

Credit Risk 2008

Sydbank

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Introduction

Disclosure policy

The Bank complies with the disclosure requirements – Pillar III – as follows:

- Credit risk information via this publication, "Credit Risk 2008".
- For other information reference is made to the 2008 Annual Report.

This information will be released concurrently with the annual report, ie once a year.

Definitions

Credit risk is the risk of loss as a result of a debtor's default on his payment obligations to the Bank.

The Bank'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 of credit granting and the largest exposures are submitted on a

regular basis to the Board of Directors for approval or information. The Bank's credit risk is managed through credit policies, business procedures, approval instructions etc.

Monitoring, follow-up and reporting to the management are undertaken centrally.

Gross exposures consist of loans and advances, undrawn credit commitments, interest receivable, repo/reverse transactions and guarantees as well as counterparty risk on derivatives. Exposures are determined after impairment and provisions but excluding the effect of conversion factors (see page 10) and credit risk mitigation.

Net exposures consist of loans and advances, undrawn credit commitments, interest receivable, repo/reverse transactions and guarantees as well as counterparty risk on derivatives. Exposures are determined after impairment and provisions and include the effect of conversion factors and credit risk mitigation.

Credit risk to financial counterparties

Trading in securities, currency 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 Bank does not receive payments or securities in connection with the settlement of securities or currency transactions equalling the securities or payments delivered by the Bank.

The management grants delivery risk lines and credit risk lines to financial counterparties based on the risk profile of the financial counterparty which is assessed in terms of rating, earnings and capital, as well as the size of the financial counterparty.

Risks and lines to financial counterparties are monitored continuously, also intra-day.

The Bank 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 Bank's partner in CLS®.

The Bank aims to mitigate credit risk to financial counterparties in many ways, eg by concluding netting agreements. Moreover the Bank has executed Credit Support Annexes with a number of the largest financial counterparties to ensure credit risk mitigation of derivatives.

Exposures are calculated on a daily basis after which the parties settle collateral movements. Consequently exposures are reset in all material respects on a daily basis.

The steadily increasing number of agreements is managed by Operations. In 2008 the Bank purchased a system to handle these agreements and the system will be implemented in the first half of 2009.

Accounting is responsible for determining and monitoring credit risk in accordance with the guidelines stipulated by the Board of Directors and the Group Executive Management as well as for internal and external credit risk reporting.

Credit risk to non-financial counterparties

Credit policy

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

- maintaining and increasing the portfolio of profitable and promising retail, investment and corporate clients
- maintaining and increasing clients' business volume with the Bank through a balanced composition of:
 - loans/advances and guarantees
 - deposits
 - payment services transactions
 - trading in securities etc
 - financial instruments.

Risks in connection with lending must be precalculated on an informed and substantiated basis.

The Bank's credit exposures represent the following customer segments:

- retail and corporate clients, including investment clients, affiliated with Denmark
- retail and corporate clients from North Germany via Sydbank's branches in Germany
- investment clients via PBI, Sydbank's branches in Germany and its subsidiary bank in Switzerland.

The Bank does not wish to depend on large individual exposures and as a consequence the following must be observed:

- As a rule the 10 largest exposures may not exceed 10% of the Bank's total credit portfolio (with the exception of exposures to credit institutions, investment funds and public enterprises).
- As a rule no exposure to a single client may exceed 10% of the Bank's core capital (Tier 1) (with the exception of exposures to credit institutions, investment funds and public enterprises).

The Bank's composition of credit exposures to corporate clients must be in line with individual industry prospects and they may not deviate materially from the industry diversification of other financial institutions. However, due to special circumstances, the Bank may deliberately underweight its exposure to certain industries. In fact for many years the Bank has opted

not to grant loan capital to the real property sector. The Bank only grants property financing to existing clients and then only as bridge financing, ie actual financing is as a mortgage loan and only if the client, by means of own financing, is able to repay the Bank's bridging loan.

