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# Interim Report – First Half 2018

Sydbank Group

**Sydbank**

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## Sydbank's Interim Report – First Half 2018

**The half year is characterised by improved credit quality, uncertainty over the impact of the dry summer on agriculture as well as negative investment portfolio earnings caused by global uncertainty**

CEO Karen Frøsig comments on Sydbank's 1H result:

- The first six months were characterised by a continued improvement in customers' sound financial health. Consequently impairment charges were reversed for the fifth consecutive quarter – despite substantial impairment charges as regards agricultural exposures, including an increase in management estimates of DKK 50m. The impairment charges as regards agriculture are mainly a consequence of the exceptional drought this summer. Increased global uncertainty has resulted in significant negative investment portfolio earnings. Overall we maintain our forecast of profit after tax in the range of DKK 1,340m-1,540m. Due to the development in investment portfolio earnings profit after tax is expected to be in the lower part of the range.

### 1H 2018 – highlights

- Profit of DKK 668m equals a return on shareholders' equity of 11.7% p.a. after tax.
- Core income of DKK 2,040m is 3% lower compared with the same period in 2017.
- Impairment charges for loans and advances represent an income of DKK 57m, equal to an improvement of DKK 48m compared with the same period in 2017.
- Total credit intermediation has declined by DKK 0.9bn, equal to 0.6% compared to year-end 2017.
- The share buyback of DKK 500m commenced on 21 February 2018 and was increased by DKK 750m at the extraordinary general meeting on 22 June 2018, bringing the total share buyback programme to DKK 1,250m. The overall share buyback programme has reduced capital ratios by 2.1 percentage points.
- Predominantly due to the overall share buyback programme, the Common Equity Tier 1 capital ratio has declined by 1.8 percentage points compared to year-end 2017 and constitutes 15.5% excluding profit for the period. When including 50% of profit for the period the Common Equity Tier 1 capital ratio stands at 16.1%.

### Outlook for 2018

- Limited growth is projected for the Danish economy in 2018.
- Total income is expected to be on a par with the income generated in 2017.
- Costs (core earnings) are projected to rise slightly in 2018.
- Impairment charges for 2018 are forecast to be at a low level.
- Non-recurring items, net are expected to represent an income of around DKK 35m.
- Profit after tax is expected to be in the range of DKK 1,340m-1,540m. Based on investment portfolio earnings for 1H 2018 profit after tax is expected to be in the lower part of the range.

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## Group Financial Highlights

|   | 1H<br>2018   | 1H<br>2017   | Index<br>18/17 | Q2<br>2018   | Q2<br>2017   | Full year<br>2017 |
|---|--------------|--------------|----------------|--------------|--------------|-------------------|
| <b>Income statement (DKK m)</b>                               |              |              |                |              |              |                   |
| Core income   | 2,040        | 2,093        | 97             | 987          | 1,040        | 4,167             |
| Trading income  | 100          | 139          | 72             | 45           | 46           | 233               |
| <b>Total income</b>   | <b>2,140</b> | <b>2,232</b> | <b>96</b>      | <b>1,032</b> | <b>1,086</b> | <b>4,400</b>      |
| Costs, core earnings  | 1,397        | 1,369        | 102            | 694          | 678          | 2,637             |
| <b>Core earnings before impairment</b>                        | <b>743</b>   | <b>863</b>   | <b>86</b>      | <b>338</b>   | <b>408</b>   | <b>1,763</b>      |
| Impairment of loans and advances etc                          | (57)         | (9)          | -              | (44)         | (20)         | (51)              |
| <b>Core earnings</b>  | <b>800</b>   | <b>872</b>   | <b>92</b>      | <b>382</b>   | <b>428</b>   | <b>1,814</b>      |
| Investment portfolio earnings                                 | (78)         | 187          | (42)           | (66)         | 51           | 182               |
| <b>Profit before non-recurring items</b>                      | <b>722</b>   | <b>1,059</b> | <b>68</b>      | <b>316</b>   | <b>479</b>   | <b>1,996</b>      |
| Non-recurring items, net                                      | 92           | (12)         | -              | (13)         | (6)          | (40)              |
| <b>Profit before tax</b>                                      | <b>814</b>   | <b>1,047</b> | <b>78</b>      | <b>303</b>   | <b>473</b>   | <b>1,956</b>      |
| Tax   | 146          | 231          | 63             | 66           | 104          | 425               |
| <b>Profit for the period</b>                                  | <b>668</b>   | <b>816</b>   | <b>82</b>      | <b>237</b>   | <b>369</b>   | <b>1,531</b>      |
| <b>Balance sheet highlights (DKK bn)</b>                      |              |              |                |              |              |                   |
| Loans and advances at amortised cost                          | 62.5         | 70.6         | 89             | 62.5         | 70.6         | 64.3              |
| Loans and advances at fair value                              | 6.1          | 7.4          | 82             | 6.1          | 7.4          | 5.2               |
| Deposits and other debt                                       | 84.1         | 84.7         | 99             | 84.1         | 84.7         | 82.7              |
| Bonds issued at amortised cost                                | -            | 3.7          | -              | -            | 3.7          | 3.7               |
| Subordinated capital  | 1.9          | 1.3          | 146            | 1.9          | 1.3          | 1.9               |
| Holders of Additional Tier 1 (AT1) capital                    | 0.8          | -            | -              | 0.8          | -            | -                 |
| Shareholders' equity  | 11.3         | 11.5         | 98             | 11.3         | 11.5         | 11.9              |
| Total assets  | 136.1        | 140.1        | 97             | 136.1        | 140.1        | 138.5             |
| <b>Financial ratios per share (DKK per share of DKK 10)</b>   |              |              |                |              |              |                   |
| EPS Basic **/**   | 10.0         | 11.8         |                | 3.5          | 5.4          | 22.4              |
| EPS Diluted **/**   | 10.0         | 11.8         |                | 3.5          | 5.4          | 22.4              |
| Share price at end of period                                  | 219.4        | 245.4        |                | 219.4        | 245.4        | 249.9             |
| Book value ***  | 173.1        | 169.0        |                | 173.1        | 169.0        | 178.3             |
| Share price/book value ***                                    | 1.27         | 1.45         |                | 1.27         | 1.45         | 1.40              |
| Average number of shares outstanding (in millions)            | 66.5         | 69.1         |                | 66.2         | 68.8         | 68.4              |
| Dividend per share  | -            | -            |                | -            | -            | 11.31             |
| <b>Other financial ratios and key figures</b>                 |              |              |                |              |              |                   |
| Common Equity Tier 1 capital ratio                            | 15.5         | 15.6         |                | 15.5         | 15.6         | 17.3              |
| Tier 1 capital ratio  | 17.2         | 16.1         |                | 17.2         | 16.1         | 17.7              |
| Capital ratio   | 20.4         | 18.1         |                | 20.4         | 18.1         | 20.8              |
| Pre-tax profit as % p.a. of average shareholders' equity ***  | 14.3         | 18.2         |                | 10.6         | 16.5         | 16.8              |
| Post-tax profit as % p.a. of average shareholders' equity *** | 11.7         | 14.2         |                | 8.2          | 12.8         | 13.1              |
| Costs (core earnings) as % of total income                    | 65.3         | 61.3         |                | 67.2         | 62.4         | 59.9              |
| Return on assets (%)  | 0.5          | 0.6          |                | 0.2          | 0.3          | 1.1               |
| Interest rate risk  | 1.6          | 0.7          |                | 1.6          | 0.7          | 0.8               |
| Foreign exchange position                                     | 3.6          | 3.9          |                | 3.6          | 3.9          | 1.2               |
| Foreign exchange risk   | 0.0          | 0.1          |                | 0.0          | 0.1          | 0.0               |
| Loans and advances relative to deposits *                     | 0.6          | 0.7          |                | 0.6          | 0.7          | 0.6               |
| Loans and advances relative to shareholders' equity *         | 5.5          | 6.1          |                | 5.5          | 6.1          | 5.4               |
| Growth in loans and advances for the period *                 | (2.8)        | (8.6)        |                | (1.6)        | (1.8)        | (16.7)            |
| Excess cover relative to statutory liquidity requirements     | 237.7        | 242.0        |                | 237.7        | 242.0        | 232.1             |
| Total large exposures   | 0.0          | 20.7         |                | 0.0          | 20.7         | 0.0               |
| Accumulated impairment ratio                                  | 3.6          | 3.6          |                | 3.6          | 3.6          | 3.6               |
| Impairment ratio for the period **                            | (0.07)       | (0.01)       |                | (0.06)       | (0.02)       | (0.05)            |
| Number of full-time staff at end of period                    | 2,102        | 2,092        | 100            | 2,102        | 2,092        | 2,064             |

\* Financial ratios are calculated on the basis of loans and advances at amortised cost.

\*\* Half-year and quarterly ratios have not been converted to a full-year basis.

\*\*\* Financial ratios are calculated as if Additional Tier 1 capital is accounted for as a liability.

## Highlights

**Improved credit quality, uncertainty over the impact of the dry summer on agriculture as well as negative investment portfolio earnings caused by global uncertainty**

Sydbank's financial statements for 1H show a pre-tax profit of DKK 814m compared with DKK 1,047m in 1H 2017. The decline is primarily attributable to a drop in investment portfolio earnings of DKK 265m and an improvement in non-recurring items, net of DKK 104m.

Profit before tax equals a return on average shareholders' equity of 14.3% p.a.

Core income, trading income, costs (core earnings) and impairment charges are in line with the expectations announced in the 2017 Annual Report. Non-recurring items recorded in 1H 2018 exceed the expectations presented in the 2017 Annual Report.

Net interest etc constitutes DKK 919m compared with DKK 1,030m in 2017 – a decline of DKK 111m. DKK 42m of the decline is attributable to an increase in the extent of funded mortgage-like loans.

Core income represents DKK 2,040m compared with DKK 2,093m in 2017 – a decline of DKK 53m.

Total income amounts to DKK 2,140m against DKK 2,232m in 2017.

Core earnings constitute DKK 800m compared with DKK 872m in 2017 – a decrease of DKK 72m.

Profit for the period amounts to DKK 668m compared with DKK 816m in 2017 – a decline of DKK 148m.

### Follow-up on the 3-year plan – Blue growth

The strategy for the 3-year period 2016-2018 is named "Blue growth". Blue growth means high-quality and profitable banking – pure and simple.

### Status – targets

| Target                                   | Objective                               | Status at 30 June 2018                       | Comment            |
|--|---|--|--------------------|
| Return on shareholders' equity after tax | Over 12% *                              | 11.7%  | On a par           |
| Customer satisfaction – Corporate        | Top 3 **                                | 4th – Aalund                                 | New survey 2H 2018 |
| Customer satisfaction – Retail           | Top 3 **                                | 5th – EPSI                                   | New survey 2H 2018 |
| Common Equity Tier 1 capital ratio       | Around 14.0%                            | 15.5%  | Met from Q3 2013   |
| Capital ratio                            | Around 18.0%                            | 20.4%  | Met from Q1 2015   |
| Dividend                                 | 30-50% of profit for the year after tax | 50% of profit for the year after tax in 2017 | Met in 2017        |

\* or top 3 ranking among the 6 largest banks

\*\* among the 6 largest banks

### Blue growth – targets:

- Realise a return on shareholders' equity of a minimum of 12% after tax or be in the top 3 of the 6 largest banks
- Maintain top 3 ranking among the 6 largest banks in terms of customer satisfaction.



To ensure further digitization of processes and the establishment of a new mortgage platform, DKK 75m will be allocated in 2018 to optimise IT systems. The amount will be recognised under non-recurring items.

These funds cover 3 projects:

- Optimisation of housing loan processes
- New mortgage platform
- Streamlining of credit processes.

Customers and employees alike will experience improvements as a result of the projects. Customers in the form of shorter response times and case processing times. Employees in the form of smoother procedures and qualitative improvements. The projects will contribute to developing the Bank as well as make it possible to adjust costs – also in the years ahead.

## 1H performance

Core income totals DKK 2,040m, which is DKK 53m lower than in 1H 2017. The development in core income is mainly attributable to a decline in net interest income etc and commission and brokerage as well as an increase in mortgage credit income and commission etc concerning investment funds and pooled pension plans. The rise in commission etc concerning investment funds and pooled pension plans is due to a revaluation of the shares in BI Holding A/S of DKK 41m.

Trading income constitutes DKK 100m in 1H 2018 compared with DKK 139m in the same period in 2017. The income generated in 1H 2018 is in line with expectations at the beginning of 2018.

Total income represents DKK 2,140m, a decrease of DKK 92m compared with 1H 2017.

At Sydbank costs (core earnings) are a constant focus area and the Group maintained tight control of costs (core earnings) in 1H, which constituted DKK 1,397m compared with DKK 1,369m in 2017 – an increase of DKK 28m.

The Group's impairment charges for loans and advances represent an income of DKK 57m, which is an improvement of DKK 48m compared to 1H 2017.

Together the Group's position-taking and liquidity handling recorded negative investment portfolio earnings of DKK 78m in 1H 2018 compared with earnings of DKK 187m a year ago.

Non-recurring items represent a net income of DKK 92m compared with an expense of DKK 12m in 1H 2017. The item consists of costs of DKK 18m for process digitization related to Blue growth and the establishment of a new mortgage platform as well as an income of DKK 110m in connection with the sale of the shares in ValueInvest Asset Management S.A.

Profit before tax for 1H 2018 amounts to DKK 814m compared with DKK 1,047m in the same period in 2017.

Tax represents DKK 146m, equivalent to an effective tax rate of 17.9%. The low level is due to the fact that the income of DKK 110m and DKK 41m concerning ValueInvest and BI Holding respectively is tax-exempt. Profit for the period amounts to DKK 668m compared with DKK 816m in 2017.

## Credit intermediation

In addition to traditional bank loans and advances the Group arranges for mortgage loans from Totalkredit and DLR Kredit. The Group's total credit intermediation comprises bank loans and advances, mortgage-like loans funded by Totalkredit as well as mortgage loans arranged through Totalkredit and DLR Kredit respectively. At 30 June 2018 credit intermediation totalled DKK 143.1bn – a drop of DKK 0.9bn since year-end 2017.

| Total credit intermediation (DKKbn)   | 30 Jun 2018  | 31 Dec 2017  |
|---------------------------------------|--------------|--------------|
| Bank loans and advances               | 62.5         | 64.3         |
| Funded mortgage-like loans            | 10.3         | 10.0         |
| Arranged mortgage loans – Totalkredit | 58.8         | 58.0         |
| Arranged mortgage loans – DLR         | 11.5         | 11.7         |
| <b>Total</b>                          | <b>143.1</b> | <b>144.0</b> |

## Capital

The Bank issued Additional Tier 1 capital worth EUR 100m on 30 May 2018. The capital is perpetual with optional redemption on 28 August 2025.

The Bank initiated a share buyback programme of DKK 500m on 21 February 2018. On 22 June 2018 the programme was increased by DKK 750m to DKK 1,250m. The total share buyback programme will be completed by 31 January 2019 at the latest. At end-June 1,480,000 shares worth DKK 333m, made up at the trade date, had been repurchased.

The issue of Additional Tier 1 capital as well as the share buyback are part of the capital adjustment to optimise the capital structure in accordance with the Group's capital policy published in the 2017 Annual Report.

## Outlook for 2018

Limited growth is projected for the Danish economy in 2018.

Total income is expected to be on a par with the income generated in 2017.

Costs (core earnings) are projected to rise slightly in 2018.

Impairment charges for 2018 are forecast to be at a low level.

Non-recurring items, net are expected to represent an income of around DKK 35m.

Profit after tax is expected to be in the range of DKK 1,340m-1,540m. Based on investment portfolio earnings for 1H 2018 profit after tax is expected to be in the lower part of the range.

## Financial Review – Performance in 1H 2018

The Sydbank Group has recorded a profit before tax of DKK 814m (1H 2017: DKK 1,047m).

Profit before tax equals a return on average shareholders' equity of 14.3% p.a.

Profit for the period after tax amounts to DKK 668m compared with DKK 816m in 2017.

Profit after tax equals a return on average shareholders' equity of 11.7% p.a.

Profit for 1H 2018 exceeds expectations at the beginning of the year.

The result is characterised by:

### 1H

- A decrease in core income of DKK 53m to DKK 2,040m
- A drop in trading income of DKK 39m
- A 2.0% increase in costs (core earnings) to DKK 1,397m
- A reversal of impairment charges for loans and advances of DKK 57m
- A decrease in core earnings of DKK 72m to DKK 800m
- Negative investment portfolio earnings of DKK 78m
- Bank loans and advances of DKK 62.5bn (year-end 2017: DKK 64.3bn)
- Bank deposits of DKK 84.1bn (year-end 2017: DKK 82.7bn)
- A capital ratio of 20.4%, including a Common Equity Tier 1 capital ratio of 15.5%
- An individual solvency need of 11.0% (year-end 2017: 11.0%).

| Income statement – 1H (DKKm)             | 2018         | 2017         |
|--|--------------|--------------|
| Core income                              | 2,040        | 2,093        |
| Trading income                           | 100          | 139          |
| <b>Total income</b>                      | <b>2,140</b> | <b>2,232</b> |
| Costs, core earnings                     | 1,397        | 1,369        |
| <b>Core earnings before impairment</b>   | <b>743</b>   | <b>863</b>   |
| Impairment of loans and advances etc     | (57)         | (9)          |
| <b>Core earnings</b>                     | <b>800</b>   | <b>872</b>   |
| Investment portfolio earnings            | (78)         | 187          |
| <b>Profit before non-recurring items</b> | <b>722</b>   | <b>1,059</b> |
| Non-recurring items, net                 | 92           | (12)         |
| <b>Profit before tax</b>                 | <b>814</b>   | <b>1,047</b> |
| Tax                                      | 146          | 231          |
| <b>Profit for the period</b>             | <b>668</b>   | <b>816</b>   |

### Core income

Core income of DKK 2,040m represents a drop of DKK 53m compared with 2017.

