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# Annual Report 2018

Highest return on equity among SIFI banks in Denmark

27 February 2019

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## Highlights for 2018

### Key points

Highest return on equity among SIFI banks in Denmark

### Follow-up Blue growth

All Blue growth objectives have been met

### Profit

Profit of DKK 1,156m – ROE of 10.2% p.a. after tax

### Core income

Core income of DKK 3,951m – down by 5% compared with 2017

### Costs

Costs up by 3% compared with 2017

### Impairment charges

Impairment charges represent income of DKK 122m in 2018

### Bank loans

DKK 1.1bn decline in bank loans and advances in Q4 2018, equal to 1.8%

### CET 1 ratio

CET1 ratio of 17.3% – up by 1.2% in Q4 2018

## Core income – 12M 2018 down 5% vs 12M 2017

DKKm	12M 2018	12M 2017	Index	Q4 2018	Q3 2018	Index
Net interest income etc	1,775	1,993	89	417	439	95
Mortgage credit *	583	575	101	145	149	97
Payment services	196	202	97	47	52	90
Remortgaging and loan fees	130	133	98	32	30	107
Commission and brokerage	302	365	83	74	70	106
Commission etc investment funds and pooled pension plans	425	388	110	95	90	106
Asset management	270	264	102	70	66	106
Custody account fees	69	69	100	17	17	100
Other operating income	201	178	113	51	50	102
<b>Total</b>	<b>3,951</b>	<b>4,167</b>	<b>95</b>	<b>948</b>	<b>963</b>	<b>98</b>
* Set-off of loss Totalkredit	21	27	78	6	3	200

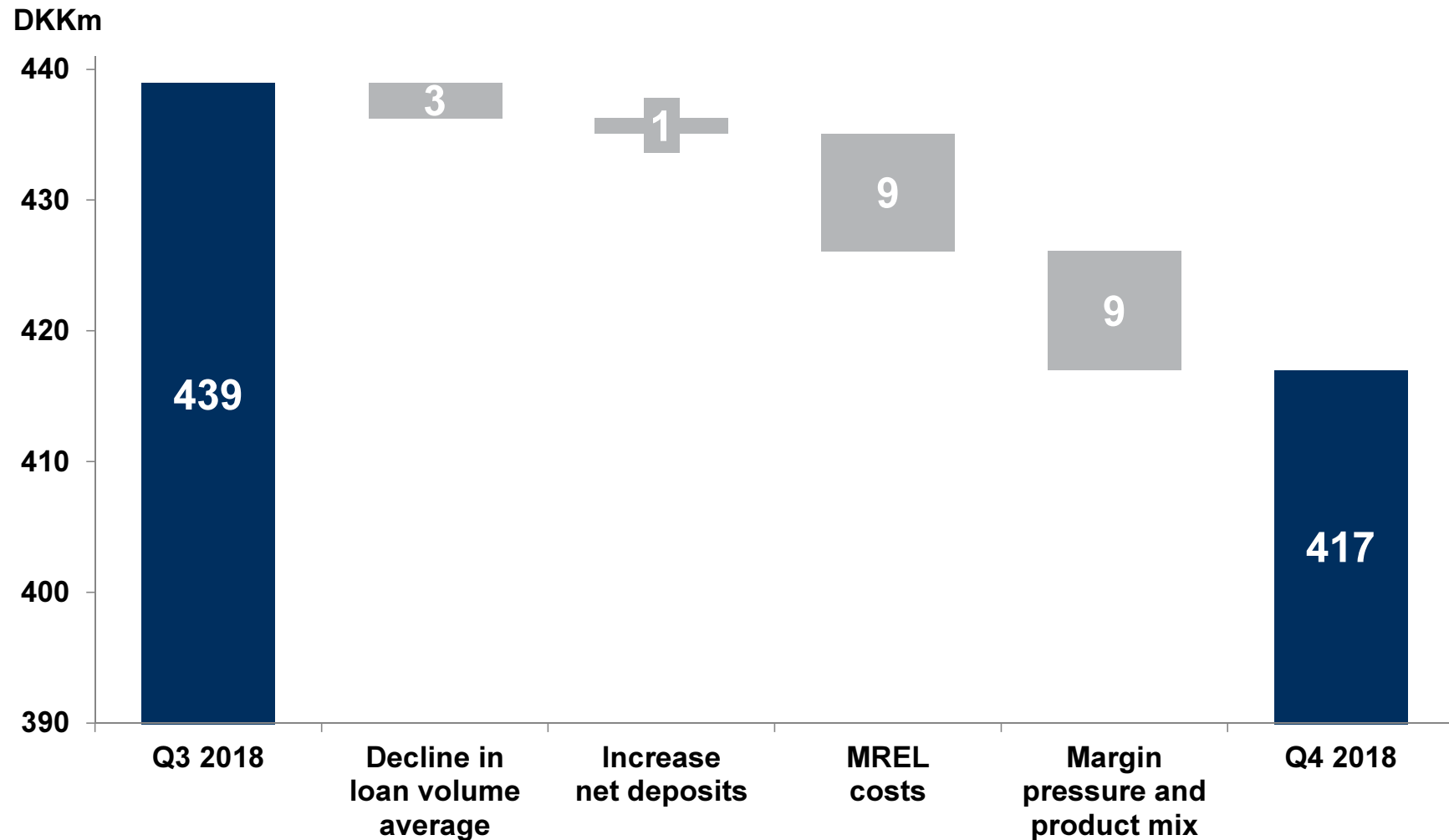
### Key points 12M 18 vs 12M 17:

- Net interest income etc down by 11% – 3% due to funding of mortgage-like loans
- Commission and brokerage down by 17%
- Commission etc investment funds up by 10% due to revaluation of BI Holding
- Other items up by a total of 2%.

