Credit Risk
2023
Sydbank Group

Sydbank

Contents

The Credit Risk report for 2023 is available in Danish at sydbank.dk
and in English at sydbank.com.
In case of doubt the Danish version applies.

Introduction

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

The most significant credit risks in 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 2023 Annual Report.

The correlation between the gross exposure, as shown in "Appendix 1 – Supplementary tables", and loans and advances and guarantees in the 2023 Annual Report is shown in the table opposite.

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

Gross exposure – credit risk

DKKm	2023	2022
Loans and advances at fair value	16,743	10,490
Loans and advances at amortised cost	74,535	73,933
Loans and advances according to financial statements	**91,278**	**84,423**
Loans and advances to municipalities	(38)	(76)
Guarantees issued by government and institutions	(2,138)	(2,689)
Undrawn credit commitments	58,899	52,981
Derivatives	705	801
Repo (deposits)	3,392	1,104
Contingent liabilities etc	17,365	17,308
Gross exposure to retail and corporate clients	**169,463**	**153,852**
Governments, incl municipalities	22,739	29,609
Credit institutions	9,450	9,465
Gross exposure – credit risk	**201,652**	**192,926**

Credit and customer 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 lending and the largest exposures are submitted on a regular basis to the Board of Directors for approval or information.

Employees with a lending authority may grant approvals. Such authority is adjusted to the employee's position. The lending authority is risk-based, ie a higher risk means reduced lending authority.

Corporate clients
As a rule corporate clients are served by the regional head office or by special corporate departments. The Group's largest and most complex exposures are handled by Corporate & Institutional Banking. 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 customer's circumstances and industry affiliation. The review is based on all accessible information, including industry analyses and financial analyses, and also comprises an assessment of the customer's forward-looking business plan and its risk and feasibility.

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

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

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 and corporate clients.

The Group's credit activities are an active element in the Group's efforts to increase its income by:
- Maintaining and increasing the portfolio of profitable and promising retail, corporate and investment clients
- Maintaining and increasing customers' 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 customers in Denmark and Northern Germany.

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

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

On the basis of a risk-based approach Credit Control ensures that procedures and lending authorities are complied with as well as checks the Bank's systems and business procedures in the credit area. Moreover Credit Control, which is a separate department, follows up that any errors detected are corrected and reports to the Bank's management about its activities.

Risk Follow-up
Risk Follow-up is part of the division Risk.

Risk Follow-up monitors the most significant risks in the credit area. Monitoring is based on an assessment as to whether the Group's internal control system as regards the credit area is adequate and whether the Group has business procedures describing the internal control system in the credit area. In addition monitoring of risks in the credit area is based on supplementary analyses, research and controls of the credit quality of exposures, registrations, impairment calculations as well as the compliance with policies and business procedures in general.

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

Finally Risk Follow-up is tasked with assessing the data quality of the data used in the Group's IRB models.

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 customer and to identify as early as possible any financial difficulties.

The models are developed for the purpose of reflecting the Group's credit processes and complying with legislation in force issued by the EU and the EBA. The Group has models for the risk parameters PD, LGD and EAD as regards the Group's retail clients and corporate clients.

PD represents the probability that the customer 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 customer defaults on his obligations within the next 12 months.

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

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

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

The models 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 review and follow-up of the risk of loans and credit commitments
- The calculation of impairment charges as regards facilities without objective evidence of credit impairment (OECI)

In addition the Group's models are used in connection with the calculation of the Group's Pillar I capital requirement.

Today the Group uses the advanced IRB approach to calculate the capital requirement as regards retail and corporate exposures.

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

Customers are rated in the 2 independent models described below and all models are based on statistical processing of customer data for the purpose of classifying customers according to their probability of default 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 customer'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 customers, ie exposures exceeding 1% of the Group's total capital, calculated ratings are assessed by Credits at least twice a year. In 2023 the Group obtained approval by the Danish FSA to include corporate exposures acquired from Alm. Brand Bank in the IRB approach.

Retail

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

Exposures outside rating models

The Group has no internal rating model to assess risk as regards credit institutions, public authorities (governments, regions and municipalities) and a few specific portfolios as regards corporate clients and retail clients. The Danish FSA has approved the Group's use of the standardised approach to calculate the risk exposure amount concerning these exposures.

Loans and advances and guarantees by rating category

DKKm	Corporate			Retail			Total		2023	2022
	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	%
1	6,583	199	9.5	5,398	3,915	45.4	11,981	4,114	17.5	16.2
2	19,729	3,941	33.2	2,368	1,447	18.6	22,097	5,388	29.9	30.3
3	8,690	1,267	14.0	2,061	948	14.7	10,751	2,215	14.1	14.2
4	14,111	1,214	21.5	820	371	5.8	14,931	1,585	18.0	20.7
5	7,823	664	11.9	659	285	4.6	8,482	949	10.3	7.7
6	1,971	82	2.9	188	80	1.3	2,159	162	2.5	2.5
7	1,764	281	2.8	79	28	0.5	1,843	309	2.4	2.0
8	316	26	0.5	64	21	0.4	380	47	0.5	0.6
9	944	81	1.4	314	81	1.9	1,258	162	1.5	1.7
Default	1,026	89	1.6	112	21	0.7	1,138	110	1.4	1.5
STD/NR	264	226	0.7	989	254	6.1	1,253	480	1.9	2.6
Total	**63,221**	**8,070**	**100.0**	**13,052**	**7,451**	**100.0**	**76,273**	**15,521**	**100.0**	**100.0**
Impairment of loans and advances	1,412			326			1,738			
Total	**61,809**	**8,070**		**12,726**	**7,451**		**74,535**	**15,521**		
2023 (%)	82.9	52.0		17.1	48.0		100.0	100.0		
2022 (%)	80.9	48.5		19.1	51.5		100.0	100.0		

The table above shows that corporate loans and advances (including loans and advances to public authorities) account for 82.9% (2022: 80.9%) of total loans and advances, and retail loans and advances constitute 17.1% (2022: 19.1%).

78.2% (2022: 80.3%) of the Group's corporate loans and advances and guarantees are rated in categories 1-4 and 84.5% (2022: 84.8%) of the Group's retail loans and advances are rated in categories 1-4.

Default

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

- A write-off has been recorded as regards the customer
- The customer has at least one non-accrual credit facility
- An impairment charge/provision has been registered in connection with the customer and a loss must be regarded as the most likely
- The exposure is being treated as non-performing
- The exposure has been significantly overdrawn for more than 90 consecutive days
- Distressed restructuring has been granted

Exposures in default are classified as stage 3.

Rating

Validation

Risk parameters are monitored and validated on an ongoing basis relative to the Group's business procedures, which reflect best practice, as well as requirements from the Danish FSA, the EU and the EBA.

The validation process includes an assessment of:
- Model ability to rank customers by default risk and loss risk
- Realised values compared with expected values (backtesting)
- Data quality
- Representativity
- Model application
- Compliance with regulatory requirements

The backtest of the corporate client rating model for the period 1 January 2023 – 31 December 2023 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	181	0	0
2	6,118	3	8
3	4,901	8	20
4	3,459	11	31
5	2,738	35	66
6	772	9	32
7	468	24	29
8	226	10	24
9	705	82	137
Total	**19,568**	**182**	**347**

The table shows that the model is prudent overall as the number of defaults is 48% (2022: 28%) lower than the number of estimated defaults. Moreover it can be noted that, distributed by rating category, the model is prudent.

The backtest of the retail client rating model for the period 1 January 2023 – 31 December 2023 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	60,164	11	20
2	16,518	4	7
3	15,164	23	34
4	5,230	14	28
5	5,099	13	54
6	1,513	15	37
7	961	14	40
8	4,250	61	253
9	3,137	120	295
Total	**112,036**	**275**	**768**

The total number of retail client defaults is 64% (2022: 73%) below the estimated number. The primary reason is found in rating categories 7–9 where the Group's PD estimates were very prudent during the period compared to the realised default rates.

It is expected that the estimates are prudent. It is the assessment that overall and by individual rating category the model is very prudent, in particular as regards rating categories 8 and 9.

The table below shows the average PD for solvency purposes used to calculate the Group's risk exposure amount as well as the realised annual default rates for 2019 to 2023.