Net interest has decreased by DKK 111m to DKK 919m. DKK 42m of the decline is attributable to an increase in the extent of funded mortgage-like loans.

Net income from the cooperation with Totalkredit represents DKK 230m (2017: DKK 189m) after a set-off of loss of DKK 12m (2017: DKK 15m).

The cooperation with DLR Kredit has generated an income of DKK 58m (2017: DKK 77m).

Compared with 2017 total mortgage credit income has climbed by DKK 21m to DKK 289m – an increase of 8%. DKK 39m of the increase of DKK 21m is attributable to an increase in the extent of funded mortgage-like loans.

Income from commission and brokerage has gone down from DKK 194m in 2017 to DKK 158m – a decline of 19%.

Compared with 2017 income from asset management has gone up by DKK 11m to DKK 134m – a rise of 9%.

Income from commission etc concerning investment funds and pooled pension plans has increased by DKK 41m compared with 2017 to DKK 240m as a result of the revaluation of the shares in BI Holding A/S of DKK 41m.

The remaining income components have gone up by DKK 21m compared to 2017 – an increase of 8%.

| Core income – 1H (DKKm)                                  | 2018         | 2017         |
|--|--------------|--------------|
| Net interest etc   | 919          | 1,030        |
| Mortgage credit  | 289          | 268          |
| Payment services   | 97           | 96           |
| Remortgaging and loan fees                               | 68           | 66           |
| Commission and brokerage                                 | 158          | 194          |
| Commission etc investment funds and pooled pension plans | 240          | 199          |
| Asset management   | 134          | 123          |
| Custody account fees                                     | 35           | 35           |
| Other operating income                                   | 100          | 82           |
| <b>Total</b>   | <b>2,040</b> | <b>2,093</b> |

### Trading income

Trading income constitutes DKK 100m in 1H 2018 compared with DKK 139m in the same period in 2017. The income generated in 1H 2018 is in line with expectations at the beginning of 2018.

In Fixed Income considerable trading activity was recorded in mortgage bonds in 1H 2018. In Equities income was affected by the negative market trend in 1H 2018.

| Trading income – 1H (DKK m)    | 2018       | 2017       |
|--------------------------------|------------|------------|
| Bonds                          | 58         | 93         |
| Shares                         | 23         | 31         |
| Foreign exchange, interest etc | 19         | 15         |
| <b>Total</b>                   | <b>100</b> | <b>139</b> |

### Costs and depreciation

The Group's costs and depreciation totalled DKK 1,419m, equal to an increase of DKK 35m compared with 2017. The increase is a consequence of general pay rises for the financial sector and a payroll tax increase of 0.5%.

| Costs and depreciation – 1H (DKK m)   | 2018         | 2017         |
|---|--------------|--------------|
| Staff costs   | 828          | 793          |
| Other administrative expenses   | 536          | 528          |
| Amortisation/depreciation and impairment of intangible assets and property, plant and equipment | 47           | 48           |
| Other operating expenses  | 8            | 15           |
| <b>Total costs and depreciation</b>   | <b>1,419</b> | <b>1,384</b> |
| Distributed as follows:   |              |              |
| Costs, core earnings  | 1,397        | 1,369        |
| Costs, investment portfolio earnings  | 4            | 4            |
| Non-recurring costs   | 18           | 12           |

Costs (core earnings) represent DKK 1,397m compared with DKK 1,369m in 2017.

At the end of 1H 2018 the Group's staff numbered 2,102 (full-time equivalent) compared with 2,092 at 30 June 2017.

The number of branches is unchanged compared with year-end 2017: 62 in Denmark and 3 in Germany.

### Core earnings before impairment

Core earnings before impairment charges for loans and advances represent DKK 743m – a decrease of DKK 120m or 14% compared with the same period in 2017.

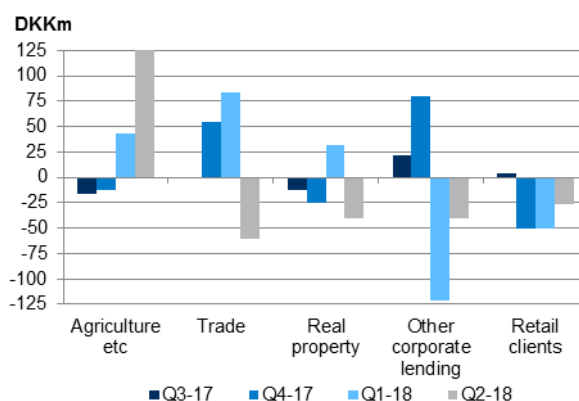
### Impairment of loans and advances etc

Impairment charges for loans and advances represent an income of DKK 57m compared with an income of DKK 9m in the same period in 2017.

Additional impairment charges for agricultural exposures represent DKK 125m at 30 June 2018 – a DKK 50m increase compared with year-end 2017.

The chart below shows impairment charges for loans and advances in the last 4 quarters as regards agriculture etc, trade, real property, other corporate lending as well as retail clients.

### Individual impairment charges – quarterly



At 30 June 2018 the impairment ratio represents minus 0.07% relative to bank loans and advances and minus 0.07% relative to bank loans and advances and guarantees. At end-June 2018 accumulated impairment and provisions amount to DKK 3,088m – a decline of DKK 219m compared with 1 January 2018.

In 1H 2018 reported losses amount to DKK 244m (1H 2017: DKK 327m). Of the reported losses DKK 175m has previously been written down.

As a result of **IFRS 9**, which became effective on 1 January 2018, impairment charges are made for expected credit losses as regards all financial assets measured at amortised cost and similar provisions are made for expected credit losses as regards undrawn credit lines and financial guarantees.

Impairment charges for expected credit losses depend on whether the credit risk of a financial asset has increased significantly since initial recognition and are divided into 3 stages:

- **Stage 1** – facilities with no significant increase in credit risk. The asset is written down by an amount equal to the expected credit loss as a result of the probability of default over the coming 12 months
- **Stage 2** – facilities with a significant increase in credit risk. The asset is transferred to stage 2 and is written down by an amount equal to the expected credit loss over the life of the asset
- **Stage 3** – facilities where the financial asset is in default or is otherwise credit impaired.



The Group's loans and advances and impairment charges at 30 June 2018 divided into these 3 stages are shown in the table below.

| 30 Jun 2018<br>(DKKm)                        | Stage 1 | Stage 2 | Stage 3 | Total  |
|--|---------|---------|---------|--------|
| Loans and advances before impairment charges | 56,934  | 5,690   | 2,708   | 65,332 |
| Impairment charges                           | 97      | 1,096   | 1,623   | 2,816  |
| Loans and advances after impairment charges  | 56,837  | 4,594   | 1,085   | 62,516 |

| 30 Jun 2018<br>(%)   | Stage 1 | Stage 2 | Stage 3 | Total |
|--|---------|---------|---------|-------|
| Impairment charges as % of bank loans and advances             | 0.2     | 19.3    | 59.9    | 4.3   |
| Share of bank loans and advances before impairment charges (%) | 87.2    | 8.7     | 4.1     | 100.0 |
| Share of bank loans and advances after impairment charges (%)  | 90.9    | 7.4     | 1.7     | 100.0 |

Credit impaired bank loans and advances – stage 3 – represent 4.1% of total bank loans and advances before impairment charges and 1.7% of total bank loans and advances after impairment charges.

Impairment charges concerning credit impaired bank loans and advances as a percentage of credit impaired bank loans and advances at 30 June 2018 stand at 59.9%.

In compliance with the transitional rules comparative figures for 2017 have not been restated.

### Core earnings

Core earnings represent DKK 800m – a decrease of DKK 72m or 8% compared with the same period in 2017.

### Investment portfolio earnings

Together the Group's position-taking and liquidity handling recorded negative investment portfolio earnings of DKK 78m in 1H 2018 compared with investment portfolio earnings of DKK 187m a year ago.

The negative investment portfolio earnings in 1H 2018 are a consequence of widening credit spreads on mortgage bonds as well as a drop in interest rates. The risk continues to be composed so that the Group will profit from an interest rate increase.

| Investment portfolio earnings – 1H<br>(DKKm) | 2018        | 2017       |
|--|-------------|------------|
| Position-taking                              | (58)        | 137        |
| Liquidity generation and liquidity reserves  | (4)         | 45         |
| Strategic positions                          | (12)        | 9          |
| Costs  | (4)         | (4)        |
| <b>Total</b>                                 | <b>(78)</b> | <b>187</b> |

Margin expenses as regards the Group's senior issues are included under liquidity generation and liquidity reserves and represent DKK 8m in 1H 2018 compared with DKK 10m in 1H 2017.

### Non-recurring items, net

Non-recurring items, net represent an income of DKK 92m compared with an expense of DKK 12m in 1H 2017. The item consists of costs of DKK 18m for process digitization related to Blue growth and the establishment of a new mortgage platform as well as an income of DKK 110m in connection with the sale of the shares in ValueInvest Asset Management S.A.

### Profit for the period

Profit before tax amounts to DKK 814m (1H 2017: DKK 1,047m). Tax represents DKK 146m, equal to an effective tax rate of 17.9%. The low level is due to the fact that the income of DKK 110m and DKK 41m concerning ValueInvest and BI Holding respectively is tax-exempt. Profit for the period amounts to DKK 668m compared with DKK 816m in 2017.

### Return

Profit for the period equals a return on average shareholders' equity of 11.7% p.a. after tax against 14.2% p.a. in 1H 2017. Earnings per share stands at DKK 10.0 compared with DKK 11.8 in 2017.

### Subsidiaries

Ejendomsselskabet has recorded a profit after tax of DKK 4m (1H 2017: DKK 2m). Profit after tax in DiBa A/S and Syd Fund Management A/S represents DKK 6m (1H 2017: DKK 0m) and DKK 8m (1H 2017: DKK 6m) respectively.

### Q2 2018 compared with Q1 2018

Profit before tax for the quarter represents DKK 303m.

Compared with Q1 2018 profit before tax reflects:

- a decline in net interest etc of DKK 1m
- a decrease in core income of DKK 66m
- a drop in trading income of DKK 10m
- a decline in costs (core earnings) of DKK 9m
- a decrease in impairment charges for bank loans and advances of DKK 31m
- a drop in core earnings of DKK 36m to DKK 382m
- investment portfolio earnings of minus DKK 66m (Q1 2018: minus DKK 12m).

| Profit for the period (DKKm)             | Q2 2018      | Q1 2018      | Q4 2017      | Q3 2017      | Q2 2017      | Q1 2017      |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Core income                              | 987          | 1,053        | 1,038        | 1,036        | 1,040        | 1,053        |
| Trading income                           | 45           | 55           | 36           | 58           | 46           | 93           |
| <b>Total income</b>                      | <b>1,032</b> | <b>1,108</b> | <b>1,074</b> | <b>1,094</b> | <b>1,086</b> | <b>1,146</b> |
| Costs, core earnings                     | 694          | 703          | 645          | 623          | 678          | 691          |
| <b>Core earnings before impairment</b>   | <b>338</b>   | <b>405</b>   | <b>429</b>   | <b>471</b>   | <b>408</b>   | <b>455</b>   |
| Impairment of loans and advances etc     | (44)         | (13)         | (13)         | (29)         | (20)         | 11           |
| <b>Core earnings</b>                     | <b>382</b>   | <b>418</b>   | <b>442</b>   | <b>500</b>   | <b>428</b>   | <b>444</b>   |
| Investment portfolio earnings            | (66)         | (12)         | (13)         | 8            | 51           | 136          |
| <b>Profit before non-recurring items</b> | <b>316</b>   | <b>406</b>   | <b>429</b>   | <b>508</b>   | <b>479</b>   | <b>580</b>   |
| Non-recurring items, net                 | (13)         | 105          | (17)         | (11)         | (6)          | (6)          |
| <b>Profit before tax</b>                 | <b>303</b>   | <b>511</b>   | <b>412</b>   | <b>497</b>   | <b>473</b>   | <b>574</b>   |
| Tax                                      | 66           | 80           | 85           | 109          | 104          | 127          |
| <b>Profit for the period</b>             | <b>237</b>   | <b>431</b>   | <b>327</b>   | <b>388</b>   | <b>369</b>   | <b>447</b>   |

### Total assets

The Group's total assets made up DKK 136.1bn at 30 June 2018 against DKK 138.5bn at year-end 2017.

| Assets (DKKbn)   | 30 Jun 2018  | 31 Dec 2017  |
|--|--------------|--------------|
| Amounts owed by credit institutions etc                        | 12.4         | 14.6         |
| Loans and advances at fair value (reverse transactions)        | 6.1          | 5.2          |
| Loans and advances at amortised cost (bank loans and advances) | 62.5         | 64.3         |
| Securities and holdings etc                                    | 29.2         | 28.1         |
| Assets related to pooled plans                                 | 16.6         | 16.5         |
| Other assets etc   | 9.3          | 9.8          |
| <b>Total</b>   | <b>136.1</b> | <b>138.5</b> |

The Group's bank loans and advances made up DKK 62.5bn at end-June 2018 against DKK 64.3bn at year-end 2017 and DKK 70.6bn at end-June 2017.

| Shareholders' equity and liabilities (DKKbn)       | 30 Jun 2018  | 31 Dec 2017  |
|--|--------------|--------------|
| Amounts owed to credit institutions etc            | 5.4          | 6.0          |
| Deposits and other debt                            | 84.1         | 82.7         |
| Deposits in pooled plans                           | 16.6         | 16.5         |
| Bonds issued                                       | -            | 3.7          |
| Other liabilities etc                              | 15.6         | 15.4         |
| Provisions   | 0.4          | 0.4          |
| Subordinated capital                               | 1.9          | 1.9          |
| Shareholders' equity – shareholders of Sydbank A/S | 11.3         | 11.9         |
| Holders of Additional Tier 1 (AT1) capital         | 0.8          | -            |
| <b>Total</b>                                       | <b>136.1</b> | <b>138.5</b> |

The Group's deposits make up DKK 84.1bn, equal to an increase of DKK 1.4bn compared to the level at year-end 2017.

### Capital

At 30 June 2018 the equity of the shareholders constitutes DKK 11,349m – a decline of DKK 577m since year-end 2017. The change comprises an addition from profit for the period of DKK 665m less actual distribution of DKK 765m and net purchases of own shares etc of DKK 309m as well as the effect of DKK 168m after tax of the amended impairment principles regarding loans and advances etc as a consequence of IFRS 9 taking effect at 1 January 2018.

The Bank issued Additional Tier 1 capital worth EUR 100m on 30 May 2018. The capital is perpetual with optional redemption on 28 August 2025.

The Bank initiated a share buyback programme of DKK 500m on 21 February 2018. On 22 June 2018 the programme was increased by DKK 750m to DKK 1,250m. The total share buyback programme will be completed by 31 January 2019 at the latest. At end-June 1,480,000 shares worth DKK 333m, made up at the trade date, had been repurchased.

The issue of Additional Tier 1 capital as well as the share buyback are part of the capital adjustment to optimise the capital structure in accordance with the Group's capital policy published in the 2017 Annual Report.

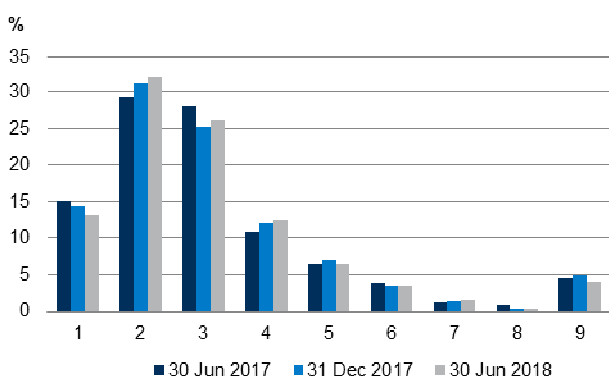
| REA (DKKbn)              | 30 Jun 2018 | 31 Dec 2017 |
|--------------------------|-------------|-------------|
| Credit risk              | 36.8        | 38.9        |
| Market risk              | 7.6         | 6.3         |
| Operational risk         | 8.0         | 8.0         |
| Other exposures incl CVA | 5.3         | 5.7         |
| <b>Total</b>             | <b>57.7</b> | <b>58.9</b> |

The risk exposure amount represents DKK 57.7bn (year-end 2017: DKK 58.9bn). The change is mainly attributable to an increase in market risk of DKK 1.3bn and a decline in credit risk of DKK 2.1bn.

