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## Interim Report H1 2018

Improved credit quality, impact of the dry summer as well as global uncertainty

28 August 2018

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## Highlights for H1 2018

### Key points

Improved credit quality, impact of the dry summer as well as global uncertainty

### Profit

Profit of DKK 668m – ROE of 11.7% p.a. after tax

### Core income

Core income of DKK 2,040m – down by 3% compared with H1 2017

### Income

Total income of DKK 2,140m – down by 4% compared with H1 2017

### Costs

Costs up by 2% compared with H1 2017

### Impairment charges

Impairment charges represent income of DKK 57m in H1 2018

### Bank loans

DKK 1.0bn decline in bank loans and advances in Q2 2018, equal to 1.6%

### CET 1 ratio

CET1 ratio of 15.5% – down by 1.1% in Q2 2018 – due to increase of share buyback programme by DKK 750m in June 2018

### Capital

Issue of EUR 100m AT1 capital in May 2018

## Core income – H1 2018 down 3% vs H1 2017

DKKm	H1 2018	H1 2017	Index	Q2 2018	Q1 2018	Index
Net interest income etc	919	1,030	89	459	460	100
Mortgage credit *	289	268	108	143	146	98
Payment services	97	96	101	52	45	116
Remortgaging and loan fees	68	66	103	30	38	79
Commission and brokerage	158	194	81	76	82	93
Commission etc investment funds and pooled pension plans	240	199	121	97	143	68
Asset management	134	123	109	67	67	100
Custody account fees	35	35	100	16	19	84
Other operating income	100	82	122	47	53	89
<b>Total</b>	<b>2,040</b>	<b>2,093</b>	<b>97</b>	<b>987</b>	<b>1,053</b>	<b>94</b>
* Set-off of loss Totalkredit	12	15	80	6	6	100

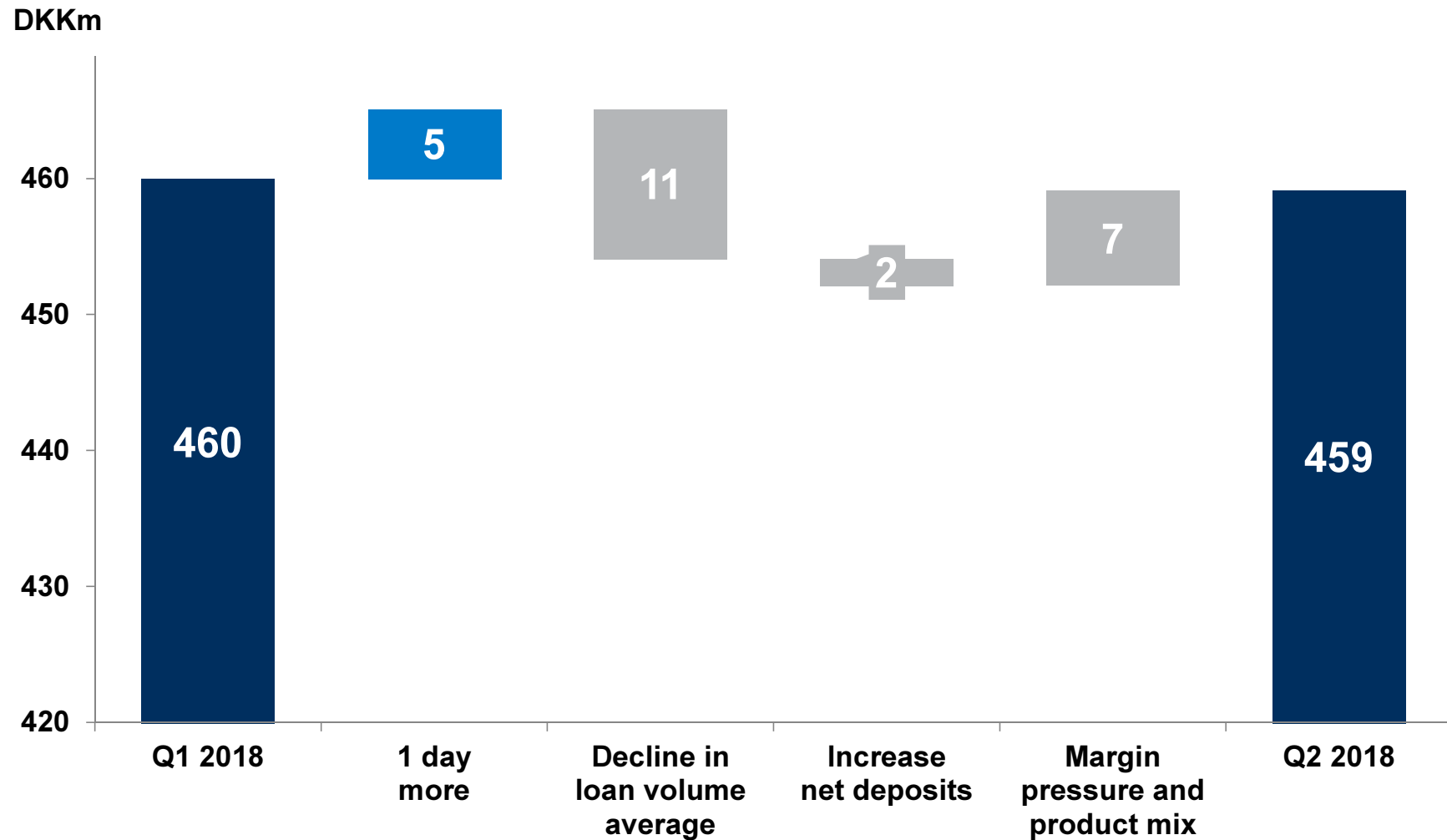
### Key points H1 18 vs H1 17:

- Net interest income etc down by 11% – 4% due to funding of mortgage-like loans
- Mortgage credit up by 8% – mainly due to funding of mortgage-like loans
- Commission and brokerage down by 19%
- Commission etc investment funds up by 21% due to revaluation of BI Holding
- Asset management up by 9%
- Other items up by a total of 8%.