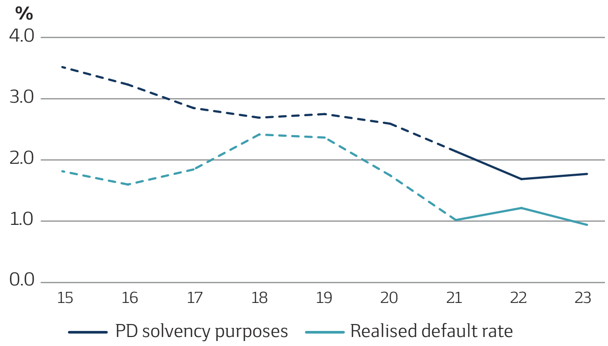
%	Corporate		Retail	
Year	PD solvency 1 Jan	Realised default rate	PD solvency 1 Jan	Realised default rate
2023	1.78	0.93	0.68	0.25
2022	1.69	1.21	0.75	0.20
2021	2.15	1.01	0.72	0.22
2020	2.61	1.75	0.90	0.38
2019	2.77	2.38	0.94	0.43

The realised default rates as well as the PD estimate for solvency purposes have declined during the period from 2019 to 2023. It can be noted that corporate exposures saw a small increase in 2022 and retail exposures a small increase in 2023.

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

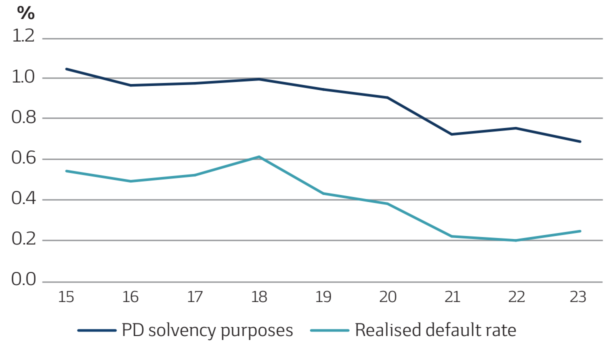
The following 2 figures show PD for solvency purposes and the realised default rate since 2015. As can be seen, PD for solvency purposes is typically higher than the realised default rate as regards both portfolios.

Probability of default – corporate clients



The period 1 January 2015 – 30 September 2022 is based on estimates made on the basis of a new model.

Probability of default – retail clients



Loss given default (LGD)

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

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

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

The realisable value reflects the market value of collateral net of:
- The expected state of assets provided that the exposure is non-performing
- The expected decline in asset values during a recession
- The transferability of the collateral
- Model uncertainty

Loss given default (LGD) – corporate clients

The table below shows the average estimated and realised LGD of corporate clients in default from 2019 to 2023.

Loss given default – corporate clients %

Year	Estimated	Realised
2023	39	67
2022	38	39
2021	36	21
2020	37	16
2019	39	14

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.

For instance the level realised was higher than the level estimated in 2022 and 2023. The number of open cases from which dividend can continue to be obtained via payments was high in both years.

It is the assessment that the model's ability to rank and estimate loss rates guarantees a prudent basis for calculating the capital requirement as regards exposures to corporate clients.

Loss given default (LGD) – retail clients

The table below shows the average estimated and realised LGD of retail clients in default from 2019 to 2023.

Loss given default – retail clients %

Year	Estimated	Realised
2023	76	72
2022	74	50
2021	74	45
2020	76	38
2019	75	45

For the same reason as for corporate clients it is difficult to calculate estimated and realised LGD rates.

It is the assessment that the model's ability to rank and estimate loss rates guarantees a prudent basis for calculating the capital requirement as regards exposures to retail clients.

Rating

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 own-CF estimates as regards retail clients and corporate clients.

Conversion factor – corporate clients

The table below shows the average estimated and realised conversion factors for undrawn credit commitments of corporate clients in default from 2019 to 2023.

Conversion factor – corporate clients %

Year	Estimated	Realised
2023	37	34
2022	40	34
2021	39	29
2020	40	33
2019	45	34

As can be seen from the table, the Group's CF estimates as regards corporate clients were around 40% throughout the period. The realised conversion factors were below the estimated levels during the entire period.

Conversion factor – retail clients

The table below shows the average estimated and realised conversion factors for undrawn credit commitments of retail clients in default from 2019 to 2023.

Conversion factor – retail clients %

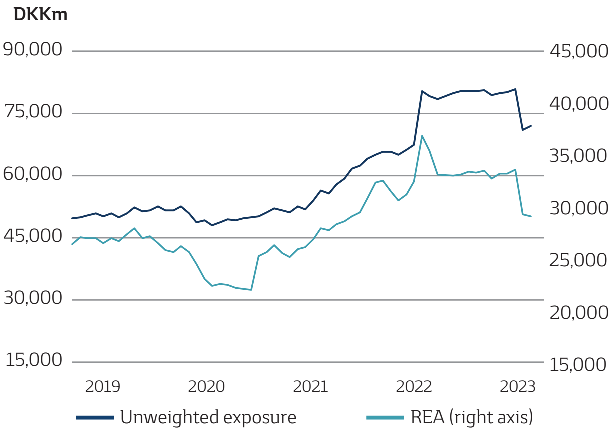
Year	Estimated	Realised
2023	100	83
2022	99	44
2021	99	82
2020	99	49
2019	99	51

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.

Risk exposure amount (REA)

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

REA and unweighted exposure – corporate clients



In 2020 exposures to customers in rating categories 1-4 were unchanged whereas exposures to customers in the remaining rating categories went down by approx 20%.

As a result of changes to CRR in mid-2020 the SME discount rose, which reduced the risk exposure amount.

From 1 January 2021 a new definition of default was used, which increases the risk exposure amount by approx DKK 5bn. Moreover the increase in lending activity is reflected in the unweighted exposure.

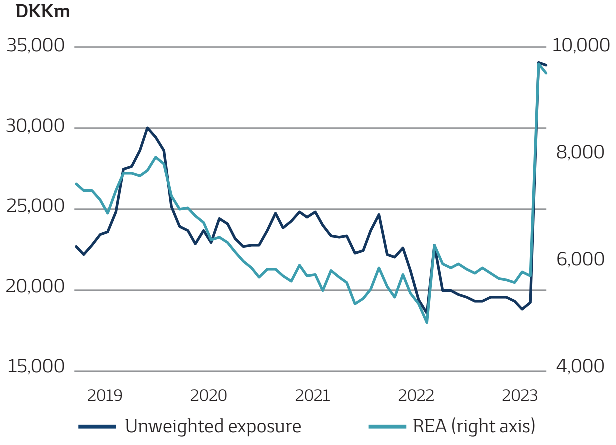
In October 2022 the Group obtained approval to use the advanced IRB approach as regards corporate exposures. Consequently since October 2022 the Group has used the advanced IRB approach (A-IRB) as regards corporate and retail exposures to calculate REA. The advanced approach uses own estimates as regards all parameters in the model.

The consequence is an increase in unweighted exposure and an unchanged level of REA.

At year-end 2023 the REA as regards corporate clients dropped by approx DKK 4.8bn as a consequence of the Group's approval to reclassify a number of SME clients from corporate to retail. This ensures consistency between handling for credit-related purposes and the calculation of the Group's capital requirements.

The use of new models impacts the possibility of comparing previous periods in particular at lower levels such as rating categories.

REA and unweighted exposure – retail clients



The decrease in unweighted exposure in 2020 as regards retail clients is predominantly attributable to a drop in the provision of guarantees as a result of lower remortgaging activity compared to 2019.

The decline in the risk exposure amount in 2021 is attributable to a decrease in exposure in rating category 9.

The Danish FSA has given the Group its approval as of 31 October 2022 to incorporate retail exposures acquired from Alm. Brand Bank in the Group's IRB portfolio, which increases REA and unweighted exposure.

The substantial increase at year-end 2023 in unweighted exposures and REA relates to the reclassification of a number of SME clients from corporate to retail as mentioned above.

The effect of the reclassification represents an increase of approx DKK 11.7bn in unweighted exposures and an increase of approx DKK 2.9bn in REA.

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 11 primary industries as well as to retail clients and public authorities. After impairment charges, total loans and advances represent DKK 74,535m. In addition the table shows loans and advances by stage according to IFRS 9 and the related accumulated impairment charges as well as impairment charges for loans and advances etc for the year by industry.

