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## Interim Report H1 2019

Solid credit quality – lower interest rates – high remortgaging activity

28 August 2019

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## Highlights for H1 2019

### Key points

Solid credit quality – lower interest rates – high remortgaging activity

### A stronger bank

Impressive increase in customer satisfaction – retail and corporate

### Profit

Profit of DKK 389m – ROE of 7.0% p.a. after tax

### Core income

Core income of DKK 905m in Q2 2019 – up by 1% compared with Q1 2019

### Costs

Costs up by 2% compared with H1 2018

### Impairment charges

Impairment charges represent income of DKK 20m in Q2 2019

### Bank loans

Bank loans and advances unchanged in Q2 2019  
DKK 0.4bn growth in total credit intermediation in Q2 2019

### CET1 ratio

CET1 ratio of 16.6% – down by 0.3% in Q2 2019

## Core income – Q2 2019 up 1% vs Q1 2019

DKKm	H1 2019	H1 2018	Index	Q2 2019	Q1 2019	Index
Net interest income etc	754	919	82	373	381	98
Mortgage credit *	300	289	104	159	141	113
Payment services	93	97	96	45	48	94
Remortgaging and loan fees	69	68	101	35	34	103
Commission and brokerage	150	158	95	72	78	92
Commission etc investment funds and pooled pension plans	167	240	70	83	84	99
Asset management	132	134	99	66	66	100
Custody account fees	35	35	100	17	18	94
Other operating income	105	100	105	55	50	110
<b>Total</b>	<b>1,805</b>	<b>2,040</b>	<b>88</b>	<b>905</b>	<b>900</b>	<b>101</b>
* Set-off of loss Totalkredit	8	12	67	2	6	33

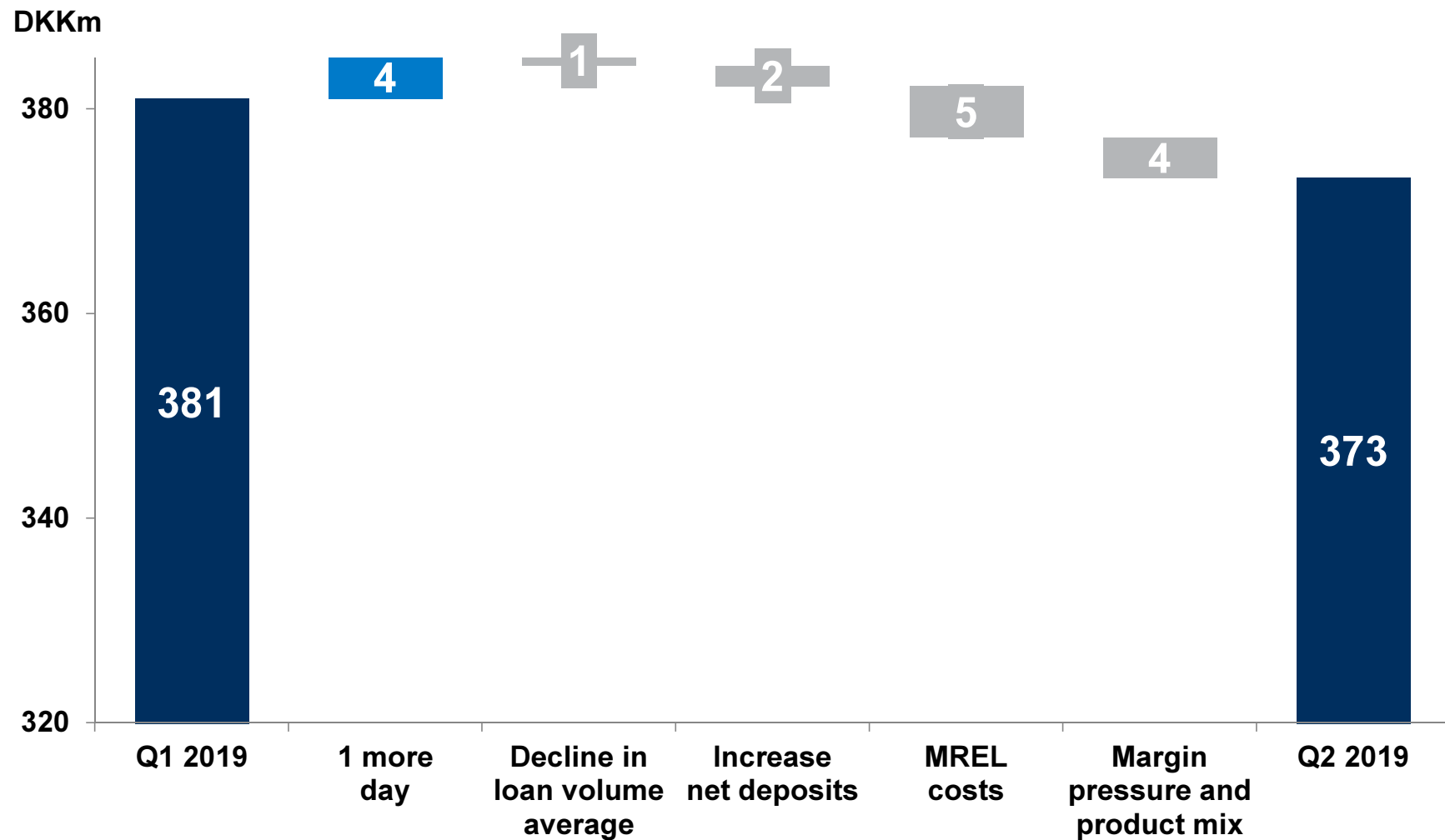
### Key points H1 19 vs H1 18:

- Net interest income etc down by 18% – 5% due to MREL issues – September 2018 and February 2019
- Commission etc investment funds down by DKK 73m, DKK 41m due to revaluation of BI Holding in H1 2018
- Other items at the same level.