The development in the gross exposure by rating category at 30 June 2017, 31 December 2017 and 30 June 2018 appears below.

Compared with 31 December 2017 the gross exposure by rating category shows an overall positive development with a larger share in the 4 best rating categories.

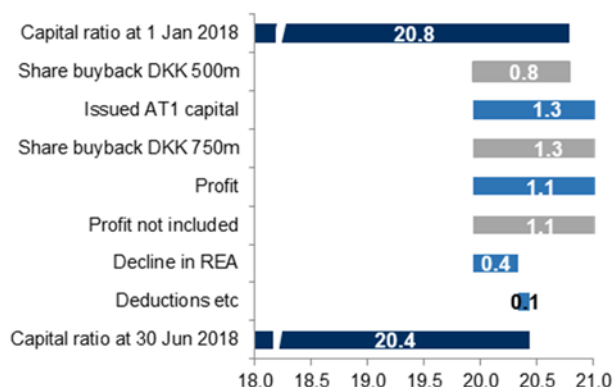
#### Gross exposure by rating category



The gross exposure consists of loans and advances, undrawn credit lines, interest receivable, guarantees and counterparty risk on derivatives. The graph comprises exposures treated according to IRB. Exposures relating to clients in default are not included in the breakdown of rating categories. Impairment charges for exposures have not been deducted from the exposure.

The Group's capital ratio stands at 20.4%, of which the Tier 1 capital ratio represents 17.2% compared with 20.8% and 17.7% respectively at year-end 2017. The Common Equity Tier 1 capital ratio stands at 15.5% (31 December 2017: 17.3%). The development in the Group's capital ratio from 31 December 2017 to 30 June 2018 is illustrated below.

#### Capital ratio in 1H



Profit for the period is not included in the calculation of capital ratios at 30 June 2018. If 50% of profit for the period after tax had been recognised the capital ratios would have been 0.6 percentage points higher.

At 30 June 2018 the individual solvency need represents 11.0% (31 December 2017: 11.0%).

The parent's capital ratio stands at 19.7%, of which the Tier 1 capital ratio represents 16.6% compared with 20.1% and 17.2% respectively at year-end 2017. The Common Equity Tier 1 capital ratio stands at 15.0% (31 December 2017: 16.7%).

#### Capital requirements

The Group's capital management is anchored in the Internal Capital Adequacy Assessment Process (ICAAP), a review conducted to identify risks and determine the individual solvency need.

At end-June 2018 the individual solvency need represented 11.0%. The solvency need consists of a minimum capital requirement of 8% under Pillar I and a capital add-on under Pillar II. Approximately 56% of the solvency need must be covered by Common Equity Tier 1 capital, equal to 5.6% of the risk exposure amount.

In addition to the solvency need the Group must meet a combined buffer requirement of 2.7% at 30 June 2018. When fully loaded the combined buffer requirement will represent 4.0% bringing the fully loaded CET1 capital ratio requirement to 10.2%.

| Capital and solvency and capital requirements (% of REA) | 30 Jun 2018 | Fully loaded* |
|--|-------------|---------------|
| <b>Capital and solvency</b>                              |             |               |
| Common Equity Tier 1 capital ratio                       | 15.5        | 15.5          |
| Capital ratio  | 20.4        | 20.4          |
| <b>Capital requirements (incl buffers) **</b>            |             |               |
| Total capital requirement                                | 13.7        | 15.0          |
| CET1 capital requirement                                 | 8.9         | 10.2          |
| -of which countercyclical capital buffer                 | 0.0         | 0.5           |
| -of which capital conservation buffer                    | 1.9         | 2.5           |
| -of which SIFI buffer                                    | 0.8         | 1.0           |
| <b>Excess capital</b>                                    |             |               |
| Common Equity Tier 1 capital                             | 6.6         | 5.3           |
| Total capital  | 6.7         | 5.4           |

\* Based on fully loaded CRR/CRD IV rules and requirements.

\*\* The total capital requirement consists of an individual solvency need and a combined buffer requirement. The fully loaded countercyclical capital buffer is based on the adopted requirement as at 30 June 2018.

### Market risk

At 30 June 2018 the Group's interest rate risk represents DKK 157m. The Group's exchange rate risk continues to be very low and its equity position modest.

### Funding and liquidity

The guidelines for calculating the Liquidity Coverage Ratio – LCR – specify a run-off of exposures, while taking into account counterparties, funding size, hedging and duration. Consequently the most stable deposits are favoured relative to large deposits, in particular large deposits from business enterprises and financial counterparties.

The Group's LCR constituted 154% at 30 June 2018 (31 December 2017: 176%).

| LCR (DKKbn)            | 30 Jun 2018 | 31 Dec 2017 | 30 Jun 2017 |
|------------------------|-------------|-------------|-------------|
| Total liquidity buffer | 27.8        | 29.4        | 31.2        |
| Net cash outflows      | 18.0        | 16.7        | 13.9        |
| LCR (%)                | 154         | 176         | 225         |

The Group met the LCR requirement throughout the period and as can be seen, its excess cover is significant at 30 June 2018.

| Funding ratio (DKKbn)  | 30 Jun 2018 | 31 Dec 2017 | 30 Jun 2017 |
|--|-------------|-------------|-------------|
| Shareholders' equity and subordinated capital  | 14.0        | 13.8        | 12.8        |
| Stable deposits  | 74.6        | 72.2        | 77.7        |
| Total stable funding   | 88.6        | 86.0        | 90.5        |
| Loans and advances (excl reverse and mortgage-like loans funded via external counterparties) | 62.5        | 64.3        | 70.6        |
| Funding ratio (%)  | 142         | 134         | 129         |

As shown above the Group's stable funding exceeds the Group's loans and advances by DKK 26.1bn at 30 June 2018 (31 December 2017: DKK 21.7bn).

### Rating

Moody's most recent rating of Sydbank:

- Outlook: Positive
- Long-term deposit: A2
- Baseline Credit Assessment: Baa1
- Senior unsecured: A2
- Short-term deposit: P-1.

### Supervisory Diamond

The Supervisory Diamond sets up a number of benchmarks to indicate banking activities that initially should be regarded as involving a higher risk. Any breach of the Supervisory Diamond is subject to reactions by the Danish FSA. Sydbank A/S complies with all the benchmarks of the Supervisory Diamond.

| Supervisory Diamond                | 30 Jun 2018 | 31 Dec 2017 | 30 Jun 2017 |
|------------------------------------|-------------|-------------|-------------|
| Sum of 20 largest exposures < 175% | 146         | 131         | 150         |
| Lending growth < 20% annually      | (11)        | (17)        | (10)        |
| Commercial property exposure < 25% | 9           | 8           | 8           |
| Funding ratio < 1                  | 0.65        | 0.69        | 0.74        |
| Excess liquidity coverage > 100%   | 178         | -           | -           |

### Bank Recovery and Resolution Directive

The directive, including the bail-in provisions, was implemented in Danish law on 1 June 2015. According to legislation each credit institution must meet a minimum requirement for eligible liabilities (MREL). In March 2018 the Danish FSA set the MREL for Sydbank at 12.4% of the Bank's total liabilities and total capital, equal to 27.3% of the risk exposure amount. The MREL must be met by 1 July 2019. This will result in changes in the Group's capital and funding structure.

The general resolution principle for SIFIs is that it should be possible to restructure them and send them back to the market with adequate capitalisation to ensure market confidence. In accordance with this principle the MREL for SIFIs has been set at 2 times the total capital requirement. The MREL must be met with convertible instruments ("contractual bail-in").

The establishment of a resolution fund has commenced. Credit institutions must make contributions to the fund according to their relative size and risk in Denmark. The resolution fund must be established and have assets at its disposal equal to at least 1% of the covered deposits of all Danish credit institutions by 31 December 2024.

The Group's contribution to the resolution fund for 2018 is expected to represent DKK 18m.

### Leverage ratio

The CRR/CRD IV rules require credit institutions to calculate, report, monitor and disclose their leverage ratio, which is defined as Tier 1 capital as a percentage of total exposure. The European Commission's proposal for a revision of CRR includes a proposal to introduce a minimum leverage ratio requirement of 3%.

The Group's leverage ratio stood at 6.6% at 30 June 2018 (year-end 2017: 6.9%) taking into account the transitional rules.

Assuming fully loaded Tier 1 capital under CRR/CRD IV without any refinancing of non-eligible Additional Tier 1 capital, the leverage ratio would be 6.4% (year-end 2017: 6.7%).

The introduction of a minimum leverage ratio requirement is not expected to be of significance to the Group.

### IFRS 9 – transitional effect

As a result of IFRS 9 taking effect at 1 January 2018 the Group's allowance account was increased by DKK 216m. Following the tax effect of DKK 48m due to the increased allowance account, the Group's shareholders' equity has been reduced by DKK 168m at 1 January 2018.

To counter an unintended impact on regulatory capital and hence banks' possibilities of supporting lending, a transitional arrangement has been adopted so that an adverse impact from the new impairment model will be phased in over a 5-year period. Sydbank has decided to apply the transitional rules.

### Basel IV

On 7 December 2017 the Basel Committee on Banking Supervision (BCBS) published its recommendations for a number of changes to the calculation of the capital requirements for credit institutions. These recommendations are also known as Basel IV. Among other things Basel IV proposes to constrain the use of internal models and introduce a permanent floor for the risk exposure amount.

The recommendations are expected to have a limited impact on the Group's capital.

The recommendations must be implemented in the EU before they will apply to Danish credit institutions. The Group is following developments closely. At present the extent of the changes in relation to the Basel Committee's recommendations to be implemented as EU regulation is unknown. The effective date is expected to be 1 January 2022 on which date the floor requirement is also expected to be implemented, starting at 50% and gradually increasing until finally reaching 72.5% on 1 January 2027.

### Focus on agriculture

2017 was a good year for milk producers and pig producers which constitute a very significant part of Danish agriculture. Sector earnings were highly satisfactory and at a level substantially above normal.

According to calculations published by SEGES in May 2018, the total operating profit after owners' wages etc of full-time farms has risen from a loss of DKK 1.6bn in 2016 to a profit of DKK 5.3bn in 2017.

The improved prices in 2017 – of pork as well as milk – are mainly due to increased demand from China and other Asian countries.

An average farm has recorded an operating profit after owners' wages of DKK 0.7m. In terms of farming branches profit amounts to DKK 0.8m for milk producers, DKK 1.3m for pig producers and approx DKK 0.0m for crop producers.

Currently settlement prices for pork and milk alike have dropped considerably compared with 2017. As a result a substantial decline in earnings in the agricultural sector is projected for 2018 compared with 2017.

The current settlement price for pork is DKK 8.70 per kg. The sector's most recent forecast from May 2018 estimates an average settlement price of DKK 9.06 per kg. This means that pig producers can look forward to an unsatisfactory result and for many also a loss in 2018. The break-even price for most pig producers is DKK 9.00-9.50 per kg.

The majority of milk producers are expected to break even in 2018. The SEGES' forecast from May 2018 estimates an average settlement price of DKK 2.47 per kg milk.

At the beginning of 2018 the settlement price for conventional milk was DKK 2.76 per kg. The current settlement price of milk with ARLA is DKK 2.71 per kg.

For most milk producers the break-even price is in the range of DKK 2.35-2.60 per kg.

Crop producers saw better yields in 2017 than in 2016. However average earnings remain negative after owners' wages. And negative earnings after owners' wages are also projected for 2018.

The above does not include the prospects of a poor harvest caused by the exceptional drought in May, June and July. It is expected that the drought will reduce average crop yields by around 30-50%. All branches of farming will be hit by the drought: milk producers growing grass for their cows, pig producers growing grain for their pigs and not least crop producers.

As a result 2018 is forecast to be a challenging year for Danish farmers and substantial losses are projected for the agricultural sector as a whole.

A breakdown by industry of bank loans and advances to the agricultural sector is shown below.

Credit impaired bank loans and advances to agriculture represent DKK 555m at 30 June 2018, equal to 13.2% of total loans and advances to agriculture.

Of total loans and advances to agriculture an impairment charge of 16.4% was recorded at 30 June 2018 against 11.1% at year-end 2017.

Neither the satisfactory earnings for 2017 nor the expected unsatisfactory earnings for 2018 change the fact that the agricultural sector overall has too large debts and is consequently very vulnerable to developments in settlement prices and interest rates.

In 1H 2018 individual impairment charges of DKK 119m were recorded on agricultural exposures. In addition management estimates were increased by DKK 50m to DKK 125m at 30 June 2018. Total impairment charges as regards agriculture constitute DKK 169m in 1H 2018.

| 30 Jun 2018<br>(DKKm)                                       | Pig<br>farming | Cattle<br>farming | Crop<br>production | Other<br>agriculture | Total loans/<br>advances |
|---|----------------|-------------------|--------------------|----------------------|--------------------------|
| Loans and advances – stage 1                                | 785            | 688               | 821                | 617                  | 2,911                    |
| Loans and advances – stage 2                                | 98             | 245               | 199                | 208                  | 750                      |
| Loans and advances – stage 3 – credit impaired              | 227            | 126               | 79                 | 123                  | 555                      |
| <b>Bank loans and advances before impairment charges</b>    | <b>1,110</b>   | <b>1,059</b>      | <b>1,099</b>       | <b>948</b>           | <b>4,216</b>             |
| Impairment charges for loans and advances – stage 1         | 4              | 2                 | 3                  | 4                    | 13                       |
| Impairment charges for loans and advances – stage 2         | 39             | 73                | 62                 | 48                   | 222                      |
| Impairment charges for loans and advances – stage 3         | 158            | 76                | 35                 | 61                   | 330                      |
| Management estimates  | 75             | 50                | -                  | -                    | 125                      |
| <b>Total impairment charges for bank loans and advances</b> | <b>276</b>     | <b>201</b>        | <b>100</b>         | <b>113</b>           | <b>690</b>               |
| <b>Bank loans and advances after impairment charges</b>     | <b>834</b>     | <b>858</b>        | <b>999</b>         | <b>835</b>           | <b>3,526</b>             |
| Credit impaired as % of bank loans and advances             | 20.5           | 11.9              | 7.2                | 13.0                 | 13.2                     |
| Impairment as % of credit impaired bank loans and advances  | 69.6           | 60.3              | 44.3               | 49.6                 | 59.5                     |
| Impairment as % of bank loans and advances                  | 24.9           | 19.0              | 9.1                | 11.9                 | 16.4                     |
| 31 Dec 2017<br>(DKKm)                                       | Pig<br>farming | Cattle<br>farming | Crop<br>production | Other<br>agriculture | Total loans/<br>advances |
| Bank loans and advances before impairment charges           | 1,216          | 1,061             | 1,110              | 1,010                | 4,352                    |
| Individual impairment charges                               | 125            | 128               | 56                 | 99                   | 408                      |
| Management estimates  | 50             | 25                | -                  | -                    | 75                       |
| <b>Bank loans and advances after impairment charges</b>     | <b>1,041</b>   | <b>863</b>        | <b>1,054</b>       | <b>911</b>           | <b>3,869</b>             |
| Impaired bank loans and advances                            | 256            | 300               | 167                | 177                  | 900                      |
| Impaired as % of bank loans and advances                    | 21.1           | 29.5              | 15.0               | 17.5                 | 20.7                     |
| Impairment as % of impaired bank loans and advances         | 48.8           | 42.7              | 33.5               | 55.9                 | 45.3                     |
| Impairment as % of bank loans and advances                  | 14.4           | 15.1              | 5.0                | 9.8                  | 11.1                     |

## Income Statement

| DKKm  | Note | Sydbank Group |              | Sydbank A/S  |              |
|---|------|---------------|--------------|--------------|--------------|
|   |      | 1H<br>2018    | 1H<br>2017   | 1H<br>2018   | 1H<br>2017   |
| Interest income   | 2    | 999           | 1,129        | 1,002        | 1,130        |
| Interest expense  | 3    | 43            | 98           | 49           | 98           |
| <b>Net interest income</b>  |      | <b>956</b>    | <b>1,031</b> | <b>953</b>   | <b>1,032</b> |
| Dividends on shares   |      | 26            | 27           | 26           | 27           |
| Fee and commission income   | 4    | 1,088         | 995          | 1,010        | 957          |
| Fee and commission expense  |      | 154           | 116          | 119          | 116          |
| <b>Net interest and fee income</b>  |      | <b>1,916</b>  | <b>1,937</b> | <b>1,870</b> | <b>1,900</b> |
| Market value adjustments  | 5    | 247           | 490          | 247          | 491          |
| Other operating income  |      | 10            | 10           | 10           | 10           |
| Staff costs and administrative expenses   | 6    | 1,364         | 1,321        | 1,339        | 1,294        |
| Amortisation/depreciation and impairment of intangible assets and property, plant and equipment |      | 47            | 48           | 46           | 47           |
| Other operating expenses  | 8    | 8             | 15           | 8            | 15           |
| Impairment of loans and advances etc  | 9    | (55)          | 8            | (55)         | 8            |
| Profit/(Loss) on holdings in associates and subsidiaries  | 10   | 5             | 2            | 22           | 10           |
| <b>Profit before tax</b>  |      | <b>814</b>    | <b>1,047</b> | <b>811</b>   | <b>1,047</b> |
| Tax   | 11   | 146           | 231          | 143          | 231          |
| <b>Profit for the period</b>  |      | <b>668</b>    | <b>816</b>   | <b>668</b>   | <b>816</b>   |
| <b>Distributed as follows</b>   |      |               |              |              |              |
| Shareholders of Sydbank A/S   |      | 665           | 816          | 665          | 816          |
| Holders of Additional Tier 1 (AT1) capital  |      | 3             | -            | 3            | -            |
| <b>Total</b>  |      | <b>668</b>    | <b>816</b>   | <b>668</b>   | <b>816</b>   |
| EPS Basic (DKK) *   |      | 10.0          | 11.8         | 10.0         | 11.8         |
| EPS Diluted (DKK) *   |      | 10.0          | 11.8         | 10.0         | 11.8         |
| Dividend per share (DKK)  |      | -             | -            | -            | -            |

\* Calculated on the basis of average number of shares outstanding, see page 19.

