
Interim Report – Q1-Q3 2019

Sydbank Group

Sydbank

Sydbank's Interim Report – Q1-Q3 2019

Q1-Q3 2019 was characterised by continued solid credit quality and historically high remortgaging activity

Q1-Q3 2019 – highlights

- Profit of DKK 658m equals a return on equity of 7.8% p.a. after tax.
- Total income of DKK 2,915m is 7% lower than in Q1-Q3 2018.
- Impairment charges for loans and advances represent an income of DKK 49m compared with an income of DKK 71m in the same period in 2018.
- Total credit intermediation has increased by DKK 2.1bn, equal to 1.5% compared to year-end 2018.
- A share buyback of DKK 250m was commenced on 2 May 2019.
- Predominantly due to the announced share buyback programme, the Common Equity Tier 1 capital ratio has declined by 1.1 percentage points compared to year-end 2018 and constitutes 16.2% excluding profit for the period.
- Remarkable improvement in customer satisfaction – a number two ranking as regards both corporate and retail clients.

CEO Karen Frøsig on Sydbank's Q1-Q3 result:

- We are pleased that Q3 saw an impressive increase in total credit intermediation, that customers' finances improved also in this quarter and that we can reverse impairment charges for the tenth consecutive quarter.

Better balance between income and costs

As a result of the current banking conditions it is decisive to ensure efficient operations, including a strong focus on the development and implementation of automated processes as well as the profitability of products and business units. In addition to compliance and IT security the Bank gives high priority to process automation. Process automation is one of the important factors to ensure a better balance between income and costs in the long term. Striking a better balance between income and costs requires a series of measures as regards income as well as costs.

Measures supporting a rise in core income:

- Change in negative interest rates on deposits
- Overall interest rate changes – deposits
- Change in fees on payment cards and other services to market level
- Other initiatives.

It is expected that these income measures in isolation will generate an increase in annual core income of approx DKK 200m.

Measures countering a rise in costs (core earnings) in 2020:

- Reduction in staff due to process automation
- Freeing up of time due to simplification of operations, including reduction in time spent on internal activities
- Savings triggered by amalgamating functions with an overlap of tasks
- Other cost savings.

It is expected that these cost measures will be sufficient to balance price and wage increases in 2020. It is anticipated that costs (core earnings) in 2020 will be on a par with the level of costs in 2019.

CEO Karen Frøsig on the cost measures:

- At Sydbank we have focused on costs since 2009. In recognition of the fact that banking conditions have worsened we are adjusting costs further. Our efforts to enhance the efficiency of processes are now showing the first significant real improvements. Consequently the necessary reduction in staff is made possible. It is projected that the main part of the required staff reduction can take place via natural wastage.

Negative interest rates on deposits

As a consequence of Denmark's Nationalbank's most recent change of the CD rate to minus 0.75% Sydbank will lower its interest rate on corporate deposits to minus 0.75% and will introduce negative interest rates as regards retail clients holding deposits in excess of DKK 750,000. The interest rate of minus 0.75% will also apply to retail clients. This is a change as regards the announcement in the interim financial statements according to which the

Bank introduced a negative interest rate of minus 0.6% as regards retail clients holding deposits in excess of DKK 7.5m.

CEO Karen Frøsig on the change in deposit rates:

- Danmarks Nationalbank's CD rate has been negative more or less continuously since 2012 and given the most recent initiatives by the ECB and the additional CD rate cut it would seem that the negative interest rates will continue for quite some time. Therefore we believe it is time to lower our deposit rates in the corporate and retail segments so as to adapt our business model to market conditions. It is both natural and in accordance with the monetary intentions of the ECB and Danmarks Nationalbank that the negative interest rates materialise to a greater extent in deposits – including in the retail segment.

The strategy – “A stronger bank”

At a time when the banking environment in Denmark continues to be affected by macroeconomic factors such as negative interest rates, pressure on interest margins and a low demand for loans by enterprises, the need increases to stick to one's values, show resilience while at the same time display the ability to introduce possible adjustments of income as well as costs. In such an environment there is a greater need to review on an ongoing basis whether the current strategy is the right one. In recent months we have revisited the current strategy – “A stronger bank”. We are in a strong position – and note for instance:

- Sydbank's employee satisfaction is among the best in the sector, which gives strength to continue
- Sydbank's strategy of ensuring high accessibility is having the intended effect, generating a high level of customer satisfaction
- Sydbank's cautious credit policy has received the highest long-term issuer rating among Danish banks
- Sydbank's commitment to streamline operations is beginning to show results where the solutions can reduce the process time – in selected areas – by up to 86%
- Adapting to market conditions means that today Sydbank has launched measures to achieve a better balance between income and costs
- Sydbank's total capital ratio is very high and according to Moody's assessment Sydbank's capital position is in the best category.

Outlook for 2019

- Limited growth is projected for the Danish economy in 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.

