Credit Risk 2018

Sydbank Group

Sydbank

Contents

Introduction

Credit risk is the risk of loss as a result of the non-performance by clients and other counterparties of their payment obligations to the Group. Credit risk concerns loans and advances, credit 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 2018 Annual Report.

The correlation between the gross exposure, as shown in "Appendix 1 – Supplementary tables", and loans and advances and guarantees in the 2018 Annual Report is shown in the table below.

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

Gross exposure – credit risk

DKKm	2018	2017
Loans and advances at fair value	6,510	5,248
Loans and advances at amortised cost	60,983	64,312
Loans and advances according to financial statements	**67,493**	**69,560**
Loans and advances to municipalities	(315)	(300)
Undrawn credit commitments	40,367	42,202
Derivatives	1,416	1,523
Repo (deposits)	1,075	2,535
Contingent liabilities etc	15,677	15,447
Gross exposure to retail and corporate clients	**125,713**	**130,967**
Governments incl municipalities	12,292	9,377
Credit institutions	10,291	12,225
Gross exposure – credit risk	**148,296**	**152,569**

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 written lending authority may grant approvals. Such authority is adjusted to the employee's client portfolio and the individual client's rating. In connection with new clients employees have limited 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 approved 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 statements, and also comprises an assessment of the client's forward-looking business plan and its 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 earnings 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.

In 2018 credit control activities were strengthened with the establishment of a new department, Credit Control. The department is tasked with ensuring that procedures and lending authorities are complied with as well as checking the Bank's systems and business procedures in this area.

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.

Risk Follow-up

Risk Follow-up is part of the division Risk.

By means of analyses, random sampling and inspections at branches and departments and centrally, 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 in order to work out a plan of action in cooperation with the client.

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

In connection with the calculation of the Group's Pillar 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 treatment 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 in 2019/2020.

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 (PD) 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 (PD) 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		2018
	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%
1	585	74	1.3	5,415	4,057	38.0	6,000	4,131	13.1
2	11,843	1,491	25.3	4,382	1,973	25.5	16,225	3,464	25.4
3	12,506	1,559	26.7	2,271	1,065	13.4	14,777	2,624	22.4
4	8,910	618	18.1	912	479	5.6	9,822	1,097	14.1
5	4,750	522	10.0	613	320	3.7	5,363	842	8.0
6	2,558	235	5.3	343	129	1.9	2,901	364	4.2
7	731	93	1.6	57	31	0.4	788	124	1.2
8	504	61	1.0	60	15	0.3	564	76	0.8
9	2,716	324	5.8	1,034	162	4.8	3,750	486	5.5
Default	1,814	125	3.6	206	23	1.0	2,020	148	2.8
NR/STD	521	138	1.3	960	387	5.4	1,481	525	2.5
Total	**47,438**	**5,240**	**100.0**	**16,253**	**8,641**	**100.0**	**63,691**	**13,881**	**100.0**
Impairment of loans and advances	2,147			561			2,708		
Total	**45,291**	**5,240**		**15,692**	**8,641**		**60,983**	**13,881**	
% of total	74	38		26	62		100	100	

The table above shows that corporate loans and advances (including to public authorities) account for 74% (2017: 72%) of total loans and advances, and retail loans and advances constitute 26% (2017: 28%).

71% (2017: 71%) of the Group's corporate loans and advances and guarantees are rated in categories 1-4 and 83% (2017: 83%) 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 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.

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 2018 to 31 December 2018 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	56,205	8	17
2	21,533	20	9
3	12,792	41	19
4	5,313	43	22
5	4,718	49	58
6	2,955	39	57
7	1,203	36	50
8	914	30	67
9	6,641	322	1,110
Total	**112,274**	**588**	**1,409**

The total number of retail client defaults is 58% (2017: 58%) below the estimated number. The primary reason is found in rating category 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. The current degree of prudence is considered to be sufficient.

Apart from rating category 9 the backtest is believed to reflect a satisfactory correlation between the number of estimated and realised defaults in each rating category. However it can be noted that during the period the number of realised defaults in rating categories 2, 3 and 4 exceeds the number expected by the model. Such differences may occur from time to time. The Group is working on a re-estimation of the rating model to further reduce deviations.

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	385	0	0
2	2,574	1	1
3	2,640	7	3
4	1,665	10	7
5	1,410	11	13
6	634	11	12
7	153	1	6
8	92	6	6
9	1,009	132	132
Total	**10,562**	**179**	**180**

The number of corporate client defaults is in line with expectations. In 2017 the number of defaults was 24% lower than expected.

During the period the number of realised defaults in rating categories 3 and 4 is higher than expected The Group is of the opinion that these variations are periodic.

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 2013 to 2018.

%	Corporate		Retail	
Year	PD solvency 31 Dec	Realised default rate	PD solvency 31 Dec	Realised default rate
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
2014	2.79	2.04	1.03	0.55
2013	3.02	1.94	1.07	0.50

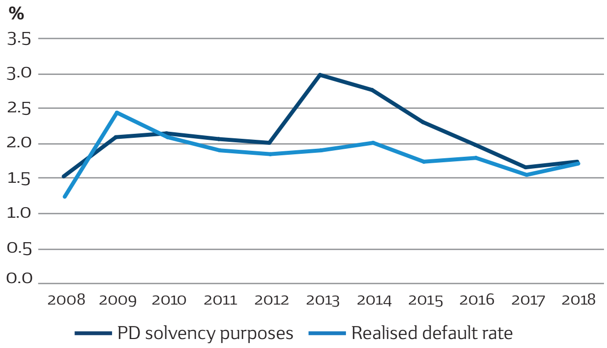
The PD estimate for solvency purposes as regards corporate clients rose considerably in 2013 due to the implementation of the Group's new rating model and a greater degree of prudence in relation to the applied PD estimates for solvency purposes.

