



# Annual Report 2017

Highly satisfactory result in 2017

20 February 2018

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## Highlights for 2017

### Key points

Highly satisfactory result for 2017 – record dividend of DKK 11.31 per share

### Profit

Profit of DKK 1,531m – ROE of 13.1% p.a. after tax

### Core income

Core income of DKK 4,167m – on a par with 2016

### Income

Total income of DKK 4,400m – on a par with 2016

### Costs

Up by 2% compared with 2016

### Impairment charges

Impairment charges for loans and advances represent income of DKK 51m in 2017

### Bank loans

Effectively a DKK 2.9bn decline in bank loans and advances, equal to 3.8% in 2017

### CET 1 ratio

CET1 ratio of 17.3% – up by 1.8% from Q3 2017

### Capital

Dividend 50% and new share buyback of DKK 500m in 2017

## Core income – 2017 on a par with 2016

DKKm	12M 2017	12M 2016	Index	Q4 2017	Q3 2017	Index
Net interest income etc	1,993	2,323	86	473	490	97
Mortgage credit*	575	400	144	148	159	93
Payment services	202	199	102	53	53	100
Remortgaging and loan fees	133	70	190	29	38	76
Commission and brokerage	365	354	103	92	79	116
Commission etc investment funds and pooled pension plans	388	381	102	97	92	105
Asset management	264	220	120	76	65	117
Custody account fees	69	71	97	16	18	89
Other income	178	180	99	54	42	129
<b>Total</b>	<b>4,167</b>	<b>4,198</b>	<b>99</b>	<b>1,038</b>	<b>1,036</b>	<b>100</b>
* Set-off of loss Totalkredit	27	23	117	5	7	71

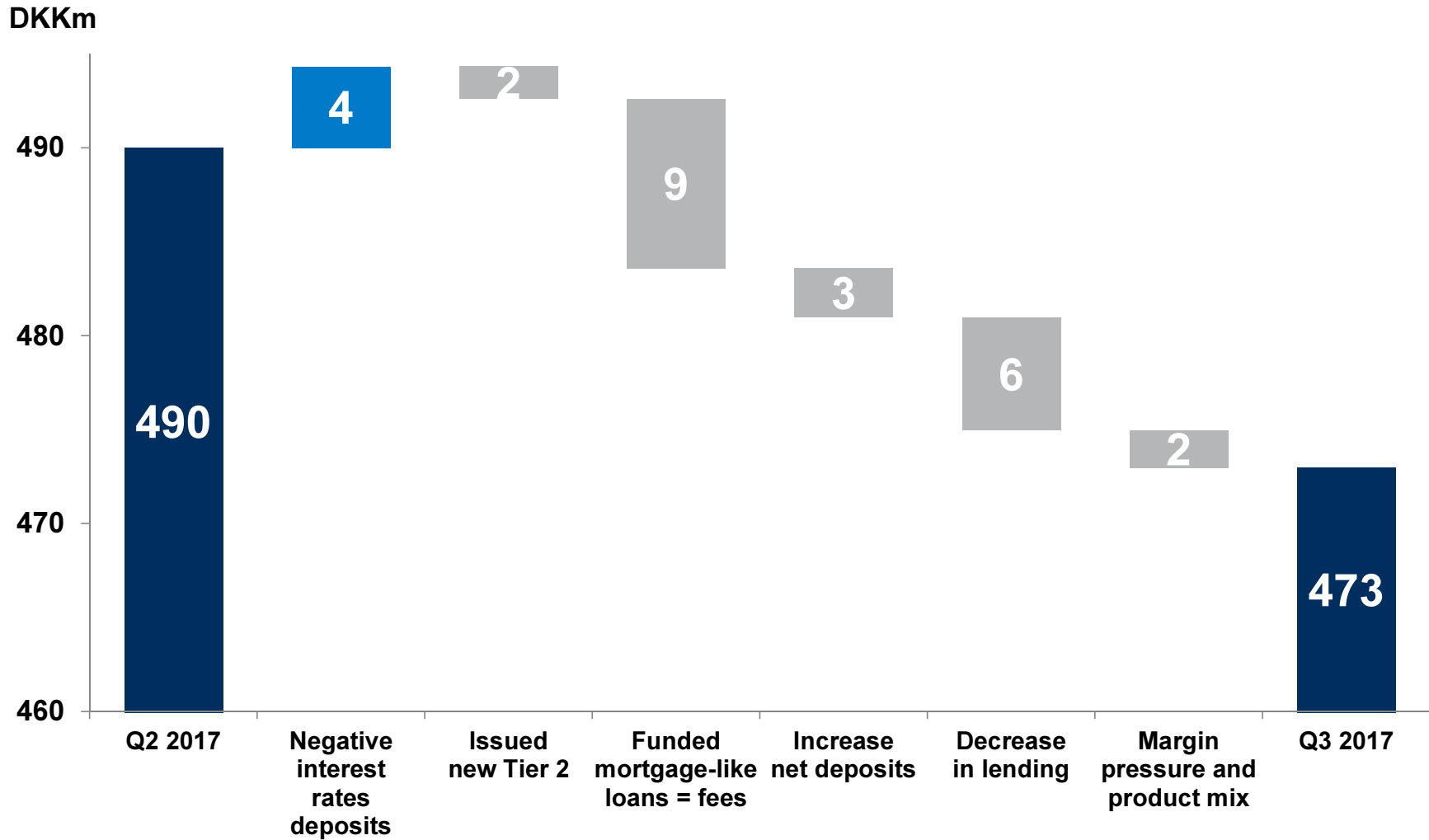
### Key points 12M 17 vs 12M 16:

- Net interest income down by 14% – 6% due to funding agreement mortgage-like loans
- Mortgage credit up by 44% – 28% due to funding agreement mortgage-like loans
- Remortgaging and loan fees up by 90% – normalised in 2017
- Asset management up by 20%
- Other items up by a total of 1%.