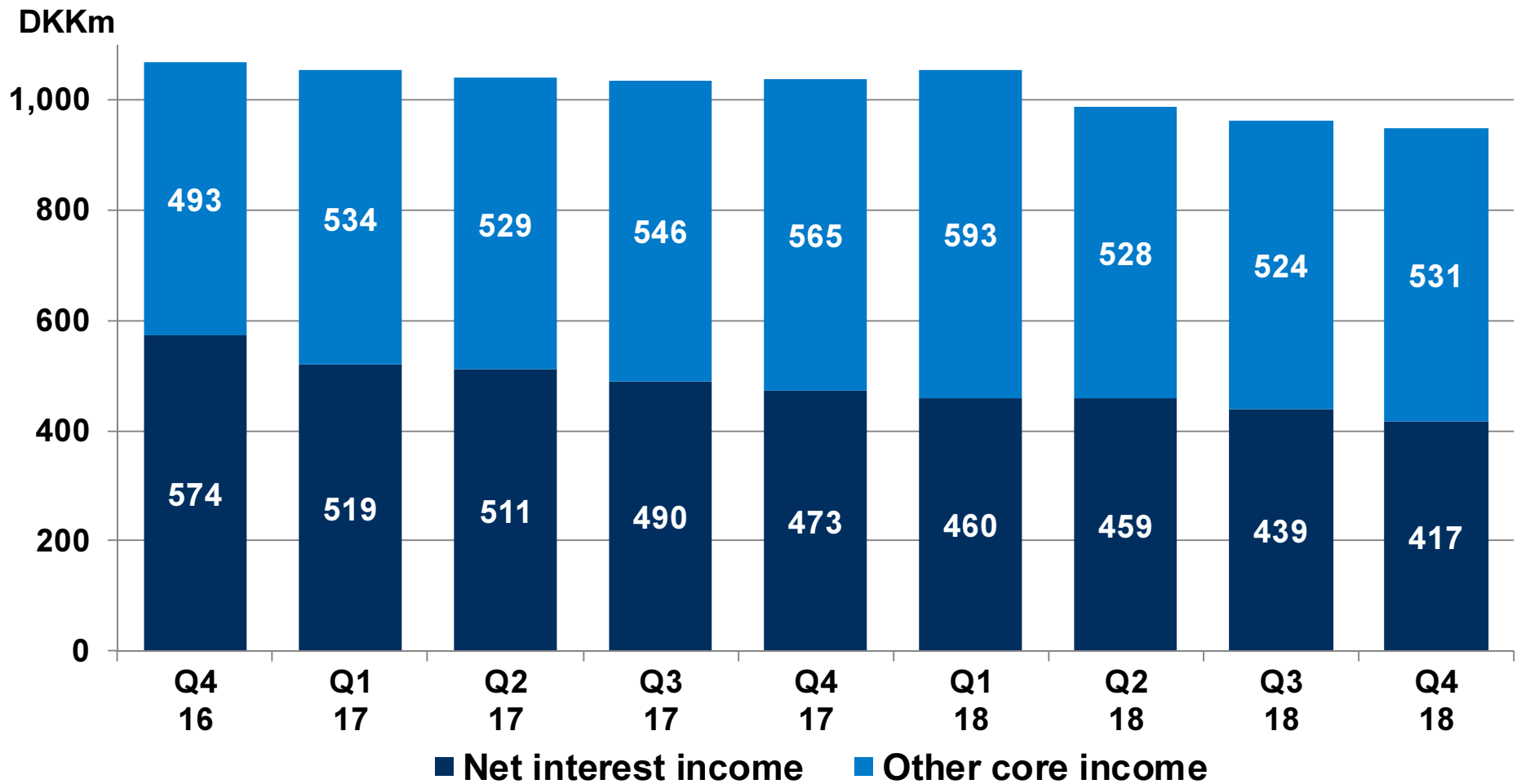
### Key points Q4 18 vs Q3 18:

- Net interest income down by 5%
- Other items up by a total of 1%.

## Net interest income etc – development from Q3 2018 to Q4 2018



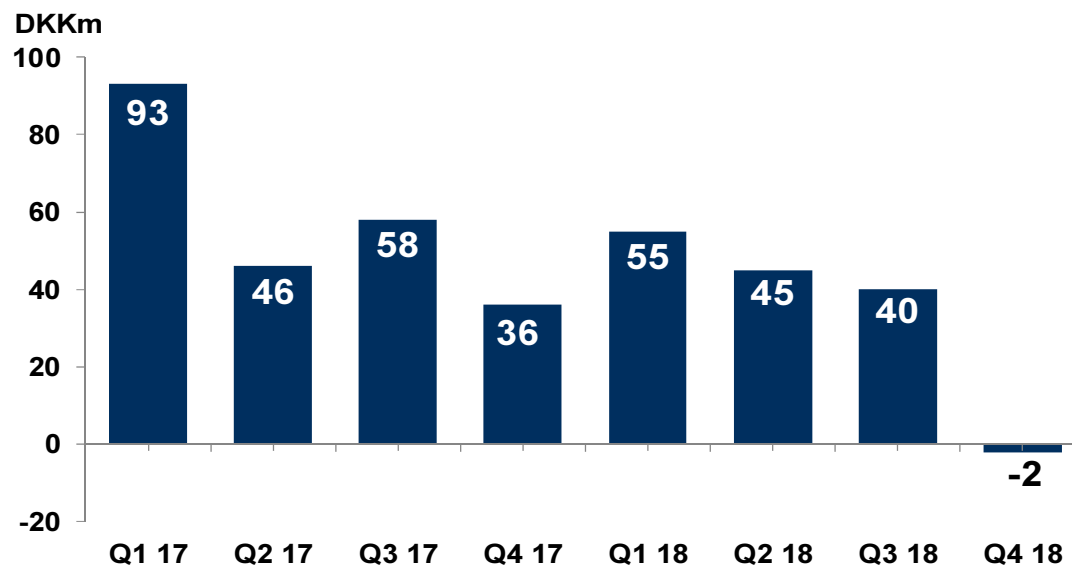
Net interest income represents 44% of core income in Q4 vs 46% in Q3