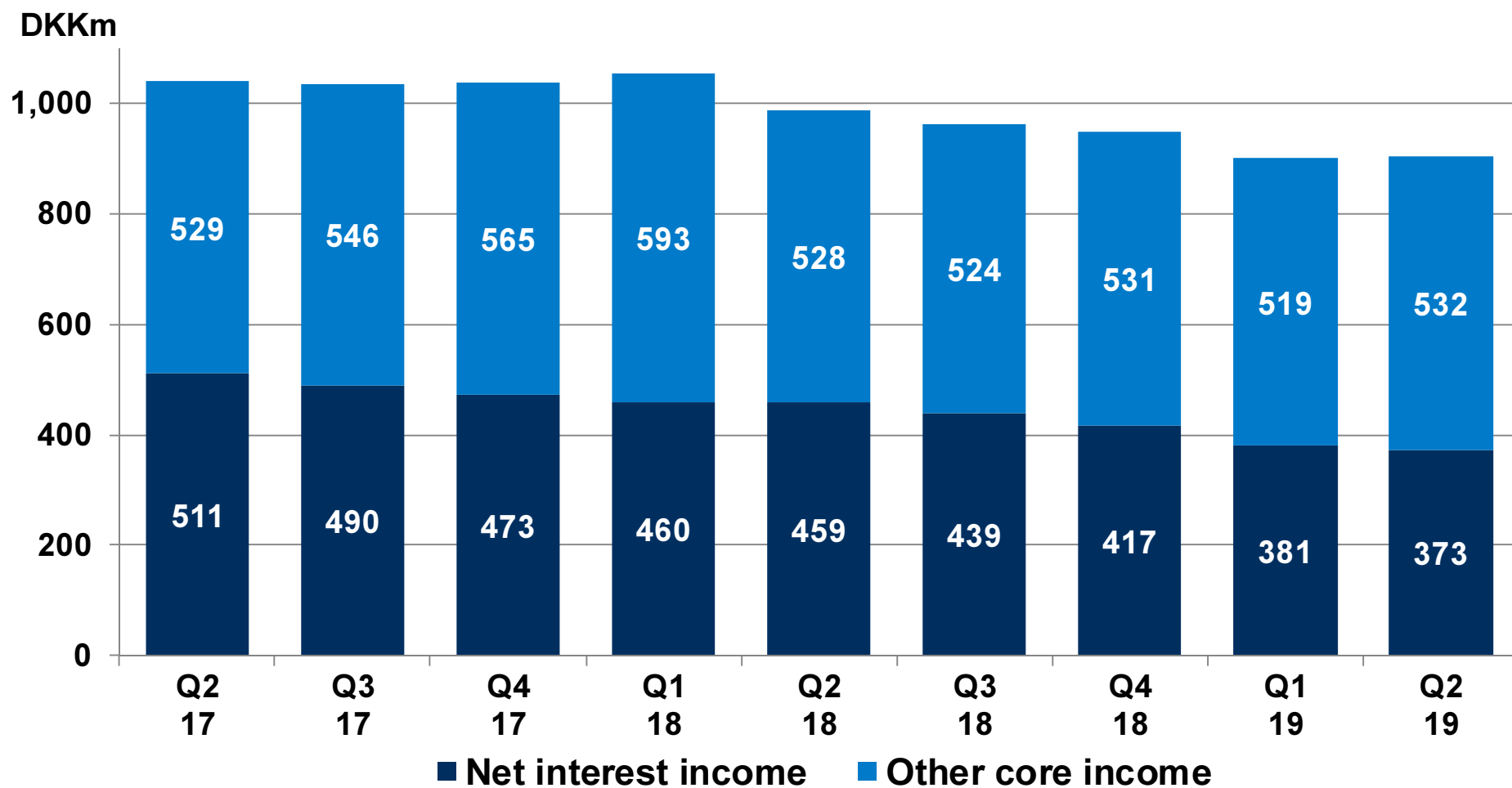
### Key points Q2 19 vs Q1 19:

- Net interest income etc down by 2% – 1% due to MREL issue in February 2019
- Other items up by a total of 3%.