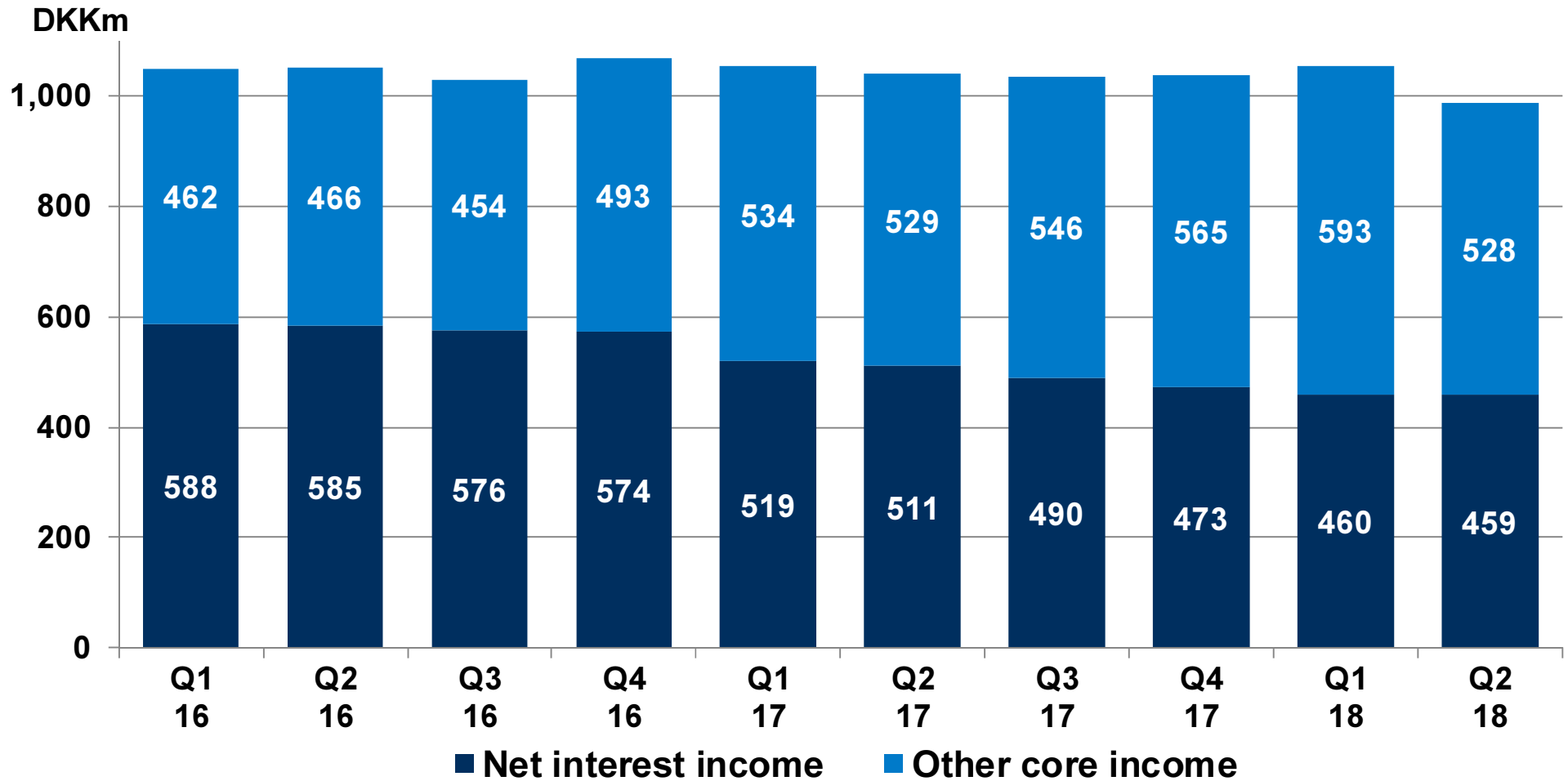
### Key points Q2 18 vs Q1 18:

- Net interest income etc on par
- Mortgage credit – IFRS 9 impact on PRAS shares
- Commission etc investment funds down by 32% due to revaluation of BI Holding in Q1
- Other items down by a total of 5%.

