Credit Risk
2022

Sydbank Group

Sydbank

The Credit Risk report for 2022 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 and advances, 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 2022 Annual Report.

The correlation between the gross exposure, as shown in "Appendix 1 – Supplementary tables", and loans and advances and guarantees in the 2022 Annual Report is shown in the table below.

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

Gross exposure – credit risk

DKKm	2022	2021
Loans and advances at fair value	10,490	16,918
Loans and advances at amortised cost	73,933	67,041
Loans and advances according to financial statements	**84,423**	**83,959**
Loans and advances to municipalities	(76)	(699)
Guarantees issued by government and institutions	(2,689)	(995)
Undrawn credit commitments	52,981	51,782
Derivatives	801	1,330
Repo (deposits)	1,104	3,438
Contingent liabilities etc	17,308	21,555
Gross exposure to retail and corporate clients	**153,852**	**160,370**
Governments, incl municipalities	29,609	20,159
Credit institutions	9,465	8,925
Gross exposure – credit risk	**192,926**	**189,454**

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.

By means of analyses and random sampling Risk Follow-up monitors the credit quality of exposures, registrations, impairment charge 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.

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

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

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.

Implementation of new corporate model

Today the Group uses the advanced IRB approach to calculate the capital requirement as regards retail exposures. As regards corporate exposures the Group has previously used the foundation IRB approach. The Group achieved approval from the Danish FSA as of 31 October 2022 to use the advanced IRB approach (A-IRB) as regards the Group's 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.

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. Following approval by the Danish FSA, retail exposures acquired from Alm. Brand Bank have been incorporated in the Group's IRB portfolio as of 31 October 2022.

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, including corporate exposures acquired from Alm. Brand Bank. The Danish FSA has approved the Group's use of the Standardised Approach to calculate the risk exposure amount concerning these exposures.

PD scale – effect of new corporate model

The implementation of the advanced IRB approach (A-IRB) as regards corporate exposures has resulted in an adjustment of the PD level, which in turn has brought about a change in the correlation between PD and rating categories.
The table below shows the PD bands used at 31 December 2022 (new model) and at 30 September 2022 (previous model) as regards corporate exposures.

PD bands before and after implementation of A-IRB

%	31 Dec 2022		30 Sep 2022	
Rating category	Min	Max	Min	Max
1	0.00	0.01	0.00	0.01
2	0.01	0.20	0.01	0.05
3	0.20	0.50	0.05	0.20
4	0.50	1.10	0.20	0.50
5	1.10	2.50	0.50	1.10
6	2.50	4.00	1.10	2.50
7	4.00	7.00	2.50	4.00
8	7.00	12.00	4.00	8.00
9	12.00	99.99	8.00	99.99
Default	100.00	100.00	100.00	100.00

The table at the bottom of the page shows corporate loans and advances before impairment charges by rating category at 31 December 2022 (new model) compared to 30 September 2022 (previous model).

The total share of loans and advances in rating categories 1-4 is unchanged – however there are shifts between rating categories 1-4. Rating categories 5-6 are unchanged. Rating categories 7-9 show an increase of 2.1pp. The rating category default is unchanged.

Loans and advances to corporate clients by rating category before and after implementation of A-IRB

%	31 Dec 2022		30 Sep 2022	
Rating category	Loans and advances	%	Loans and advances	%
1	4,754	7.6	1,376	2.2
2	20,250	32.3	21,836	34.4
3	8,690	13.9	17,114	26.8
4	16,597	26.4	11,736	18.5
5	5,721	9.1	5,925	9.3
6	1,960	3.1	2,171	3.4
7	1,636	2.6	672	1.1
8	460	0.7	146	0.2
9	1,041	1.7	1,004	1.6
Default	1,084	1.7	1,053	1.7
STD/NR	558	0.9	514	0.8
Total	**62,751**	**100.0**	**63,547**	**100.0**
Rating categories 1-4	50,291	80.2	52,062	81.9
Rating categories 5-6	7,681	12.2	8,096	12.7
Rating categories 7-9	3,137	5.0	1,822	2.9
Default	1,084	1.7	1,053	1.7
STD/NR	558	0.9	514	0.8
Total	**62,751**	**100.0**	**63,547**	**100.0**

Rating

Loans and advances and guarantees by rating category

DKKm	Corporate			Retail			Total		2022	2021
	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	%
1	4,754	218	7.0	5,340	4,502	47.3	10,094	4,720	16.2	14.2
2	20,250	4,011	34.3	2,169	1,350	16.9	22,419	5,361	30.3	27.1
3	8,690	1,193	14.0	2,168	950	15.0	10,858	2,143	14.2	24.0
4	16,597	1,241	25.2	769	398	5.6	17,366	1,639	20.7	13.4
5	5,721	568	8.9	498	226	3.5	6,219	794	7.7	6.3
6	1,960	121	2.9	155	40	0.9	2,115	161	2.5	3.0
7	1,636	86	2.4	59	28	0.4	1,695	114	2.0	0.5
8	460	45	0.7	45	21	0.3	505	66	0.6	0.4
9	1,041	85	1.6	343	79	2.0	1,384	164	1.7	1.9
Default	1,084	131	1.7	102	30	0.6	1,186	161	1.5	1.4
STD/NR	558	348	1.3	1,274	278	7.5	1,832	626	2.6	7.8
Total	**62,751**	**8,047**	**100.0**	**12,922**	**7,902**	**100.0**	**75,673**	**15,949**	**100.0**	**100.0**
Impairment of loans and advances	1,386			354			1,740			
Total	**61,365**	**8,047**		**12,568**	**7,902**		**73,933**	**15,949**		
2022 %	83.0	50.5		17.0	49.5		100.0	100.0		
2021 %	78.9	33.3		21.1	66.7		100.0	100.0		

The table above shows that corporate loans and advances (including loans and advances to public authorities) account for 83.0% (2021: 78.9%) of total loans and advances, and retail loans and advances constitute 17.0% (2021: 21.1%).

80.5% (2021: 81.1%) of the Group's corporate loans and advances and guarantees are rated in categories 1-4 and 84.8% (2021: 73.6%) 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.

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
- Realised values compared with expected values (backtesting)
- Data quality
- Model application

The backtest of the corporate client rating model for the period 1 January 2022 – 31 December 2022 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	49	0	0
2	6,164	3	7
3	5,621	10	23
4	3,544	15	31
5	2,615	40	62
6	816	24	35
7	509	21	33
8	155	23	17
9	714	108	133
Total	**20,187**	**244**	**341**

The Group implemented a new model as regards corporate clients in October 2022. The table shows that the model is prudent overall as the number of defaults is significantly lower than the number of estimated defaults.

It can be noted that, distributed by rating category, the model is prudent apart from rating category 8 in which the number of defaults exceeds the number estimated by the model. However the portfolio is very limited and consequently it must be expected that the number will be underestimated at times.

