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## Annual Report 2020

**Satisfactory profit in 2020. Profit is expected to be higher in 2021**

2 March 2021

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## Highlights – Q4 2020

### Key points

Satisfactory profit in 2020. Profit is expected to be higher in 2021

### Profit

Profit of DKK 799m – ROE of 6.6% p.a. after tax

### Core income

Core income of DKK 959m in Q4 2020 – up by 9% compared with Q3 2020

### Total income

Total income of DKK 1,033m in Q4 2020 – up by 6% compared with Q3 2020

### Costs

Costs (core earnings) down by DKK 9m compared with 2019

### Impairment charges

Impairment charges represent an expense of DKK 1m in Q4 2020

### Bank loans

DKK 22.9bn increase in total credit intermediation and DKK 4.2bn increase in bank loans and advances in Q4 2020

### CET1 ratio

CET1 ratio of 18.8% – down by 1.3% in Q4 2020

### Dividend

Proposed dividend: 30% of profit for the year – equal to DKK 4 per share

## Core income – Q4 2020 up by 9% compared with Q3 2020 – 4% concerns Alm. Brand Bank

DKKm	12M 2020	12M 2019	Index	Q4 2020	Q3 2020	Index
Net interest income etc	1,476	1,483	100	372	354	105
Mortgage credit *	607	620	98	162	145	112
Payment services	152	180	84	41	39	105
Remortgaging and loan fees	172	174	99	44	43	102
Commission and brokerage	372	319	117	101	85	119
Commission etc investment funds and pooled pension plans	278	326	85	69	70	99
Asset management	288	269	107	78	71	110
Custody account fees	88	70	126	30	19	158
Other operating income	237	214	111	62	56	111
<b>Total</b>	<b>3,670</b>	<b>3,655</b>	<b>100</b>	<b>959</b>	<b>882</b>	<b>109</b>
* Set-off of loss Totalkredit	13	16	81	6	3	200

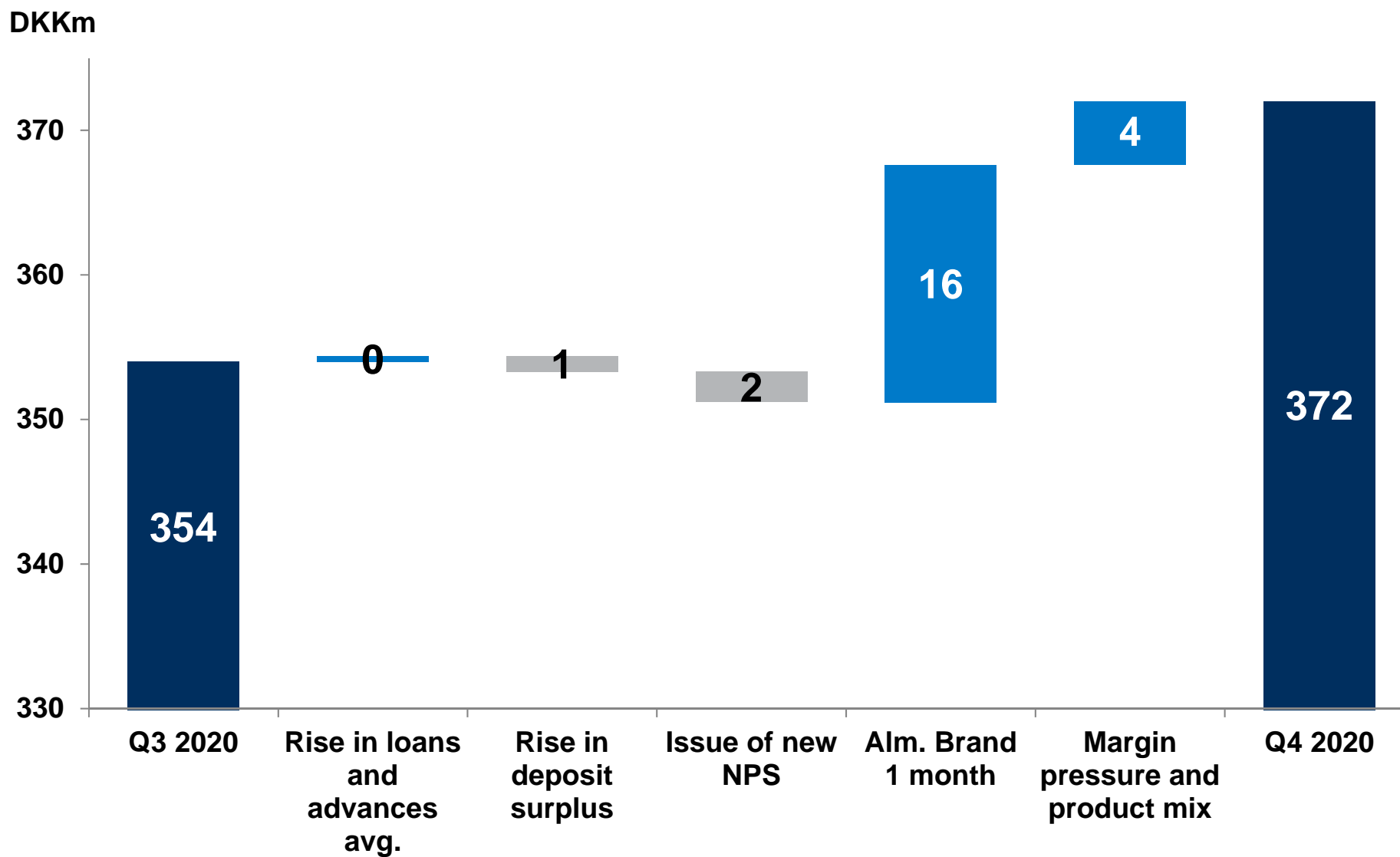
### Key points 12M 20 vs 12 19:

- Net interest income at same level
- Commission and brokerage up by 17% due to high trading activity
- Other items down by a total of 2%.