The Bank applies the options available to mitigate the risk on individual transactions in the form of pledge of assets, netting agreements and guarantees etc.

The most frequent types of pledges include mortgages on real property and pledges of financial assets (shares, bonds and units).

The Bank assesses on an ongoing basis the value of collateral provided. The value is determined as the expected net proceeds on realisation. As regards the most frequent types of collateral, the Bank has established models that estimate the value of the assets in question. As regards types of collateral where no measurement model exists, the value is determined on the basis of expert assessments.

To some extent the Bank receives guarantees or sureties for exposures. Many of these are provided by companies or individuals who have a group relationship with the debtor. For precautionary reasons no independent value is attached to such guarantees/sureties.

Credit organisation

The Bank's credit-related decisions are based on a systematic and well-structured analysis of the client and the industry/industries to which the client belongs. This systematic and well-structured analysis is based on all accessible information, including industry analyses and financial reports, and must moreover comprise an assessment of the client's forward-looking business plan and the realism of this plan.

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

Credit risk to non-financial counterparties

Furthermore the Bank has an extensive and experienced credit organisation which – together with the rating models – ensures focus on the Bank's credit risks in the approval as well as the follow-up process.

The credit organisation is adjusted on an ongoing basis to ensure that the credit rating capacity reflects the Bank's growth and economic conditions.

Approval process

Employees with a written lending authority may grant approvals. Such authority is adjusted to the employee's experience, education and training, the customer portfolio and individual client rating.

Retail clients

The objective is that more than 90% of retail client exposures are approved by the client's branch and the remaining client exposures are approved at regional level. Major retail client exposures must be approved centrally by Credits.

Corporate clients

As a rule corporate clients are served by the regional head office or by specially appointed corporate branches. The objective is that all small corporate exposures are approved decentrally at regional level. As regards medium-size/large exposures, approval must be granted centrally by Credits, the Group Executive Management or the Board of Directors.

Risk classification/rating

The Bank has developed rating models to manage the credit risks to retail and corporate clients. The overriding objective is to monitor at all times 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.

Sydbank began developing internal rating models already in the 1990s. Today these models constitute a key element in the Bank's risk and capital management.

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 Bank has ensured that the models comply with market standards.

As from 1 January 2008 Sydbank obtained the Danish Financial Supervisory Authority's approval to apply the advanced Internal Ratings Based approach to determine the capital requirement of retail exposures and the foundation Internal Ratings Based approach to determine the capital requirement of corporate exposures.

Clients are rated in four partially independent models: retail clients, SMEs, corporate clients and investment clients. 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. The corporate rating model contains a qualitative element in the form of an industry profile and a strength profile which in aggregate can affect the clients' classification. Moreover the Bank's Credit Committee may override the automatically calculated rating.

As a result of the application of the advanced IRB approach, Sydbank applies internal models to estimate each client's probability of default (PD), loss given default (LGD), and exposure at default (EAD). These parameters form part of the calculation of the capital requirement. As regards the foundation IRB approach, only PD is estimated while LGD and EAD are determined by regulatory guidance.

Exposures outside rating models

A small part of the exposures to non-financial counterparties is not yet comprised by the rating models. In connection with the Danish FSA approval, the Bank has been granted exemption in this respect.

These exposures consist mainly of exposures via foreign entities and from bankTrelleborg. The Bank has formulated action plans as to how and when they will form part of the Bank's rating models, and in the longer term all significant exposures will be included.

Retail clients

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

SMEs

The SME model is largely identical to the retail client model albeit the data has been supplemented by further variables.

Corporate clients

The corporate client model is based on the client's accounting data supplemented by appraisals made by the credit officer and/or account manager on the corporate client's current strength profile as well as an industry analysis prepared quarterly by Merchant Bank.

Investment clients

The investment client model was developed in 2007 and is based on the following:

- excess cover within the investment exposure
- approved stop loss
- volatility of the investment exposure
- strength profile of the client.