2023 DKKm	Loans/ advances before impairment charges	Loans/ advances after impairment charges	Guarantees	Loans/ advances – stage 1	Loans/ advances – stage 2	Loans/ advances – stage 3	Credit impaired at initial recog-nition
Building and construction	3,521	3,406	866	3,126	292	103	0
Energy supply etc	3,221	3,208	1,960	3,044	173	4	0
Real estate	8,153	8,099	668	7,742	328	35	48
Finance and insurance	8,225	8,103	630	7,303	842	78	2
Trade	15,899	15,438	1,256	12,946	2,613	340	0
Hotels og restaurants	372	317	19	273	17	82	0
Manufacturing and extraction of raw materials	8,029	7,804	740	6,346	1,640	43	0
Information and communication	441	410	32	351	40	50	0
Agriculture, hunting, forestry and fisheries	2,727	2,549	1,277	2,074	452	188	13
Transportation	2,596	2,572	98	2,432	157	7	0
Other industries	10,001	9,867	524	8,988	917	96	0
Total corporate	**63,185**	**61,773**	**8,070**	**54,625**	**7,471**	**1,026**	**63**
Public authorities	36	36	0	36	0	0	0
Retail	13,052	12,726	7,451	12,037	854	112	49
Total	**76,273**	**74,535**	**15,521**	**66,698**	**8,325**	**1,138**	**112**
Building and construction							
Completion of building projects	518	515	112	509	8	1	0
Building and construction activities, specialised	1,302	1,208	510	984	229	89	0
Construction of buildings	747	732	143	685	50	12	0
Other building and construction	954	951	101	948	5	1	0
Total	**3,521**	**3,406**	**866**	**3,126**	**292**	**103**	**0**
Real estate							
Housing/cooperative associations	4,303	4,301	25	4,303	0	0	0
Leasing of commercial property	2,121	2,085	434	1,811	236	26	48
Leasing of residential property	654	650	135	630	20	4	0
Other related to real estate	1,075	1,063	74	998	72	5	0
Total	**8,153**	**8,099**	**668**	**7,742**	**328**	**35**	**48**
Finance and insurance							
Holding companies	5,014	4,935	109	4,335	630	49	0
Financing companies	3,211	3,168	521	2,968	212	29	2
Total	**8,225**	**8,103**	**630**	**7,303**	**842**	**78**	**2**

As shown below, the accumulated impairment ratio as regards loans and advances constitutes 2.3% (2022: 2.3%) and credit impaired loans and advances in stage 3 represent 1.5% (2022: 1.6%) of the total volume of lending. The table shows that 6.9% (2022: 9.8%) of loans and advances to agriculture are regarded as credit impaired and that the impairment charges constitute 50.5% (2022: 49.1%). The impairment ratio for agriculture totals 6.5% (2022: 8.2%). The Group's risk on the exposure to agriculture is described in a separate paragraph.

Impairment charges for loans/advances – stage 1	Impairment charges for loans/advances – stage 2	Impairment charges for loans/advances – stage 3	Impairment charges for loans/advances etc for the year	Losses reported for the year	Loans/advances in stage 3 as % of loans/advances	Impairment charges in stage 3 as % of loans/ advances in stage 3	Impairment charges as % of loans/ advances
16	23	76	27	13	2.9	73.8	3.3
7	3	3	0	0	0.1	75.0	0.4
20	15	19	(36)	3	0.4	54.3	0.7
48	45	29	9	0	0.9	37.2	1.5
94	138	229	130	23	2.1	67.4	2.9
1	1	53	8	1	22.0	64.6	14.8
43	158	24	(6)	4	0.5	55.8	2.8
3	3	25	17	0	11.3	50.0	7.0
17	66	95	(85)	14	6.9	50.5	6.5
12	8	4	(5)	1	0.3	57.1	0.9
38	43	53	(2)	5	1.0	55.2	1.3
299	**503**	**610**	**57**	**64**	**1.6**	**59.5**	**2.2**
0	0	0	0	0	-	-	0.0
69	172	85	(84)	14	0.9	75.9	2.5
368	**675**	**695**	**(27)**	**78**	**1.5**	**61.1**	**2.3**
2	0	1	(1)	0	0.2	100.0	0.6
8	20	66	34	13	6.8	74.2	7.2
4	2	9	(6)	0	1.6	75.0	2.0
2	1	0	0	0	0.1	0.0	0.3
16	**23**	**76**	**27**	**13**	**2.9**	**73.8**	**3.3**
2	0	0	(5)	0	0.0	0.0	0.0
11	11	14	(10)	3	1.2	53.8	1.7
2	1	1	(1)	0	0.6	25.0	0.6
5	3	4	(20)	0	0.5	80.0	1.1
20	**15**	**19**	**(36)**	**3**	**0.4**	**54.3**	**0.7**
32	35	12	7	0	1.0	24.5	1.6
16	10	17	2	0	0.9	58.6	1.3
48	**45**	**29**	**9**	**0**	**0.9**	**37.2**	**1.5**

The table continues overleaf.

2023 DKKm	Loans/ advances before impairment charges	Loans/ advances after impairment charges	Guarantees	Loans/ advances – stage 1	Loans/ advances – stage 2	Loans/ advances – stage 3	Credit impaired at initial recog-nition
Trade							
Retail	1,680	1,634	162	1,016	646	18	0
Trade, passenger cars and motorcycles	2,972	2,907	216	2,581	328	63	0
Wholesale, other machinery	1,746	1,718	62	1,543	193	10	0
Wholesale, food, beverages and tobacco	1,817	1,780	165	1,390	401	26	0
Wholesale, household durables	3,345	3,138	234	2,744	403	198	0
Wholesale, agricultural raw materials and live animals	1,403	1,370	2	1,049	350	4	0
Other specialised wholesale	1,922	1,896	315	1,741	165	16	0
Other trade	1,014	995	100	882	127	5	0
Total	**15,899**	**15,438**	**1,256**	**12,946**	**2,613**	**340**	**0**
Manufacturing and extraction of raw materials							
Extraction of raw materials	154	153	59	151	3	0	0
Manufacture of textiles and clothing	758	753	14	697	61	0	0
Manufacture and repair of machinery and equipment	1,291	1,268	344	1,076	204	11	0
Manufacture of food products	1,890	1,833	30	1,619	264	7	0
Manufacture of fabricated metal products, excl machinery and equipment	1,211	1,144	145	731	477	3	0
Other manufacturing	2,725	2,653	148	2,072	631	22	0
Total	**8,029**	**7,804**	**740**	**6,346**	**1,640**	**43**	**0**
Agriculture							
Pig farming	257	234	472	180	23	43	11
Cattle farming	758	699	369	603	100	53	2
Crop production	951	901	269	765	113	73	0
Other agriculture	761	715	167	526	216	19	0
Total	**2,727**	**2,549**	**1,277**	**2,074**	**452**	**188**	**13**
Transportation							
Land transport	967	953	62	853	109	5	0
Water transport	438	438	0	438	0	0	0
Air transport	246	243	22	245	0	1	0
Other transportation	945	938	14	896	48	1	0
Total	**2,596**	**2,572**	**98**	**2,432**	**157**	**7**	**0**
Other industries							
Rental and leasing activities	4,264	4,241	55	4,135	129	0	0
Activities of head offices	2,011	1,999	11	1,747	260	4	0
Liberal professions	1,315	1,278	156	1,063	225	27	0
Other industries	2,411	2,349	302	2,043	303	65	0
Total	**10,001**	**9,867**	**524**	**8,988**	**917**	**96**	**0**

Impairment charges for loans/advances – stage 1	Impairment charges for loans/advances – stage 2	Impairment charges for loans/advances – stage 3	Impairment charges for loans/advances etc for the year	Losses reported for the year	Loans/advances in stage 3 as % of loans/advances	Impairment charges in stage 3 as % of loans/advances in stage 3	Impairment charges as % of loans/advances
8	29	9	15	3	1.1	50.0	2.7
14	14	37	8	0	2.1	58.7	2.2
11	11	6	3	0	0.6	60.0	1.6
9	16	12	11	0	1.4	46.2	2.0
24	26	157	5	10	5.9	79.3	6.2
7	26	0	24	0	0.3	0.0	2.4
12	9	5	71	9	0.8	31.3	1.4
9	7	3	(7)	1	0.5	60.0	1.9
94	**138**	**229**	**130**	**23**	**2.1**	**67.4**	**2.9**
1	0	0	(1)	0	0.0	0.0	0.6
4	1	0	(2)	0	0.0	0.0	0.7
7	11	5	0	0	0.9	45.5	1.8
8	44	5	5	4	0.4	71.4	3.0
10	55	2	(23)	0	0.2	66.7	5.5
13	47	12	15	0	0.8	54.5	2.6
43	**158**	**24**	**(6)**	**4**	**0.5**	**55.8**	**2.8**
1	2	20	(21)	1	16.7	46.5	8.9
7	16	36	(34)	0	7.0	67.9	7.8
5	14	31	(25)	2	7.7	42.5	5.3
4	34	8	(5)	11	2.5	42.1	6.0
17	**66**	**95**	**(85)**	**14**	**6.9**	**50.5**	**6.5**
5	6	3	(6)	1	0.5	60.0	1.4
0	0	0	0	0	0.0	0.0	0.0
2	0	1	0	0	0.4	100.0	1.2
5	2	0	1	0	0.1	0.0	0.7
12	**8**	**4**	**(5)**	**1**	**0.3**	**57.1**	**0.9**
15	8	0	1	0	0.0	0.0	0.5
2	8	2	(4)	0	0.2	50.0	0.6
8	9	20	5	5	2.1	74.1	2.8
13	18	31	(4)	0	2.7	47.7	2.6
38	**43**	**53**	**(2)**	**5**	**1.0**	**55.2**	**1.3**

Industry breakdown

The table below shows the Group's loans and advances to industries by rating category. 79.9% (2022: 81.9%) of rated loans and advances after impairment charges are rated in categories 1-4 whereas the percentage for agriculture is 64.4 (2022: 57.9).