## Trading income – negative in Q4 2018

### Key points:

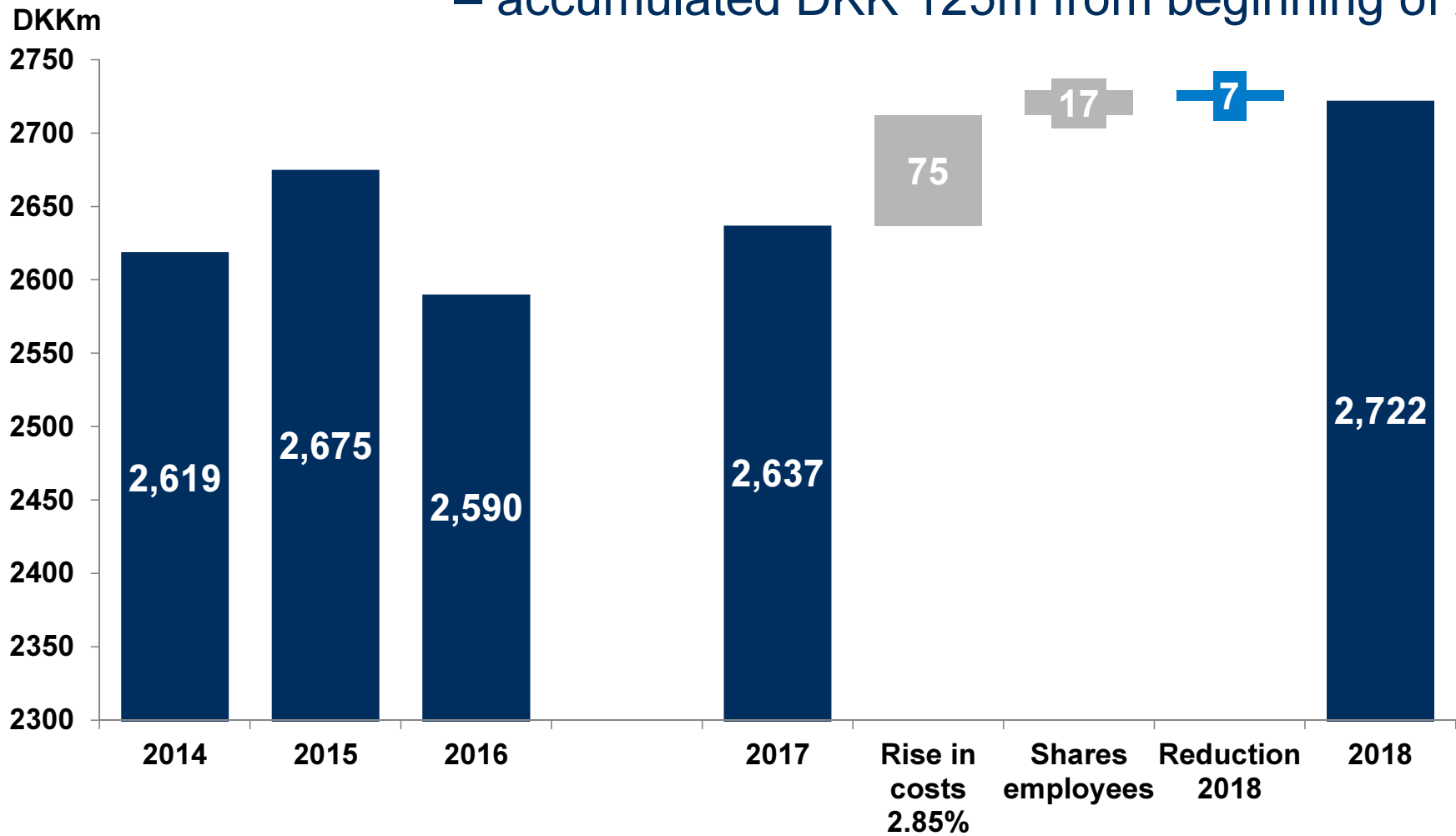
- Minus DKK 2m recorded in Q4 2018 vs DKK 40m in Q3 2018
- In Fixed Income considerable trading activity was recorded in mortgage bonds also in Q3 2018.



