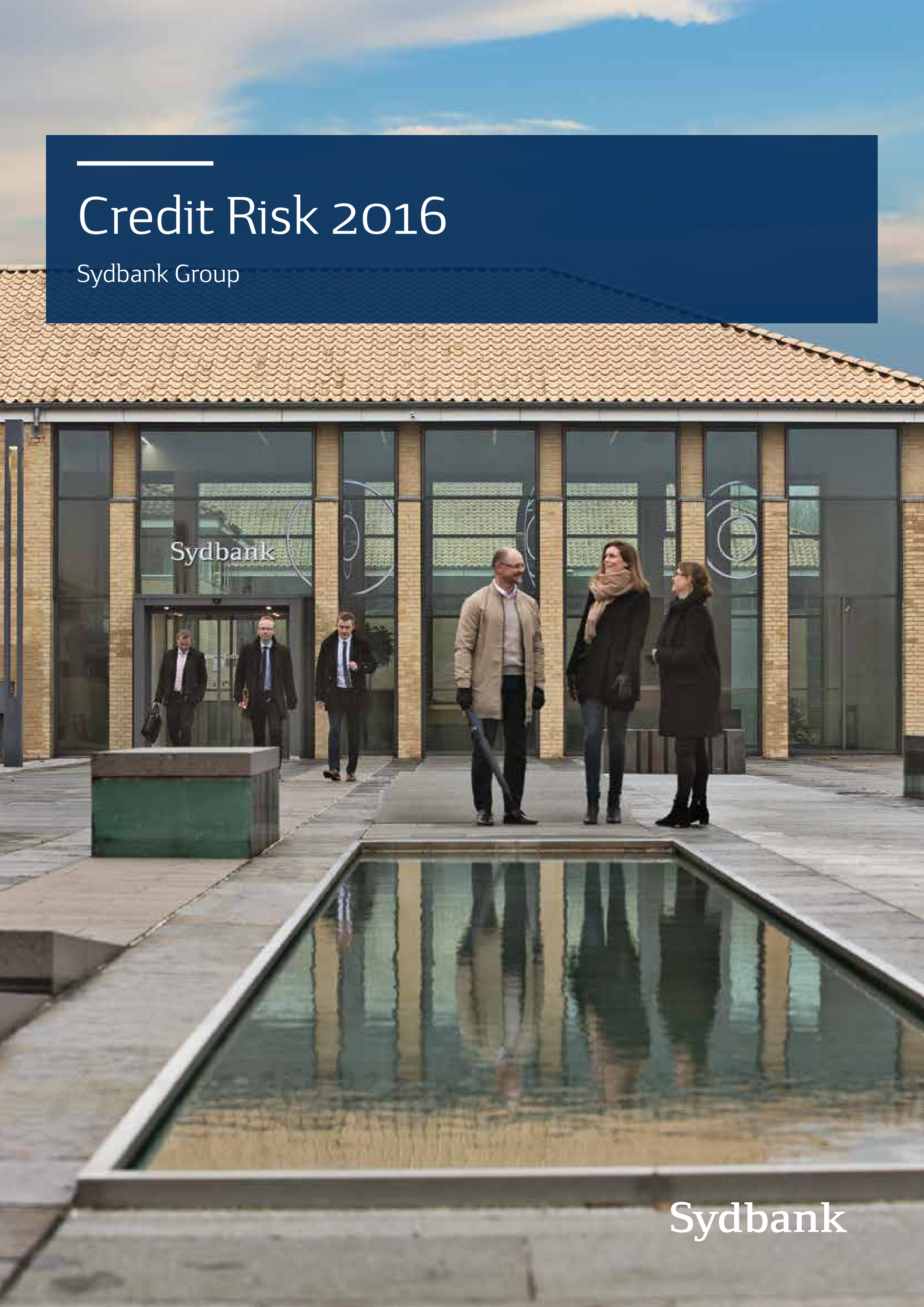
Credit Risk 2016

Sydbank Group



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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 within 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 2016 Annual Report.

The correlation between the gross exposure, as shown in "Appendix 1 – Supplementary tables", and loans and advances and guarantees in the 2016 Annual Report is shown in the table below.

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

Gross exposure – credit risk

DKKm	2016	2015
Loans and advances at fair value	6,092	10,183
Loans and advances at amortised cost	77,191	74,275
Loans and advances according to financial statements	**83,283**	**84,458**
Loans and advances to municipalities	(615)	(784)
Undrawn credit commitments	43,351	39,412
Derivatives	1,924	1,797
Repo (deposits)	1,248	2,617
Contingent liabilities etc	14,730	14,155
Gross exposure to retail and corporate clients	**143,921**	**141,655**
Governments incl municipalities	8,697	4,134
Credit institutions	13,504	18,753
Gross exposure – credit risk	**166,122**	**164,542**

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 highly leveraged exposures are approved centrally by Credits.

Corporate clients

As a rule corporate clients are serviced by the regional head office or by special corporate departments. The Group's largest and most complex exposures are handled by Corporate Banking & Finance. 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.

All regional corporate departments have identified weak exposures to which particular focus is given and these exposures are analysed and reviewed via Credits. The objective is to ensure that the Group's action plans for these exposures are evaluated and adjusted on an ongoing basis.

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 credit exposures, registrations 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 on 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 I capital requirement, 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 credit 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 facilities
- the calculation of collective impairment charges.

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.

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 three 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 Bank'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 risk-weighted assets concerning this asset class.

A small fraction of the exposures is not included in the rating models.

Loans/advances and guarantees by rating category

DKKm	Corporate			Retail			Total		2016
	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%	Loans/ advances	Guarantees	%
1	663	147	1.5	11,363	2,038	36.2	12,026	2,185	15.5
2	11,271	1,355	23.1	8,684	864	25.8	19,955	2,219	24.2
3	12,694	1,481	25.9	4,657	633	14.3	17,351	2,114	21.2
4	9,404	657	18.4	1,735	221	5.3	11,139	878	13.1
5	5,024	448	10.0	1,004	106	3.0	6,028	554	7.2
6	2,905	219	5.7	529	90	1.7	3,434	309	4.1
7	1,099	137	2.3	136	12	0.4	1,235	149	1.5
8	523	154	1.2	141	10	0.4	664	164	0.9
9	3,731	259	7.3	1,530	73	4.3	5,261	332	6.1
Default	1,389	169	2.8	266	11	0.8	1,655	180	2.0
NR/STD	905	105	1.8	701	2,196	7.8	1,606	2,301	4.2
Total	**49,608**	**5,131**	**100.0**	**30,746**	**6,254**	**100.0**	**80,354**	**11,385**	**100.0**
Individual impairment of loans and advances	2,024			754			2,778		
Collective impairment of loans and advances	277			108			385		
Total	**47,307**	**5,131**		**29,884**	**6,254**		**77,191**	**11,385**	
% of total	61	45		39	55		100	100	

The table above shows that corporate loans and advances (including public authorities) account for 61% (2015: 65%) of total loans and advances, and retail loans and advances constitute 39% (2015: 35%). 69% (2015: 66%) of the Group's corporate loans and advances and guarantees are rated in categories 1-4 and 82% (2015: 81%) 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 (backtest)
- data quality
- model application.

