Credit Risk 2021

Sydbank Group

Sydbank
Denmark's Corporate Bank

Contents

The Credit Risk report for 2021 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 clients 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 2021 Annual Report.

The correlation between the gross exposure, as shown in "Appendix 1 – Supplementary tables", and loans and advances and guarantees in the 2021 Annual Report is shown in the table below.

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

Gross exposure – credit risk

DKKm	2021	2020
Loans and advances at fair value	16,918	17,961
Loans and advances at amortised cost	67,041	60,229
Loans and advances according to financial statements	**83,959**	**78,190**
Loans and advances to municipalities	(699)	(411)
Guarantees issued by government and institutions	(995)	(965)
Undrawn credit commitments	51,782	51,526
Derivatives	1,330	1,322
Repo (deposits)	3,438	3,516
Contingent liabilities etc	21,555	21,595
Gross exposure to retail and corporate clients	**160,370**	**154,773**
Governments, incl municipalities	20,159	14,633
Credit institutions	8,925	8,921
Gross exposure – credit risk	**189,454**	**178,327**

Credit and client policy

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

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

Employees with a 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.

Retail clients

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

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

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 client'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 client's forward-looking business plan and its risk and feasibility.

Credit activities

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

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

- maintaining and increasing the portfolio of profitable and promising retail, corporate and investment clients
- maintaining and increasing clients' business volume with the Group through a balanced composition of:
  - loans and advances and guarantees
  - deposits
  - payment services transactions
  - trading in securities etc
  - financial instruments
- avoiding/reducing risk of loss by implementing action plans for weak exposures. These action plans involve reducing the Group's exposure as well as hedging risks by securing additional collateral.

Risks in connection with lending must be precalculated on an informed and well-founded basis.

The Group's credit exposure is in particular to clients in Denmark and Northern Germany.

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 clients correctly.

Rating

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

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

In connection with the calculation of the Group's Pillar 1 capital requirements, the Group estimates on an ongoing basis the risk parameters PD, LGD and EAD as regards the Group's retail clients and PD as regards the Group's corporate clients.

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

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

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

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

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

Furthermore the ratings constitute a vital management tool in the Group's credit process in connection with eg:
- the targeting of sales activities, including pricing
- the assessment and determination of lending authority
- the 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.

Today Sydbank applies the advanced IRB approach to calculate the capital requirement as regards retail exposures and the foundation IRB approach to calculate the capital requirement as regards corporate exposures. The Bank has developed new models and an application was submitted to the Danish FSA on 30 June 2021 to gain approval to use the advanced IRB approach as regards corporate exposures. Its approval is expected in 2022.

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

Clients are rated in the 2 independent models described below and all models are based on statistical processing of client data for the purpose of classifying clients according to their probability of default within the next 12 months.

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

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

Exposures outside the 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 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.

Loans and advances and guarantees by rating category

DKKm	Corporate			Retail			Total		2021	2020
	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	%
1	1,031	259	2.1	4,762	6,522	40.7	5,793	6,781	14.2	14.4
2	17,715	2,233	32.8	1,914	2,152	14.7	19,629	4,385	27.1	24.5
3	15,952	1,556	28.8	2,156	1,588	13.5	18,108	3,144	24.0	23.5
4	9,719	864	17.4	709	590	4.7	10,428	1,454	13.4	11.3
5	4,232	641	8.0	408	306	2.6	4,640	947	6.3	6.6
6	2,178	276	4.0	112	79	0.7	2,290	355	3.0	2.6
7	362	30	0.6	31	26	0.2	393	56	0.5	0.8
8	198	13	0.3	34	18	0.2	232	31	0.4	0.6
9	1,161	67	2.0	356	112	1.7	1,517	179	1.9	3.8
Default	965	105	1.8	111	28	0.4	1,076	133	1.4	0.8
STD/NR	786	531	2.2	3,979	1,726	20.6	4,765	2,257	7.8	11.1
Total	**54,299**	**6,575**	**100.0**	**14,572**	**13,147**	**100.0**	**68,871**	**19,722**	**100.0**	**100.0**
Impairment of loans and advances	1,409			421			1,830			
Total	**52,890**	**6,575**		**14,151**	**13,147**		**67,041**	**19,722**		
2021 %	78.9	33.3		21.1	66.7		100.0	100.0		
2020 %	74.3	27.5		25.7	72.5		100.0	100.0		

The table above shows that corporate loans and advances (including loans and advances to public authorities) account for 78.9% (2020: 74.3%) of total loans and advances, and retail loans and advances constitute 21.1% (2020: 25.7%).

81.1% (2020: 77.2%) of the Group's corporate loans and advances and guarantees are rated in categories 1-4 and 73.6% (2020: 67.6%) of the Group's retail loans and advances are rated in categories 1-4.

Default

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

- A write-off has been recorded as regards the client
- The client has at least one non-accrual credit facility
- An impairment charge/provision has been registered in connection with the client and a loss must be regarded as 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.

New definition of default

As of 1 January 2021 the definition of default was changed which involves a broadening of the concept – and consequently more defaults.

As a result of the Group's use of the foundation IRB approach to calculate the capital requirement as regards corporate clients, the risk exposure amount went up by DKK 5bn. The foundation IRB approach applies a standard LGD rate which was not reduced at the same time. The Group expects that it will achieve a reduction of the risk exposure amount as a consequence of a lower LGD at a later time – either as a result of approval to use the advanced IRB approach or as a result of a reduction in the standard rate of the foundation IRB approach.

Rating

Validation

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

The validation process includes an assessment of:
· model ability to rank clients by default risk
· realised values compared with expected values (backtesting)
· data quality
· model application.

The backtest of the retail client rating model for the period from 1 January 2021 to 31 December 2021 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	51,519	8	16
2	14,996	5	8
3	13,103	16	26
4	4,536	16	22
5	5,119	15	49
6	1,438	10	31
7	856	10	32
8	3,053	26	163
9	3,425	105	290
Total	**98,045**	**211**	**637**

The total number of retail client defaults is 67% (2020: 57%) 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 backtest of the corporate client rating model for the same period shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	449	0	0
2	2,680	1	2
3	2,514	7	11
4	1,342	8	14
5	1,180	19	23
6	485	9	22
7	119	4	9
8	71	10	8
9	289	41	59
Total	**9,129**	**99**	**148**

As regards corporate clients 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. Howver the portfolio is very limited and consequently it must be expected that at times it will underestimate.

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 2016 to 2021.