## Net interest income etc – development from Q1 2018 to Q2 2018



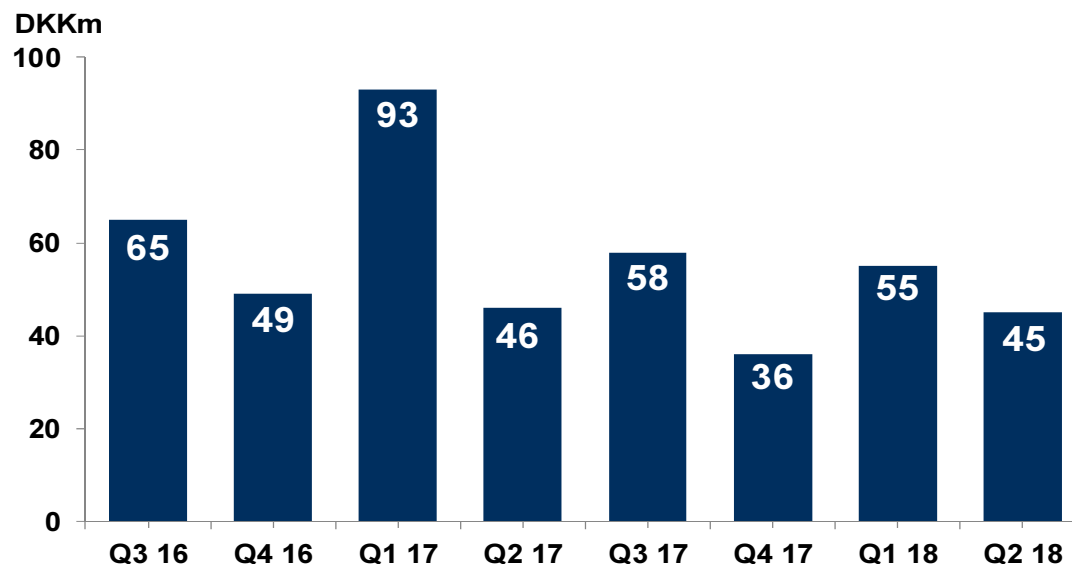
Net interest income represents 47% of core income in Q2 vs 44% in Q1



## Trading income – acceptable level in Q2 2018

### Key points:

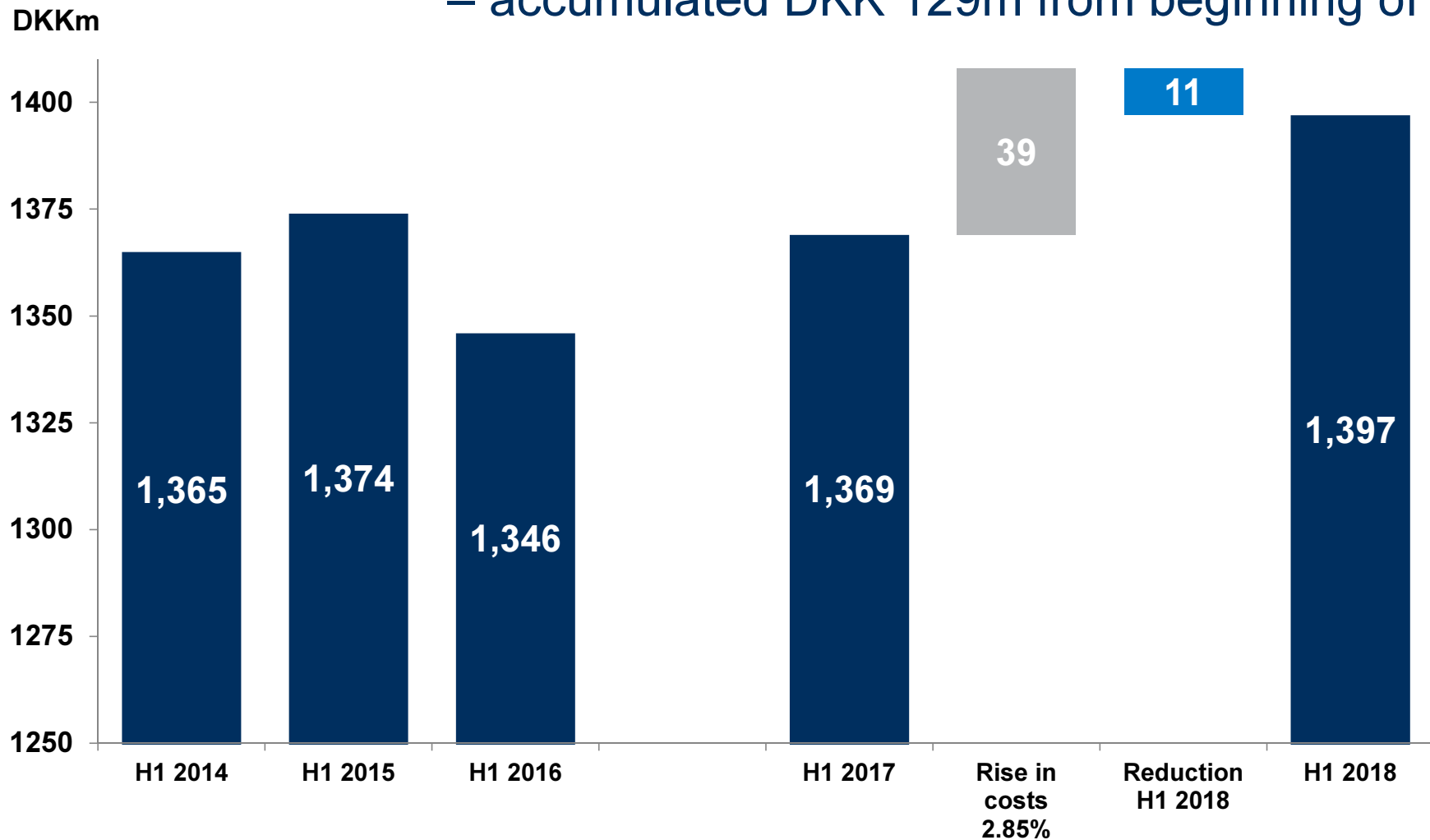
- DKK 45m recorded in Q2 2018 vs DKK 55m in Q1 2018
- In Fixed Income considerable trading activity was recorded in mortgage bonds also in Q2 2018.