The backtest of the retail client rating model for the period from 1 January 2016 to 31 December 2016 shows the following:

Rating	Number	Number of realised defaults	Number of estimated defaults
1	54,927	10	16
2	23,977	17	10
3	17,365	27	26
4	7,848	30	33
5	5,706	32	66
6	3,110	45	57
7	1,354	40	56
8	1,278	43	92
9	6,163	333	1,076
Total	**121,728**	**577**	**1,432**

The total number of retail client defaults is 60% (2015: 50%) below the estimated number of defaults. The primary reason is found in rating categories 8-9 where the Bank's PD estimates were very prudent during the period compared to the realised default rates.

As regards rating category 2 the number of realised defaults is higher than the estimated number, which is ascribable to insolvent estates. Efforts are being made to improve the model so that deaths are better reflected in estimated defaults.

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	352	-	-
2	2,249	2	1
3	2,645	2	3
4	1,837	5	7
5	1,584	13	14
6	831	14	16
7	237	4	9
8	130	3	9
9	1,214	157	200
Total	**11,079**	**200**	**259**

The number of corporate client defaults is 23% (2015: 37%) below the estimated number of defaults. The difference between estimated and realised defaults is especially found in rating category 9 where PD estimates during the period were prudent compared to the realised default rates.
As a result of the Danish FSA's clarifications regarding OEI, a large number of exposures are in rating category 9.

The table below shows the average PD for solvency purposes used to calculate the Group's risk-weighted assets at the beginning of the year as well as the realised annual default rates for 2008 to 2016.

%	Corporate		Retail	
Year	PD solvency 31 Dec	Realised default rate	PD solvency 31 Dec	Realised default rate
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
2012	2.04	1.89	0.87	0.50
2011	2.10	1.93	0.67	0.49
2010	2.19	2.12	0.51	0.47
2009	2.12	2.47	0.58	0.51
2008	1.57	1.28	0.55	0.46

As shown above, PD for solvency purposes increased at the beginning of 2009 as a result of changed economic conditions relating to the financial crisis.

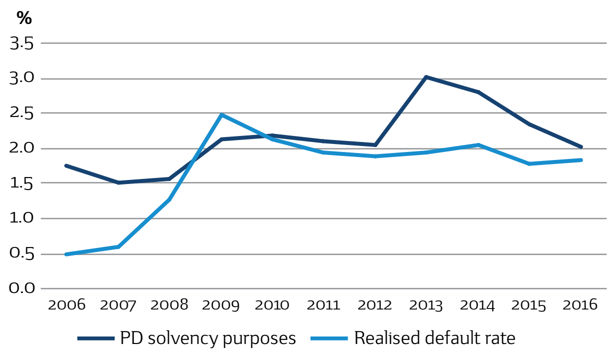
Since year-end 2010 the realised default rate as regards corporate clients has been stable at a slightly lower level than in 2009. The PD estimate for solvency purposes as regards corporate clients rose considerably in 2013 due to the implementation of a new rating model and a greater degree of prudence in relation to the applied PD estimates for solvency purposes.

The realised default rates as regards retail clients were largely unchanged during the period whereas the PD estimate for solvency purposes increased towards the end of the period. The rise in the PD estimate for solvency purposes is due to a larger number of impairment charges but a greater degree of prudence in relation to the applied PD estimates for solvency purposes has also played a part in this respect.

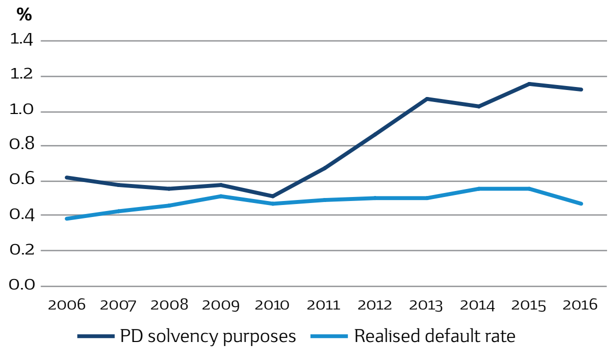
Consequently the Bank anticipates that under normal economic conditions the PD estimates for solvency purposes are prudent compared to the realised default rates.

The following two figures show PD for solvency purposes and the realised default rate since 2006. As can be seen, PD for solvency purposes is higher than the realised default rate except for 2009 as regards corporate clients.

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 decline in asset values during a recession
- the transferability of the collateral.

As regards corporate clients the Group applies supervisory parameters of the Group's 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 I capital requirement.

The table below shows the average estimated and realised LGD rates of retail clients in default from 2012 to 2016.

Loss given default (LGD) – retail clients %

Year	Estimated	Realised
2016	70	64
2015	70	70
2014	69	75
2013	68	72
2012	67	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 the differences between estimated and realised losses in recent years are a consequence of the fact that these exposures have only been at the department for non-performing exposures for a relatively short while and that the ability to repay has been impacted in recent years by the trend in the economy.

It is expected that some of the clients will be able to repay part or all of their debt as the economic situation improves. Therefore it is anticipated that in time the estimate of LGD and the realised values of loss will show 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 2012 to 2016.

Conversion factor (CF) – retail clients %

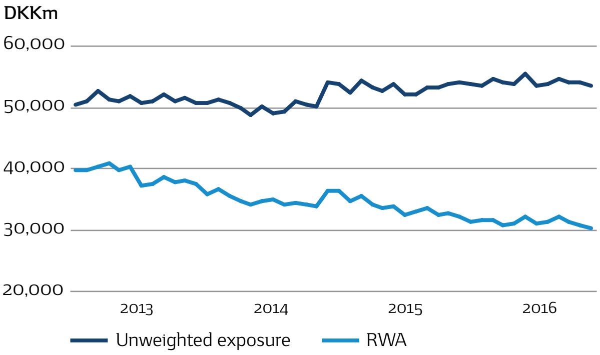
Year	Estimated	Realised
2016	99	7
2015	99	26
2014	98	0
2013	99	(12)
2012	99	(10)

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. The fact that the realised CF was negative from 2012 to 2013 is attributable to the Group's ability to reduce exposures before the time of default.