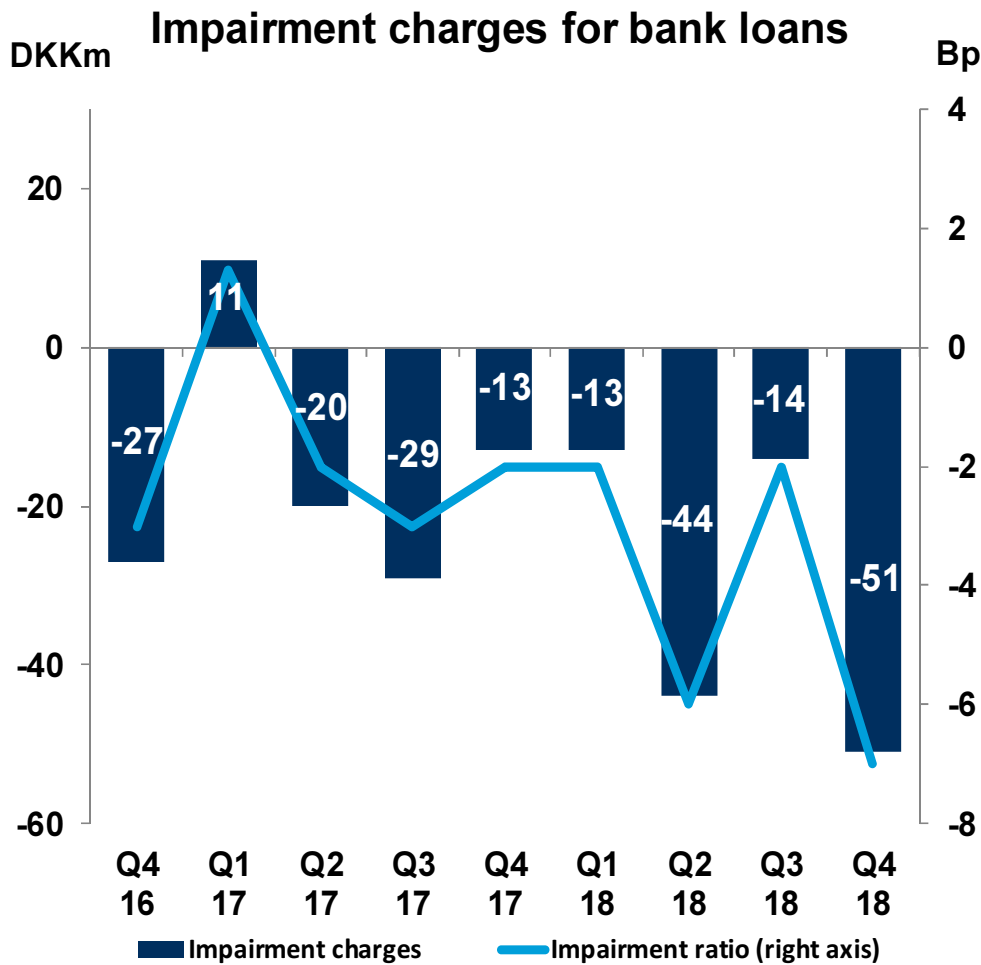
### Trading income

DKKm	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
Bonds	63	30	36	14	39	19	27	7
Shares	22	9	13	14	6	17	6	-10
Foreign exchange, etc	8	7	9	8	10	9	7	1
<b>Total</b>	<b>93</b>	<b>46</b>	<b>58</b>	<b>36</b>	<b>55</b>	<b>45</b>	<b>40</b>	<b>-2</b>

**Costs (core earnings)** – reduction of DKK 7m in 12M 2018  
 – accumulated DKK 125m from beginning of 2016



# Impairment charges constitute minus DKK 51m in Q4 2018, equal to minus 7bps



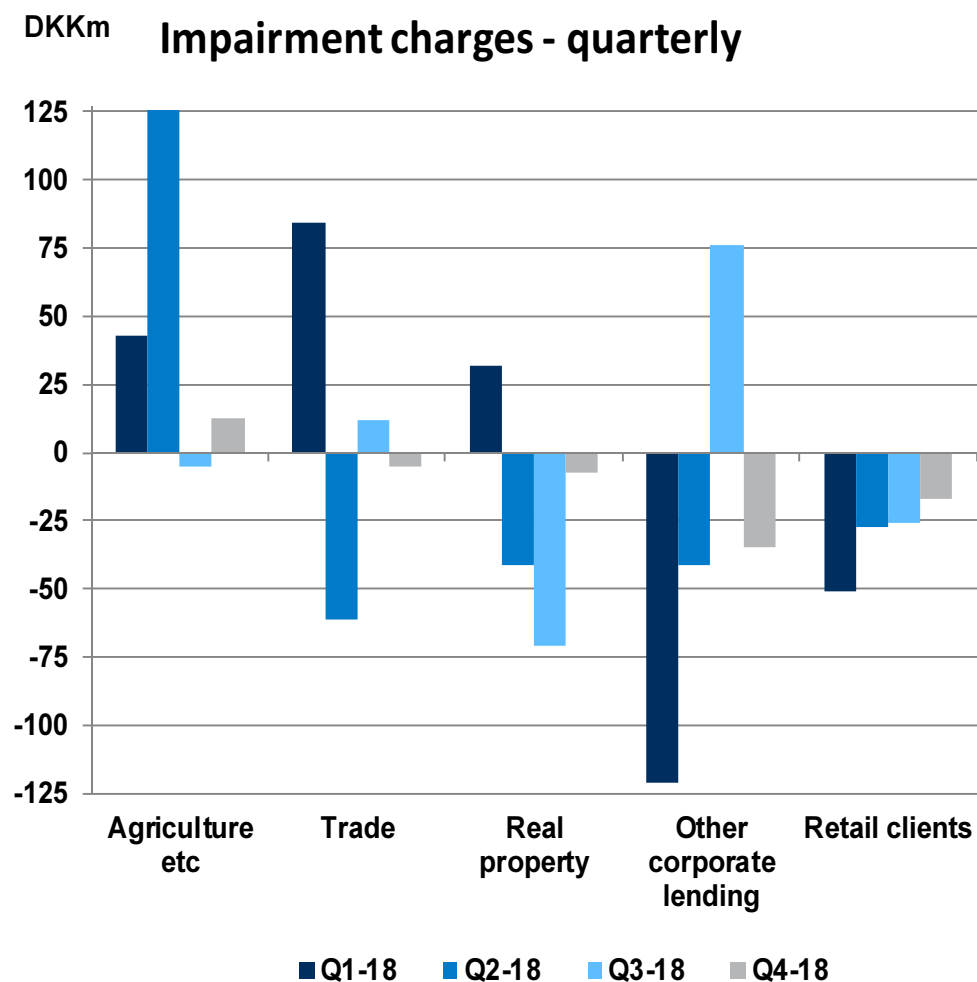
Reversal for seventh consecutive quarter.

Impairment charges represent:

- Minus 16bps in 2018, down from minus 6bps in 2017
- Minus 7bps in Q4 2018, down from minus 2bps in Q3 2018.



## Net reversal in Q4 2018



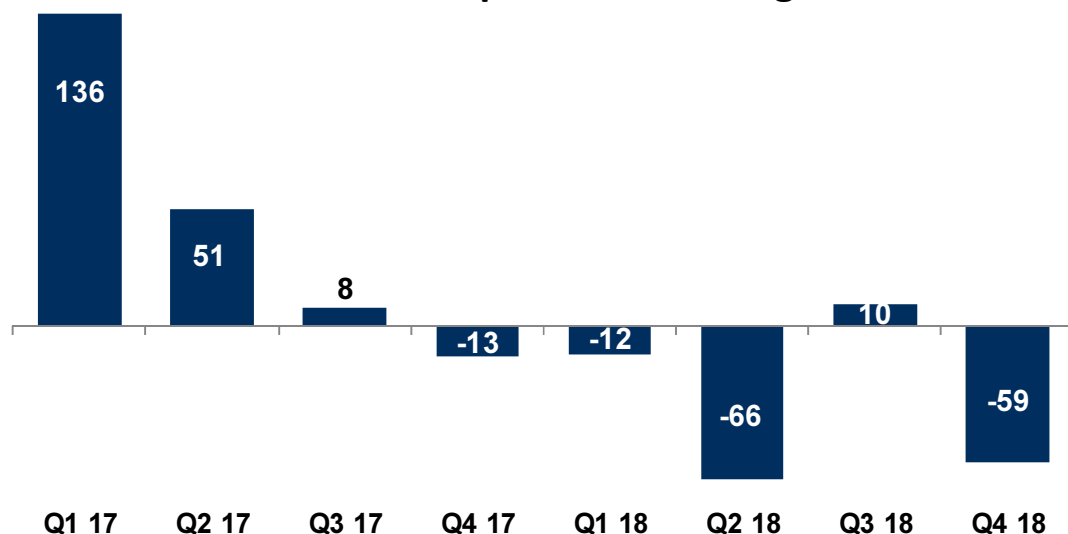
### Key points Q4 2018:

- Impairment charges as regards corporate exposures represent income of DKK 34m
- Provision as regards agriculture has been reduced by DKK 25m to DKK 100m
- Impairment charges as regards retail exposures represent minus DKK 17m.

DKKm	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
Agriculture etc	-17	-13	43	126	-5	13
Trade	-1	55	84	-61	12	-5
Real property	-12	-25	32	-41	-71	-7
Other corporate lending	21	80	-121	-41	76	-35
Total corporate lending	-9	97	38	-17	12	-34
Retail clients	4	-50	-51	-27	-26	-17
Individual impairments	-5	47	-13	-44	-14	-51
Collective impairments	-24	-60	-	-	-	-
<b>Total impairments</b>	<b>-29</b>	<b>-13</b>	<b>-13</b>	<b>-44</b>	<b>-14</b>	<b>-51</b>

## Investment portfolio earnings – negative result for Q4 2018

Investment portfolio earnings – DKKm



### Investment portfolio earnings

DKKm	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
Position-taking	-21	2	-4	-54	16	-65
Liquidity generation and reserves	16	-9	-1	-3	-5	-9
Strategic positions	14	-4	-5	-7	0	17
Costs	-1	-2	-2	-2	-1	-2
<b>Total</b>	<b>8</b>	<b>-13</b>	<b>-12</b>	<b>-66</b>	<b>10</b>	<b>-59</b>

Investment portfolio earnings for 2018 represent minus DKK 127m compared with earnings of DKK 182m in 2017.

Investment portfolio earnings for Q4 2018 represent minus DKK 59m compared with earnings of DKK 10m in Q3 2018.

The investment portfolio earnings in Q4 2018 are the result of lower risk-free rates combined with a minor widening of credit spreads on mortgage bonds.

The Group's position-taking in 2019 has been changed and investment portfolio earnings are virtually neutral in terms of interest rate changes.

## Income statement – ROE of 10.2% in 2018

DKKm	12M 2018	12M 2017	Index	Q4 2018	Q3 2018	Index
Core income	3,951	4,167	95	948	963	98
Trading income	138	233	59	-2	40	-
<b>Total income</b>	<b>4,089</b>	<b>4,400</b>	<b>93</b>	<b>946</b>	<b>1,003</b>	<b>94</b>
Costs, core earnings	2,722	2,637	103	686	639	107
<b>Core earnings before impairment</b>	<b>1,367</b>	<b>1,763</b>	<b>78</b>	<b>260</b>	<b>364</b>	<b>71</b>
Impairment of loans and advances etc	-122	-51	-	-51	-14	-
<b>Core earnings</b>	<b>1,489</b>	<b>1,814</b>	<b>82</b>	<b>311</b>	<b>378</b>	<b>82</b>
Investment portfolio earnings	-127	182	-	-59	10	-
<b>Profit before non-recurring items</b>	<b>1,362</b>	<b>1,996</b>	<b>68</b>	<b>252</b>	<b>388</b>	<b>65</b>
Non-recurring items, net	58	-40	-	-25	-9	-
<b>Profit before tax</b>	<b>1,420</b>	<b>1,956</b>	<b>73</b>	<b>227</b>	<b>379</b>	<b>60</b>
Tax	264	425	62	34	84	40
<b>Profit for the period</b>	<b>1,156</b>	<b>1,531</b>	<b>76</b>	<b>193</b>	<b>295</b>	<b>65</b>
Costs (core earnings) / total income, C/I	0.67	0.60		0.73	0.64	
Return on equity, ROE full-year basis	10.2	13.1		6.7	10.2	
Earnings per share, EPS	17.6	22.4		3.0	4.5	

### Key points 12M 18 vs 12M 17:

- Core income down by 5%
- Trading income down by 41%
- Costs (core earnings) up by 3%. 1% due to employee shares
- Reversal of impairment charges
- Core earnings down by 18%
- Negative investment portfolio earnings.