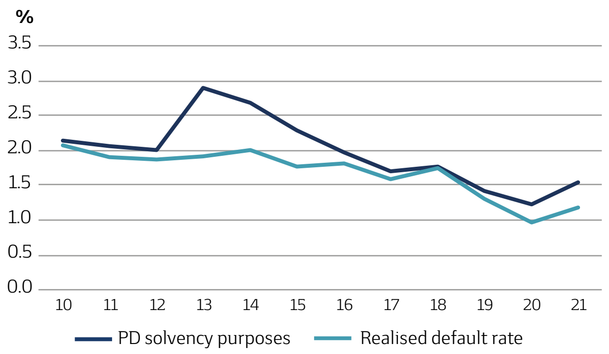
%	Corporate		Retail	
Year	PD solvency 31 Dec	Realised default rate	PD solvency 31 Dec	Realised default rate
2021	1.54	1.14	0.68	0.24
2020	1.19	0.90	0.76	0.37
2019	1.40	1.27	0.92	0.42
2018	1.78	1.79	1.10	0.53
2017	1.71	1.58	1.18	0.50
2016	2.01	1.83	1.12	0.47

The realised default rates as well as the PD estimate for solvency purposes has declined during the period from 2016 to 2021. As a consequence of the implementation of the new definition of default with a time of default occurring earlier, the PD for solvency purposes as well as the realised default rates as regards corporate clients went up in 2021.

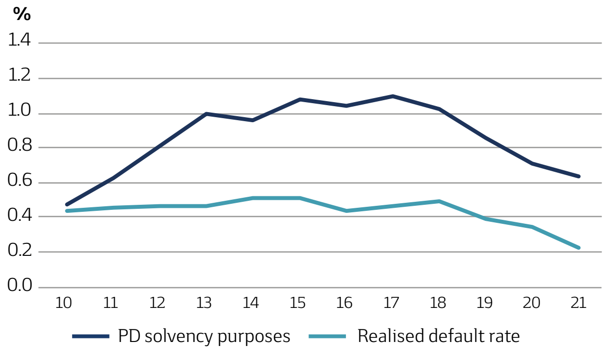
The Group anticipates that under normal economic conditions the PD estimates for solvency purposes are prudent compared to the realised default rates.

The following 2 figures show PD for solvency purposes and the realised default rate since 2010. As can be seen, PD for solvency purposes is typically higher than the realised default rate.

Probability of default – corporate clients



Probability of default – retail clients



Rating

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

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

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

The realisable value reflects the market value of collateral net of:
- the expected 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.

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

As a consequence of these limitations, the Group cannot deduct a number of assets held as collateral when determining the Pillar 1 capital requirement.

The table below shows the average estimated and realised LGD of retail clients in default from 2017 to 2021.

Loss given default – retail clients %

Year	Estimated	Realised
2021	69	44
2020	72	34
2019	70	37
2018	70	31
2017	71	55

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.

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.

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

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

The table below shows the average estimated and realised conversion factors for undrawn credit commitments of retail clients in default from 2017 to 2021.

Conversion factor – retail clients %

Year	Estimated	Realised
2021	99	75
2020	99	39
2019	99	43
2018	99	50
2017	100	41

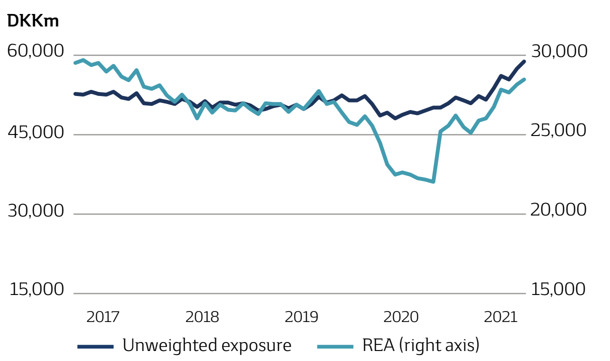
As can be seen from the table, the Group's CF estimates as regards retail clients were around 100% throughout the period, corresponding to full recognition of undrawn credit commitments. The realised conversion factors were significantly below this level.

In 2021 the level realised was higher than previously, which can be attributed to the time of default occurring earlier.

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.

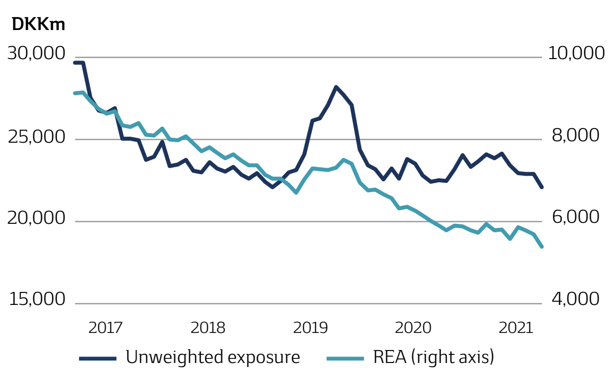
REA and unweighted exposure – corporate clients



In 2020 exposures to clients in rating categories 1-4 were unchanged whereas exposures to clients in the remaining rating categories went down by approx 20%.
As a result of changes to the Capital Requirements Regulation in mid-2020 the SMV 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.

REA and unweighted exposure – retail clients



The decline in 2017 in the unweighted exposure in relation to retail clients is due to the change in the Group's agreement with Totalkredit on joint funding of mortgage-like loans effective 1 January 2017. The agreement was changed from an offsetting model according to which the Bank covers losses as regards the entire loan to a guarantee model according to which the Bank provides a guarantee for the part of the loan in the LTV range of 60-80%. The Group no longer has a credit risk as regards the part of the loan in the LTV range of 0-60%. As a consequence of the amendment of the agreement only the guarantee amount for funded mortgage-like loans in the LTV range of 60-80% is recognised in the unweighted exposure.

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

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

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

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 67,041m.
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.