## Statement of Comprehensive Income

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| <b>Profit for the period</b>                            | <b>668</b> | <b>816</b> | <b>668</b> | <b>816</b> |
| <b>Other comprehensive income</b>                       |            |            |            |            |
| Items that may be reclassified to the income statement: |            |            |            |            |
| Translation of foreign entities                         | 3          | (4)        | 3          | (4)        |
| Hedge of net investment in foreign entities             | (3)        | 4          | (3)        | 4          |
| Property revaluation                                    | -          | (3)        | -          | (3)        |
| <b>Other comprehensive income after tax</b>             | <b>0</b>   | <b>(3)</b> | <b>0</b>   | <b>(3)</b> |
| <b>Comprehensive income for the period</b>              | <b>668</b> | <b>813</b> | <b>668</b> | <b>813</b> |

## Balance Sheet

| DKKm  | Note | Sydbank Group  |                | Sydbank A/S    |                |
|---|------|----------------|----------------|----------------|----------------|
|   |      | 30 Jun<br>2018 | 31 Dec<br>2017 | 30 Jun<br>2018 | 31 Dec<br>2017 |
| <b>Assets</b>   |      |                |                |                |                |
| Cash and balances on demand at central banks          |      | 1,498          | 2,115          | 1,498          | 2,114          |
| Amounts owed by credit institutions and central banks | 12   | 10,888         | 12,479         | 10,886         | 12,476         |
| Loans and advances at fair value                      |      | 6,066          | 5,248          | 6,066          | 5,248          |
| Loans and advances at amortised cost                  |      | 62,516         | 64,312         | 62,719         | 64,513         |
| Bonds at fair value                                   |      | 26,882         | 25,860         | 26,882         | 25,860         |
| Shares etc  |      | 2,191          | 2,118          | 2,191          | 2,118          |
| Holdings in associates etc                            |      | 159            | 157            | 159            | 157            |
| Holdings in subsidiaries                              |      | -              | -              | 2,341          | 2,329          |
| Assets related to pooled plans                        |      | 16,629         | 16,541         | 16,629         | 16,541         |
| Intangible assets                                     |      | 270            | 281            | 270            | 280            |
| Land and buildings – owner-occupied property          |      | 1,073          | 1,075          | 853            | 857            |
| Other property, plant and equipment                   |      | 84             | 71             | 83             | 71             |
| Current tax assets                                    |      | 85             | 29             | 89             | 31             |
| Deferred tax assets                                   |      | 46             | 46             | 12             | 12             |
| Assets in temporary possession                        |      | 1              | 1              | 1              | 1              |
| Other assets  | 13   | 7,690          | 8,099          | 7,683          | 8,095          |
| Prepayments   |      | 69             | 62             | 68             | 60             |
| <b>Total assets</b>                                   |      | <b>136,147</b> | <b>138,494</b> | <b>138,430</b> | <b>140,763</b> |
| <b>Shareholders' equity and liabilities</b>           |      |                |                |                |                |
| Amounts owed to credit institutions and central banks | 14   | 5,400          | 5,960          | 5,627          | 6,184          |
| Deposits and other debt                               | 15   | 84,146         | 82,690         | 86,210         | 84,754         |
| Deposits in pooled plans                              |      | 16,629         | 16,541         | 16,629         | 16,541         |
| Bonds issued at amortised cost                        |      | -              | 3,722          | -              | 3,722          |
| Current tax liabilities                               |      | -              | -              | -              | 1              |
| Other liabilities                                     | 16   | 15,569         | 15,363         | 15,563         | 15,345         |
| Deferred income                                       |      | 6              | 4              | 6              | 4              |
| <b>Total liabilities</b>                              |      | <b>121,750</b> | <b>124,280</b> | <b>124,035</b> | <b>126,551</b> |
| Provisions  | 17   | 442            | 434            | 440            | 432            |
| Subordinated capital                                  | 18   | 1,857          | 1,854          | 1,857          | 1,854          |
| Shareholders' equity:                                 |      |                |                |                |                |
| Share capital   |      | 677            | 704            | 677            | 704            |
| Revaluation reserves                                  |      | 97             | 97             | 97             | 97             |
| Other reserves:                                       |      |                |                |                |                |
| Reserves according to articles of association         |      | 425            | 425            | 425            | 425            |
| Other reserves  |      | 2              | 2              | 2              | 2              |
| Retained earnings                                     |      | 10,148         | 9,922          | 10,148         | 9,922          |
| Proposed dividend etc                                 |      | -              | 776            | -              | 776            |
| Shareholders of Sydbank A/S                           |      | 11,349         | 11,926         | 11,349         | 11,926         |
| Holders of Additional Tier 1 (AT1) capital            |      | 749            | -              | 749            | -              |
| Total shareholders' equity                            |      | 12,098         | 11,926         | 12,098         | 11,926         |
| <b>Total shareholders' equity and liabilities</b>     |      | <b>136,147</b> | <b>138,494</b> | <b>138,430</b> | <b>140,763</b> |



## Financial Highlights – Quarterly

|  | Sydbank Group |              |              |              |              |              |
|--|---------------|--------------|--------------|--------------|--------------|--------------|
|  | Q2            | Q1           | Q4           | Q3           | Q2           | Q1           |
|  | 2018          | 2018         | 2017         | 2017         | 2017         | 2017         |
| <b>Income statement (DKK m)</b>                              |               |              |              |              |              |              |
| Core income  | 987           | 1,053        | 1,038        | 1,036        | 1,040        | 1,053        |
| Trading income   | 45            | 55           | 36           | 58           | 46           | 93           |
| <b>Total income</b>  | <b>1,032</b>  | <b>1,108</b> | <b>1,074</b> | <b>1,094</b> | <b>1,086</b> | <b>1,146</b> |
| Costs, core earnings   | 694           | 703          | 645          | 623          | 678          | 691          |
| <b>Core earnings before impairment</b>                       | <b>338</b>    | <b>405</b>   | <b>429</b>   | <b>471</b>   | <b>408</b>   | <b>455</b>   |
| Impairment of loans and advances etc                         | (44)          | (13)         | (13)         | (29)         | (20)         | 11           |
| <b>Core earnings</b>   | <b>382</b>    | <b>418</b>   | <b>442</b>   | <b>500</b>   | <b>428</b>   | <b>444</b>   |
| Investment portfolio earnings                                | (66)          | (12)         | (13)         | 8            | 51           | 136          |
| <b>Profit before non-recurring items</b>                     | <b>316</b>    | <b>406</b>   | <b>429</b>   | <b>508</b>   | <b>479</b>   | <b>580</b>   |
| Non-recurring items, net                                     | (13)          | 105          | (17)         | (11)         | (6)          | (6)          |
| <b>Profit before tax</b>                                     | <b>303</b>    | <b>511</b>   | <b>412</b>   | <b>497</b>   | <b>473</b>   | <b>574</b>   |
| Tax  | 66            | 80           | 85           | 109          | 104          | 127          |
| <b>Profit for the period</b>                                 | <b>237</b>    | <b>431</b>   | <b>327</b>   | <b>388</b>   | <b>369</b>   | <b>447</b>   |
| <b>Balance sheet highlights (DKK bn)</b>                     |               |              |              |              |              |              |
| Loans and advances at amortised cost                         | 62.5          | 63.5         | 64.3         | 66.8         | 70.6         | 71.9         |
| Loans and advances at fair value                             | 6.1           | 4.4          | 5.2          | 5.9          | 7.4          | 7.1          |
| Deposits and other debt                                      | 84.1          | 81.5         | 82.7         | 80.8         | 84.7         | 80.9         |
| Bonds issued at amortised cost                               | -             | 3.7          | 3.7          | 3.7          | 3.7          | 3.7          |
| Subordinated capital   | 1.9           | 1.9          | 1.9          | 1.3          | 1.3          | 2.1          |
| Holders of Additional Tier 1 (AT1) capital                   | 0.8           | -            | -            | -            | -            | -            |
| Shareholders' equity   | 11.3          | 11.3         | 11.9         | 11.8         | 11.5         | 11.4         |
| Total assets   | 136.1         | 134.3        | 138.5        | 131.9        | 140.1        | 137.6        |
| <b>Financial ratios per share (DKK per share of DKK 10)</b>  |               |              |              |              |              |              |
| EPS Basic **   | 3.5           | 6.5          | 4.9          | 5.7          | 5.4          | 6.4          |
| EPS Diluted **   | 3.5           | 6.5          | 4.9          | 5.7          | 5.4          | 6.4          |
| Share price at end of period                                 | 219.4         | 222.2        | 249.9        | 261.3        | 245.4        | 241.7        |
| Book value **  | 173.1         | 170.5        | 178.3        | 174.0        | 169.0        | 164.7        |
| Share price/book value **                                    | 1.3           | 1.30         | 1.40         | 1.50         | 1.45         | 1.47         |
| Average number of shares outstanding (in millions)           | 66.2          | 66.8         | 67.2         | 68.0         | 68.8         | 69.5         |
| Dividend per share   | -             | -            | 11.31        | -            | -            | -            |
| <b>Other financial ratios and key figures</b>                |               |              |              |              |              |              |
| Common Equity Tier 1 capital ratio                           | 15.5          | 16.6         | 17.3         | 15.5         | 15.6         | 15.6         |
| Tier 1 capital ratio   | 17.2          | 17.0         | 17.7         | 16.0         | 16.1         | 16.0         |
| Capital ratio  | 20.4          | 20.2         | 20.8         | 18.1         | 18.1         | 18.1         |
| Pre-tax profit as % p.a. of average shareholders' equity **  | 10.6          | 17.6         | 13.9         | 17.1         | 16.5         | 19.8         |
| Post-tax profit as % p.a. of average shareholders' equity ** | 8.2           | 14.8         | 11.1         | 13.3         | 12.8         | 15.5         |
| Costs (core earnings) as % of total income                   | 67.2          | 63.4         | 60.1         | 56.9         | 62.4         | 60.3         |
| Return on assets (%)   | 0.2           | 0.3          | 1.1          | 0.3          | 0.3          | 0.3          |
| Interest rate risk   | 1.6           | 0.9          | 0.8          | 1.6          | 0.7          | 0.7          |
| Foreign exchange position                                    | 3.6           | 1.6          | 1.2          | 2.4          | 3.9          | 4.1          |
| Foreign exchange risk  | 0.0           | 0.0          | 0.0          | 0.0          | 0.1          | 0.1          |
| Loans and advances relative to deposits *                    | 0.6           | 0.6          | 0.6          | 0.7          | 0.7          | 0.8          |
| Loans and advances relative to shareholders' equity *        | 5.5           | 5.6          | 5.4          | 5.7          | 6.1          | 6.3          |
| Growth in loans and advances for the period *                | (1.6)         | (1.2)        | (3.7)        | (5.3)        | (1.8)        | (6.9)        |
| Excess cover relative to statutory liquidity requirements    | 237.7         | 226.7        | 232.1        | 223.9        | 242.0        | 213.2        |
| Total large exposures  | 0.0           | 30.3         | 0.0          | 11.2         | 20.7         | 10.3         |
| Accumulated impairment ratio                                 | 3.6           | 4.0          | 3.6          | 3.4          | 3.6          | 3.7          |
| Impairment ratio for the period                              | (0.06)        | (0.02)       | (0.02)       | (0.03)       | (0.02)       | 0.01         |
| Number of full-time staff at end of period                   | 2,102         | 2,088        | 2,064        | 2,069        | 2,092        | 2,062        |

\* Financial ratios are calculated on the basis of loans and advances at amortised cost.

\*\* Financial ratios are calculated as if Additional Tier 1 capital is accounted for as a liability.

## Financial Highlights – Half-yearly

|  | Sydbank Group |              |              |              |              |
|--|---------------|--------------|--------------|--------------|--------------|
|  | 1H            | 1H           | 1H           | 1H           | 1H           |
|  | 2018          | 2017         | 2016         | 2015         | 2014         |
| <b>Income statement (DKK m)</b>                              |               |              |              |              |              |
| Core income  | 2,040         | 2,093        | 2,101        | 2,227        | 2,131        |
| Trading income   | 100           | 139          | 123          | 152          | 152          |
| <b>Total income</b>  | <b>2,140</b>  | <b>2,232</b> | <b>2,224</b> | <b>2,379</b> | <b>2,283</b> |
| Costs, core earnings   | 1,397         | 1,369        | 1,346        | 1,374        | 1,365        |
| <b>Core earnings before impairment</b>                       | <b>743</b>    | <b>863</b>   | <b>878</b>   | <b>1,005</b> | <b>918</b>   |
| Impairment of loans and advances etc                         | (57)          | (9)          | 81           | 217          | 430          |
| <b>Core earnings</b>   | <b>800</b>    | <b>872</b>   | <b>797</b>   | <b>788</b>   | <b>488</b>   |
| Investment portfolio earnings                                | (78)          | 187          | (8)          | (95)         | 37           |
| <b>Profit before non-recurring items</b>                     | <b>722</b>    | <b>1,059</b> | <b>789</b>   | <b>693</b>   | <b>525</b>   |
| Non-recurring items, net                                     | 92            | (12)         | 26           | -            | 107          |
| <b>Profit before tax</b>                                     | <b>814</b>    | <b>1,047</b> | <b>815</b>   | <b>693</b>   | <b>632</b>   |
| Tax  | 146           | 231          | 172          | 163          | 118          |
| <b>Profit for the period</b>                                 | <b>668</b>    | <b>816</b>   | <b>643</b>   | <b>530</b>   | <b>514</b>   |
| <b>Balance sheet highlights (DKK bn)</b>                     |               |              |              |              |              |
| Loans and advances at amortised cost                         | 62.5          | 70.6         | 78.8         | 71.4         | 67.7         |
| Loans and advances at fair value                             | 6.1           | 7.4          | 6.8          | 9.7          | 5.7          |
| Deposits and other debt                                      | 84.1          | 84.7         | 79.9         | 81.2         | 74.0         |
| Bonds issued at amortised cost                               | -             | 3.7          | 7.1          | 3.7          | 3.7          |
| Subordinated capital   | 1.9           | 1.3          | 2.1          | 2.1          | 1.4          |
| Holders of Additional Tier 1 (AT1) capital                   | 0.8           | -            | -            | -            | -            |
| Shareholders' equity   | 11.3          | 11.5         | 11.1         | 11.1         | 10.7         |
| Total assets   | 136.1         | 140.1        | 148.0        | 153.1        | 147.4        |
| <b>Financial ratios per share (DKK per share of DKK 10)</b>  |               |              |              |              |              |
| EPS Basic **   | 10.0          | 11.8         | 9.1          | 7.2          | 7.0          |
| EPS Diluted **   | 10.0          | 11.8         | 9.1          | 7.2          | 7.0          |
| Share price at end of period                                 | 219.4         | 245.4        | 167.2        | 255.8        | 143.7        |
| Book value **  | 173.1         | 169.0        | 157.6        | 153.1        | 146.7        |
| Share price/book value **                                    | 1.27          | 1.45         | 1.06         | 1.67         | 0.98         |
| Average number of shares outstanding (in millions)           | 66.5          | 69.1         | 71.0         | 73.2         | 73.3         |
| Dividend per share   | -             | -            | -            | -            | -            |
| <b>Other financial ratios and key figures</b>                |               |              |              |              |              |
| Common Equity Tier 1 capital ratio                           | 15.5          | 15.6         | 14.8         | 14.1         | 14.1         |
| Tier 1 capital ratio   | 17.2          | 16.1         | 16.1         | 15.5         | 15.7         |
| Capital ratio  | 20.4          | 18.1         | 18.0         | 17.2         | 16.2         |
| Pre-tax profit as % p.a. of average shareholders' equity **  | 14.3          | 18.2         | 14.9         | 12.5         | 11.9         |
| Post-tax profit as % p.a. of average shareholders' equity ** | 11.7          | 14.2         | 11.7         | 9.5          | 9.7          |
| Costs (core earnings) as % of total income                   | 65.3          | 61.3         | 60.5         | 57.8         | 59.8         |
| Return on assets (%)   | 0.5           | 0.6          | 0.4          | 0.3          | 0.3          |
| Interest rate risk   | 1.6           | 0.7          | 0.6          | 2.2          | 0.5          |
| Foreign exchange position                                    | 3.6           | 3.9          | 2.1          | 3.0          | 4.4          |
| Foreign exchange risk  | 0.0           | 0.1          | 0.0          | 0.0          | 0.0          |
| Loans and advances relative to deposits *                    | 0.6           | 0.7          | 0.9          | 0.8          | 0.8          |
| Loans and advances relative to shareholders' equity *        | 5.5           | 6.1          | 7.1          | 6.4          | 6.3          |
| Growth in loans and advances for the period *                | (2.8)         | (8.6)        | 6.1          | 4.3          | 1.6          |
| Excess cover relative to statutory liquidity requirements    | 237.7         | 242.0        | 192.7        | 185.1        | 188.4        |
| Total large exposures  | 0.0           | 20.7         | 0.0          | 10.2         | 36.3         |
| Accumulated impairment ratio                                 | 3.6           | 3.6          | 4.2          | 4.9          | 5.7          |
| Impairment ratio for the period                              | (0.07)        | (0.01)       | 0.09         | 0.24         | 0.54         |
| Number of full-time staff at end of period                   | 2,102         | 2,092        | 2,032        | 2,164        | 2,187        |

\* Financial ratios are calculated on the basis of loans and advances at amortised cost.

