total	**5,641**	**2,833**	**2,808**	**3,385**	**1,669**	**1,716**

Appendix 2 – Glossary

CEBS	The Committee of European Banking Supervisors.
CF	Conversion Factor, ie the proportion of the undrawn credit commitment that the client is expected to have drawn at default.
CLS®	Continuous Linked Settlement. A settlement system operating on the principle of "payment on delivery", which minimises the settlement risk of currency transactions concluded between CLS® participants.
Default	When a client is not expected to meet 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.
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.
Netting agreement	Agreement according to which the rights and obligations of two or more parties are netted. Credit risk is mitigated via netting agreements.
OEI	Objective evidence of impairment and therefore impairment charges must be calculated.
PD	Probability of Default. Probability that a client will default 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
CVR No DK 12626509

Peberlyk 4
DK-6200 Aabenraa

Tel +45 74 37 37 37

info@sydbank.dk
sydbank.dk

Sydbank