Risk-weighted assets (RWA)

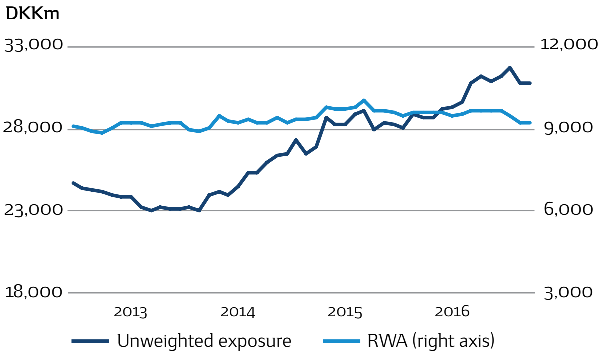
RWA is a function of PD, LGD and EAD. RWA appears from "Appendix 1 – Supplementary tables". The figures below show the correlation between unweighted exposure and RWA of corporate clients and retail clients, respectively.

RWA and unweighted exposure – corporate clients



The improvement 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 are reflected in the development in the risk weight as regards corporate clients.

RWA and unweighted exposure – retail clients



The rise in unweighted exposure in relation to retail clients is predominantly attributable to the best rating categories, 1 and 2. Targeted sales efforts concerning mortgage loans primarily aimed at clients in the best rating categories have led to a rise in exposure. As the exposure in the other rating categories has been relatively constant this development has resulted in a decline in average risk weight.

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 77,191m. In addition the table shows impaired loans and advances and accumulated impairment charges as well as impairment charges for loans and advances etc for the year by industry etc.

2016 DKKm	Loans/advances before individual impairment charges	Loans/advances after individual impairment charges	Guarantees	Individually impaired loans/ advances	Defaulted loans/ advances
Agriculture, hunting, forestry and fisheries	5,138	4,472	599	1,321	407
Manufacturing and extraction of raw materials	7,574	7,352	675	433	46
Energy supply etc	1,999	1,990	766	5	5
Building and construction	2,976	2,903	855	112	60
Trade	11,619	11,309	897	561	188
Transportation, hotels and restaurants	3,469	3,337	190	190	14
Information and communication	385	370	11	21	2
Finance and insurance	5,657	5,526	83	229	71
Real property	6,271	5,962	710	463	167
Other industries	3,870	3,713	210	210	52
Total corporate	**48,958**	**46,934**	**4,996**	**3,545**	**1,012**
Public authorities	650	650	135	-	-
Retail	30,746	29,992	6,254	1,317	213
Collective impairment charges	(385)	(385)	-	-	-
Total	**79,969**	**77,191**	**11,385**	**4,862**	**1,225**
Agriculture, hunting, forestry and fisheries					
Pig farming	1,428	1,261	143	374	84
Cattle farming	1,364	1,043	202	561	231
Crop production	1,220	1,137	136	209	58
Other agriculture	1,126	1,031	118	177	34
Total	**5,138**	**4,472**	**599**	**1,321**	**407**
Manufacturing and extraction of raw materials					
Iron and metal	1,766	1,700	99	169	19
Food, beverage and tobacco	1,787	1,752	109	66	4
Clothing	713	713	47	0	0
Other manufacturing and extraction of raw materials	3,308	3,187	420	198	23
Total	**7,574**	**7,352**	**675**	**433**	**46**
Trade					
Wholesale	8,294	8,108	517	332	160
Retail	2,068	1,977	324	157	28
Car dealers and garages	1,257	1,224	56	72	0
Total	**11,619**	**11,309**	**897**	**561**	**188**
Finance and insurance					
Holding companies	2,413	2,302	39	154	46
Financing companies	3,244	3,224	44	75	25
Total	**5,657**	**5,526**	**83**	**229**	**71**
Real property					
Leasing of commercial property	3,087	2,918	536	247	80
Leasing of residential property	907	823	118	126	56
Housing associations and cooperative housing associations	1,584	1,584	7	0	-
Purchase, development and sale on own account	554	517	45	73	25
Other related to real property	139	120	4	17	6
Total	**6,271**	**5,962**	**710**	**463**	**167**

As shown below, the accumulated impairment ratio as regards loans and advances constitutes 3.5% and impaired loans and advances represent 6.1% of the total volume of lending. The table shows that 25.7% of loans and advances to agriculture are regarded as impaired and that the relevant impairment charges constitute 50.4%, whereby the impairment ratio for agriculture totals 13.0%. The Group's risk on the exposure to agriculture is described in a separate paragraph. Compared with the figures for 2015, the accumulated impairment ratio as regards loans and advances has gone down from 4.6% to 3.5%.

Impairment of individually impaired loans/advances	Impairment charges for loans/advances etc for the year	Losses reported for the year	Individually impaired loans/advances as % of loans/advances	Impairment charges as % of impaired loans/advances	Impairment charges as % of loans/advances
666	231	763	25.7	50.4	13.0
222	20	83	5.7	51.3	2.9
9	(2)	31	0.3	180.0	0.5
73	(1)	33	3.8	65.2	2.5
310	14	87	4.8	55.3	2.7
132	37	4	5.5	69.5	3.8
15	(1)	1	5.5	71.4	3.9
131	(22)	33	4.0	57.2	2.3
309	(40)	150	7.4	66.7	4.9
157	6	36	5.4	74.8	4.1
2,024	**242**	**1,221**	**7.2**	**57.1**	**4.1**
-	-	-	-	-	-
754	(38)	112	4.3	57.3	2.5
-	(117)	-	-	-	-
2,778	**87**	**1,333**	**6.1**	**57.1**	**3.5**
167	72	227	26.2	44.7	11.7
321	117	496	41.1	57.2	23.5
83	20	12	17.1	39.7	6.8
95	22	28	15.7	53.7	8.4
666	**231**	**763**	**25.7**	**50.4**	**13.0***
66	(6)	3	9.6	39.1	3.7
35	15	0	3.7	53.0	2.0
0	(1)	4	0.0	0.0	0.0
121	12	76	6.0	61.1	3.7
222	**20**	**83**	**5.7**	**51.3**	**2.9**
186	20	77	4.0	56.0	2.2
91	(4)	9	7.6	58.0	4.4
33	(2)	1	5.7	45.8	2.6
310	**14**	**87**	**4.8**	**55.3**	**2.7**
111	(15)	14	6.4	72.1	4.6
20	(7)	19	2.3	26.7	0.6
131	**(22)**	**33**	**4.0**	**57.2**	**2.3**
169	(21)	56	8.0	68.4	5.5
84	(19)	23	13.9	66.7	9.3
0	0	-	0.0	0.0	0.0
37	14	70	13.2	50.7	6.7
19	(14)	1	12.2	111.8	13.7
309	**(40)**	**150**	**7.4**	**66.7**	**4.9**

* In addition collective impairment charges of DKK 150m have been made as regards agriculture, whereby the impairment ratio totals 15.9%.

Industry breakdown

The table below shows the Group's loans and advances to industries by rating category. 75.3% (2015: 71.7%) of rated loans and advances are rated in categories 1-4 whereas the percentage for agriculture is 23.2 (2015: 22.9).