## Net interest income etc – development from Q1 2019 to Q2 2019

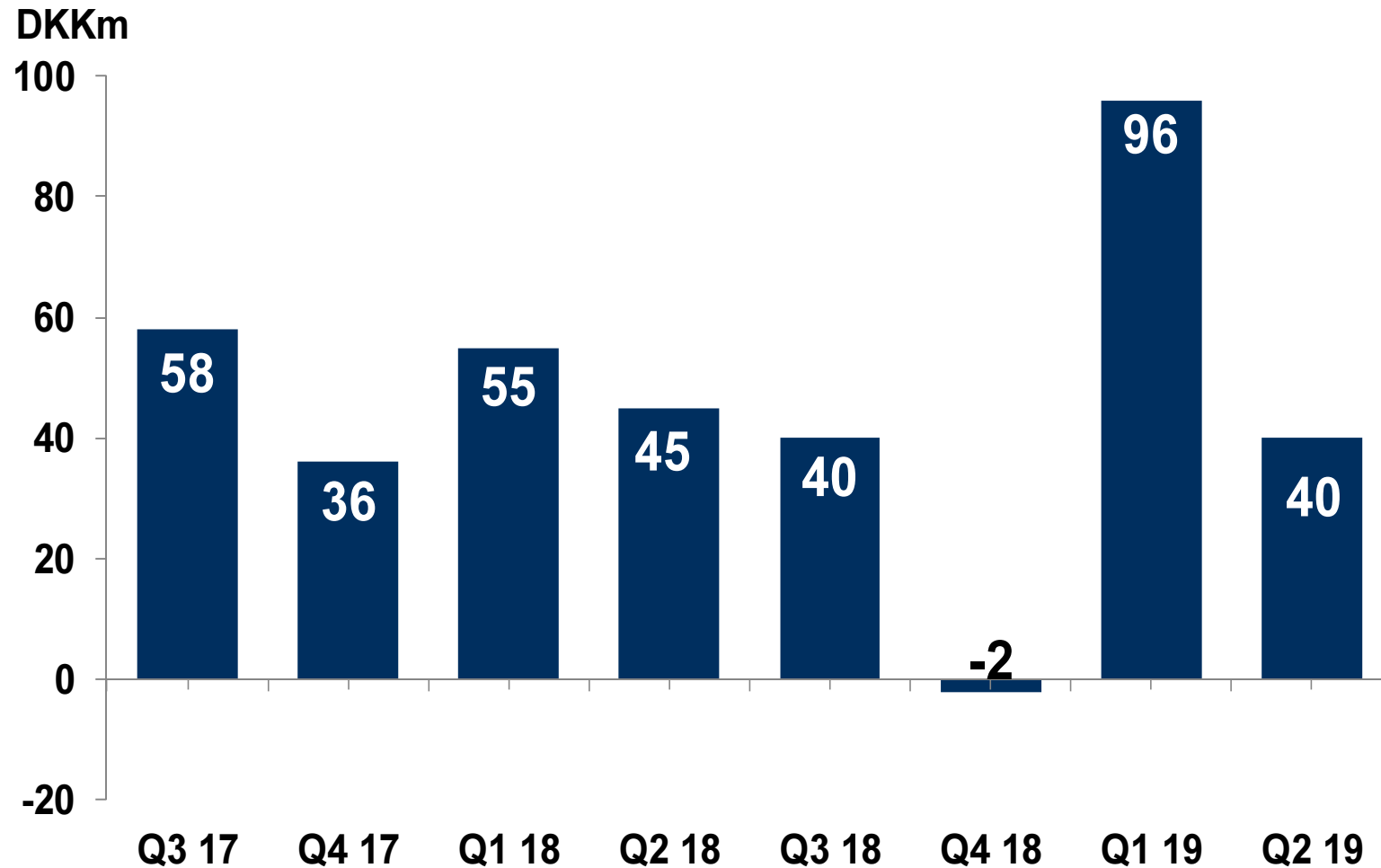


## Net interest income represents 41% of core income in Q2 19

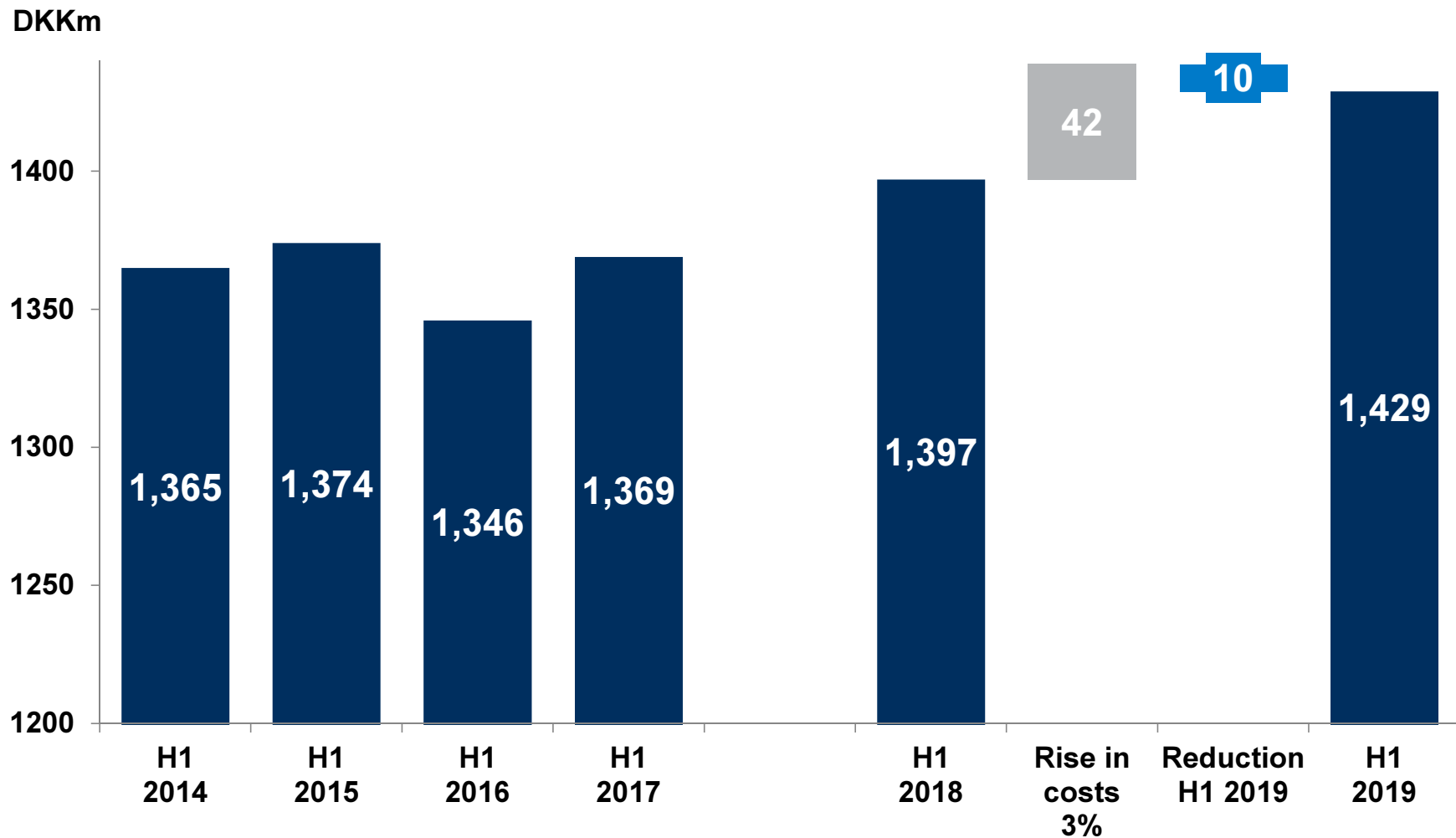


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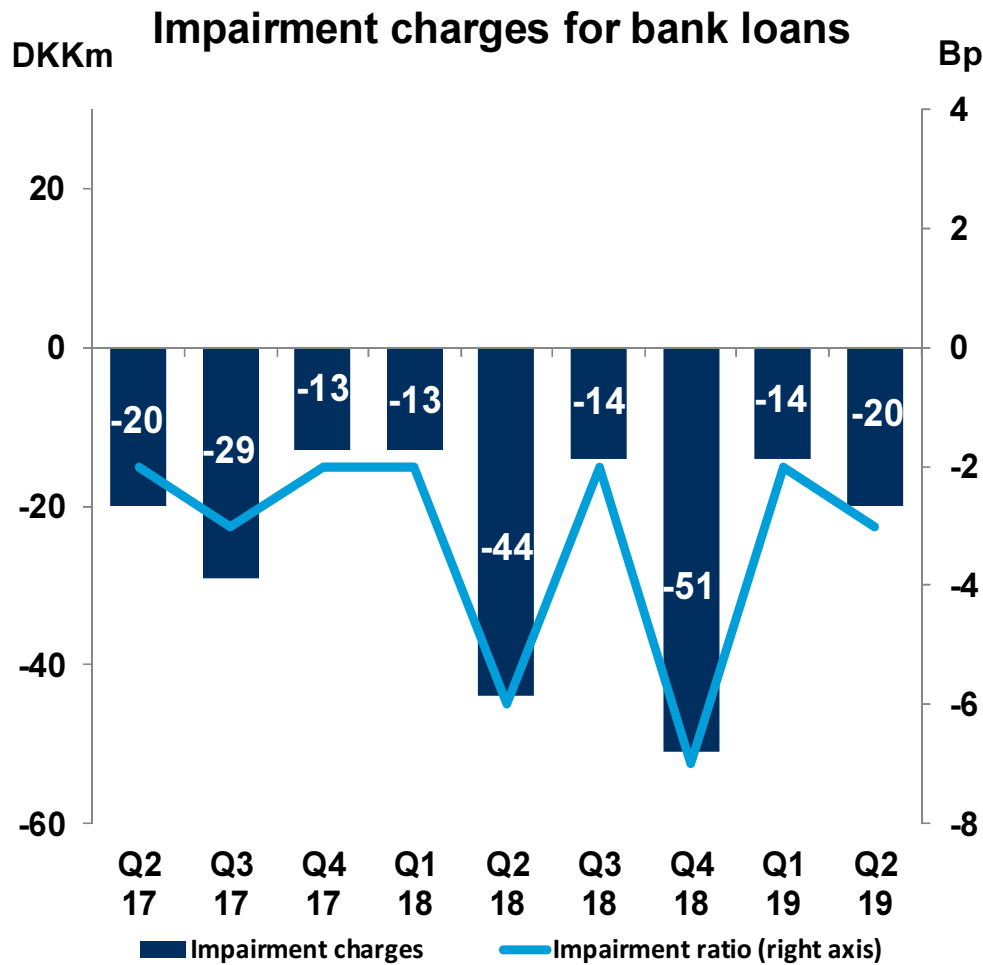