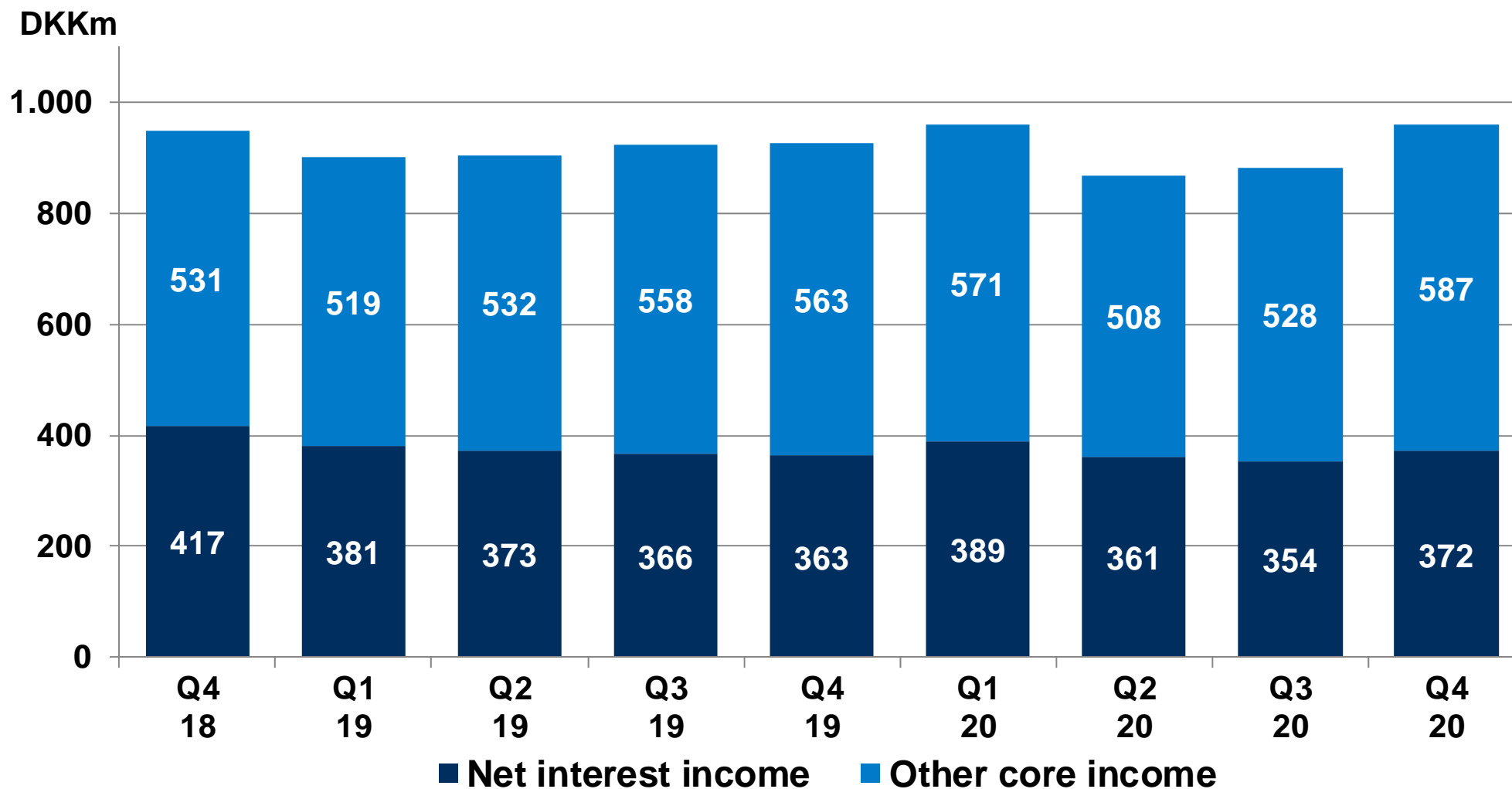
### Key points Q4 20 vs Q3 20:

- Net interest income etc up by 5%
- Mortgage credit up by 12%
- Commission and brokerage up by 19% due to high trading activity
- Other items up by a total of 9%.

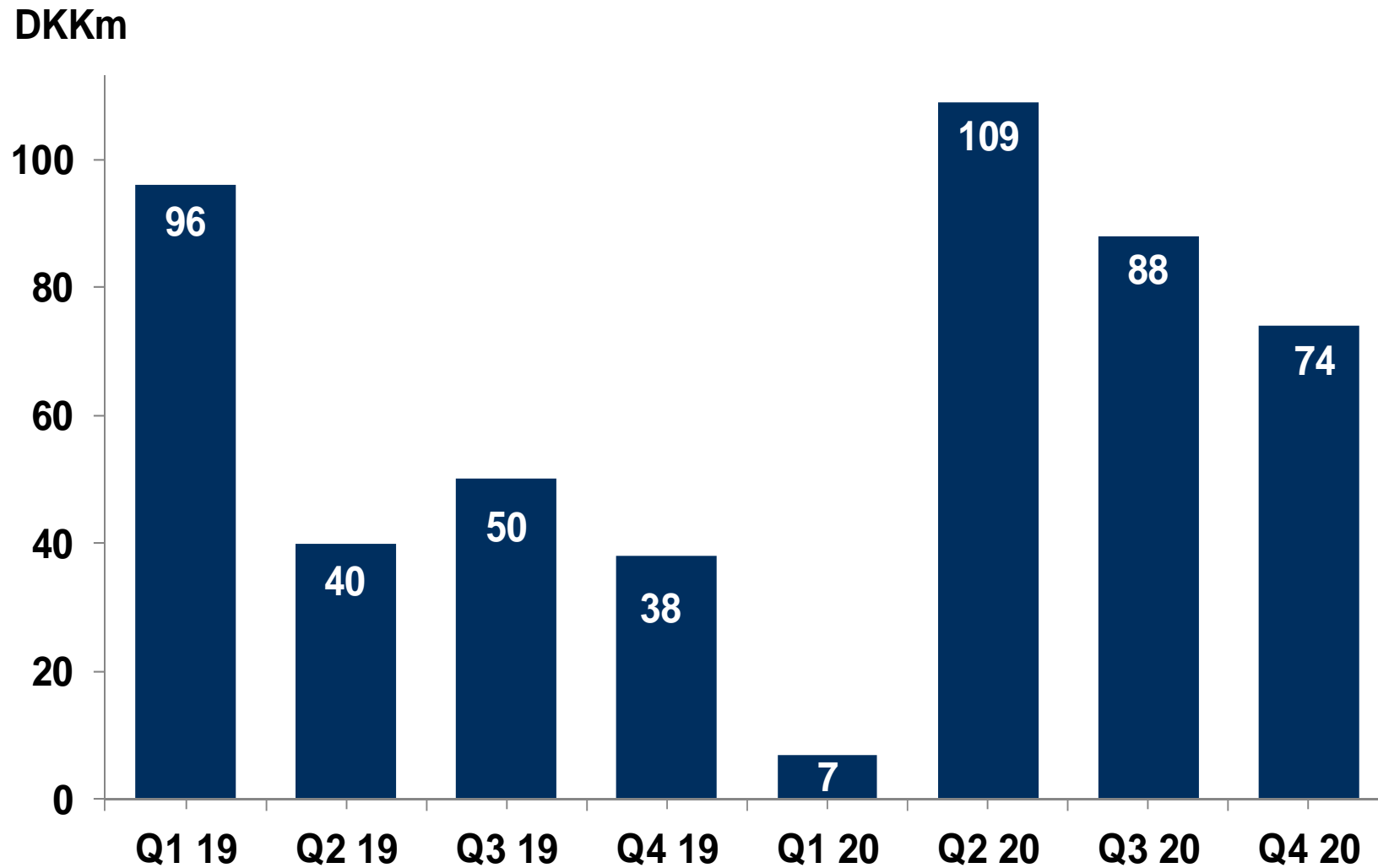
## Net interest income etc – development from Q3 2020 to Q4 2020