The backtest of the retail client rating model for the same period shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	51,885	5	17
2	15,039	7	9
3	13,223	26	29
4	4,424	15	23
5	4,583	15	48
6	1,325	8	32
7	753	9	31
8	4,790	25	284
9	2,808	90	264
Total	**98,830**	**200**	**737**

The total number of retail client defaults is 73% (2021: 67%) 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 at the end of the year as well as the realised annual default rates for 2018 to 2022.

%	Corporate		Retail	
Year	PD solvency 1 Jan	Realised default rate	PD solvency 1 Jan	Realised default rate
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
2018	2.71	2.43	0.99	0.61

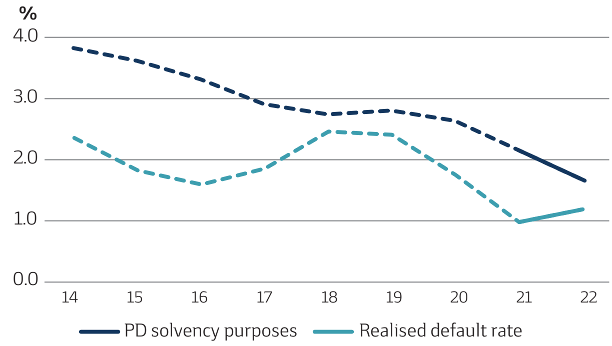
The realised default rates as well as the PD estimate for solvency purposes have declined during the period from 2018 to 2022, however with a small increase in 2022 in the realised default rate for corporate clients.

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

Rating

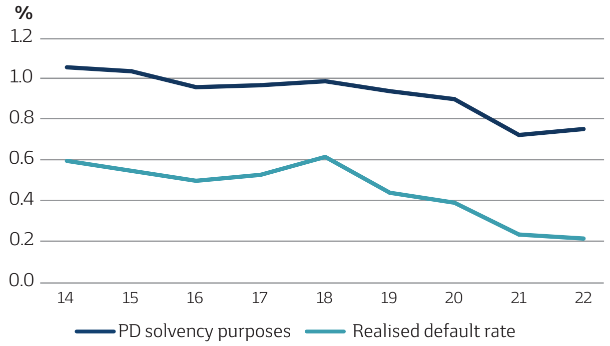
The following 2 figures show PD for solvency purposes and the realised default rate since 2014. As can be seen, PD for solvency purposes is typically higher than the realised default rate as regards both portfolios.

Probability of default – corporate clients



The period 1 January 2014 – 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. This was also the case as regards corporate clients from October 2022 in connection with the Danish FSA's approval of the Group's use of own estimates in terms of the corporate portfolio.

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 2018 to 2022.

Loss given default – corporate clients %

Year	Estimated	Realised
2022	40	28
2021	40	24
2020	40	29
2019	39	23
2018	39	23

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 lower than the level estimated in 2022 but the number of open cases from which dividend can continue to be obtained via payments was higher in 2022.

Overall 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 2018 to 2022.

Loss given default – retail clients %

Year	Estimated	Realised
2022	74	63
2021	74	51
2020	76	40
2019	75	46
2018	75	45

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

Overall 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 estimates as regards retail clients and from October 2022 the Group also used own-conversion factor estimates as regards corporate clients in connection with obtaining the Danish FSA's approval to use own estimates in terms of the corporate portfolio.

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 2018 to 2022.

Conversion factor – corporate clients %

Year	Estimated	Realised
2022	53	51
2021	48	24
2020	46	26
2019	44	34
2018	48	37

As can be seen from the table, the Group's CF estimates as regards corporate clients were around 48% throughout the period, corresponding to around half of the undrawn credit commitments. The realised conversion factors were below the estimated levels during this 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 2018 to 2022.

Conversion factor – retail clients %

Year	Estimated	Realised
2022	99	42
2021	99	75
2020	99	39
2019	99	43
2018	99	50

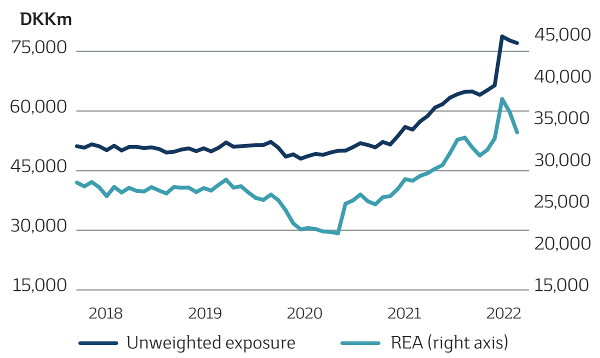
As can be seen from the table, the Group's CF estimates as regards retail clients were around 100% throughout the period, corresponding to full recognition of undrawn credit commitments. The realised conversion factors were significantly below this level.

In 2021 the realised level was higher than previously, which can be attributed to a period with fewer default cases and more outliers in relative terms.

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 is used, which increases the risk exposure amount by approx DKK 5bn. Moreover the increase in lending activity is reflected in the unweighted exposure.

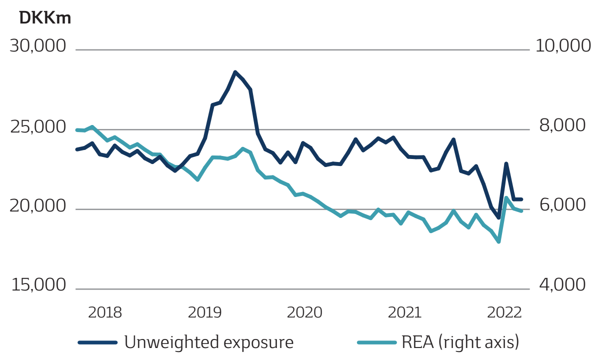
The Group has previously used the foundation IRB approach as regards corporate clients. The Group achieved approval from the Danish FSA as of 31 October 2022 to use the advanced IRB approach (A-IRB) as regards the Group's corporate exposures.

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

The previous model used only own estimates as regards probability of default (PD) but standard values as regards loss given default (LGD), recognition of off-balance sheet items (CF), maturity and collateral values. According to A-IRB own estimates are used as regards all parameters.

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

REA and unweighted exposure – retail clients



The increase in 2019 in unweighted exposure as regards retail clients is attributable to the provision of guarantees in connection with the refinancing of mortgage loans.

The decrease in unweighted exposure in 2020 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.

Industry breakdown

The Group's credit exposure to corporate clients takes into account individual industry prospects. Due to special risk assessments, the Group may deliberately underweight its exposure to a few industries. The table below shows the exposure by way of loans and advances and guarantees to 10 primary industries as well as to retail clients and public authorities. After impairment charges, total loans and advances represent DKK 73,933m. 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 etc.

