Credit Risk 2020

Sydbank Group

Sydbank

Contents

The Credit Risk report for 2020 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 2020 Annual Report.

The correlation between the gross exposure, as shown in "Appendix 1 – Supplementary tables", and loans and advances and guarantees in the 2020 Annual Report is shown in the table below.

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

Gross exposure – credit risk

DKKm	2020	2019
Loans and advances at fair value	17,961	12,602
Loans and advances at amortised cost	60,229	60,554
Loans and advances according to financial statements	**78,190**	**73,156**
Loans and advances to municipalities	(50)	(270)
Undrawn credit commitments	51,526	41,271
Derivatives	1,322	1,239
Repo (deposits)	3,516	2,435
Contingent liabilities etc	20,269	21,295
Gross exposure to retail and corporate clients	**154,773**	**139,126**
Governments incl municipalities	14,633	7,910
Credit institutions	8,921	8,865
Gross exposure – credit risk	**178,327**	**155,901**

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 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.

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.

Sydbank is working on a project with the purpose of gaining approval to apply the advanced IRB approach to calculate the capital requirement as regards corporate exposures. The objective is to gain approval by year-end 2021.

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 3 partially independent models described below and all models are based on statistical processing of client data for the purpose of classifying clients according to their probability of default 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.

Investment
The investment client model is based on the following:
- Excess cover within the client's investment exposure
- Approved stop loss
- Volatility of the investment portfolio
- Strength profile of the client.

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

Loans/advances and guarantees by rating category

DKKm	Corporate			Retail			Total		2020
	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%
1	611	231	1.6	4,688	6,220	36.3	5,299	6,451	14.4
2	14,164	1,422	30.2	2,401	2,065	14.8	16,565	3,487	24.5
3	13,837	1,621	29.9	2,196	1,568	12.5	16,033	3,189	23.5
4	7,320	688	15.5	676	530	4.0	7,996	1,218	11.3
5	4,182	445	9.0	466	306	2.6	4,648	751	6.6
6	1,663	223	3.6	164	78	0.8	1,827	301	2.6
7	550	51	1.2	28	12	0.1	578	63	0.8
8	357	35	0.8	37	20	0.2	394	55	0.6
9	2,185	181	4.6	580	134	2.4	2,765	315	3.8
Default	509	49	1.0	106	22	0.4	615	71	0.8
STD/NR	948	402	2.6	4,610	3,174	25.9	5,558	3,576	11.1
Total	**46,326**	**5,348**	**100.0**	**15,952**	**14,129**	**100.0**	**62,278**	**19,477**	**100.0**
Impairment of loans and advances	1,570			479			2,049		
Total	**44,756**	**5,348**		**15,473**	**14,129**		**60,229**	**19,477**	
% of total	74	27		26	73		100	100	

The table above shows that corporate loans and advances (including to public authorities) account for 74% (2019: 78%) of total loans and advances, and retail loans and advances constitute 26% (2019: 22%).

77% (2019: 75%) of the Group's corporate loans and advances and guarantees are rated in categories 1-4 and 68% (2019: 86%) of the Group's retail loans and advances are rated in categories 1-4.

If loans and advances and guarantees to retail clients are adjusted for the effect of the portfolio acquired from Alm. Brand Bank, the share of loans and advances and guarantees in rating categories 1-4 constitutes 85%.

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 indicating that a loss must be regarded as unavoidable.
- The exposure has been transferred to the Group's central department for non-performing exposures.

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

New definition of default

At the beginning of 2021 new rules regarding the definition of default entered into force which involve a broadening of the concept – and consequently more defaults.

The Group is developing new models for retail clients and corporate clients and will incorporate the new definition of default in these models. As a result a significant consequential effect of the new default definition – lower LGD – will be introduced at the same time.

The Danish FSA has approved Sydbank's use of the new definition of default from 1 January 2021.

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 2020 to 31 December 2020 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	49,775	5	15
2	15,784	6	6
3	15,102	16	31
4	5,389	24	27
5	5,456	16	52
6	1,560	24	33
7	994	18	37
8	4,598	76	247
9	4,887	184	413
Total	**103,545**	**369**	**861**

The total number of retail client defaults is 57% (2019: 53%) 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.

Apart from rating categories 8 and 9 the backtest is believed to reflect a satisfactory correlation between the number of estimated and realised defaults in each rating category.

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	366	0	0
2	2,382	2	1
3	2,597	8	3
4	1,600	4	6
5	1,302	4	11
6	644	5	12
7	159	5	6
8	73	5	5
9	701	54	93
Total	**9,824**	**87**	**137**

As regards corporate clients the model is prudent overall as the number of defaults is significantly lower than the number of estimated defaults. However it can be noted that the number of realised defaults in rating categories 2 and 3 exceeds the number estimated by the model.

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 2015 to 2020.