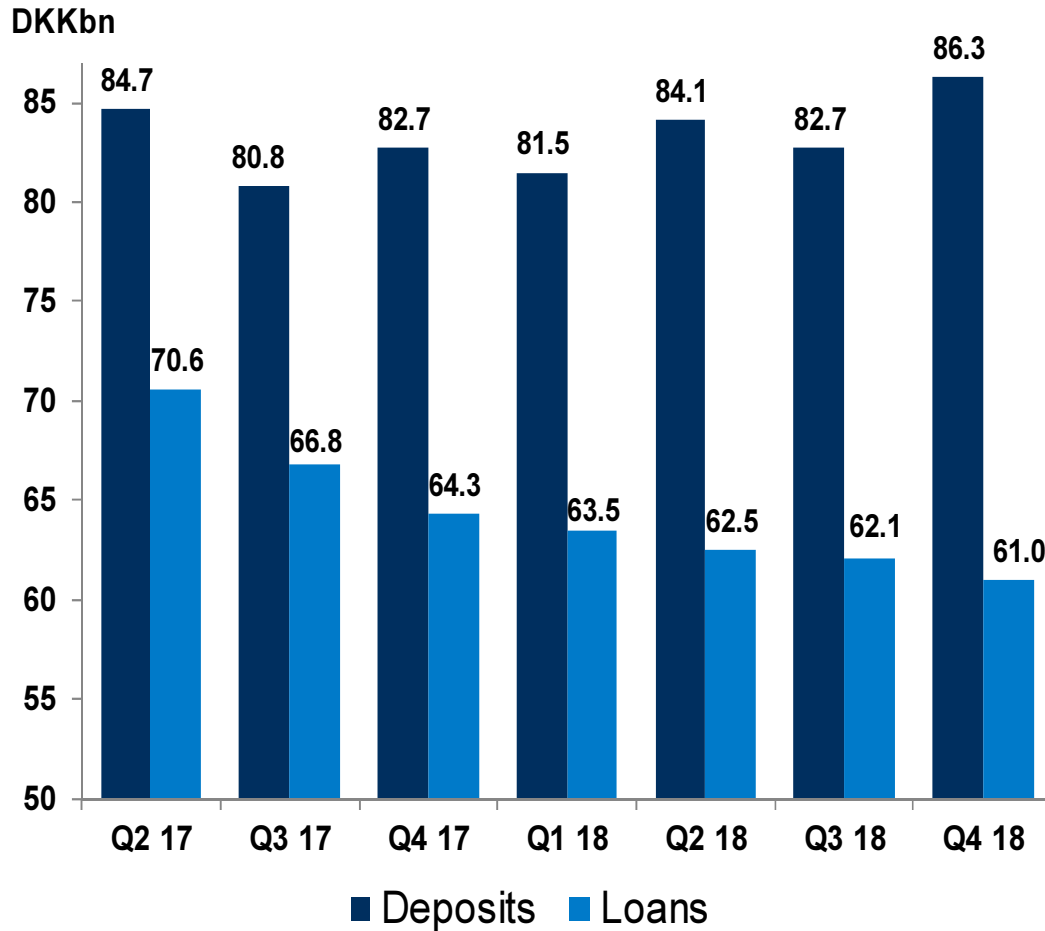
### Key points Q4 18 vs Q3 18:

- Core income down by 2%
- Negative trading income in Q4
- Costs (core earnings) up by 7% due to seasonal fluctuations.

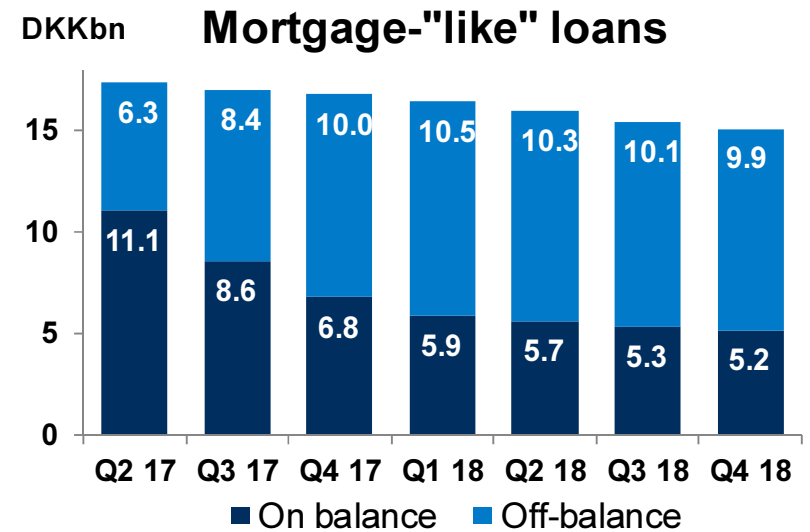
### Non-recurring items, 12M 18:

- Profit on the sale of shares in ValueInvest of DKK 110m
- Costs of DKK 52m related to Blue growth projects.

## Loans and advances declined by DKK 1.1bn in Q4 2018



- Loans and advances declined by DKK 1.1bn in Q4 2018, equal to 1.8%
- Mortgage-like loans, incl funded mortgage-like loans, dropped by DKK 0.3bn in Q4 2018
- Funded mortgage-like loans constitute DKK 9.9bn.



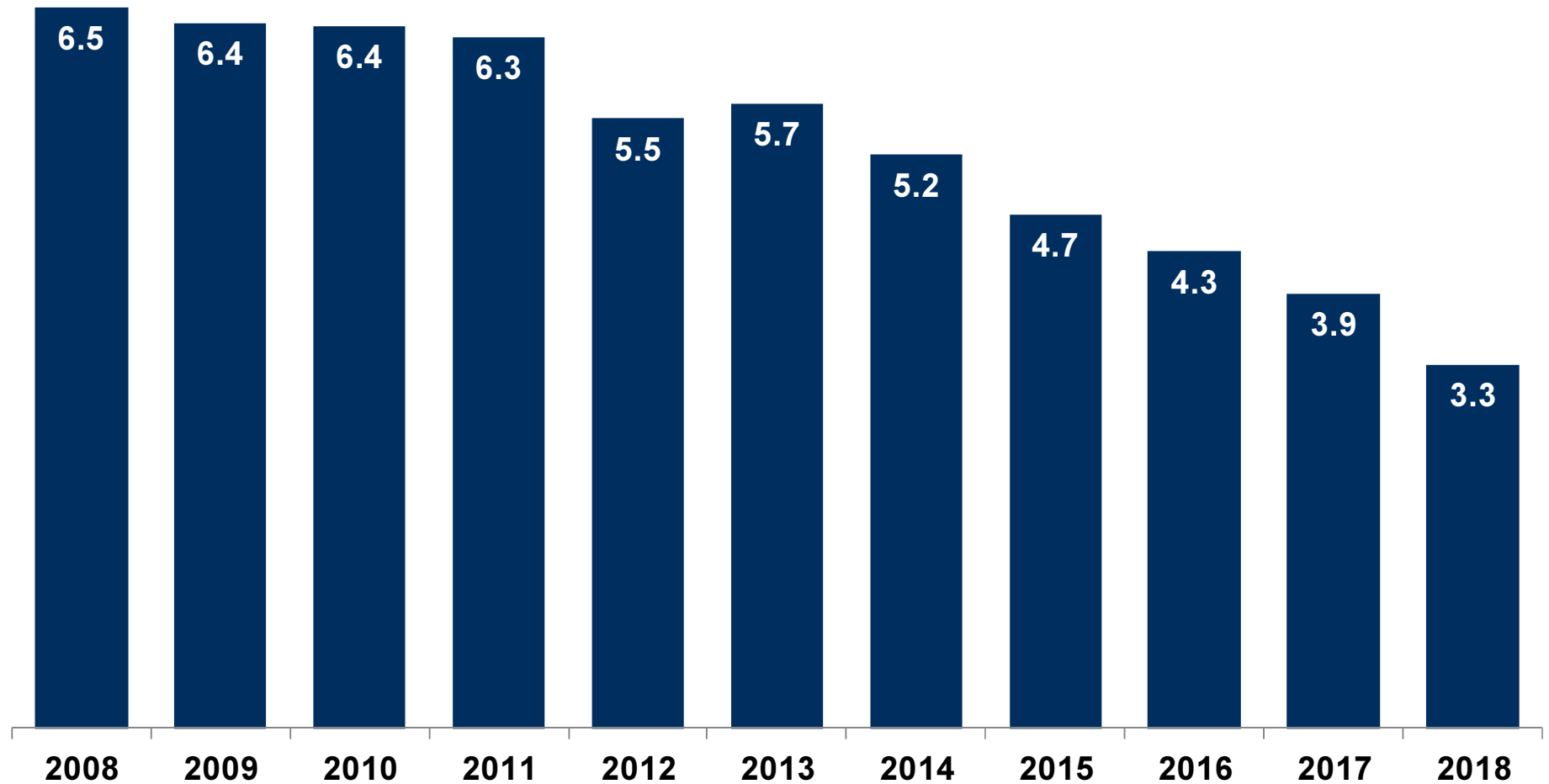
## Bank loans – sector breakdown – corporate