### Key points Q4 17 vs Q3 17:

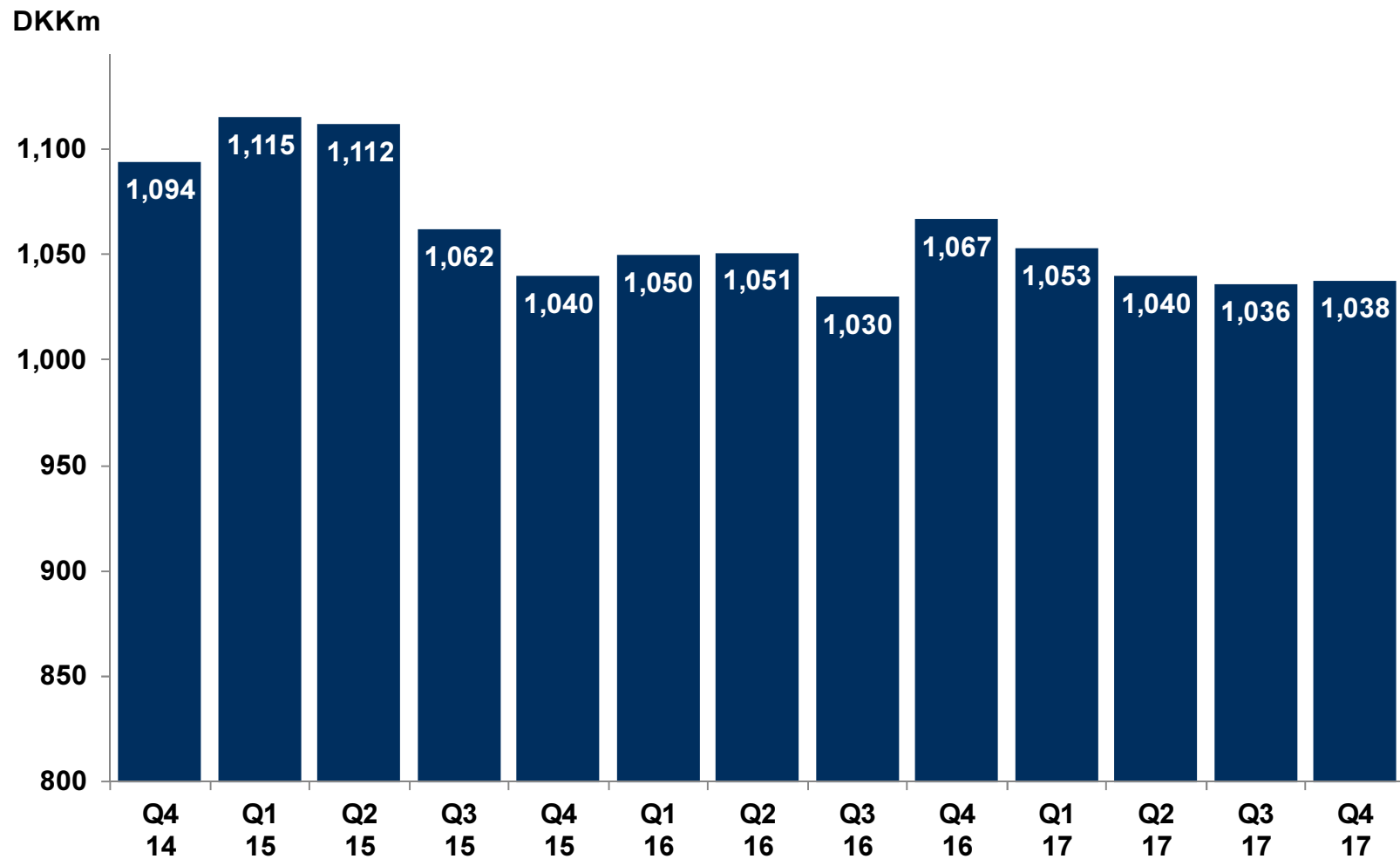
- Net interest income down by 4%
- Mortgage credit down by 7% – market value adjustment PRAS shares
- Asset management up by 17% due in part to performance-related income
- Other items up by a total of 2%.

# Net interest income etc – development from Q3 2017 to Q4 2017



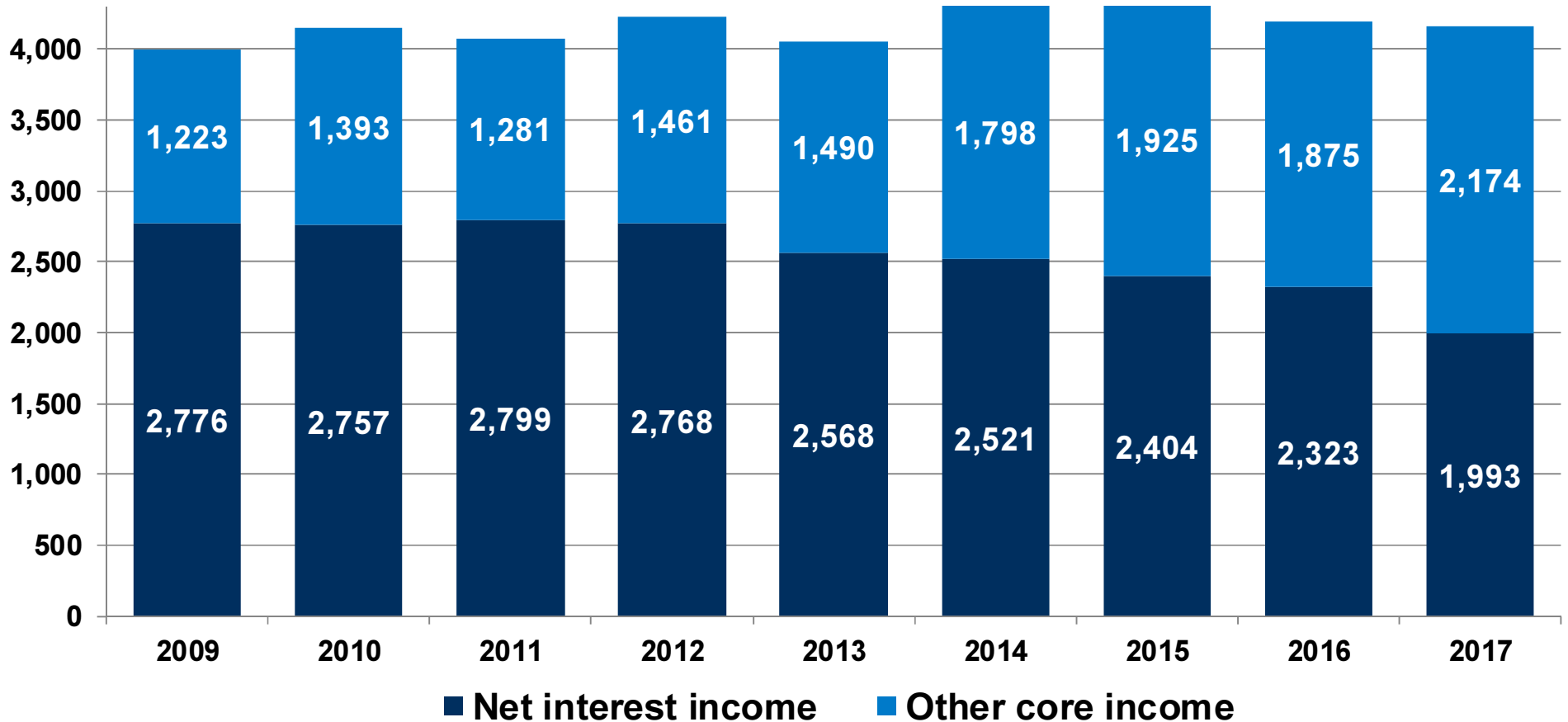
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## Core income remains stable