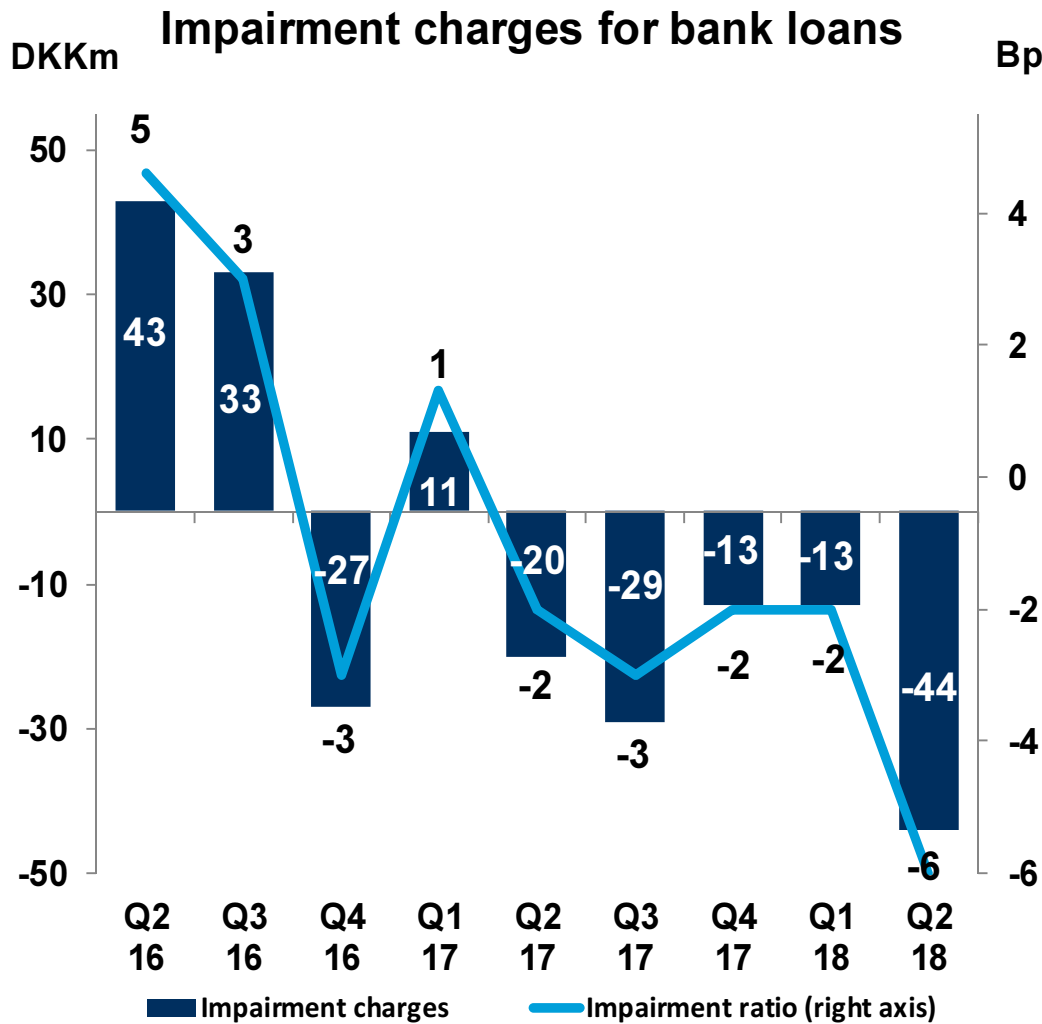
### Trading income

DKKm	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
Bonds	45	25	63	30	36	14	39	19
Shares	14	12	22	9	13	14	6	17
Foreign exchange, etc	6	12	8	7	9	8	10	9
<b>Total</b>	<b>65</b>	<b>49</b>	<b>93</b>	<b>46</b>	<b>58</b>	<b>36</b>	<b>55</b>	<b>45</b>