2021 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	2,873	2,612	1,021	2,241	392	211	29
Manufacturing and extraction of raw materials	9,708	9,458	708	8,826	772	106	4
Energy supply etc	3,098	3,075	573	3,073	18	7	0
Building and construction	4,694	4,578	972	4,314	318	62	0
Trade	15,010	14,664	1,331	14,347	423	235	5
Transportation, hotels and restaurants	3,156	3,069	206	2,890	148	118	0
Information and communication	431	426	54	408	21	2	0
Finance and insurance	5,855	5,764	914	5,702	102	49	2
Real property	5,500	5,401	419	5,198	133	83	86
Other industries	3,864	3,733	368	3,531	237	95	1
Total corporate	**54,189**	**52,780**	**6,566**	**50,530**	**2,564**	**968**	**127**
Public authorities	110	110	9	108	2	0	0
Retail	14,572	14,151	13,147	13,658	740	130	44
Total	**68,871**	**67,041**	**19,722**	**64,296**	**3,306**	**1,098**	**171**
Agriculture, hunting, forestry and fisheries							
Pig farming	578	481	237	432	98	23	25
Cattle farming	892	789	324	631	188	73	0
Crop production	583	564	282	487	68	28	0
Other agriculture	820	778	178	691	38	87	4
Total	**2,873**	**2,612**	**1,021**	**2,241**	**392**	**211**	**29**
Manufacturing and extraction of raw materials							
Iron and metal	1,961	1,851	141	1,566	359	36	0
Food, beverage and tobacco	2,862	2,808	113	2,620	235	7	0
Clothing	1,018	1,004	32	989	17	12	0
Other	3,867	3,795	422	3,651	161	51	4
Total	**9,708**	**9,458**	**708**	**8,826**	**772**	**106**	**4**
Trade							
Wholesale	11,381	11,110	695	10,881	309	191	0
Retail	2,079	2,047	372	2,004	54	16	5
Car dealers and garages	1,550	1,507	264	1,462	60	28	0
Total	**15,010**	**14,664**	**1,331**	**14,347**	**423**	**235**	**5**
Finance and insurance							
Holding companies	2,026	1,987	175	1,917	94	13	2
Financing companies	3,829	3,777	739	3,785	8	36	0
Total	**5,855**	**5,764**	**914**	**5,702**	**102**	**49**	**2**
Real property							
Leasing of commercial property	1,849	1,782	143	1,644	76	51	78
Leasing of residential property	880	868	163	842	8	22	8
Housing/cooperative associations	1,896	1,885	39	1,896	0	0	0
Purchase, development and sale on own account	827	820	72	770	49	8	0
Other related to real property	48	46	2	46	0	2	0
Total	**5,500**	**5,401**	**419**	**5,198**	**133**	**83**	**86**

As shown below, the accumulated impairment ratio as regards loans and advances constitutes 2.7% (2020: 3.3%) and credit impaired loans and advances in stage 3 represent 1.6% (2020: 3.1%) of the total volume of lending. The table shows that 7.3% (2020: 19.1%) of loans and advances to agriculture are regarded as credit impaired and that the impairment charges constitute 44.5% (2020: 46.7%). The impairment ratio for agriculture totals 9.1% (2020: 12.5%). 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
58	109	94	(251)	40	7.3	44.5	9.1
53	144	53	(87)	3	1.1	50.0	2.6
20	1	2	8	0	0.2	28.6	0.7
25	66	25	(5)	4	1.3	40.3	2.5
99	94	153	(1)	45	1.6	65.1	2.3
16	14	57	16	0	3.7	48.3	2.8
3	2	0	1	0	0.5	0.0	1.2
45	19	27	12	2	0.8	55.1	1.6
29	43	27	(30)	14	1.5	32.5	1.8
18	62	51	22	0	2.5	53.7	3.4
366	**554**	**489**	**(315)**	**108**	**1.8**	**50.5**	**2.6**
0	0	0	0	0	-	-	0.0
116	203	102	(100)	33	0.9	78.5	2.9
482	**757**	**591**	**(415)**	**141**	**1.6**	**53.8**	**2.7**
47	44	6	36	19	4.0	26.1	16.8
5	51	47	(116)	13	8.2	64.4	11.5
2	8	9	(40)	1	4.8	32.1	3.3
4	6	32	(131)	7	10.6	36.8	5.1
58	**109**	**94**	**(251)**	**40**	**7.3**	**44.5**	**9.1**
9	82	19	(10)	0	1.8	52.8	5.6
16	34	4	(9)	0	0.2	57.1	1.9
5	3	6	1	0	1.2	50.0	1.4
23	25	24	(69)	3	1.3	47.1	1.9
53	**144**	**53**	**(87)**	**3**	**1.1**	**50.0**	**2.6**
76	69	126	(6)	39	1.7	66.0	2.4
15	8	9	1	2	0.8	56.3	1.5
8	17	18	4	4	1.8	64.3	2.8
99	**94**	**153**	**(1)**	**45**	**1.6**	**65.1**	**2.3**
12	19	8	14	0	0.6	61.5	1.9
33	0	19	(2)	2	0.9	52.8	1.4
45	**19**	**27**	**12**	**2**	**0.8**	**55.1**	**1.6**
8	40	19	(21)	7	2.8	37.3	3.6
4	1	7	(13)	5	2.5	31.8	1.4
11	0	0	7	0	0.0	0.0	0.6
5	2	0	(3)	3	1.0	0.0	0.8
1	0	1	0	(1)	4.2	50.0	4.2
29	**43**	**27**	**(30)**	**14**	**1.5**	**32.5**	**1.8**

Industry breakdown

The table below shows the Group's loans and advances to industries by rating category. 80.0% (2020: 75.9%) of rated loans and advances after impairment charges are rated in categories 1-4 whereas the percentage for agriculture is 35.7 (2020: 32.4).

Loans and advances by rating category

DKKm Industry	1-2	3-4	5-6	7-9	Default	STD/NR	2021 Total	2021 %	2020 %
Agriculture, hunting, forestry and fisheries	147	879	1,239	317	212	79	2,873	4.2	4.9
Manufacturing and extraction of raw materials	4,229	3,833	1,018	507	107	14	9,708	14.1	14.1
Energy supply etc	2,026	791	274	-	7	-	3,098	4.5	4.3
Building and construction	1,717	2,152	565	193	60	7	4,694	6.8	5.9
Trade	4,132	8,619	1,620	319	237	83	15,010	21.8	17.6
Transportation, hotels and restaurants	782	1,617	498	84	118	57	3,156	4.6	4.4
Information and communication	59	234	118	11	2	7	431	0.6	1.0
Finance and insurance	2,337	2,946	300	73	48	151	5,855	8.5	8.4
Real property	2,650	2,041	420	62	83	244	5,500	8.0	8.3
Other industries	660	2,545	356	154	91	58	3,864	5.6	5.4
Public authorities	7	14	2	1	-	86	110	0.1	0.1
Retail	6,676	2,865	520	421	111	3,979	14,572	21.2	25.6
Total	**25,422**	**28,536**	**6,930**	**2,142**	**1,076**	**4,765**	**68,871**	**100.0**	**100.0**
Impairment of loans and advances	150	170	158	589	571	192	1,830		
Total loans and advances	**25,272**	**28,366**	**6,772**	**1,553**	**505**	**4,573**	**67,041**		
2021 %	37.7	42.3	10.1	2.3	0.8	6.8	100.0		
2020 %	36.2	39.7	10.5	4.3	0.4	8.9	100.0		