## Trading income – satisfactory level in H1 2019



## Costs (core earnings) – reduction of DKK 10m in H1 2019



## Impairment charges constitute minus DKK 20m in Q2 2019, equal to minus 3bps



Reversal for ninth consecutive quarter.

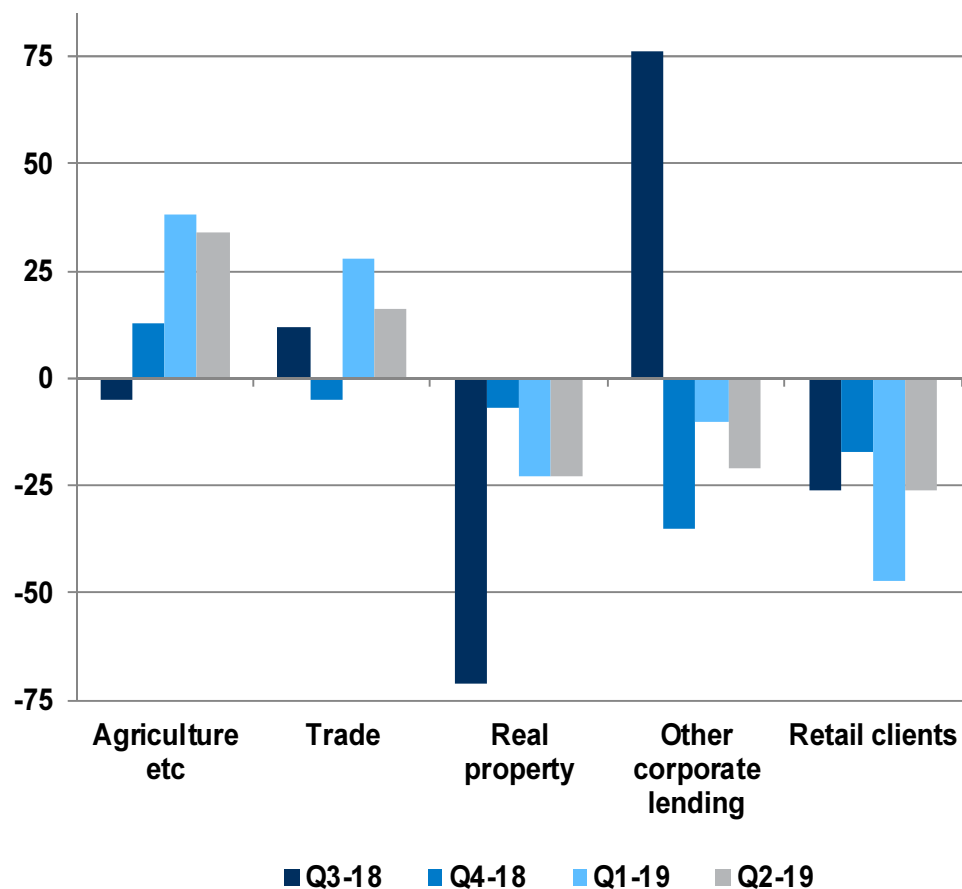
Impairment charges represent:

- Minus 4bps in H1 2019, up from minus 7bps H1 2018
- Minus 3bps in Q2 2019, down from minus 2bps in Q1 2019.



## Net reversal in Q2 2019

### DKKm Impairment charges - quarterly



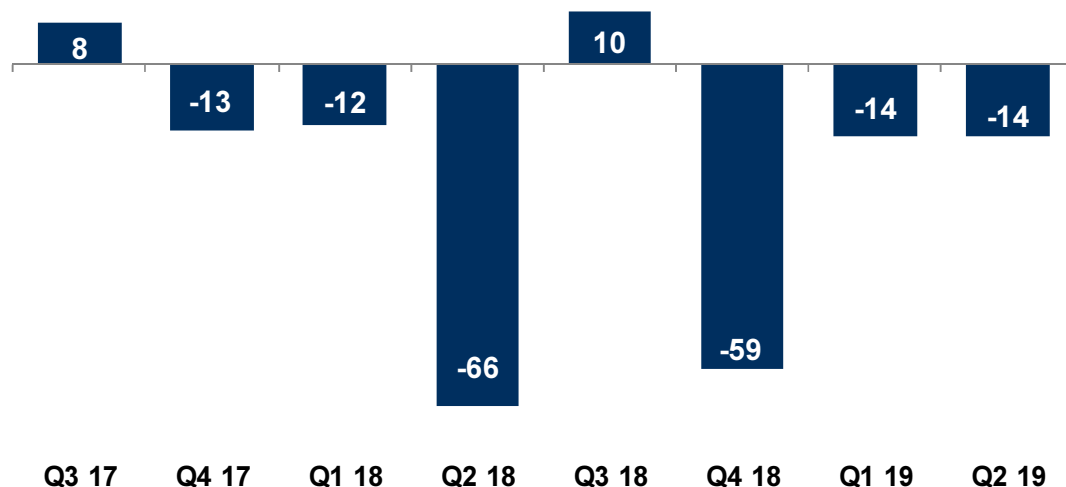
### Key points Q2 2019:

- Impairment charges as regards corporate exposures represent DKK 6m
- Provision as regards agriculture is unchanged DKK 100m
- Impairment charges as regards retail exposures represent minus DKK 26m.

DKKm	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
Agriculture etc	43	126	-5	13	38	34
Trade	84	-61	12	-5	28	16
Real property	32	-41	-71	-7	-23	-23
Other corporate lending	-121	-41	76	-35	-10	-21
Total corporate lending	38	-17	12	-34	33	6
Retail clients	-51	-27	-26	-17	-47	-26
<b>Total</b>	<b>-13</b>	<b>-44</b>	<b>-14</b>	<b>-51</b>	<b>-14</b>	<b>-20</b>

## Investment portfolio earnings – negative result for Q2 2019

### Investment portfolio earnings – DKKm



### Investment portfolio earnings

DKKm	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
Position-taking	-4	-54	16	-65	-20	-8
Liquidity generation and reserves	-1	-3	-5	-9	7	-3
Strategic positions	-5	-7	0	17	1	-1
Costs	-2	-2	-1	-2	-2	-2
<b>Total</b>	<b>-12</b>	<b>-66</b>	<b>10</b>	<b>-59</b>	<b>-14</b>	<b>-14</b>

Investment portfolio earnings for H1 2019 represent minus DKK 28m compared with earnings of minus DKK 78m in H1 2018.

Investment portfolio earnings for Q2 2019 represent minus DKK 14m, equal to result in Q1 2019.

The investment portfolio earnings in Q2 2019 are the result of lower risk-free rates.

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

## Income statement – ROE of 7.0% in H1 2019

DKKm	H1 2019	H1 2018	Index	Q2 2019	Q1 2019	Index
Core income	1,805	2,040	88	905	900	101
Trading income	136	100	136	40	96	42
<b>Total income</b>	<b>1,941</b>	<b>2,140</b>	<b>91</b>	<b>945</b>	<b>996</b>	<b>95</b>
Costs, core earnings	1,429	1,397	102	710	719	99
<b>Core earnings before impairment</b>	<b>512</b>	<b>743</b>	<b>69</b>	<b>235</b>	<b>277</b>	<b>85</b>
Impairment of loans and advances etc	-34	-57	60	-20	-14	143
<b>Core earnings</b>	<b>546</b>	<b>800</b>	<b>68</b>	<b>255</b>	<b>291</b>	<b>88</b>
Investment portfolio earnings	-28	-78	36	-14	-14	100
<b>Profit before non-recurring items</b>	<b>518</b>	<b>722</b>	<b>72</b>	<b>241</b>	<b>277</b>	<b>87</b>
Non-recurring items, net	-39	92	-	-22	-17	129
<b>Profit before tax</b>	<b>479</b>	<b>814</b>	<b>59</b>	<b>219</b>	<b>260</b>	<b>84</b>
Tax	90	146	62	35	55	64
<b>Profit for the period</b>	<b>389</b>	<b>668</b>	<b>58</b>	<b>184</b>	<b>205</b>	<b>90</b>
Costs (core earnings) / total income, C/I	0.74	0.65		0.75	0.72	
Return on equity, ROE full-year basis	7.0	11.7		6.6	7.3	
Earnings per share, EPS	6.0	10.0		2.9	3.2	