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

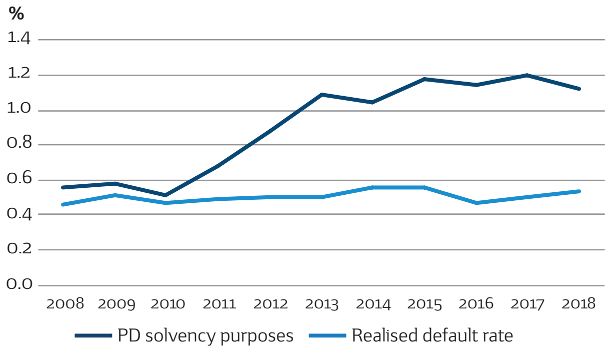
Consequently the Group anticipates that under normal economic conditions the PD estimates for solvency purposes are prudent compared to the realised default rates.

The following 2 figures show PD for solvency purposes and the realised default rate since 2008. As can be seen, PD for solvency purposes is typically higher than the realised default rate. In 2009 the realised default rate as regards corporate clients was higher than estimated and in 2018 the realised and estimated rates were at the same level.

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 as well as of the loss on the unsecured part of the exposure in accordance with the foundation IRB approach. This approach sets a number of limitations as to eligible forms of collateral.

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

The table below shows the average estimated and realised LGD of retail clients in default from 2014 to 2018.

Loss given default – retail clients %

Year	Estimated	Realised
2018	69	67
2017	69	61
2016	70	60
2015	70	71
2014	69	73

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 values of loss 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 2014 to 2018.

Conversion factor – retail clients %

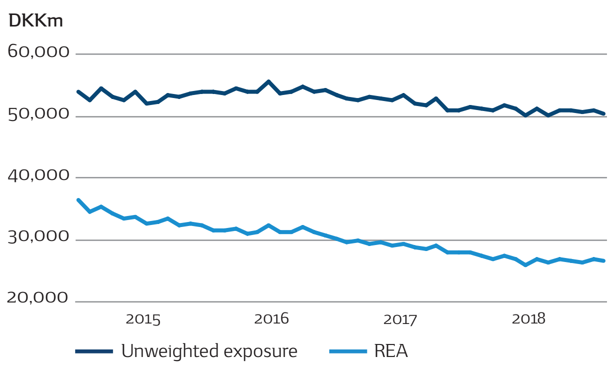
Year	Estimated	Realised
2018	99	26
2017	100	21
2016	99	7
2015	99	26
2014	98	0

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)

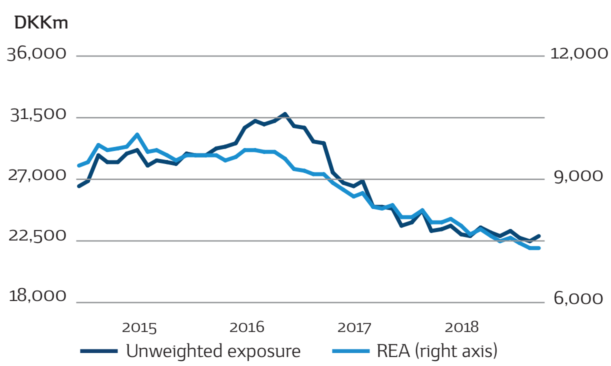
REA is a function of PD, LGD and EAD. REA appears from "Appendix 1 – Supplementary tables". The figures below show the correlation between the unweighted exposure and REA of corporate clients and retail clients respectively.

REA and unweighted exposure – corporate clients



The positive development in the composition of the Group's exposures to corporate clients by way of growth in exposures to the Group's best clients (rating categories 1-4) as well as the improvement in the ratings of some of the Group's other corporate clients is reflected in the development in the risk weight as regards corporate clients.

REA and unweighted exposure – retail clients



The decline in 2017 in 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, funded mortgage-like loans are only recognised at the guarantee amount for the LTV range of 60-80% of the unweighted exposure.

Industry breakdown

The Group's credit exposure to corporate clients takes into account individual industry prospects. Due to special risk assessments, the Group may deliberately underweight its exposure to a few industries. The table below shows the exposure by way of loans and advances and guarantees to 10 primary industries as well as to retail clients and public authorities. After impairment charges, total loans and advances represent DKK 60,983m.

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.

2018 DKKm	Loans/ advances before impairment charges	Loans/ advances after impairment charges	Guarantees	Loans/ advances stage 1	Loans/ advances stage 2	Loans/ advances stage 3
Agriculture, hunting, forestry and fisheries	3,971	3,301	745	2,413	1,018	540
Manufacturing and extraction of raw materials	8,731	8,469	908	7,699	741	291
Energy supply etc	2,181	2,168	659	2,111	45	25
Building and construction	2,969	2,857	824	2,675	164	130
Trade	12,331	11,855	704	10,954	673	704
Transportation, hotels and restaurants	3,259	3,185	225	2,815	393	51
Information and communication	330	324	10	305	15	10
Finance and insurance	5,341	5,228	535	4,888	216	237
Real property	4,715	4,428	419	3,866	400	449
Other industries	3,266	3,134	203	2,840	243	183
Total corporate	**47,094**	**44,949**	**5,232**	**40,566**	**3,908**	**2,620**
Public authorities	344	342	8	344	-	-
Retail	16,253	15,692	8,641	14,499	1,424	330
Total	**63,691**	**60,983**	**13,881**	**55,409**	**5,332**	**2,950**
Agriculture, hunting, forestry and fisheries						
Pig farming	1,021	776	172	642	226	153
Cattle farming	928	750	233	521	278	129
Crop production	950	844	209	560	321	69
Other agriculture	1,072	931	131	690	193	189
Total	**3,971**	**3,301**	**745**	**2,413**	**1,018**	**540**
Manufacturing and extraction of raw materials						
Iron and metal	1,785	1,689	82	1,411	313	61
Food, beverage and tobacco	2,093	2,077	119	2,030	53	10
Clothing	1,334	1,306	219	1,268	26	40
Other manufacturing and extraction of raw materials	3,519	3,397	488	2,990	349	180
Total	**8,731**	**8,469**	**908**	**7,699**	**741**	**291**
Trade						
Wholesale	8,834	8,449	403	7,807	430	597
Retail	2,097	2,031	229	1,888	128	81
Car dealers and garages	1,400	1,375	72	1,259	115	26
Total	**12,331**	**11,855**	**704**	**10,954**	**673**	**704**
Finance and insurance						
Holding companies	1,754	1,678	126	1,603	73	78
Financing companies	3,587	3,550	409	3,285	143	159
Total	**5,341**	**5,228**	**535**	**4,888**	**216**	**237**
Real property						
Leasing of commercial property	2,200	2,050	242	1,765	211	224
Leasing of residential property	861	812	61	716	62	83
Housing associations and cooperative housing associations	938	937	7	938	0	0
Purchase, development and sale on own account	562	498	105	373	74	115
Other related to real property	154	131	4	74	53	27
Total	**4,715**	**4,428**	**419**	**3,866**	**400**	**449**