Focus on agriculture

Agriculture – loans and advances by rating category

DKKm							2021	2021	2020
Sub-industry	**1-2**	**3-4**	**5-6**	**7-9**	**Default**	**STD/NR**	**Total**	**%**	**%**
Pig farming	2	169	256	75	23	53	578	20.1	21.2
Cattle farming	3	211	403	183	73	19	892	31.1	24.9
Crop production	44	253	214	42	29	1	583	20.3	23.0
Other agriculture	98	246	366	17	87	6	820	28.5	30.9
Total	**147**	**879**	**1,239**	**317**	**212**	**79**	**2,873**	**100.0**	**100.0**
Impairment of loans and advances	0	4	66	72	94	25	261		
Total loans and advances	**147**	**875**	**1,173**	**245**	**118**	**54**	**2,612**		
2021 %	5.6	33.5	44.9	9.4	4.5	2.1	100.0		
2020 %	5.5	31.4	37.7	20.4	1.8	3.2	100.0		

Agriculture is divided into the following sub-industries:
· Pig farming
· Cattle farming (beef cattle and dairy cattle)
· Crop production
· Other agriculture (primarily forestry, mink farming and leisure farmers).

Outlook for agriculture

At year-end 2021 Sydbank's total loans and advances to agriculture constituted DKK 2,873m – an increase of DKK 196m compared with a year ago.

The share of loans and advances in the weakest rating categories (7-9 and default) represents 18.4% (2020: 30.6%) before impairment charges. After impairment charges this share constitutes 13.9% (2020: 22.2%). The decrease in the share of loans and advances in the weakest rating categories is primarily attributable to the good financial results in 2020 of pork producers but also many milk producers achieved satisfactory results in 2020.

As shown in the table on pp 12-13, 7.3% (2020: 19.1%) of loans and advances to agriculture are credit impaired and classified as stage 3. 4.0% (2020: 5.9%) of loans and advances to pig farming are classified as stage 3 and 8.2% (2020: 14.2%) of loans and advances to cattle farming are classified as stage 3.

At year-end 2021 an impairment charge totalling DKK 261m (2020: DKK 381m) was recorded, equivalent to 9.1% (2020: 12.5%) of loans and advances.

DKK 94m (2020: DKK 272m) of the impairment charges for loans and advances of DKK 261m concern credit impaired exposures. Furthermore a new management estimate of DKK 60m (2020: DKK 0m) is recognised.

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

The quotation for pork was very low at the beginning of 2021 but it went up relatively quickly in spring and peaked at DKK 11.50 per kg in June. For the year as a whole pork producers saw a quotation of approx DKK 11, incl supplementary payments, which is sufficient for most producers to strengthen their position for the year.

Piglet producers also saw very low prices at the beginning of the year but they too rose quickly in spring. Producers of piglets for export in particular saw a slump in prices over the autumn which ended at a low level. Overall exporters achieved a price on par with the cost of production.

In contrast producers for the Danish market saw a price which for most is sufficient to strengthen their position. At the beginning of 2022 pork prices and piglet prices are very low, which was also the case in 2021. However the forecast for 2022 is that prices will still be at a level where most producers can strengthen their position although uncertainty is significant due to the spread of African swine fever in Germany and recently in Italy.

Milk producers saw relatively good prices at the beginning of the year and also experienced impressive increases during 2021 to reach an all time high at year-end. Part of the price increase of milk was balanced out by a rise in feed prices. Most milk producers will however emerge from 2021 with very impressive earnings. The high level of milk prices has continued into 2022 but there has also been a sharp rise in feed prices, energy prices and other costs. Despite increased feed and energy prices milk producers are looking at a very good year in 2022.

While the rise in feed prices takes the edge off earnings for milk and pork producers the impact for crop producers is particularly positive and they can expect that 2022 will be just as good as 2021. Although grain prices are high crop producers must always take weather conditions into account during the growth season.

In terms of mink farmers the Danish executive orders concerning compensation finally fell into place at the end of 2021. In addition to the executive order on compensation an advance payment scheme has been introduced which means that mink farmers can expect to receive an advance in the course of the first half of 2022 allowing them to reduce their debt obligations significantly. In 2021 impairment charges of DKK 109m as regards clients from the mink industry were reversed.

Overall the prospects for Danish agriculture are reasonable. However there will be large differences between the sub-industries. The outlook for pork producers in particular is considered uncertain due to the spread of African swine fever and the uncertainty concerning China's import of pork.

Conversion of debt to subordinated loan capital

At the end of 2016 and the beginning of 2017 Sydbank converted debt to subordinated loan capital totalling DKK 608m for 61 agricultural clients. The amount converted was written off. The majority of the conversions took place in 2016 stipulating repayment after 5 years typically at price 50. 40 farmers have repaid a total of DKK 164m in subordinated loan capital, including DKK 124m in 2021. It is expected that additional repayments will take place in 2022.

Focus on retail clients

.At 31 December 2021 loans and advances to retail clients represent DKK 14,573m (2020: DKK 15,952m).

Other loans and advances than mortgage-like loans to retail clients constitute DKK 12,431m at 31 December 2021 (2020: DKK 13,450m) – a decrease of 8% in 12 months.

At 31 December 2021 mortgage-like loans make up 14.7% (2020: 15.7%) of total loans and advances to retail clients.

