
Interim Report H1 Report 2020

Higher than expected income raises expectations for the year's profit in 2020

26 August 2020

Highlights – H1 2020

Key points

Higher than expected income raises expectations for the year's profit in 2020

Profit

Profit of DKK 324m – ROE of 5.4% p.a. after tax

Core income

Core income of DKK 869m in Q2 2020 – down by 9% compared with Q1 2020

Total income

Total income of DKK 978m in Q2 2020 – up by 1% compared with Q1 2020

Costs

Costs down by 1% compared with Q2 2019

Impairment charges

Impairment charges represent an income of DKK 42m in Q2 2020

Bank loans

DKK 3.8bn decline in total credit intermediation in Q2 2020
DKK 4.5bn decline in bank loans and advances in Q2 2020

CET1 ratio

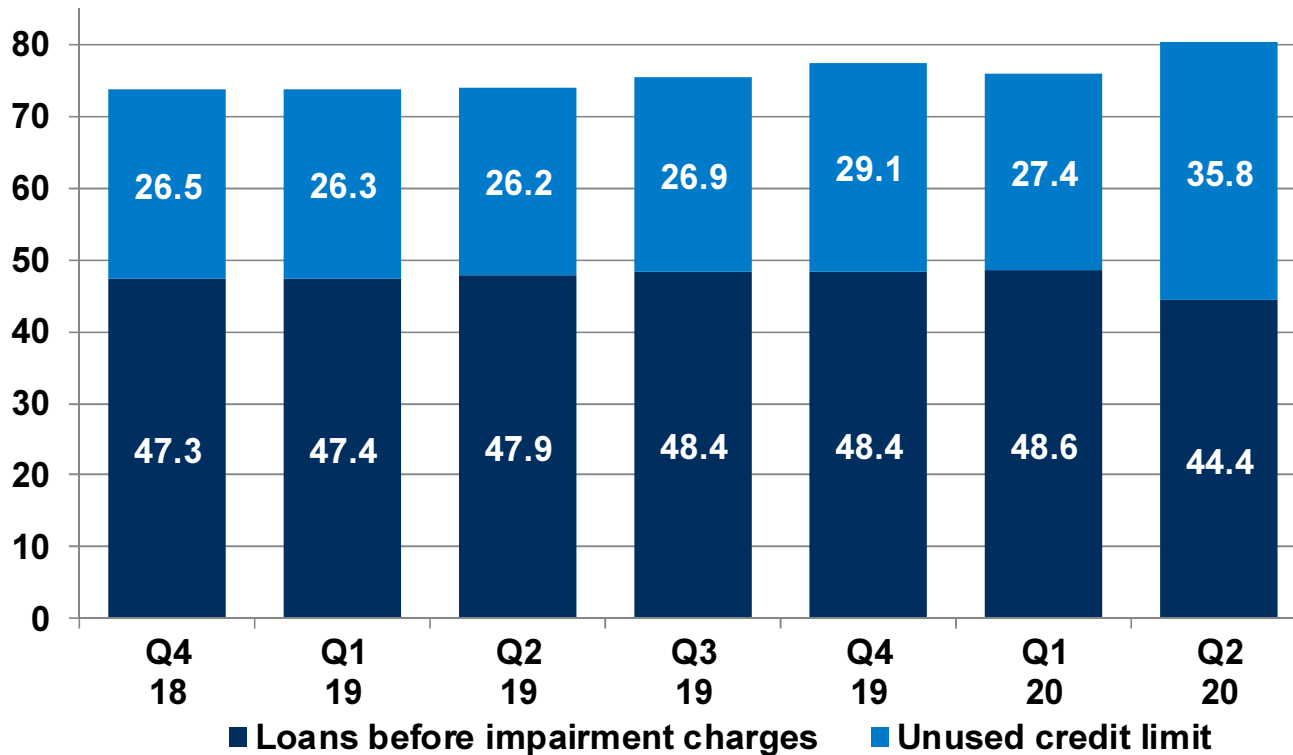
CET1 ratio of 20.2% – up by 1.2% in Q2 2020

Deposits

Deposit surplus the highest on record – we will adjust offer to retail clients

Rise in credit facilities to corporate clients – but fall in drawings

DKKbn



Key points:

- Lending to corporate clients is affected for instance by the government's relief packages, which include deferral of VAT and tax payments.
- Loans and advances to corporate clients dropped by DKK 4.1bn in the first half of 2020.
- As a result of the uncertainty in connection with covid-19, many corporate clients have increased their cash resources, which the Bank has accommodated in the form of increased credit commitments.

Core income – 1% higher than H1 2019

DKKm	H1 2020	H1 2019	Index	Q2 2020	Q1 2020	Index
Net interest income etc	750	754	99	361	389	93
Mortgage credit *	300	300	100	146	154	95
Payment services	72	93	77	32	40	80
Remortgaging and loan fees	85	69	123	37	48	77
Commission and brokerage	186	150	124	79	107	74
Commission etc investment funds and pooled pension plans	139	167	83	66	73	90
Asset management	139	132	105	69	70	99
Custody account fees	39	35	111	19	20	95
Other operating income	119	105	113	60	59	102
Total	1,829	1,805	101	869	960	91
* Set-off of loss Totalkredit	4	8	50	1	3	33