Loans and advances by rating category

DKKm Industry	1-2	3-4	5-6	7-9	Default	STD/NR	2023 Total	2023 %	2022 %
Building and construction	1,652	1,188	416	159	103	3	3,521	4.6	4.4
Energy supply etc	2,284	782	149	2	4	-	3,221	4.2	3.6
Real estate	5,668	1,509	752	138	33	53	8,153	10.7	8.6
Finance and insurance	3,544	3,066	1,148	336	76	55	8,225	10.8	9.5
Trade	4,535	6,323	3,760	932	342	7	15,899	20.9	21.4
Hotels og restaurants	7	260	8	15	82	-	372	0.5	0.4
Manufacturing and extraction of raw materials	2,036	3,723	1,417	808	43	2	8,029	10.5	11.5
Information and communication	101	216	57	16	50	1	441	0.6	0.6
Agriculture, hunting, forestry and fisheries	495	1,155	541	332	183	21	2,727	3.6	3.6
Transportation	1,121	1,130	241	96	6	2	2,596	3.4	3.4
Other industries	4,869	3,449	1,305	190	104	84	10,001	13.1	13.8
Public authorities	-	-	-	-	-	36	36	0.0	0.1
Retail	7,766	2,881	847	457	112	989	13,052	17.1	19.1
Total	**34,078**	**25,682**	**10,641**	**3,481**	**1,138**	**1,253**	**76,273**	**100.0**	**100.0**
Impairment of loans and advances	18	185	249	571	683	32	1,738		
Total loans and advances	**34,060**	**25,497**	**10,392**	**2,910**	**455**	**1,221**	**74,535**		
2023 (%)	45.7	34.2	13.9	3.9	0.6	1.7	100.0		
2022 (%)	44.0	37.9	11.0	4.0	0.7	2.4	100.0		

Focus on agriculture

Agriculture – loans and advances by rating category

DKKm Sub-industry	1-2	3-4	5-6	7-9	Default	STD/NR	2023 Total	2023 %	2022 %
Pig farming	56	99	28	19	36	19	257	9.4	9.9
Cattle farming	161	312	154	73	56	2	758	27.8	21.9
Crop production	185	396	232	65	73	-	951	34.9	36.7
Other agriculture	93	348	127	175	18	-	761	27.9	31.5
Total	**495**	**1,155**	**541**	**332**	**183**	**21**	**2,727**	**100.0**	**100.0**
Impairment of loans and advances	0	8	11	64	95	-	178		
Total loans and advances	**495**	**1,147**	**530**	**268**	**88**	**21**	**2,549**		
2023 (%)	19.4	45.0	20.8	10.5	3.5	0.8	100.0		
2022 (%)	17.9	37.9	25.4	12.1	4.4	2.3	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 farming and leisure farmers)

Outlook for agriculture

At year-end 2023 Sydbank's total loans and advances to agriculture constituted DKK 2,727m – an increase of DKK 79m compared with a year ago.

The share of loans and advances in the weakest rating categories (7-9 and default) represents 18.9% (2022: 21.8%) before impairment charges. After impairment charges this share constitutes 14.0% (2022: 16.5%).

As shown in the tables on pp 12-15, 6.9% (2022: 9.8%) of loans and advances to agriculture are credit impaired and classified as stage 3. 16.7% (2022: 25.8%) of loans and advances to pig farming are classified as stage 3 and 7.0% (2022: 6.9%) of loans and advances to cattle farming are classified as stage 3.

At year-end 2023 an impairment charge totalling DKK 178m (2022: DKK 221m) was recorded, equivalent to 6.5% (2022: 8.2%) of loans and advances.

DKK 95m (2022: DKK 130m) of the impairment charges for loans and advances of DKK 178m concern credit impaired exposures.

In 2023 pork producers received on average a settlement price of DKK 14.12 per kg, including supplementary payments. A settlement price which from a historical perspective is satisfactory and means that the greater part of the Bank's pork producers recorded satisfactory earnings in 2023, however with large differences depending on the sub-industry. Pork producers who purchase piglets recorded positive earnings but due to high purchase prices, the level of earnings does not quite match that of the quotation. Piglet producers recorded high and very stable settlement prices throughout the year and had historically good earnings in 2023. The large difference between pork producers and piglet producers looks set to continue into 2024. The Bank's portfolio of pork producers comprises predominantly integrated production systems, pure pork production or piglet production with fixed buyers in Denmark. Pork exports out of the EU are squeezed whereas the demand for piglets is very high in the EU. A demand which has been created by a continued decline in the breeding herd in the EU and therefore a need to import piglets to meet the demand for pork in the large home markets mainly in Germany and Poland. If this large difference between earnings in pork production and piglet production persists the trend of fewer slaughterings in Denmark and an increase in exports of piglets may well continue, which could put additional pressure on the quotation for pork.

Milk producers started 2023 with a historically high settlement price of DKK 4.5 per kg but milk prices began falling already in January and in 1H they dropped by DKK 1.4 per kg. Combined with expensive feed contracts from 2022 for the vast majority, this meant that the milk production economy worsened significantly compared with the previous year.

Milk prices stabilised at DKK 3.1 per kg in 2H. Feed prices began declining at the same time, as a result of which milk production was once again profitable. Overall 2023 was a satisfactory year, however organic milk producers were under pressure due to high feed costs which are not sufficiently offset by high settlement prices of organic milk. This looks likely to continue into 2024 when organic milk production will only just break even in contrast to conventional milk production where another satisfactory year is set to occur.

Headlines in 2023 for crop producers were drought in the early summer, rain during harvest and falling settlement prices. This was also the case for crop production related to pork and milk producers. Especially spring crops and specialised crops were hit hard by drought in June and crop yields dropped by as much as 50%. A wet harvest led to significant costs for drying. All in all 2023 was not an impressive year for crop producers. We project that the vast majority of the Bank's crop producers will break even as a consequence of continued reasonable settlement prices.

Overall 2023 was a year of very large differences in earnings in Danish agriculture depending on the sub-industry. Organic pork and milk producers faced the most challenges and decent price increases are needed if organic production is not to go down substantially. Organic producers account for a very limited share of the Bank's agricultural portfolio.

The introduction of a carbon tax will attract the biggest uncertainty and greatest focus in 2024. The Bank continues to expect that agricultural clients' finances will survive a carbon tax and the green transition in general, however it is decisive that the individual farmer focuses on a sustainable production and that there is leeway to invest in more sustainable production practices.

Focus on retail clients

At 31 December 2023 loans and advances to retail clients represented DKK 13,052m (2022: DKK 14,435m).

Loans and advances other than mortgage-like loans to retail clients constituted DKK 10,856m at 31 December 2023 (2022: DKK 12,121m) – a decrease of 10.4% in 12 months.

At 31 December 2023 mortgage-like loans made up 16.8% (2022: 16.0%) of total loans and advances to retail clients.