Governments, regions and municipalities

The Bank has no internal public sector model. The Danish FSA has approved the Bank's use of the Standardised Approach to calculate risk-weighted items concerning this asset class.

Credit monitoring

Credits is responsible for managing and monitoring credit risk in accordance with the guidelines stipulated by the Board of Directors and the Group Executive Management as well as for internal and external credit risk reporting.

Credit Follow-up monitors compliance with credit policies as well as credit quality.

This process involves "desk research" using information from the Bank's database on all exposures as well as control visits at the individual branches. The aim is to check every branch at least every third year.

Moreover Credit Follow-up conducts semi-annual quality analyses of the Bank's new exposures.

Credit Follow-up is also responsible for assessing whether the Bank's rating systems, from a credit viewpoint, rank clients correctly. Written analyses in this respect are prepared quarterly.

All regional corporate departments have identified a number of exposures to which particular focus is given and these are analysed and reviewed at least every six months at the initiative of Credits. The purpose is to ensure that follow-up and adjustment of the Bank's action plans as regards these exposures are carried out on an ongoing basis.

Finally Credits encompasses a department which is assigned to exposures with a risk of loss exceeding DKK 3m. These exposures are very closely monitored and Credits is actively involved in preparing solutions to mitigate the Bank's credit risk.

Parameters

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

- Probability of default (PD) – represents the probability that the client will default on his obligations to the Bank within the next 12 months.
- Loss given default (LGD) – represents the proportion of an exposure that is expected to be lost if a client defaults.
- Exposure at default (EAD) – represents the expected amount owed by the client at the time of default. To calculate EAD the Bank estimates a conversion factor (CF) for the purpose of converting undrawn credit commitments to expected exposure at default.

The risk parameters are moreover included in the calculation of a number of key, internal ratios concerning the Bank's credit portfolio including expected loss.

Furthermore the risk parameters constitute a vital management tool in the Bank's credit process in connection with eg:

- the targeting of sales activities, including pricing
- credit treatment and risk follow-up
- the determination of accounting impairment charges.

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

The validation process involves an assessment of:

- Model ability to rank clients by default risk
- Realised values compared with expected values
- Data quality
- Model application.

Validation is recapitulated in three annual validation reports.

The risk parameters are described in detail below.

Probability of default

Probability of default (PD) is estimated by using internally developed rating models.

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

The rating models combine statistical methods with subjective assessments of the Bank's clients and have been adjusted to the various characteristics within the retail client and corporate client segments.

The table below shows the average solvency PD used to calculate the Bank's risk-weighted items at the beginning of the year as well as the realised annual default rate for 2004-2008.

Probability of default (%)				
Year	Corporate		Retail	
	Solvency PD 1 Jan	Realised default rate	Solvency PD 1 Jan	Realised default rate
2008	1.50%	1.28%	0.58%	0.46%
2007	1.74%	0.59%	0.62%	0.43%
2006	1.98%	0.48%	0.71%	0.38%
2005	2.00%	0.73%	0.79%	0.48%
2004	2.11%	1.28%	0.89%	0.64%

According to the table the solvency PD decreases over the period as economic conditions improve and the rating basis changes.

The aim of the Bank's solvency PD is to give a true picture seen over an entire economic cycle, ie it encompasses a long-term element. In addition by calculating the Bank's solvency PD, annualised PD fluctuations decrease. In contrast realised

default rates are the actual rates for the years in question and any direct comparison with the solvency PD must be made with caution. Another consequence is that the realised default rate will typically be lower than the solvency PD during periods of favourable economic trends as in recent years.

Loss given default

Loss given default (LGD) reflects the percentage of the expected loss on the exposure if the client defaults on his obligations vis-à-vis the Bank.

As a rule the size of the loss will vary depending on the category of the borrower as well as the realisable value of any collateral held or other type of hedging.

As regards retail clients the Bank uses its own estimates of the realisable value of collateral held as well as own estimates of the loss on the unsecured part of the exposure.