### Key points H1 19 vs H1 18:

- Core income down by 12%
- Trading income up by 36%
- Costs (core earnings) up by 2%.
- Reversal of impairment charges
- Core earnings down by 32%
- Negative investment portfolio earnings.

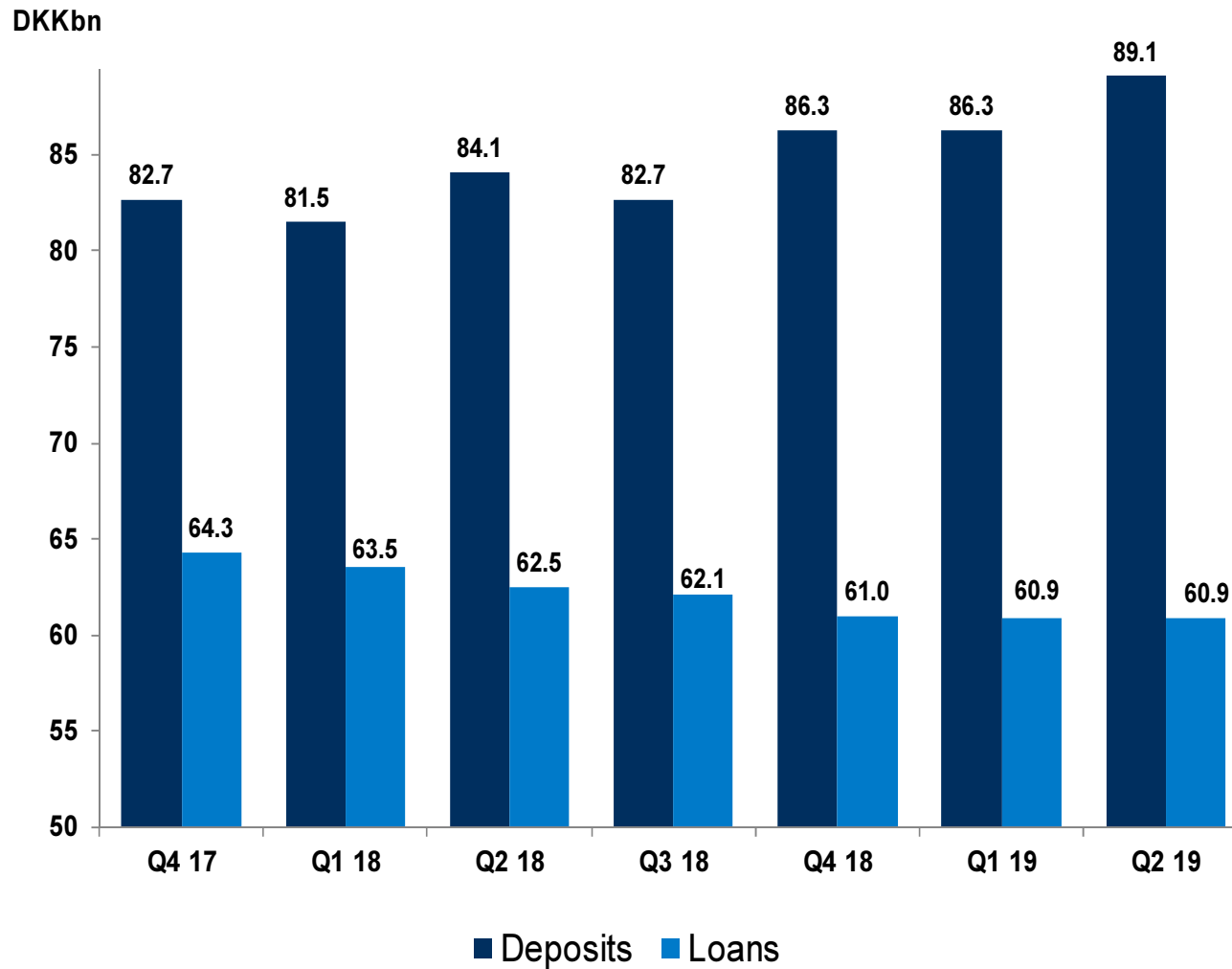
### Key points Q2 19 vs Q1 19:

- Core income up by 1%
- Total income down by 5%
- Costs (core earnings) down by 1% due to seasonal fluctuations.

### Non-recurring items, H1 19:

- Costs of DKK 39m related to “A stronger bank” projects.