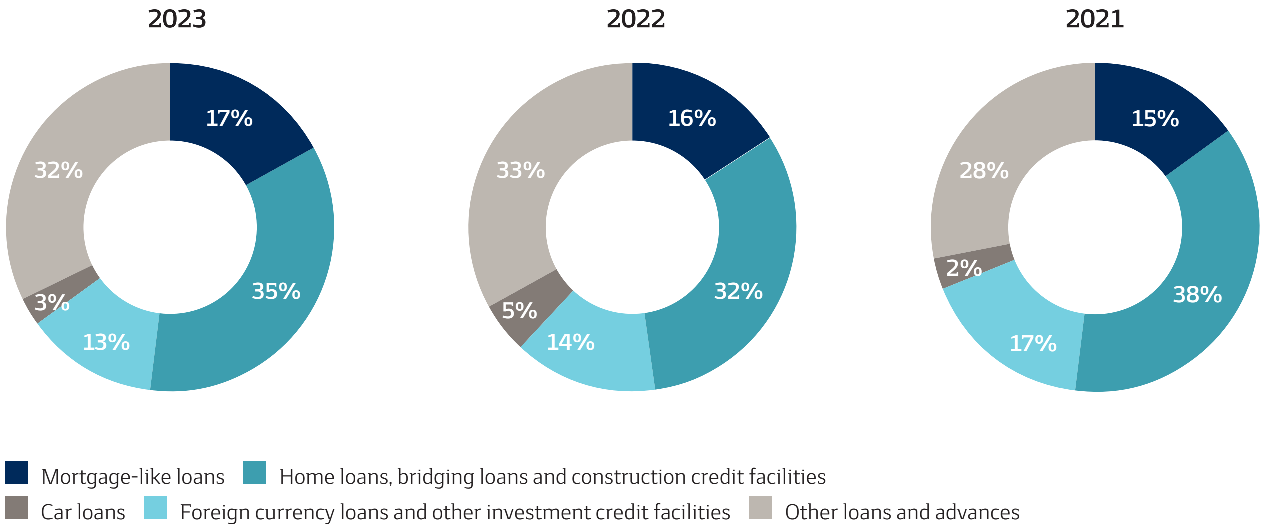
Funded mortgage-like loans are not recognised in the Group's balance sheet. The Bank provides a guarantee for the part of the loan in the LTV range of 60-80%.

Arranged mortgage loans – Totalkredit were adversely affected in part due to customers' refinancing of fixed-rate bond loans. Refinancing of bond loans enabled customers to significantly reduce their outstanding debt and consequently arranged mortgage loans – Totalkredit recorded a drop of DKK 1,806m from DKK 86,417m in 2022 to DKK 84,611m in 2023.

Total credit intermediation to retail clients – by product type

DKKm Product type	2023	2022	2021
Mortgage-like loans	2,196	2,314	2,142
Home loans, bridging loans and construction credit facilities	4,461	4,636	5,614
Car loans	1,738	1,967	2,467
Foreign currency loans and other investment credit facilities	436	685	273
Other loans and advances	4,221	4,833	4,077
Total loans and advances	**13,052**	**14,435**	**14,573**
Funded loans and advances – off-balance sheet	4,208	4,861	5,645
Arranged mortgage loans – Totalkredit	84,611	86,417	89,239
Total credit intermediation	**101,871**	**105,713**	**109,457**

Total loans and advances to retail clients by product type



The tables below show a decline in loans and advances to retail clients of DKK 1,383m from DKK 14,435m to DKK 13,052m.

At 31 December 2023 loans and advances before impairment charges to customers in the 4 best rating categories represented DKK 10,647m (2022: DKK 11,464m) – a decline of DKK 817m, primarily attributable to a decrease in home loans, bridging loans and construction credit facilities, and other loans.

At 31 December 2023 the share of loans and advances to customers in the 4 best rating categories represented 83.4% (2022: 81.4%) – an increase of 2.0pp.

Impairment of loans and advances

As regards customers in rating categories 1-9 without objective evidence of credit impairment, model-based scenario-weighted impairment charges are calculated. The scenarios reflect the assumed future economic environment and are broken down by the probability of the following scenarios: downturn, baseline and upturn. At 31 December 2023 the probability of a downturn scenario represented 95%, which is unchanged compared with year-end 2022.

At 31 December 2023 the Group had a management estimate of DKK 100m to hedge the macroeconomic uncertainty as regards retail clients.

The management estimate as regards macroeconomic risks covers potential losses related to the negative effects of geopolitical tension, a higher interest rate environment as well as the risk of a recession etc.

In 2023 impairment charges as regards retail clients totalled an income of DKK 84m (2022: income of DKK 142m). The net income is primarily attributable to amounts recovered from debt previously written off.

Outlook for retail clients

Low GDP growth is projected in 2024 where a decrease in interest rates will impact the economic situation. Forecasts show a normalised level of inflation and continued low unemployment.

Developments in the housing market are regarded as uncertain. The new property taxes drove up prices in November and December 2023 in the most expensive areas. In contrast rising income combined with a lower level of interest rates in 2024 will help to support property prices.

We estimate that most retail clients are well equipped for the expected trend in 2024 and any declines in property prices. A drop in property prices may result in a rise in impairment charges.

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

DKKm								2023
Product type	**1-2**	**3-4**	**5-6**	**7-9**	**Default**	**STD/NR**	**Total**	**%**
Mortgage-like loans	1,785	260	98	50	3	-	2,196	16.8
Home loans, bridging loans and construction credit facilities	2,422	1,369	333	285	34	18	4,461	34.2
Car loans	948	251	47	11	-	481	1,738	13.3
Foreign currency loans and other investment credit facilities	113	169	69	24	2	59	436	3.4
Other loans and advances	2,498	832	300	87	73	431	4,221	32.3
Total	**7,766**	**2,881**	**847**	**457**	**112**	**989**	**13,052**	**100.0**
Impairment of loans and advances	3	32	36	163	73	19	326	
Total loans and advances	**7,763**	**2,849**	**811**	**294**	**39**	**970**	**12,726**	
%	61.0	22.4	6.4	2.3	0.3	7.6	100.0	

DKKm								2022
Product type	**1-2**	**3-4**	**5-6**	**7-9**	**Default**	**STD/NR**	**Total**	**%**
Mortgage-like loans	1,902	268	90	48	5	1	2,314	16.0
Home loans, bridging loans and construction credit facilities	2,534	1,416	274	325	37	50	4,636	32.1
Car loans	813	215	43	13	1	884	1,969	13.7
Foreign currency loans and other investment credit facilities	257	283	76	59	5	3	683	4.7
Other loans and advances	2,318	1,458	300	180	82	495	4,833	33.5
Total	**7,824**	**3,640**	**783**	**625**	**130**	**1,433**	**14,435**	**100.0**
Impairment of loans and advances	3	35	38	196	86	26	384	
Total loans and advances	**7,821**	**3,605**	**745**	**429**	**44**	**1,407**	**14,051**	
%	55.7	25.7	5.3	3.1	0.3	9.9	100.0	

Concentration

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

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

DKKm	2023	2022
Exposure > 20% of total capital	-	-
Exposure 10-20% of total capital	1,374	2,919
Total	**1,374**	**2,919**
% of total capital	11.1	24.6

1 exposure to credit institutions after the deduction of particularly secure claims constituted 10% or more of total capital at year-end 2023.

Supervisory Diamond

In accordance with the Group's credit policy, the 20 largest exposures – calculated according to CRR – may not exceed 150% of CET1 capital. The limit is thus fixed under the Supervisory Diamond's threshold of 175% of CET1 capital.

At year-end 2023 the 20 largest exposures – according to CRR – represented 137% (2022: 147%) of CET1 capital.

In addition to calculating exposures according to CRR, Sydbank uses an internal exposure concept – BIS group – that consolidates customers 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 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 portfolio of exposures (however excluding exposures to credit institutions, investment funds and public authorities).
- After deduction of the loan value of any collateral, the 10 largest exposures may not exceed 5% of the total portfolio of exposures (however excluding exposures to credit institutions, investment funds and public authorities).
- The 20 largest exposures may not exceed 125% of the Group's total capital.

At year-end 2023 the 10 largest exposures represented 5.7% (2022: 5.2%) of the Group's total portfolio of exposures.

After deduction of the loan value of any collateral, the 10 largest BIS exposures constitute 5.3% (2022: 4.6%) of the total portfolio of exposures.

To ensure uniform reporting across the Group, the method of calculation of the 10 largest customers as a percentage of the credit portfolio as well as unsecured exposures was adjusted to the definition of large exposures in 2023. The size of unsecured exposures is relatively constant and the internal threshold relative to the changed method of calculation will be set in 2024.

At year-end 2023 the 20 largest BIS exposures represented 109% (2022: 114%) of the Group's total capital.

No exposures (however excluding exposures to credit institutions, investment funds and public authorities) represent more than 10% of the Group's total capital.