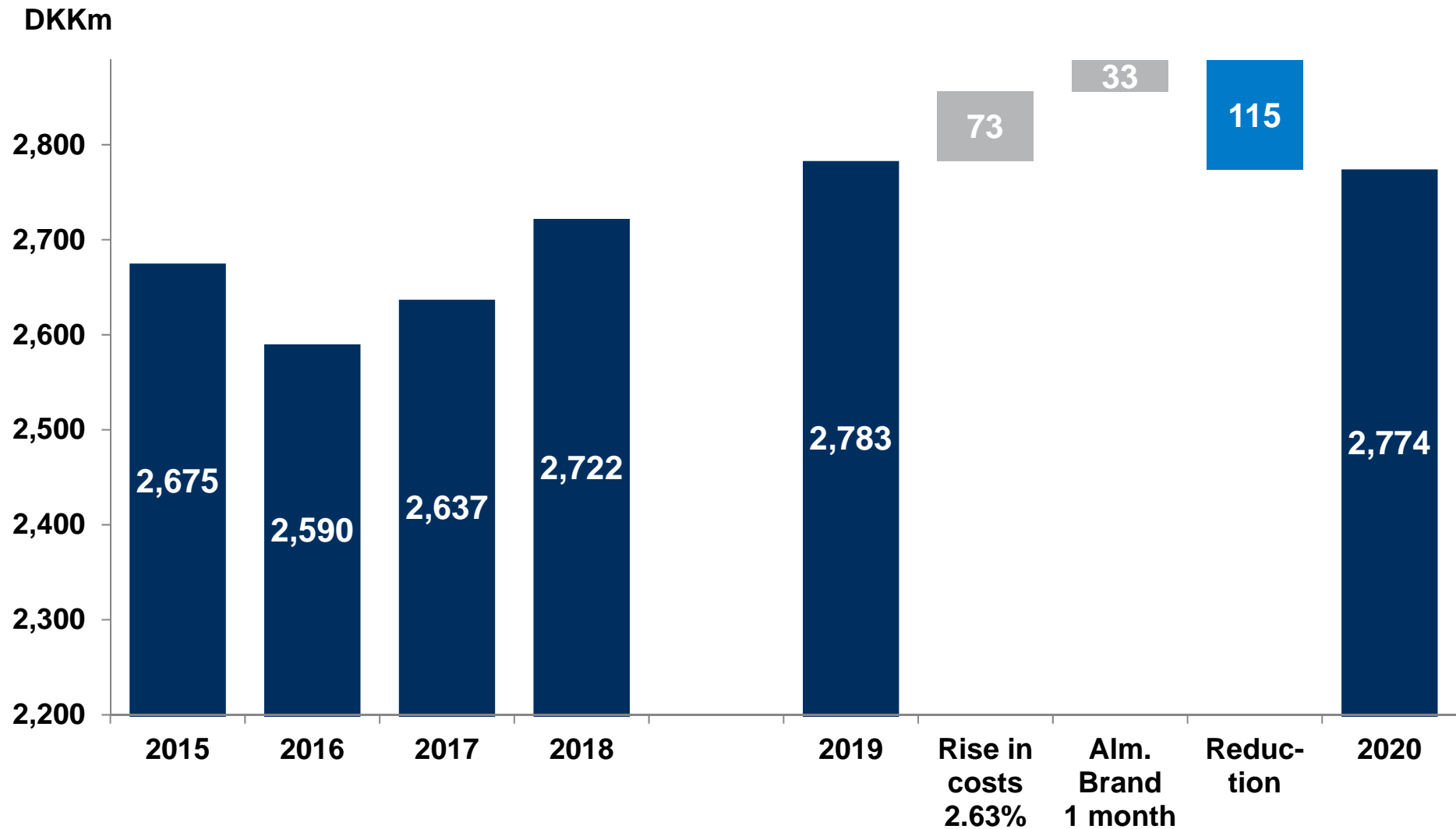
## Core income up by 9% compared with Q3 2020