Loans and advances by rating category

DKKm							2016
Industry	1-2	3-4	5-6	7-9	Default	NR/STD	Total
Agriculture, hunting, forestry and fisheries	94	1,100	1,652	1,846	403	43	5,138
Manufacturing and extraction of raw materials	2,348	3,515	951	696	52	12	7,574
Energy supply etc	987	737	130	125	5	15	1,999
Building and construction	411	1,638	573	201	143	10	2,976
Trade	2,368	6,584	1,793	662	200	12	11,619
Transportation, hotels and restaurants	520	1,894	676	324	20	35	3,469
Information and communication	109	190	45	39	2	-	385
Finance and insurance	1,840	2,800	590	345	78	4	5,657
Real property	2,443	1,860	826	732	402	8	6,271
Other industries	803	1,722	683	359	84	219	3,870
Public authorities	11	58	10	24	-	547	650
Retail	20,047	6,392	1,533	1,807	266	701	30,746
Total	**31,981**	**28,490**	**9,462**	**7,160**	**1,655**	**1,606**	**80,354**
Individual impairment of loans and advances							2,778
Collective impairment of loans and advances							385
Total loans and advances							**77,191**
%	39.8	35.5	11.8	8.9	2.1	2.0	100.0

Focus on agriculture

Agriculture – loans and advances by rating category

DKKm							2016
Sub-industry	1-2	3-4	5-6	7-9	Default	NR/STD	Total
Pig farming	7	281	457	596	84	3	1,428
Cattle farming	5	101	364	665	226	3	1,364
Crop production	37	269	528	323	60	3	1,220
Other agriculture	45	449	303	262	33	34	1,126
Total	**94**	**1,100**	**1,652**	**1,846**	**403**	**43**	**5,138**
%	1.8	21.4	32.2	35.9	7.9	0.8	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).

Conversion of debt to subordinated loan capital

At year-end 2016 debt concerning 48 agricultural exposures was converted to subordinated loan capital. The subordinated loan capital has been written off for accounting purposes.

A total of DKK 496m was converted in 2016 and as a consequence of the conversions loans and advances representing DKK 385m have been moved from rating categories 9-10 to rating categories 6-8.

As a result of the debt conversions and subsequent write-off, the share of loans and advances in the weakest rating categories (7-9 and default) decreased from 49.2% in 2015 to 43.8% in 2016. This also appears from the table on pages 12-13 which shows that 26.2% (2015: 34.8%) of loans and advances to pig farming and 41.1% (2015: 58.2%) of loans and advances to cattle farming are impaired. As regards total agriculture, 25.7% (2015: 32.0%) of loans and advances are impaired and at year-end 2016 individual impairment charges totalled DKK 666m (2015: DKK 1,027m), equal to 13.0% (2015: 17.4%) of loans and advances.

In addition to individual impairment charges of DKK 666m, collective impairment charges of DKK 150m (2015: DKK 225m) were made as regards loans and advances to agriculture at year-end 2016. This brings total impairment charges as regards agriculture to 15.9% (2015: 21.2%) of loans and advances.

Outlook for agriculture

At the beginning of 2017 the prospects for earnings in agriculture have improved significantly compared to the prospects at the beginning of 2016.

Average earnings in agriculture were negative in 2016 as expected. In particular for milk producers who have produced milk at an average settlement price of approx DKK 2.18 per kg which is DKK 0.16 lower than the already quite pessimistic forecast for 2016. At the beginning of 2017 the settlement price has risen to DKK 2.53 per kg and SEGES forecasts a milk price of DKK 2.87 per kg throughout 2017.

If an average settlement price of at least DKK 2.50 per kg is achievable, the vast majority of efficient milk producers will be able to generate satisfactory profits.

According to SEGES pig producers posted break-even results in 2016, which was a considerable improvement compared with 2015.

There are however significant differences in the sector. The most efficient producers, particularly those producing piglets for slaughter, recorded satisfactory results in 2016. In contrast producers of piglets for sale have seen large fluctuations in selling prices and these producers have recorded less satisfactory results.

The settlement price of an average of DKK 9.67 per kg in 2016 was satisfactory. Prospects remain satisfactory for 2017. At the beginning of 2017 the current quotation is DKK 10.00 per kg, ie DKK 0.33 above the 2016 average. The forecast for 2017 is DKK 9.94 per kg excl supplementary payments.

On average crop producers recorded a small loss in 2016 according to SEGES. This is due to a decline in grain and rape yields as well as falling settlement prices. Improved growth and harvest conditions are expected for 2017 as well as slightly higher prices than in 2016 and consequently break-even is projected.

The improved earnings potential for farms is mainly due to positive market developments which can be ascribed to a strong demand from China and other Asian countries together with a decline in agricultural production in several countries.

Focus on retail clients

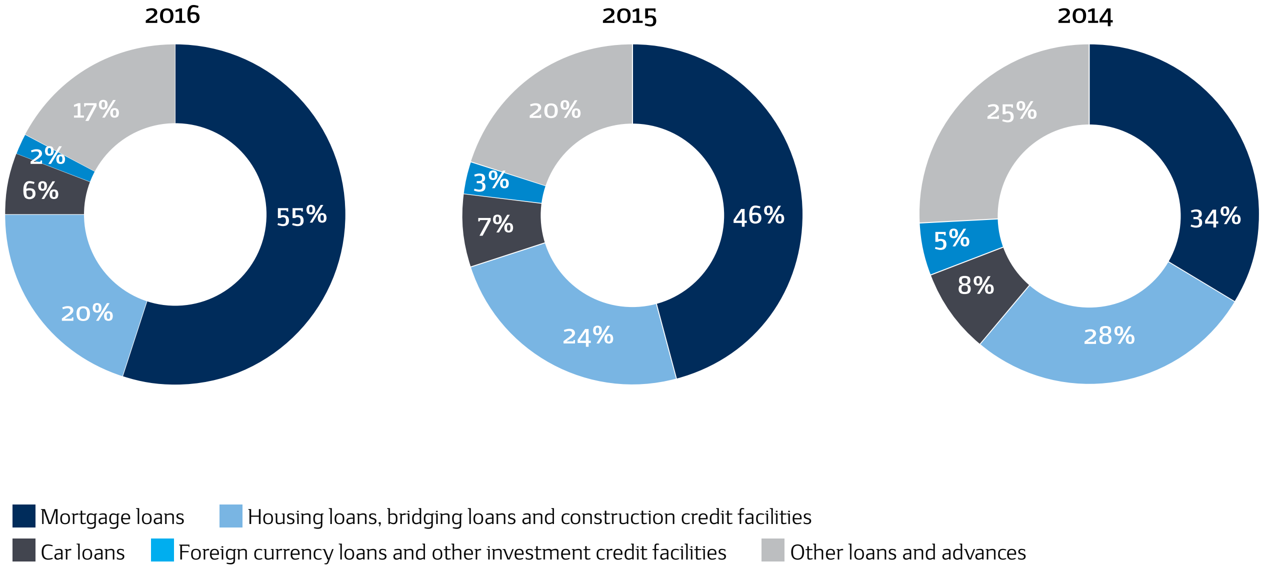
At 31 December 2016 loans and advances to retail clients represent DKK 30,746m (2014: DKK 23,482) – an increase of 31% in two years.