Loans and advances to corporate clients by amount/rating category

DKKm Amount	1-2	3-4	5-6	7-9	Default	STD/NR	Total	2023 %	2022 %
0-1	321	491	189	82	48	9	1,140	1.8	2.0
1-5	1,149	2,154	1,083	448	239	15	5,088	8.0	8.7
5-10	984	1,893	900	439	188	22	4,426	7.0	7.7
10-20	1,495	2,807	1,440	517	197	28	6,484	10.3	10.8
20-50	3,015	4,369	2,697	702	227	40	11,050	17.5	17.5
50-100	4,330	3,695	1,402	581	-	30	10,038	15.9	17.0
100-200	6,626	4,268	739	255	127	77	12,092	19.1	17.7
200-500	6,691	2,404	764	-	-	43	9,902	15.7	13.7
500-	1,701	720	580	-	-	-	3,001	4.7	4.9
Total	**26,312**	**22,801**	**9,794**	**3,024**	**1,026**	**264**	**63,221**	**100.0**	**100.0**
2023 (%)	41.6	36.1	15.5	4.8	1.6	0.4	100.0		
2022 (%)	39.9	40.1	12.4	5.0	1.7	0.9	100.0		

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

The 100 largest BIS groups represent a total of 34.2% (2022: 33.9%) of the Group's total loans and advances. 89.4% (2022: 94.0%) of these loans and advances are rated in categories 1-4.

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

DKKm Amount	1-2	3-4	5-6	7-9	Default	STD/NR	Total	2023 %	2022 %
Building and construction	1,280	275	113	-	-	-	1,668	6.4	0.6
Energy supply etc	1,087	389	-	-	-	-	1,476	5.7	19.4
Real estate	2,611	323	104	-	-	-	3,038	11.6	4.6
Finance and insurance	1,594	1,147	61	152	-	-	2,954	11.3	9.3
Trade	3,391	2,935	1,419	19	-	-	7,764	29.7	38.5
Hotels and restaurants	2	-	-	-	-	-	2	0.0	0.0
Manufacturing and extraction of raw materials	783	1,152	257	-	-	-	2,192	8.4	3.3
Information and communication	-	-	-	-	-	-	-	0.0	0.0
Agriculture, hunting, forestry and fisheries	-	-	-	-	-	-	-	-	11.9
Transportation	871	208	113	-	-	-	1,192	4.6	6.7
Other industries	3,732	1,416	493	-	-	-	5,641	21.6	5.7
Public authorities	-	-	-	-	-	-	-	-	-
Retail	133	14	42	-	-	-	189	0.7	0.0
Total	**15,484**	**7,859**	**2,602**	**171**	**-**	**-**	**26,116**	**100.0**	**100.0**
2023 (%)	59.3	30.1	10.0	0.6	-	-	100.0		
2022 (%)	59.3	34.7	3.9	1.6	0.5	-	100.0		

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

% Rating category Net turnover/assets (DKKm)	1-2	3-4	5-6	7-9	Total	2023 Loans/advances and guarantees
0-25	37	34	19	10	100	12
25-50	45	32	17	6	100	7
50-100	37	32	22	9	100	8
100-200	23	45	20	12	100	10
200-400	35	41	19	5	100	13
400-	52	36	11	1	100	45
NA	35	41	21	3	100	5
Total	**42**	**37**	**16**	**5**	**100**	**100**

Collateral

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

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

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

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

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

Collateral received and types of collateral

DKKm	2023	2022
Loans and advances at fair value	16,743	10,490
Loans and advances at amortised cost	74,535	73,933
Guarantees	15,521	15,949
Credit exposure for accounting purposes	**106,799**	**100,372**
Collateral value	63,209	57,739
Total unsecured	**43,590**	**42,633**
Types of collateral		
Real estate	12,542	11,659
Financial collateral	23,220	17,311
Lease assets, mortgages etc	7,138	6,899
Floating charges, operating equipment etc	10,222	10,141
Guarantees	2,036	2,661
Other items of collateral	101	119
Total collateral used	**55,259**	**48,790**
Particularly secured transactions (mortgage guarantees)	7,950	8,949
Total	**63,209**	**57,739**

In the event that the Group uses collateral that is not immediately convertible into cash, it is the Group's policy to dispose of such assets as quickly as possible. In 2023 repossessed equipment in connection with non-performing exposures amounted to DKK 10.5m (2022: DKK 47m). Lease assets are assessed and depreciated on an ongoing basis. As a result the calculated collateral as regards the Group's leasing activities will decline during periods of lower lease asset prices.

Collateral represented DKK 63,209m in 2023 – an increase of DKK 5,470m compared to 2022. The increase is predominantly attributable to a rise in financial collateral of DKK 5,909m from DKK 17,311m in 2022 to DKK 23,220m in 2023.

The increase in financial collateral is primarily attributable to the change in loans and advances at fair value which have gone up by DKK 6,253m.

Loans and advances at fair value are repo loans and advances with financial collateral.

The table below shows the size of loans and advances, guarantees as well as collateral according to rating category. The value of collateral is assessed relative to loans and advances and guarantees. Excess collateral is not included in the calculation of collateral. 59.2% (2022: 57.5%) of the Group's loans and advances and guarantees after impairment charges are secured.

Collateral by rating category

DKKm					2023	2022
Rating category	**Loans/advances**	**Guarantees**	**Collateral value**	**Unsecured**	**%**	**%**
1	18,124	4,114	17,410	4,828	10.7	7.5
2	22,098	5,388	10,743	16,743	36.9	38.5
3	21,320	2,215	17,265	6,270	13.8	14.4
4	14,961	1,585	8,030	8,516	18.8	24.6
5	8,482	949	4,609	4,822	10.6	7.2
6	2,159	162	1,453	868	1.9	1.8
7	1,843	309	1,202	950	2.1	1.6
8	380	47	316	111	0.2	0.4
9	1,258	162	983	437	1.0	1.2
Default	1,138	110	177	1,071	2.4	2.4
STD/NR	1,253	480	1,021	712	1.6	0.4
Total	**93,016**	**15,521**	**63,209**	**45,328**	**100.0**	**100.0**
Impairment of loans and advances	1,738	-	-	1,738		
Total	**91,278**	**15,521**	**63,209**	**43,590**		

Impairment charges

Impairment charges are recorded for expected credit losses as regards all financial assets measured at amortised cost and similar provisions are made for expected credit losses as regards undrawn credit commitments and financial guarantees.
Impairment charges for expected credit losses depend on whether the credit risk of a financial asset has increased significantly since initial recognition and follow a 3-stage model. The portfolio acquired from Alm. Brand Bank in stage 3 is recognised under credit impaired at initial recognition:

- **Stage 1** – facilities with no significant increase in credit risk. The asset is written down by an amount equal to the expected credit loss as a result of the probability of default over the coming 12 months.
- **Stage 2** – facilities with a significant increase in credit risk. The asset is transferred to stage 2 and is written down by an amount equal to the expected credit loss over the life of the asset.
- **Stage 3** – facilities where the financial asset is in default or is otherwise credit impaired.
- **Credit impaired at initial recognition** – facilities which were credit impaired at the time of acquisition of Alm. Brand Bank. They are recognised on acquisition at the fair value of the debt acquired.

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

The Group's loans and advances and impairment charges at 31 December 2023 by these stages appear from the table below.

Credit impaired bank loans and advances – stage 3 – represent 1.5% (2022: 1.6%) of total bank loans and advances before impairment charges and 0.6% (2022: 0.7%) of total bank loans and advances after impairment charges.

Impairment charges concerning credit impaired bank loans and advances as a percentage of credit impaired bank loans and advances stand at 61.1% (2022: 57.0%).

Loans and advances and impairment charges

DKKm	Stage 1	Stage 2	Stage 3	Credit impaired at initial recognition	2023 Total
Loans and advances before impairment charges	66,698	8,325	1,138	112	76,273
Impairment charges	368	675	695	-	1,738
Total loans and advances	**66,330**	**7,650**	**443**	**112**	**74,535**
%					
Impairment charges as % of bank loans and advances	0.6	8.1	61.1	-	2.3
Share of bank loans and advances before impairment charges	87.5	10.9	1.5	0.1	100.0
Share of bank loans and advances after impairment charges	89.0	10.3	0.6	0.1	100.0

Impairment for the year

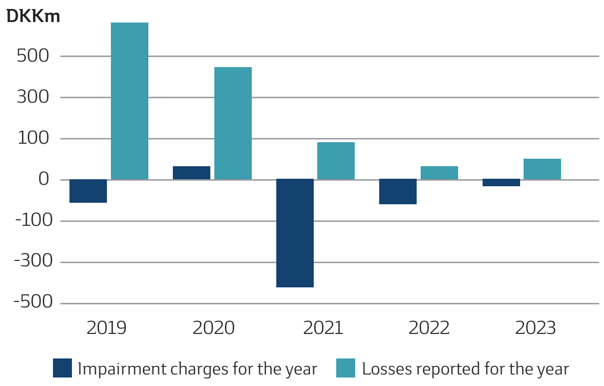
Impairment charges for bank loans and advances etc represented an income of DKK 27m in 2023. In 2022 impairment charges constituted an income of DKK 99m.