**Costs (core earnings)** – reduction of DKK 11m in H1 2018  
 – accumulated DKK 129m from beginning of 2016



# Impairment charges constitute minus DKK 44m in Q2 2018, equal to minus 6bps



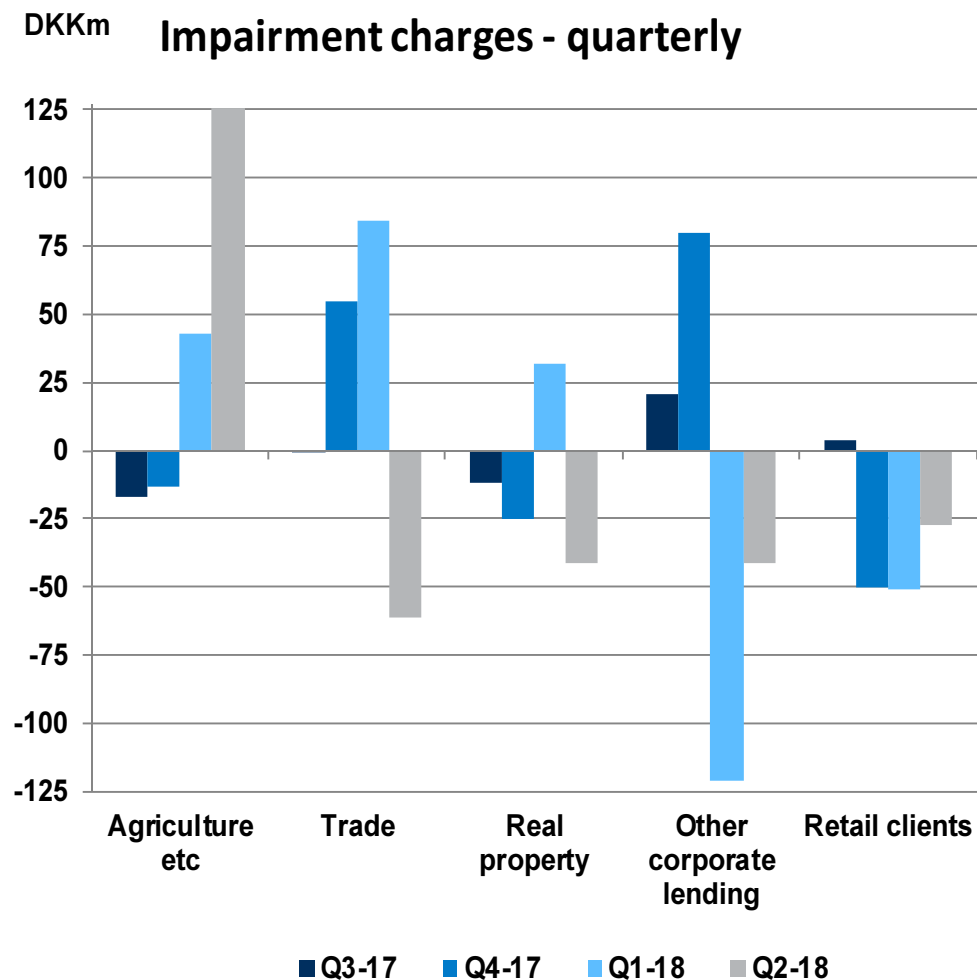
Reversal for fifth consecutive quarter.

Impairment charges represent:

- Minus 7bps in H1 2018, down from minus 1bp in H1 2017
- Minus 6bps in Q2 2018, down from minus 2bps in Q1 2018.



## Net reversal despite substantial impairment charges as regards agriculture in Q2 2018



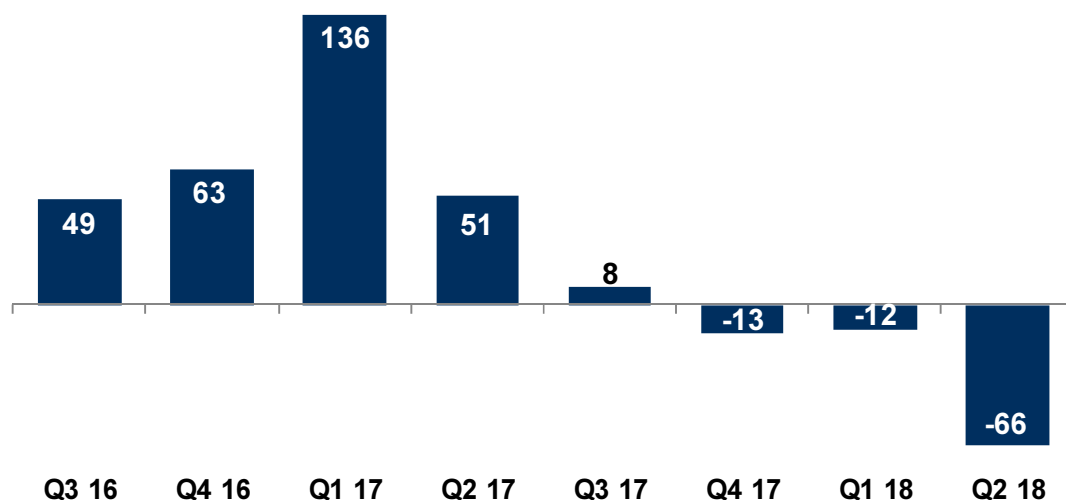
### Key points Q2 2018:

- Impairment charges as regards corporate exposures represent minus DKK 17m despite impairment charges as regards agriculture of DKK 126m
- Increase in impairment charges of DKK 50m recorded on agricultural exposures in Q2 – total impairment charges of DKK 125m
- Impairment charges as regards retail exposures represent minus DKK 27m.