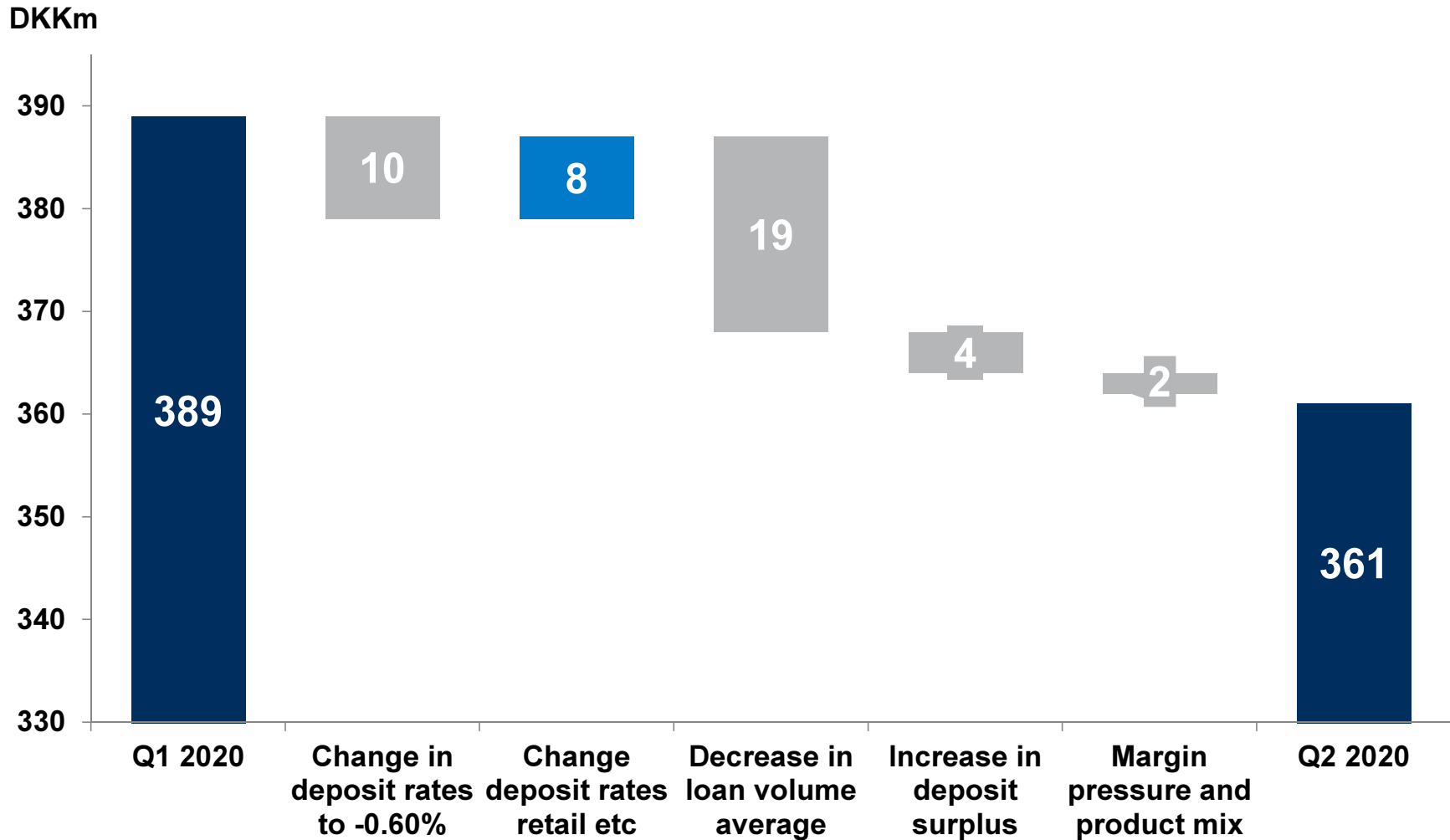
Key points H1 20 vs H1 19:

- Net interest income etc down by 1%
- Remortgaging and loan fees up by 23%
- Commission and brokerage up by 24% due to high trading activity in Q1 20
- Other items down by a total of 3%.

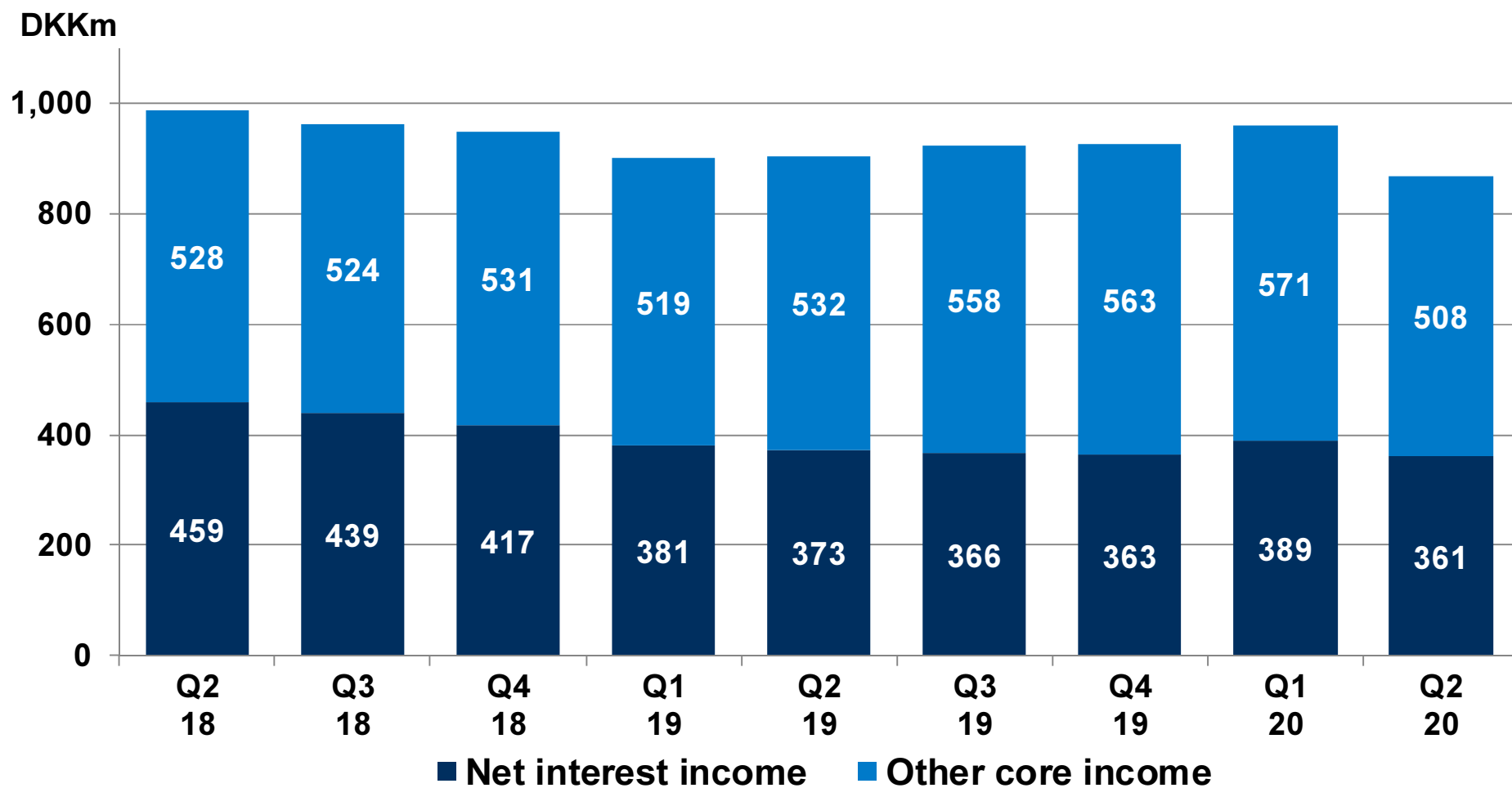
Key points Q2 20 vs Q1 20:

- Net interest income etc down by 7%
- Commission and brokerage down by 26% due to high trading activity in Q1 20
- Other items down by a total of 9%.

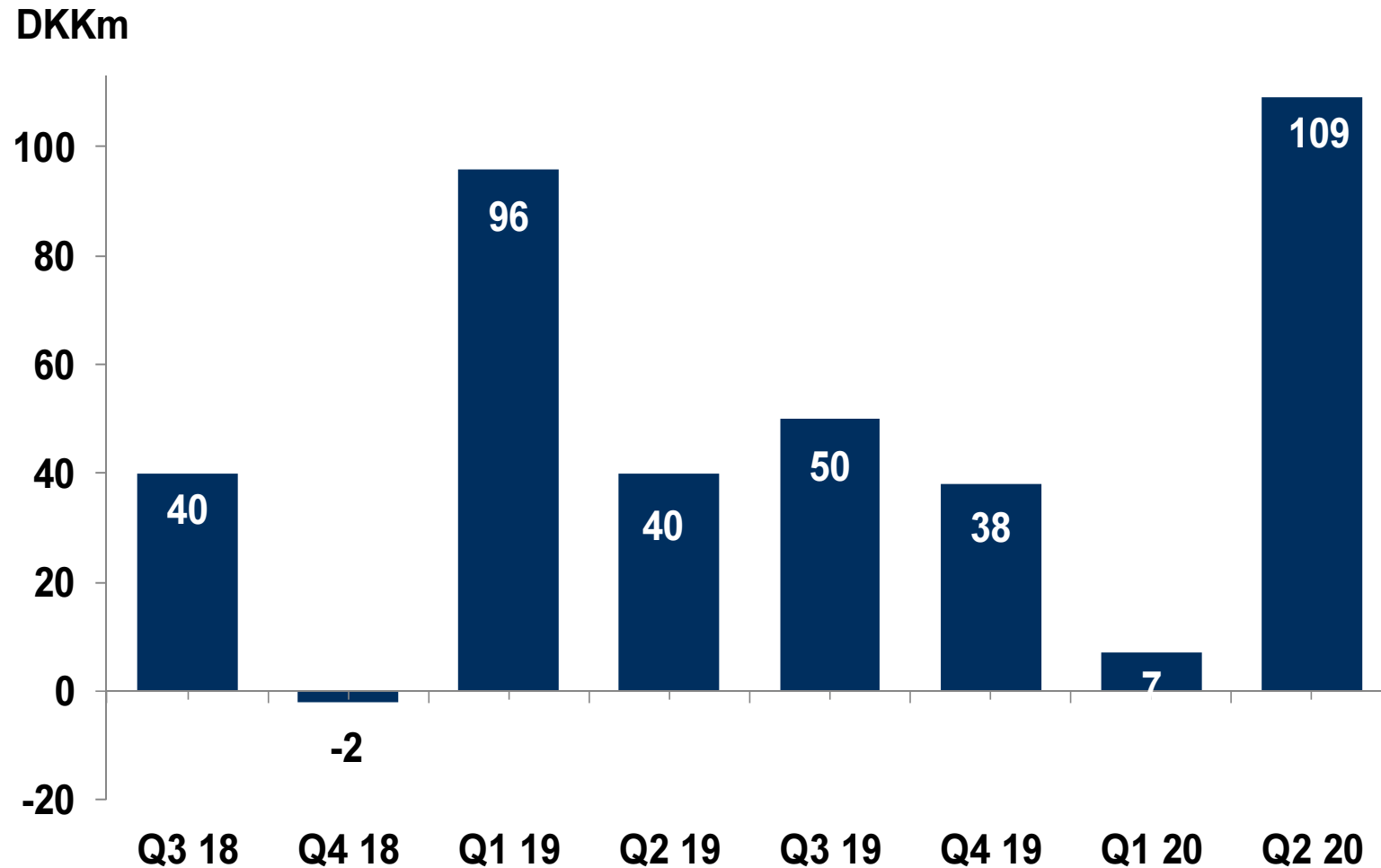
Net interest income etc – development from Q1 2020 to Q2 2020