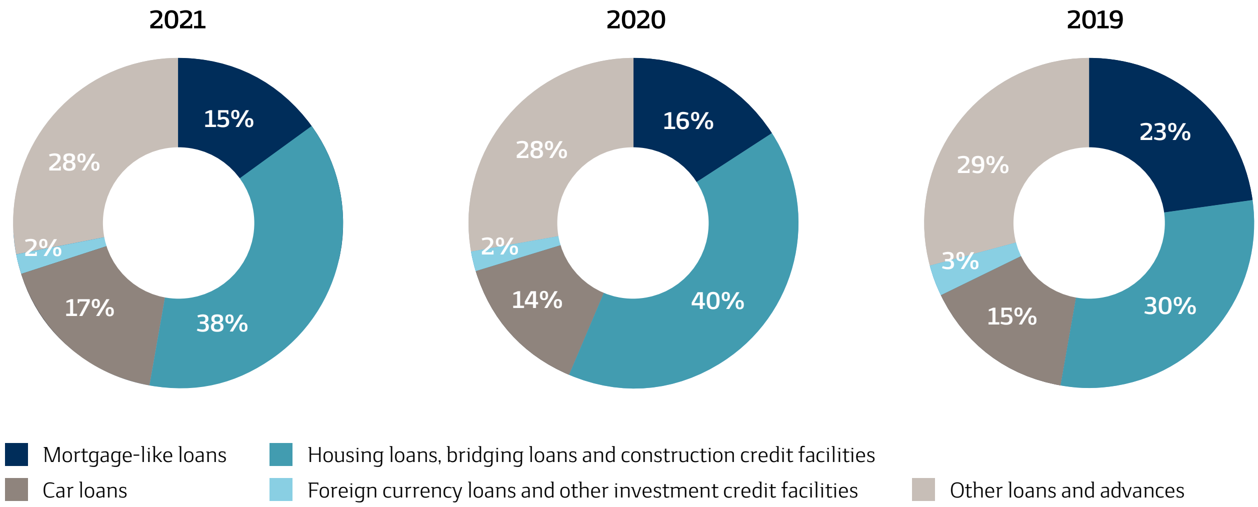
Funded mortgage-like loans are not recognised in the Group's balance sheet. The Bank provides a guarantee for the part of the loan in the LTV range of 60-80%.

Arranged mortgage loans – Totalkredit have increased by DKK 3,516m from DKK 85,723m in 2020 to DKK 89,239m in 2021.

Total credit intermediation to retail clients by product type

DKKm			
Product type	**2021**	**2020**	**2019**
Mortgage-like loans	2,142	2,502	3,254
Housing loans, bridging loans and construction credit facilities	5,614	6,478	4,185
Car loans	2,467	2,213	2,085
Foreign currency loans and other investment credit facilities	273	325	356
Other loans and advances	4,077	4,434	4,029
Total loans and advances	**14,573**	**15,952**	**13,909**
Funded loans and advances - off-balance sheet	5,645	6,931	8,338
Arranged mortgage loans - Totalkredit	89,239	85,723	64,733
Total credit intermediation	**109,457**	**108,606**	**86,980**

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 rating categories with low risk. At 31 December 2021 loans and advances before impairment charges to clients in the 4 best rating categories represent DKK 9,541m (2020: DKK 9,961m) – a decline of DKK 420m, primarily attributable to a decrease in mortgage-like loans and other loans and advances.

At 31 December 2021 the share of loans and advances to clients in the 4 best rating categories constitutes 66.9% (2020: 64.2%).

Outlook for retail clients

Low unemployment combined with a rise in property prices and extremely low interest rates contribute to low credit risk as regards retail clients.

Based on these fundamental factors low impairment charges as regards retail clients are expected in 2022.

As regards customers in rating categories 1-9 without objective evidence of 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. The probability of a downturn scenario represents 95%, which is unchanged compared with year-end 2020.

Impairment charges of DKK 325m have been recorded to cover the consequences of the covid-19 outbreak, of which DKK 75m is attributable to retail clients. The amount is unchanged compared to 2020.

In 2021 net impairment charges as regards retail clients totalled an income of DKK 100m (2020: income of DKK 78m). The net income is primarily attributable to amounts recovered from debt previously written off. Under the EU's Capital Requirements Regulation (CRR), exposures to a client or a group of connected clients, after the deduction of particularly secure claims, may not exceed 25% of total capital.

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

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	

								2020
Mortgage-like loans	2,027	281	100	88	6	-	2,502	15.7
Housing loans, bridging loans and construction credit facilities	2,158	1,285	224	270	16	2,525	6,478	40.6
Car loans	719	236	48	24	1	1,185	2,213	13.9
Foreign currency loans and other investment credit facilities	180	88	21	20	1	15	325	2.0
Other loans and advances	2,005	982	237	243	82	885	4,434	27.8
Total	**7,089**	**2,872**	**630**	**645**	**106**	**4,610**	**15,952**	**100.0**
Impairment of loans and advances	5	18	32	196	95	133	479	
Total loans and advances	**7,084**	**2,854**	**598**	**449**	**11**	**4,477**	**15,473**	
%	45.8	18.4	3.9	2.9	0.1	28.9	100.0	

Concentration

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	2021	2020
Exposure > 20% of total capital	-	-
Exposure 10-20% of total capital	1,438	1,324
Total	**1,438**	**1,324**
% of total capital	11.0	10.2

1 exposure after the deduction of particularly secure claims constitutes 10% or more of total capital at year-end 2021.

Supervisory Diamond

The 20 largest exposures – according to CRR – may not in accordance with the Bank'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 2021 the 20 largest exposures – according to CRR – represent 140% (2020: 149%) of CET1 capital.

In addition to calculating exposures according to CRR, Sydbank uses an internal exposure concept – BIS group – that consolidates clients that are interdependent as a result of any knock-on effect. Consequently a CRR group may consist of several BIS groups but a 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 2021 the 10 largest exposures represent 4.3% (2020: 4.6%) of the Group's total portfolio of exposures.

After deduction of the loan value of any collateral, the 10 largest BIS exposures constitute 4.1% (2020: 4.5%) of the total portfolio of exposures.

At year-end 2021 the 20 largest BIS exposures represent 96% (2020: 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								2021	2020
Amount	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%	%
0-1	414	616	205	75	64	23	1,397	2.6	3.2
1-5	1,252	2,670	1,022	282	245	64	5,535	10.2	12.0
5-10	1,009	2,236	939	275	134	80	4,673	8.6	9.2
10-20	1,255	2,676	987	311	235	72	5,536	10.2	12.1
20-50	2,414	5,246	1,346	298	181	116	9,601	17.7	17.7
50-100	3,304	3,622	958	243	-	151	8,278	15.2	15.1
100-200	4,407	5,023	501	-	106	169	10,206	18.8	15.6
200-500	3,040	3,582	452	237	-	111	7,422	13.7	15.1
500-	1,651	-	-	-	-	-	1,651	3.0	-
Total	**18,746**	**25,671**	**6,410**	**1,721**	**965**	**786**	**54,299**	**100.0**	**100.0**
2021 %	34.5	47.3	11.8	3.2	1.8	1.4	100.0		
2020 %	31.9	45.7	12.6	6.7	1.1	2.0	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 31.1% (2020: 30.9%) of the Group's total loans and advances. 93.6% (2020: 89.9%) 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 0.4% (2020: 1.7%).