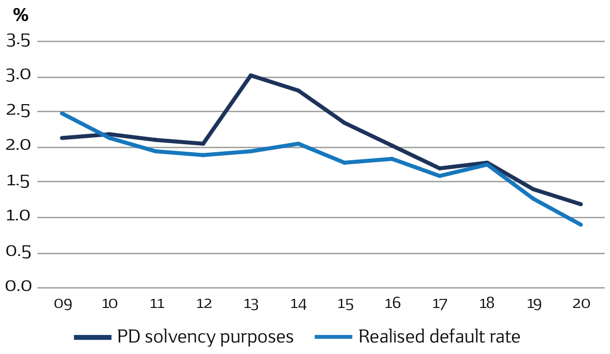
%	Corporate		Retail	
Year	PD solvency 31 Dec	Realised default rate	PD solvency 31 Dec	Realised default rate
2020	1.19	0.90	0.76	0.37
2019	1.40	1.27	0.92	0.42
2018	1.78	1.79	1.10	0.53
2017	1.71	1.58	1.18	0.50
2016	2.01	1.83	1.12	0.47
2015	2.35	1.78	1.16	0.55

As regards retail clients the realised default rates as well as the PD estimate for solvency purposes were stable during the period.

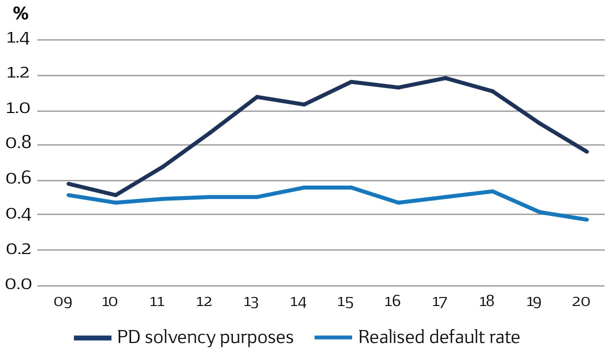
Consequently the Group anticipates that under normal economic conditions the PD estimates for solvency purposes are prudent compared to the realised default rates.

The following 2 figures show PD for solvency purposes and the realised default rate since 2009. 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 2016 to 2020.

Loss given default – retail clients %

Year	Estimated	Realised
2020	72	32
2019	71	48
2018	70	49
2017	70	57
2016	71	58

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

Therefore it is anticipated that in time the estimated LGD and the realised LGD will show a good correlation.

Conversion factor (CF)

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

The Group uses its own conversion factor estimates 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 2016 to 2020.

Conversion factor – retail clients %

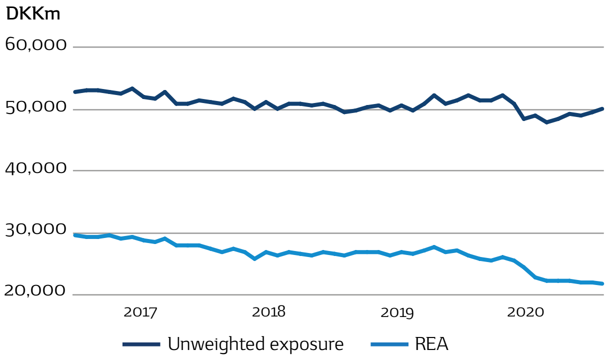
Year	Estimated	Realised
2020	99	4
2019	99	32
2018	99	26
2017	100	21
2016	99	7

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

Risk exposure amount (REA)

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

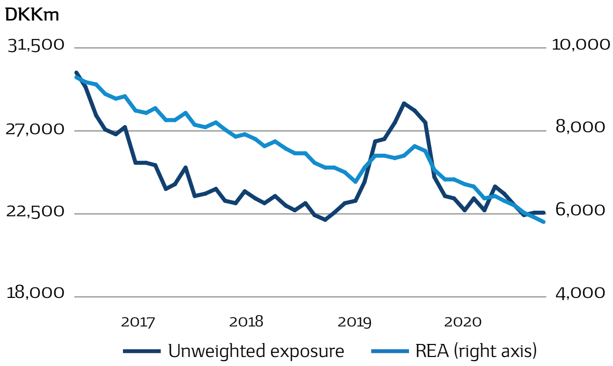
REA and unweighted exposure – corporate clients



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

This development continues the trend seen in recent years.

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 mortgagelike 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 decline in 2020 in the unweighted exposure is mainly attributable to a decrease in the provision of guarantees as a result of lower remortgaging activity compared with 2019.

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 60,229m.

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.