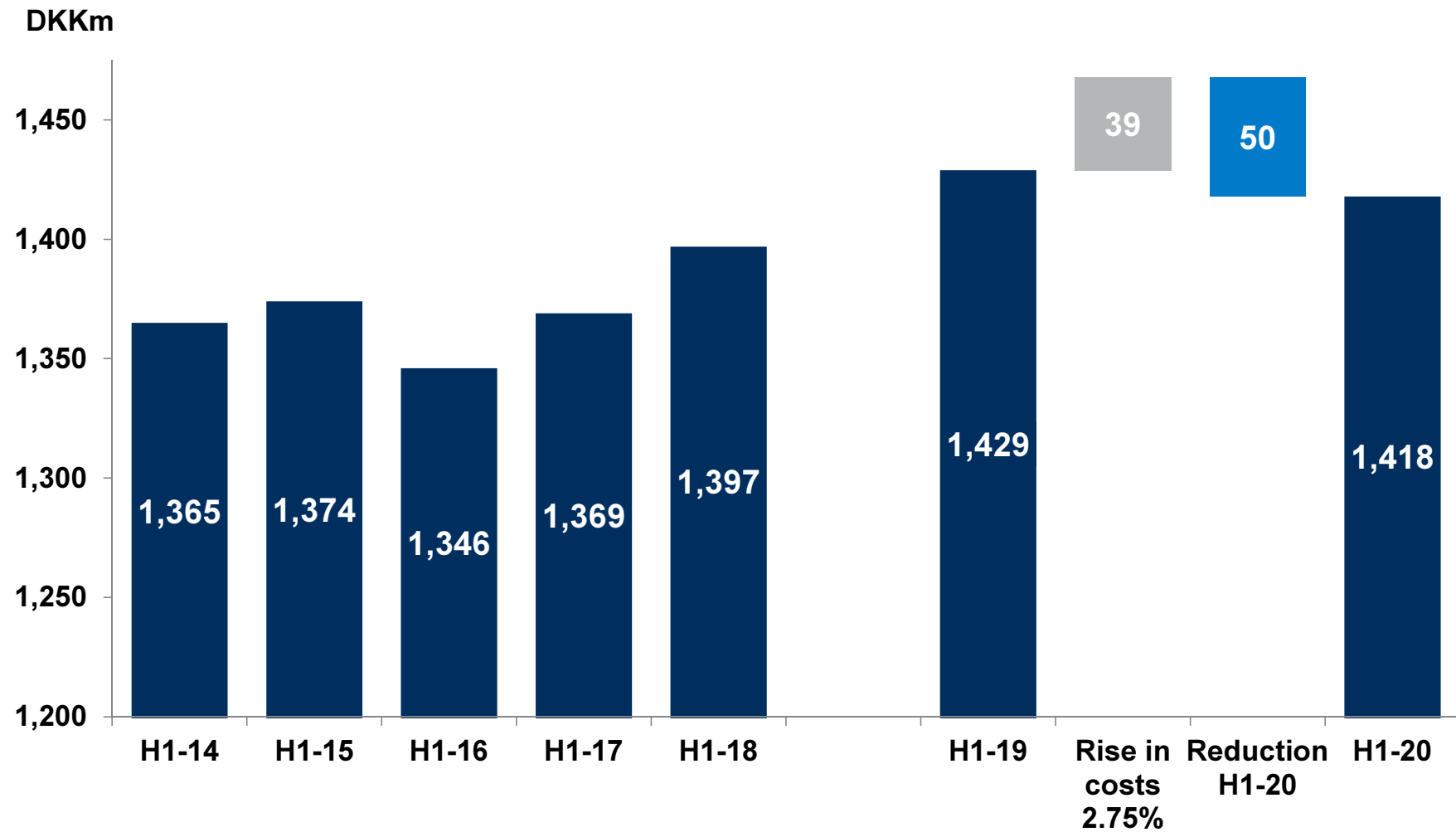
Core income down by 9% compared with Q1 2020



Trading income – high income in Q2 2020 – cancels out low income in Q1 2020

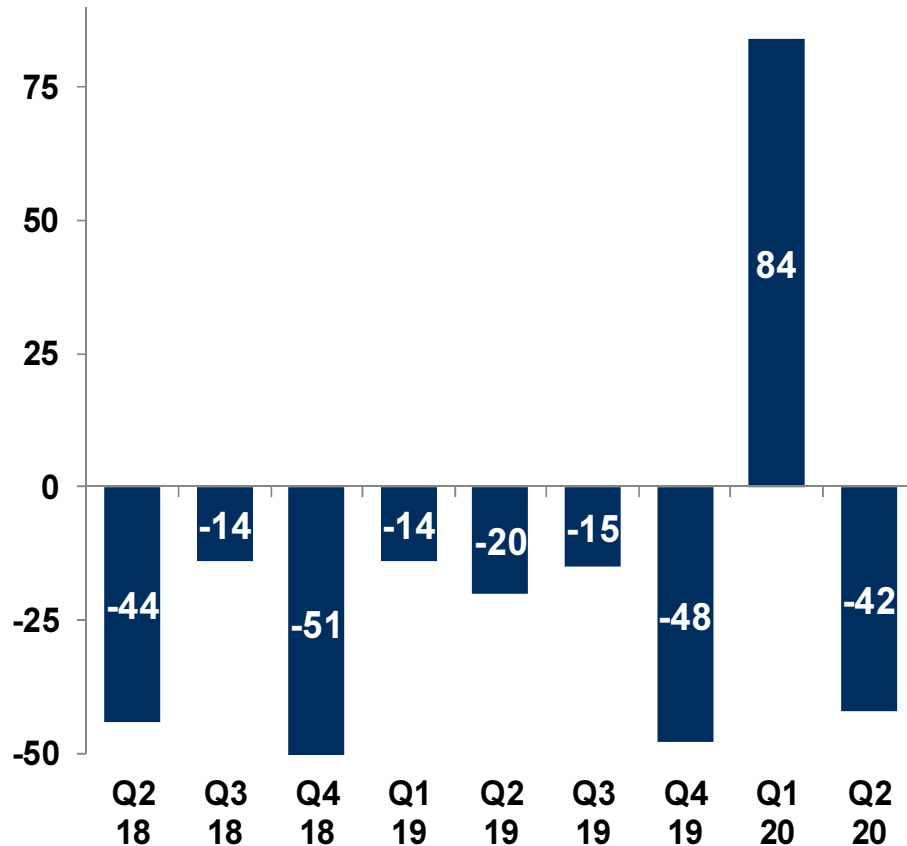


Costs (core earnings) – reduction of DKK 50m in H1 2020



Impairment charges in Q2 2020 – a reversal of DKK 42m

DKKm **Impairment charges for bank loans**



Key points

Impairment charges for loans and advances represent an income of DKK 42m.