## Core income – significant change in composition

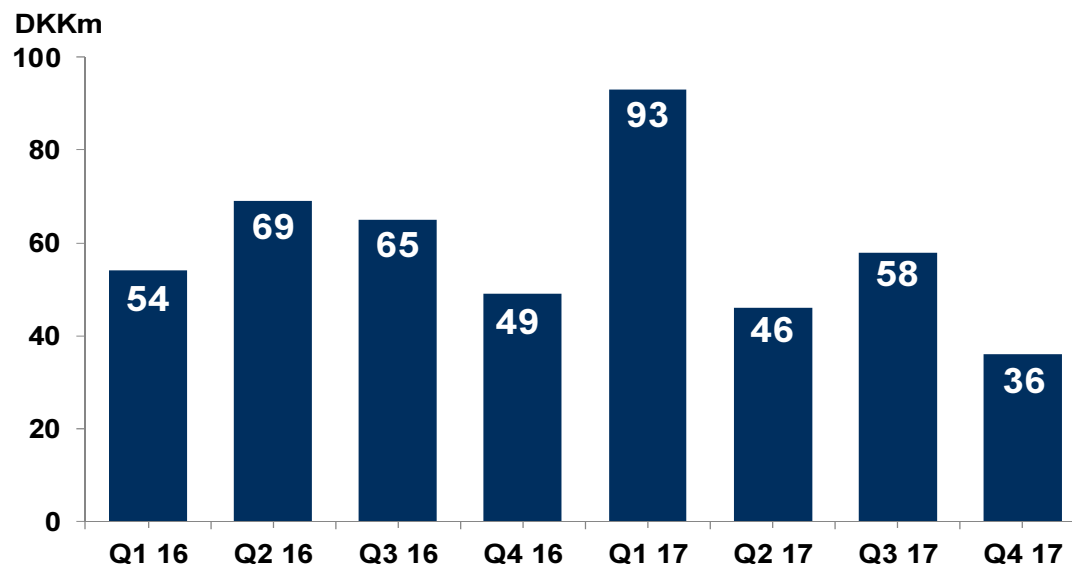
DKKm



## Trading income – satisfactory level in Q4 2017

### Key points:

- DKK 36m recorded in Q4 2017 vs DKK 58m in Q3 2017
- In Fixed Income considerable trading activity was recorded in mortgage bonds as well as corporate bonds in 2017.

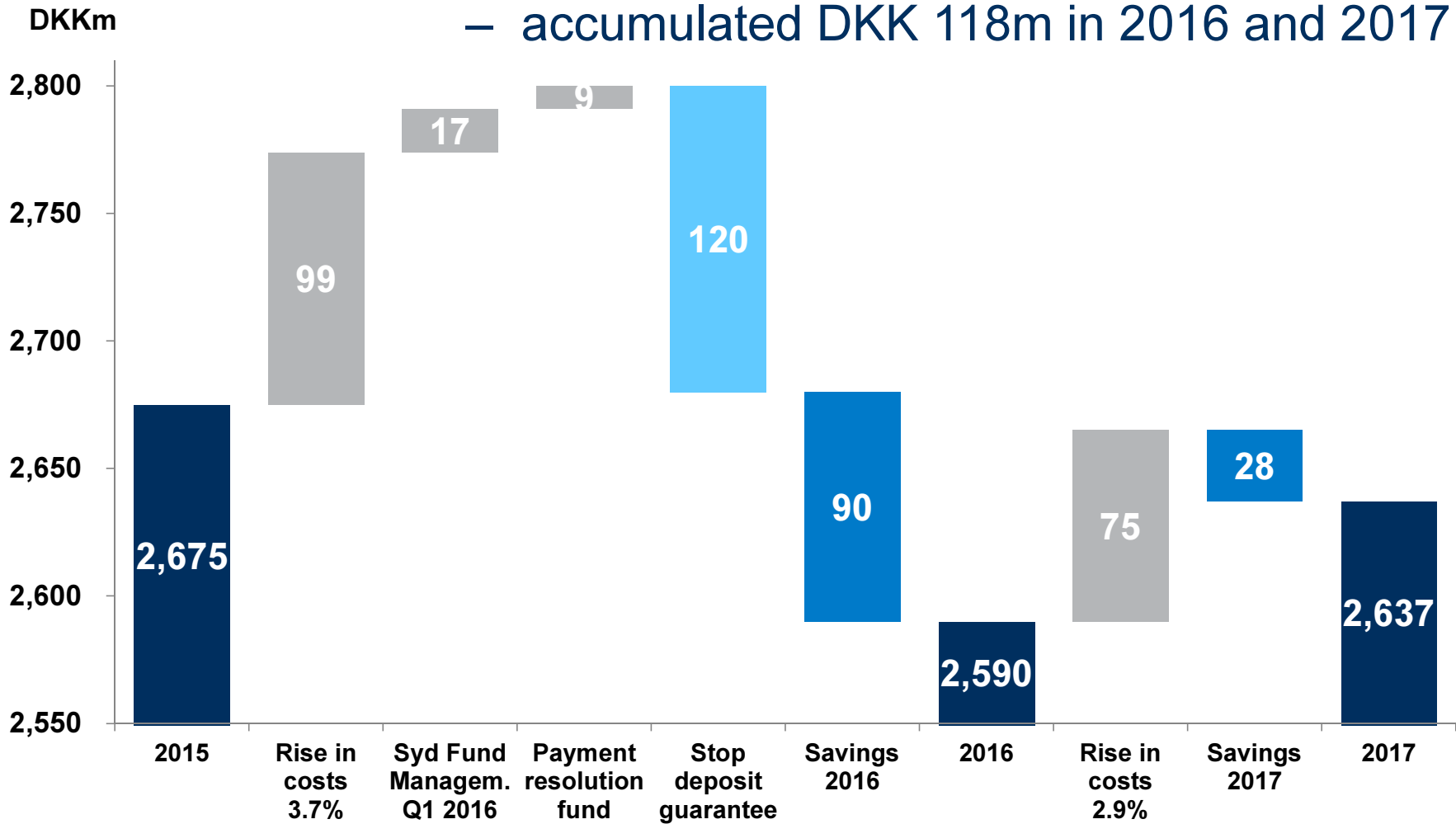


### Trading income

DKKm	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
Fixed Income	26	39	45	25	63	30	36	14
Equities	20	19	14	12	22	9	13	14
Money Market and Foreign Exchange	8	11	6	12	8	7	9	8
<b>Total</b>	<b>54</b>	<b>69</b>	<b>65</b>	<b>49</b>	<b>93</b>	<b>46</b>	<b>58</b>	<b>36</b>