2020 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	3,058	2,677	670	1,979	461	583	35
Manufacturing and extraction of raw materials	8,763	8,460	683	7,780	736	247	0
Energy supply etc	2,690	2,675	234	2,667	23	0	0
Building and construction	3,649	3,537	940	3,308	225	110	6
Trade	10,940	10,573	990	10,093	466	378	3
Transportation, hotels and restaurants	2,746	2,682	233	2,500	148	98	0
Information and communication	634	629	65	603	27	4	0
Finance and insurance	5,257	5,176	612	5,091	92	67	7
Real property	5,198	5,054	550	4,744	102	206	146
Other industries	3,357	3,259	368	3,016	282	48	11
Total corporate	**46,292**	**44,722**	**5,345**	**41,781**	**2,562**	**1,741**	**208**
Public authorities	34	34	3	32	2	-	-
Retail	15,952	15,473	14,129	14,808	876	175	93
Total	**62,278**	**60,229**	**19,477**	**56,621**	**3,440**	**1,916**	**301**
Agriculture, hunting, forestry and fisheries							
Pig farming	647	603	151	535	53	38	21
Cattle farming	762	649	198	474	172	108	8
Crop production	703	643	186	442	115	140	6
Other agriculture	946	782	135	528	121	297	0
Total	**3,058**	**2,677**	**670**	**1,979**	**461**	**583**	**35**
Manufacturing and extraction of raw materials							
Iron and metal	1,825	1,705	75	1,407	388	30	0
Food, beverage and tobacco	2,785	2,743	131	2,616	161	8	0
Clothing	759	747	32	737	10	12	0
Other	3,394	3,265	445	3,020	177	197	0
Total	**8,763**	**8,460**	**683**	**7,780**	**736**	**247**	**0**
Trade							
Wholesale	8,256	7,964	465	7,580	357	316	3
Retail	1,573	1,541	262	1,503	43	27	0
Car dealers and garages	1,111	1,068	263	1,010	66	35	0
Total	**10,940**	**10,573**	**990**	**10,093**	**466**	**378**	**3**
Finance and insurance							
Holding companies	1,767	1,751	59	1,713	38	16	0
Financing companies	3,490	3,425	553	3,378	54	51	7
Total	**5,257**	**5,176**	**612**	**5,091**	**92**	**67**	**7**
Real property							
Leasing of commercial property	1,980	1,878	211	1,635	84	123	138
Leasing of residential property	778	753	175	722	8	48	0
Housing assoc. and cooperative assoc.	1,015	1,010	13	1,015	0	0	0
Purchase, devel and sale on own account	1,357	1,348	131	1,314	9	33	1
Other related to real property	68	65	20	58	1	2	7
Total	**5,198**	**5,054**	**550**	**4,744**	**102**	**206**	**146**

Credit impaired at initial recognition is attributable to the portfolio acquired from Alm. Brand Bank which was credit impaired at initial recognition.

As shown below, the accumulated impairment ratio as regards loans and advances constitutes 3.3% (2019: 3.3%) and credit impaired loans and advances in stage 3 represent 3.1% (2019: 3.5%) of the total volume of lending. The table shows that 19.1% (2019: 19.6%) of loans and advances to agriculture are regarded as credit impaired and that the impairment charges constitute 46.7% (2019: 55.6%). The impairment ratio for agriculture totals 12.5% (2019: 18.1%). 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
33	76	272	(219)	103	19.1	46.7	12.5
38	158	107	118	33	2.8	43.3	3.5
12	3	0	11	0	0.0	-	0.6
35	36	41	40	12	3.0	37.3	3.1
61	87	219	131	104	3.5	57.9	3.4
12	19	33	12	7	3.6	33.7	2.3
3	1	1	(5)	0	0.6	25.0	0.8
52	2	27	(3)	8	1.3	40.3	1.5
50	15	79	(35)	11	4.0	38.3	2.8
18	50	30	75	77	1.4	62.5	2.9
314	**447**	**809**	**125**	**355**	**3.8**	**46.5**	**3.4**
0	0	-	-	-	-	-	-
152	192	135	(78)	73	1.1	77.1	3.0
466	**639**	**944**	**47**	**428**	**3.1**	**49.3**	**3.3**
14	12	18	(98)	1	5.9	47.4	6.8
15	35	63	(55)	42	14.2	58.3	14.8
2	11	47	(40)	12	19.9	33.6	8.5
2	18	144	(26)	48	31.4	48.5	17.3
33	**76**	**272**	**(219)**	**103**	**19.1**	**46.7**	**12.5**
9	93	18	23	1	1.6	60.0	6.6
11	26	5	43	15	0.3	62.5	1.5
4	2	6	(5)	0	1.6	50.0	1.6
14	37	78	57	17	5.8	39.6	3.8
38	**158**	**107**	**118**	**33**	**2.8**	**43.3**	**3.5**
46	69	177	90	73	3.8	56.0	3.5
9	6	17	(11)	6	1.7	63.0	2.0
6	12	25	52	25	3.2	71.4	3.9
61	**87**	**219**	**131**	**104**	**3.5**	**57.9**	**3.4**
7	1	8	(10)	8	0.9	50.0	0.9
45	1	19	7	0	1.5	37.3	1.9
52	**2**	**27**	**(3)**	**8**	**1.3**	**40.3**	**1.5**
35	13	54	(18)	11	6.2	43.9	5.2
2	1	22	(16)	0	6.2	45.8	3.2
5	0	0	5	0	0.0	-	0.5
6	1	2	(6)	0	2.4	6.1	0.7
2	0	1	0	0	2.9	50.0	4.4
50	**15**	**79**	**(35)**	**11**	**4.0**	**38.3**	**2.8**

Industry breakdown

The table below shows the Group's loans and advances to industries by rating category. 75.9% (2019: 78.6%) of rated loans and advances after impairment charges are rated in categories 1-4 whereas the percentage for agriculture is 32.4 (2019: 38.5).