2022 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 recognition
Agriculture, hunting, forestry and fisheries	2,648	2,427	955	1,770	602	247	29
Manufacturing and extraction of raw materials	12,223	11,918	926	10,353	1,770	100	0
Energy supply etc	2,944	2,928	1,104	2,889	49	6	0
Building and construction	5,365	5,227	1,002	4,550	704	111	0
Trade	19,613	19,187	2,298	17,669	1,603	340	1
Transportation, hotels and restaurants	3,254	3,189	229	3,007	180	67	0
Information and communication	401	390	24	330	68	3	0
Finance and insurance	6,452	6,390	722	6,022	352	78	0
Real property	5,319	5,273	449	4,895	345	31	48
Other industries	4,411	4,316	330	3,939	371	101	0
Total corporate	**62,630**	**61,245**	**8,039**	**55,424**	**6,044**	**1,084**	**78**
Public authorities	121	120	8	98	23	0	0
Retail	12,922	12,568	7,902	11,980	777	102	63
Total	**75,673**	**73,933**	**15,949**	**67,502**	**6,844**	**1,186**	**141**
Agriculture, hunting, forestry and fisheries							
Pig farming	545	497	220	367	108	46	24
Cattle farming	625	562	359	439	127	57	2
Crop production	623	591	221	434	151	38	0
Other agriculture	855	777	155	530	216	106	3
Total	**2,648**	**2,427**	**955**	**1,770**	**602**	**247**	**29**
Manufacturing and extraction of raw materials							
Iron and metal	2,067	1,951	209	1,560	477	30	0
Food, beverage and tobacco	3,363	3,293	104	2,892	461	10	0
Clothing	1,674	1,655	33	1,565	95	14	0
Other manufacturing and extraction of raw materials	5,119	5,019	580	4,336	737	46	0
Total	**12,223**	**11,918**	**926**	**10,353**	**1,770**	**100**	**0**
Trade							
Wholesale	14,691	14,361	1,709	13,311	1,130	249	1
Retail	2,621	2,581	336	2,310	294	17	0
Car dealers and garages	2,301	2,245	253	2,048	179	74	0
Total	**19,613**	**19,187**	**2,298**	**17,669**	**1,603**	**340**	**1**
Finance and insurance							
Holding companies	2,390	2,358	113	2,094	242	53	1
Financing companies	4,062	4,032	609	3,928	110	25	(1)
Total	**6,452**	**6,390**	**722**	**6,022**	**352**	**78**	**0**
Real property							
Leasing of commercial property	1,877	1,852	219	1,618	205	9	45
Leasing of residential property	517	508	134	421	72	21	3
Housing/cooperative associations	2,217	2,214	30	2,215	2	0	0
Purchase, development and sale on own account	561	555	62	500	61	0	0
Other related to real property	147	144	4	141	5	1	0
Total	**5,319**	**5,273**	**449**	**4,895**	**345**	**31**	**48**

As shown below, the accumulated impairment ratio as regards loans and advances constitutes 2.3% (2021: 2.7%) and credit impaired loans and advances in stage 3 represent 1.6% (2021: 1.6%) of the total volume of lending. The table shows that 9.3% (2021: 7.3%) of loans and advances to agriculture are regarded as credit impaired and that the impairment charges constitute 52.6% (2021: 44.5%). The impairment ratio for agriculture totals 8.3% (2021: 9.1%). 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
15	76	130	(127)	5	9.3	52.6	8.3
63	191	51	56	2	0.8	51.0	2.5
10	2	4	(6)	0	0.2	66.7	0.5
31	39	68	84	5	2.1	61.3	2.6
107	108	211	140	3	1.7	62.1	2.2
17	14	34	(8)	1	2.1	50.7	2.0
5	5	1	7	0	0.7	33.3	2.7
24	10	28	(22)	0	1.2	35.9	1.0
17	18	11	(26)	0	0.6	35.5	0.9
14	30	51	(55)	1	2.3	50.5	2.2
303	**493**	**589**	**43**	**17**	**1.7**	**54.3**	**2.2**
0	1	-	0	0	-	-	0.8
68	199	87	(142)	31	0.8	85.3	2.7
371	**693**	**676**	**(99)**	**48**	**1.6**	**57.0**	**2.3**
3	17	28	(71)	0	8.4	60.9	8.8
4	22	37	(72)	3	9.1	64.9	10.1
3	16	13	(4)	1	6.1	34.2	5.1
5	21	52	20	1	12.4	49.1	9.1
15	**76**	**130**	**(127)**	**5**	**9.3**	**52.6**	**8.3**
12	89	15	9	1	1.5	50.0	5.6
17	48	5	14	0	0.3	50.0	2.1
6	5	8	3	0	0.8	57.1	1.1
28	49	23	30	1	0.9	50.0	2.0
63	**191**	**51**	**56**	**2**	**0.8**	**51.0**	**2.5**
82	82	166	115	2	1.7	66.7	2.2
13	15	12	11	1	0.6	70.6	1.5
12	11	33	14	0	3.2	44.6	2.4
107	**108**	**211**	**140**	**3**	**1.7**	**62.1**	**2.2**
7	8	17	(6)	0	2.2	32.1	1.3
17	2	11	(16)	0	0.6	44.0	0.7
24	**10**	**28**	**(22)**	**0**	**1.2**	**35.9**	**1.0**
7	14	4	(12)	0	0.5	44.4	1.3
2	1	6	(5)	0	4.1	28.6	1.7
3	0	0	(10)	0	0.0	-	0.1
4	2	0	0	0	0.0	-	1.1
1	1	1	1	0	0.7	100.0	2.0
17	**18**	**11**	**(26)**	**0**	**0.6**	**35.5**	**0.9**

Industry breakdown

The table below shows the Group's loans and advances to industries by rating category. 81.9% (2021: 80.0%) of rated loans and advances after impairment charges are rated in categories 1-4 whereas the percentage for agriculture is 53.2 (2021: 35.7).

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.
As a consequence quite a few loans moved from the rating category STD/NR in 2021 to other rating categories in 2022.