The rise in loans and advances to retail clients is attributable to mortgage loans which represent DKK 16,834m at 31 December 2016 (2014: DKK 8,062m) – an increase of 109% in two years.

Other loans and advances than mortgage loans to retail clients constitute DKK 13,912m at 31 December 2016 (2014: DKK 15,420m) – a decline of 10% in two years.

At 31 December 2016 mortgage loans constitute 55% (2014: 34%) of total loans and advances to retail clients.

DKKm Product type	2016	2015	2014
Mortgage loans	16,834	12,682	8,062
Housing loans, bridging loans and construction credit facilities	6,014	6,546	6,479
Car loans	1,973	1,884	1,816
Foreign currency loans and other investment credit facilities	694	769	1,062
Other loans and advances	5,231	5,435	6,063
Total retail	**30,746**	**27,316**	**23,482**



The tables below show that a substantial part of the rise in loans and advances to retail clients was in rating categories with low risk. At 31 December 2016 loans and advances to clients in the four best rating categories represent DKK 26,439m (2015: DKK 22,818m) – an increase of DKK 3,621m.

At 31 December 2016 the share of loans and advances to clients in the four best rating categories constitutes 85.9% (2015: 83.5%).

Outlook for retail clients

Low unemployment combined with a rise in house prices and extremely low interest rates contribute to the positive migration as regards the credit risk of 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 2016 totalled a reversal of DKK 38m (2015: expense of DKK 6m). In other words impairment charges were very low in these years.

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

DKKm								2016
Product type	1-2	3-4	5-6	7-9	Default	NR/STD	Total	%
Mortgage loans	12,991	2,985	533	313	12	-	16,834	54.7
Housing loans, bridging loans and construction credit facilities	3,446	1,473	386	667	36	6	6,014	19.6
Car loans	877	276	67	55	3	695	1,973	6.4
Foreign currency loans and other investment credit facilities	351	194	63	82	4	-	694	2.3
Other loans and advances	2,382	1,464	484	690	211	-	5,231	17.0
Total retail clients	**20,047**	**6,392**	**1,533**	**1,807**	**266**	**701**	**30,746**	**100.0**
%	65.2	20.7	5.0	5.9	0.9	2.3	100.0	

DKKm								2015
Product type	1-2	3-4	5-6	7-9	Default	NR/STD	Total	%
Mortgage loans	9,638	2,305	465	265	9	-	12,682	46.4
Housing loans, bridging loans and construction credit facilities	3,557	1,770	457	732	30	-	6,546	24.0
Car loans	882	326	73	62	4	537	1,884	6.9
Foreign currency loans and other investment credit facilities	346	253	76	90	4	-	769	2.8
Other loans and advances	2,213	1,528	570	875	249	-	5,435	19.9
Total retail clients	**16,636**	**6,182**	**1,641**	**2,024**	**296**	**537**	**27,316**	**100.0**
%	60.9	22.6	6.0	7.4	1.1	2.0	100.0	

Concentration

Under the EU's Capital Requirements Regulation (CRR), exposures to a single 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.

Gross exposure – credit risk

DKKm	2016	2015
Exposure > 20% of total capital	-	-
Exposure 10-20% of total capital	-	-
Total	**-**	**-**
% of total capital	-	-

At year-end 2016 and year-end 2015 no exposure after the deduction of particularly secure claims constitutes 10% or more of total 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).
- As a main rule, no exposure to a single client may exceed 10% of the Group's Tier 1 capital (however excluding exposures to credit institutions, investment funds and public enterprises).

At year-end 2016 the 10 largest exposures represent 4.9% (2015: 5.5%) of the Group's total credit portfolio.

After deduction of the loan value of any collateral, the 10 largest BIS exposures constitute 4.3% (2015: 4.6%) of the total credit portfolio.

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								2016
Amount	1-2	3-4	5-6	7-9	Default	NR/STD	Total	%
0-1	304	855	422	342	52	-	1,975	4.0
1-5	1,178	3,224	1,660	1,308	323	-	7,693	15.5
5-10	851	2,266	1,160	1,105	329	-	5,711	11.5
10-20	1,231	2,342	1,521	1,125	338	-	6,557	13.2
20-50	1,964	3,849	1,680	1,120	165	-	8,778	17.7
50-100	1,492	3,498	779	353	182	-	6,304	12.7
100-200	1,851	3,827	432	-	-	-	6,110	12.3
200-500	2,517	1,698	275	-	-	-	4,490	9.1
500-	546	539	-	-	-	-	1,085	2.2
NR/STD	-	-	-	-	-	905	905	1.8
Total	**11,934**	**22,098**	**7,929**	**5,353**	**1,389**	**905**	**49,608**	**100.0**
%	24.1	44.5	16.0	10.8	2.8	1.8	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 22.8% (2015: 22.6%) of the Group's total loans and advances. 82.8% (2015: 86.7%) of these loans and advances are rated in categories 1-4. Moreover loans and advances to agriculture as regards these 100 largest clients represent 3.3% (2015: 2.8%).

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

DKKm								2016
Industry/rating category	1-2	3-4	5-6	7-9	Default	NR/STD	Total	%
Agriculture, hunting, forestry and fisheries	-	200	282	116	-	-	598	3.3
Manufacturing and extraction of raw materials	847	1,351	201	121	-	-	2,520	13.8
Energy supply etc	627	205	-	3	-	-	835	4.6
Building and construction	184	739	130	38	-	-	1,091	6.0
Trade	1,535	3,141	442	-	-	-	5,118	28.0
Transportation, hotels and restaurants	11	839	330	-	4	-	1,184	6.5
Information and communication	23	122	-	-	-	-	145	0.8
Finance and insurance	1,086	901	24	5	18	-	2,034	11.1
Real property *	1,848	472	304	-	69	167	2,860	15.6
Other industries	321	487	233	87	-	-	1,128	6.2
Public authorities	-	-	-	-	-	563	563	3.1
Retail	171	25	11	3	-	-	210	1.0
Total	**6,653**	**8,482**	**1,957**	**373**	**91**	**730**	**18,286**	**100.0**
%	36.4	46.4	10.7	2.0	0.5	4.0	100.0	

* DKK 1,026m of the real property loans and advances of DKK 2,860m 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 rating category/size of enterprise, excluding default

%						2016
Rating category Net turnover/assets (DKKm)	1-2	3-4	5-6	7-9	Total	Loans/advances and guarantees
0-25	15	37	24	24	100	23
25-50	19	47	18	16	100	8
50-100	17	44	25	14	100	10
100-200	30	52	11	7	100	11
200-400	35	38	22	5	100	11
400-	35	53	8	4	100	32
NA	15	53	20	12	100	5
Total	**26**	**46**	**17**	**11**	**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 two tables below illustrate the breakdown of collateral by type and rating category, respectively.