\*\* Financial ratios are calculated as if Additional Tier 1 capital is accounted for as a liability.

## Capital

| DKKm  | Share capital | Revaluation reserves | Reserves acc to articles of association | Reserve for net re-valuation acc to equity method | Retained earnings | Proposed dividend etc | Shareholders of AT1 Sydbank A/S capital* | Total shareholders' equity |
|---|---------------|----------------------|---|---|-------------------|-----------------------|--|----------------------------|
| Shareholders' equity at 1 Jan 2018          | 704           | 97                   | 425                                     | 2   | 9,922             | 776                   | 11,926                                   | - 11,926                   |
| New accounting policies, IFRS 9             | -             | -                    | -                                       | -   | (216)             | -                     | (216)                                    | - (216)                    |
| Tax effect, IFRS 9                          | -             | -                    | -                                       | -   | 48                | -                     | 48                                       | - 48                       |
| Adjusted shareholders' equity, 1 Jan 2018   | 704           | 97                   | 425                                     | 2   | 9,754             | 776                   | 11,758                                   | - 11,758                   |
| Profit for the period                       | -             | -                    | -                                       | -   | 665               | -                     | 665                                      | 3 668                      |
| <b>Other comprehensive income</b>           |               |                      |   |   |                   |                       |  |                            |
| Translation of foreign entities             | -             | -                    | -                                       | -   | 3                 | -                     | 3  | - 3                        |
| Hedge of net investment in foreign entities | -             | -                    | -                                       | -   | (3)               | -                     | (3)                                      | - (3)                      |
| Property revaluation                        | -             | -                    | -                                       | -   | -                 | -                     | -  | - 0                        |
| Total other comprehensive income            | -             | -                    | -                                       | -   | -                 | -                     | -  | - 0                        |
| Comprehensive income for the period         | -             | -                    | -                                       | -   | 665               | -                     | 665                                      | 3 668                      |
| <b>Transactions with owners</b>             |               |                      |   |   |                   |                       |  |                            |
| Issue of Additional Tier 1 capital          | -             | -                    | -                                       | -   | -                 | -                     | 0 745                                    | 745                        |
| Transaction costs                           | -             | -                    | -                                       | -   | (7)               | -                     | (7)                                      | - (7)                      |
| Exchange rate adjustment                    | -             | -                    | -                                       | -   | (1)               | -                     | (1)                                      | 1 0                        |
| Tax   | -             | -                    | -                                       | -   | 2                 | -                     | 2  | - 2                        |
| Purchase of own shares                      | -             | -                    | -                                       | -   | (640)             | -                     | (640)                                    | - (640)                    |
| Sale of own shares                          | -             | -                    | -                                       | -   | 1,009             | -                     | 1,009                                    | - 1,009                    |
| Reduction of share capital                  | (27)          | -                    | -                                       | -   | (645)             | -                     | (672)                                    | - (672)                    |
| Dividend etc paid                           | -             | -                    | -                                       | -   | -                 | (776)                 | (776)                                    | - (776)                    |
| Dividend, own shares                        | -             | -                    | -                                       | -   | 11                | -                     | 11                                       | - 11                       |
| Total transactions with owners              | (27)          | -                    | -                                       | -   | (271)             | (776)                 | (1,074)                                  | 746 (328)                  |
| <b>Shareholders' equity at 30 Jun 2018</b>  | <b>677</b>    | <b>97</b>            | <b>425</b>                              | <b>2</b>  | <b>10,148</b>     | <b>0</b>              | <b>11,349</b>                            | <b>749 12,098</b>          |
| Shareholders' equity at 1 Jan 2017          | 722           | 82                   | 425                                     | 13  | 9,769             | 746                   | 11,757                                   | - 11,757                   |
| Profit for the period                       | -             | -                    | -                                       | -   | 816               | -                     | 816                                      | - 816                      |
| <b>Other comprehensive income</b>           |               |                      |   |   |                   |                       |  |                            |
| Translation of foreign entities             | -             | -                    | -                                       | -   | (4)               | -                     | (4)                                      | - (4)                      |
| Hedge of net investment in foreign entities | -             | -                    | -                                       | -   | 4                 | -                     | 4  | - 4                        |
| Property revaluation                        | -             | (3)                  | -                                       | -   | -                 | -                     | (3)                                      | - (3)                      |
| Total other comprehensive income            | -             | (3)                  | -                                       | -   | -                 | -                     | (3)                                      | - (3)                      |
| Comprehensive income for the period         | -             | (3)                  | -                                       | -   | 816               | -                     | 813                                      | - 813                      |
| <b>Transactions with owners</b>             |               |                      |   |   |                   |                       |  |                            |
| Purchase of own shares                      | -             | -                    | -                                       | -   | (826)             | -                     | (826)                                    | - (826)                    |
| Sale of own shares                          | -             | -                    | -                                       | -   | 952               | -                     | 952                                      | - 952                      |
| Reduction of share capital                  | (18)          | -                    | -                                       | -   | (394)             | -                     | (412)                                    | - (412)                    |
| Dividend etc paid                           | -             | -                    | -                                       | -   | -                 | (746)                 | (746)                                    | - (746)                    |
| Dividend, own shares                        | -             | -                    | -                                       | -   | 11                | -                     | 11                                       | - 11                       |
| Total transactions with owners              | (18)          | -                    | -                                       | -   | (257)             | (746)                 | (1,021)                                  | - (1,021)                  |
| <b>Shareholders' equity at 30 Jun 2017</b>  | <b>704</b>    | <b>79</b>            | <b>425</b>                              | <b>13</b>   | <b>10,328</b>     | <b>-</b>              | <b>11,549</b>                            | <b>- 11,549</b>            |

\* Additional Tier 1 capital has no maturity date. Payment of interest and repayment of principal are voluntary. Therefore Additional Tier 1 capital is accounted for as shareholders' equity. In May 2018 Sydbank issued EUR 100m with optional redemption on 28 August 2025. The issue carries interest at the Mid-Swap Rate + a margin of 4.62%, a total of 5.25%. Under the issue the loan will be written down if the Common Equity Tier 1 capital ratio of Sydbank A/S or the Sydbank Group drops below 7%.

| The Sydbank share                             | 30 Jun 2018 | 31 Dec 2017 | 30 Jun 2017 |
|---|-------------|-------------|-------------|
| Share capital (DKK)                           | 676,709,540 | 703,611,740 | 703,611,740 |
| Shares issued (number)                        | 67,670,954  | 70,361,174  | 70,361,174  |
| Shares outstanding at end of period (number)  | 65,560,539  | 66,900,704  | 68,325,986  |
| Average number of shares outstanding (number) | 66,500,559  | 68,364,550  | 69,118,652  |

The Bank has only one class of shares as all shares carry the same rights.

## Capital

| DKKm  | Sydbank Group  |                |                |
|---|----------------|----------------|----------------|
|   | 30 Jun<br>2018 | 31 Dec<br>2017 | 30 Jun<br>2017 |
| <b>Solvency</b>   |                |                |                |
| Common Equity Tier 1 capital ratio  | 15.5           | 17.3           | 15.6           |
| Tier 1 capital ratio  | 17.2           | 17.7           | 16.1           |
| Capital ratio   | 20.4           | 20.8           | 18.1           |
| <b>Total capital</b>  |                |                |                |
| Shareholders' equity  | 11,349         | 11,926         | 11,549         |
| Expected maximum dividend based on dividend policy                        | (668)          | -              | (816)          |
| Prudent valuation   | (58)           | (59)           | (53)           |
| Actual or contingent obligations to purchase own shares                   | (941)          | -              | (363)          |
| Proposed dividend   | -              | (776)          | -              |
| Intangible assets and capitalised deferred tax assets                     | (261)          | (271)          | (289)          |
| Significant investments in financial sector                               | (634)          | (653)          | (663)          |
| Transitional arrangement IFRS 9   | 168            | -              | -              |
| <b>Common Equity Tier 1 capital</b>                                       | <b>8,955</b>   | <b>10,167</b>  | <b>9,365</b>   |
| Additional Tier 1 capital   | 968            | 279            | 279            |
| <b>Tier 1 capital</b>   | <b>9,923</b>   | <b>10,446</b>  | <b>9,644</b>   |
| Tier 2 capital  | 1,633          | 1,575          | 1,018          |
| Difference between expected losses and impairment for accounting purposes | 209            | 219            | 229            |
| <b>Total capital</b>  | <b>11,765</b>  | <b>12,240</b>  | <b>10,891</b>  |
| Credit risk *   | 36,810         | 38,933         | 40,640         |
| Market risk   | 7,567          | 6,239          | 5,878          |
| Operational risk  | 8,023          | 8,023          | 8,025          |
| Other exposures incl credit valuation adjustment                          | 5,329          | 5,694          | 5,485          |
| <b>Risk exposure amount</b>   | <b>57,729</b>  | <b>58,889</b>  | <b>60,028</b>  |
| <b>Pillar 1 capital requirement</b>                                       | <b>4,618</b>   | <b>4,711</b>   | <b>4,802</b>   |
| <b>* Credit risk</b>  |                |                |                |
| Corporate clients, IRB  | 26,983         | 28,131         | 29,449         |
| Retail clients, IRB   | 7,816          | 8,271          | 8,692          |
| Corporate clients, STD  | 320            | 413            | 551            |
| Retail clients, STD   | 772            | 731            | 689            |
| Credit institutions etc   | 919            | 1,387          | 1,259          |
| <b>Total</b>  | <b>36,810</b>  | <b>38,933</b>  | <b>40,640</b>  |

## Cash Flow Statement

| DKKm   | Sydbank Group  |                   |                |
|--|----------------|-------------------|----------------|
|  | 1H<br>2018     | Full year<br>2017 | 1H<br>2017     |
| <b>Operating activities</b>  |                |                   |                |
| Pre-tax profit for the period  | 814            | 1,956             | 1,047          |
| Taxes paid   | (199)          | (431)             | (246)          |
| Adjustment for non-cash operating items                                  | (3)            | 163               | 77             |
| Cash flows from working capital  | 2,845          | 1,568             | 5,264          |
| <b>Cash flows from operating activities</b>                              | <b>3,457</b>   | <b>3,256</b>      | <b>6,142</b>   |
| <b>Investing activities</b>  |                |                   |                |
| Purchase and sale of holdings in associates                              | -              | (6)               | (7)            |
| Purchase and sale of intangible assets and property, plant and equipment | (46)           | (194)             | (48)           |
| <b>Cash flows from investing activities</b>                              | <b>(46)</b>    | <b>(200)</b>      | <b>(55)</b>    |
| <b>Financing activities</b>  |                |                   |                |
| Purchase and sale of own holdings  | (303)          | (642)             | (286)          |
| Dividends etc  | (765)          | (735)             | (735)          |
| Issue of Additional Tier 1 capital etc                                   | 740            | -                 | -              |
| Raising of subordinated capital  | -              | 558               | -              |
| Redemption of subordinated capital                                       | -              | (830)             | (825)          |
| Redemption of bonds issued   | (3,727)        | -                 | -              |
| <b>Cash flows from financing activities</b>                              | <b>(4,055)</b> | <b>(1,649)</b>    | <b>(1,846)</b> |
| <b>Cash flows for the period</b>   | <b>(644)</b>   | <b>1,407</b>      | <b>4,241</b>   |
| Cash and cash equivalents at 1 Jan                                       | 8,968          | 7,561             | 7,561          |
| Cash flows for the period  | (644)          | 1,407             | 4,241          |
| <b>Cash and cash equivalents at end of period</b>                        | <b>8,324</b>   | <b>8,968</b>      | <b>11,802</b>  |

## Segment Reporting etc

| DKKkm                                    |              |                  |                 |             |             | Sydbank Group |  |
|--|--------------|------------------|-----------------|-------------|-------------|---------------|--|
|  | Banking      | Asset Management | Sydbank Markets | Treasury    | Other       | Total         |  |
| <b>Operating segments</b>                |              |                  |                 |             |             |               |  |
| <b>1H 2018</b>                           |              |                  |                 |             |             |               |  |
| Core income                              | 1,866        | 134              | 40              | -           | -           | 2,040         |  |
| Trading income                           | -            | -                | 100             | -           | -           | 100           |  |
| <b>Total income</b>                      | <b>1,866</b> | <b>134</b>       | <b>140</b>      | <b>-</b>    | <b>-</b>    | <b>2,140</b>  |  |
| Costs, core earnings                     | 1,233        | 51               | 81              | -           | 32          | 1,397         |  |
| Impairment of loans and advances etc     | (57)         | -                | -               | -           | -           | (57)          |  |
| <b>Core earnings</b>                     | <b>690</b>   | <b>83</b>        | <b>59</b>       | <b>-</b>    | <b>(32)</b> | <b>800</b>    |  |
| Investment portfolio earnings            | (13)         | -                | -               | (65)        | -           | (78)          |  |
| <b>Profit before non-recurring items</b> | <b>677</b>   | <b>83</b>        | <b>59</b>       | <b>(65)</b> | <b>(32)</b> | <b>722</b>    |  |
| Non-recurring items, net                 | 92           | -                | -               | -           | -           | 92            |  |
| <b>Profit before tax</b>                 | <b>769</b>   | <b>83</b>        | <b>59</b>       | <b>(65)</b> | <b>(32)</b> | <b>814</b>    |  |

| DKKkm                                    |              |                  |                 |            |             | Sydbank Group |  |
|--|--------------|------------------|-----------------|------------|-------------|---------------|--|
|  | Banking      | Asset Management | Sydbank Markets | Treasury   | Other       | Total         |  |
| <b>Operating segments</b>                |              |                  |                 |            |             |               |  |
| <b>1H 2017</b>                           |              |                  |                 |            |             |               |  |
| Core income                              | 1,918        | 124              | 51              | -          | -           | 2,093         |  |
| Trading income                           | -            | -                | 139             | -          | -           | 139           |  |
| <b>Total income</b>                      | <b>1,918</b> | <b>124</b>       | <b>190</b>      | <b>-</b>   | <b>-</b>    | <b>2,232</b>  |  |
| Costs, core earnings                     | 1,246        | 42               | 48              | -          | 33          | 1,369         |  |
| Impairment of loans and advances etc     | (9)          | -                | -               | -          | -           | (9)           |  |
| <b>Core earnings</b>                     | <b>681</b>   | <b>82</b>        | <b>142</b>      | <b>-</b>   | <b>(33)</b> | <b>872</b>    |  |
| Investment portfolio earnings            | 9            | -                | -               | 178        | -           | 187           |  |
| <b>Profit before non-recurring items</b> | <b>690</b>   | <b>82</b>        | <b>142</b>      | <b>178</b> | <b>(33)</b> | <b>1,059</b>  |  |
| Non-recurring items, net                 | (12)         | -                | -               | -          | -           | (12)          |  |
| <b>Profit before tax</b>                 | <b>678</b>   | <b>82</b>        | <b>142</b>      | <b>178</b> | <b>(33)</b> | <b>1,047</b>  |  |