Loans and advances by rating category

DKKm							2020
Industry	1-2	3-4	5-6	7-9	Default	STD/NR	Total
Agriculture, hunting, forestry and fisheries	149	842	1,021	824	113	109	3,058
Manufacturing and extraction of raw materials	3,616	3,492	852	751	45	7	8,763
Energy supply etc	1,795	810	78	7	-	-	2,690
Building and construction	1,059	1,860	376	245	24	85	3,649
Trade	2,552	5,847	1,875	556	95	15	10,940
Transportation, hotels and restaurants	343	1,436	742	186	29	10	2,746
Information and communication	291	297	18	16	-	12	634
Finance and insurance	2,187	2,489	253	77	59	192	5,257
Real property	2,298	1,999	304	154	128	315	5,198
Other industries	478	2,082	323	274	16	184	3,357
Public authorities	7	3	3	2	-	19	34
Retail	7,089	2,872	630	645	106	4,610	15,952
Total	**21,864**	**24,029**	**6,475**	**3,737**	**615**	**5,558**	**62,278**
Impairment of loans and advances	69	109	126	1,161	344	240	2,049
Total loans and advances	**21,795**	**23,920**	**6,349**	**2,576**	**271**	**5,318**	**60,229**
%	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 Sub-industry	1-2	3-4	5-6	7-9	Default	STD/NR	2020 Total
Pig farming	1	239	263	53	21	70	647
Cattle farming	6	109	332	249	37	29	762
Crop production	33	236	240	177	9	8	703
Other agriculture	109	258	186	345	46	2	946
Total	**149**	**842**	**1,021**	**824**	**113**	**109**	**3,058**
Impairment of loans and advances	0	2	13	276	66	24	381
Total loans and advances	**149**	**840**	**1,008**	**548**	**47**	**85**	**2,677**
%	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 2020 Sydbank's total loans and advances to agriculture constituted DKK 2,677m – a decline of DKK 172m compared with a year ago.

The share of loans and advances in the weakest rating categories (7-9 and default) represents 30.6% (2019: 40.9%) before impairment charges. After impairment charges this share constitutes 22.2% (2019: 28.2%). The decrease in the share of loans and advances in the weakest rating categories is primarily attributable to the highly satisfactory financial results in 2019 of pork producers but also many milk producers achieved satisfactory results in 2019 following a very poor 2018. The positive results continued into 2020, particularly in the first 6 months.

As shown in the table on pp 12-13, 19.1% (2019: 19.6%) of loans and advances to agriculture are credit impaired and classified as stage 3. 5.9% (2019: 9.4%) of loans and advances to pig farming are classified as stage 3 and 14.2% (2019: 24.1%) of loans and advances to cattle farming are classified as stage 3.

At year-end 2020 an impairment charge totalling DKK 381m (2019: DKK 631m) was recorded, equivalent to 12.5% (2019: 18.1%) of loans and advances. Part of the decline of DKK 250m from 2019 to 2020 can be attributed to the derecognition of a management estimate of DKK 100m.

DKK 272m (2019: DKK 379m) of the impairment charges for loans and advances of DKK 381m concern credit impaired exposures.

Loans and advances rated STD/NR can be attributed to the portfolio acquired from Alm. Brand Bank of which DKK 35m was credit impaired at initial recognition.

As forecast 2019 was a highly profitable year for pork producers and the high earnings continued into the first half of 2020. Unfortunately the outbreak of African swine fever in Germany as well as Covid-19 resulted in a drop in the quotation for pork in 2H from DKK 14.30 per kg at mid-2020 to DKK 9.50 per kg at year-end. The significant drop in the quotation and the ban on German pork in Asia caused a sharp decline in the demand for piglets and a resulting substantial drop in the quotation for piglets. Despite a decrease in the quotation for pork and piglet prices, pork producers are forecast to end 2020 satisfactorily. According to SEGES's forecasts for 2021, earnings are projected to be satisfactory in 2021. However there is uncertainty due to developments in Covid-19 and African swine fever and an outbreak of African swine fever in Denmark would no doubt have the largest negative consequences.

Milk producers saw stable prices of approx DKK 2.55 per kg milk in 2020 despite Covid-19 and the forecast for 2021 continues to show stable settlement prices for milk even though the settlement price shows a slight downward trend for conventional as well as organic producers. However the level of prices remains sufficient for most milk producers to achieve a profit.

In 2020 crop producers had a good harvest but grain prices dropped, which meant that earnings were slightly lower compared to 2019. The forecast for 2021 continues to indicate ongoing pressure on grain prices with a slight decline in earnings as a result. Weather conditions coupled with grain prices are decisive to crop producers whose financial position in general enables them to withstand fluctuations in earnings.

2020 was a disastrous year for mink farmers as the government decided to cull all mink in Denmark. Disbursements under the various compensation schemes and the sale of mink pelts at the coming auctions are now awaited. A political agreement on compensation to the mink industry was reached at the end of January 2021. As a result the Bank expects that amounts owed by the mink industry will be repaid in full, which could result in a reversal of impairment charges of up to DKK 150m.

Given several years' poor earnings in the agricultural sector as well as its focus on reducing debt, many farms have only made the necessary reinvestments to maintain their day-to-day operations. Consequently there is a severe backlog of investments at many farms, which will affect efficiency in the coming years as their farms, given their current production resources, will not be profitable.

Focus on retail clients

At 31 December 2020 loans and advances to retail clients represent DKK 15,952m (2019: DKK 13,909m) – an increase of DKK 2,043m. The portfolio acquired from Alm. Brand Bank represents DKK 3,406m at year-end 2020.

Other loans and advances than mortgage-like loans to retail clients constitute DKK 13,450m at 31 December 2020 (2019: DKK 10,655m) – an increase of 26% in 12 months.

At 31 December 2020 mortgage-like loans make up 15.7% (2019: 23.4%) of total loans and advances to retail clients.