DKKm	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
Agriculture etc	17	17	-17	-13	43	126
Trade	1	10	-1	55	84	-61
Real property	0	-16	-12	-25	32	-41
Other corporate lending	5	27	21	80	-121	-41
Total corporate lending	23	38	-9	97	38	-17
Retail clients	0	-49	4	-50	-51	-27
Individual impairments	23	-11	-5	47	-13	-44
Collective impairments	-12	-9	-24	-60	-	-
<b>Total impairments</b>	<b>11</b>	<b>-20</b>	<b>-29</b>	<b>-13</b>	<b>-13</b>	<b>-44</b>

## Investment portfolio earnings – negative result for Q2 2018

Investment portfolio earnings – DKKm



Investment portfolio earnings

DKKm	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
Position-taking	89	48	-21	2	-4	-54
Liquidity generation and reserves	39	6	16	-9	-1	-3
Strategic positions	10	-1	14	-4	-5	-7
Costs	-2	-2	-1	-2	-2	-2
<b>Total</b>	<b>136</b>	<b>51</b>	<b>8</b>	<b>-13</b>	<b>-12</b>	<b>-66</b>

Investment portfolio earnings for H1 2018 represent minus DKK 78m compared with earnings of DKK 187m in H1 2017.

Investment portfolio earnings for Q2 2018 represent minus DKK 66m compared with earnings of minus DKK 12m in Q1 2018.

The negative investment portfolio earnings in Q1 2018 are the result of a decline in interest rates combined with a minor widening of the credit spreads on mortgage bonds.

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

## Income statement – ROE of 11.7% in H1 2018

DKKm	H1 2018	H1 2017	Index	Q2 2018	Q1 2018	Index
Core income	2,040	2,093	97	987	1,053	94
Trading income	100	139	72	45	55	82
<b>Total income</b>	<b>2,140</b>	<b>2,232</b>	<b>96</b>	<b>1,032</b>	<b>1,108</b>	<b>93</b>
Costs, core earnings	1,397	1,369	102	694	703	99
<b>Core earnings before impairment</b>	<b>743</b>	<b>863</b>	<b>86</b>	<b>338</b>	<b>405</b>	<b>83</b>
Impairment of loans and advances etc	-57	-9	-	-44	-13	-
<b>Core earnings</b>	<b>800</b>	<b>872</b>	<b>92</b>	<b>382</b>	<b>418</b>	<b>91</b>
Investment portfolio earnings	-78	187	-	-66	-12	-
<b>Profit before non-recurring items</b>	<b>722</b>	<b>1,059</b>	<b>68</b>	<b>316</b>	<b>406</b>	<b>78</b>
Non-recurring items, net	92	-12	-	-13	105	-
<b>Profit before tax</b>	<b>814</b>	<b>1,047</b>	<b>78</b>	<b>303</b>	<b>511</b>	<b>59</b>
Tax	146	231	63	66	80	83
<b>Profit for the period</b>	<b>668</b>	<b>816</b>	<b>82</b>	<b>237</b>	<b>431</b>	<b>55</b>
Costs (core earnings) / total income, C/I	0.65	0.61		0.67	0.63	
Return on equity, ROE full-year basis	11.7	14.2		8.2	14.8	
Earnings per share, EPS	10.0	11.8		3.5	6.5	

### Key points H1 18 vs H1 17:

- Core income down by 3%
- Trading income down by 28%
- Costs (core earnings) up by 2%
- Reversal of impairment charges
- Core earnings down by 8%
- Negative investment portfolio earnings.

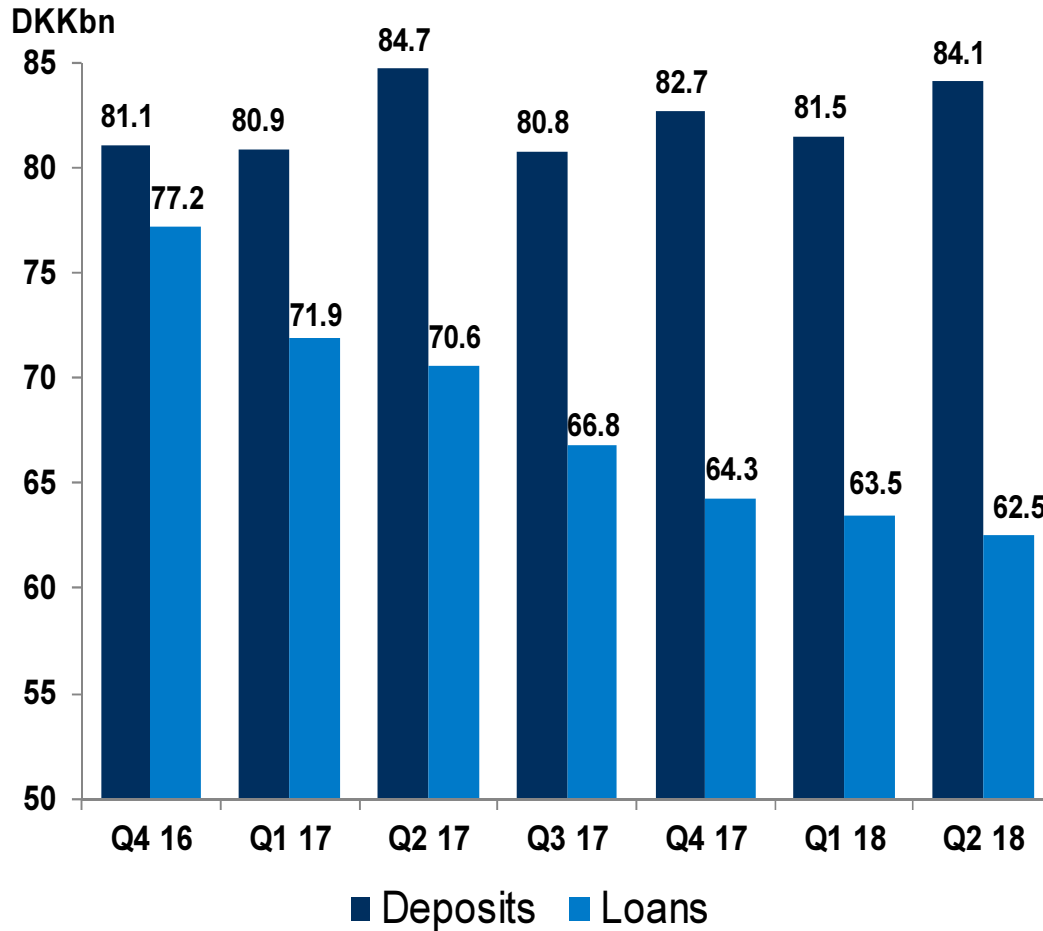
### Key points Q2 18 vs Q1 18:

- Core income down by 6%
- Trading income down by 18%
- Costs (core earnings) down by 1% due to seasonal fluctuations.

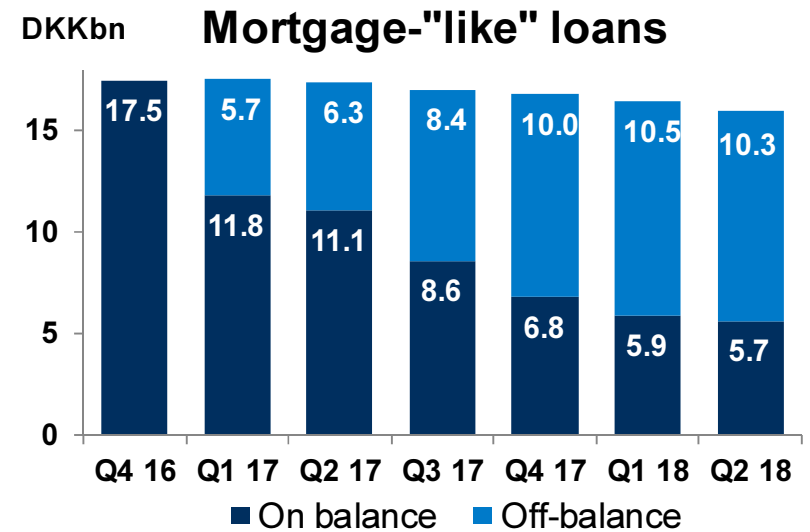
### Non-recurring items, H1 18:

- Profit on the sale of shares in ValueInvest of DKK 110m
- Costs of DKK 18m related to Blue growth projects.

## Loans and advances declined by DKK 1.0bn in Q2 2018



- Loans and advances declined by DKK 1.0bn in Q2 2018, equal to 1.6%
- Mortgage-like loans, incl funded mortgage-like loans, dropped by DKK 0.4bn in Q2 2018
- Funded mortgage-like loans constitute DKK 10.3bn.



## Total credit intermediation – overall drop of 0.5% in Q2 2018

### Total credit intermediation

DKKbn	Q4 2016	Q4 2017	Q1 2018	Q2 2018	Change Q4
Bank loans - retail	29.9	18.0	16.9	16.5	-0.5
Bank loans - corporate	46.7	46.0	46.5	45.9	-0.6
Bank loans - public authorities	0.6	0.3	0.1	0.2	0.1
<b>Bank loans - total</b>	<b>77.2</b>	<b>64.3</b>	<b>63.5</b>	<b>62.5</b>	<b>-1.0</b>
Funded mortgage-like loans	-	10.0	10.5	10.3	-0.2
<b>Bank loans and funded loans</b>	<b>77.2</b>	<b>74.3</b>	<b>74.0</b>	<b>72.8</b>	<b>-1.2</b>
Arranged mortgage loans - Totalkredit	58.3	58.0	58.3	58.8	0.5
Arranged mortgage loans - DLR	12.4	11.7	11.5	11.5	0.0
<b>Total</b>	<b>147.9</b>	<b>144.0</b>	<b>143.8</b>	<b>143.2</b>	<b>-0.7</b>

- Total credit intermediation declined by DKK 0.7bn in Q2 2018, equal to a 5% drop.
- Total credit intermediation to retail clients – by way of bank loans and advances, funded mortgage-like loans and arranged mortgage loans – declined by DKK 0.2bn in Q2 2018.
- Total credit intermediation to corporate clients, incl DLR, declined by DKK 0.6bn in Q2 2018.