## Segment Reporting etc

| DKKkm  | Sydbank Group |                |                       |                                      |               |                               |                          |                   |
|--|---------------|----------------|-----------------------|--------------------------------------|---------------|-------------------------------|--------------------------|-------------------|
|  | Core income   | Trading income | Costs (core earnings) | Impairment of loans and advances etc | Core earnings | Investment portfolio earnings | Non-recurring items, net | Profit before tax |
| <b>Correlation between performance measures and the income statement according to IFRS</b>       |               |                |                       |                                      |               |                               |                          |                   |
| <b>1H 2018</b>   |               |                |                       |                                      |               |                               |                          |                   |
| Net interest and fee income  | 1,833         | 95             |                       |                                      | 1,928         | (12)                          |                          | 1,916             |
| Market value adjustments   | 192           | 5              |                       | 2                                    | 199           | (62)                          | 110                      | 247               |
| Other operating income   | 10            |                |                       |                                      | 10            |                               |                          | 10                |
| <b>Income</b>  | <b>2,035</b>  | <b>100</b>     | <b>-</b>              | <b>2</b>                             | <b>2,137</b>  | <b>(74)</b>                   | <b>110</b>               | <b>2,173</b>      |
| Staff costs and administrative expenses  |               |                | (1,342)               |                                      | (1,342)       | (4)                           | (18)                     | (1,364)           |
| Amortisation, depreciation and impairment of intangible assets and property, plant and equipment |               |                | (47)                  |                                      | (47)          |                               |                          | (47)              |
| Other operating expenses   |               |                | (8)                   |                                      | (8)           |                               |                          | (8)               |
| Impairment of loans and advances etc   |               |                |                       | 55                                   | 55            |                               |                          | 55                |
| Profit on holdings in associates and subsidiaries  | 5             |                |                       |                                      | 5             |                               |                          | 5                 |
| <b>Profit before tax</b>   | <b>2,040</b>  | <b>100</b>     | <b>(1,397)</b>        | <b>57</b>                            | <b>800</b>    | <b>(78)</b>                   | <b>92</b>                | <b>814</b>        |
| <b>1H 2017</b>   |               |                |                       |                                      |               |                               |                          |                   |
| Net interest and fee income  | 1,902         | 25             |                       |                                      | 1,927         | 10                            |                          | 1,937             |
| Market value adjustments   | 178           | 114            |                       | 17                                   | 309           | 181                           |                          | 490               |
| Other operating income   | 10            |                |                       |                                      | 10            |                               |                          | 10                |
| <b>Income</b>  | <b>2,090</b>  | <b>139</b>     | <b>-</b>              | <b>17</b>                            | <b>2,246</b>  | <b>191</b>                    | <b>-</b>                 | <b>2,437</b>      |
| Staff costs and administrative expenses  |               |                | (1,305)               |                                      | (1,305)       | (4)                           | (12)                     | (1,321)           |
| Amortisation, depreciation and impairment of intangible assets and property, plant and equipment |               |                | (48)                  |                                      | (48)          |                               |                          | (48)              |
| Other operating expenses   |               |                | (15)                  |                                      | (15)          |                               |                          | (15)              |
| Impairment of loans and advances etc   |               |                |                       | (8)                                  | (8)           |                               |                          | (8)               |
| Profit on holdings in associates and subsidiaries  | 2             |                |                       |                                      | 2             |                               |                          | 2                 |
| <b>Profit before tax</b>   | <b>2,093</b>  | <b>139</b>     | <b>(1,369)</b>        | <b>9</b>                             | <b>872</b>    | <b>187</b>                    | <b>(12)</b>              | <b>1,047</b>      |

## Notes

### Note 1

#### Accounting policies

The Interim Report is prepared in compliance with IAS 34 "Interim Financial Reporting" as adopted by the EU and in compliance with additional Danish disclosure requirements for interim reports. As a result of the use of IAS 34, the presentation is less complete compared with the presentation of an annual report and the recognition and measurement principles are in compliance with IFRS.

With the exception of the below the accounting policies are consistent with those adopted in the 2017 Annual Report, to which reference is made.

The 2017 Annual Report provides a comprehensive description of the accounting policies applied.

#### New accounting policies

The following amendments to IFRS have been implemented effective as from 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers.

Of the above only IFRS 9 has influenced recognition and measurement in the Interim Report. The effect in connection with the transition at 1 January 2018 is shown below.

#### Effect of IFRS 9

IFRS 9 Financial Instruments, which replaces IAS 39, changes the classification principles and the resulting measurement of financial assets and liabilities.

IFRS 9 introduces a new approach for the classification of financial assets based on the entity's business model and the underlying cash flows of the asset.

Given the Group's business model and types of financial assets and liabilities, the implementation of IFRS 9 has only had an impact on the Group's impairment charges for financial assets which are measured at amortised cost (loans and advances and guarantees).

According to the new impairment model which is introduced with IFRS 9 impairment charges must be recorded for all exposures on the basis of expected credit losses based on statistical or specific loss expectations. Under the previous rules impairment charges were recorded only when there was objective evidence of impairment.

Under IFRS 9 exposures are divided into 3 groups for calculating impairment and classified into different stages (1, 2 or 3), depending on the risk of credit loss.

In compliance with the transitional provisions of IFRS 9 the Group has not implemented the new impairment model retroactively. Consequently the accumulated effect of the amendment has been recognised in shareholders' equity at 1 January 2018 and comparative figures for 2017 have not been restated. The accounting impact is shown in the table below.

| DKKm  | 31 Dec 2017       |                     | 1 Jan 2018   |
|---|-------------------|---------------------|--------------|
| Balance sheet                               | Previous practice | Effect of amendment | New practice |
| <b>Assets</b>                               |                   |                     |              |
| Loans and advances at amortised cost        | 64,312            | (174)               | 64,138       |
| <b>Shareholders' equity and liabilities</b> |                   |                     |              |
| Provisions for undrawn credit lines         | 34                | 29                  | 63           |
| Provisions for guarantees                   | 172               | 13                  | 185          |
| Provisions for deferred tax                 | 203               | (48)                | 155          |
| Shareholders' equity                        | 11,926            | (168)               | 11,758       |

As shown the total impact at 1 January 2018 after the tax effect represents a reduction in shareholders' equity of DKK 168m.

Changes as a result of the implementation of IFRS 9, including the new accounting policies, are described below.



### **IFRS 9 – general provisions concerning recognition and measurement**

According to IFRS 9 financial assets must be classified on the basis of the Group's business model for managing these assets and the contractual cash flow characteristics of the individual financial assets. With this as a basis measurement must be made according to one of the following principles:

- Amortised cost (AMC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL).

The Group only has financial assets which are measured at amortised cost (AMC) and fair value through profit or loss (FVPL).

The Group's financial assets are measured at AMC if they are held for a commercial purpose in order to collect the contractual cash flows of the assets ("hold to collect") and if such contractual cash flows of the financial assets consist solely of payments of principal and interest on the amount outstanding.

The Group's other financial assets are measured at FVPL, including financial assets which are held for a different commercial purpose, eg financial assets which are managed on a fair value basis or form part of the trading portfolio, and financial assets for which the contractual cash flows of the financial assets do not solely consist of payments of principal and interest on the amount outstanding. IFRS 9, just as IAS 39, contains an option to measure financial assets at fair value through profit or loss provided that such measurement eliminates or significantly reduces any measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising related losses and gains on different bases.

### **Assessment of business model**

The Group has assessed the business model for each business unit that forms part of the Group's operating segments subject to the reporting obligation. The Group's operating segments comprise Banking, which has a "hold to collect" business model. Financial assets primarily consist of loans and advances.

The business models of Asset Management and Sydbank Markets are neither based on "hold to collect" nor "hold to collect and sell" and consequently financial assets must be recognised at fair value through profit or loss. Assets comprise bonds, shares, repo transactions and loans and advances. Certain of these financial assets form part of portfolios with a trading pattern meeting the definition of "held for trading" whereas other portfolios are managed on a fair value basis.

### **Assessment of contractual cash flow characteristics (solely payments of principal and interest on amount outstanding)**

The classification of financial assets which form part of portfolios that are either "hold to collect" or "hold to collect and sell" is assessed based on whether the contractual cash flows of the financial assets consist solely of payments of principal and interest on the amount outstanding. The principal reflects the fair value at initial recognition and subsequent changes, eg as a result of instalments. Interest payments should only reflect compensation for the time value of money, for the credit risk and for other basic lending risks as well as a margin consistent with basic lending terms.

### **Amounts owed and loans and advances**

Initial recognition of amounts owed by credit institutions and central banks as well as loans and advances is at fair value plus transaction costs and less origination fees received. Subsequent measurement of amounts owed by credit institutions etc and loans and advances that are not reverse transactions is at amortised cost less impairment charges. Amounts owed by credit institutions etc and loans and advances at amortised cost are all assessed to determine whether objective evidence of credit impairment exists.

### **ECL impairment model**

Impairment charges are recorded for expected credit losses as regards all financial assets amortised at amortised cost and similar provisions are made for expected credit losses as regards loan commitments and financial guarantees. As regards financial assets recognised at amortised cost, impairment charges for expected credit losses are recognised in the income statement and deducted in the value of the asset in the balance sheet. Provisions for loan commitments and financial guarantees are recognised as a liability.

Impairment charges for expected credit losses depend on whether the credit risk of a financial asset (facility) has increased significantly since initial recognition and are divided into 3 stages:

- Stage 1 – facilities with no significant increase in credit risk. The asset is written down by an amount equal to the expected credit loss as a result of the probability of default over the coming 12 months
- Stage 2 – facilities with a significant increase in credit risk. The asset is transferred to stage 2 and is written down by an amount equal to the expected credit loss over the life of the asset
- Stage 3 – facilities where the financial asset is in default or is otherwise credit impaired. As opposed to stages 1 and 2 interest income is recognised solely on the basis of the impaired value of the asset.

The staging assessment and the calculation of expected credit loss is based on the Group's existing rating models and credit management. Since 2015 the models have been expanded with calculations specifically for IFRS 9 purposes.

The assessment of whether the credit risk has increased significantly since initial recognition is made by assessing changes in the risk of default over the remaining life of the financial asset rather than assessing the increase in the expected credit loss. A facility is transferred from stage 1 to stage 2 when the following increase in PD (probability of default) is observed:

- Facilities with a PD below 1% on establishment: an increase in the 12-month PD of the facility of at least 0.5 percentage points and a doubling of the lifetime PD of the facility since its establishment
- Facilities with a PD above 1% on establishment: an increase in the 12-month PD of the facility of at least 2 percentage points or a doubling of the lifetime PD of the facility.

Facilities more than 30 days past due are transferred to stage 2 (or stage 3). If special terms have been granted the client is also transferred to stage 2 if losses are not expected in the most likely scenario or the client is in a 2-year waiting period for loans on special terms.

The expected credit loss is calculated for each individual facility on the basis of EAD (exposure at default) multiplied by PD (probability of default) and LGD (loss given default).

The expected credit loss over the life of the financial asset covers the expected remaining life of the facility. For most facilities the expected life is limited to the remaining contractual term. For facilities consisting of a loan as well as an undrawn loan commitment and for which a contractual right to demand early repayment and cancellation of the undrawn loan commitment exists, the Group's exposure to credit losses is not limited to the contractual notice period. In this case the expected life is assumed to equal the period during which the Group expects to be exposed to credit losses. The expected life is determined through a "back test" of the historical life of the instruments in question. Facilities for which the expected life is longer than the remaining contractual term comprise for instance credit cards, overdraft facilities and certain revolving credit facilities.

The forward-looking part of the calculation reflects the top management's current expectations which are determined on an objective basis. Macroeconomic scenarios are prepared: base case, upside and downside, including an assessment of the likelihood of each scenario. Management's approval of the scenarios may imply that changes are made to the scenarios or the probability weighting or that additional management impairment charges/provisions are made to take into account particularly risky portfolios that are not covered by the Group's macroeconomic scenarios. The approved scenarios are used to calculate the level of impairment charges.

The definition of default applied in measuring expected credit losses and assessing whether an asset must be transferred to another stage is equivalent to the definition applied for internal risk management purposes and is adapted to the Capital Requirements Regulation (CRR). Consequently exposures which for regulatory purposes are considered to be in default are always classified as stage 3 according to IFRS 9, both as regards the number of days past due (90 days) and the assessment of factors which will probably lead to non-payment and hence default according to the regulatory rules.

All impairment charges are considered to be individual impairment charges and under IFRS 9 the Group will cease to recognise collective impairment charges. Existing collective impairment charges providing for particularly risky areas are included as forward-looking information.

#### **Rule concerning phase-in of IFRS 9 – impact on regulatory capital**

The increase in the Group's impairment charges will reduce shareholders' equity and will generally have a corresponding negative impact on regulatory capital. To counter the impact on regulatory capital and hence banks' possibilities of supporting lending the impact on regulatory capital will be phased in over the next 5 years.

#### **Effect of IFRS 15**

IFRS 15 Revenue from Contracts with Customers will replace the current revenue standards (IAS 11 and 18) and related interpretations. IFRS 15 introduces a new model for the recognition and measurement of revenue concerning sales contracts with customers. The new model is based on a 5-step process to be followed as regards all sales contracts with customers to determine when and how revenue is to be recognised in the income statement. The standard does not change the recognition and measurement of the Sydbank Group's sales contracts with customers and therefore has no impact on the Group.

#### **Accounting estimates and uncertainty**

The measurement of certain assets and liabilities requires management estimates as to how future events will affect the value of such assets and liabilities. The significant estimates made by management in the use of the Group's accounting policies and the inherent considerable uncertainty of such estimates used in the preparation of the condensed interim report are identical to those used in the preparation of the annual report as at 31 December 2017 with the exception of the above-mentioned changes.

The Group's significant risks and the external elements which may affect the Group are described in greater detail in the 2017 Annual Report.

## Notes

| DKKmn   | Sydbank Group |              | Sydbank A/S  |              |
|---|---------------|--------------|--------------|--------------|
|   | 1H<br>2018    | 1H<br>2017   | 1H<br>2018   | 1H<br>2017   |
| <b>Note 2</b>   |               |              |              |              |
| <b>Interest income</b>  |               |              |              |              |
| Reverse transactions with credit institutions and central banks | (16)          | (5)          | (16)         | (5)          |
| Amounts owed by credit institutions and central banks           | (19)          | (12)         | (19)         | (12)         |
| Reverse loans and advances                                      | (10)          | (15)         | (10)         | (15)         |
| Loans and advances and other amounts owed                       | 995           | 1,128        | 998          | 1,129        |
| Bonds   | 54            | 90           | 54           | 90           |
| Derivatives   | (5)           | (58)         | (5)          | (58)         |
| comprising:   |               |              |              |              |
| Foreign exchange contracts                                      | 17            | 36           | 17           | 36           |
| Interest rate contracts   | (22)          | (94)         | (22)         | (94)         |
| Other interest income   | 0             | 1            | 0            | 1            |
| <b>Total</b>  | <b>999</b>    | <b>1,129</b> | <b>1,002</b> | <b>1,130</b> |
| <b>Note 3</b>   |               |              |              |              |
| <b>Interest expense</b>   |               |              |              |              |
| Repo transactions with credit institutions and central banks    | (7)           | (8)          | (7)          | (8)          |
| Credit institutions and central banks                           | 5             | 14           | 5            | 14           |
| Repo deposits   | (2)           | (7)          | (2)          | (7)          |
| Deposits and other debt   | 27            | 77           | 33           | 77           |
| Bonds issued  | 4             | 5            | 4            | 5            |
| Subordinated capital  | 16            | 15           | 16           | 15           |
| Other interest expense  | 0             | 2            | 0            | 2            |
| <b>Total</b>  | <b>43</b>     | <b>98</b>    | <b>49</b>    | <b>98</b>    |
| <b>Note 4</b>   |               |              |              |              |
| <b>Fee and commission income</b>                                |               |              |              |              |
| Securities trading and custody accounts                         | 539           | 514          | 461          | 476          |
| Payment services  | 152           | 147          | 152          | 147          |
| Loan fees   | 74            | 68           | 74           | 68           |
| Guarantee commission  | 63            | 69           | 63           | 69           |
| Income concerning funded mortgage-like loans                    | 80            | 41           | 80           | 41           |
| Other fees and commission                                       | 180           | 156          | 180          | 156          |
| <b>Total</b>  | <b>1,088</b>  | <b>995</b>   | <b>1,010</b> | <b>957</b>   |
| Total fee and commission expense                                | 154           | 116          | 119          | 116          |
| <b>Net fee and commission income</b>                            | <b>934</b>    | <b>879</b>   | <b>891</b>   | <b>841</b>   |

## Notes

| DKKkm | Sydbank Group |            | Sydbank A/S |            |
|-------|---------------|------------|-------------|------------|
|       | 1H<br>2018    | 1H<br>2017 | 1H<br>2018  | 1H<br>2017 |

### Note 5

#### Market value adjustments

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Other loans and advances and amounts owed at fair value | 1          | 0          | 1          | 0          |
| Bonds   | 84         | 111        | 84         | 112        |
| Shares etc  | 202        | 98         | 202        | 98         |
| Foreign exchange  | 87         | 86         | 87         | 86         |
| Total derivatives                                       | (127)      | 196        | (127)      | 196        |
| Assets related to pooled plans                          | (218)      | 232        | (218)      | 232        |
| Deposits in pooled plans                                | 218        | (233)      | 218        | (233)      |
| Other assets/liabilities                                | 0          | 0          | 0          | 0          |
| <b>Total</b>  | <b>247</b> | <b>490</b> | <b>247</b> | <b>491</b> |