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

DKKm								2021	2020
Amount	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%	%
Agriculture, hunting, forestry and fisheries	-	65	-	-	-	-	65	0.4	1.7
Manufacturing and extraction of raw materials	2,590	958	23	270	-	-	3,841	17.9	21.9
Energy supply etc	1,022	218	242	-	-	-	1,482	6.9	6.7
Building and construction	1,055	1,005	-	-	-	-	2,060	9.6	7.5
Trade	2,879	4,355	440	-	-	-	7,674	35.8	26.2
Transportation, hotels and restaurants	160	314	326	-	-	-	800	3.8	2.7
Information and communication	-	4	-	-	-	-	4	0.0	1.6
Finance and insurance	832	1,453	-	-	-	-	2,285	10.7	13.0
Real property	1,051	699	-	-	-	-	1,750	8.2	11.2
Other industries	33	1,357	52	-	-	-	1,442	6.7	6.9
Public authorities	-	-	-	-	-	-	-	-	-
Retail	1	3	-	-	-	-	4	0.0	0.6
Total	**9,623**	**10,431**	**1,083**	**270**	**-**	**-**	**21,407**	**100.0**	**100.0**
2021 %	44.9	48.7	5.1	1.3	-	-	100.0		
2020 %	42.7	47.2	6.2	3.9	-	-	100.0		

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

%						2021
Rating category Net turnover/assets (DKKm)	1-2	3-4	5-6	7-9	Total	Loans/advances and guarantees
0-25	25	46	23	6	100	14
25-50	42	40	15	3	100	7
50-100	28	49	18	5	100	8
100-200	34	47	16	3	100	11
200-400	31	51	12	6	100	13
400-	42	52	5	1	100	40
NA	37	41	17	5	100	7
Total	**239**	**326**	**106**	**29**	**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	2021	2020
Loans and advances at fair value	16,918	17,961
Loans and advances at amortised cost	67,041	60,229
Guarantees	19,722	19,477
Credit exposure for accounting purposes	**103,681**	**97,667**
Collateral value	64,311	65,900
Total unsecured	**39,370**	**31,767**
Types of collateral		
Real property	11,793	10,906
Financial collateral	22,833	23,207
Lease assets, mortgages etc	6,973	9,283
Floating charges, operating equipment etc	9,092	8,132
Guarantees	1,936	1,286
Other items of collateral	624	560
Total collateral used	**53,251**	**53,374**
Particularly secured transactions (mortgage guarantees)	11,060	12,526
Total	**64,311**	**65,900**

In the event that the Group uses collateral that is not immediately convertible into liquid holdings, it is the Group's policy to dispose of such assets as quickly as possible. In 2021 repossessed equipment in connection with non-performing exposures amounted to DKK 23m (2020: DKK 21m). 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 represents DKK 64,311m in 2021 – a drop of DKK 1,589m compared to 2020. The decline is predominantly attributable to a decrease of DKK 1,466m in particularly secured transactions (mortgage guarantees) due to lower remortgaging activity in 2021.

Financial collateral has decreased by DKK 374m from DKK 23,207m in 2020 to DKK 22,833m in 2021, which is primarily attributable to the drop in loans and advances at fair value which have gone down by DKK 1,043m.

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. 62.0% (2020: 67.5%) of the Group's loans and advances and guarantees after impairment charges is covered via collateral.

Collateral by rating category

DKKm Rating category	Loans/advances	Guarantees	Collateral value	Unsecured	2021 %	2020 %
1	8,778	6,781	14,609	950	2.3	2.2
2	25,308	4,385	14,873	14,820	36.0	35.1
3	20,212	3,144	12,329	11,027	26.8	29.3
4	16,578	1,454	11,235	6,797	16.5	14.8
5	4,640	947	3,067	2,520	6.1	6.4
6	2,290	355	1,343	1,302	3.2	2.6
7	393	56	236	213	0.5	1.1
8	232	31	140	123	0.3	0.6
9	1,517	179	817	879	2.1	4.5
Default	1,076	133	777	432	1.0	1.1
STD/NR	4,765	2,257	4,885	2,137	5.2	2.3
Total	**85,789**	**19,722**	**64,311**	**41,200**	**100.0**	**100.0**
Impairment of loans and advances	1,830	-	-	1,830		
Total	**83,959**	**19,722**	**64,311**	**39,370**		

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 fair value of the debt acquired.

The Group's loans and advances and impairment charges at 31 December 2021 allocated to these stages are shown in the table below.

Loans and advances and impairment charges

DKKm	Stage 1	Stage 2	Stage 3	Credit impaired at initial recognition	Total
Loans and advances before impairment charges	64,296	3,306	1,098	171	68,871
Impairment charges	482	757	591	-	1,830
Total loans and advances	**63,814**	**2,549**	**507**	**171**	**67,041**
%					
Impairment charges as % of bank loans and advances	0.7	22.9	53.8	0.0	2.7
Share of bank loans and advances before impairment charges	93.4	4.8	1.6	0.2	100.0
Share of bank loans and advances after impairment charges	95.2	3.8	0.8	0.3	100.0

The Group's impairment charges for loans and advances include a management estimate of DKK 325m to cover the consequences of the covid-19 outbreak on the Group's lending portfolio and therefore the estimate may change in the coming periods.

Impairment charges include a management estimate of DKK 60m (2020: DKK 0m) concerning agricultural exposures.

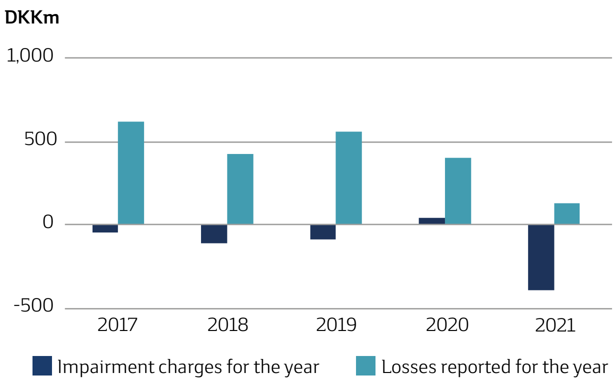
Impairment calculation is effected quarterly in a process managed by the central credit organisation.

Impairment charges for bank loans and advances etc represent an income of DKK 415m in 2021 compared with an expense of DKK 47m in 2020.

Reported losses in 2021 total DKK 141m compared with DKK 428m in 2020.

The figure below shows the development in impairment charges for bank loans and advances from 2017 to 2021 as well as reported losses.

Impairment charges etc and reported losses



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 200m, equivalent to 15.8% (2020: 14.7%) of total credit impaired loans and advances.