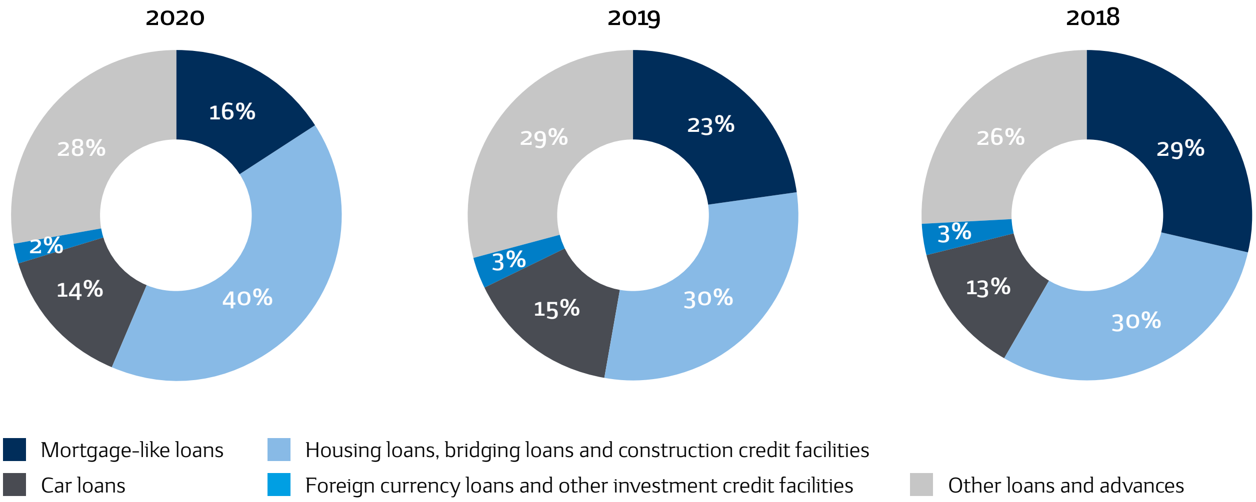
Funded mortgage-like loans are not recognised in the Group's balance sheet. The Bank provides a guarantee for the part of the loan in the LTV range of 60-80%.

Arranged mortgage loans – Totalkredit have increased by DKK 20,990m from DKK 64,733m in 2019 to DKK 85,723m in 2020, of which DKK 16,680m can be attributed to the portfolio acquired from Alm. Brand Bank.

Total credit intermediation to retail clients by product type

DKKm Product type	2020	2019	2018
Mortgage-like loans	2,502	3,254	4,647
Housing loans, bridging loans and construction credit facilities	6,478	4,185	4,908
Car loans	2,213	2,085	2,051
Foreign currency loans and other investment credit facilities	325	356	410
Other loans and advances	4,434	4,029	4,237
Total loans and advances	**15,952**	**13,909**	**16,253**
Funded loans and advances - off-balance sheet	6,931	8,338	9,862
Arranged mortgage loans - Totalkredit	85,723	64,733	59,694
Total credit intermediation	**108,606**	**86,980**	**85,809**

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 2020 loans and advances before impairment charges to clients in the 4 best rating categories represent DKK 9,961m (2019: DKK 10,981m) – a decline of DKK 1,020m, primarily attributable to a decrease in mortgage-like loans and other loans and advances.

At 31 December 2020 the share of loans and advances to clients in the 4 best rating categories constitutes 64.2% (2019: 81.4%). Adjusted for the effect of the portfolio acquired from Alm. Brand Bank, which is treated according to the STD approach until these clients can be rated according to the Group's models, the share constitutes 82.4%.

Outlook for retail clients

Low unemployment combined with a rise in house 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 2021.

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 grew from 50% to 95% in 2020. The probability of the baseline scenario declined similarly.

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.

In 2020 net impairment charges as regards retail clients totalled an income of DKK 78m (2019: income of DKK 178m). The net income is primarily attributable to amounts recovered from debt previously written off.

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

DKKm								2020
Product type	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
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	

								2019
Mortgage-like loans	2,549	424	145	129	7	-	3,254	23.4
Housing loans, bridging loans and construction credit facilities	2,055	1,455	272	374	24	5	4,185	30.1
Car loans	668	274	54	31	6	1,052	2,085	15.0
Foreign currency loans and other investment credit facilities	206	81	28	24	-	17	356	2.5
Other loans and advances	2,053	1,216	275	347	138	-	4,029	29.0
Total	**7,531**	**3,450**	**774**	**905**	**175**	**1,074**	**13,909**	**100.0**
Impairment of loans and advances	1	7	11	267	131	14	431	
Total loans and advances	**7,530**	**3,443**	**763**	**638**	**44**	**1,060**	**13,478**	
%	55.9	25.5	5.7	4.7	0.3	7.9	100.0	

Concentration

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. 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	2020	2019
Exposure > 20% of total capital	-	-
Exposure 10-20% of total capital	1,324	1,282
Total	**1,324**	**1,282**
% of total capital	10.2	10.2

At year-end 2020 1 exposure after the deduction of particularly secure claims constitutes 10% or more of total capital.

According to CRR the 20 largest exposures may not exceed 150% of the Group's 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 2020 the 20 largest exposures – according to CRR – represent 149% (2019: 143%) 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 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 2020 the 10 largest exposures represent 4.6% (2019: 5.2%) of the Group's total portfolio of exposures.