## Loans and advances unchanged in Q2 2019 – deposits continue to grow



## Corporate loans – increase in Q2 2019 predominantly in non-core corporate

DKKbn	Q2 2019	Q1 2019	Q4 2018	Q4 2017
Manufacturing and extraction of raw materials	8,903	8,604	8,469	8,171
Energy supply etc	1,677	2,175	2,168	2,064
Trade	12,279	12,649	11,855	11,460
Transportation, hotels and restaurants	3,263	3,315	3,185	3,077
Information and communication	427	467	324	521
Finance and insurance	5,505	4,888	5,228	4,926
Other industries	3,203	3,101	3,134	3,258
<b>Total core corporate</b>	<b>35,257</b>	<b>35,199</b>	<b>34,363</b>	<b>33,477</b>
Agriculture, hunting, forestry and fisheries	3,267	3,238	3,301	3,944
Building and construction	3,270	2,940	2,857	3,386
Real estate	3,903	3,812	4,428	5,335
<b>Total corporate</b>	<b>45,697</b>	<b>45,189</b>	<b>44,949</b>	<b>46,142</b>
Change in Q2 2019 - core corporate	58			
Change in Q2 2019 - other corporate	450			
<b>Change in Q2 2019 - total corporate</b>	<b>508</b>			

## Total credit intermediation – increase of DKK 0.4bn in Q2 2019

### Total credit intermediation

DKKbn	Q4 2017	Q4 2018	Q1 2019	Q2 2019	Change Q2
Bank loans - retail	18.0	15.7	15.4	14.9	-0.5
Bank loans - corporate	46.0	45.0	45.2	45.7	0.5
Bank loans - public authorities	0.3	0.3	0.3	0.3	0.0
<b>Bank loans - total</b>	<b>64.3</b>	<b>61.0</b>	<b>60.9</b>	<b>60.9</b>	<b>0.0</b>
Funded mortgage-like loans	10.0	9.9	9.6	9.3	-0.3
<b>Bank loans and funded loans</b>	<b>74.3</b>	<b>70.9</b>	<b>70.5</b>	<b>70.2</b>	<b>-0.3</b>
Arranged mortgage loans - Totalkredit	58.0	59.6	60.3	61.2	0.9
Arranged mortgage loans - DLR	11.7	11.7	11.7	11.5	-0.2
<b>Total</b>	<b>144.0</b>	<b>142.2</b>	<b>142.5</b>	<b>142.9</b>	<b>0.4</b>

- Total credit intermediation increased by DKK 0.4bn in Q2 2019 – equal to an increase of 0.3%
- Total credit intermediation to retail clients – by way of bank loans and advances, funded mortgage-like loans and arranged mortgage loans – is unchanged in Q2 2019.
- Total credit intermediation to corporate clients, incl DLR, grew by DKK 0.4bn in Q2 2019.

## Capital ratios affected by an increase in market risk

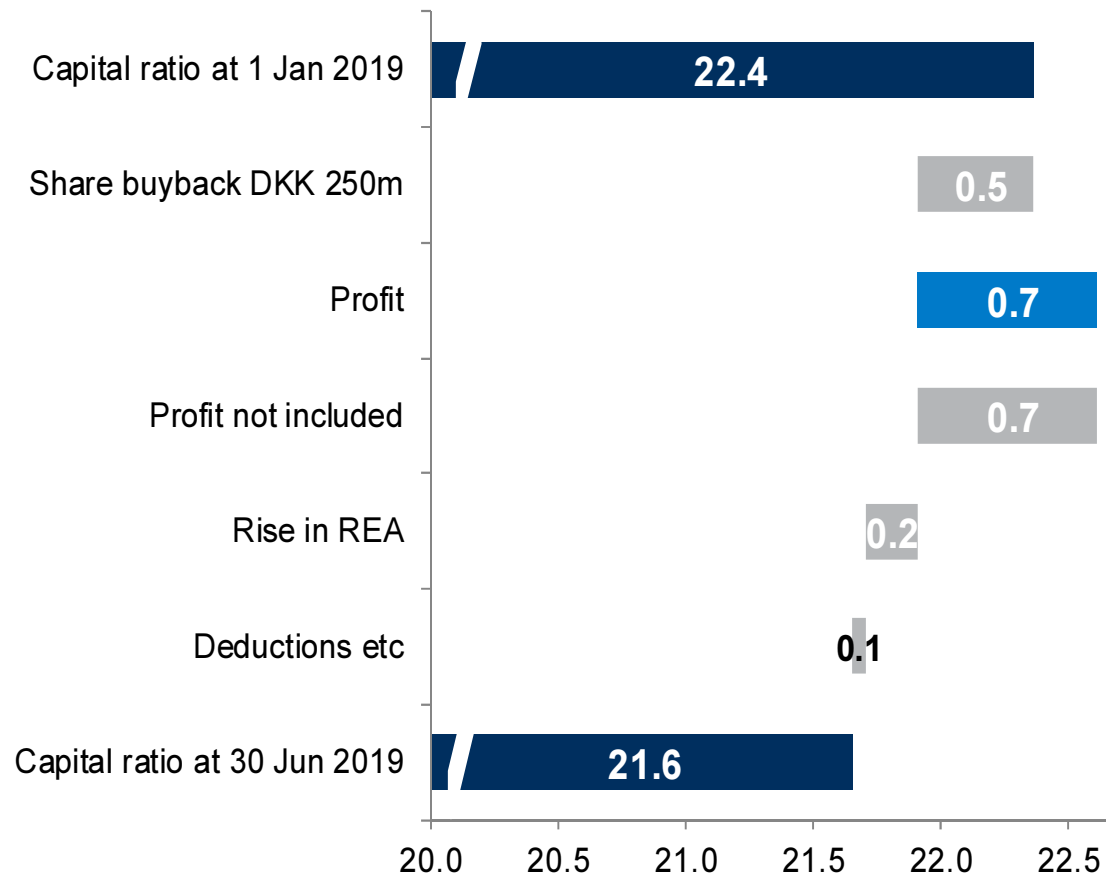
DKKm	Q4 2017	Q4 2018	Q1 2019	Q2 2019 De facto	
Credit risk	38,933	36,032	36,132	36,385	36,385
Market risk	6,239	6,036	5,718	6,324	6,324
Operational risk	8,023	7,654	7,654	7,654	7,654
Other exposures incl CVA	5,694	5,680	5,670	5,559	5,559
Risk exposure amount	58,889	55,402	55,174	55,922	55,922
CET1	10,167	9,579	9,305	9,295	9,490
Tier 1	10,446	10,550	10,219	10,209	10,404
Total capital	12,240	12,390	12,116	12,106	12,301
CET1 ratio	17.3	17.3	16.9	16.6	17.0
Tier 1 ratio	17.7	19.0	18.5	18.3	18.6
Capital ratio	20.8	22.4	22.0	21.6	22.0
Individual solvency need	11.0	11.4	11.2	11.2	11.2

### Key points Q2 2019:

- The DKK 0.7bn increase in REA is attributable to an increase in market risk of DKK 0.6bn
- The capital ratio dropped by 0.4% in Q2 2019
- 50% of profit for the period is recognised under “de facto”.