### Note 6

#### Staff costs and administrative expenses

|                                      |              |              |              |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Salaries and remuneration:           |              |              |              |              |
| Group Executive Management           | 8            | 8            | 8            | 8            |
| Board of Directors                   | 3            | 3            | 3            | 3            |
| Shareholders' Committee              | 2            | 1            | 2            | 1            |
| <b>Total</b>                         | <b>13</b>    | <b>12</b>    | <b>13</b>    | <b>12</b>    |
| Staff costs:                         |              |              |              |              |
| Wages and salaries                   | 664          | 629          | 656          | 622          |
| Pensions                             | 62           | 62           | 61           | 61           |
| Social security contributions        | 7            | 8            | 7            | 7            |
| Payroll tax etc                      | 82           | 82           | 81           | 81           |
| <b>Total</b>                         | <b>815</b>   | <b>781</b>   | <b>805</b>   | <b>771</b>   |
| Other administrative expenses:       |              |              |              |              |
| IT                                   | 323          | 289          | 316          | 281          |
| Rent etc                             | 60           | 55           | 65           | 59           |
| Marketing and entertainment expenses | 44           | 39           | 41           | 35           |
| Other costs                          | 109          | 145          | 99           | 136          |
| <b>Total</b>                         | <b>536</b>   | <b>528</b>   | <b>521</b>   | <b>511</b>   |
| <b>Total</b>                         | <b>1,364</b> | <b>1,321</b> | <b>1,339</b> | <b>1,294</b> |

### Note 7

#### Staff

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Average number of staff (full-time equivalent) | 2,117 | 2,106 | 2,097 | 2,086 |
|--|-------|-------|-------|-------|

## Notes

| DKKm | Sydbank Group |            | Sydbank A/S |            |
|------|---------------|------------|-------------|------------|
|      | 1H<br>2018    | 1H<br>2017 | 1H<br>2018  | 1H<br>2017 |

### Note 8

#### Other operating expenses

|                                     |          |           |          |           |
|-------------------------------------|----------|-----------|----------|-----------|
| Contribution to the Resolution Fund | 8        | 9         | 8        | 9         |
| Other expenses                      | 0        | 6         | 0        | 6         |
| <b>Total</b>                        | <b>8</b> | <b>15</b> | <b>8</b> | <b>15</b> |

### Note 9

#### Impairment of loans and advances recognised in the income statement

|   |             |          |             |          |
|---|-------------|----------|-------------|----------|
| Impairment and provisions                   | (82)        | 25       | (82)        | 25       |
| Write-offs                                  | 69          | 40       | 69          | 40       |
| Recovered from debt previously written off  | 42          | 57       | 42          | 57       |
| <b>Impairment of loans and advances etc</b> | <b>(55)</b> | <b>8</b> | <b>(55)</b> | <b>8</b> |

#### Impairment and provisions at end of period (allowance account)

|   | IFRS 9       | IAS 39       | IFRS 9       | IAS 39       |
|---|--------------|--------------|--------------|--------------|
| Stage 1   | 121          | -            | 121          | -            |
| IFRS 9: Stage 2/IAS 39: Collective                | 1,052        | 231          | 1,052        | 231          |
| IFRS 9: Stage 3/IAS 39: Individual                | 1,790        | 2,727        | 1,790        | 2,727        |
| Management estimates                              | 125          | 150          | 125          | 150          |
| <b>Impairment and provisions at end of period</b> | <b>3,088</b> | <b>3,108</b> | <b>3,088</b> | <b>3,108</b> |

#### Impairment and provisions

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Impairment and provisions at 31 Dec 2017, cf IAS 39             | 2,887        |              | 2,887        |              |
| Previous fair value adjustments                                 | 204          |              | 204          |              |
| Effect of transition to IFRS 9                                  | 216          |              | 216          |              |
| Impairment and provisions at 1 Jan                              | 3,307        | 3,289        | 3,307        | 3,289        |
| New impairment charges and provisions during the period, net    | (44)         | 106          | (44)         | 106          |
| Impairment charges previously recorded, now finally written off | 175          | 287          | 175          | 287          |
| <b>Impairment and provisions at end of period</b>               | <b>3,088</b> | <b>3,108</b> | <b>3,088</b> | <b>3,108</b> |

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Impairment charges for loans and advances         | 2,816        | 2,909        | 2,816        | 2,909        |
| Provisions for undrawn credit lines               | 41           | 49           | 41           | 49           |
| Provisions for guarantees                         | 231          | 150          | 231          | 150          |
| <b>Impairment and provisions at end of period</b> | <b>3,088</b> | <b>3,108</b> | <b>3,088</b> | <b>3,108</b> |

## Notes

| Industry  | Loans/advances and guarantees |               | Impairment charges and provisions |              | Impairment of loans and advances etc for the period |           | Sydbank Group |            |
|---|-------------------------------|---------------|-----------------------------------|--------------|---|-----------|---------------|------------|
|   | 30 Jun                        | 1 Jan         | 30 Jun                            | 1 Jan        | 1H  | 1H        | 1H            | 1H         |
|   | 2018                          | 2018          | 2018                              | 2018         | 2018  | 2017      | 2018          | 2017       |
| <b>Note 9 – continued</b>   |                               |               |                                   |              |   |           |               |            |
| <b>Loans and advances and guarantees as well as impairment charges for loans and advances etc by industry</b> |                               |               |                                   |              |   |           |               |            |
| Agriculture, hunting, forestry and fisheries  | 4,881                         | 5,064         | 753                               | 625          | 169   | 34        | 58            | 128        |
| <i>Pig farming</i>  | 1,245                         | 1,430         | 288                               | 199          | 79  | 8         | 0             | 29         |
| <i>Cattle farming</i>   | 1,281                         | 1,268         | 242                               | 234          | 41  | 3         | 44            | 77         |
| <i>Crop production</i>  | 1,296                         | 1,255         | 103                               | 74           | 40  | 7         | 6             | 7          |
| <i>Other agriculture</i>  | 1,059                         | 1,111         | 120                               | 118          | 9   | 16        | 8             | 15         |
| Manufacturing and extraction of raw materials   | 9,420                         | 9,186         | 247                               | 276          | (33)  | 23        | 14            | 18         |
| Energy supply etc   | 2,796                         | 2,648         | 18                                | 30           | (10)  | (1)       | 2             | 0          |
| Building and construction   | 4,550                         | 4,311         | 142                               | 134          | 8   | 28        | 6             | 16         |
| Trade   | 12,811                        | 12,554        | 487                               | 455          | 23  | 11        | 78            | 72         |
| Transportation, hotels and restaurants  | 3,682                         | 3,454         | 99                                | 176          | (61)  | (8)       | 18            | 6          |
| Information and communication   | 711                           | 543           | 9                                 | 14           | (5)   | (4)       | 0             | 1          |
| Finance and insurance   | 5,581                         | 5,585         | 133                               | 192          | (18)  | (10)      | 10            | 3          |
| Real property   | 5,482                         | 6,127         | 391                               | 420          | (7)   | (16)      | 2             | 26         |
| <i>Leasing of commercial property</i>   | 2,527                         | 2,780         | 235                               | 235          | 14  | 4         | 1             | 5          |
| <i>Leasing of residential property</i>  | 1,013                         | 1,166         | 68                                | 93           | (20)  | (7)       | 1             | 14         |
| <i>Housing associations and cooperative housing associations</i>  | 1,159                         | 1,358         | 4                                 | 2            | (1)   | 0         | 0             | 0          |
| <i>Purchase, development and sale on own account</i>  | 644                           | 609           | 62                                | 64           | 3   | (8)       | 0             | 1          |
| <i>Other related to real property</i>   | 139                           | 214           | 22                                | 26           | (3)   | (5)       | 0             | 6          |
| Other industries  | 3,397                         | 3,680         | 140                               | 186          | (43)  | 4         | 9             | 21         |
| <b>Total corporate lending</b>  | <b>53,311</b>                 | <b>53,152</b> | <b>2,419</b>                      | <b>2,508</b> | <b>23</b>   | <b>61</b> | <b>197</b>    | <b>291</b> |
| Public authorities  | 166                           | 353           | 3                                 | 3            | -   | -         | -             | -          |
| Retail clients  | 25,574                        | 27,254        | 666                               | 796          | (78)  | (49)      | 47            | 36         |
| Collective impairment charges   |                               |               |                                   |              |   | (4)       |               |            |
| <b>Total</b>  | <b>79,051</b>                 | <b>80,759</b> | <b>3,088</b>                      | <b>3,307</b> | <b>(55)</b>   | <b>8</b>  | <b>244</b>    | <b>327</b> |

## Notes

30 Jun 2018

Sydbank Group

| DKKm | Stage 1 | Stage 2 | Stage 3 | Total |
|------|---------|---------|---------|-------|
|------|---------|---------|---------|-------|

### Note 9 – continued

#### Loans and advances, guarantees and allowance account by stage

|  |        |       |       |        |
|--|--------|-------|-------|--------|
| Loans and advances before impairment charges | 56,934 | 5,690 | 2,708 | 65,332 |
| Guarantees                                   | 12,985 | 506   | 228   | 13,719 |

|  |               |              |              |               |
|--|---------------|--------------|--------------|---------------|
| <b>Total loans and advances and guarantees</b> | <b>69,919</b> | <b>6,196</b> | <b>2,936</b> | <b>79,051</b> |
|--|---------------|--------------|--------------|---------------|

|   |      |     |     |       |
|---|------|-----|-----|-------|
| % | 88.5 | 7.8 | 3.7 | 100.0 |
|---|------|-----|-----|-------|

|                                  |    |       |       |       |
|----------------------------------|----|-------|-------|-------|
| Impairment of loans and advances | 97 | 1,096 | 1,623 | 2,816 |
|----------------------------------|----|-------|-------|-------|

|                                     |    |    |   |    |
|-------------------------------------|----|----|---|----|
| Provisions for undrawn credit lines | 17 | 18 | 6 | 41 |
|-------------------------------------|----|----|---|----|

|                           |   |    |     |     |
|---------------------------|---|----|-----|-----|
| Provisions for guarantees | 7 | 51 | 173 | 231 |
|---------------------------|---|----|-----|-----|

|                                |            |              |              |              |
|--------------------------------|------------|--------------|--------------|--------------|
| <b>Total allowance account</b> | <b>121</b> | <b>1,165</b> | <b>1,802</b> | <b>3,088</b> |
|--------------------------------|------------|--------------|--------------|--------------|

|                            |     |       |       |       |
|----------------------------|-----|-------|-------|-------|
| Allowance account at 1 Jan | 165 | 1,779 | 1,363 | 3,307 |
|----------------------------|-----|-------|-------|-------|

|  |      |       |     |      |
|--|------|-------|-----|------|
| New impairment charges and provisions during the period, net | (33) | (614) | 603 | (44) |
|--|------|-------|-----|------|

|   |    |   |     |     |
|---|----|---|-----|-----|
| Impairment charges previously recorded, now finally written off | 11 | - | 164 | 175 |
|---|----|---|-----|-----|

|  |            |              |              |              |
|--|------------|--------------|--------------|--------------|
| <b>Total allowance account at 30 Jun</b> | <b>121</b> | <b>1,165</b> | <b>1,802</b> | <b>3,088</b> |
|--|------------|--------------|--------------|--------------|

|   |     |      |      |     |
|---|-----|------|------|-----|
| Impairment charges as % of loans and advances | 0.2 | 19.3 | 59.9 | 4.4 |
|---|-----|------|------|-----|

|                               |     |      |      |     |
|-------------------------------|-----|------|------|-----|
| Provisions as % of guarantees | 0.1 | 10.1 | 75.9 | 1.7 |
|-------------------------------|-----|------|------|-----|

|  |            |             |             |            |
|--|------------|-------------|-------------|------------|
| <b>Allowance account as % of loans and advances and guarantees</b> | <b>0.2</b> | <b>18.8</b> | <b>61.4</b> | <b>3.9</b> |
|--|------------|-------------|-------------|------------|

|  |        |       |       |        |
|--|--------|-------|-------|--------|
| Loans and advances before impairment charges | 56,934 | 5,690 | 2,708 | 65,332 |
|--|--------|-------|-------|--------|

|                                  |    |       |       |       |
|----------------------------------|----|-------|-------|-------|
| Impairment of loans and advances | 97 | 1,096 | 1,623 | 2,816 |
|----------------------------------|----|-------|-------|-------|

|  |               |              |              |               |
|--|---------------|--------------|--------------|---------------|
| <b>Loans and advances after impairment charges</b> | <b>56,837</b> | <b>4,594</b> | <b>1,085</b> | <b>62,516</b> |
|--|---------------|--------------|--------------|---------------|

|   |      |     |     |       |
|---|------|-----|-----|-------|
| % | 90.9 | 7.4 | 1.7 | 100.0 |
|---|------|-----|-----|-------|

## Notes

| DKK m | Sydbank Group |            | Sydbank A/S |            |
|-------|---------------|------------|-------------|------------|
|       | 1H<br>2018    | 1H<br>2017 | 1H<br>2018  | 1H<br>2017 |

### Note 10

#### Profit/(Loss) on holdings in associates and subsidiaries

|   |          |          |           |           |
|---|----------|----------|-----------|-----------|
| Profit/(Loss) on holdings in associates etc   | 5        | 2        | 5         | 2         |
| Profit/(Loss) on holdings in subsidiaries etc | -        | -        | 17        | 8         |
| <b>Total</b>                                  | <b>5</b> | <b>2</b> | <b>22</b> | <b>10</b> |

### Note 11

#### Effective tax rate

|                                      |             |             |             |             |
|--------------------------------------|-------------|-------------|-------------|-------------|
| Current tax rate of Sydbank          | 22.0        | 22.0        | 22.0        | 22.0        |
| Permanent differences *              | (4.1)       | 0.0         | (4.3)       | 0.0         |
| Adjustment of prior year tax charges | 0.0         | -           | 0.0         | -           |
| <b>Effective tax rate</b>            | <b>17.9</b> | <b>22.0</b> | <b>17.7</b> | <b>22.0</b> |

\* Permanent differences predominantly consist of a capital gain of DKK 110m concerning the sale of shares in ValueInvest Asset Management S.A. as well as a revaluation of the shares in BI Holding A/S of DKK 41m.

| DKK m | Sydbank Group  |                | Sydbank A/S    |                |
|-------|----------------|----------------|----------------|----------------|
|       | 30 Jun<br>2018 | 31 Dec<br>2017 | 30 Jun<br>2018 | 31 Dec<br>2017 |

### Note 12

#### Amounts owed by credit institutions and central banks

|   |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| Amounts owed at notice by central banks | 5,589         | 5,211         | 5,589         | 5,211         |
| Amounts owed by credit institutions     | 5,299         | 7,268         | 5,297         | 7,265         |
| <b>Total</b>                            | <b>10,888</b> | <b>12,479</b> | <b>10,886</b> | <b>12,476</b> |
| Of which reverse transactions           | 3,854         | 4,892         | 3,854         | 4,892         |

### Note 13

#### Other assets

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Positive market value of derivatives etc | 4,888        | 5,275        | 4,888        | 5,275        |
| Sundry debtors                           | 439          | 432          | 432          | 428          |
| Interest and commission receivable       | 123          | 159          | 123          | 159          |
| Cash collateral provided, CSA agreements | 2,239        | 2,230        | 2,239        | 2,230        |
| Other assets                             | 1            | 3            | 1            | 3            |
| <b>Total</b>                             | <b>7,690</b> | <b>8,099</b> | <b>7,683</b> | <b>8,095</b> |



## Notes

| DKKm | Sydbank Group  |                | Sydbank A/S    |                |
|------|----------------|----------------|----------------|----------------|
|      | 30 Jun<br>2018 | 31 Dec<br>2017 | 30 Jun<br>2018 | 31 Dec<br>2017 |

### Note 14

#### Amounts owed to credit institutions and central banks

|                                     |              |              |              |              |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Amounts owed to central banks       | 53           | 47           | 53           | 47           |
| Amounts owed to credit institutions | 5,347        | 5,913        | 5,574        | 6,137        |
| <b>Total</b>                        | <b>5,400</b> | <b>5,960</b> | <b>5,627</b> | <b>6,184</b> |
| Of which repo transactions          | 1,913        | 2,538        | 1,913        | 2,538        |

### Note 15

#### Deposits and other debt

|                                |               |               |               |               |
|--------------------------------|---------------|---------------|---------------|---------------|
| On demand                      | 68,570        | 67,803        | 70,634        | 69,867        |
| At notice                      | 3,983         | 2,518         | 3,983         | 2,518         |
| Time deposits                  | 7,027         | 7,617         | 7,027         | 7,617         |
| Special categories of deposits | 4,566         | 4,752         | 4,566         | 4,752         |
| <b>Total</b>                   | <b>84,146</b> | <b>82,690</b> | <b>86,210</b> | <b>84,754</b> |
| Of which repo transactions     | 1,525         | 2,460         | 1,525         | 2,460         |
| Of which secured lending       | 5,000         | 4,000         | 5,000         | 4,000         |

### Note 16

#### Other liabilities

|  |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
| Negative market value of derivatives etc | 5,038         | 5,342         | 5,038         | 5,342         |
| Sundry creditors                         | 3,637         | 3,940         | 3,631         | 3,927         |
| Negative portfolio, reverse transactions | 6,071         | 5,295         | 6,071         | 5,295         |
| Interest and commission etc              | 25            | 35            | 25            | 30            |
| Cash collateral received, CSA agreements | 798           | 751           | 798           | 751           |
| <b>Total</b>                             | <b>15,569</b> | <b>15,363</b> | <b>15,563</b> | <b>15,345</b> |

### Note 17

#### Provisions

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Provisions for pensions and similar obligations | 3          | 3          | 3          | 3          |
| Provisions for deferred tax                     | 156        | 203        | 154        | 201        |
| Provisions for guarantees                       | 231        | 172        | 231        | 172        |
| Provisions for undrawn credit lines             | 41         | 34         | 41         | 34         |
| Other provisions *                              | 11         | 22         | 11         | 22         |
| <b>Total</b>                                    | <b>442</b> | <b>434</b> | <b>440</b> | <b>432</b> |

\* Other provisions mainly concern provisions for onerous contracts and legal actions.