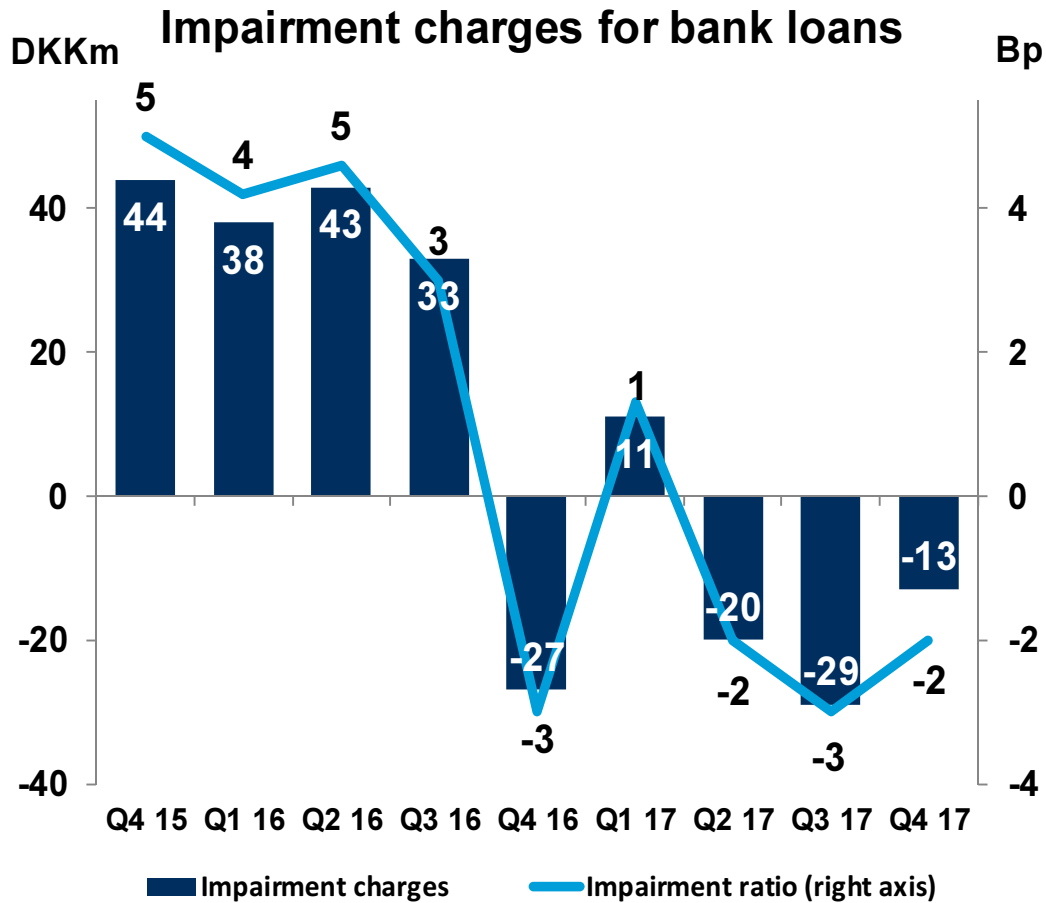
## Costs (core earnings) – savings of DKK 28m vs 2016

– accumulated DKK 118m in 2016 and 2017





# Impairment charges constitute minus DKK 13m in Q4 2017, equal to minus 2bp

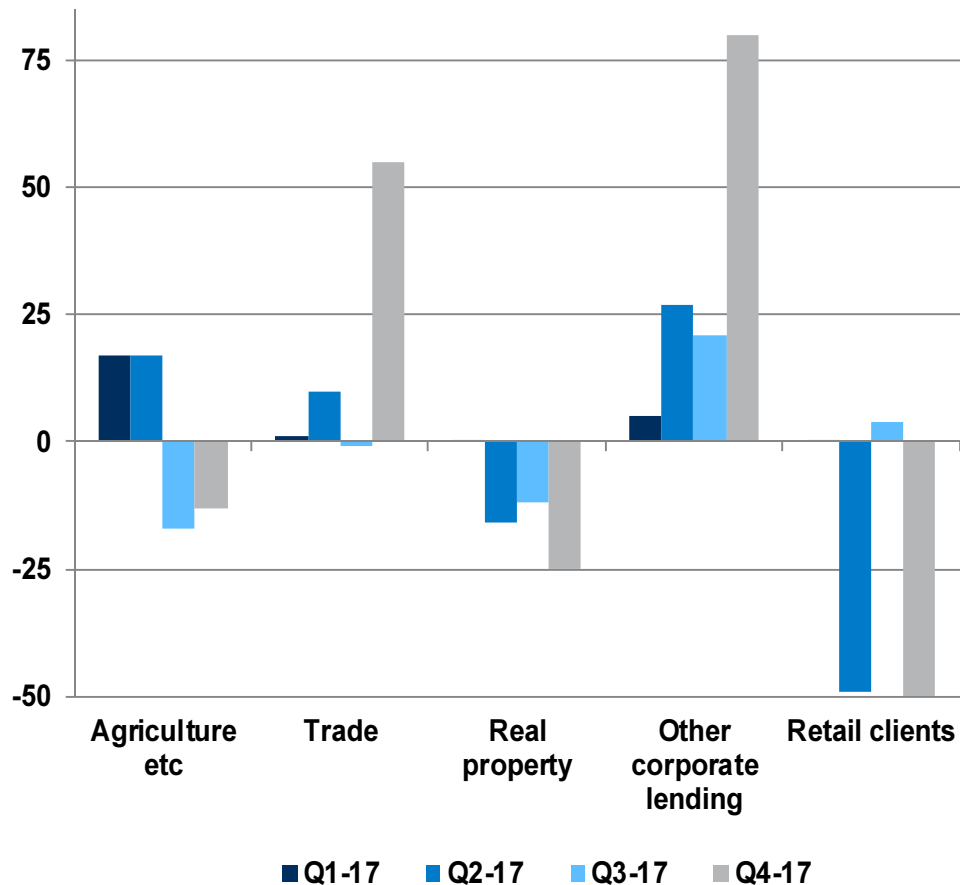


Impairment charges represent:

- Minus 6bp in 2017, down from 9bp in 2016
- Minus 2bp in Q4 17, up from minus 3bp in Q3 17.

## Reversals as regards retail clients and collective impairments in Q4 2017

### DKKm Individual impairment charges - quarterly



### Key points Q4 2017:

- Individual impairment charges as regards corporate exposures represent DKK 97m. Individual impairment charges as regards retail exposures represent minus DKK 50m in Q3 2017
- Collective impairment charges regarding agricultural exposures are reduced by DKK 75m in Q4 2017.