Credit impaired loans and advances

DKKm					2021
	Credit impaired loans and advances	Impairment charges	Carrying amount	Collateral value	Unsecured part of carrying amount
Corporate	1,095	489	606	421	185
Retail	174	102	72	57	15
Total	**1,269**	**591**	**678**	**478**	**200**

Exposures affected by covid-19

The following exposures are considered to be the most affected by covid-19:

- Severely impacted industries
- Weak corporate clients
- Small corporate clients.

Severely impacted industries

Mainly businesses within the following industries are considered to be severely impacted by covid-19:

- Specialised retailers, exclusive of cars
- Sea and air transport
- Hotels, restaurants and entertainment.

Loans and advances to these industries represent DKK 2,319m (2020: DKK 1,683m), equivalent to 3.5% (2020: 2.8%) of total loans and advances of DKK 67,041m.

The share of loans and advances in rating categories 1-4 has gone up from 53.6% in 2020 to 70.8% in 2021. Impairment charges for loans and advances constituted 3.5% in 2021 compared with 3.7% in 2020.

Loans and advances to severely impacted industries

DKKm							2021
Rating category	**1-2**	**3-4**	**5-6**	**7-9**	**Default**	**STD/NR**	**Total**
Specialised retailers, exclusive of cars	320	797	129	40	12	6	1,304
Sea and air transport	21	463	324	19	3	50	880
Hotels, restaurants and entertainment	3	46	55	17	94	5	220
Total	**344**	**1,306**	**508**	**76**	**109**	**61**	**2,404**
Impairment of loans and advances	2	7	6	14	54	2	85
Total loans and advances	**342**	**1,299**	**502**	**62**	**55**	**59**	**2,319**
%	14.8	56.0	21.6	2.7	2.4	2.5	100.0

							2020
Specialised retailers, exclusive of cars	174	404	237	43	7	-	865
Sea and air transport	15	236	381	28	21	-	681
Hotels, restaurants and entertainment	15	60	54	68	4	-	201
Total	**204**	**700**	**672**	**139**	**32**	**-**	**1,747**
Impairment of loans and advances	1	1	6	48	8	-	64
Total loans and advances	**203**	**699**	**666**	**91**	**24**	**-**	**1,683**
%	12.1	41.5	39.6	5.4	1.4	-	100.0

Weak corporate clients

Customers who were already weak before the covid-19 crisis (rating categories 7-9 and default) will be even more challenged during times of crisis.

Impairment charges are recorded on a regular basis on all customers subject to objective evidence of credit impairment and these customers are given individual focus.

Loans and advances to weak corporate clients without objective evidence of credit impairment (excluding agriculture) totalled DKK 653m in 2021. After deduction of collateral received of DKK 111m and impairment charges of DKK 53m, unsecured loans and advances represent DKK 489m. These loans and advances are not subject to objective evidence of credit impairment but in the short term they are the most critical in terms of credit impairment due to covid-19. Impairment charges include a management estimate of DKK 125m to hedge the risk of these loans, equal to 25.5% (2020: 22.0%).

Loans and advances to weak corporate clients

DKKm				2021				2020
	Loans/ advances	Impair-ment charges	Collateral value	Unse-cured	Loans/ advances	Impair-ment charges	Collateral value	Unse-cured
Rating category								
7	321	16	76	229	492	21	130	341
8	175	11	32	132	296	18	57	221
9	157	26	3	128	20	2	-	18
Total	**653**	**53**	**111**	**489**	**808**	**41**	**187**	**580**

Small corporate clients

By experience the smallest businesses are often less robust.

Loans and advances to the smallest businesses – with a balance sheet total of less than DKK 5m – represented DKK 1,027m at 31 December 2021, equivalent to 1.5% of total loans and advances of DKK 67,041m. The corresponding share represented 1.7% in 2020.

Loans and advances to small corporate clients

DKKm							2021
Rating category	**1-2**	**3-4**	**5-6**	**7-9**	**Default**	**STD/NR**	**Total**
Loans and advances	129	553	222	61	77	54	1,096
Impairment of loans and advances	-	2	3	14	44	6	69
Total loans and advances	**129**	**551**	**219**	**47**	**33**	**48**	**1,027**
%	12.5	53.7	21.3	4.6	3.2	4.7	100.0

							2020
Loans and advances	108	571	208	152	25	9	1,073
Impairment of loans and advances	-	1	2	57	21	-	81
Total loans and advances	**108**	**570**	**206**	**95**	**4**	**9**	**992**
%	10.8	57.5	20.8	9.6	0.4	0.9	100.0

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							2021
Exposure category	Approach	Gross exposure	Credit risk mitigation	Effect of conversion factors	Exposure (unweighted)	REA	Average exposure for the year
Corporate clients	STD	1,479	(252)	(619)	608	417	1,211
	IRB	123,594	(22,012)	(42,421)	59,161	23,283	120,655
Retail clients	STD	7,825	(117)	(2,187)	5,521	3,704	8,532
	IRB	27,472	(5,256)	(86)	22,130	5,148	29,102
Total corporate and retail clients		**160,370**	**(27,637)**	**(45,313)**	**87,420**	**32,552**	**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**	**33,358**	**187,216**
Share IRB (%)		80	81	93	74	85	80
Share STD (%)		20	19	8	26	15	20

							2020
Corporate clients	STD	1,825	(114)	(1,010)	701	695	499
	IRB	114,904	(23,630)	(41,299)	49,975	21,811	112,625
Retail clients	STD	10,187	(102)	(3,522)	6,563	4,324	2,016
	IRB	27,857	(5,269)	(71)	22,517	5,798	28,431
Total corporate and retail clients		**154,773**	**(29,115)**	**(45,902)**	**79,756**	**32,628**	**143,571**
Governments, incl municipalities	STD	14,633	(347)	(131)	14,155	3	12,292
Credit institutions	STD	8,921	(5,787)	(437)	2,697	724	12,300
Total		**178,327**	**(35,249)**	**(46,470)**	**96,608**	**33,355**	**168,163**
Share IRB (%)		80	82	89	75	83	84
Share STD (%)		20	18	11	25	17	16

Appendix 1 – Supplementary tables

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	0.6
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**	