As shown below, the accumulated impairment ratio as regards loans and advances constitutes 4.3% and credit impaired loans and advances in stage 3 represent 4.6% of the total volume of lending. The table shows that 13.6% of loans and advances to agriculture are regarded as credit impaired and that the impairment charges constitute 59.3%. The impairment ratio for agriculture totals 16.9%. The Group's risk on the exposure to agriculture is described in a separate paragraph. Compared with the figures for 2017, the accumulated impairment ratio as regards loans and advances has gone up from 4.0% to 4.3%. The increase is predominantly attributable to changed impairment rules as a consequence of the transition to IFRS 9.

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
10	340	320	177	134	13.6	59.3	16.9
14	111	137	22	37	3.3	47.1	3.0
3	2	8	(14)	2	1.1	32.0	0.6
5	31	76	(11)	11	4.4	58.5	3.8
23	95	358	30	85	5.7	50.9	3.9
5	38	31	(70)	19	1.6	60.8	2.3
1	1	4	(5)	2	3.0	40.0	1.8
16	9	88	(21)	24	4.4	37.1	2.1
4	55	228	(87)	28	9.5	50.8	6.1
3	31	98	(22)	22	5.6	53.6	4.0
84	**713**	**1,348**	**(1)**	**364**	**5.6**	**51.5**	**4.6**
2	-	-	-	-	-	-	0.6
8	317	236	(121)	88	2.0	71.5	3.5
94	**1,030**	**1,584**	**(122)**	**452**	**4.6**	**53.7**	**4.3**
2	135	108	109	58	15.0	70.6	24.0
4	96	78	4	55	13.9	60.5	19.2
2	78	26	33	6	7.3	37.7	11.3
2	31	108	31	15	17.6	57.1	13.2
10	**340**	**320**	**177**	**134**	**13.6**	**59.3**	**16.9**
2	67	27	22	16	3.4	44.3	5.4
3	6	7	(19)	3	0.5	70.0	0.8
2	2	24	21	0	3.0	60.0	2.1
7	36	79	(2)	18	5.1	43.9	3.5
14	**111**	**137**	**22**	**37**	**3.3**	**47.1**	**3.0**
16	69	307	108	67	6.8	51.4	4.4
4	19	43	(3)	8	3.9	53.1	3.1
3	14	8	(75)	10	1.9	30.8	1.8
23	**95**	**358**	**30**	**85**	**5.7**	**50.9**	**3.9**
3	4	69	(31)	16	4.4	88.5	4.3
13	5	19	10	8	4.4	11.9	1.0
16	**9**	**88**	**(21)**	**24**	**4.4**	**37.1**	**2.1**
2	31	117	(19)	1	10.2	52.2	6.8
1	12	36	(22)	1	9.6	43.4	5.7
1	0	0	(1)	0	0.0	-	0.1
1	7	56	8	2	20.5	48.7	11.4
(1)	5	19	(53)	24	17.5	70.4	14.9
4	**55**	**228**	**(87)**	**28**	**9.5**	**50.8**	**6.1**

Industry breakdown

The table below shows the Group's loans and advances to industries by rating category. 76.7% (2017: 76.2%) of rated loans and advances after impairment charges are rated in categories 1-4 whereas the percentage for agriculture is 35.5 (2017: 32.2).

Loans and advances by rating category

DKKm							2018
Industry	1-2	3-4	5-6	7-9	Default	NR/STD	Total
Agriculture, hunting, forestry and fisheries	144	1,026	1,236	1,085	472	8	3,971
Manufacturing and extraction of raw materials	3,278	3,481	1,108	781	79	4	8,731
Energy supply etc	1,432	507	182	25	23	12	2,181
Building and construction	644	1,374	680	186	80	5	2,969
Trade	1,967	6,951	2,258	595	558	2	12,331
Transportation, hotels and restaurants	672	1,671	582	277	31	26	3,259
Information and communication	170	110	24	22	3	1	330
Finance and insurance	2,133	2,336	398	126	213	135	5,341
Real property	1,407	2,104	411	463	330	-	4,715
Other industries	577	1,842	429	384	25	9	3,266
Public authorities	4	14	-	7	-	319	344
Retail	9,797	3,183	956	1,151	206	960	16,253
Total	**22,225**	**24,599**	**8,264**	**5,102**	**2,020**	**1,481**	**63,691**
Impairment of loans and advances	24	40	64	1,434	1,112	34	2,708
Total loans and advances	**22,201**	**24,559**	**8,200**	**3,668**	**908**	**1,447**	**60,983**
%	36.4	40.3	13.4	6.0	1.5	2.4	100.0

Focus on agriculture

Agriculture – loans and advances by rating category

DKKm							2018
Sub-industry	1-2	3-4	5-6	7-9	Default	NR/STD	Total
Pig farming	9	256	406	199	149	2	1,021
Cattle farming	-	88	369	363	108	-	928
Crop production	26	258	307	300	58	1	950
Other agriculture	109	424	154	223	157	5	1,072
Total	**144**	**1,026**	**1,236**	**1,085**	**472**	**8**	**3,971**
Impairment of loans and advances	0	1	9	361	298	1	670
Total loans and advances	**144**	**1,025**	**1,227**	**724**	**174**	**7**	**3,301**
%	4.4	31.1	37.2	21.9	5.2	0.2	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

The share of loans and advances in the weakest rating categories (7-9 and default) represents 39.2% (2017: 39.2%) before impairment charges. After impairment charges this share constitutes 27.1% (2017: 31.5%). The decline is attributable to further impairment charges as regards agricultural exposures in 2018 primarily as a result of the dry summer and developments in pork prices.
As shown in the table on pp 12-13, 15.0% of loans and advances to pig farming, 13.9% of loans and advances to cattle farming and 13.6% of total loans and advances to agriculture are credit impaired and classified as stage 3.