After deduction of the loan value of any collateral, the 10 largest BIS exposures constitute 4.5% (2019: 4.6%) of the total portfolio of exposures.

At year-end 2020 the 20 largest BIS exposures represent 96% (2019: 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								2020
Amount	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
0-1	380	652	247	154	27	35	1,495	3.2
1-5	1,119	2,493	1,070	565	159	118	5,524	12.0
5-10	886	1,867	920	434	74	89	4,270	9.2
10-20	1,170	2,586	1,066	473	126	172	5,593	12.1
20-50	2,394	3,813	986	704	123	197	8,217	17.7
50-100	2,588	3,100	869	107	-	337	7,001	15.1
100-200	2,711	3,612	477	435	-	-	7,235	15.6
200-500	3,527	3,034	210	220	-	-	6,991	15.1
Total	**14,775**	**21,157**	**5,845**	**3,092**	**509**	**948**	**46,326**	**100.0**
%	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 30.9% (2019: 30.7%) of the Group's total loans and advances. 89.9% (2019: 89.6%) 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 1.7% (2019: 1.3%).

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

DKKm								2020
Industry/rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total	%
Agriculture, hunting, forestry and fisheries	-	120	103	102	-	-	325	1.7
Manufacturing and extraction of raw materials	2,377	1,340	102	387	-	-	4,206	21.9
Energy supply etc	820	470	-	-	-	-	1,290	6.7
Building and construction	682	748	2	-	-	-	1,432	7.5
Trade	1,742	2,557	601	129	-	-	5,029	26.2
Transportation, hotels and restaurants	-	150	380	-	-	-	530	2.7
Information and communication	195	112	-	-	-	-	307	1.6
Finance and insurance	1,031	1,467	-	-	-	-	2,498	13.0
Real property	1,244	913	-	-	-	-	2,157	11.2
Other industries	6	1,186	-	140	-	-	1,332	6.9
Public authorities	-	-	-	-	-	-	-	-
Retail	99	14	1	-	-	-	114	0.6
Total	**8,196**	**9,077**	**1,189**	**758**	**-**	**-**	**19,220**	**100.0**
%	42.7	47.2	6.2	3.9	-	-	100.0	

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

%						2020
Rating category Net turnover/assets (DKKm)	1-2	3-4	5-6	7-9	Total	Loans/advances and guarantees
0-25	24	44	19	13	100	16
25-50	30	48	18	4	100	7
50-100	23	54	14	9	100	10
100-200	30	49	15	6	100	12
200-400	33	49	7	11	100	12
400-	40	45	11	4	100	38
NA	39	46	11	4	100	5
Total	**33**	**47**	**13**	**7**	**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	2020	2019
Loans and advances at fair value	17,961	12,602
Loans and advances at amortised cost	60,229	60,554
Guarantees	19,477	20,060
Credit exposure for accounting purposes	**97,667**	**93,216**
Collateral value	65,900	56,179
Total unsecured	**31,767**	**37,037**
Types of collateral		
Real property	10,906	8,386
Financial collateral	23,207	17,776
Lease assets, mortgages etc	9,283	7,038
Floating charges, operating equipment etc	8,132	7,402
Guarantees	1,286	985
Other items of collateral	560	446
Total collateral used	**53,374**	**42,033**
Particularly secured transactions (mortgage guarantees)	12,526	14,146
Total	**65,900**	**56,179**

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 2020 repossessed equipment in connection with non-performing exposures amounted to DKK 21m (2019: DKK 24m). 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 has increased by DKK 9,721m from DKK 56,179m in 2019 to DKK 65,900m in 2020. DKK 7,339m of the rise is attributable to the portfolio acquired from Alm. Brand Bank, of which DKK 2,974m concerns particularly secured transactions.

Mortgages on real property have gone up by DKK 2,520m from DKK 8,386m in 2019 to DKK 10,906m in 2020. The increase is primarily attributable to the rise in arranged mortgage loans as well as the portfolio acquired from Alm. Brand Bank.

Financial collateral has increased by DKK 5,431m from DKK 17,776m in 2019 to DKK 23,207m in 2020, which is primarily attributable to the rise in loans and advances at fair value which have gone up by DKK 5,395m.
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.

67.5% (2019: 60.3%) of the Group's loans and advances and guarantees after impairment charges is covered via collateral. The portfolio acquired from Alm. Brand Bank is included in STD.

Collateral by rating category

DKKm				2020
Rating category	Loans/advances	Guarantees	Collateral value	Unsecured
1	7,630	6,451	13,325	756
2	22,364	3,487	13,987	11,864
3	16,812	3,189	10,111	9,890
4	15,639	1,218	11,859	4,998
5	6,057	751	4,653	2,155
6	1,827	301	1,265	863
7	578	63	268	373
8	394	55	231	218
9	2,765	315	1,547	1,533
Default	615	71	310	376
STD/NR	5,558	3,576	8,344	790
Total	**80,239**	**19,477**	**65,900**	**33,816**
Impairment of loans and advances	2,049	-	-	2,049
Total	**78,190**	**19,477**	**65,900**	**31,767**

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 2020 allocated to the 3 stages and credit impaired at initial recognition 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	56,621	3,440	1,916	301	62,278
Impairment charges	466	639	944	-	2,049
Total loans and advances	**56,155**	**2,801**	**972**	**301**	**60,229**
%					
Impairment charges as % of bank loans and advances	0.8	18.6	49.3	-	3.3
Share of bank loans and advances before impairment charges	90.9	5.5	3.1	0.5	100.0
Share of bank loans and advances after impairment charges	93.2	4.7	1.6	0.5	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 quarters.