## Trading income – high level continued in Q4 2020

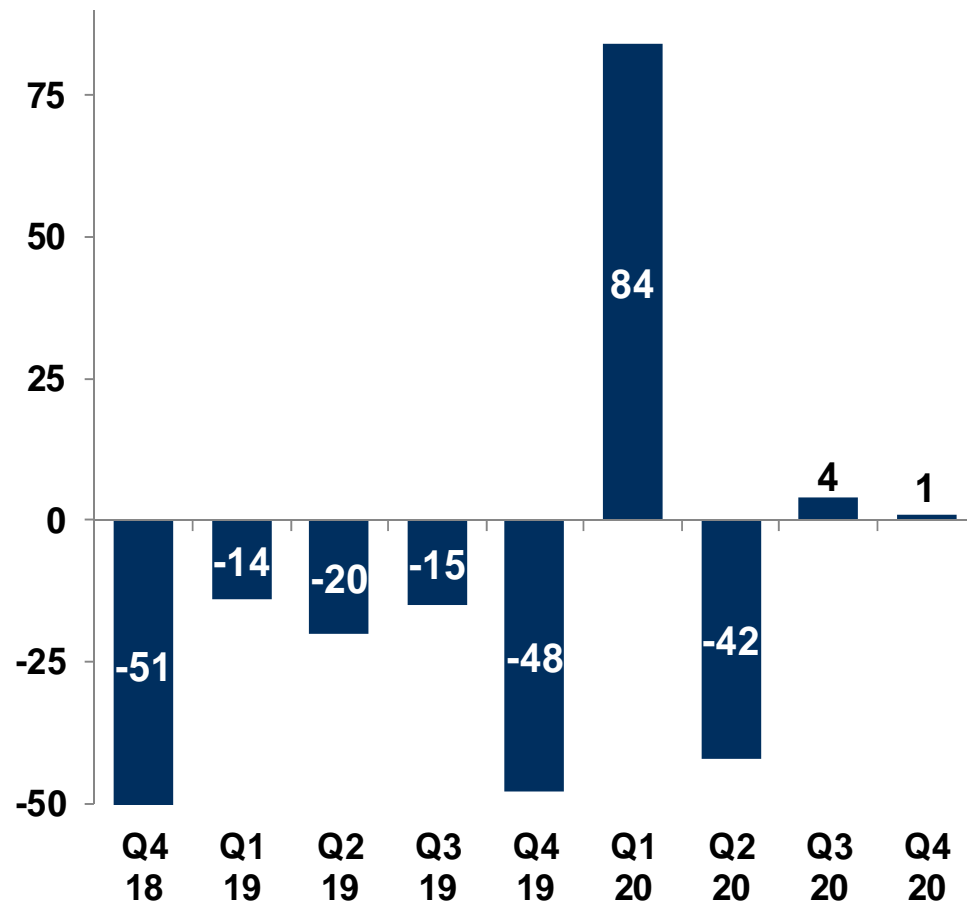


## Costs (core earnings) – reduction of DKK 115m in 2020



## Impairment charges represented DKK 1m in Q4 2020

### DKKm Impairment charges for bank loans



### Key points

Impairment charges for loans and advances represented an expense of DKK 1m in Q4 2020.

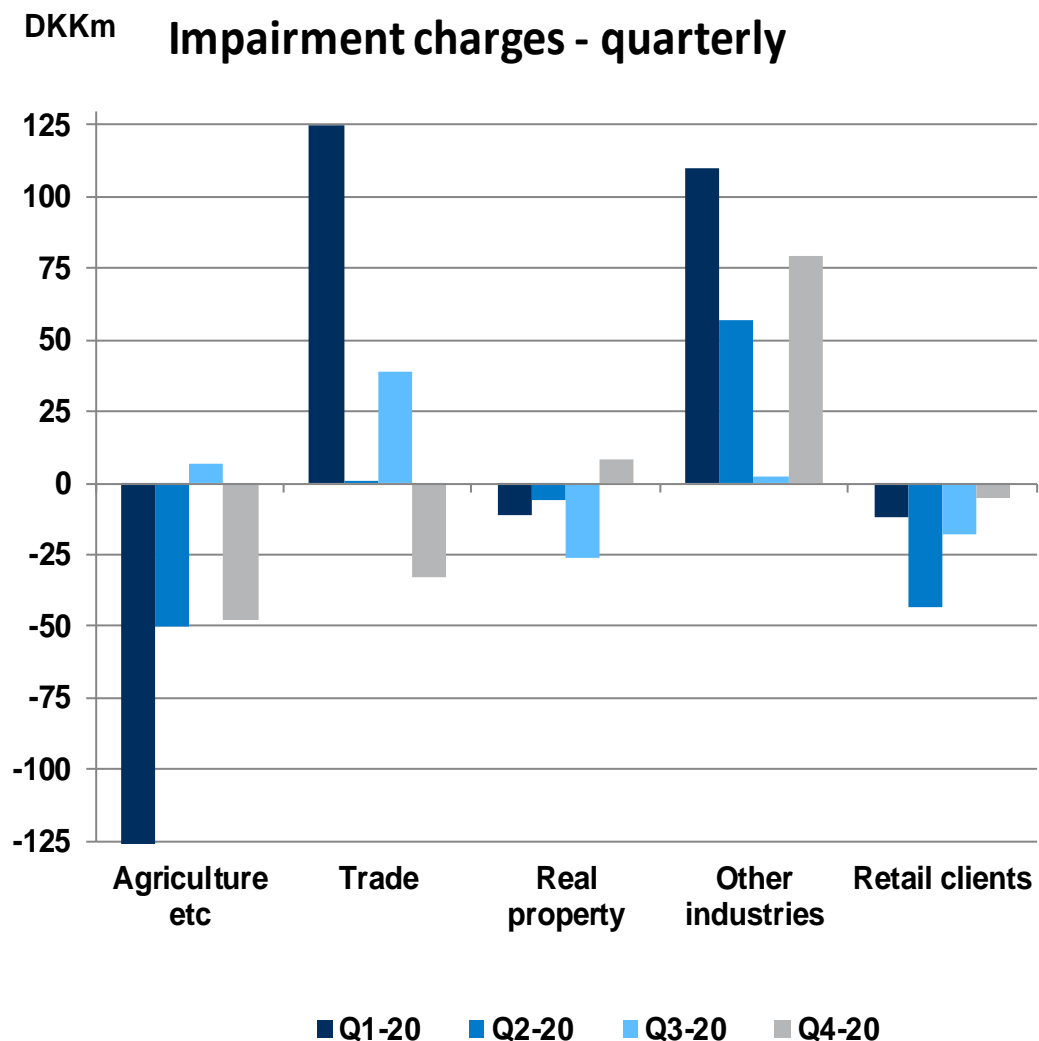
Unsecured loans in the weakest rating categories without objective evidence of credit impairment represent DKK 580m (excluding agriculture but including mink farming). The impairment charges include a management estimate of DKK 125m to hedge the risk of these loans, equal to approx 22%.

Furthermore the impairment charges include a management estimate of DKK 200m 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 325m (Q3 2020: DKK 225m).



## Impairment charges – breakdown by industry



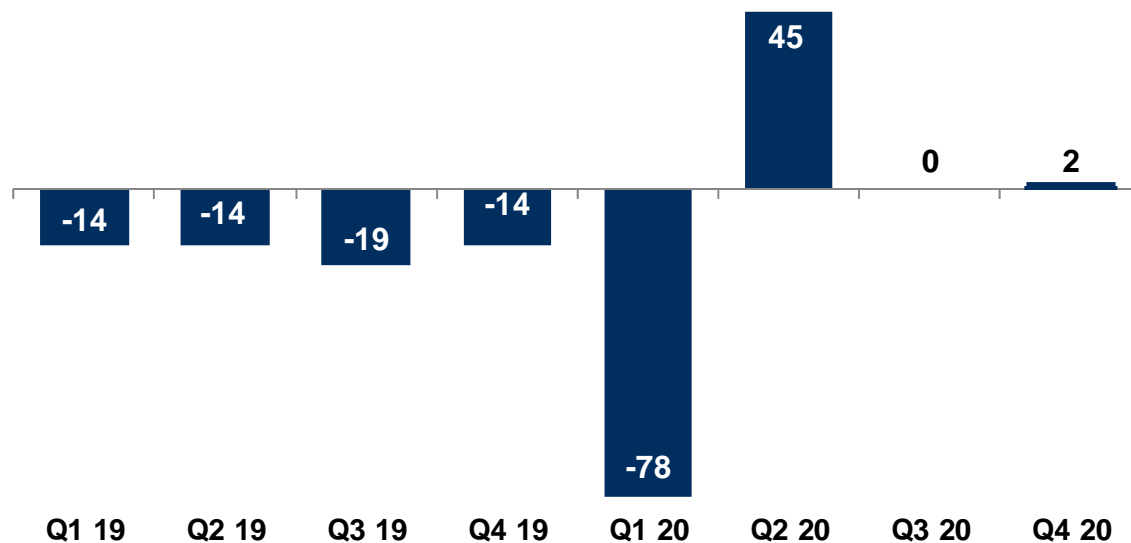
### Key points Q4 2020:

- Impairment charges as regards corporate exposures represent an expense of DKK 6m.
- Impairment charges as regards retail exposures represent an income of DKK 5m.