The realisable value reflects the market value of collateral held net of the expected decline in asset values during a recession, liquidity as well as any currency mismatch between collateral and exposure.

As regards corporate clients the Bank applies supervisory values of collateral held 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 Bank cannot at present deduct relatively large positions of units or physical assets held as collateral when determining the Pillar I capital requirement.

The below table shows the average estimated and realised loss given default rates of retail clients in default in the period 2004-2008.

Loss given default – retail clients (%)

Year of default	Estimated,	
	1 Jan	Realised
2008	66%	76%
2007	67%	75%
2006	66%	67%
2005	67%	69%
2004	66%	64%

Comparing estimated and realised LGD 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 significant payments are recorded several years after the exposure was in default.

Consequently any comparison is only of value when the calculation of realised losses is more than two years old. As a result it is expected that the realised losses for 2007 and 2008 will decline substantially in the years ahead and therefore be more consistent with the estimates for the relevant years due to future payments which are ascribed to the year of default.

Parameters

Conversion factor

As regards exposures with undrawn credit facilities a conversion factor (CF) is estimated indicating the expected utilisation of a credit facility at the time of default. Exposure at default is then calculated as the amount already drawn plus expected additional drawings until default.

The Bank uses its own conversion factor estimates as regards retail clients. In connection with corporate clients the conversion factor is determined in accordance with the Danish FSA rules on the foundation IRB approach.

The table below shows average-estimate and realised conversion factors of undrawn credit facilities in connection with retail clients in default in the period 2004-2008.

Conversion factor – retail clients (%)		
Year	Estimated,	
	1 Jan	Realised
2008	100%	103%
2007	100%	48%
2006	100%	79%
2005	100%	84%
2004	100%	58%

As shown above the Bank's conversion factor estimates as regards retail clients were 100% throughout the period, corresponding to full recognition of undrawn credit facilities. During the same period realised conversion factors were significantly lower except for 2008 when the realised value was almost identical to the 2008 estimate.

Credit exposure

Distribution of the Group's credit exposure by exposure category and by approach (IRB/Standardised Approach)

DKKm				Effect	Net	Risk-	2008
	Approach	Gross exposure	Credit risk mitigation	of conversion factors (unweighted)	exposure (unweighted)	weighted items	Average exposure for the year
Exposure category:							
Governments etc	STD	2,734	(26)	(824)	1,884	0	3,348
Institutions	STD	21,431	(3,509)	(3,373)	14,549	1,426	22,683
Corporate clients	STD	9,142	(158)	(2,476)	6,531	6,650	12,119
	IRB	93,852	(21,648)	(19,400)	52,804	38,108	89,620
Retail clients	STD	3,724	(113)	(647)	2,964	2,187	3,820
	IRB	31,626	(8,342)	(342)	22,942	10,234	32,785
Shares	STD	677	0	0	677	677	692
Assets without counterparty		1,334	0	0	1,334	1,334	1,531
Total		164,520	(33,796)	(27,039)	103,685	60,616	166,598
Share IRB (%)		77	89	73	74	82	74
Share STD (%)		23	11	27	26	18	26

DKKm				Effect	Net	Risk-	2007
	Approach	Gross exposure	Credit risk mitigation	of conversion factors (unweighted)	exposure (unweighted)	weighted items	Average exposure for the year
Exposure category:							
Governments etc	STD	7,867		(4,356)	3,511	0	5,981
Institutions	STD	24,833	(8,257)	(3,194)	13,382	2,752	21,914
Corporate clients	STD	6,518		(1,615)	4,903	4,975	7,622
	IRB	80,649	(18,091)	(19,281)	43,277	31,514	75,568
Retail clients	STD	1,523		(192)	1,331	1,069	2,047
	IRB	34,106	(11,034)	(374)	22,698	9,124	32,885
Shares	STD	608			608	691	592
Assets without counterparty		1,366			1,366	1,366	1,275
Total		157,470	(37,382)	(29,012)	91,076	51,491	147,884
Share IRB (%)		74	78	68	74	82	74
Share STD (%)		26	22	32	26	18	26