Unsecured loans in the weakest rating categories without objective evidence of credit impairment represent DKK 589m (exclusive of agriculture, but including mink farming). The impairment charges include a management estimate of DKK 125m to hedge the risk of these loans, equal to approx 20%.

Furthermore the impairment charges include a management estimate of DKK 100m to cover unforeseen events as regards the remaining part of the lending portfolio, the credit risk of which is satisfactory or normal.

Management estimates as a result of covid-19 total DKK 225m.

Exposures most affected by covid-19 – a limited group

Severely impacted industries:

Mainly businesses within the following industries are considered to be severely impacted by covid-19:

- Sea and air transport
- Specialised retailers, exclusive of cars
- Hotel, restaurants and entertainment.

Loans and advances to these industries represented DKK 1.9bn at 30 June 2020, equivalent to 3.4% of total loans and advances of DKK 55.5bn.

Weak corporate clients:

Customers who were already weak before the coronavirus crisis – corresponding to rating categories 7, 8, 9 and default – will be even more challenged during times of crisis.

Impairment charges are recorded on a regular basis on all customers subject to objective evidence of credit impairment and as a result these customers are given individual focus.

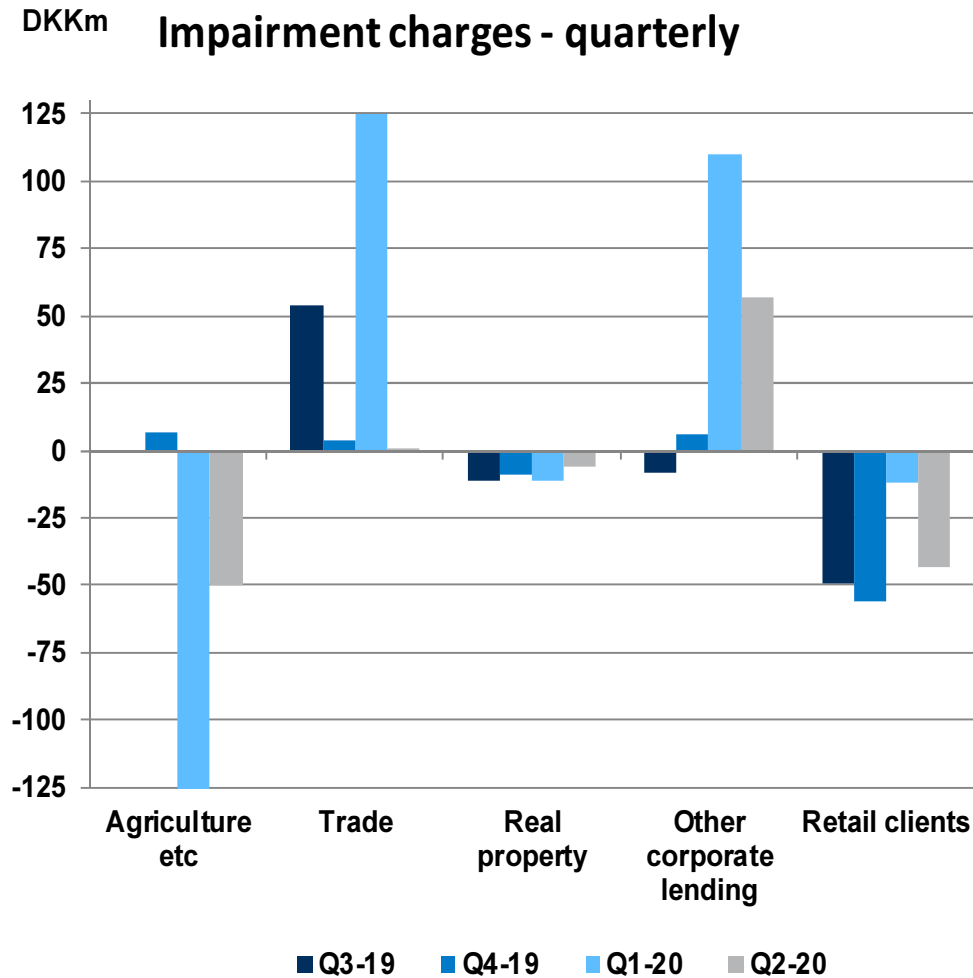
Loans and advances to weak corporate clients without objective evidence of credit impairment (exclusive of agriculture, but including mink farming) represent DKK 0.7bn. After deduction of collateral received of DKK 0.1bn, unsecured loans and advances total DKK 0.6bn.

Small corporate clients:

By experience the smallest businesses are often less robust.

Loans and advances to the smallest businesses – with a balance sheet total of less than DKK 5m – represented DKK 1.0bn at 30 June 2020, equivalent to 1.8% of total loans and advances of DKK 55.5bn.