DKKm	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
Agriculture etc	-1	7	-128	-50	7	-48
Trade	54	4	125	0	39	-33
Real property	-11	-9	-11	-6	-26	8
Other industries	-8	6	110	57	2	79
<b>Total corporate lending</b>	<b>34</b>	<b>8</b>	<b>96</b>	<b>1</b>	<b>22</b>	<b>6</b>
Retail clients	-49	-56	-12	-43	-18	-5
<b>Total</b>	<b>-15</b>	<b>-48</b>	<b>84</b>	<b>-42</b>	<b>4</b>	<b>1</b>

## Investment portfolio earnings – modest profit in Q4 20

### Investment portfolio earnings – DKKm



Investment portfolio earnings in 12M 2020 represent minus DKK 31m compared with earnings of minus DKK 61m in 12M 2019.

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

### Investment portfolio earnings

DKKm	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
Position-taking	-3	8	-48	48	16	9
Liquidity generation and reserves	-15	-20	-26	0	-14	-10
Strategic positions	1	0	-2	-1	-1	5
Costs	-2	-2	-2	-2	-1	-2
<b>Total</b>	<b>-19</b>	<b>-14</b>	<b>-78</b>	<b>45</b>	<b>0</b>	<b>2</b>

## Income statement – ROE of 6.6% in 2020

DKKm	12M 2020	12M 2019	Index	Q4 2020	Q3 2020	Index
Core income	3,670	3,655	100	959	882	109
Trading income	278	224	124	74	88	84
<b>Total income</b>	<b>3,948</b>	<b>3,879</b>	<b>102</b>	<b>1,033</b>	<b>970</b>	<b>106</b>
Costs, core earnings	2,774	2,783	100	728	628	116
<b>Core earnings before impairment</b>	<b>1,174</b>	<b>1,096</b>	<b>107</b>	<b>305</b>	<b>342</b>	<b>89</b>
Impairment of loans and advances etc	47	-97	-	1	4	25
<b>Core earnings</b>	<b>1,127</b>	<b>1,193</b>	<b>94</b>	<b>304</b>	<b>338</b>	<b>90</b>
Investment portfolio earnings	-31	-61	-	2	0	-
<b>Profit before non-recurring items</b>	<b>1,096</b>	<b>1,132</b>	<b>97</b>	<b>306</b>	<b>338</b>	<b>91</b>
Non-recurring items, net	-75	-51	-	-20	-18	111
<b>Profit before tax</b>	<b>1,021</b>	<b>1,081</b>	<b>94</b>	<b>286</b>	<b>320</b>	<b>89</b>
Tax	222	228	97	60	71	85
<b>Profit for the period</b>	<b>799</b>	<b>853</b>	<b>94</b>	<b>226</b>	<b>249</b>	<b>91</b>
Costs (core earnings) / total income, C/I	0.70	0.72		0.70	0.65	
Return on equity, ROE full-year basis	6.6	7.5		7.4	8.4	
Earnings per share, EPS	12.7	13.4		3.6	4.0	

### Key points 12M 20 vs 12M 19:

- Core income up by DKK 15m
- Total income up by 2%
- Costs (core earnings) down by DKK 9m
- Impairment charges – an expense of DKK 47m
- Core earnings down by 6%
- Investment portfolio earnings up by DKK 30m.

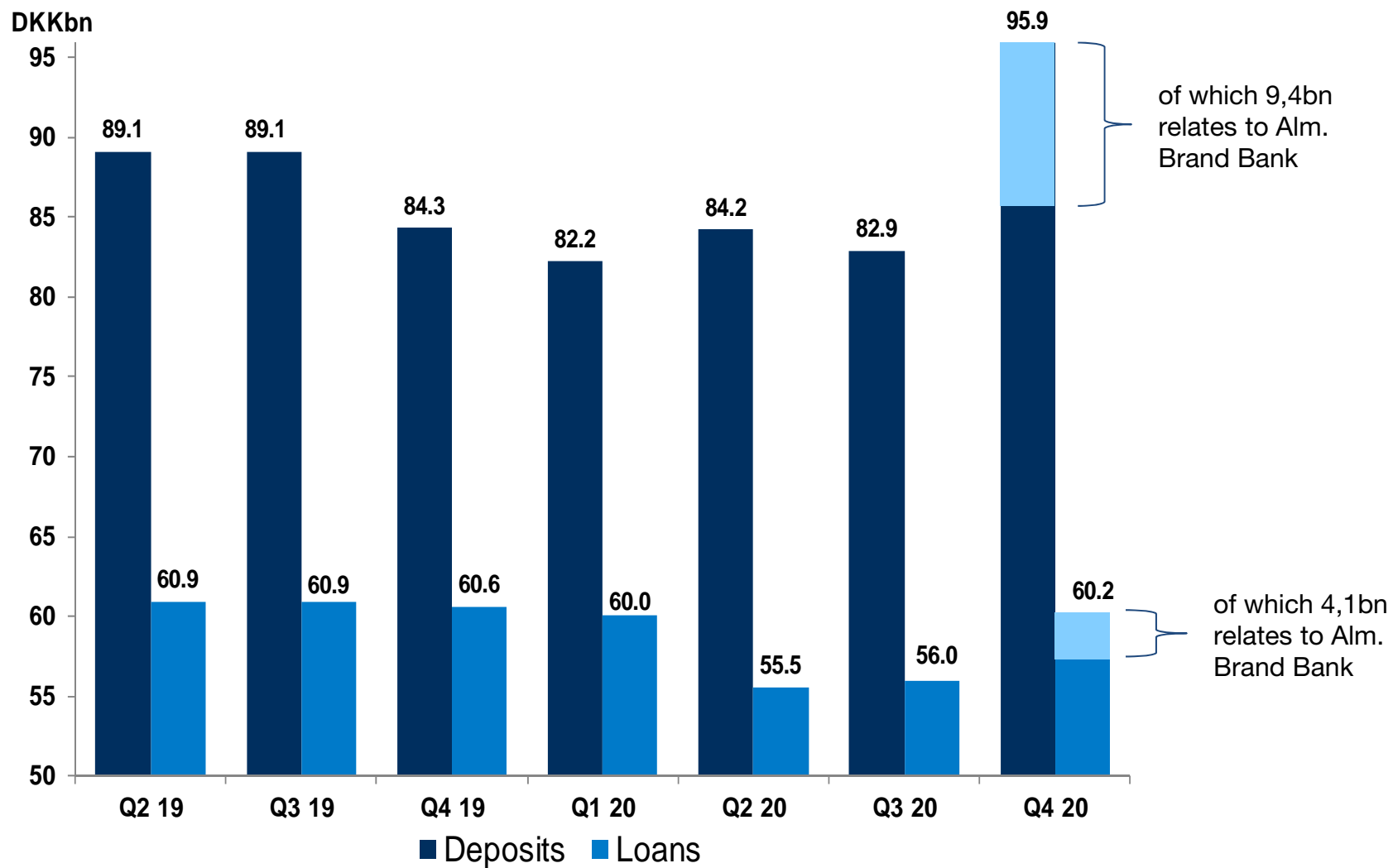
### Key points Q4 20 vs Q3 20:

- Core income up by 9%
- Total income up by 6%
- Costs (core earnings) up by 16% due to seasonal fluctuations and acquisition of Alm. Brand Bank.

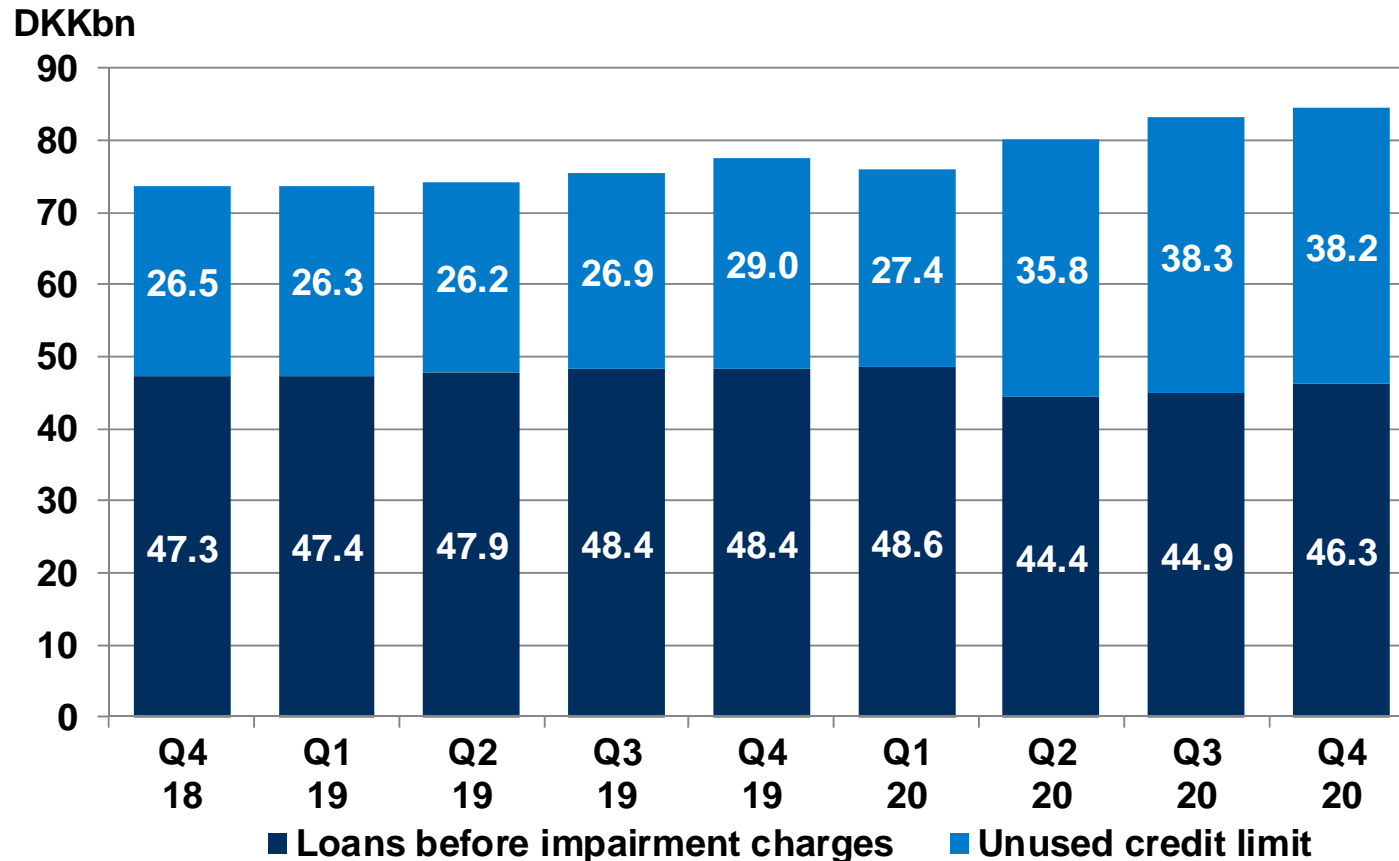
### Non-recurring items, 12M 20:

- Costs of DKK 75m related to “A stronger bank” projects.