In 2023 reported losses totalled DKK 78m (2022: DKK 48m). Of the reported losses an impairment charge of DKK 49m has previously been recorded (2022: DKK 29m).

Amounts recovered from debt previously written off represented DKK 102m in 2023 (2022: DKK 140m).

The figure opposite shows the development in impairment charges for bank loans and advances etc as well as losses reported for the year from 2019 to 2023.

Impairment charges etc and reported losses



Credit impaired loans and advances

Credit impaired loans and advances are equal to loans and advances in stage 3 and credit impaired at initial recognition. The table below shows that the unsecured part of credit impaired loans and advances represents DKK 4m, equivalent to 0.3% (2022: 0.0%) of total credit impaired loans and advances.

Credit impaired loans and advances

DKKm	Credit impaired loans and advances	Impairment charges	Carrying amount	Collateral value	2023 Unsecured part of carrying amount
Corporate	1,089	542	547	511	36
Retail	161	83	78	110	(32)
Total	**1,250**	**625**	**625**	**621**	**4**

Exposures affected by macroeconomic uncertainty

In recent years macroeconomic developments have been affected by a rising interest rate environment and mounting inflation, which has stagnated for now and resulted in higher interest rates and lower inflation with the risk of a recession. The geopolitical situation in and around Europe is influenced by tension and war which could result in actual supply problems and creates a bigger cyber threat against Denmark and Danish companies.

At 31 December 2023 the Group had a management estimate of DKK 500m to hedge macroeconomic uncertainty. The management estimate comprises DKK 400m as regards corporate clients and DKK 100m as regards retail clients. The management estimate to hedge macroeconomic risks covers potential losses related to the negative effects of geopolitical tension, a higher interest rate environment as well as the risk of a recession etc.

Credit risks – the Group's corporate clients

At 31 December 2023 the Group's exposure to corporate clients totalled DKK 63.2bn. In overall terms the Group has not recorded significant losses as regards its corporate client portfolio due to macroeconomic developments and in general the Group's corporate clients appear to be robust. There is a risk that macroeconomic developments could impact some companies' earnings capacity in the years ahead especially if the economy moves towards an actual recession.

Credit risks – the Group's retail clients

At 31 December 2023 the Group's exposure to retail clients totalled DKK 13.1bn of which DKK 10.4bn represents home loans, car loans and other retail loans and advances. The Group's retail clients have not shown signs of weakness due to macroeconomic developments and appear overall to be robust.

Analysis and stress test – the Group's retail and corporate clients

In the light of macroeconomic uncertainty the Group analysed credit risks regarding the Group's corporate and retail clients during 2023. The analysis was conducted by using the Group's stress test model using input from the Danish central bank's forecast of macroeconomic highlights. The analysis shows that the need for impairment charges is unchanged compared to 2022 broken down by industry as shown in the table below.

Calculation of impairment charges under stressed portfolio by stages (DKKm)

Industry	Stages 1 and 2 (without OECI)	Stage 2 (with OECI) and stage 3	Total
Building and construction	16	9	25
Energy supply etc	5	-	5
Real estate	17	3	20
Finance and insurance	34	9	43
Trade	84	34	118
Hotels og restaurants	1	6	7
Manufacturing and extraction of raw materials	47	29	76
Information and communication	2	6	8
Agriculture, hunting, forestry and fisheries	18	29	47
Transportation	9	3	12
Other industries	27	12	39
Public authorities	-	-	-
Retail	70	30	100
Total	**330**	**170**	**500**

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.

Credits, the Group Executive Management and the Board of Directors grant delivery risk lines and credit risk lines to financial counterparties. Based on the risk profile of the individual counterparty, rating, earnings, capital position as well as size are assessed. 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 and GMRA 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 Transaction Banking.

Appendix 1 – Supplementary tables

The Group's credit exposure

DKKm Exposure category	Ap- proach	Gross exposure	Credit risk mitigation	Effect of conversion factors	Exposure (unweighted)	REA	2023 Average exposure for the year
Corporate clients	STD	931	(427)	(192)	312	340	889
	IRB	122,680	(25,246)	(25,534)	71,900	29,002	129,337
Retail clients	STD	1,285	(47)	(526)	712	502	1,361
	IRB	44,567	(6,481)	(6,872)	31,214	8,740	28,667
Total corporate and retail clients		**169,463**	**(32,201)**	**(33,124)**	**104,138**	**38,584**	**160,254**
Governments, incl municipalities	STD	22,739	(436)	(105)	22,198	0	24,862
Credit institutions	STD	9,450	(7,091)	(243)	2,116	603	12,745
Total		**201,652**	**(39,728)**	**(33,472)**	**128,452**	**39,187**	**197,861**
Share IRB (%)		82.9	79.9	96.8	80.3	96.3	79.9
Share STD (%)		17.1	20.1	3.2	19.7	3.7	20.1

							2022
Corporate clients	STD	1,025	(327)	(213)	485	371	1,330
	IRB	124,949	(18,570)	(27,913)	78,466	33,060	125,600
Retail clients	STD	1,699	(53)	(386)	1,260	944	5,688
	IRB	26,179	(5,826)	(2)	20,351	5,928	27,287
Total corporate and retail clients		**153,852**	**(24,776)**	**(28,514)**	**100,562**	**40,303**	**159,905**
Governments, incl municipalities	STD	29,609	(501)	(67)	29,041	0	21,660
Credit institutions	STD	9,465	(5,536)	(1,358)	2,571	715	9,917
Total		**192,926**	**(30,813)**	**(29,939)**	**132,174**	**41,018**	**191,482**
Share IRB (%)		78.3	79.2	93.2	74.8	95.1	79.8
Share STD (%)		21.7	20.8	6.8	25.2	4.9	20.2

Appendix 1 – Supplementary tables

Credit exposure by industry

DKKm Industry/exposure category	Corporate clients	Retail clients	Other	Total	2023 %
Agriculture, hunting, forestry and fisheries	2,614	3,201		5,815	3.4
Manufacturing and extraction of raw materials	13,828	2,580		16,408	9.7
Energy supply etc	8,648	446		9,094	5.4
Building and construction	5,851	1,855		7,706	4.6
Trade	23,748	4,154		27,902	16.5
Transportation	3,528	886		4,414	2.6
Hotels and restaurants	377	207		584	0.3
Information and communication	535	233		768	0.5
Finance and insurance	12,468	1,263		13,731	8.1
Repo/reverse	19,706	0		19,706	11.6
Real estate	16,207	2,744		18,951	11.2
Other industries	13,351	2,657		16,008	9.4
Sector guarantees	190	0		190	0.1
Retail	2,560	25,626		28,186	16.6
Total corporate and retail clients	**123,611**	**45,852**		**169,463**	**100.0**
Governments, incl municipalities			22,739	22,739	
Credit institutions, repo/reverse			7,364	7,364	
Credit institutions, other			2,049	2,049	
Sector guarantees			37	37	
Total	**123,611**	**45,852**	**32,189**	**201,652**	

Credit exposure by industry

DKKm Industry/exposure category	Corporate clients	Retail clients	Other	Total	2022 %
Agriculture, hunting, forestry and fisheries	5,614	116		5,730	3.7
Manufacturing and extraction of raw materials	19,194	54		19,248	12.5
Energy supply etc	7,125	5		7,130	4.6
Building and construction	9,651	86		9,737	6.3
Trade	33,650	112		33,762	22.0
Transportation, hotels and restaurants	5,962	35		5,997	3.9
Information and communication	796	58		854	0.6
Finance and insurance	10,317	737		11,054	7.2
Repo/reverse	11,062	0		11,062	7.2
Real estate	12,966	234		13,200	8.6
Other industries	6,956	304		7,260	4.7
Sector guarantees	195	0		195	0.1
Retail	2,486	26,137		28,623	18.6
Total corporate and retail clients	**125,974**	**27,878**		**153,852**	**100.0**
Governments, incl municipalities			29,609	29,609	
Credit institutions, repo/reverse			5,767	5,767	
Credit institutions, other			3,661	3,661	
Sector guarantees			37	37	
Total	**125,974**	**27,878**	**39,074**	**192,926**	