Impairment charges – breakdown by industry



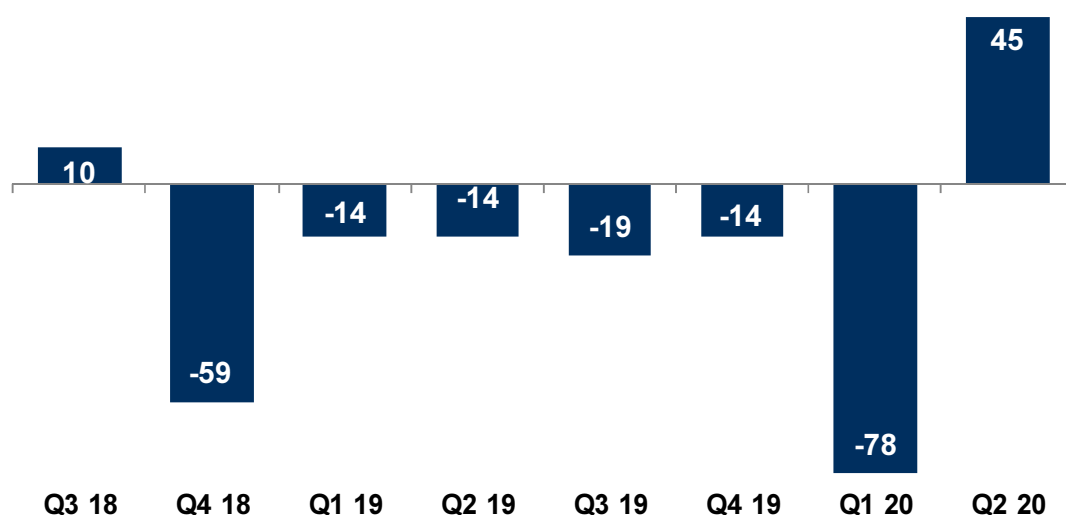
Key points Q2 2020:

- Impairment charges as regards corporate exposures represent an expense of DKK 1m
- Impairment charges as regards retail exposures represent income of DKK 43m.

DKKm	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Agriculture etc	38	34	-1	7	-128	-50
Trade	28	16	54	4	125	0
Real property	-23	-23	-11	-9	-11	-6
Other corporate lending	-10	-21	-8	6	110	57
Total corporate lending	33	6	34	8	96	1
Retail clients	-47	-26	-49	-56	-12	-43
Total	-14	-20	-15	-48	84	-42

Investment portfolio earnings – significantly effected by widening credit spreads

Investment portfolio earnings – DKKm



Investment portfolio earnings in H1 2020 represent minus DKK 33m compared with earnings of minus DKK 28m in H1 2019.

Investment portfolio earnings in Q2 2020 are primarily a consequence of decreased uncertainty, which has also resulted in narrowing credit spreads on mortgage bonds and corporate bonds.

The portfolio has been composed with the aim of making investment portfolio earnings neutral to interest rate changes.

Investment portfolio earnings

DKKm	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Position-taking	-20	-8	-3	8	-48	48
Liquidity generation and reserves	7	-4	-15	-20	-26	0
Strategic positions	1	-1	1	0	-2	-1
Costs	-2	-1	-2	-2	-2	-2
Total	-14	-14	-19	-14	-78	45

Income statement – ROE of 5.4% in H1 2020

DKKm	H1 2020	H1 2019	Index	Q2 2020	Q1 2020	Index
Core income	1,829	1,805	101	869	960	91
Trading income	116	136	85	109	7	-
Total income	1,945	1,941	100	978	967	101
Costs, core earnings	1,418	1,429	99	700	718	97
Core earnings before impairment	527	512	103	278	249	112
Impairment of loans and advances etc	42	-34	-	-42	84	-
Core earnings	485	546	89	320	165	194
Investment portfolio earnings	-33	-28	118	45	-78	-
Profit before non-recurring items	452	518	87	365	87	420
Non-recurring items, net	-37	-39	95	-20	-17	118
Profit before tax	415	479	87	345	70	493
Tax	91	90	101	76	15	507
Profit for the period	324	389	83	269	55	486
Costs (core earnings) / total income, C/I	0.73	0.74		0.72	0.74	
Return on equity, ROE full-year basis	5.4	7.0		9.3	1.6	
Earnings per share, EPS	5.1	6.0		4.4	0.8	

Key points H1 20 vs H1 2019:

- Core income up by 1%
- Total income on same level
- Costs (core earnings) down by 1%
- Impairment charges – an expense of DKK 42m
- Core earnings down by 11%
- Investment portfolio earnings on same level

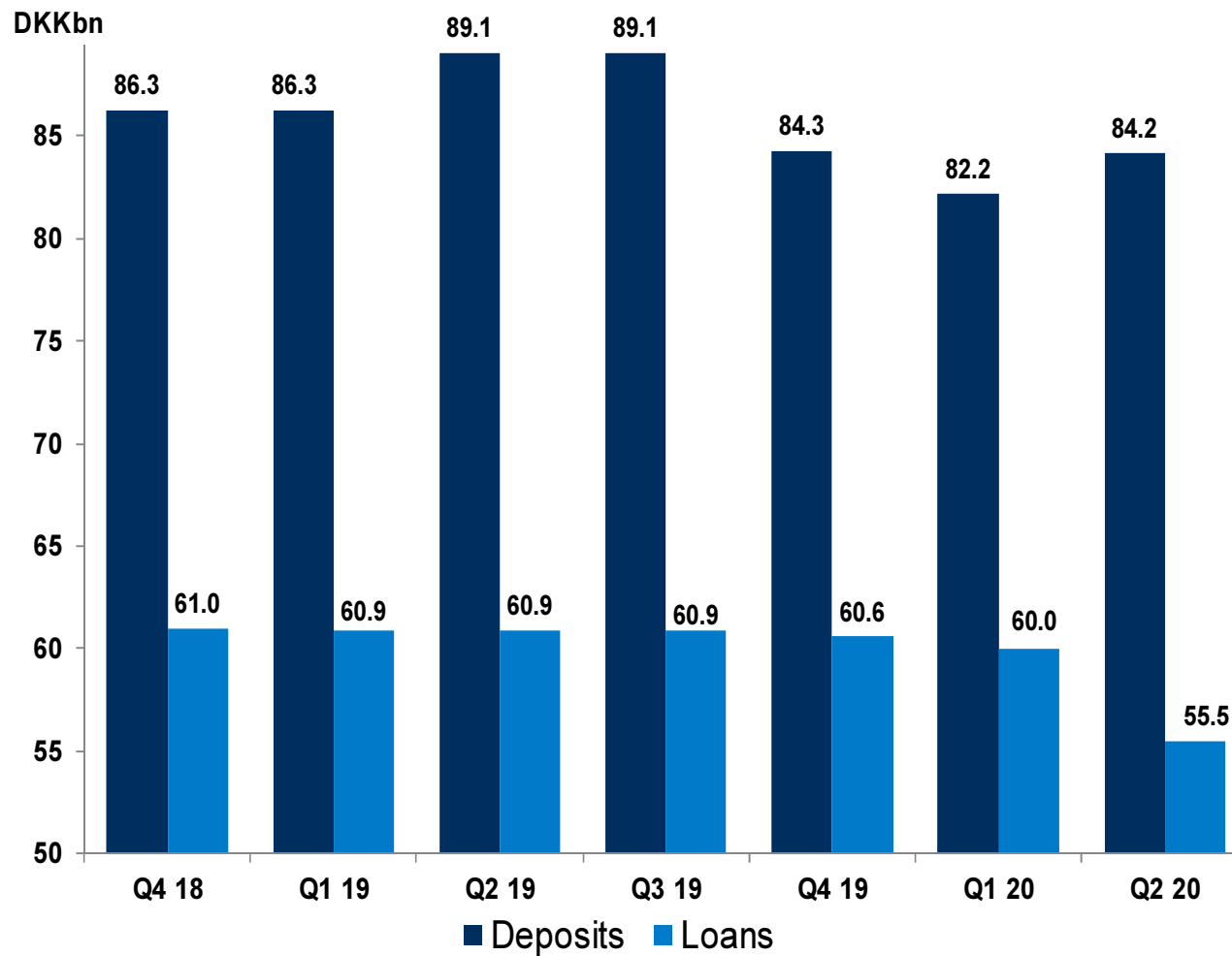
Key points Q2 20 vs Q1 20:

- Core income down by 9%
- Total income up by 1%
- Costs (core earnings) down by 3% due to seasonal fluctuations.

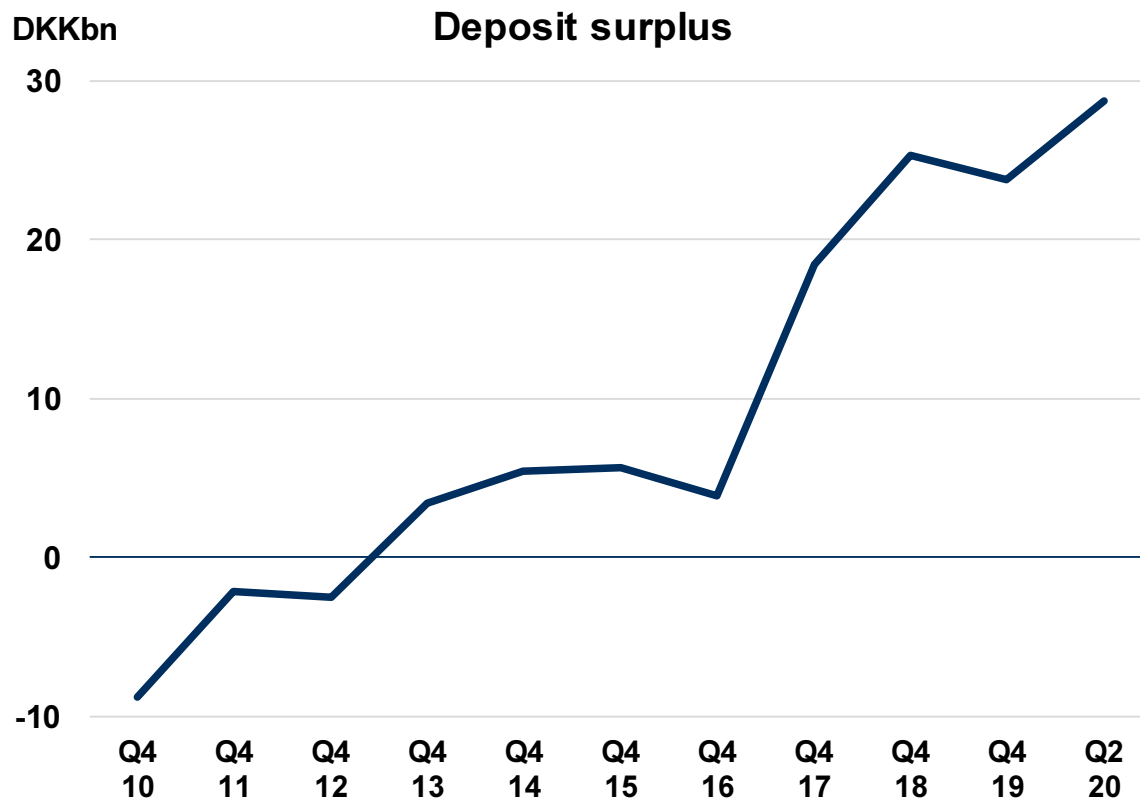
Non-recurring items, H1 20:

- Costs of DKK 37m related to “A stronger bank” projects.

Loans and advances declined by DKK 4.5bn and deposits increased by DKK 2.0bn in Q2 2020



Historically high deposit surplus squeezes income and results in adjustment of deposit solution to retail clients



Negative interest – retail clients:

- Limit of DKK 250,000 on demand deposits at 0% interest rate.
- Removal of possibility of depositing DKK 50,000 into other accounts at 0% interest rate.
- Market consistent solution

Total credit intermediation – down by DKK 3.8bn in Q2 2020

Total credit intermediation

DKKbn	Q4 2018	Q4 2019	Q1 2020	Q2 2020	Change Q2
Bank loans - retail	15.7	13.5	12.9	12.5	-0.4
Bank loans - corporate	45.0	46.8	46.9	42.7	-4.2
Bank loans - public authorities	0.3	0.3	0.2	0.3	0.1
Bank loans - total	61.0	60.6	60.0	55.5	-4.5
Funded mortgage-like loans	9.9	8.3	7.9	7.6	-0.3
Bank loans and funded mortgage-like loans	70.9	68.9	67.9	63.1	-4.8
Arranged mortgage loans - Totalkredit	59.6	64.7	65.8	66.8	1.0
Arranged mortgage loans - DLR	11.7	11.4	11.3	11.3	0.0
Total	142.2	145.1	145.0	141.2	-3.8

- Total credit intermediation down by DKK 3.8bn in Q2 2020.
- Total credit intermediation to retail clients – by way of bank loans and advances, funded mortgage-like loans and arranged mortgage loans – up by DKK 0.3bn in Q2 2020.
- Total credit intermediation to corporate clients, incl DLR, down by DKK 4.2bn in Q2 2020.