At year-end 2018 an impairment charge totalling DKK 670m (2017: DKK 483m) was recorded, equivalent to 16.9% (2017: 11.1%) of loans and advances.

DKK 320m of the impairment charges for loans and advances of DKK 670m concern credit impaired exposures. Impairment charges include management estimates of DKK 100m.

The agricultural sector continues to be in a challenging situation following the repercussions of significant crop losses as a result of the protracted drought in the summer of 2018. Pork prices are low and mink pelts are traded at prices below the cost of production.

Following a satisfactory 2017 in which the level of earnings in agriculture was high and represented approx DKK 5bn after owners' wages, a significant loss for 2018 of around DKK 6-7bn was forecast by SEGES in October 2018.

At present earnings in the agricultural industry vary greatly in the different branches of farming.

Currently milk producers can obtain a price of DKK 2.60 per kg milk, which is sufficient for most farms to generate a profit as the break-even point is typically around DKK 2.35-2.50 per kg. The average settlement price was approx DKK 2.63 per kg in 2018. The settlement price for 2019 is forecast to be DKK 2.56 per kg.

2018 was a difficult year for pork producers with average settlement prices of around DKK 8.67 per kg, which for a great number of producers is not sufficient to balance their finances. The break-even point for the most efficient pork producers is around DKK 9.00 per kg.

SEGES' forecast for the settlement price of pork was significantly raised most recently in December 2018 to currently DKK 9.88 per kg on average for 2019. The current listing is DKK 8.30 per kg.

The upward revision compared with the previous forecast from October 2018 constitutes DKK 0.94 per kg, which is decisive for the financial survival of many producers.

The reason for the revision is that China has been hit by African swine fever and therefore needs increased imports. Moreover it would seem that pork production in the EU will decline in 2019. The growing demand and falling supply are projected to have a substantial impact on settlement prices for pork producers. However the developments in settlement prices are subject to significant uncertainty.

If the forecast holds true pork producers will have highly satisfactory earnings in 2019.

Given the current listing of DKK 8.30 per kg earnings are presently very unsatisfactory and loss-making.

Subject to "normal" growth conditions crop producers are expected to break even in 2019.

Mink producers have been hit by a grave earnings crisis. 3 consecutive years of very low pelt prices and production losses and no prospects of mink pelt prices increasing in 2019. In connection with pelting in November/December 2018 many mink producers decided to stop production – or reduce it considerably.

The end result of the poor harvest in 2018 – for milk producers, pork producers and crop producers – will not become clear until the financial statements are prepared in the coming months.

To cover impairment charges for not yet calculated crop losses and especially uncertainty surrounding the development in pork prices, a management estimate of DKK 100m has been provided as at 31 December 2018.

Focus on retail clients

At 31 December 2018 loans and advances to retail clients represent DKK 16,253m (2017: DKK 18,719m) – a decline of DKK 2,466m.

Other loans and advances than mortgage-like loans to retail clients constitute DKK 11,606m at 31 December 2018 (2017: DKK 12,452m) – a decline of 7% in 12 months.

At 31 December 2018 mortgage-like loans make up 29% (2017: 34%) of total loans and advances to retail clients.

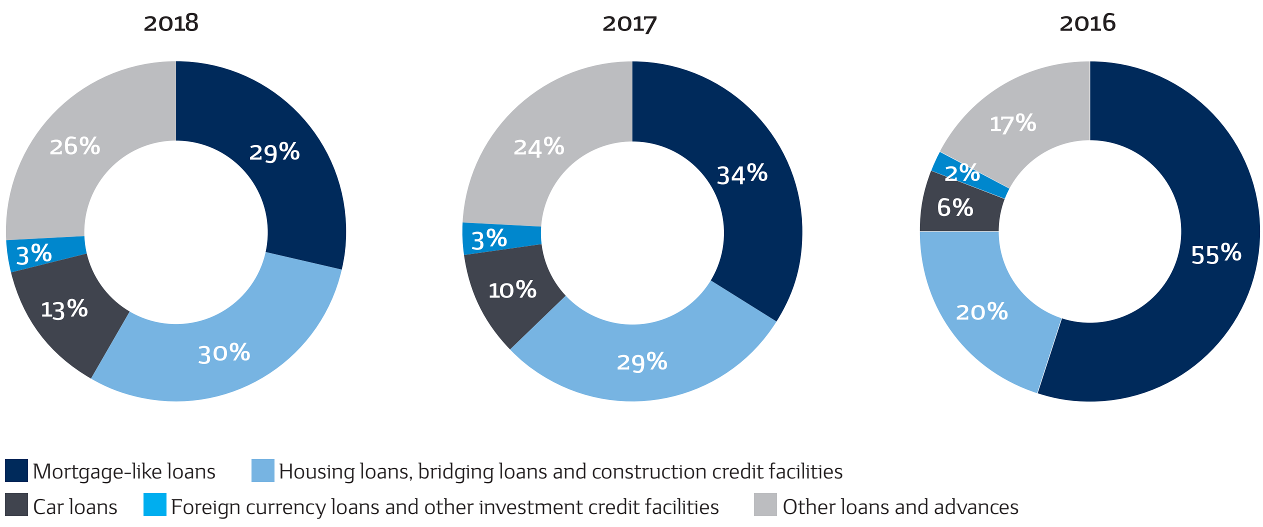
The significant decrease in mortgage-like loans in 2017 is attributable to the amended funding agreement.