## Notes

| DKK m | Sydbank Group  |                | Sydbank A/S    |                |
|-------|----------------|----------------|----------------|----------------|
|       | 30 Jun<br>2018 | 31 Dec<br>2017 | 30 Jun<br>2018 | 31 Dec<br>2017 |

### Note 18

#### Subordinated capital

| Interest rate                     | Note |           | Nominal (m) | Maturity    |              |              |              |              |
|-----------------------------------|------|-----------|-------------|-------------|--------------|--------------|--------------|--------------|
| 2.13 (fixed)                      | 1    | Bond loan | EUR 100     | 11 Mar 2027 | 742          | 740          | 742          | 740          |
| 1.52 (floating)                   | 2    | Bond loan | EUR 75      | 2 Nov 2029  | 556          | 556          | 556          | 556          |
| 1.24 (floating)                   | 3    | Bond loan | EUR 75      | Perpetual   | 559          | 558          | 559          | 558          |
| Total Tier 2 capital              |      |           |             |             | 1,857        | 1,854        | 1,857        | 1,854        |
| <b>Total subordinated capital</b> |      |           |             |             | <b>1,857</b> | <b>1,854</b> | <b>1,857</b> | <b>1,854</b> |

1 Optional redemption from 11 March 2022 after which the interest rate will be fixed at 1.72% above 5Y Mid-Swap.

2 Optional redemption from 2 November 2024 after which the interest rate will be fixed at 1.85% above 3M EURIBOR.

3 The interest rate follows the 10Y Mid-Swap plus a premium of 0.2%.

|  |   |   |   |   |
|--|---|---|---|---|
| Costs relating to the raising and redemption of subordinated capital | 0 | 0 | 0 | 0 |
|--|---|---|---|---|

### Note 19

#### Contingent liabilities and other obligating agreements

##### Contingent liabilities

|  |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
| Financial guarantees                     | 4,054         | 3,793         | 4,054         | 3,793         |
| Mortgage finance guarantees              | 2,865         | 2,904         | 2,865         | 2,904         |
| Mortgage-like loan guarantees            | 1,865         | 1,745         | 1,865         | 1,745         |
| Registration and remortgaging guarantees | 3,244         | 3,417         | 3,244         | 3,417         |
| Other contingent liabilities             | 1,691         | 1,703         | 1,691         | 1,703         |
| <b>Total</b>                             | <b>13,719</b> | <b>13,562</b> | <b>13,719</b> | <b>13,562</b> |

##### Other obligating agreements

|                                |            |              |              |              |
|--------------------------------|------------|--------------|--------------|--------------|
| Irrevocable credit commitments | 887        | 1,285        | 887          | 1,285        |
| Other liabilities *            | 91         | 40           | 174          | 88           |
| <b>Total</b>                   | <b>978</b> | <b>1,325</b> | <b>1,061</b> | <b>1,373</b> |

\* Including intra-group liabilities in relation to rented premises

Totalkredit loans arranged by Sydbank are comprised by an agreed right of set-off against future current commission which Totalkredit may invoke in the event of losses on the loans arranged.

Sydbank does not expect that this set-off will have a significant impact on Sydbank's financial position.

As a result of the Bank's membership of Bankdata, the Bank will be obligated to pay an exit charge in the event of exit.

As a result of the statutory participation in the deposit guarantee scheme, the industry has paid an annual contribution of 2.5‰ of covered net deposits until the Banking Department's capital exceeds 1% of total covered net deposits, which was reached at year-end 2015. The Banking Department will cover the direct losses in connection with the winding-up of distressed financial institutions under Bank Package III and Bank Package IV which are attributable to covered net deposits. Any losses as a result of the final winding-up will be covered by the Guarantee Fund via the Winding-up and Restructuring Department as regards which Sydbank is currently liable for 6.84% of any losses.

## Notes

| DKKm | Sydbank Group  |                | Sydbank A/S    |                |
|------|----------------|----------------|----------------|----------------|
|      | 30 Jun<br>2018 | 31 Dec<br>2017 | 30 Jun<br>2018 | 31 Dec<br>2017 |

### Note 19 – continued

As a result of the statutory participation in the resolution financing arrangement (the Resolution Fund), credit institutions will pay an annual contribution over a 10-year period to reach a target funding level totalling 1% of covered deposits. Credit institutions must make contributions to the fund according to their relative size and risk in Denmark. Sydbank expects that contributions will total approximately DKK 200m over a 10-year period.

The Group is party to legal actions. These legal actions are under continuous review and the necessary provisions made are based on an assessment of the risk of loss. Pending legal actions are not expected to have any significant impact on the financial position of the Group.

### Note 20

#### Collateral

At 30 June 2018 the Group had deposited as collateral securities at a market value of DKK 5,436m with Danish and foreign exchanges and clearing centres etc in connection with margin calls and securities settlements etc. In addition the Group has provided cash collateral in connection with CSA agreements of DKK 2,239m.

In connection with repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet and consideration received is recognised as a debt. Repo transaction securities are treated as assets provided as collateral for liabilities. Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

In connection with reverse transactions, which involve purchasing securities to be resold at a later date, the Group is entitled to sell the securities or deposit them as collateral for other loans. The securities are not recognised in the balance sheet and consideration paid is recognised as a receivable.

Assets received as collateral in connection with reverse transactions may be sold to a third party. In such cases a negative portfolio may arise as a result of the accounting rules. This is recognised under “Other liabilities”.

#### Assets sold as part of repo transactions

|                     |       |       |       |       |
|---------------------|-------|-------|-------|-------|
| Bonds at fair value | 3,428 | 4,982 | 3,428 | 4,982 |
|---------------------|-------|-------|-------|-------|

#### Assets purchased as part of reverse transactions

|                     |       |        |       |        |
|---------------------|-------|--------|-------|--------|
| Bonds at fair value | 9,823 | 10,082 | 9,823 | 10,082 |
| Shares etc          | -     | -      | -     | -      |

## Notes

| DKK m | 1H   | 1H   | Sydbank Group |           |
|-------|------|------|---------------|-----------|
|       | 2018 | 2017 | Index         | Full year |
|       |      |      | 18/17         | 2017      |

### Note 21

#### Related parties

Sydbank is the bank of a number of related parties. Transactions with related parties are settled on an arm's length basis.

No unusual transactions took place with related parties in 1H 2018. Reference is made to the Group's 2017 Annual Report for a detailed description of related party transactions.

### Note 22

#### Reporting events occurring after the balance sheet date

After the expiry of 1H, no matters of significant impact on the financial position of the Sydbank Group have occurred.

### Note 23

#### Large shareholders

On 27 April 2018 Norges Bank, Norway announced that it owns more than 5% of the share capital.

On 21 August 2018 Sydbank announced that it owns more than 5% of the share capital.

The Bank's holdings of own shares are predominantly attributable to the Bank's share buyback programme totalling DKK 1,250m.

### Note 24

#### Core income

|  |              |              |           |              |
|--|--------------|--------------|-----------|--------------|
| Net interest etc   | 919          | 1,030        | 89        | 1,993        |
| Mortgage credit *  | 289          | 268          | 108       | 575          |
| Payment services   | 97           | 96           | 101       | 202          |
| Remortgaging and loan fees                               | 68           | 66           | 103       | 133          |
| Commission and brokerage                                 | 158          | 194          | 81        | 365          |
| Commission etc investment funds and pooled pension plans | 240          | 199          | 121       | 388          |
| Asset management   | 134          | 123          | 109       | 264          |
| Custody account fees                                     | 35           | 35           | 100       | 69           |
| Other operating income                                   | 100          | 82           | 122       | 178          |
| <b>Total</b>   | <b>2,040</b> | <b>2,093</b> | <b>97</b> | <b>4,167</b> |

#### \* Mortgage credit

|                              |            |            |            |            |
|------------------------------|------------|------------|------------|------------|
| Totalkredit cooperation      | 242        | 205        | 118        | 447        |
| Totalkredit, set-off of loss | 12         | 15         | 80         | 27         |
| Totalkredit cooperation, net | 230        | 190        | 121        | 420        |
| DLR Kredit                   | 58         | 77         | 75         | 152        |
| Other mortgage credit income | 1          | 1          | 100        | 3          |
| <b>Total</b>                 | <b>289</b> | <b>268</b> | <b>108</b> | <b>575</b> |

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## Notes

DKKm

### Note 25

#### **Financial instruments recognised at fair value**

Measurement of financial instruments is based on quoted prices from an active market, on generally accepted valuation models with observable market data or on available data that only to a limited extent are observable market data.

Measurement of financial instruments for which prices are quoted in an active market or which is based on generally accepted valuation models with observable market data is not subject to significant estimates.

As regards financial instruments where measurement is based on available data that only to a limited extent are observable market data, measurement is subject to estimates. Such financial instruments appear from the column unobservable inputs below and include primarily unlisted shares, including shares in DLR Kredit A/S.

The fair value of unlisted shares and other holdings is calculated on the basis of available information on trades etc – including to a very significant extent on shareholders' agreements based on book value. To an insignificant extent fair value is calculated on the basis of expected cash flows.

A 10% change in the calculated market value of financial assets measured on the basis of unobservable inputs will affect profit before tax by DKK 175m.

## Notes

| 30 Jun 2018 | Sydbank Group |                   |                     |                  |                 |
|-------------|---------------|-------------------|---------------------|------------------|-----------------|
| DKKm        | Quoted prices | Observable inputs | Unobservable inputs | Total fair value | Carrying amount |

### Note 25 – continued

#### Financial assets

|   |              |               |              |               |               |
|---|--------------|---------------|--------------|---------------|---------------|
| Amounts owed by credit institutions and central banks | -            | 3,854         | -            | 3,854         | 3,854         |
| Loans and advances at fair value                      | -            | 6,066         | -            | 6,066         | 6,066         |
| Bonds at fair value                                   | -            | 26,882        | -            | 26,882        | 26,882        |
| Shares etc  | 378          | 63            | 1,750        | 2,191         | 2,191         |
| Assets related to pooled plans                        | 6,023        | 10,606        | -            | 16,629        | 16,629        |
| Other assets  | 30           | 4,917         | -            | 4,947         | 4,947         |
| <b>Total</b>  | <b>6,431</b> | <b>52,388</b> | <b>1,750</b> | <b>60,569</b> | <b>60,569</b> |

#### Financial liabilities

|   |           |               |          |               |               |
|---|-----------|---------------|----------|---------------|---------------|
| Amounts owed to credit institutions and central banks | -         | 1,913         | -        | 1,913         | 1,913         |
| Deposits and other debt                               | -         | 1,525         | -        | 1,525         | 1,525         |
| Deposits in pooled plans                              | -         | 16,629        | -        | 16,629        | 16,629        |
| Other liabilities                                     | 99        | 11,010        | -        | 11,109        | 11,109        |
| <b>Total</b>  | <b>99</b> | <b>31,077</b> | <b>-</b> | <b>31,176</b> | <b>31,176</b> |

| DKKm | 30 Jun 2018 | 31 Dec 2017 | 30 Jun 2017 |
|------|-------------|-------------|-------------|
|------|-------------|-------------|-------------|

#### Assets measured on the basis of unobservable inputs

|   |              |              |              |
|---|--------------|--------------|--------------|
| Carrying amount at 1 Jan                | 1,822        | 1,557        | 1,557        |
| Additions                               | 1            | 160          | 130          |
| Disposals                               | 292          | 33           | 34           |
| Market value adjustment                 | 219          | 138          | 67           |
| <b>Carrying amount at end of period</b> | <b>1,750</b> | <b>1,822</b> | <b>1,720</b> |

#### Recognised in profit for the period

|                         |            |            |           |
|-------------------------|------------|------------|-----------|
| Dividend                | 20         | 28         | 28        |
| Market value adjustment | 219        | 138        | 67        |
| <b>Total</b>            | <b>239</b> | <b>166</b> | <b>95</b> |

## Notes

| DKK m   | Sydbank Group  |                | Sydbank A/S    |                |
|---|----------------|----------------|----------------|----------------|
|   | 30 Jun<br>2018 | 31 Dec<br>2017 | 30 Jun<br>2018 | 31 Dec<br>2017 |
| <b>Note 26</b>                                    |                |                |                |                |
| <b>Leverage ratio</b>                             |                |                |                |                |
| <b>Exposure for computation of leverage ratio</b> |                |                |                |                |
| Total assets                                      | 136,147        | 138,494        | 138,430        | 140,763        |
| Pooled assets excluded                            | (16,629)       | (16,541)       | (16,629)       | (16,541)       |
| Correction derivatives etc                        | 7,104          | 5,531          | 7,104          | 5,531          |
| Guarantees etc                                    | 13,719         | 13,562         | 13,719         | 13,562         |
| Undrawn credit lines etc                          | 11,150         | 11,235         | 11,160         | 11,283         |
| Other adjustments                                 | (604)          | (887)          | (591)          | (899)          |
| <b>Total</b>                                      | <b>150,887</b> | <b>151,394</b> | <b>153,193</b> | <b>153,699</b> |
| Tier 1 capital – current (transitional rules)     | 9,923          | 10,446         | 9,947          | 10,470         |
| Tier 1 capital – fully loaded                     | 9,699          | 10,167         | 9,723          | 10,191         |
| Leverage ratio (%) – current (transitional rules) | 6.6            | 6.9            | 6.5            | 6.8            |
| Leverage ratio (%) – fully loaded                 | 6.4            | 6.7            | 6.3            | 6.6            |

| 30 Jun 2018   |                |                   |                              |                       |                     |     |
|---|----------------|-------------------|------------------------------|-----------------------|---------------------|-----|
| DKK m   | Activity       | Share capital (m) | Shareholders' equity (DKK m) | Profit/(Loss) (DKK m) | Ownership share (%) |     |
| <b>Note 27</b>  |                |                   |                              |                       |                     |     |
| <b>Group holdings and enterprises</b>                           |                |                   |                              |                       |                     |     |
| Sydbank A/S   |                | DKK               | 677                          |                       |                     |     |
| <b>Consolidated subsidiaries</b>                                |                |                   |                              |                       |                     |     |
| DiBa A/S, Aabenraa  | Investment     | DKK               | 300                          | 2,032                 | (4)                 | 100 |
| Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa                 | Real property  | DKK               | 11                           | 11                    | (14)                | 100 |
| Syd Fund Management A/S, Aabenraa                               | Administration | DKK               | 40                           | 48                    | 8                   | 100 |
| Sydbank (Schweiz) AG, in Liquidation, St. Gallen, Switzerland * | -              | CHF               | 40                           | 226                   | (2)                 | 100 |
| <b>Holdings in associates</b>                                   |                |                   |                              |                       |                     |     |
| Foreningen Bankdata, Fredericia                                 | IT             | DKK               | 503                          | 503                   | (7)                 | 32  |
| Komplementarselskabet Core Property Management A/S, Copenhagen  | Real property  | DKK               | 1                            | 51                    | 48                  | 20  |
| Core Property Management P/S, Copenhagen                        | Real property  | DKK               | 5                            | 24                    | 14                  | 20  |

Financial information according to the companies' most recently published annual reports (2017).

\* With no activity at 30 June 2018.

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## Management Statement

We have reviewed and approved the Interim Report – First Half 2018 of Sydbank A/S.

The consolidated interim financial statements are prepared in accordance with IAS 34 “Interim Financial Reporting” as approved by the EU. Furthermore the interim financial statements (of the parent company) are prepared in compliance with Danish disclosure requirements for interim reports of listed financial companies.

The Interim Report has not been audited or reviewed.

In our opinion the interim financial statements give a true and fair view of the Group’s and the parent company’s assets, shareholders’ equity and liabilities and financial position at 30 June 2018 and of the results of the Group’s and the parent company’s operations and consolidated cash flows for the period 1 January – 30 June 2018. Moreover it is our opinion that the management’s review includes a fair review of the developments in the Group’s and the parent company’s operations and financial position as well as a description of the most significant risks and elements of uncertainty which may affect the Group and the parent company.

Aabenraa, 28 August 2018

### Group Executive Management

Karen Frøsig  
CEO

Bjarne Larsen

Jan Svarre

### Board of Directors

Torben Nielsen  
Chairman

John Lesbo  
Vice-Chairman

Carsten Andersen

Kim Holmer

Lars Mikkjelgaard-Jensen

Janne Moltke-Leth

Frank Møller Nielsen

Jacob Christian Nielsen

Jarl Oxlund

Susanne Schou

Jørn Krogh Sørensen



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## Supplementary Information

### Financial calendar

In 2018 the Group's preliminary announcement of financial statements will be released as follows:

- Interim Report – Q1-Q3 2018  
31 October 2018

### Sydbank contacts

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CVR No DK 12626509

### Relevant links

[sydbank.dk](http://sydbank.dk)  
[sydbank.com](http://sydbank.com)

For further information reference is made to Sydbank's 2017 Annual Report at [sydbank.com](http://sydbank.com).