Appendix 1 – Supplementary tables

Credit exposure to corporate clients by rating category (IRB)

DKKm						2023
		Exposure after	Exposure-weighted, average			
Rating category	Gross exposure	effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	REA
1	24,809	20,031	0.03	22.1	5.2	1,032
2	39,835	27,898	0.23	26.4	23.1	6,431
3	23,386	20,574	0.48	14.0	16.7	3,427
4	19,745	15,589	0.85	31.5	49.5	7,724
5	8,995	7,761	2.48	30.9	68.4	5,306
6	1,961	1,749	4.18	32.0	77.3	1,353
7	2,045	1,713	6.53	33.1	98.3	1,684
8	126	108	11.13	35.5	120.7	131
9	691	650	18.40	34.5	134.8	876
Default	1,087	1,073	100.00	40.8	96.8	1,038
Total	**122,680**	**97,146**				**29,002**

						2022
1	16,146	12,437	0.03	24.8	5.9	730
2	46,335	33,674	0.21	24.3	19.8	6,668
3	21,715	17,258	0.48	22.0	26.0	4,485
4	24,797	20,150	0.87	31.0	48.7	9,804
5	8,609	7,083	2.45	33.2	70.2	4,974
6	2,393	1,987	4.20	35.2	81.3	1,616
7	2,113	1,773	6.32	32.8	94.7	1,679
8	540	489	10.97	34.9	121.7	596
9	1,122	1,020	20.18	35.0	140.0	1,428
Default	1,179	1,165	100.00	39.5	92.8	1,080
Total	**124,949**	**97,036**				**33,060**

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

Credit exposure to retail clients by rating category (IRB)

DKKm			Exposure-weighted, average			2023
Rating category	Gross exposure	Exposure after effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	REA
1	14,882	14,478	0.03	61.9	7.1	1,026
2	11,135	8,180	0.12	46.4	9.7	790
3	8,032	6,334	0.33	47.6	20.4	1,289
4	4,746	3,714	0.78	42.3	32.4	1,202
5	3,073	2,539	2.29	42.1	50.6	1,284
6	773	650	3.86	41.0	57.7	375
7	500	447	6.12	44.2	66.1	295
8	346	327	9.44	42.5	91.1	298
9	929	875	14.00	51.3	154.1	1,349
Default	151	151	100.00	25.2	552.1	832
Total	**44,567**	**37,695**				**8,740**

						2022
1	14,958	14,954	0.03	60.8	7.0	1,043
2	4,354	4,351	0.06	61.4	11.3	491
3	3,965	3,966	0.17	59.4	21.9	869
4	1,153	1,155	0.49	67.2	50.0	577
5	681	681	1.24	60.4	77.0	524
6	199	200	2.50	69.3	114.9	229
7	74	74	4.75	65.3	150.9	112
8	83	84	6.23	63.8	165.3	139
9	562	562	9.49	62.6	212.8	1,196
Default	150	150	100.00	42.5	499.4	748
Total	**26,179**	**26,177**				**5,928**

Appendix 1 – Supplementary tables

Credit exposure by client's country of residence

DKKm					2023
	Denmark	Germany	Sweden	Other	Total
Corporate clients	106,354	8,811	395	8,051	123,611
Retail clients	43,334	1,843	13	662	45,852
Total corporate and retail clients	**149,688**	**10,654**	**408**	**8,713**	**169,463**
Governments, incl municipalities	8,715	14,024	0	0	22,739
Credit institutions	4,121	312	3,873	1,144	9,450
Total	**162,524**	**24,990**	**4,281**	**9,857**	**201,652**

					2022
Corporate clients	111,170	9,799	266	4,739	125,974
Retail clients	26,544	698	13	623	27,878
Total corporate and retail clients	**137,714**	**10,497**	**279**	**5,362**	**153,852**
Governments, incl municipalities	10,915	18,694	0	0	29,609
Credit institutions	3,106	896	4,042	1,421	9,465
Total	**151,735**	**30,087**	**4,321**	**6,783**	**192,926**

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	Total
2023						
Corporate clients	-	74,555	26,904	11,171	10,981	123,611
Retail clients	-	21,482	2,310	2,610	19,450	45,852
Total corporate and retail clients	**-**	**96,037**	**29,214**	**13,781**	**30,431**	**169,463**
Governments, incl municipalities	200	21,548	468	83	440	22,739
Credit institutions	-	9,209	16	181	44	9,450
Total	**200**	**126,794**	**29,698**	**14,045**	**30,915**	**201,652**

						2022
Corporate clients	-	73,385	28,021	12,033	12,535	125,974
Retail clients	-	12,643	1,170	1,857	12,208	27,878
Total corporate and retail clients	**-**	**86,028**	**29,191**	**13,890**	**24,743**	**153,852**
Governments, incl municipalities	170	28,381	642	85	331	29,609
Credit institutions	-	9,147	74	204	40	9,465
Total	**170**	**123,556**	**29,907**	**14,179**	**25,114**	**192,926**

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

Appendix 1 – Supplementary tables

Credit exposure by credit quality

DKKm	Corporate clients	Retail clients	Other	Total
				2023
Neither past due nor credit impaired	122,246	45,509	32,189	199,944
Past due but not credit impaired	95	52	-	147
Credit impaired	1,270	291	-	1,561
Total	**123,611**	**45,852**	**32,189**	**201,652**
				2022
Neither past due nor credit impaired	124,473	27,708	39,074	191,255
Past due but not credit impaired	85	59	-	144
Credit impaired	1,416	111	-	1,527
Total	**125,974**	**27,878**	**39,074**	**192,926**

Credit impaired exposures represent exposures in stage 3 and credit impaired at initial recognition. Past due amounts consist of loans and advances from a customer's first day of arrears where there is no objective evidence of credit impairment. A very limited share of past due amounts concerns high credit risk customers.

Past due amounts

DKKm			2023			2022
	Corporate clients	Retail clients	Total	Corporate clients	Retail clients	Total
0-30 days	95	52	147	85	56	141
31-60 days	-	-	-	-	1	1
61-90 days	-	-	-	-	2	2
Total	**95**	**52**	**147**	**85**	**59**	**144**

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

DKKm	2023	2022
Impairment and provisions	46	25
Write-offs	29	19
Recovered from debt previously written off	102	140
Total	**(27)**	**(96)**

Credit impaired loans/advances and guarantees as well as impairment charges and provisions by customer's country of residence

DKKm			2023			2022
	Credit impaired loans/advances and guarantees	Impairment charges and provisions	Credit impaired loans/advances and guarantees after impairment charges	Credit impaired loans/advances and guarantees	Impairment charges and provisions	Credit impaired loans/advances and guarantees after impairment charges
Denmark	1,333	701	632	1,468	712	756
Germany	42	36	6	32	25	7
Other	21	9	12	27	13	14
Total	**1,396**	**746**	**650**	**1,527**	**750**	**777**

Appendix 2 – Glossary

CEBS	Committee of European Banking Supervisors.
CF	Conversion Factor, ie the proportion of the undrawn credit commitment that the customer 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 customer has not honoured all of his payment obligations.
EAD	Exposure At Default. EAD represents the expected size of an exposure, ie how much a customer is expected to owe at the time of default.
GMRA	Global Master Repurchase Agreement. Agreement where the mutual rights, obligations and collateral of 2 or more parties are netted. Credit risk is mitigated by means of netting agreements and collateral.
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	International Swaps and Derivatives Association. Agreement where the mutual rights and obligations of 2 or more parties are netted. Credit risk is mitigated by means of netting agreements.
LGD	Loss Given Default. LGD represents the proportion of a given exposure that is expected to be lost if the customer defaults within the next 12 months.
LTV	Loan-to-Value. The loan's share of the collateral value.
Net exposure	Gross exposure after inclusion of the conversion factor and after deduction of collateral.
PD	Probability of Default. Probability that a customer will default on his obligations within the next 12 months.
REA	Risk Exposure Amount calculated in accordance with prevailing capital adequacy rules.
STD	Standardised approach to calculate credit risk.
Unsecured portion	Following a prudent assessment of collateral provided, the portion of an exposure for which collateral does not exist.

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