As of 1 January 2017 the funding agreement was changed from an offsetting model according to which the Bank covered 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%. As a consequence of the amendment of the agreement, funded mortgage-like loans are not recognised in the Group's balance sheet.

Total credit intermediation to retail clients by product type

DKKm Product type	2018	2017	2016
Mortgage-like loans	4,647	6,267	16,834
Housing loans, bridging loans and construction credit facilities	4,908	5,407	6,014
Car loans	2,051	1,946	1,973
Foreign currency loans and other investment credit facilities	410	526	694
Other loans and advances	4,237	4,573	5,231
Total loans and advances	**16,253**	**18,719**	**30,746**
Funded loans and advances – off-balance sheet	9,862	9,974	-
Arranged mortgage loans – Totalkredit	59,694	58,088	58,278
Total credit intermediation	**85,809**	**86,781**	**89,024**

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 2018 loans and advances before impairment charges to clients in the 4 best rating categories represent DKK 12,980m (2017: DKK 15,087m) – a decline of DKK 2,107m, primarily attributable to a decrease in mortgage-like loans and housing loans.

At 31 December 2018 the share of loans and advances to clients in the 4 best rating categories constitutes 82.6% (2017: 83.7%). The decline in this share is attributable to a decrease in mortgage-like loans primarily granted to clients in rating categories 1-4 as well as an increase in car loans that are not rated (NR).

Outlook for retail clients

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

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

Net impairment charges as regards retail clients in 2018 totalled an income of DKK 121m (2017: income of DKK 95m).

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

DKKm								2018
Product type	**1-2**	**3-4**	**5-6**	**7-9**	**Default**	**NR/STD**	**Total**	**%**
Mortgage-like loans	3,624	689	174	152	8	-	4,647	28.6
Housing loans, bridging loans and construction credit facilities	3,031	1,089	269	482	31	6	4,908	30.2
Car loans	803	204	48	39	3	954	2,051	12.6
Foreign currency loans and other investment credit facilities	230	97	47	34	2	-	410	2.5
Other loans and advances	2,109	1,104	418	444	162	-	4,237	26.1
Total	**9,797**	**3,183**	**956**	**1,151**	**206**	**960**	**16,253**	**100.0**
Impairment of loans and advances	1	9	13	356	164	18	561	
Loans and advances after impairment charges	**9,796**	**3,174**	**943**	**795**	**42**	**942**	**15,692**	
%	62.4	20.2	6.0	5.1	0.3	6.0	100.0	

DKKm								2017
Product type	**1-2**	**3-4**	**5-6**	**7-9**	**Default**	**NR/STD**	**Total**	**%**
Mortgage-like loans	4,750	1,034	261	215	7	-	6,267	33.5
Housing loans, bridging loans and construction credit facilities	3,199	1,228	283	662	29	6	5,407	28.9
Car loans	832	233	54	54	2	771	1,946	10.4
Foreign currency loans and other investment credit facilities	221	219	38	44	3	1	526	2.8
Other loans and advances	2,088	1,283	405	628	169	-	4,573	24.4
Total	**11,090**	**3,997**	**1,041**	**1,603**	**210**	**778**	**18,719**	**100.0**
Impairment of loans and advances incl collective impairment charges	-	-	-	539	132	12	683	
Loans and advances after impairment charges	**11,090**	**3,997**	**1,041**	**1,064**	**78**	**766**	**18,036**	
%	61.5	22.2	5.8	5.9	0.4	4.2	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	2018	2017
Exposure > 20% of total capital	-	-
Exposure 10-20% of total capital	-	-
Total	**-**	**-**
% of total capital	-	-

At year-end 2018 and year-end 2017 no 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 Common Equity Tier 1 capital. The limit is thus fixed under the Supervisory Diamond's threshold of 175% (applicable from 1 January 2018) of Common Equity Tier 1 capital.

At year-end 2018 the 20 largest exposures – according to CRR – represent 147% (2017: 132%) of Common Equity Tier 1 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 clients. This implies among other factors that the following must be observed as the exposures are always calculated according to the principles for BIS groups:

- The 10 largest exposures may as a rule not exceed 10% of the Group's total credit portfolio (however excluding exposures to credit institutions, investment funds and public enterprises).
- After deduction of the loan value of any collateral, the 10 largest exposures may not exceed 5% of the total credit portfolio (however excluding exposures to credit institutions, investment funds and public enterprises).
- The 20 largest exposures may not exceed 125% of the Group's total capital.

At year-end 2018 the 10 largest exposures represent 5.1% (2017: 5.1%) of the Group's total credit portfolio.

After deduction of the loan value of any collateral, the 10 largest BIS exposures constitute 4.6% (2017: 4.6%) of the total credit portfolio.

At year-end 2018 the 20 largest BIS exposures represent 91% (2017: 86%) of the Group's total capital.

No exposure (however excluding exposures to credit institutions, investment funds and public enterprises) represents more than 10% of the Group's Tier 1 capital.

Loans and advances to corporate clients by amount/rating

DKKm								2018
Amount	1-2	3-4	5-6	7-9	Default	NR/STD	Total	%
0-1	328	691	309	241	46	-	1,615	3.4
1-5	1,101	3,041	1,555	838	298	-	6,833	14.4
5-10	716	2,123	1,146	606	378	-	4,969	10.5
10-20	1,028	2,694	1,335	637	294	-	5,988	12.6
20-50	1,986	3,416	1,354	955	327	-	8,038	17.0
50-100	2,219	3,076	1,055	411	118	-	6,879	14.5
100-200	2,525	3,251	554	263	-	-	6,593	13.9
200-500	1,840	3,124	-	-	353	-	5,317	11.2
500-	685	-	-	-	-	-	685	1.4
NR/STD	-	-	-	-	-	521	521	1.1
Total	**12,428**	**21,416**	**7,308**	**3,951**	**1,814**	**521**	**47,438**	**100.0**
%	26.2	45.1	15.4	8.3	3.8	1.2	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 29.0% (2017: 27.9%) of the Group's total loans and advances. 83.9% (2017: 83.5%) of these loans and advances are rated in categories 1-4. Moreover loans and advances to agriculture as regards these 100 largest clients represent 2.3% (2017: 2.6%).