Credit exposure

The Group's credit exposure to corporate clients by rating category in accordance with internal rating models

DKKm	Gross exposure	Exposure after effect of conversion factors	Exposure weighting, average			2008 Risk-weighted items
			PD (%)	LGD (%)	Risk weight (%)	
Rating category						
1	5,093	3,325	0.0	33.8	13.2	439
2	32,726	26,466	0.2	21.4	16.9	4,462
3	24,352	18,743	0.4	37.0	51.6	9,672
4	15,140	12,079	0.9	40.2	74.7	9,026
5	8,597	7,030	1.7	41.4	95.3	6,697
6	3,012	2,383	3.2	40.3	117.2	2,792
7	1,217	1,083	4.6	40.5	116.9	1,266
8	1,079	998	5.7	28.9	93.1	929
9	1,810	1,585	10.2	41.4	178.2	2,825
10 (default)	826	810	100.0	43.5	0.0	0
Total	93,852	74,502	-	-	-	38,108

DKKm	Gross exposure	Exposure after effect of conversion factors	Exposure weighting, average			2007 Risk-weighted items
			PD (%)	LGD (%)	Risk weight (%)	
Rating category						
1	12,103	11,078	0.0	4.6	2.2	240
2	23,771	16,885	0.1	34.8	26.6	4,484
3	17,896	13,373	0.4	39.5	54.8	7,326
4	14,975	11,201	1.1	39.4	80.8	9,054
5	6,593	4,493	2.1	42.5	105.7	4,750
6	2,499	1,898	3.5	41.3	123.8	2,349
7	396	329	4.7	41.7	130.7	430
8	374	289	5.8	40.0	131.3	379
9	1,690	1,525	8.0	43.6	164.1	2,502
10 (default)	352	297	100.0	43.5	0.0	0
Total	80,649	61,368	-	-	-	31,514

The Group's credit exposure to retail clients by rating category in accordance with internal rating models

DKKm	Gross exposure	Exposure after effect of conversion factors	Exposure weighting, average			2008 Risk-weighted items
					Risik weight (%)	
			PD (%)	LGD (%)		
Rating category						
1	9,845	9,712	0.0	44.8	5.9	569
2	9,607	9,504	0.1	49.5	15.1	1,434
3	5,858	5,807	0.5	51.2	37.1	2,158
4	3,102	3,072	1.1	51.7	62.7	1,925
5	2,080	2,063	2.0	51.2	84.7	1,747
6	605	600	3.8	50.8	115.4	693
7	98	96	5.0	54.9	127.1	122
8	48	47	6.4	57.7	130.1	61
9	194	194	12.6	46.6	155.2	300
10 (default)	189	189	100.0	66.6	649.5	1,225
Total	31,626	31,284	-	-	-	10,234

DKKm	Gross exposure	Exposure after effect of conversion factors	Exposure weighting, average			2007 Risk-weighted items
					Risk weight (%)	
			PD (%)	LGD (%)		
Rating category						
1	12,122	11,993	0.1	34.8	4.5	545
2	9,606	9,491	0.1	44.9	13.5	1,278
3	5,951	5,890	0.4	46.8	34.1	2,021
4	3,013	2,979	1.1	48.8	59.4	1,769
5	2,227	2,200	1.9	47.0	78.1	1,717
6	713	710	3.7	50.1	109.6	778
7	88	87	4.9	51.4	128.4	112
8	88	85	6.1	53.0	127.4	108
9	220	219	12.1	44.0	153.9	337
10 (default)	78	78	100.0	55.9	591.0	459
Total	34,106	33,732	-	-	-	9,124