Credit exposure by industry

DKKm					2020
Industry/exposure category	Corporate clients	Retail clients	Other	Total	%
Agriculture, hunting, forestry and fisheries	5,578	277		5,855	3.8
Manufacturing and extraction of raw materials	16,306	44		16,350	10.6
Energy supply etc	5,144	3		5,147	3.3
Building and construction	9,193	106		9,299	6.0
Trade	24,069	410		24,479	15.8
Transportation, hotels and restaurants	5,429	46		5,475	3.5
Information and communication	1,002	57		1,059	0.7
Finance and insurance	10,859	474		11,333	7.3
Repo/reverse	21,025	0		21,025	13.6
Real property	9,796	446		10,242	6.6
Other industries	5,474	650		6,124	4.0
Sector guarantees	192	0		192	0.1
Retail	2,662	35,531		38,193	24.7
Total corporate and retail clients	**116,729**	**38,044**		**154,773**	**100.0**
Governments, incl municipalities			14,633	14,633	
Credit institutions, repo/reverse			5,790	5,790	
Credit institutions, other			3,094	3,094	
Sector guarantees			37	37	
Total	**116,729**	**38,044**	**23,554**	**178,327**	

Appendix 1 – Supplementary tables

Credit exposure to corporate clients by rating category (IRB)

DKKm						2021
			Exposure-weighted, average			
Rating category	Gross exposure	Exposure after effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	REA
1	6,129	4,495	0.03	9.4	3.1	140
2	48,836	28,782	0.04	31.7	11.1	3,209
3	32,629	20,354	0.12	38.6	25.4	5,176
4	21,943	17,255	0.40	28.9	35.9	6,194
5	6,933	5,009	0.90	43.3	69.1	3,463
6	3,543	2,560	1.93	43.6	93.5	2,394
7	676	434	3.74	44.2	99.2	431
8	249	213	6.74	44.9	120.4	257
9	1,262	1,030	23.20	44.2	196.1	2,019
Default	1,394	1,041	100.00	44.3	0.0	-
Total	**123,594**	**81,173**				**23,283**
						2020
1	5,611	4,393	0.03	7.3	2.3	99
2	41,721	23,847	0.04	29.3	10.3	2,460
3	29,829	17,240	0.12	40.8	26.0	4,484
4	21,316	16,225	0.40	23.3	28.7	4,649
5	8,733	6,127	0.89	33.9	55.4	3,397
6	3,035	2,086	1.95	44.0	90.5	1,889
7	947	605	3.78	44.7	114.3	691
8	436	332	6.70	44.9	130.4	432
9	2,677	2,200	12.99	44.2	168.7	3,710
Default	599	550	100.00	44.0	0.0	-
Total	**114,904**	**73,605**				**21,811**

The table above shows the breakdown by rating category of the gross exposure to 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						2021
		Exposure after effect of	Exposure-weighted, average			
Rating category	Gross exposure	conversion factors	PD (%)	LGD (%)	Risk weight (%)	REA
1	15,771	15,715	0.03	63.2	6.5	1,015
2	4,828	4,815	0.04	62.4	7.7	370
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**				**5,148**
						2020
1	15,365	15,324	0.03	63.0	6.4	986
2	5,401	5,395	0.04	59.3	7.3	396
3	4,128	4,106	0.17	63.6	23.6	970
4	1,084	1,084	0.41	63.9	42.1	456
5	735	734	0.95	57.8	64.6	474
6	175	174	1.95	60.3	86.5	151
7	44	44	3.83	65.0	124.0	55
8	61	61	5.46	67.2	152.6	93
9	740	740	10.73	62.0	199.8	1,478
Default	124	124	100.00	39.1	597.0	739
Total	**27,857**	**27,786**				**5,798**

Appendix 1 – Supplementary tables

Credit exposure by client's country of residence

DKKm					2021
	Denmark	Germany	Sweden	Other	Total
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**

					2020
Corporate clients	106,613	6,175	359	3,582	116,729
Retail clients	36,811	569	25	639	38,044
Total corporate and retail clients	**143,424**	**6,744**	**384**	**4,221**	**154,773**
Governments, incl municipalities	6,755	7,878	0	0	14,633
Credit institutions	2,531	516	4,175	1,699	8,921
Total	**152,710**	**15,138**	**4,559**	**5,920**	**178,327**

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	2021 Total
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**

						2020
Corporate clients	-	69,697	31,668	9,256	6,108	116,729
Retail clients	-	12,696	10,488	3,007	11,853	38,044
Total corporate and retail clients	**-**	**82,393**	**42,156**	**12,263**	**17,961**	**154,773**
Governments, incl municipalities	266	12,594	1,399	241	133	14,633
Credit institutions	-	8,676	245	0	0	8,921
Total	**266**	**103,663**	**43,800**	**12,504**	**18,094**	**178,327**

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	2021 Total
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**
				2020
Neither past due nor credit impaired	114,510	37,659	23,554	175,723
Past due but not credit impaired	85	35	-	120
Credit impaired	2,134	350	-	2,484
Total	**116,729**	**38,044**	**23,554**	**178,327**

Credit impaired exposures represent exposures in stage 3 and credit impaired at initial recognition. Past due amounts consist of loans and advances from a client'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 clients.

Past due amounts

DKKm	Corporate clients	Retail clients	2021 Total	Corporate clients	Retail clients	2020 Total
0-30 days	88	60	148	84	35	119
31-60 days	-	2	2	1	-	1
61-90 days	-	6	6	-	-	-
Total	**88**	**68**	**156**	**85**	**35**	**120**

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

DKKm	2021	2020
Impairment and provisions	(214)	(22)
Write-offs	44	189
Recovered from debt previously written off	245	120
Total	**(415)**	**47**

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

DKKm	Credit impaired loans/advances and guarantees	Impairment charges and provisions	2021 Credit impaired loans/advances and guarantees after impairment charges	Credit impaired loans/advances and guarantees	Impairment charges and provisions	2020 Credit impaired loans/advances and guarantees after impairment charges
Denmark	1,378	591	787	2,326	964	1,362
Germany	61	40	21	58	27	31
Other	34	11	23	100	40	60
Total	**1,473**	**642**	**831**	**2,484**	**1,031**	**1,453**

Appendix 2 – Glossary

CEBS	Committee of European Banking Supervisors.
CF	Conversion Factor, ie the proportion of the undrawn credit commitment that the client is expected to have drawn at default.
CLS®	Continuous Linked Settlement. A settlement system operating on the principle of “payment on delivery”, which minimises the settlement risk of currency transactions concluded between CLS® participants.
CSA	Credit Support Annex. The part of an ISDA agreement that concerns collateral.
Default	When a client has not honoured all of his payment obligations.
EAD	Exposure At Default. EAD represents the expected size of an exposure, ie how much a client is expected to owe at the time of default.
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 client defaults within the next 12 months.
Net exposure	Gross exposure after inclusion of the conversion factor and after deduction of collateral.
PD	Probability of Default. Probability that a client 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 cautious assessment of collateral provided, the portion of an exposure for which collateral does not exist.

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