Loans and advances by rating category

DKKm							2022	2022	2021
Industry	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%	%
Agriculture, hunting, forestry and fisheries	459	951	580	351	235	72	2,648	3.5	4.2
Manufacturing and extraction of raw materials	3,849	5,288	1,985	994	100	7	12,223	16.2	14.1
Energy supply etc	1,749	1,047	129	13	6	-	2,944	3.9	4.5
Building and construction	2,155	1,856	717	521	111	5	5,365	7.1	6.8
Trade	6,766	9,126	2,704	663	340	14	19,613	25.9	21.8
Transportation, hotels and restaurants	935	1,918	229	102	67	3	3,254	4.3	4.6
Information and communication	32	238	43	78	3	7	401	0.5	0.6
Finance and insurance	3,633	2,122	331	52	71	243	6,452	8.5	8.5
Real property	3,083	1,302	622	158	31	123	5,319	7.0	8.0
Other industries	2,321	1,435	320	205	120	10	4,411	5.8	5.6
Public authorities	22	4	21	-	-	74	121	0.2	0.1
Retail	7,509	2,937	653	447	102	1,274	12,922	17.1	21.2
Total	**32,513**	**28,224**	**8,334**	**3,584**	**1,186**	**1,832**	**75,673**	**100.0**	**100.0**
Impairment of loans and advances	19	190	235	593	649	54	1,740		
Total loans and advances	**32,494**	**28,034**	**8,099**	**2,991**	**537**	**1,778**	**73,933**		
2022 %	44.0	37.9	11.0	4.0	0.7	2.4	100.0		
2021 %	37.7	42.3	10.1	2.3	0.8	6.8	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	2022 Total	2022 %	2021 %
Pig farming	80	232	70	80	31	52	545	20.6	20.1
Cattle farming	91	223	151	86	57	17	625	23.6	31.1
Crop production	188	205	139	50	41	-	623	23.5	20.3
Other agriculture	100	291	220	135	106	3	855	32.3	28.5
Total	**459**	**951**	**580**	**351**	**235**	**72**	**2.648**	**100.0**	**100.0**
Impairment of loans and advances	0	7	22	61	130	1	221		
Total loans and advances	**459**	**944**	**558**	**290**	**105**	**71**	**2.427**		
2022 %	19.0	38.9	23	11.9	4.3	2.9	100.0		
2021 %	5.6	33.5	44.9	9.4	4.5	2.1	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 2022 Sydbank's total loans and advances to agriculture constituted DKK 2,648m – a drop of DKK 225m compared with a year ago.

The share of loans and advances in the weakest rating categories (7-9 and default) represents 22.1% (2021: 18.4%) before impairment charges. After impairment charges this share constitutes 16.2% (2021: 13.9%). The increase in the share of loans and advances in the weakest rating categories is attributable in part to the fact that the decline in total loans and advances to agriculture has predominantly occurred in the good rating categories.

As shown in the table on pp 12-13, 9.3% (2021: 7.3%) of loans and advances to agriculture are credit impaired and classified as stage 3. 8.4% (2021: 4.0%) of loans and advances to pig farming are classified as stage 3 and 9.1% (2021: 8.2%) of loans and advances to cattle farming are classified as stage 3.

At year-end 2022 an impairment charge totalling DKK 221m (2021: DKK 261m) was recorded, equivalent to 8.3% (2021: 9.1%) of loans and advances.

DKK 130m (2021: DKK 94m) of the impairment charges for loans and advances of DKK 221m concern credit impaired exposures.

Loans and advances rated STD/NR can be attributed to the portfolio acquired from Alm. Brand Bank of which DKK 29m (2021: DKK 29m) was credit impaired at initial recognition.

The quotation for pork was very stable in 2022 and for the year as a whole pork producers saw a quotation of approx DKK 12.20 per kg, incl supplementary payments. Due to a steep increase in feed and energy prices pork producers' earnings have not been satisfactory. In particular producers with limited production of feed have been hard hit. Also producers of piglets for export have been hard hit by low prices as German producers in particular stopped restocking as a result of the poor exchange ratio.

It is expected that 2023 will be a challenging year with high feed and energy prices appearing to continue coupled with high interest rates. The quotation for pork is forecast to go up as production and consequently the supply of pork in Europe have dropped significantly and are expected to go down further. The decline can be attributed to a reduction in the breeding stock among other things.

Milk producers saw a highly satisfactory year with record-breaking earnings in 2022. Despite the high feed and energy prices milk producers were more than compensated thanks to historically high milk prices. At the beginning of 2023 the level of milk prices is high but they are forecast to drop during the year. Earnings are expected to go down in 2023 but remain at a satisfactory level.

Whereas pork and milk producers suffered financially from high grain prices, crop producers benefited from attractive prices and high crop yields. Subject to weather conditions 2023 appears to be reasonable for crop producers despite looking into a year of high energy, fertilizer and chemical prices.

According to the political base of Denmark's new government, the government will introduce at the beginning of 2023 a plan to accelerate the payment of compensation to mink farmers and therefore the Group expects that exposures to former mink farmers will be reduced in the course of 2023/2024.

A carbon tax on the farming industry's biological processes has been an element of uncertainty for the industry. Given the new government a carbon tax is expected to be introduced. The structure of the tax is still undecided but according to the government platform the proceeds from the tax will be returned directly to the farming industry to support the green transition. The ambition is that it should continue to be possible to develop and not phase out Danish food production. As a result the Group expects that the carbon tax and the green transition can be comprised by agricultural customers' finances.

Overall 2022 was a record-breaking year for Danish agriculture and 2023 looks set to become a good year, however with large differences between the sub-industries. As in 2022 pork producers face the biggest uncertainty due to the spreading of African swine fever as well as uncertainty surrounding China's pork imports.

Focus on retail clients

At 31 December 2022 loans and advances to retail clients represented DKK 12,922m (2021: DKK 14,573m).

Loans and advances other than mortgage-like loans to retail clients constituted DKK 10,691m at 31 December 2022 (2021: DKK 12,431m) – a decrease of 14.0% in 12 months.

At 31 December 2022 mortgage-like loans made up 17.3% (2021: 14.7%) of total loans and advances to retail clients.

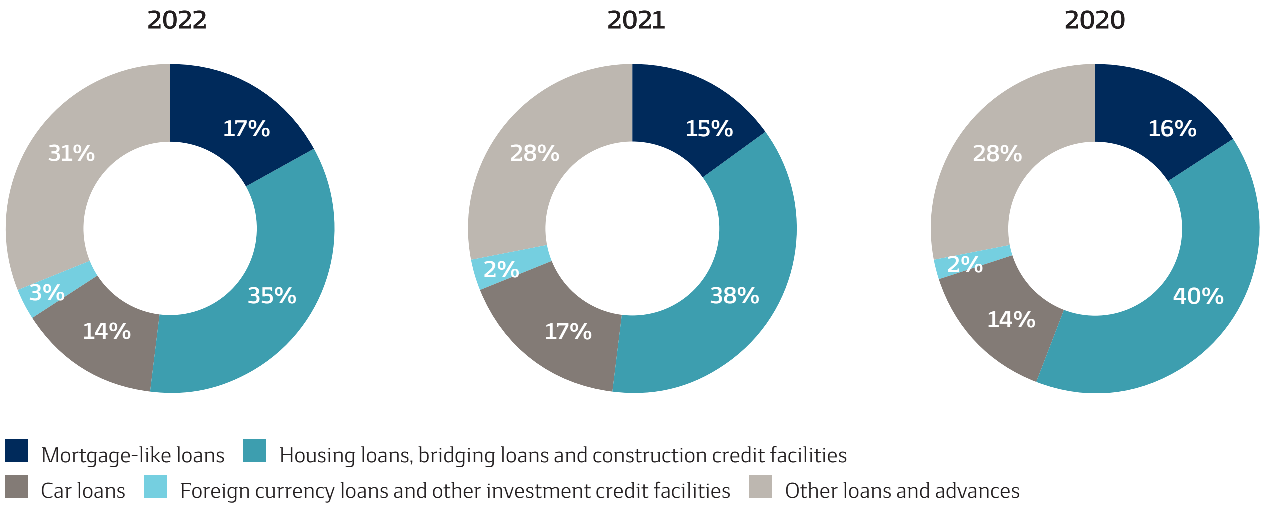
Funded mortgage-like loans are not recognised in the Group's balance sheet. The Bank provides a guarantee for the part of the loan in the LTV range of 60-80%.