## Capital ratios – impacted by capital measures in Q2 2018

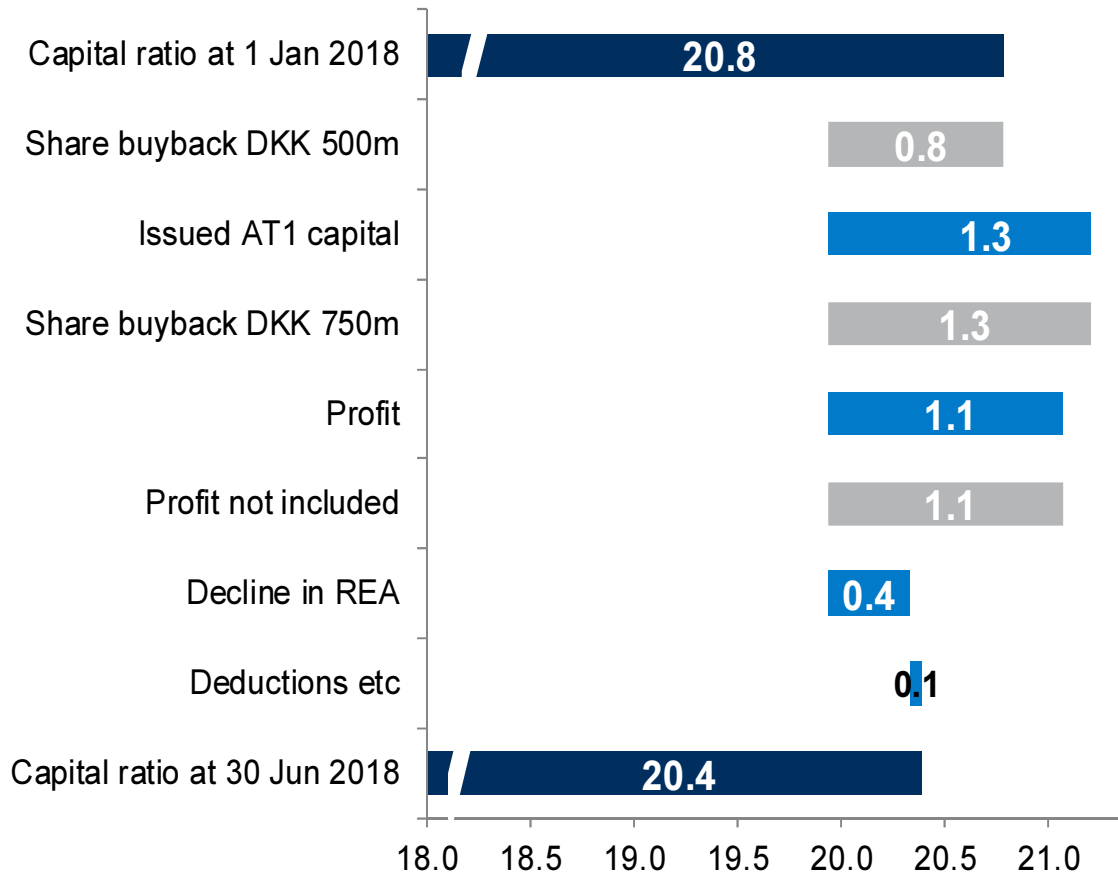
DKKm	Q4 2016	Q4 2017	Q1 2018	Q2 2018 De facto	
Credit risk	41,683	38,933	38,328	36,810	36,810
Market risk	8,075	6,239	5,815	7,567	7,567
Operational risk	8,025	8,023	8,023	8,023	8,023
Other exposures incl CVA	5,824	5,694	5,351	5,329	5,329
Risk exposure amount	63,607	58,889	57,517	57,729	57,729
CET1	10,213	10,167	9,543	8,955	9,289
Tier 1	11,044	10,446	9,767	9,923	10,257
Total capital	12,242	12,240	11,613	11,765	12,099
CET1 ratio	16.1	17.3	16.6	15.5	16.1
Tier 1 ratio	17.4	17.7	17.0	17.2	17.8
Capital ratio	19.2	20.8	20.2	20.4	21.0
Individual solvency need	10.2	11.0	11.2	11.0	11.0

### Key points Q2 2018:

- Increase in share buyback programme of DKK 750m has reduced capital ratios by 1.3% in Q2 2018
- Issue of Additional Tier 1 capital worth EUR 100m has improved the capital ratio by 1.3% in Q2 2018
- The DKK 0.2bn increase in REA is attributable to a rise in market risk of DKK 1.7bn and a decline in credit risk of DKK 1.5bn
- The overall rise in capital ratios constitutes 0.2 pp during the quarter
- Profit for the period is not included in the calculation of capital
- 50% of profit for the period is recognised under “de facto”.

DKKm	Q4 2016	Q4 2017	Q1 2018	Q2 2018
Corporate, IRB	30,306	28,131	27,522	26,983
Retail, IRB	9,200	8,271	8,080	7,816
Corporate, STD	605	413	342	320
Retail, STD	648	731	744	772
Credit institutions etc.	924	1,387	1,640	919
<b>Total credit risk</b>	<b>41,683</b>	<b>38,933</b>	<b>38,328</b>	<b>36,810</b>

# Capital ratio development in H1 2018



### Key points:

- The implemented share buyback programme of DKK 1.250m has reduced the capital ratio by 2.1 percentage points
- Profit for Q1 2018 is not included in capital ratio calculation
- The decline in risk exposure amount – REA – is mainly attributable to credit risk. Market risk went up in H1 2018.

## Status – targets

Target	Objective	Status 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



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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.
- Non-recurring items net are expected to represent an income of around DKK 35m.
- Profit after tax is expected to be in the range DKK of 1,340m-1,540m. Based on investment portfolio earnings for H1 2018 profit after tax is expected to be in the lower part of the range.

Appendix

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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.