Collateral received and types of collateral

DKKm	2016	2015
Loans and advances at fair value	6,092	10,183
Loans and advances at amortised cost	77,191	74,275
Guarantees	11,385	10,498
Credit exposure for accounting purposes	94,668	94,956
Collateral value	51,016	50,254
Total unsecured	**43,652**	**44,702**
Types of collateral		
Real property	20,532	16,534
Financial collateral	11,708	16,410
Leased assets, mortgages etc	5,096	4,624
Floating charges, operating equipment etc	6,366	6,404
Guarantees	1,294	1,047
Other items of collateral	233	452
Total collateral used	45,229	45,471
Particularly secured transactions (mortgage guarantees)	5,787	4,783
Total	**51,016**	**50,254**

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. Real property is handed over to an estate agent. Repossessed leased equipment is sold as quickly as possible. In 2016 repossessed equipment as well as real property taken over in connection with non-performing exposures amounted to DKK 62m (2015: DKK 32m). 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 falling prices of leased assets.

Mortgages on real property have increased by DKK 3,998m from DKK 16,534m in 2015 to DKK 20,532m in 2016. The increase is attributable to a rise in mortgage loans of DKK 4,426m.

Financial collateral has decreased by DKK 4,702m from DKK 16,410m in 2015 to DKK 11,708m in 2016, which is primarily attributable to the decline in loans and advances at fair value which have gone down by DKK 4,091m.
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, and excess collateral is not included in the calculation of collateral. Approximately 53.9% (2015: 52.9%) of the Group's loans and advances is covered via collateral.

Collateral by rating category

DKKm Rating category	Loans/advances	Guarantees	Collateral value	2016 Unsecured
1	14,206	2,185	12,706	3,685
2	21,714	2,219	12,759	11,174
3	19,504	2,114	10,328	11,290
4	11,139	878	4,805	7,212
5	6,028	554	2,807	3,775
6	3,434	309	1,581	2,162
7	1,235	149	489	895
8	664	164	345	483
9	5,261	332	2,142	3,451
Default	1,655	180	767	1,068
NR/STD	1,606	2,301	2,287	1,620
Total	**86,446**	**11,385**	**51,016**	**46,815**
Individual impairment of loans and advances	2,778			2,778
Collective impairment of loans and advances	385			385
Total	**83,283**	**11,385**	**51,016**	**43,652**

Impairment charges

Where there is objective evidence of impairment of loans and advances or amounts owed, individual impairment calculation is effected. The impairment charge equals the difference between the carrying amount of the loan/advance and the present value of expected future cash flows from the loan/advance including the realisation of any collateral held. Determination of the expected future cash flows is based on the most likely outcome.

Clients with exposures subject to objective evidence of impairment but who have not defaulted on their obligations are downgraded to rating category 9 while clients in default are downgraded to rating category 10.

Loans and advances without objective evidence of impairment are collectively assessed for impairment. Such assessments concern groups of loans and advances with uniform credit risk characteristics. The models applied are based on classifications where group classification is defined by clients' current ratings. Collective impairment charges are determined by the rating at the balance sheet date compared with the rating on the establishment of the loan/advance. The consequence of rating changes as regards the groups' future cash flows is determined on a net basis.

The cash flows are specified by means of parameters used to calculate the capital requirement as well as historical loss data adjusted for accounting purposes. Where the Group becomes aware that deteriorations or improvements which the models have not yet taken fully into account have occurred at the balance sheet date, the impairment charge is adjusted accordingly.

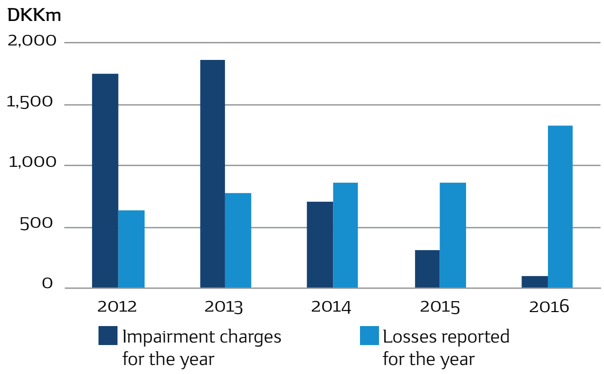
Impairment calculation is effected quarterly in a process managed by the centralised credit organisation.

Impairment charges for bank loans and advances etc constitute DKK 87m in 2016 compared with DKK 316m in 2015.

At year-end 2016 collective impairment charges amount to DKK 385m. Agriculture accounts for DKK 150m.

The figure below shows the development in impairment charges for bank loans and advances from 2012 to 2016 as well as the reported losses.

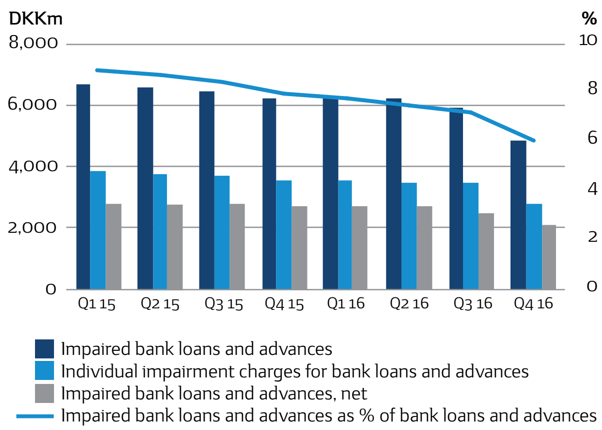
Impairment charges etc and reported losses



Reported losses in 2016 total DKK 1,333m. DKK 496m concerns loans and advances that have been written off and converted to subordinated loan capital as regards agricultural exposures.

The figure and the table below show the development in impaired bank loans and advances and the relevant impairment charges. Impaired bank loans and advances declined from DKK 6,273m in Q4 2015 to DKK 4,862m in Q4 2016. During this period accumulated individual impairment charges for bank loans and advances decreased from DKK 3,569m to DKK 2,778m.