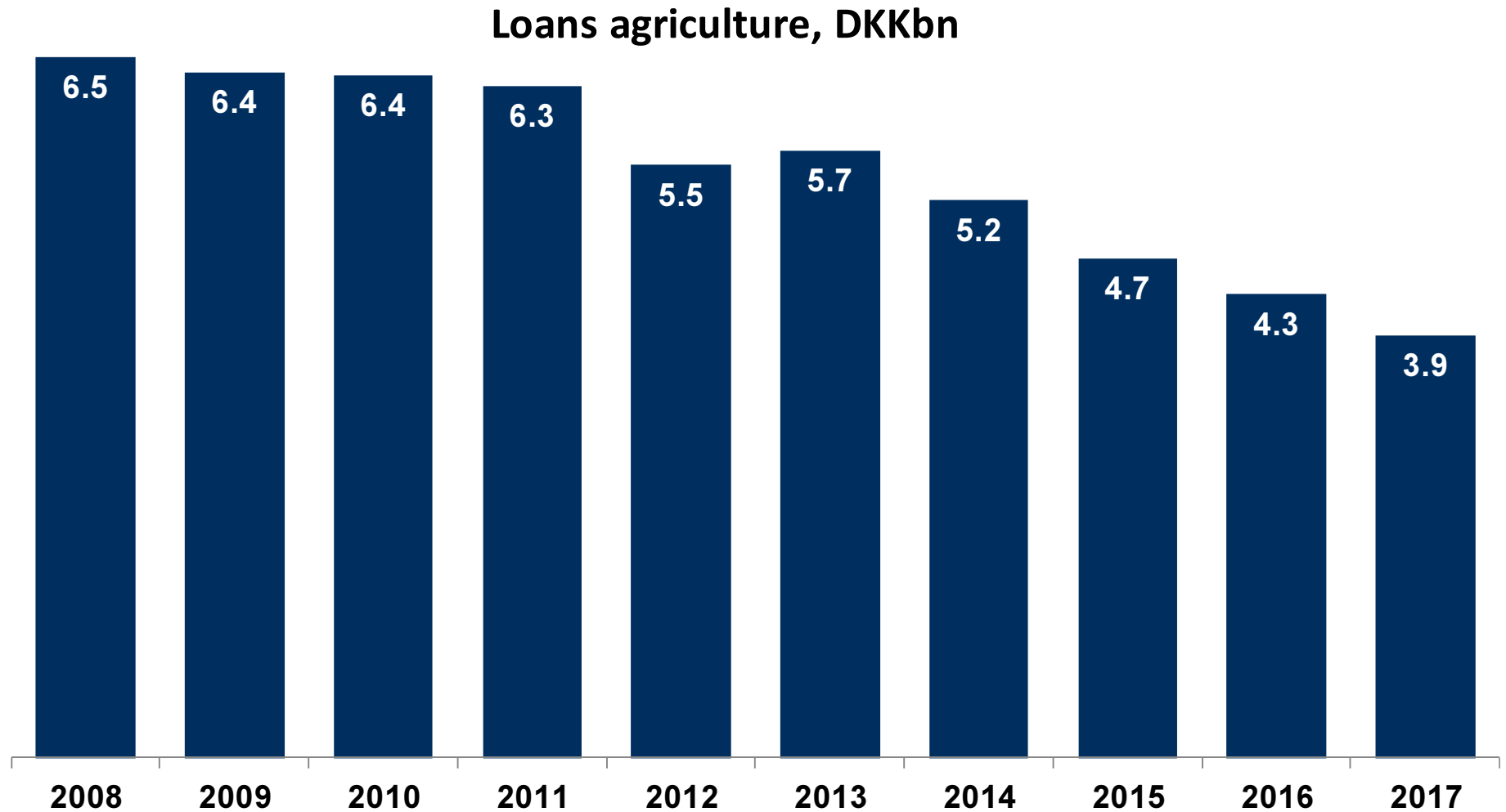
### Key points 12M 2017:

- Individual impairment charges as regards corporate exposures represent DKK 149m. Individual impairment charges as regards retail exposures represent minus DKK 95m in 2017

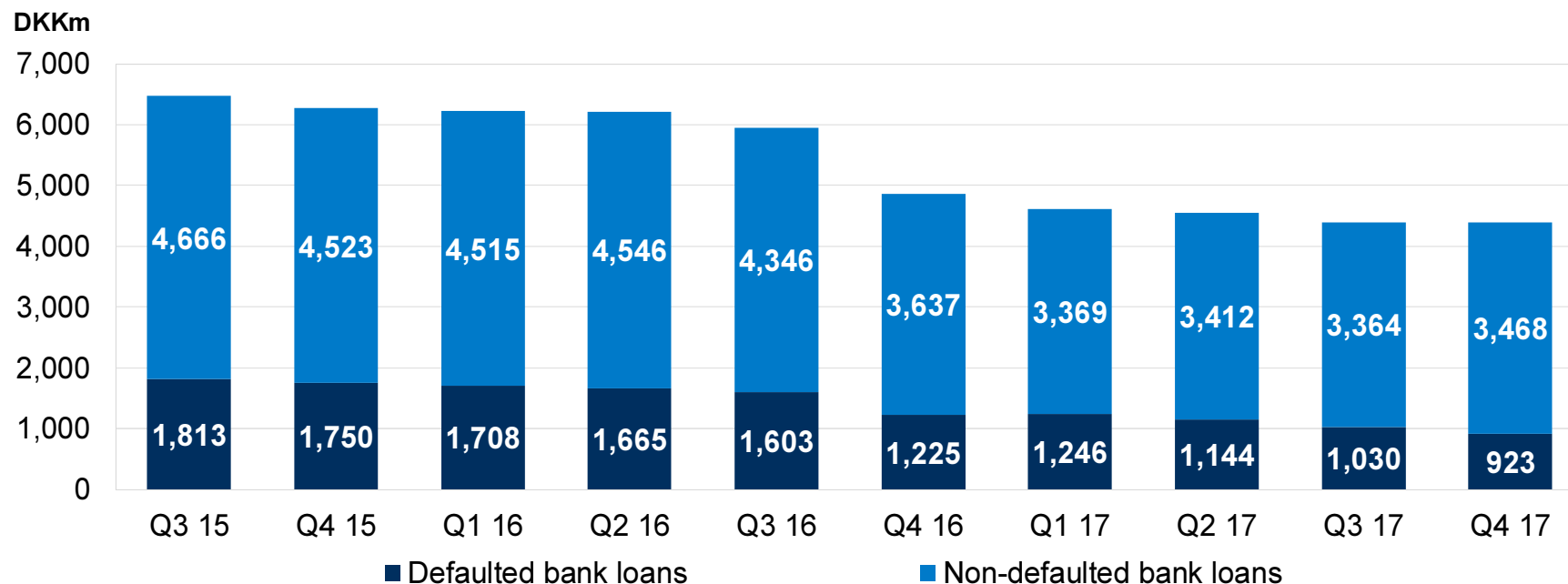
DKKm	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
Agriculture etc	110	-79	17	17	-17	-13
Trade	6	10	1	10	-1	55
Real property	-52	-4	0	-16	-12	-25
Other corporate lending	-5	-2	5	27	21	80
<b>Total corporate lending</b>	<b>59</b>	<b>-75</b>	<b>23</b>	<b>38</b>	<b>-9</b>	<b>97</b>
Retail clients	-7	-2	0	-49	4	-50
Individual impairments	52	-77	23	-11	-5	47
Collective impairments	-19	50	-12	-9	-24	-60
<b>Total impairments</b>	<b>33</b>	<b>-27</b>	<b>11</b>	<b>-20</b>	<b>-29</b>	<b>-13</b>