Credit exposure

The Group's credit exposure by industry

DKKm					2008
Industry/exposure category	Corporate clients	Retail clients	Other	Total	(%)
Governments etc			2,734	2,734	1.7
Institutions, repo/reverse			4,573	4,573	2.8
Institutions, other			16,834	16,834	10.2
Sector guarantees	1,045		24	1,069	0.6
Real property	13,442	952		14,394	8.8
Trade (retail and wholesale)	13,427	1,135		14,562	8.8
Investments, repo/reverse	13,286	37		13,323	8.1
Investments, other	20,241	547		20,788	12.6
Agriculture	10,292	1,085		11,377	6.9
Manufacturing	13,499	861		14,360	8.7
Services (professions)	7,366	2,278		9,644	5.9
Transportation	2,944	231		3,175	1.9
Retail clients	7,452	28,224		35,676	21.7
Shares			677	677	0.4
Assets without counterparty			1,334	1,334	0.9
Total	102,994	35,350	26,176	164,520	100.0
Credit exposure to real property sector by					
Leases – residential property	2,850	149		2,999	1.8
Leases – commercial property	6,162	752		6,914	4.2
Purchase and sale of real property	1,811	27		1,838	1.1
Other	2,619	24		2,643	1.7
Total	13,442	952	-	14,394	8.8

DKKm					2007
Industry/exposure category	Corporate clients	Retail clients	Other	Total	(%)
Governments etc			7,867	7,867	5.0
Institutions, repo/reverse			8,499	8,499	5.4
Institutions, other			16,310	16,310	10.4
Sector guarantees	169		25	194	0.1
Real property	11,181	606		11,787	7.5
Trade (retail and wholesale)	12,133	843		12,976	8.2
Investments, repo/reverse	8,544	36		8,580	5.4
Investments, other	18,639	738		19,377	12.3
Agriculture	7,607	917		8,524	5.4
Manufacturing	12,710	562		13,272	8.4
Services (professionals)	8,173	2,330		10,503	6.7
Transportation	3,134	142		3,276	2.1
Retail clients	4,876	29,455		34,331	21.8
Shares			608	608	0.4
Assets without counterparty			1,366	1,366	0.9
Total	87,166	35,629	34,675	157,470	100.0

The Group's credit exposure by industry and rating category

DKKkm						2008
Industry/rating category	1 - 4	5 - 7	8 - 9	Default	STD/NR	Total
Governments etc					2,734	2,734
Institutions, repo/reverse					4,573	4,573
Institutions, other					16,834	16,834
Sector guarantees					1,069	1,069
Real property	9,520	2,180	410	186	2,098	14,394
Trade (retail and wholesale)	10,700	2,567	402	71	822	14,562
Investments, repo/reverse	13,318	5				13,323
Investments, other	17,502	2,046	425	218	597	20,788
Agriculture	8,845	1,996	124	25	387	11,377
Manufacturing	10,537	1,997	617	146	1,063	14,360
Services (professions)	6,909	1,548	452	62	673	9,644
Transportation	2,402	531	69	9	164	3,175
Retail clients	25,991	2,739	756	173	6,017	35,676
Shares					677	677
Assets without counterparty					1,334	1,334
Total	105,724	15,609	3,255	890	39,042	164,520

Credit exposure to real property sector by:

Leases – residential property	2,188	568	83	4	156	2,999
Leases – commercial property	4,588	751	121	28	1,426	6,914
Purchase and sale of real property	1,052	386	92	146	162	1,838
Other	1,692	475	114	8	354	2,643
Total real property	9,520	2,180	410	186	2,098*	14,394

* Exposures via Sydbank in Germany and former bankTrelleborg.

Fair value adjustment of bankTrelleborg exposures at acquisition, see 2008 Annual Report page 8.