DKKm	Q4 2017	Q4 2018	Q1 2019	Q2 2019
Corporate, IRB	28,131	26,586	26,895	26,855
Retail, IRB	8,271	7,371	7,053	7,040
Corporate, STD	413	312	309	312
Retail, STD	731	865	858	870
Credit institutions etc.	1,387	898	1,017	1,308
<b>Total credit risk</b>	<b>38,933</b>	<b>36,032</b>	<b>36,132</b>	<b>36,385</b>

## Capital ratio development in H1 2019 – ratios down by 0.8 pp



### Key points:

- The announced share buyback programme of DKK 250m has reduced the capital ratio by 0.5pp
- The increase in risk exposure is attributable to market risk and credit risk.

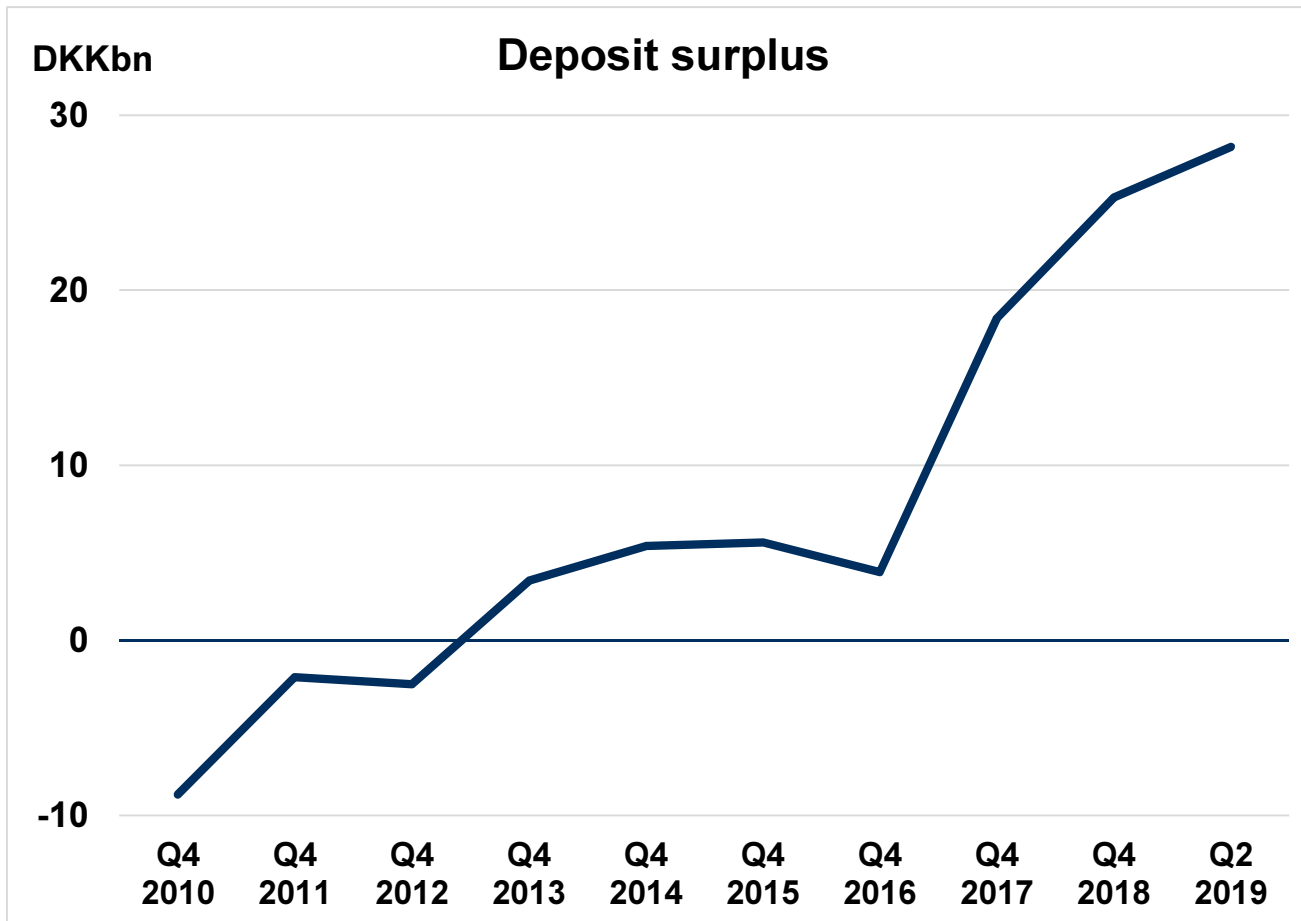


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## Outlook for 2019

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

## Deposit surplus marching upwards – negative interest rates on retail deposits



### Negative interest rates – retail customers:

- Limit of DKK 7.5m on demand deposits carrying interest rate of 0%
- Interest rate on deposits in excess of DKK 7.5m is subject to individual agreement with the Bank
- In the absence of an agreement the interest rate will be minus 0.6% p.a.

Questions

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Thank you

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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.