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Agriculture – loan portfolio down by 40% from year-end 2008



## Impaired bank loans – down for 15th consecutive quarter

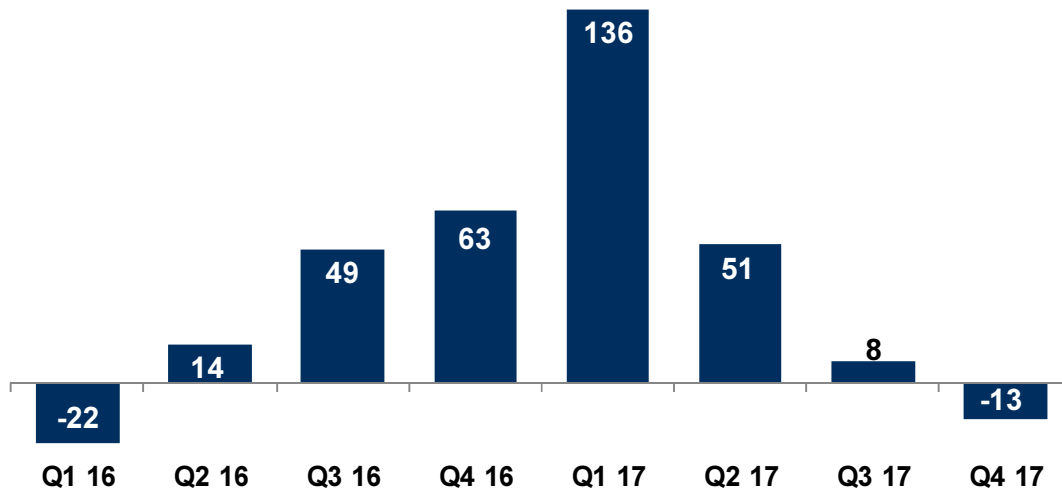


### Individually impaired bank loans

DKKm	31 Dec 15	31 Dec 16	31 Dec 17
Non-defaulted bank loans	4,523	3,637	3,468
Defaulted bank loans	1,750	1,225	923
Impaired bank loans	6,273	4,862	4,391
Impairment charges for bank loans subject to individual impairment	3,569	2,726	2,381
Impaired bank loans after impairment charges	2,704	2,136	2,010
Impaired bank loans as % of bank loans before impairment charges	8.0	6.1	6.6
Impairment charges as % of bank loans before impairment charges	4.6	3.4	3.6
Impairment as % of impaired bank loans	56.9	56.1	54.2
Impairment as % of defaulted bank loans	203.9	222.5	258.0

## Investment portfolio earnings – highly satisfactory result for 2017

### Investment portfolio earnings – DKKm



### Investment portfolio earnings

DKKm	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17
Position-taking	40	91	89	48	-21	2
Liquidity generation and reserves	4	-24	39	6	16	-9
Strategic positions	6	-2	10	-1	14	-4
Costs	-1	-2	-2	-2	-1	-2
<b>Total</b>	<b>49</b>	<b>63</b>	<b>136</b>	<b>51</b>	<b>8</b>	<b>-13</b>

Investment portfolio earnings for 12M 2017 represent DKK 182m compared with earnings of DKK 104m in 9M 2016.

The negative investment portfolio earnings in Q4 2017 is the result of a small decline in interest rates combined with a narrowing of the credit spreads on mortgage bonds.

The risk continues to be composed so that the Bank will profit from an interest rate increase.

## Income statement – highly satisfactory result in 2017 – ROE of 13.1%

DKKm	12M 2017	12M 2016	Index	Q4 2017	Q3 2017	Index
Core income	4,167	4,198	99	1,038	1,036	100
Trading income	233	237	98	36	58	62
<b>Total income</b>	<b>4,400</b>	<b>4,435</b>	<b>99</b>	<b>1,074</b>	<b>1,094</b>	<b>98</b>
Costs, core earnings	2,637	2,590	102	645	623	104
<b>Core earnings before impairment</b>	<b>1,763</b>	<b>1,845</b>	<b>96</b>	<b>429</b>	<b>471</b>	<b>91</b>
Impairment of loans and advances etc	-51	87	-	-13	-29	-
<b>Core earnings</b>	<b>1,814</b>	<b>1,758</b>	<b>103</b>	<b>442</b>	<b>500</b>	<b>88</b>
Investment portfolio earnings	182	104	175	-13	8	-
<b>Profit before non-recurring items</b>	<b>1,996</b>	<b>1,862</b>	<b>107</b>	<b>429</b>	<b>508</b>	<b>84</b>
Non-recurring items, net	-40	7	-	-17	-11	-
<b>Profit before tax</b>	<b>1,956</b>	<b>1,869</b>	<b>105</b>	<b>412</b>	<b>497</b>	<b>83</b>
Tax	425	397	107	85	109	78
<b>Profit for the period</b>	<b>1,531</b>	<b>1,472</b>	<b>104</b>	<b>327</b>	<b>388</b>	<b>84</b>
Costs (core earnings) / total income, C/I	0.60	0.58		0.60	0.57	
Return on equity, ROE full-year basis	13.1	13.1		11.0	13.3	
Earnings per share, EPS	22.4	20.9		4.9	5.7	

### Key points 12M 17 vs 12M 16:

- Core income down by 1%
- Trading income down by 2%
- Costs (core earnings) up by 2%
- Impairment charges – an income of DKK 51m in 2017
- Core earnings up by 3%
- High level of investment portfolio earnings.