DKKkm						2007
Industry/rating category	1 - 4	5 - 7	8 - 9	Default	STD/NR	Total
Governments etc					7,867	7,867
Institutions, repo/reverse					8,499	8,499
Institutions, other					16,310	16,310
Sector guarantees					194	194
Real property	9,632	1,573	102	22	458	11,787
Trade (retail and wholesale)	9,585	2,076	540	98	677	12,976
Investments, repo/reverse	8,580					8,580
Investments, other	16,639	1,792	217	38	691	19,377
Agriculture	7,855	534	94	6	35	8,524
Manufacturing	9,903	1,771	632	157	809	13,272
Services (professions)	6,884	1,196	271	15	2,137	10,503
Transportation	2,449	535	74	3	215	3,276
Retail clients	28,026	2,935	432	89	2,849	34,331
Shares					608	608
Assets without counterparty					1,366	1,366
Total	99,553	12,412	2,362	428	42,715	157,470

Credit exposure

The Group's credit exposure by clients' country of domicile

DKKm					2008
Exposure – geography	Denmark	Germany	Switzerland	Other	Total
Governments etc	2,651	71	12		2,734
Institutions	12,812	5,136	1,126	2,357	21,431
Corporate clients	87,814	4,603	456	10,121	102,994
Retail clients	32,396	1,100	110	1,744	35,350
Shares	677				677
Assets without counterparty	1,255	49	14	16	1,334
Total	137,605	10,959	1,718	14,238	164,520

DKKm					2007
Exposure – geography	Denmark	Germany	Switzerland	Other	Total
Governments etc	7,818	49			7,867
Institutions	19,450	1,714	769	2,900	24,833
Corporate clients	71,994	4,136	738	10,299	87,167
Retail clients	30,432	1,208	424	3,565	35,629
Shares	608				608
Assets without counterparty	1,320	28	18		1,366
Total	131,622	7,135	1,949	16,764	157,470

Credit exposure by exposure category and maturity

DKKm						2008
Exposure – maturity	Non-allocated	Over 3 months 3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years	Total
Governments etc	646	1,638	426	5	19	2,734
Institutions		15,956	2,145	1,384	1,946	21,431
Corporate clients		60,405	22,720	11,827	8,042	102,994
Retail clients		12,614	9,468	5,180	8,088	35,350
Shares	677					677
Assets without counterparty	1,334					1,334
Total	2,657	90,613	34,759	18,396	18,095	164,520

Credit exposure by credit quality

DKKm	Corporate clients	Retail clients	Other	2008 Total
Neither past due nor impaired	101,522	34,960	26,176	162,658
Past due but not impaired	212	126		338
Impaired after impairment charges	1,260	264		1,524
Total	102,994	35,350	26,176	164,520

DKKm	Corporate clients	Retail clients	Other	2007 Total
Neither past due nor impaired	86,016	34,728	34,674	155,418
Past due but not impaired	744	323		1,067
Impaired after impairment charges	407	578		985
Total	87,167	35,629	34,674	157,470

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. A significant part of the past due amounts at year-end 2007 was due to a lack of formalisation between granted bridge financing or information to clients about internally granted facilities. 2008 focussed on the formalisation thereof and as a result significant reductions in past due amounts have been achieved

Past due amounts

DKKm	2008			2007		
	Retail clients	Corporate clients	Total	Retail clients	Corporate clients	Total
0-30 days	115	186	301	272	572	844
31-60 days	7	13	20	37	134	171
61-90 days	4	13	17	14	38	52
Total	126	212	338	323	744	1,067

Risk concentrations

The risk concentrations that the Bank identifies in the credit portfolio serve as a credit risk management parameter.

Under section 145 of the Danish Financial Business Act, the exposure to a single client or a group of mutually connected clients, after deduction of particularly secure claims, may not

exceed 25% of the capital base (Tiers 1+2). Moreover total exposures exceeding 10% of the capital base after deduction of particularly secure claims may not exceed 800% of the capital base. Reporting on the compliance with these rules is made quarterly to the Danish FSA. Intragroup transactions are not included in the table below.

Large exposures

DKKm	2008	2007
	Exposures according to section 145	Exposures according to section 145
Number	2	4
Exposure > 20% of capital base		
Exposure 10-20% of capital base	2,610	4,537
Total	2,610	4,537
Utilisation of 800% rule (%)	23.8	46.4

The table below shows the Bank's 100 largest exposures by industry and rating category. The table is determined in accordance with section 145 of the Danish Financial Business Act and does not include financial counterparties and investment funds.