## Q4 2020: Loans and advances up by DKK 4.2bn and deposits up by DKK 13.0bn



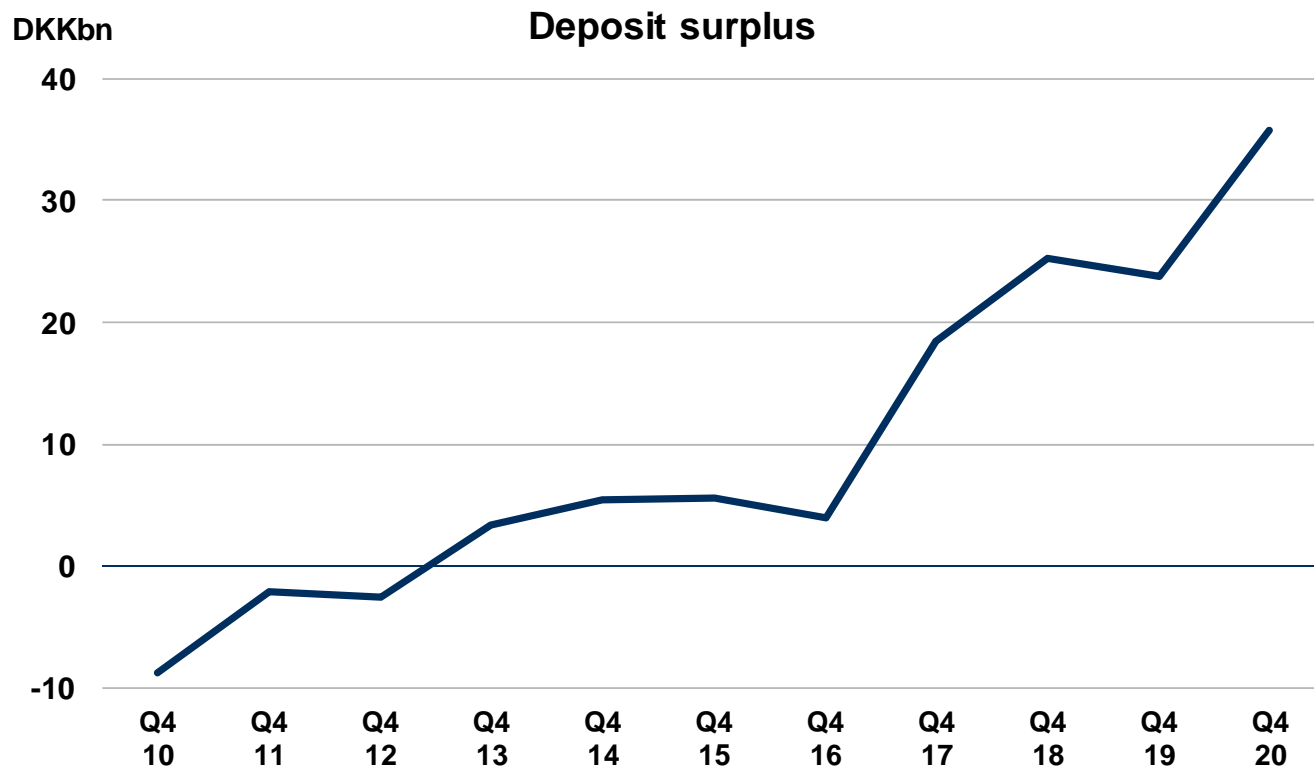
## Rise in credit facilities to corporate clients



### Key points:

- Lending to corporate clients has been affected for instance by lower willingness to invest as well as the government's relief packages, which include deferral of VAT and tax payments
- Loans and advances to corporate clients increased by DKK 1.4bn in Q4 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.

With acquisition of Alm. Brand Bank, deposit surplus sets another record – adjusting terms for corporate and retail clients = due care and diligence



**New terms and conditions for deposit products:**

- Amount limit of DKK 100,000 in deposit accounts at 0% interest rate.
- Corporate clients: interest rate on deposit changes from minus 0.60% to minus 0.75%. – Market consistent solution.

## Corporate loans – rise in core corporate of DKK 0.9bn in Q4 2020 – of which DKK 0.4bn relates to Alm. Brand Bank

DKKbn	Q4 20	Q3 20	Q2 20	Q4 19	Q4 18
Manufacturing and extraction of raw materials	8,460	8,239	8,405	9,426	8,469
Energy supply etc	2,675	2,410	2,512	2,309	2,168
Building and construction	3,541	3,306	3,287	3,021	2,857
Trade	10,575	10,215	10,114	12,387	11,855
Transportation, hotels and restaurants	2,682	2,666	2,742	3,069	3,185
Information and communication	629	602	505	418	324
Finance and insurance	5,176	5,721	5,374	5,410	5,228
Other industries	3,253	2,934	2,985	3,360	3,134
<b>Total core corporate</b>	<b>36,991</b>	<b>36,093</b>	<b>35,924</b>	<b>39,400</b>	<b>37,220</b>
Agriculture, hunting, forestry and fisheries	2,677	2,861	2,728	2,849	3,301
Real property	5,054	4,337	4,085	4,542	4,428
<b>Total corporate</b>	<b>44,722</b>	<b>43,291</b>	<b>42,737</b>	<b>46,791</b>	<b>44,949</b>
Change in Q3 2020 - core corporate	898				
Change in Q3 2020 - other corporate	533				
<b>Change in Q3 2020 - total corporate</b>	<b>1,431</b>				

## Total credit intermediation – DKK 22.9bn increase in Q4 2020 – of which DKK 22.2bn relates to ABB

### Total credit intermediation

DKKbn	Q4 2018	Q4 2019	Q3 2020	Q4 2020	Change Q4
Bank loans - retail	15.7	13.5	12.5	15.5	3.0
Bank loans - corporate	45.0	46.8	43.3	44.7	1.4
Bank loans - public authorities	0.3	0.3	0.2	0.0	-0.2
<b>Bank loans - total</b>	<b>61.0</b>	<b>60.6</b>	<b>56.0</b>	<b>60.2</b>	<b>4.2</b>
Funded mortgage-like loans	9.9	8.3	7.3	7.0	-0.3
<b>Bank loans and funded mortgage-like loans</b>	<b>70.9</b>	<b>68.9</b>	<b>63.3</b>	<b>67.2</b>	<b>3.9</b>
Arranged mortgage loans - Totalkredit	59.6	64.7	68.1	85.7	17.6
Arranged mortgage loans - DLR	11.7	11.4	11.3	12.7	1.4
<b>Total</b>	<b>142.2</b>	<b>145.1</b>	<b>142.7</b>	<b>165.6</b>	<b>22.9</b>

- Total credit intermediation increased by DKK 22.9bn in Q4 2020, of which DKK 22.2bn is attributable to the acquisition of ABB.

- Total credit intermediation to retail clients – by way of bank loans and advances, funded mortgage-like loans and arranged mortgage loans – up by DKK 20.1bn in Q4 2020, of which DKK 20.0bn is attributable to the acquisition of ABB.

- Total credit intermediation to corporate clients, incl DLR, up by DKK 2.8bn in Q4 2020, of which DKK 22.2bn is attributable to the acquisition of ABB.