Arranged mortgage loans – Totalkredit are adversely affected due to customers' refinancing of fixed-rate bond loans. Refinancing of bond loans enables customers to significantly reduce their outstanding debt and consequently arranged mortgage loans – Totalkredit recorded a drop of DKK 2,822m from DKK 89,239m in 2021 to DKK 86,417m in 2022.

Total credit intermediation to retail clients – by product type

DKKm Product type	2022	2021	2020
Mortgage-like loans	2,231	2,142	2,502
Housing loans, bridging loans and construction credit facilities	4,534	5,614	6,478
Car loans	1,866	2,467	2,213
Foreign currency loans and other investment credit facilities	324	273	325
Other loans and advances	3,967	4,077	4,434
Total loans and advances	**12,922**	**14,573**	**15,952**
Funded loans and advances – off-balance sheet	4,861	5,645	6,931
Arranged mortgage loans – Totalkredit	86,417	89,239	85,723
Total credit intermediation	**104,200**	**109,457**	**108,606**

Total loans and advances to retail clients by product type



The tables below show that a substantial part of the decline in loans and advances to retail clients was in the rating category STD/NR. In 2021 loans and advances related to exposures acquired from Alm. Brand Bank were classified as STD/NR. As of 31 October 2022 these exposures were incorporated into Sydbank's rating model.

At 31 December 2022 loans and advances before impairment charges to customers in the 4 best rating categories, including STD/NR, represented DKK 11,720m (2021: DKK 13,520m) – a decline of DKK 1,800m, primarily attributable to a decrease in housing loans, bridging loans and construction credit facilities, and car loans.

At 31 December 2022 the share of loans and advances to customers in the 4 best rating categories represented 82.8% (2021: 66.9%) – an increase of 15.9pp, which is primarily attributable to the incorporation in the rating model of the exposures acquired from Alm. Brand Bank.

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 2022 the probability of a downturn scenario represented 95%, which is unchanged compared with year-end 2021.

At 31 December 2022 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 energy price increases, a high inflation rate as well as the risk of a recession etc.

In 2022 impairment charges as regards retail clients totalled an income of DKK 142m (2021: income of DKK 100m). The net income is primarily attributable to amounts recovered from debt previously written off.

Outlook for retail clients

Negative GDP growth is projected in 2023 where an increase in interest rates and high inflation will impact the economic situation in Denmark. Forecasts show eg a drop in property prices and growth in unemployment.

The assessment is that most retail clients are well equipped for an economic setback but a potential recession will likely lead to an increase in impairment charges.

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

DKKm								2022
Product type	**1-2**	**3-4**	**5-6**	**7-9**	**Default**	**STD/NR**	**Total**	**%**
Mortgage-like loans	1,855	239	87	44	5	1	2,231	17.3
Housing loans, bridging loans and construction credit facilities	2,504	1,374	265	316	37	38	4,534	35.1
Car loans	805	211	42	13	1	794	1,866	14.4
Foreign currency loans and other investment credit facilities	145	142	4	20	1	12	324	2.5
Other loans and advances	2,200	971	255	54	58	429	3,967	30.7
Total	**7,509**	**2,937**	**653**	**447**	**102**	**1,274**	**12,922**	**100.0**
Impairment of loans and advances	3	31	35	184	76	25	354	
Total loans and advances	**7,506**	**2,906**	**618**	**263**	**26**	**1,249**	**12,568**	
%	59.7	23.1	4.9	2.2	0.2	9.9	100.0	

DKKm								2021
Product type	**1-2**	**3-4**	**5-6**	**7-9**	**Default**	**STD/NR**	**Total**	**%**
Mortgage-like loans	1,759	236	73	57	8	9	2,142	14.7
Housing loans, bridging loans and construction credit facilities	2,213	1,110	214	174	27	1,876	5,614	38.5
Car loans	747	222	34	11	1	1,451	2,466	16.9
Foreign currency loans and other investment credit facilities	61	142	11	16	1	42	273	1.9
Other loans and advances	1,896	1,155	188	163	74	601	4,077	28.0
Total	**6,676**	**2,865**	**520**	**421**	**111**	**3,979**	**14,572**	**100.0**
Impairment of loans and advances	50	24	8	160	92	87	421	
Total loans and advances	**6,626**	**2,841**	**512**	**261**	**19**	**3,892**	**14,151**	
%	46.8	20.1	3.6	1.9	0.1	27.5	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	2022	2021
Exposure > 20% of total capital	-	-
Exposure 10-20% of total capital	2,919	1,438
Total	**2,919**	**1,438**
% of total capital	24.6	11.0

2 exposures after the deduction of particularly secure claims constituted 10% or more of total capital at year-end 2022.

Supervisory Diamond

The 20 largest exposures – according to CRR – may not in accordance with the Group's credit policy exceed 150% of CET1 capital. The limit is thus fixed under the Supervisory Diamond's threshold of 175% (applicable from 1 January 2018) of CET1 capital.

At year-end 2022 the 20 largest exposures – according to CRR – represented 147% (2021: 140%) 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 2022 the 10 largest exposures represented 5.2% (2021: 4.3%) of the Group's total portfolio of exposures.

After deduction of the loan value of any collateral, the 10 largest BIS exposures constitute 4.6% (2021: 4.1%) of the total portfolio of exposures.