Impairment charges include a management estimate of DKK 0m (2019: DKK 100m) concerning agricultural exposures.

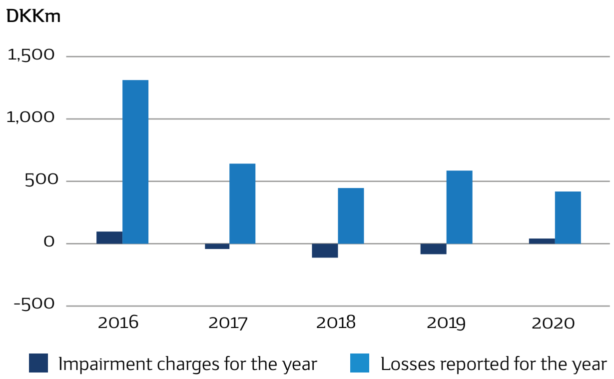
Impairment calculation is effected quarterly in a process managed by the centralised credit organisation.

Impairment charges for bank loans and advances etc represent DKK 47m in 2020 compared with minus DKK 97m in 2019.

Reported losses in 2020 totalled DKK 428m compared with DKK 598m in 2019.

The figure below shows the development in impairment charges for bank loans and advances from 2016 to 2020 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 326m, equivalent to 14.7% (2019: 6.8%) of total credit impaired loans and advances.

Adjusted for the effect of the portfolio acquired from Alm. Brand Bank, the unsecured part of the carrying amount constitutes 4.9%.

Credit impaired loans and advances

DKKm					2020
	Credit impaired loans and advances	Impairment charges	Carrying amount	Collateral value	Unsecured part of carrying amount
Corporate	1,949	809	932	837	303
Retail	268	135	40	110	23
Total	**2,217**	**944**	**972**	**947**	**326**

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 represented DKK 1,683m at 31 December 2020, equivalent to 2.8% of total loans and advances of DKK 60,229m.

The share of loans and advances in rating categories 1-4 has gone down from 68.5% in 2019 to 53.6% in 2020. Impairment charges for loans and advances constituted 3.7% in 2020 compared with 2.7% in 2019.

Loans and advances to severely impacted industries

DKKm						2020
Rating category	1-2	3-4	5-6	7-9	Default	Total
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

						2019
Specialised retailers, exclusive of cars	151	823	362	83	3	1,422
Sea and air transport	155	323	184	50	-	712
Hotels, restaurants and entertainment	37	74	34	65	4	214
Total	**343**	**1,220**	**580**	**198**	**7**	**2,348**
Impairment of loans and advances	-	1	4	53	6	64
Total loans and advances	**343**	**1,219**	**576**	**145**	**1**	**2,284**
%	15.1	53.4	25.2	6.3	0.0	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 but including mink farming) totalled DKK 808m in 2020. After deduction of collateral received of DKK 187m and impairment charges of DKK 41m, unsecured loans and advances represent DKK 580m. 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 125 to hedge the risk of these loans, equal to 22%.

Loans and advances to weak corporate clients

DKKm				2020				2019
	Loans/ advances	Impair-ment charges	Collateral value	Unse-cured	Loans/ advances	Impair-ment charges	Collateral value	Unse-cured
Rating category								
7	492	21	130	341	427	19	122	286
8	296	18	57	221	338	16	46	276
9	20	2	-	18	37	2	-	35
Total	**808**	**41**	**187**	**580**	**802**	**37**	**168**	**597**

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 992m at 31 December 2020, equivalent to 1.7% of total loans and advances of DKK 60,229m. The corresponding share represented 1.8% in 2019.

Loans and advances to small corporate clients

DKKm							2020
Rating category	1-2	3-4	5-6	7-9	Default	STD/NR	Total
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
							2019
Loans and advances	121	474	300	250	25	16	1,186
Impairment of loans and advances	-	-	-	85	21	-	106
Total loans and advances	**121**	**474**	**300**	**165**	**4**	**16**	**1,080**
%	11.1	43.9	27.8	15.3	0.4	1.5	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							2020
Exposure category	Approach	Gross exposure	Credit risk mitigation	Effect of conversion factors	Exposure (un-weighted)	REA	Average exposure for the year
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
							2019
Corporate clients	STD	384	0	(122)	263	262	457
	IRB	104,979	(18,327)	(34,257)	52,395	26,352	100,759
Retail clients	STD	1,205	0	(3)	1,203	904	1,218
	IRB	32,558	(5,377)	(68)	27,113	7,425	30,411
Total corporate and retail clients		**139,126**	**(23,704)**	**(34,450)**	**80,974**	**34,943**	**132,845**
Governments incl municipalities	STD	7,910	0	(63)	7,847	0	13,175
Credit institutions	STD	8,865	(5,461)	(323)	3,081	804	13,462
Total		**155,901**	**(29,165)**	**(34,836)**	**91,902**	**35,747**	**159,482**
Share IRB (%)		88	81	99	87	94	82
Share STD (%)		12	19	1	13	6	18