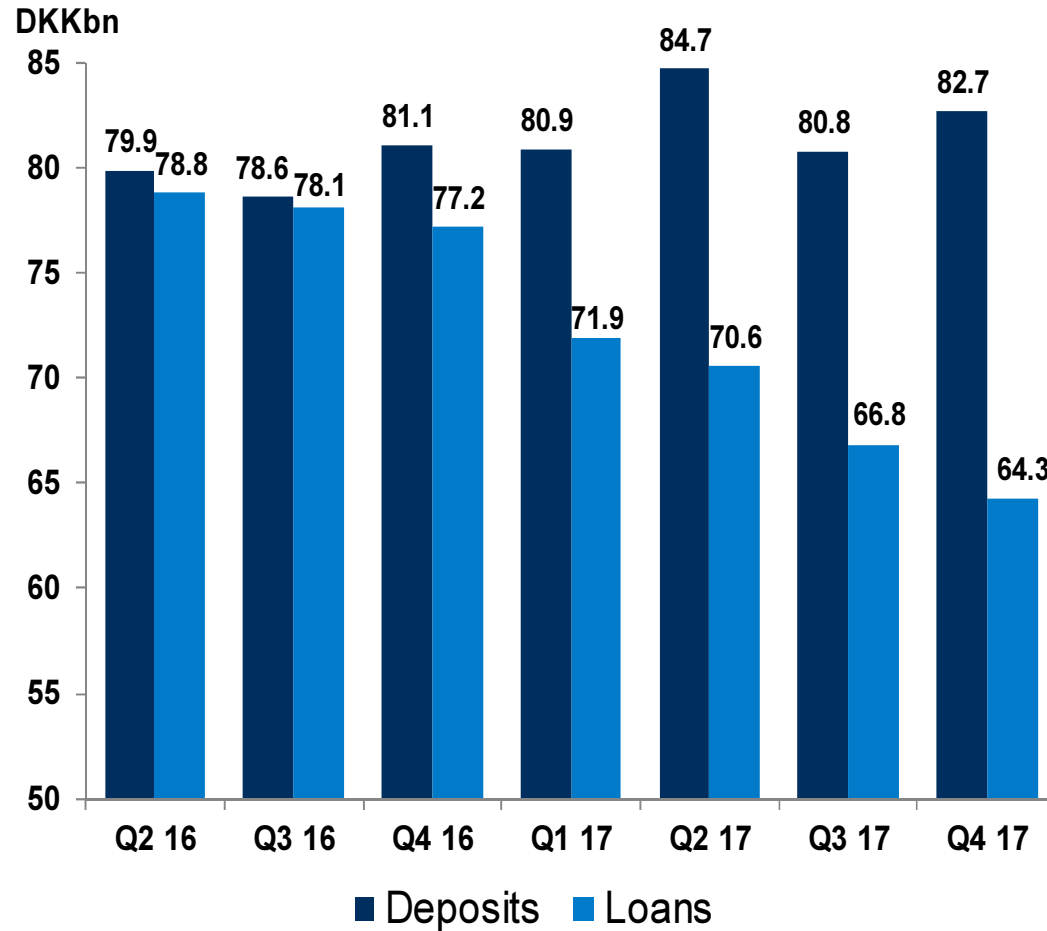
### Key points Q4 17 vs Q3 17:

- Core income at an unchanged level
- Trading income down by 38%
- Costs (core earnings) up by 4%.

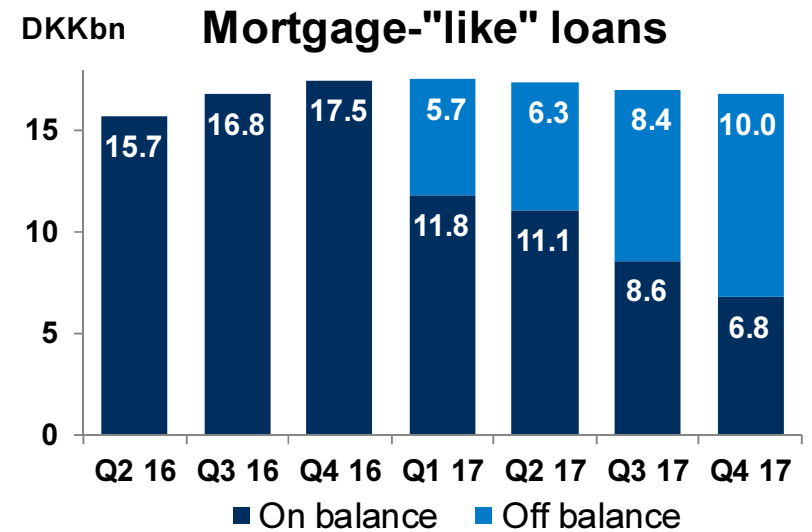
### Non-recurring items:

- Costs of DKK 40m related to "Blue growth" projects.

## Loans and advances effectively declined by DKK 0.9bn in Q4 2017 – adjusted for funded mortgage-like loans



- Loans and advances have declined by DKK 2.5bn in Q4 2017; adjusted for funded mortgage-like loans of DKK 1.6bn, loans and advances effectively declined by DKK 0.9bn in the quarter, equal to 1.3%
- Mortgage-like loans incl funded mortgage-like loans end-Q4 2017 declined by DKK 0.7bn from year-end 2016
- Funded mortgage-like loans constitute DKK 10.9bn at 1 January 2018.



## Total credit intermediation declines by DKK 3.9bn – equal to 2.6% in 2017

### Total credit intermediation

DKKbn	Q4 2016	Q2 2017	Q3 2017	Q4 2017	Change Q4
Bank loans - retail	29.9	22.8	20.0	18.0	-2.0
Bank loans - corporate	46.7	47.3	46.5	46.0	-0.5
Bank loans - public authorities	0.6	0.5	0.3	0.3	0.0
<b>Bank loans - total</b>	<b>77.2</b>	<b>70.6</b>	<b>66.8</b>	<b>64.3</b>	<b>-2.5</b>
Funded mortgage-like loans	-	6.3	8.4	10.0	1.6
<b>Bank loans and funded loans</b>	<b>77.2</b>	<b>76.9</b>	<b>75.2</b>	<b>74.3</b>	<b>-0.9</b>
Arranged mortgage loans - Totalkredit	58.3	57.6	58.2	58.0	-0.2
Arranged mortgage loans - DLR	12.4	12.1	12.0	11.7	-0.3
<b>Total</b>	<b>147.9</b>	<b>146.6</b>	<b>145.4</b>	<b>144.0</b>	<b>-1.4</b>

- Total credit intermediation declined by DKK 1.4bn in Q4 2017.
- Total credit intermediation – by way of bank loans and advances, funded mortgage-like loans and arranged mortgage-like loans – to retail clients declined by DKK 0.6bn in Q4 2017.
- DKK 0.8bn of the decline in Q4 2017 is attributable to corporate clients.