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

DKKm								2018
Industry/rating category	1-2	3-4	5-6	7-9	Default	NR/STD	Total	%
Agriculture, hunting, forestry and fisheries	-	179	-	198	49	-	426	2.3
Manufacturing and extraction of raw materials	1,884	1,084	168	208	-	-	3,344	18.1
Energy supply etc	1,040	15	-	-	-	-	1,055	5.7
Building and construction	269	336	245	5	-	-	855	4.6
Trade	1,007	3,545	742	100	354	-	5,748	31.1
Transportation, hotels and restaurants	227	481	128	-	-	-	836	4.5
Information and communication	51	-	-	-	-	-	51	0.3
Finance and insurance	1,343	1,202	95	-	67	126	2,833	15.3
Real property*	740	930	-	8	-	-	1,678	9.1
Other industries	272	778	95	104	-	-	1,249	6.8
Public authorities	-	-	-	-	-	281	281	1.5
Retail	97	31	-	3	-	-	131	0.7
Total	**6,930**	**8,581**	**1,473**	**626**	**470**	**407**	**18,487**	**100.0**
%	37.5	46.4	8.0	3.4	2.5	2.2	100.0	

* DKK 472m of the real property loans and advances of DKK 1,678m derives from bridging loans to non-profit housing associations which will be replaced by mortgage loans when construction has been completed.

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

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

%						2018
Rating category Net turnover/assets (DKKm)	1-2	3-4	5-6	7-9	Total	Loans/advances and guarantees
0-25	19	42	23	16	100	20
25-50	19	44	24	13	100	7
50-100	22	45	22	11	100	10
100-200	24	58	10	8	100	11
200-400	37	41	15	7	100	11
400-	36	49	11	4	100	36
NA	15	54	20	11	100	5
Total	**28**	**47**	**16**	**9**	**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	2018	2017
Loans and advances at fair value	6,510	5,248
Loans and advances at amortised cost	60,983	64,312
Guarantees	13,881	13,562
Credit exposure for accounting purposes	81,374	83,122
Collateral value	45,342	44,161
Total unsecured	**36,032**	**38,961**
Types of collateral		
Real property	10,065	12,187
Financial collateral	12,536	10,803
Leased assets, mortgages etc	6,519	5,428
Floating charges, operating equipment etc	6,546	6,227
Guarantees	1,245	1,188
Other items of collateral	229	262
Total collateral used	37,140	36,095
Particularly secured transactions (mortgage guarantees)	8,202	8,066
Total	**45,342**	**44,161**

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 2018 repossessed equipment as well as real property taken over in connection with non-performing exposures amounted to DKK 12m (2017: DKK 13m). Leased 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 leased asset prices.

Mortgages on real property have fallen by DKK 2,122m from DKK 12,187m in 2017 to DKK 10,065m in 2018. The decrease is primarily attributable to the decline in mortgage-like loans to retail clients.

Financial collateral has increased by DKK 1,733m from DKK 10,803m in 2017 to DKK 12,536m in 2018, which is primarily attributable to the rise in loans and advances at fair value which have gone up by DKK 1,262m. 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. 55.7% (2017: 53.1%) 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	2018 Unsecured
1	6,410	4,131	8,223	2,318
2	18,520	3,464	12,412	9,572
3	18,042	2,624	11,327	9,339
4	10,362	1,097	5,221	6,238
5	5,363	842	2,851	3,354
6	2,901	364	1,591	1,674
7	788	124	357	555
8	564	76	234	406
9	3,750	486	1,988	2,248
Default	2,020	148	634	1,534
NR/STD	1,481	525	504	1,502
Total	**70,201**	**13,881**	**45,342**	**38,740**
Impairment of loans and advances	2,708			2,708
Total	**67,493**	**13,881**	**45,342**	**36,032**

Impairment charges

As a result of IFRS 9, which became effective on 1 January 2018, impairment charges are made 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:

- **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.

The Group's loans and advances and impairment charges at 31 December 2018 allocated to these 3 stages are shown in the table below.

Loans and advances and impairment charges

DKKm	Stage 1	Stage 2	Stage 3	Total
Loans and advances before impairment charges	55,409	5,332	2,950	63,691
Impairment charges	94	1,030	1,584	2,708
Loans and advances after impairment charges	**55,315**	**4,302**	**1,366**	**60,983**

%	Stage 1	Stage 2	Stage 3	Total
Impairment charges as % of bank loans and advances	0.2	19.3	53.7	4.3
Share of bank loans and advances before impairment charges	87.0	8.4	4.6	100.0
Share of bank loans and advances after impairment charges	90.7	7.1	2.2	100.0

Impairment charges include a management estimate of DKK 100m (2017: DKK 75m) concerning agricultural exposures.

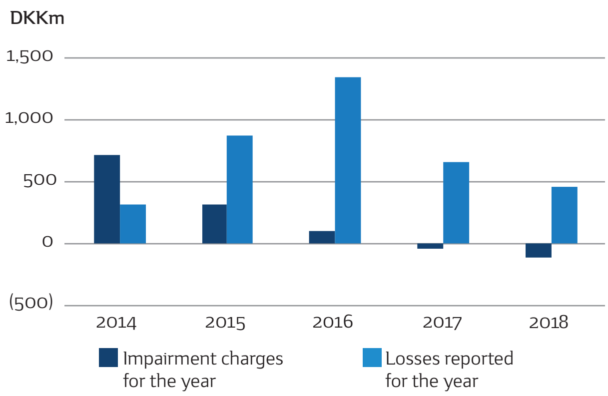
Impairment calculation is effected quarterly in a process managed by the centralised credit organisation.