Appendix 1 – Supplementary tables

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**	

Credit exposure by industry

DKKm					2019
Industry/exposure category	Corporate clients	Retail clients	Other	Total	%
Agriculture, hunting, forestry and fisheries	6,230	128		6,358	4.6
Manufacturing and extraction of raw materials	15,402	47		15,449	11.1
Energy supply etc	4,966	14		4,980	3.6
Building and construction	7,663	79		7,742	5.6
Trade	23,359	388		23,747	17.1
Transportation, hotels and restaurants	5,800	36		5,836	4.2
Information and communication	773	52		825	0.6
Finance and insurance	9,153	362		9,515	6.8
Repo/reverse	14,957	0		14,957	10.7
Real property	9,068	221		9,289	6.7
Other industries	4,900	713		5,613	4.0
Sector guarantees	194	0		194	0.1
Retail	2,898	31,723		34,621	24.9
Total corporate and retail clients	**105,363**	**33,763**		**139,126**	**100.0**
Governments incl municipalities			7,910	7,910	
Credit institutions, repo/reverse			5,292	5,292	
Credit institutions, other			3,536	3,536	
Sector guarantees			37	37	
Total	**105,363**	**33,763**	**16,775**	**155,901**	

Appendix 1 – Supplementary tables

Credit exposure to corporate clients by rating category (IRB)

DKKm			Exposure-weighted, average			2020
Rating category	Gross exposure	Exposure after effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	REA
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**
						2019
1	4,130	3,160	0.03	10.0	3.2	101
2	31,500	18,836	0.04	27.7	10.2	1,912
3	33,252	21,448	0.13	40.4	29.2	6,265
4	18,763	13,952	0.40	27.3	34.6	4,832
5	7,480	5,405	0.90	43.4	75.6	4,087
6	4,302	3,220	1.91	43.6	97.0	3,125
7	1,005	802	3.75	43.9	113.2	908
8	599	456	6.42	43.9	150.3	686
9	3,007	2,557	13.17	44.1	173.5	4,437
Default	941	886	100.00	44.4	0.0	-
Total	**104,979**	**70,722**				**26,353**

The table above shows the breakdown by rating ctegory 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						2020
			Exposure-weighted, average			
Rating category	Gross exposure	Exposure after effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	REA
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**

						2019
1	17,317	17,273	0.03	65.0	6.6	1,146
2	6,296	6,286	0.04	60.6	7.5	469
3	4,828	4,817	0.18	65.4	24.9	1,201
4	1,577	1,576	0.42	64.8	43.5	685
5	939	938	0.92	59.8	65.4	614
6	305	305	1.88	40.1	63.2	193
7	82	82	3.71	63.6	118.6	97
8	83	83	5.56	64.2	156.9	130
9	964	964	10.70	63.1	214.0	2,062
Default	167	166	100.00	49.2	498.2	828
Total	**32,558**	**32,490**				**7,425**

Appendix 1 – Supplementary tables

Credit exposure by client's country of domicile

DKKm					2020
	Denmark	Germany	Sweden	Other	Total
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**

					2019
Corporate clients	94,833	5,696	242	4,592	105,363
Retail clients	32,630	455	16	662	33,763
Total corporate and retail clients	**127,463**	**6,151**	**258**	**5,254**	**139,126**
Governments incl municipalities	6,311	1,599	0	0	7,910
Credit institutions	3,265	507	3,372	1,721	8,865
Total	**137,039**	**8,257**	**3,630**	**6,975**	**155,901**

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
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**
2019						
Corporate clients	-	64,389	27,197	8,960	4,817	105,363
Retail clients	-	9,704	11,248	2,349	10,462	33,763
Total corporate and retail clients	**-**	**74,093**	**38,445**	**11,309**	**15,279**	**139,126**
Governments incl municipalities	367	6,816	680	14	33	7,910
Credit institutions	-	8,620	245	0	0	8,865
Total	**367**	**89,529**	**39,370**	**11,323**	**15,312**	**155,901**

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	2020 Total
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**

				2019
Neither past due nor credit impaired	103,170	33,435	16,775	153,380
Past due but not credit impaired	108	40	-	148
Credit impaired	2,085	288	-	2,373
Total	**105,363**	**33,763**	**16,775**	**155,901**

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			2020			2019
	Corporate clients	Retail clients	Total	Corporate clients	Retail clients	Total
0-30 days	84	35	119	107	38	145
31-60 days	1	-	1	1	2	3
61-90 days	-	-	-	-	-	-
Total	**85**	**35**	**120**	**108**	**40**	**148**

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

DKKm	2020	2019
Impairment and provisions	(22)	(117)
Write-offs	189	134
Recovered from debt previously written off	120	114
Total	**47**	**(97)**

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

DKKm			2020			2019
	Credit impaired loans/advances and guarantees	Impairment charges and provisions	Credit impaired loans/advances and guarantees after impair-ment charges	Credit impaired loans/advances and guarantees	Impairment charges and provisions	Credit impaired loans/advances and guarantees after impair-ment charges
Denmark	2,326	964	1,362	2,201	1,170	1,031
Germany	58	27	31	115	67	48
Other	100	40	60	57	22	35
Total	**2,484**	**1,031**	**1,453**	**2,373**	**1,259**	**1,114**

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	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	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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