Individually impaired bank loans and advances

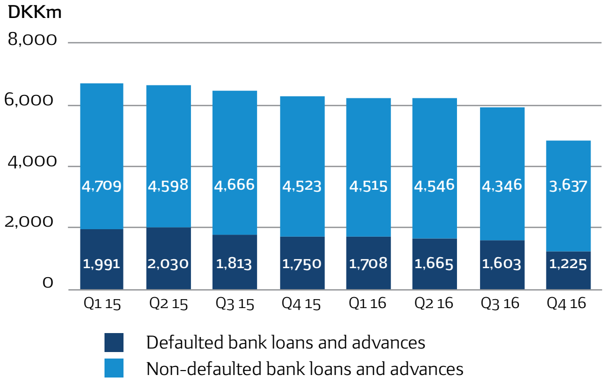


Individually impaired bank loans and advances

DKKm	2016	2015
Non-defaulted bank loans and advances	3,637	4,523
Defaulted bank loans and advances	1,225	1,750
Impaired bank loans and advances	**4,862**	**6,273**
Impairment of individually impaired bank loans and advances	2,778	3,569
Impaired bank loans and advances after impairment charges	**2,084**	**2,704**
Impaired bank loans and advances as % of bank loans and advances before impairment charges	6.1	8.0
Impairment charges as % of bank loans and advances before impairment charges	3.5	4.6
Impaired as % of impaired bank loans and advances	57.1	56.9
Impairment charges as % of defaulted bank loans and advances	226.8	203.9

The figure below shows the breakdown of impaired bank loans and advances in terms of defaulted bank loans and advances and non-defaulted bank loans and advances. As shown in the figure, the majority of impaired loans and advances concern non-defaulted bank loans and advances. Defaulted bank loans and advances have declined by DKK 766m since Q1 2015 whereas non-defaulted bank loans and advances have fallen by DKK 1,072m.

Impaired bank loans and advances



Defaulted bank loans and advances declined by DKK 525m in 2016 and non-defaulted bank loans and advances decreased by DKK 886m. The considerable decline in impaired bank loans and advances of DKK 1,087m in Q4 2016 is attributable to a decrease in impaired bank loans and advances as regards agricultural exposures of DKK 879m. The decline regarding agricultural exposures is primarily a consequence of the conversion of the debt concerning 48 agricultural exposures to subordinated loan capital in Q4 2016. The subordinated loan capital has been written off.

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 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). 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 Exposure category	Approach	Gross exposure	Credit risk mitigation	Effect of conversion factors	Exposure (un-weighted)	RWA	Average exposure for the year
2016							
Corporate clients	STD	2,719	(1,838)	(199)	682	605	2,767
	IRB	100,144	(10,811)	(35,880)	53,453	30,305	99,627
Retail clients	STD	874	(1)	(3)	870	648	806
	IRB	40,184	(9,350)	(79)	30,755	9,200	39,233
Total corporate and retail clients		**143,921**	**(22,000)**	**(36,161)**	**85,760**	**40,758**	**142,433**
Governments incl municipalities	STD	8,697	0	(991)	7,706	20	6,379
Credit institutions	STD	13,504	(9,851)	(476)	3,177	904	16,361
Total		**166,122**	**(31,851)**	**(37,628)**	**96,643**	**41,682**	**165,173**
Share IRB (%)		84	63	96	87	95	84
Share STD (%)		16	37	4	13	5	16

Exposure category	Approach	Gross exposure	Credit risk mitigation	Effect of conversion factors	Exposure (un-weighted)	RWA	Average exposure for the year
2015							
Corporate clients	STD	2,198	(974)	(352)	872	767	1,757
	IRB	101,909	(16,260)	(31,678)	53,971	32,241	98,113
Retail clients	STD	760	(1)	(9)	750	553	1,362
	IRB	36,788	(7,848)	(67)	28,873	9,583	35,247
Total corporate and retail clients		**141,655**	**(25,083)**	**(32,106)**	**84,466**	**43,144**	**136,479**
Governments incl municipalities	STD	4,134	0	(1,571)	2,563	30	8,274
Credit institutions	STD	18,753	(12,558)	(384)	5,811	1,757	21,207
Total		**164,542**	**(37,641)**	**(34,061)**	**92,840**	**44,931**	**165,960**
Share IRB (%)		84	64	93	89	93	80
Share STD (%)		16	36	7	11	7	20

Appendix 1 – Supplementary tables

Credit exposure by industry

DKKm Industry/exposure category	Corporate clients	Retail clients	Other	Total	2016 %
Agriculture, hunting, forestry and fisheries	7,596	89		7,685	5.3
Manufacturing and extraction of raw materials	14,475	42		14,517	10.1
Energy supply etc	5,027	4		5,031	3.5
Building and construction	6,732	91		6,823	4.7
Trade	21,109	127		21,236	14.8
Transportation, hotels and restaurants	6,257	79		6,336	4.4
Information and communication	929	16		945	0.7
Finance and insurance	16,880	206		17,086	11.9
Repo/reverse	5,953	62		6,015	4.2
Real property	10,728	181		10,909	7.6
Other industries	2,167	840		3,007	2.0
Sector guarantees	303	0		303	0.2
Retail	4,707	39,321		44,028	30.6
Total corporate and retail clients	**102,863**	**41,058**		**143,921**	**100.0**
Governments incl municipalities			8,697	8,697	
Credit institutions, repo/reverse			9,822	9,822	
Credit institutions, other			3,649	3,649	
Sector guarantees			33	33	
Total	**102,863**	**41,058**	**22,201**	**166,122**	

Credit exposure by industry

DKKm Industry/exposure category	Corporate clients	Retail clients	Other	Total	2015 %
Agriculture, hunting, forestry and fisheries	8,141	118		8,259	5.8
Manufacturing and extraction of raw materials	12,984	60		13,044	9.2
Energy supply etc	5,426	6		5,432	3.8
Building and construction	5,588	118		5,706	4.0
Trade	20,915	162		21,077	14.9
Transportation, hotels and restaurants	5,676	102		5,778	4.1
Information and communication	803	21		824	0.6
Finance and insurance	10,379	273		10,652	7.5
Repo/reverse	12,343	170		12,513	8.9
Real property	10,707	260		10,967	7.8
Other industries	6,550	388		6,938	4.9
Sector guarantees	310	0		310	0.2
Retail	4,285	35,870		40,155	28.3
Total corporate and retail clients	**104,107**	**37,548**		**141,655**	**100.0**
Governments incl municipalities			4,134	4,134	
Credit institutions, repo/reverse			12,944	12,944	
Credit institutions, other			5,776	5,776	
Sector guarantees			33	33	
Total	**104,107**	**37,548**	**22,887**	**164,542**	

Appendix 1 – Supplementary tables

Credit exposure to corporate clients by rating category (IRB)