## Capital ratios down by 1.6pp in 12M 20 – due to acquisition of ABB

DKKm	Q4 2018	Q4 2019	Q3 2020	Q4 2020
Credit risk	36,032	35,747	30,997	33,355
Market risk	6,036	6,177	5,729	6,675
Operational risk	7,654	7,171	7,171	6,708
Other exposures incl CVA	5,680	6,065	5,946	7,302
Risk exposure amount	55,402	55,160	49,843	54,040
CET1	9,579	9,807	9,995	10,185
Tier 1	10,550	10,722	10,851	11,041
Total capital	12,390	12,620	12,768	12,952
CET1 ratio	17.3	17.8	20.1	18.8
Tier 1 ratio	19.0	19.4	21.8	20.4
Capital ratio	22.4	22.9	25.6	24.0
Individual solvency need	11.4	10.8	11.7	10.8

### Key points Q4 2020:

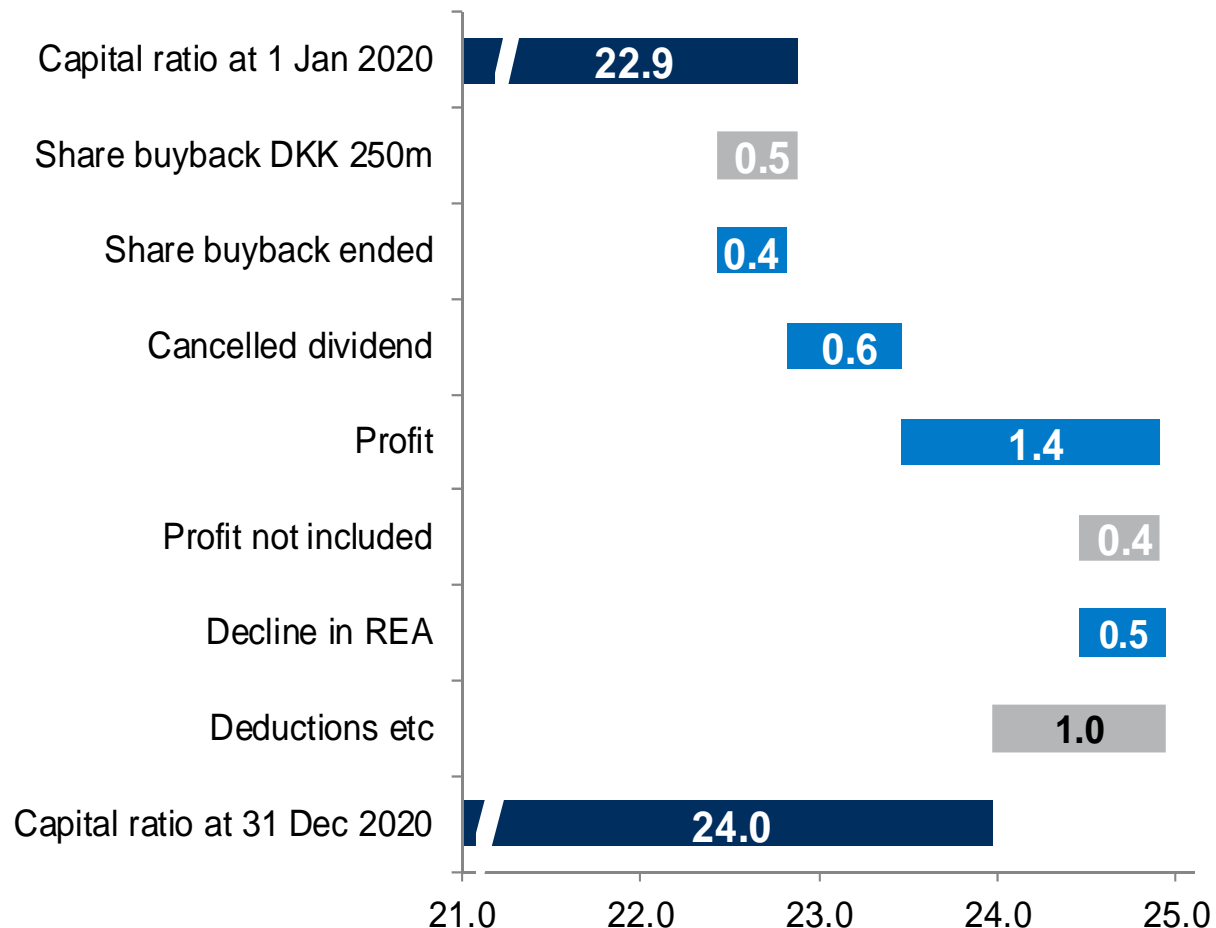
- The DKK 2.4bn increase in REA is mainly attributable to the acquisition of Alm. Brand Bank A/S.
- The drop in capital ratio by 1.6pp in Q4 2020 is due to the increase in REA.

### New definition of default:

- The Danish FSA has approved Sydbank's use of the new definition of default from 1 January 2021.
- The Group expects a temporary increase in the risk exposure amount of around DKK 5bn.
- Assuming use of the Group's future advanced risk models, the long-term effect on the risk exposure amount is expected to be significantly smaller.

DKKm	Q4 2018	Q4 2019	Q3 2020	Q4 2020
Corporate, IRB	26,586	26,353	22,290	21,811
Retail, IRB	7,371	7,425	6,169	5,798
Corporate, STD	312	262	260	460
Retail, STD	865	903	991	4,559
Credit institutions etc	898	804	1,287	727
<b>Total credit risk</b>	<b>36,032</b>	<b>35,747</b>	<b>30,997</b>	<b>33,355</b>

## Capital ratio in 12M 2020 – up by 1.1pp



### Key points:

- Dividend cancellation and discontinued share buyback programme have improved the capital ratio by 1.0pp.
- The risk exposure drops despite acquisition of Alm. Brand Bank A/S
- The decline in risk exposure is primarily attributable to credit risk.

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## Outlook for 2021

- Growth is projected in the Danish economy in 2021 despite expectations of negative growth influenced by Covid-19 in the first 6 months.
- Total income is expected to rise sharply as a result of the acquisition of Alm. Brand Bank and measures implemented as regards deposits and fees.
- Costs (core earnings) are projected to increase as a result of the acquisition of Alm. Brand Bank.
- Impairment charges for 2021 are forecast to be at a low level. In addition most of the amounts owed to the Group by the mink industry are expected to be repaid in full, which could result in a reversal of impairment charges of up to DKK 150m.
- Non-recurring costs are expected to be in the range of DKK 150-175m. The item consists of costs related to “A stronger bank”, costs to establish a bank/insurance partnership as well as costs related to the integration of Alm. Brand Bank.
- Profit after tax is expected to be in the range of DKK 850-1,150m.
- In light of the Covid-19 crisis the outlook for 2021 is subject to greater uncertainty than usual.

## We will continue with our 4 initiatives to strengthen:

1.

### our retail banking activities

- Account manager's working day
- Collaboration with Alm. Brand



2.

### our income

- New fees to adjust to the market
- We are business women and men – we call it: Quid pro quo

DKK

3.

### closeness

- New branches in Nyborg and Frederikshavn
- The capital



4.

### Sydbank's position

- Denmark's Corporate Bank – multi-channel campaign



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We will continue with digitization for the benefit of customers and Sydbank

**Car loan with owner's mortgage – document automation**

**30**

minutes



**3**

minutes

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We will continue with digitization for the benefit of customers and Sydbank



### **New housing loan process – supplementary loan**

Time saved per loan:

- Account manager: approx 90 min.
- Operations: approx 80 min.

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Thank you

**Additional information:**

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## Forward-looking statements

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

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