DKKbn	2018	2017
Manufacturing and extraction of raw materials	8,469	8,171
Energy supply etc	2,168	2,064
Trade	11,855	11,460
Transportation, hotels and restaurants	3,185	3,077
Information and communication	324	521
Finance and insurance	5,228	4,926
Other industries	3,134	3,258
<b>Total core corporate</b>	<b>34,363</b>	<b>33,477</b>
Agriculture, hunting, forestry and fisheries	3,301	3,944
Building and construction	2,857	3,386
Real estate	4,428	5,335
<b>Total corporate</b>	<b>44,949</b>	<b>46,142</b>
Change in 2018 - core corporate	886	
Change in 2018 - other corporate	- 2,079	
<b>Change in 2018 - total corporate</b>	<b>- 1,193</b>	

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Agriculture – loan portfolio down by 49% from year-end 2008

Loans agriculture, DKKbn



## Total credit intermediation – overall drop of 0.5% in Q4 2018

### Total credit intermediation

DKKbn	Q4 2017	Q2 2018	Q3 2018	Q4 2018	Change Q4
Bank loans - retail	18.0	16.5	16.0	15.7	-0.3
Bank loans - corporate	46.0	45.9	45.9	44.9	-0.9
Bank loans - public authorities	0.3	0.2	0.2	0.3	0.1
<b>Bank loans - total</b>	<b>64.3</b>	<b>62.5</b>	<b>62.1</b>	<b>61.0</b>	<b>-1.1</b>
Funded mortgage-like loans	10.0	10.3	10.1	9.9	-0.2
<b>Bank loans and funded loans</b>	<b>74.3</b>	<b>72.8</b>	<b>72.1</b>	<b>70.9</b>	<b>-1.3</b>
Arranged mortgage loans - Totalkredit	58.0	58.8	59.2	59.6	0.4
Arranged mortgage loans - DLR	11.7	11.5	11.6	11.7	0.1
<b>Total</b>	<b>144.0</b>	<b>143.2</b>	<b>142.9</b>	<b>142.2</b>	<b>-0.7</b>

- Total credit intermediation declined by DKK 0.7bn in Q4 2018, equal to a 0.5% drop.
- Total credit intermediation to retail clients – by way of bank loans and advances, funded mortgage-like loans and arranged mortgage loans – is unchanged in Q4 2018.
- Total credit intermediation to corporate clients, incl DLR, declined by DKK 0.8bn in Q4 2018.

## IFRS 9 – udlån fordelt på stadier

### Loans pre provision

DKKm	31.12.18	30.09.18
Stage 1	55,409	56,528
Stage 2	5,332	5,686
Stage 3	2,950	2,656
<b>Total</b>	<b>63,691</b>	<b>64,870</b>

### Loans after provision

DKKm	31.12.18	30.09.18
Stage 1	55,315	56,431
Stage 2	4,302	4,500
Stage 3	1,366	1,131
<b>Total</b>	<b>60,983</b>	<b>62,062</b>

### Stadie 3 - credit impaired loans

%	31.12.18	30.09.18
Share of loans pre provision	4.6	4.1
Share of loans after provision	2.2	1.8

In its statement dated 14 February 2019 the Danish FSA found that the Bank's method for allocating exposures to stages was inadequate.

The rise in loans and advances in stage 3 in Q4 2018 is a consequence of a change in the method for allocating loans and advances to stages.

Without the change in the method loans and advances in stage 3 would have gone down in Q4 2018.

In Q1 2019 the method for allocating loans and advances to stages will be adjusted further as a result of which a small increase in loans and advances in stage 3 must be expected.