At year-end 2022 the 20 largest BIS exposures represented 114% (2021: 96%) 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								2022	2021
Amount	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%	%
0-1	419	534	222	119	60	13	1,367	2.2	2.6
1-5	1,153	2,417	1,138	554	218	51	5,531	8.7	10.2
5-10	983	2,142	1,107	430	204	65	4,931	7.9	8.6
10-20	1,576	2,747	1,404	592	285	58	6,662	10.6	10.2
20-50	2,777	5,611	1,650	641	188	97	10,964	17.5	17.7
50-100	4,424	4,162	1,432	464	-	103	10,585	16.9	15.2
100-200	5,841	4,371	459	111	129	130	11,041	17.6	18.8
200-500	6,048	2,066	269	226	-	41	8,650	13.8	13.7
500-	1,783	1,237	-	-	-	-	3,020	4.8	3.0
Total	**25,004**	**25,287**	**7,681**	**3,137**	**1,084**	**558**	**62,751**	**100.0**	**100.0**
2022 %	39.9	40.3	12.2	5	1.7	0.9	100.0		
2021 %	34.5	47.3	11.8	3.2	1.8	1.4	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 33.9% (2021: 31.1%) of the Group's total loans and advances. 94.0% (2021: 93.6%) of these loans and advances are rated in categories 1-4. Moreover loans and advances to agriculture as regards these 100 largest BIS groups represent 0.6% (2021: 0.4%).

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	2022 %	2021 %
Agriculture, hunting, forestry and fisheries	-	139	-	-	-	-	139	0.6	0.4
Manufacturing and extraction of raw materials	2,362	1,809	286	396	-	-	4,853	19.4	17.9
Energy supply etc	594	551	-	-	-	-	1,145	4.6	6.9
Building and construction	1,472	679	188	-	-	-	2,339	9.3	9.6
Trade	5,093	3,938	502	-	128	-	9,661	38.5	35.8
Transportation, hotels and restaurants	341	485	-	-	-	-	826	3.3	3.8
Information and communication	-	-	-	-	-	-	-	-	-
Finance and insurance	2,077	911	-	-	-	-	2,988	11.9	10.7
Real property	1,483	187	-	-	-	-	1,670	6.7	8.2
Other industries	1,435	3	-	-	-	-	1,438	5.7	6.7
Public authorities	-	-	-	-	-	-	-	-	-
Retail	-	3	-	-	-	-	3	0.0	0.0
Total	**14,857**	**8,705**	**976**	**396**	**128**	**-**	**25,062**	**100.0**	**100.0**
2022 %	59.3	34.7	3.9	1.6	0.5	-	100.0		
2021 %	44.9	48.7	5.1	1.3	-	-	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	2022 Loans/advances and guarantees
0-25	35	35	22	8	100	13
25-50	37	35	19	9	100	6
50-100	23	43	26	8	100	8
100-200	21	56	14	9	100	10
200-400	40	46	10	4	100	14
400-	53	38	7	2	100	44
NA	26	56	12	6	100	5
Total	**41**	**41**	**13**	**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	2022	2021
Loans and advances at fair value	10,490	16,918
Loans and advances at amortised cost	73,933	67,041
Guarantees	15,949	19,722
Credit exposure for accounting purposes	**100,372**	**103,681**
Collateral value	57,739	64,311
Total unsecured	**42,633**	**39,370**
Types of collateral		
Real property	11,659	11,793
Financial collateral	17,311	22,833
Lease assets, mortgages etc	6,899	6,973
Floating charges, operating equipment etc	10,141	9,092
Guarantees	2,661	1,936
Other items of collateral	119	624
Total collateral used	**48,790**	**53,251**
Particularly secured transactions (mortgage guarantees)	8,949	11,060
Total	**57,739**	**64,311**

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 2022 repossessed equipment in connection with non-performing exposures amounted to DKK 47m (2021: DKK 23m). 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 57,739m in 2022 – a drop of DKK 6,572m compared to 2021. The decline is predominantly attributable to a decrease in financial collateral of DKK 5,522m from DKK 22,833m in 2021 to DKK 17,311m in 2022 and a drop of DKK 2,111m in particularly secured transactions (mortgage guarantees) due to lower remortgaging activity in 2022.

The decline in financial collateral is primarily attributable to a drop in loans and advances at fair value which have gone down by DKK 6,428m.

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. 49.5% (2021: 62.0%) of the Group's loans and advances and guarantees after impairment charges is covered via collateral.

Collateral by rating category

DKKm					2022	2021
Rating category	**Loans/advances**	**Guarantees**	**Collateral value**	**Unsecured**	**%**	**%**
1	13,803	4,720	15,208	3,315	7.5	2.3
2	24,424	5,361	12,711	17,074	38.5	36.0
3	15,634	2,143	11,355	6,422	14.4	26.8
4	17,366	1,639	8,085	10,920	24.6	16.5
5	6,219	794	3,819	3,194	7.2	6.1
6	2,115	161	1,490	786	1.8	3.2
7	1,695	114	1,089	720	1.6	0.5
8	505	66	405	166	0.4	0.3
9	1,384	164	1,017	531	1.2	2.1
Default	1,186	161	299	1,048	2.4	1.0
STD/NR	1,832	626	2,261	197	0.4	5.2
Total	**86,163**	**15,949**	**57,739**	**44,373**	**100.0**	**100.0**
Impairment of loans and advances	1,740	-	-	1,740		
Total	**84,423**	**15,949**	**57,739**	**42,633**		

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.

Customers with a low PD (< 0.2%) and with no other indication of a significant increase in credit risk are considered as having a low credit risk and the exposure is classified as stage 1 regardless of any change in PD since initial recognition. In addition to loans and advances etc the category of assets with low credit risk comprises Danish government and mortgage bonds as well as amounts owed by Danish credit institutions.

- **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.
Credit impaired bank loans and advances – stage 3 – represent 1.6% (2021: 1.6%) of total bank loans and advances before impairment charges and 0.7% (2021: 0.8%) of total bank loans and advances after impairment charges.

Credit impaired bank loans and advances from the acquisition of Alm. Brand Bank – credit impaired at initial recognition – amount to 0.2% (2021: 0.2%) of total bank loans and advances before impairment charges and 0.2% (2021: 0.3%) of total bank loans and advances after impairment charges.

Loans and advances and impairment charges

DKKm	Stage 1	Stage 2	Stage 3	Credit impaired at initial recognition	2022 Total
Loans and advances before impairment charges	67,502	6,844	1,186	141	75,673
Impairment charges	371	693	676	-	1,740
Total loans and advances	**67,131**	**6,151**	**510**	**141**	**73,933**

%					
Impairment charges as % of bank loans and advances	0.5	10.1	57.0	0.0	2.3
Share of bank loans and advances before impairment charges	89.2	9.0	1.6	0.2	100.0
Share of bank loans and advances after impairment charges	90.8	8.3	0.7	0.2	100.0

Impairment charges concerning credit impaired bank loans and advances as a percentage of credit impaired bank loans and advances at 31 December 2022 stand at 57.0% (2021: 53.8%).