Impairment charges for bank loans and advances etc represent minus DKK 122m in 2018 compared with minus DKK 51m in 2017.

Reported losses in 2018 total DKK 452m compared with DKK 660m in 2017.

The figure below shows the development in impairment charges for bank loans and advances from 2014 to 2018 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. The table below shows that the unsecured part of credit impaired loans and advances represents DKK 362m, equivalent to 12% of total credit impaired loans and advances.

Credit impaired loans and advances

DKKm	Credit impaired loans and advances	Impairment charges	Carrying amount	Value of collateral	2018 Unsecured part of carrying amount
Corporate	2,620	1,348	1,272	941	331
Retail	330	236	94	63	31
Total	**2,950**	**1,584**	**1,366**	**1,004**	**362**

Financial counterparties

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

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

Management grants delivery risk lines and credit risk lines to financial counterparties based on the risk profile of the individual counterparty which is assessed in terms of rating, earnings, capital position as well as the size of the financial counterparty. 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 1 amount for each currency is paid or received. In addition this net exposure is only to 1 counterparty, who is the Group's partner in the system.

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

Appendix 1 – Supplementary tables

The Group's credit exposure

DKKm							2018
Exposure category	Approach	Gross exposure	Credit risk mitigation	Effect of conversion factors	Exposure (un-weighted)	REA	Average exposure for the year
Corporate clients	STD	471	0	(158)	313	312	518
	IRB	95,643	(11,812)	(33,375)	50,456	26,586	96,593
Retail clients	STD	1,156	0	(2)	1,154	865	1,089
	IRB	28,443	(5,402)	(72)	22,969	7,371	28,868
Total corporate and retail clients		**125,713**	**(17,214)**	**(33,607)**	**74,892**	**35,134**	**127,068**
Governments incl municipalities	STD	12,292	0	(457)	11,835	10	10,907
Credit institutions	STD	10,291	(5,484)	(1,104)	3,703	888	11,843
Total		**148,296**	**(22,698)**	**(35,168)**	**90,430**	**36,032**	**149,818**
Share IRB (%)		84	76	95	81	94	84
Share STD (%)		16	24	5	19	6	16
							2017
Corporate clients	STD	613	0	(198)	415	413	917
	IRB	98,490	(12,030)	(34,997)	51,463	28,131	98,604
Retail clients	STD	985	(1)	(3)	982	734	940
	IRB	30,879	(5,966)	(59)	24,854	8,271	33,407
Total corporate and retail clients		**130,967**	**(17,997)**	**(35,257)**	**77,714**	**37,549**	**133,868**
Governments incl municipalities	STD	9,377	0	(990)	8,387	11	8,906
Credit institutions	STD	12,225	(7,611)	(406)	4,208	1,372	11,941
Total		**152,569**	**(25,608)**	**(36,653)**	**90,309**	**38,932**	**154,715**
Share IRB (%)		85	70	96	84	93	85
Share STD (%)		15	30	4	16	7	15

Appendix 1 – Supplementary tables

Credit exposure by industry

DKKm Industry/exposure category	Corporate clients	Retail clients	Other	Total	2018 %
Agriculture, hunting, forestry and fisheries	6,484	50		6,534	5.2
Manufacturing and extraction of raw materials	14,568	32		14,600	11.6
Energy supply etc	4,917	2		4,919	3.9
Building and construction	6,906	65		6,971	5.5
Trade	21,193	76		21,269	17.0
Transportation, hotels and restaurants	6,158	61		6,219	5.0
Information and communication	1,102	14		1,116	0.9
Finance and insurance	9,325	134		9,459	7.5
Repo/reverse	7,561	0		7,561	6.0
Real property	9,304	145		9,449	7.5
Other industries	5,241	156		5,397	4.3
Sector guarantees	280	0		280	0.2
Retail	3,075	28,864		31,939	25.4
Total corporate and retail clients	**96,114**	**29,599**		**125,713**	**100.0**
Governments incl municipalities			12,292	12,292	
Credit institutions, repo/reverse			5,112	5,112	
Credit institutions, other			5,142	5,142	
Sector guarantees			37	37	
Total	**96,114**	**29,599**	**22,583**	**148,296**	

Credit exposure by industry

DKKm Industry/exposure category	Corporate clients	Retail clients	Other	Total	2017 %
Agriculture, hunting, forestry and fisheries	6,977	69		7,046	5.4
Manufacturing and extraction of raw materials	15,172	32		15,204	11.6
Energy supply etc	4,526	3		4,529	3.5
Building and construction	7,350	74		7,424	5.7
Trade	21,584	86		21,670	16.5
Transportation, hotels and restaurants	6,722	64		6,786	5.2
Information and communication	1,011	15		1,026	0.8
Finance and insurance	9,106	207		9,313	7.1
Repo/reverse	7,633	72		7,705	5.9
Real property	9,544	153		9,697	7.4
Other industries	5,645	183		5,828	4.4
Sector guarantees	312	0		312	0.2
Retail	3,521	30,906		34,427	26.3
Total corporate and retail clients	**99,103**	**31,864**		**130,967**	**100.0**
Governments incl municipalities			9,377	9,377	
Credit institutions, repo/reverse			7,427	7,427	
Credit institutions, other			4,761	4,761	
Sector guarantees			37	37	
Total	**99,103**	**31,864**	**21,602**	**152,569**	

Appendix 1 – Supplementary tables

Credit exposure to corporate clients by rating category (IRB)

DKKm						2018
			Exposure-weighted, average			
Rating category	Gross exposure	Exposure after effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	REA
1	3,024	1,406	0.03	17.9	5.8	81
2	30,466	17,287	0.04	31.0	11.4	1,973
3	28,771	18,433	0.13	35.7	25.4	4,676
4	14,907	10,443	0.40	41.5	52.8	5,509
5	7,510	5,447	0.90	44.1	76.6	4,173
6	3,723	2,994	1.91	43.7	96.6	2,894
7	1,046	818	3.76	44.2	115.6	945
8	721	578	6.32	44.6	152.9	883
9	3,409	2,948	16.47	43.7	184.9	5,452
Default	2,066	1,914	100.00	44.6	0.0	-
Total	**95,643**	**62,268**				**26,586**