## Capital ratios have risen significantly in Q4 2018

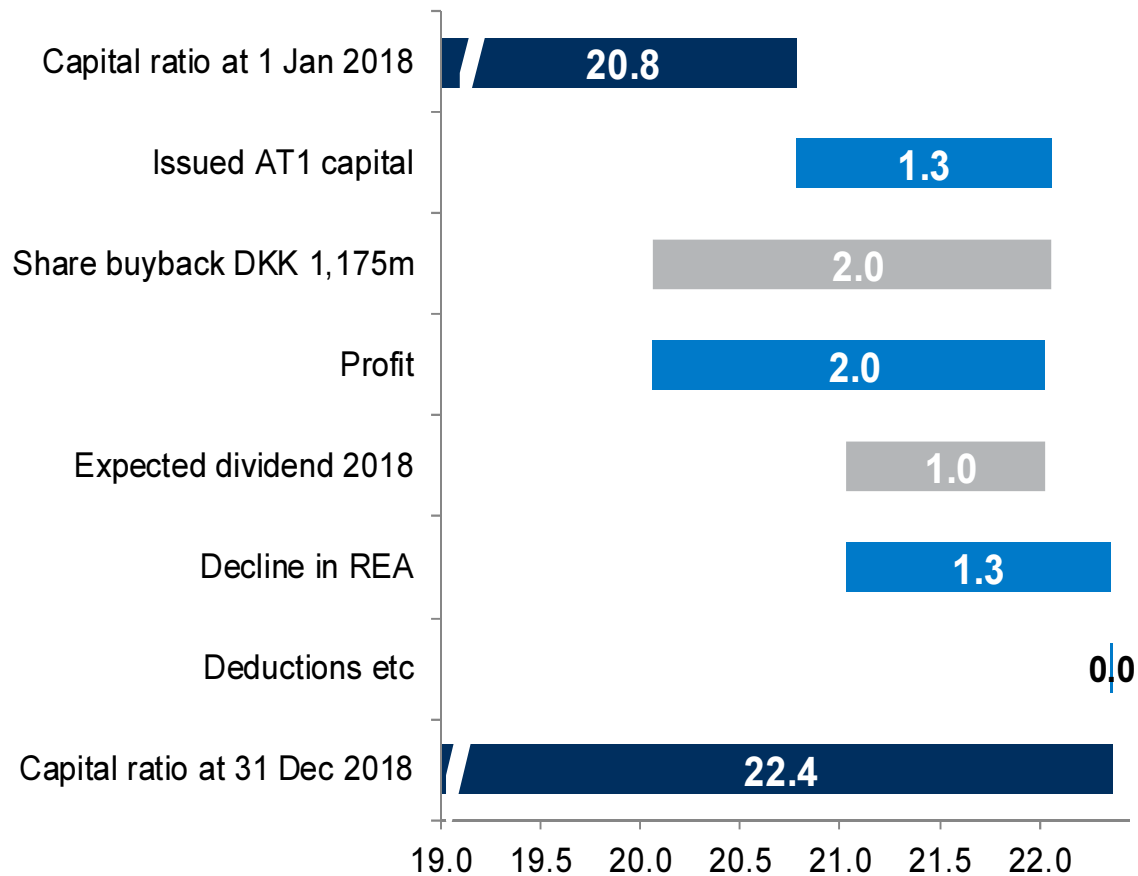
DKKm	Q4 2016	Q4 2017	Q3 2018	Q4 2018 De facto	
Credit risk	41,683	38,933	36,168	36,032	36,032
Market risk	8,075	6,239	6,001	6,036	6,036
Operational risk	8,025	8,023	8,023	7,654	7,654
Other exposures incl CVA	5,824	5,694	5,395	5,680	5,680
Risk exposure amount	63,607	58,889	55,587	55,402	55,402
CET1	10,213	10,167	8,959	9,579	9,329
Tier 1	11,044	10,446	9,928	10,550	10,300
Total capital	12,242	12,240	11,768	12,390	12,140
CET1 ratio	16.1	17.3	16.1	17.3	16.8
Tier 1 ratio	17.4	17.7	17.9	19.0	18.6
Capital ratio	19.2	20.8	21.2	22.4	21.9
Individual solvency need	10.2	11.0	11.4	11.4	11.4

### Key points 2018:

- The DKK 3.5bn decline in REA is mainly attributable to a decline in credit risk of DKK 2.9bn and a drop in operational risk of DKK 0.4bn
- The overall rise in capital ratios constitutes 1.6pp in 2018, of which 1.2pp in Q4
- Share buyback programme of DKK 1,175m has reduced capital ratios by 2.0% in 2018
- Issue of Additional Tier 1 capital worth EUR 100m has improved the capital ratio by 1.3% in 2018
- De facto column deducts DKK 250m (announced share buyback in 2019).

DKKm	Q4 2016	Q4 2017	Q3 2018	Q4 2018
Corporate, IRB	30,306	28,131	26,547	26,586
Retail, IRB	9,200	8,271	7,638	7,371
Corporate, STD	605	413	316	312
Retail, STD	648	731	825	865
Credit institutions etc.	924	1,387	842	898
<b>Total credit risk</b>	<b>41,683</b>	<b>38,933</b>	<b>36,168</b>	<b>36,032</b>

## Capital ratio development in 2018



### Key points:

- The share buyback programme of DKK 1.175m has reduced the capital ratio by 2.0pp
- Issue of AT1 has improved the capital ratio by 1.3pp
- The decline in REA is mainly attributable to credit risk.

## Status – targets

Target	Objective	Status 31 December 2018	Comment
Return on shareholders' equity after tax	Over 12%*	10.2% = 2nd	Met 2018
Customer satisfaction - Corporate	Top 3 **	3th - Aalund	Met 2018
Customer satisfaction - Retail	Top 3 **	3th - EPSI ***	Met 2018
Common Equity Tier 1 capital ratio	Around 14.0%	17.3%	Met from Q3 2013
Capital ratio	Around 18.0%	22.4%	Met from Q1 2015
Dividend	30-50% of profit for the year after tax	50% of profit for the year after tax (proposed)	Met in 2018 (proposed dividend)

\* or top 3 ranking among the 6 largest banks

\*\* among the 6 largest banks

\*\*\* among the 5 largest banks

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## Outlook for 2019

- Total income is expected to be lower than the income generated in 2018.
- Costs (core earnings) are projected to rise slightly in 2019.
- Impairment charges for 2019 are forecast to be at a low level.
- Non-recurring costs are expected to be around DKK 75m.
- Profit after tax is forecast to be in the range of DKK 800-1,100m.
- The outlook is subject to uncertainty and depends among other things on financial market developments and macroeconomic factors.

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Thank you

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## Forward-looking statements

- This presentation contains statements concerning expectations of future developments, including future income as well as expected business events.

Such statements are by their nature uncertain and associated with risks as many factors – of which some may be beyond Sydbank's control – may cause the actual developments to deviate materially from management's expectations as expressed in this presentation.