Impairment for the year

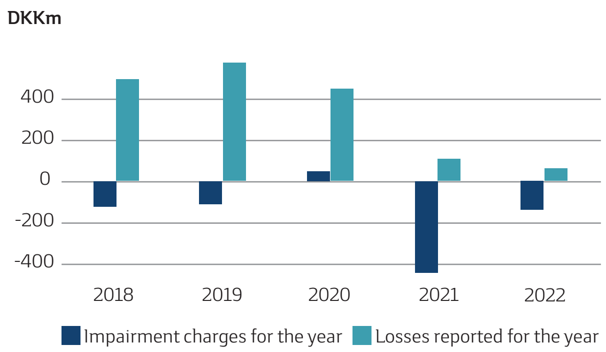
Impairment charges for bank loans and advances etc represented an income of DKK 99m in 2022. In 2021 impairment charges constituted an income of DKK 415m.

In 2022 reported losses totalled DKK 48m (2021: DKK 141m). Of the reported losses an impairment charge of DKK 29m has previously been recorded (2021: DKK 97m).

Amounts recovered from debt previously written off represented DKK 140m in 2022 (2021: DKK 245m).

The figure below shows the development in impairment charges for bank loans and advances etc as well as losses reported for the year from 2018 to 2022.

Impairment charges etc and reported losses



Management estimates

At 30 September 2022 the management estimates concerning covid-19 (2021: DKK 325m) and pig farming (2021: DKK 60m) were reversed and the Group recorded a new management estimate to hedge macroeconomic uncertainty.

At 31 December 2022 the Group had a management estimate of DKK 500m to hedge macroeconomic uncertainty. The management estimate represents DKK 400m as regards corporate clients and DKK 100m as regards retail clients.

The management estimate as regards macroeconomic risks covers potential losses related to the negative effects of energy price increases, a high inflation rate as well as the risk of a recession etc.

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 minus DKK 1m, equivalent to 0.0% (2021: 15.8%) of total credit impaired loans and advances.

Credit impaired loans and advances

DKKm					2022
	Credit impaired loans and advances	Impairment charges	Carrying amount	Collateral value	Unsecured part of carrying amount
Corporate	1,162	589	573	560	13
Retail	165	87	78	92	(14)
Total	**1,327**	**676**	**651**	**652**	**(1)**

Exposures affected by macroeconomic uncertainty

At 31 December 2022 the Group had a management estimate of DKK 500m to hedge macroeconomic uncertainty. The management estimate represents DKK 400m as regards corporate clients and DKK 100m as regards retail clients.

The management estimate as regards macroeconomic risks covers potential losses related to the negative effects of energy price increases, a high inflation rate as well as the risk of a recession etc.

Macroeconomic developments have been affected in particular by 2 events in recent years: the covid-19 pandemic which led to lockdowns and challenged the business sector in Denmark and elsewhere as well as the war in Ukraine, which has caused jitters in particular in commodities markets and financial markets alike.

These developments have resulted in high inflation and an increase in interest rates, which has affected the business sector and retail clients.

Against this background the Group has analysed credit risks as regards retail clients' home financing and the Group's corporate exposures during 2022.

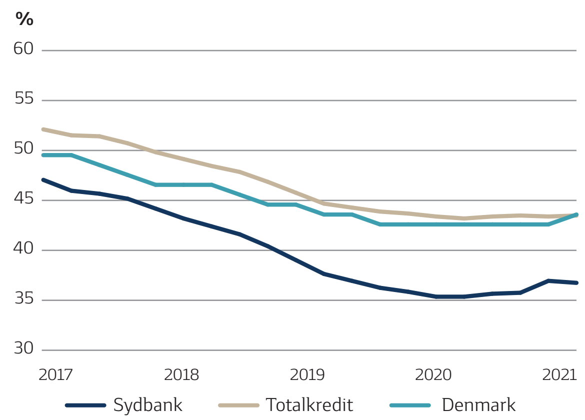
Credit risks – retail clients' home financing

Home financing comprises housing loans and mortgage loans.

The analysis of credit risks as regards retail clients' home financing shows that the Group's portfolio of housing loans is overall solid.

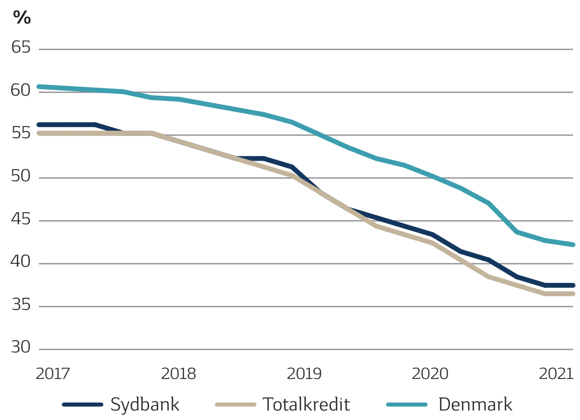
The proportion of interest-only financing and floating-rate financing has been falling for a number of years. The Group's proportion of interest-only financing represents approx 37% of its total home financing, which is significantly below the average of that of the Totalkredit cooperation and the country as a whole.

Interest-only financing of Sydbank, Totalkredit cooperation and Denmark as a whole 2017-2021



Sources: Danmarks Nationalbank, Totalkredit and Sydbank

Floating-rate financing of Sydbank, Totalkredit cooperation and Denmark as a whole 2017-2021

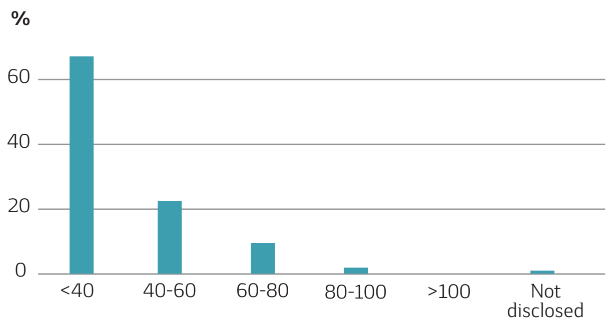


Sources: Danmarks Nationalbank, Totalkredit and Sydbank

Moreover the analysis shows that around 93.5% of home financing granted in 2020-2021 was to customers with significant assets. 61.8% of the financing was granted to customers with a leverage below 3.5. Interest rate risk simulation shows that the Group's risk as regards floating-rate financing in growth areas designated by the Danish FSA is very limited.

Retail clients' total home financing at 31 December 2022 represented DKK 98.1bn, consisting of home loans of DKK 6.8bn within the Group and mortgage loans of DKK 91.3bn. The majority of loans are granted with collateral within 80% of LTV. Interest-only and floating rate financing where the LTV exceeds 80% totals DKK 299m, equal to approx 1.3% of the Group's total interest-only and floating-rate financing and 0.3% of the Group's total home financing.

Home financing within collateral value



In view of the macroeconomic developments with inflation, rising interest rates and falling housing prices the Group has – despite a strong housing loan portfolio – had a management estimate of DKK 100m as regards retail client exposures.