DKKm						2016
			Exposure-weighted, average			
Rating category	Gross exposure	Exposure after effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	RWA
1	4,447	2,671	0.0	19.2	6.2	166
2	30,479	16,634	0.0	32.6	11.9	1,974
3	28,868	17,616	0.1	37.9	26.7	4,711
4	15,548	10,567	0.4	42.8	54.7	5,903
5	7,713	5,784	0.9	43.7	78.9	4,394
6	4,176	3,289	2.0	43.9	96.1	3,162
7	1,623	1,329	3.9	43.8	115.9	1,540
8	846	712	6.4	43.7	133.5	951
9	4,790	4,108	15.9	44.0	182.7	7,504
Default	1,653	1,554	100.0	44.0	0.0	-
Total	**100,144**	**64,264**				**30,305**

						2015
1	3,290	1,999	0.0	33.5	11.0	220
2	34,173	22,293	0.0	22.4	8.3	1,845
3	26,111	16,470	0.1	38.3	26.6	4,386
4	15,712	10,998	0.4	42.9	56.4	6,205
5	7,864	5,829	0.9	42.6	72.3	4,212
6	4,355	3,503	2.0	43.3	92.1	3,228
7	1,306	992	3.8	43.5	109.5	1,086
8	662	583	6.7	44.3	132.6	773
9	6,252	5,525	16.4	43.0	186.2	10,286
Default	2,184	2,039	100.0	44.2	0.0	-
Total	**101,909**	**70,231**				**32,241**

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

Credit exposure to retail clients by rating category (IRB)

DKKm						2016
			Exposure-weighted, average			
Rating category	Gross exposure	Exposure after effect of conversion factors	PD (%)	LGD (%)	Risk weight (%)	RWA
1	18,261	18,226	0.0	56.1	5.6	1,028
2	10,947	10,933	0.0	52.0	6.4	701
3	5,448	5,423	0.1	54.8	17.6	952
4	1,706	1,703	0.4	55.5	36.1	615
5	1,093	1,091	1.2	55.7	72.1	787
6	564	564	1.9	55.2	83.7	472
7	123	123	4.0	60.1	123.7	152
8	135	134	7.0	53.6	127.5	171
9	1,654	1,655	16.7	57.8	232.0	3,832
Default	253	253	100.0	66.5	193.8	490
Total	**40,184**	**40,105**				**9,200**

						2015
1	15,882	15,845	0.0	57.7	5.8	920
2	9,540	9,525	0.0	52.9	6.6	624
3	5,301	5,293	0.1	56.4	18.3	968
4	1,845	1,841	0.4	56.7	36.3	668
5	1,238	1,237	1.2	55.0	69.6	861
6	622	621	1.9	54.9	82.0	509
7	180	180	4.0	55.7	108.7	195
8	152	152	7.0	57.1	131.1	199
9	1,714	1,714	17.0	59.1	237.4	4,069
Default	314	313	100.0	71.6	182.0	570
Total	**36,788**	**36,721**				**9,583**

Appendix 1 – Supplementary tables

Credit exposure by client's country of domicile

DKKm					2016
	Denmark	Germany	Norway	Other	Total
Corporate clients	91,064	5,504	65	6,230	102,863
Retail clients	39,808	489	216	545	41,058
Total corporate and retail clients	**130,872**	**5,993**	**281**	**6,775**	**143,921**
Governments incl municipalities	8,609	0	19	69	8,697
Credit institutions	5,546	375	5,440	2,143	13,504
Total	**145,027**	**6,368**	**5,740**	**8,987**	**166,122**

					2015
Corporate clients	90,681	5,479	80	7,867	104,107
Retail clients	36,183	465	201	699	37,548
Total corporate and retail clients	**126,864**	**5,944**	**281**	**8,566**	**141,655**
Governments incl municipalities	4,037	3	19	75	4,134
Credit institutions	5,104	1,774	9,872	2,003	18,753
Total	**136,005**	**7,721**	**10,172**	**10,644**	**164,542**

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
2016						
Corporate clients	-	57,182	29,983	8,978	6,720	102,863
Retail clients	-	15,052	3,411	3,895	18,700	41,058
Total corporate and retail clients	**-**	**72,234**	**33,394**	**12,873**	**25,420**	**143,921**
Governments incl municipalities	441	7,356	859	27	14	8,697
Credit institutions	-	13,258	239	-	-	13,504
Total	**441**	**92,848**	**34,492**	**12,900**	**25,441**	**166,122**
2015						
Corporate clients	-	62,699	25,994	8,289	7,125	104,107
Retail clients	-	10,747	3,482	4,065	19,254	37,548
Total corporate and retail clients	**-**	**73,446**	**29,476**	**12,354**	**26,379**	**141,655**
Governments incl municipalities	515	2,538	1,042	30	9	4,134
Credit institutions	-	18,601	152	-	-	18,753
Total	**515**	**94,585**	**30,670**	**12,384**	**26,388**	**164,542**

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 three months.

Appendix 1 – Supplementary tables

Credit exposure by credit quality

DKKm	Corporate clients	Retail clients	Other	2016 Total
Neither past due nor impaired	101,184	40,391	22,201	163,776
Past due but not impaired	40	45	-	85
Impaired after impairment charges	1,639	622	-	2,261
Total	**102,863**	**41,058**	**22,201**	**166,122**
				2015
Neither past due nor impaired	101,821	36,199	22,887	160,907
Past due but not impaired	48	56	-	104
Impaired after impairment charges	2,238	1,293	-	3,531
Total	**104,107**	**37,548**	**22,887**	**164,542**

Impaired amounts owed include amounts owed by clients where there is objective evidence of individual impairment. Past due amounts consist of loans and advances from a client's first day of arrears where there is no objective evidence of impairment. A very limited share of past due amounts concerns high credit risk clients.

Past due amounts

DKKm	Corporate clients	Retail clients	2016 Total	Corporate clients	Retail clients	2015 Total
0-30 days	39	43	82	46	54	100
31-60 days	1	2	3	1	1	2
61-90 days	-	-	-	1	1	2
Total	**40**	**45**	**85**	**48**	**56**	**104**

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

DKKm	2016	2015
Impairment and provisions	(88)	227
Write-offs	342	200
Recovered from debt previously written off	167	111
Total	**87**	**316**

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

DKKm			2016			2015
	Individually impaired loans/ advances and guarantees	Individual impairment and provisions	Impaired loans/ advances and guarantees after impairment charges	Individually impaired loans/ advances and guarantees	Individual impairment and provisions	Impaired loans/ advances and guarantees after impairment charges
Denmark	5,001	2,767	2,233	6,994	3,505	3,489
Germany	96	76	20	120	94	26
Other	67	61	6	104	88	16
Total	**5,164**	**2,904**	**2,259**	**7,218**	**3,687**	**3,531**

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 two 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.
OEI	Objective Evidence of Impairment and therefore impairment calculation must be effected.
PD	Probability of Default. Probability that a client will default on his obligations within the next 12 months.
RWA	Risk-Weighted Assets. Risk-weighted assets 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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