## Significant rise in capital ratios in Q4 2017

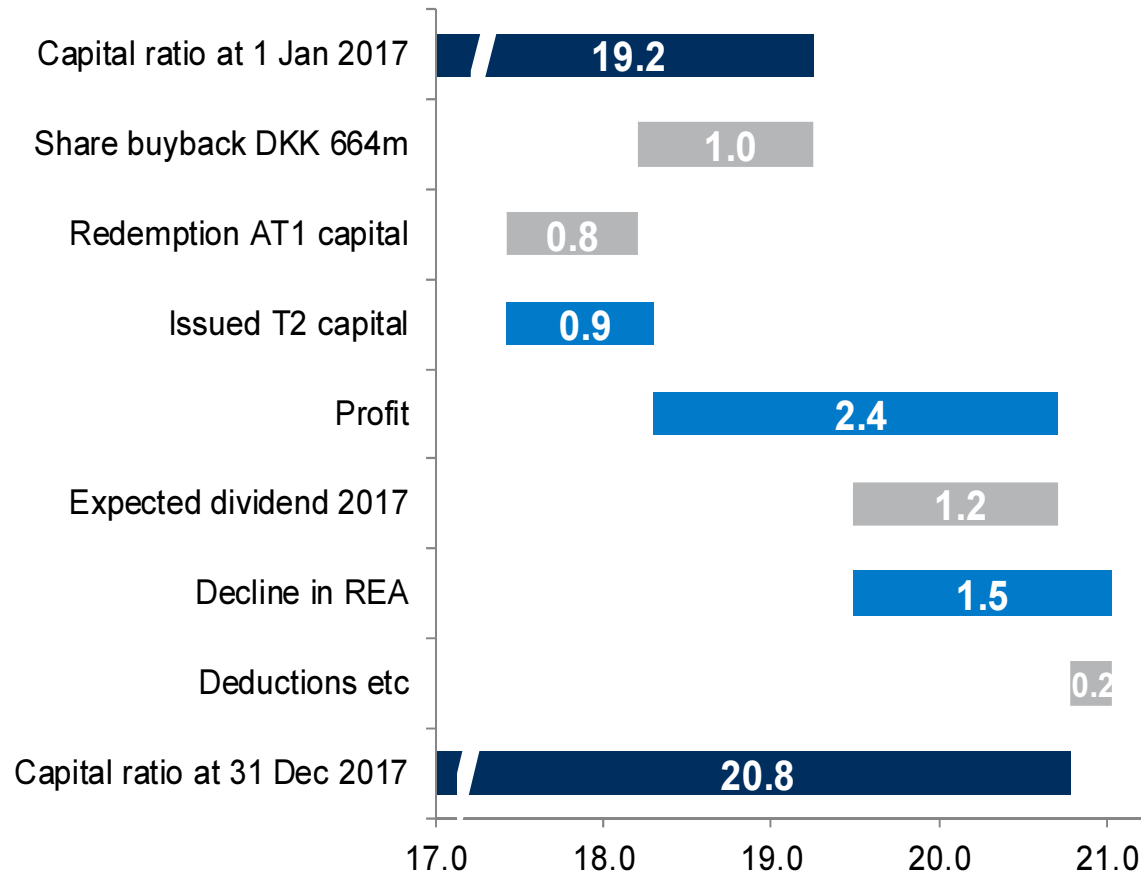
DKKm	Q4 2015	Q4 2016	Q3 2017	Q4 2017 De facto	
Credit risk	44,931	41,683	40,195	38,933	38,933
Market risk	8,876	8,075	6,403	6,239	6,239
Operational risk	8,173	8,025	8,025	8,023	8,023
Other exposures incl CVA	5,975	5,824	5,470	5,694	5,694
Risk exposure amount	67,955	63,607	60,093	58,889	58,889
CET1	9,852	10,213	9,329	10,167	9,667
Tier 1	10,825	11,044	9,608	10,446	9,946
Total capital	11,984	12,242	10,852	12,240	11,740
CET1 ratio	14.5	16.1	15.5	17.3	16.4
Tier 1 ratio	15.9	17.4	16.0	17.7	16.9
Capital ratio	17.6	19.2	18.1	20.8	19.9
Individual solvency need	9.7	10.2	10.5	11.0	11.0

### Key points 2017:

- The completed share buyback programme of DKK 664m reduced capital ratios by 1.0% in Q1 2017
- The repayment of Additional Tier 1 capital totalling DKK 828m has reduced the capital ratio by 0.8%
- Issue of Tier 2 capital has improved the capital ratio by 0.9 percentage points
- The large reduction in the risk exposure amount is mainly attributable to market risk and credit risk
- Overall the Common Equity Tier 1 capital ratio increased by 1.2% in 2017
- The share buyback of DKK 500m announced for 2018 has been deducted from "de facto".

DKKm	Q4 2015	Q4 2016	Q3 2017	Q4 2017
Corporate, IRB	32,241	30,306	29,148	28,131
Retail, IRB	9,583	9,200	8,410	8,271
Corporate, STD	767	605	484	413
Retail, STD	553	648	725	731
Credit institutions etc.	1,787	924	1,428	1,387
<b>Credit risk total</b>	<b>44,931</b>	<b>41,683</b>	<b>40,195</b>	<b>38,933</b>

## Capital ratio development in 2017



### Key points:

- The implemented share buyback programme of DKK 664m has reduced the capital ratio by 1.0 percentage point
- The repayment of Additional Tier 1 capital has reduced the capital ratio by 0.8 percentage points
- The issue of Tier 2 capital has improved the capital ratio by 0.9 percentage points
- The reduction in risk exposure amount – REA – is mainly attributable to market risk and credit risk.

## Capital requirement, planning and new targets

### Requirement incl all buffers

%	CET1	Total capital
Minimum requirement	4.5	8.0
Pillar II buffer	1.7	3.0
Individual solvency need	6.2	11.0
SIFI buffer	1.0	1.0
Capital conservation buffer	2.5	2.5
Countercyclical buffer	2.5	2.5
<b>Total</b>	<b>12.2</b>	<b>17.0</b>
<b>Target</b>	<b>14.0</b>	<b>18.0</b>
<b>Current 31 Dec 2017</b>	<b>17.3</b>	<b>20.8</b>

### Capital targets:

- The capital targets are set at a level where Sydbank expects to have capital that will cover all buffers at any time
- The Group's targets in 2018:
  - CET1 ratio **of around 14.0%**
  - Capital ratio **of around 18.0%**

### Capital planning:

- Share buyback of DKK 500m in 2018.
- Issue of EUR 75m as Tier 2 capital in Q4 2017

### Existing AT1:

- 0.5 percentage points transitioned into T2 over the next 4 years.

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Record high dividend per share of DKK 11.31 per share

Total distribution for 2017 – based on the highly satisfactory profit as well as strong capital position.



## Status – targets

Target	Objective	Status 31 December 2017	Comment
Return on shareholders' equity after tax	Over 12%*	13.1%	Progressing as planned
Customer satisfaction - Corporate	Top 3 **	4th - Aalund	Not met in 2017
Customer satisfaction - Retail	Top 3 **	5th - EPSI	Not met in 2017
Common Equity Tier 1 capital ratio	Around 14.0%	17.3%	Met from Q3 2013
Capital ratio	Around 18.0%	20.8%	Met from Q1 2015
Dividend	30-50% of profit for the year after tax	50% of profit for the year after tax (proposed)	Met in 2017 (proposed dividend)

\* or top 3 ranking among the 6 largest banks

\*\* among the 6 largest banks

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## Outlook for 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. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.
- Non-recurring costs are expected to represent around DKK 75m.
- In 2017 very satisfactory investment portfolio earnings and the reversal of impairment charges had a positive effect on profit for the year. However we cannot be sure that this will be the case also in 2018. As a result profit after tax of DKK 1,200-1,400m is projected for 2018.
- The outlook is subject to uncertainty and depends among other things on macroeconomic factors.

Questions

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Thank you

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## Forward-looking statements

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

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