100 largest exposures

DKKm						2008	
	Industry/rating category	1 - 4	5 - 7	8 - 9	Default	STD/NR	Total
Governments etc						213	213
Real property	3,756	358				189	4,309
Trade (retail and wholesale)	3,849	494	6				4,343
Investments, repo/reverse	4,529						4,529
Investments, other	7,717	477	128				8,322
Agriculture	938	174	19				1,131
Manufacturing	3,164	242	142				3,548
Services (professions)	1,884	34	49				1,967
Transportation	594	5					599
Retail clients	806	21	409				1,236
Total	27,237	1,805	753	0	402		30,197
%	90.2	6.0	2.5	0.0	1.3		100.0

Default

According to the Bank'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 as least one non-accrual credit facility
- An impairment charge/provision has been registered in connection with the client indicating that the loss must be regarded as certain

- The exposure has been transferred to the Bank's central department for non-performing exposures.

Moreover the Bank has adopted procedures under which all exposures in arrears for more than 90 days are either approved or transferred to the Bank's department for non-performing exposures.

Impairment

Where objective evidence of impairment of a loan/advance or amount owed exists, individual impairment charges are recorded. The charge equals the difference between the carrying amount of the loan/advance and the present value of the 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 who are not in default are automatically downgraded to the Bank's rating category 9, while clients in default are automatically 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 the clients' current

classifications. Collective impairment charges are determined by the rating at the balance sheet date compared with the rating assigned on the establishment of the loans and advances. As a consequence of the rating changes the group's future cash flows are determined on a net basis.

The cash flows are specified by means of the parameters used to calculate capital requirements and historical loss data adjusted for accounting purposes. Where the Bank 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.

Impairment testing is conducted quarterly in a process managed by the centralised credit organisation.

The components of the impairment charges for loans and advances are recognised in the income statement as follows:

Impairment and provisions recognised in profit or loss

DKKm	2008	2007
Impairment and provisions	167	(529)
Write-offs	499	28
Recovered from debt previously written off	44	67
Impairment of loans and advances and sector losses etc	622	(434)

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

DKKm	2008			2007		
	Individual impairment of loans/advances and guarantees	Individual impairment and provisions	Impaired after impairment charges	Individual impairment of loans/advances and guarantees	Individual impairment and provisions	Impaired after impairment charges
Denmark	2,232	848	1,384	1,626	648	978
Germany	186	50	136	196	39	157
Other	60	56	4	58	51	7
Total	2,478	954	1,524	1,880	738	1,142

Individual impairment of loans/advances and guarantees as well as impairment and provisions by industry

DKKm	Individual impairment of loans/advances and guarantees	Individual impairment and provisions	2008 Impaired after impairment charges
Sector guarantees	459	47	412
Real property	161	83	78
Trade (retail and wholesale)	261	140	121
Investments, other	388	128	260
Agriculture	65	25	40
Manufacturing	433	204	229
Services (professions)	149	76	73
Transportation	28	17	11
Retail clients	534	234	300
Total	2,478	954	1,524
Individual impairment of loans/advances	1,959	888	1,071
Sector guarantees	459	47	412
Other guarantees	60	19	41
Total	2,478	954	1,524

DKKm	Individual impairment of loans/advances and guarantees	Individual impairment and provisions	2007 Impaired after impairment charges
Real property	42	19	23
Trade (retail and wholesale)	282	145	137
Investments, other	123	85	38
Agriculture	45	17	28
Manufacturing	639	308	331
Services (professions)	115	47	68
Transportation	24	23	1
Retail clients	610	94	516
Total	1,880	738	1,142
Individual impairment of loans/advances	1,754	698	1,056
Guarantees with provisions	126	40	86
Total	1,880	738	1,142

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