Credit risks – Group's corporate portfolio

The analysis of the Group's corporate portfolio has been conducted by stress testing the Group's corporate portfolio. The stress test estimates eg GDP growth on the basis of developments in inflation and exports. The stress test shows a need for impairment charges of DKK 400m, see 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
Agriculture, hunting, forestry and fisheries	42	18	60
Manufacturing and extraction of raw materials	39	27	66
Energy supply etc	8	1	9
Building and construction	26	11	37
Trade	68	37	105
Transportation, hotels and restaurants	18	27	45
Information and communication	4	-	4
Finance and insurance	16	1	17
Real property	18	2	20
Other industries	19	18	37
Public authorities	-	-	-
Total	**258**	**142**	**400**

On the basis of the stress test of the corporate portfolio the Group has recorded a management estimate of DKK 400m as regards corporate client exposures.

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	Approach	Gross exposure	Credit risk mitigation	Effect of conversion factors	Exposure (unweighted)	REA	2022 Average exposure for the year
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

							2021
Corporate clients	STD	1,479	(252)	(619)	608	417	1,211
	IRB	123,594	(22,012)	(42,421)	59,161	28,508	120,655
Retail clients	STD	7,825	(117)	(2,187)	5,521	3,704	8,532
	IRB	27,472	(5,256)	(86)	22,130	5,414	29,102
Total corporate and retail clients		**160,370**	**(27,637)**	**(45,313)**	**87,420**	**38,043**	**159,500**
Governments, incl municipalities	STD	20,159	(587)	(56)	19,516	0	15,113
Credit institutions	STD	8,925	(5,466)	(438)	3,021	806	12,603
Total		**189,454**	**(33,690)**	**(45,807)**	**109,957**	**38,849**	**187,216**
Share IRB (%)		79.7	80.9	92.8	73.9	87.3	80.0
Share STD (%)		20.3	19.1	7.2	26.1	12.7	20.0

Appendix 1 – Supplementary tables

Credit exposure by industry

DKKm					2022
Industry/exposure category	Corporate clients	Retail clients	Other	Total	%
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 property	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**	

Credit exposure by industry

DKKm					2021
Industry/exposure category	Corporate clients	Retail clients	Other	Total	%
Agriculture, hunting, forestry and fisheries	6,077	134		6,211	3.9
Manufacturing and extraction of raw materials	17,053	58		17,111	10.7
Energy supply etc	5,971	3		5,974	3.7
Building and construction	9,683	94		9,777	6.1
Trade	28,063	115		28,178	17.6
Transportation, hotels and restaurants	5,593	38		5,631	3.5
Information and communication	836	66		902	0.5
Finance and insurance	9,323	846		10,169	6.3
Repo/reverse	21,025	0		21,025	13.1
Real property	12,106	200		12,306	7.7
Other industries	6,371	611		6,982	4.4
Sector guarantees	211	0		211	0.1
Retail	2,761	33,132		35,893	22.4
Total corporate and retail clients	**125,073**	**35,297**		**160,370**	**100.0**
Governments, incl municipalities			20,159	20,159	
Credit institutions, repo/reverse			6,334	6,334	
Credit institutions, other			2,554	2,554	
Sector guarantees			37	37	
Total	**125,073**	**35,297**	**29,084**	**189,454**	

Appendix 1 – Supplementary tables

Credit exposure to corporate clients by rating category (IRB)

DKKm						2022
		Exposure after	Exposure-weighted, average			
Rating category	Gross exposure	effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	REA
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**
						2021
1	6,129	4,495	0.03	9.4	3.1	140
2	48,836	28,782	0.04	31.7	12.7	3,666
3	32,629	20,354	0.12	38.6	34.5	7,016
4	21,943	17,255	0.40	28.9	42.9	7,409
5	6,933	5,009	0.90	43.3	88.7	4,446
6	3,543	2,560	1.93	43.6	114.6	2,934
7	676	434	3.74	44.2	126.1	548
8	249	213	6.74	44.9	146.9	313
9	1,262	1,030	23.20	44.2	197.7	2,036
Default	1,394	1,041	100.00	44.3	0.0	-
Total	**123,594**	**81,173**				**28,508**

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						2022
		Exposure after	Exposure-weighted, average			
Rating category	Gross exposure	effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	REA
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**

						2021
1	15,771	15,715	0.03	63.2	6.5	1,015
2	4,828	4,815	0.07	62.4	13.2	636
3	4,231	4,217	0.16	59.6	21.3	897
4	1,203	1,201	0.40	61.1	39.0	469
5	573	572	0.94	58.1	64.2	367
6	118	118	1.91	60.1	89.1	105
7	48	48	3.54	60.5	112.8	54
8	70	70	5.36	65.4	151.9	107
9	480	480	9.34	63.1	179.1	860
Default	150	150	100.00	28.2	602.7	904
Total	**27,472**	**27,386**				**5,414**

Appendix 1 – Supplementary tables

Credit exposure by client's country of residence

DKKm					2022
	Denmark	Germany	Sweden	Other	Total
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**

					2021
Corporate clients	112,917	8,347	329	3,480	125,073
Retail clients	33,951	729	14	603	35,297
Total corporate and retail clients	**146,868**	**9,076**	**343**	**4,083**	**160,370**
Governments, incl municipalities	6,812	13,347	0	0	20,159
Credit institutions	2,145	260	4,506	2,014	8,925
Total	**155,825**	**22,683**	**4,849**	**6,097**	**189,454**

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
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**
2021						
Corporate clients	-	76,096	31,595	9,910	7,472	125,073
Retail clients	-	12,325	9,497	2,919	10,556	35,297
Total corporate and retail clients	**-**	**88,421**	**41,092**	**12,829**	**18,028**	**160,370**
Governments, incl municipalities	206	18,872	937	80	64	20,159
Credit institutions	-	8,504	414	7	0	8,925
Total	**206**	**115,797**	**42,443**	**12,916**	**18,092**	**189,454**

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
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**
2021				
Neither past due nor credit impaired	123,611	35,130	29,084	187,825
Past due but not credit impaired	88	68	-	156
Credit impaired	1,374	99	-	1,473
Total	**125,073**	**35,297**	**29,084**	**189,454**

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			2022			2021
	Corporate clients	Retail clients	Total	Corporate clients	Retail clients	Total
0-30 days	85	56	141	88	60	148
31-60 days	-	1	1	-	2	2
61-90 days	-	2	2	-	6	6
Total	**85**	**59**	**144**	**88**	**68**	**156**

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

DKKm	2022	2021
Impairment and provisions	25	(214)
Write-offs	19	44
Recovered from debt previously written off	140	245
Total	**(96)**	**(415)**

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

DKKm			2022			2021
	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	1,468	712	756	1,378	591	787
Germany	32	25	7	61	40	21
Other	27	13	14	34	11	23
Total	**1,527**	**750**	**777**	**1,473**	**642**	**831**

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 agreement	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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