						2017
1	4,375	3,585	0.03	10.9	3.5	127
2	31,755	17,753	0.04	30,6	11.1	1,970
3	28,203	17,163	0.12	39.4	27.3	4,682
4	13,990	9,352	0.40	43.6	55.8	5,216
5	8,003	5,730	0.91	44.0	78.0	4,471
6	4,090	3,073	1.89	43.0	91.4	2,807
7	1,656	1,341	3.73	44.7	123.6	1,658
8	371	312	6.28	44.3	124.8	390
9	4,657	3,878	13.06	44.1	175.6	6,810
Default	1,390	1,306	100.00	44.1	0.0	-
Total	**98,490**	**63,493**				**28,131**

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

Credit exposure to retail clients by rating category (IRB)

DKKm			Exposure-weighted, average			2018
Rating category	Gross exposure	Exposure after effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	REA
1	13,705	13,667	0.03	60.8	6.2	842
2	7,077	7,067	0.04	57.0	7.0	494
3	3,486	3,470	0.14	58.9	18.8	653
4	1,236	1,232	0.40	62.2	41.0	505
5	851	850	1.16	53.8	68.9	585
6	489	488	1.85	59.7	85.4	417
7	82	82	4.01	55.3	100.9	83
8	82	80	6.93	57.6	139.4	112
9	1,233	1,233	16.56	59.9	230.9	2,846
Default	202	202	100.00	58.5	413.4	834
Total	**28,443**	**28,371**	-	-	-	**7,371**
						2017
1	13,977	13,950	0.03	60.1	6.1	850
2	8,160	8,145	0.04	55.0	6.8	553
3	4,060	4,048	0.14	57.7	18.5	748
4	1,371	1,367	0.39	59.2	38.0	519
5	868	867	1.20	58.3	75.1	651
6	406	406	1.85	60.7	88.8	360
7	129	130	3.84	56.9	97.2	126
8	132	132	7.15	63.0	160.2	212
9	1,571	1,570	15.98	58.8	233.5	3,666
Default	205	205	100.00	60.4	285.9	586
Total	**30,879**	**30,820**	-	-	-	**8,271**

Appendix 1 – Supplementary tables

Credit exposure by client's country of domicile

DKKm					2018
	Denmark	Germany	Sweden	Other	Total
Corporate clients	86,706	5,501	216	3,691	96,114
Retail clients	28,626	435	15	523	29,599
Total corporate and retail clients	**115,332**	**5,936**	**231**	**4,214**	**125,713**
Governments incl municipalities	9,531	2,679	0	82	12,292
Credit institutions	3,239	1,434	3,851	1,767	10,291
Total	**128,102**	**10,049**	**4,082**	**6,063**	**148,296**

	Denmark	Germany	Switzerland	Other	2017
Corporate clients	88,276	5,507	1,485	3,835	99,103
Retail clients	30,735	431	203	495	31,864
Total corporate and retail clients	**119,011**	**5,938**	**1,688**	**4,330**	**130,967**
Governments incl municipalities	9,295	4	0	78	9,377
Credit institutions	9,190	691	22	2,322	12,225
Total	**137,496**	**6,633**	**1,710**	**6,730**	**152,569**

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	2018 Total
Corporate clients	-	55,500	26,782	8,853	4,979	96,114
Retail clients	-	9,244	3,021	2,492	14,842	29,599
Total corporate and retail clients	**-**	**64,744**	**29,803**	**11,345**	**19,821**	**125,713**
Governments incl municipalities	428	11,236	594	19	15	12,292
Credit institutions	-	10,101	190	0	0	10,291
Total	**428**	**86,081**	**30,587**	**11,364**	**19,836**	**148,296**

						2017
Corporate clients	-	55,962	27,673	9,437	6,031	99,103
Retail clients	-	9,664	3,368	3,449	15,383	31,864
Total corporate and retail clients	**-**	**65,626**	**31,041**	**12,886**	**21,414**	**130,967**
Governments incl municipalities	439	7,978	918	26	16	9,377
Credit institutions	-	12,087	138	0	0	12,225
Total	**439**	**85,691**	**32,097**	**12,912**	**21,430**	**152,569**

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	2018 Total
Neither past due nor credit impaired	93,208	29,211	22,583	145,002
Past due but not credit impaired	77	42	-	119
Credit impaired	2,829	346	-	3,175
Total	**96,114**	**29,599**	**22,583**	**148,296**

Credit impaired receivables represent receivables in stage 3. 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	2018 Total	Corporate clients	Retail clients	2017 Total
0-30 days	75	41	116	44	47	91
31-60 days	2	1	3	1	5	6
61-90 days	-	-	-	-	1	1
Total	**77**	**42**	**119**	**45**	**53**	**98**

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

DKKm	2018	2017
Impairment and provisions	(181)	(64)
Write-offs	165	148
Recovered from debt previously written off	106	135
Total	**(122)**	**(51)**

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

DKKm			2018
	Credit impaired loans/advances and guarantees	Impairment charges and provisions	Credit impaired loans/ advances and guarantees after impairment charges
Denmark	2,899	1,598	1,301
Germany	122	52	70
Other	154	46	108
Total	**3,175**	**1,695**	**1,479**

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 is not expected to honour all of his payment obligations.
EAD	Exposure At Default. EAD represents the expected size of an exposure, ie how much a client is expected to owe at the time of default.
Gross exposure	Loans and advances, undrawn credit commitments, interest receivable, repo/reverse transactions and guarantees as well as counterparty risk on derivatives. The exposure is determined after impairment charges and provisions.
IRB	Internal Ratings Based approach to manage credit risk and calculate the capital requirement as regards credit risk.
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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