Capital ratios positively affected by a decline in risk exposure

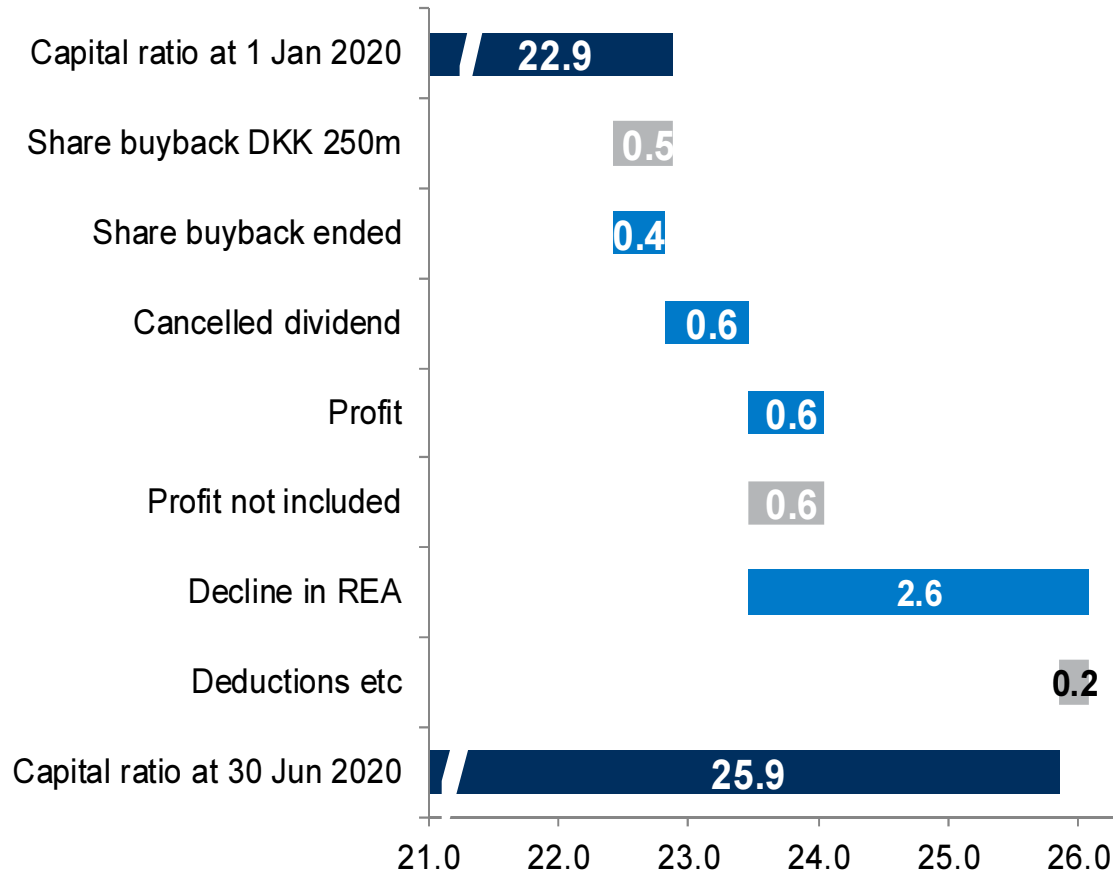
DKKm	Q4 2018	Q4 2019	Q1 2020	Q2 2020
Credit risk	36,032	35,747	35,399	31,628
Market risk	6,036	6,177	4,310	4,836
Operational risk	7,654	7,171	7,171	7,171
Other exposures incl CVA	5,680	6,065	6,076	5,929
Risk exposure amount	55,402	55,160	52,956	49,564
CET1	9,579	9,807	10,045	10,033
Tier 1	10,550	10,722	10,904	10,890
Total capital	12,390	12,620	12,852	12,814
CET1 ratio	17.3	17.8	19.0	20.2
Tier 1 ratio	19.0	19.4	20.6	22.0
Capital ratio	22.4	22.9	24.3	25.9
Individual solvency need	11.4	10.8	11.5	11.5

Key points Q2 2020:

- The DKK 3.4bn decline in REA is attributable to a decline in credit risk.
- DKK 1.5bn of the decline in REA is attributable to a change in the SME discount.
- The capital ratio grew by 1.6pp due to the decline in REA.

DKKm	Q4 2018	Q4 2019	Q1 2020	Q2 2020
Corporate, IRB	26,586	26,353	26,129	22,921
Retail, IRB	7,371	7,425	6,794	6,336
Corporate, STD	312	262	275	273
Retail, STD	865	898	923	937
Credit institutions etc	898	809	1,278	1,161
Total credit risk	36,032	35,747	35,399	31,628

Capital ratio in H1 2020 – up by 3.0pp



Key points:

- Dividend cancellation and discontinued share buyback programme have improved the capital ratio by 1.0pp.
- The decline in risk exposure is primarily attributable to credit risk.

Outlook for 2020

- Significant negative growth is projected for the Danish economy in 2020.
- Core income is expected – despite lower activity caused by covid-19 – to be on a par with the core income generated in 2019.
- Despite underlying cost inflation, costs (core earnings) are projected to be at the same level as in 2019.
- Impairment charges for 2020 will be adversely impacted by the effects of covid-19.
- With the aim of enhancing efficiency and automating processes, investments of around DKK 75m will be made. This investment is recognised under non-recurring items.
- Profit after tax is expected to be in the range of DKK 600-800m.
- In light of the coronavirus crisis the outlook for 2020 is subject to greater uncertainty than usual.

Forward-looking statements

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

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