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Group Financial Highlights

	Q1-Q3 2019	Q1-Q3 2018*	Index 19/18	Q3 2019	Q3 2018*	Full year 2018*
Income statement (DKK m)						
Core income	2,729	3,003	91	924	963	3,951
Trading income	186	140	133	50	40	138
Total income	2,915	3,143	93	974	1,003	4,089
Costs, core earnings	2,080	2,036	102	651	639	2,722
Core earnings before impairment	835	1,107	75	323	364	1,367
Impairment of loans and advances etc	(49)	(71)	69	(15)	(14)	(122)
Core earnings	884	1,178	75	338	378	1,489
Investment portfolio earnings	(47)	(68)	69	(19)	10	(127)
Profit before non-recurring items	837	1,110	75	319	388	1,362
Non-recurring items, net	(27)	83	-	12	(9)	58
Profit before tax	810	1,193	68	331	379	1,420
Tax	152	227	67	62	82	259
Profit for the period	658	966	68	269	297	1,161
Balance sheet highlights (DKK bn)						
Loans and advances at amortised cost	60.9	62.1	98	60.9	62.1	61.0
Loans and advances at fair value	12.5	6.0	208	12.5	6.0	6.5
Deposits and other debt	89.1	82.7	108	89.1	82.7	86.3
Bonds issued at amortised cost	7.4	3.7	200	7.4	3.7	3.7
Subordinated capital	1.9	1.9	100	1.9	1.9	1.9
Additional Tier 1 capital	0.8	0.8	100	0.8	0.8	0.8
Shareholders' equity	10.8	11.1	97	10.8	11.1	10.9
Total assets	162.5	135.0	120	162.5	135.0	140.5
Financial ratios per share (DKK per share of DKK 10)						
Profit for the period	10.3	14.5		4.3	4.5	17.6
Share price at end of period	120.8	189.0		120.8	189.0	155.1
Book value	181.3	179.5		181.3	179.5	179.0
Share price/book value	0.67	1.05		0.67	1.05	0.87
Average number of shares outstanding (in millions)	60.7	65.8		60.1	64.4	64.8
Dividend per share	-	-		-	-	9.36
Other financial ratios and key figures						
Common Equity Tier 1 capital ratio	16.2	16.1		16.2	16.1	17.3
Tier 1 capital ratio	17.8	17.9		17.8	17.9	19.0
Capital ratio	21.2	21.2		21.2	21.2	22.4
Pre-tax profit as % p.a. of average equity	9.7	13.9		11.9	13.1	12.5
Post-tax profit as % p.a. of average equity	7.8	11.2		9.5	10.3	10.2
Costs (core earnings) as % of total income	71.4	64.8		66.8	63.7	66.6
Return on assets (%)	0.4	0.7		0.2	0.2	0.83
Interest rate risk	1.3	1.2		1.3	1.2	1.3
Foreign exchange position	2.5	1.8		2.5	1.8	1.3
Foreign exchange risk	0.0	0.0		0.0	0.0	0.0
Liquidity, LCR (%)	133	172		133	172	184
Loans and advances relative to deposits	0.6	0.7		0.6	0.7	0.6
Loans and advances relative to equity	5.6	5.5		5.6	5.5	5.6
Growth in loans and advances during the period	(0.2)	(3.5)		0.0	(0.7)	(5.2)
Total large exposures	153	151		153	151	147
Accumulated impairment ratio	3.1	3.8		3.1	3.8	3.8
Impairment ratio for the period	(0.06)	(0.09)		(0.02)	(0.01)	(0.16)
Number of full-time staff at end of period	2,074	2,123	98	2,074	2,123	2,098

* Comparative figures have not been restated for the effect of implementing IFRS 16.

When calculating financial ratios AT1 capital is considered a liability regardless of the fact that it is accounted for as equity.

Highlights

Q1-Q3 2019 was characterised by continued solid credit quality and historically high remortgaging activity

Sydbank's financial statements for Q1-Q3 show a pre-tax profit of DKK 810m compared with DKK 1,193m in Q1-Q3 2018. The decline is primarily attributable to a drop in total income of DKK 228m and a drop in non-recurring items of DKK 110m.

Profit before tax equals a return of 9.7% p.a. on average equity.

Core income in Q1-Q3 2019 is lower than the expectations presented in the 2018 Annual Report – predominantly as a result of lower net interest etc.

Trading income and impairment charges in Q1-Q3 2019 exceed the expectations presented in the 2018 Annual Report.

Costs (core earnings) in Q1-Q3 2019 are on a par with the expectations presented in the 2018 Annual Report.

Net interest etc constitutes DKK 1,120m compared with DKK 1,358m in 2018 – a decline of DKK 238m. DKK 75m of the decline is attributable to the issue of non-preferred senior debt to fulfil the MREL.

Core income represents DKK 2,729m compared with DKK 3,003m in 2018 – a decrease of DKK 274m.

Total income amounts to DKK 2,915m compared with DKK 3,143m in 2018 – a decline of DKK 228m.

Core earnings constitute DKK 884m compared with DKK 1,178m in 2018 – a decrease of DKK 294m.

Profit for the period amounts to DKK 658m compared with DKK 966m in 2018 – a decline of DKK 308m.

Follow-up on the 3-year plan – “A stronger bank”

We are building a **stronger bank** focusing on three themes:

- Customer first
- More Sydbank
- What works.

Customer first lifts our customer focus to a new and higher level. The direct link between highly satisfied customers and a positive trend in the top line is the driving force behind the priority of this theme.

More Sydbank seeks to strengthen Sydbank's profile and visibility internally as well as externally. We will make “Banking” more attractive to customers, employees and shareholders. We will

create a more distinct identity and communicate our fundamental values more clearly.

What works is an investment in the customer meeting a bank – at every touch point – where focus is on the wishes, needs and expectations of the customer. It is an investment in our employees having even simpler and more efficient processes enabling us to spend our time on the customer. It is an investment in using the new technology that works to improve the customer's digital relationship with Sydbank. And it is an investment in ensuring that Sydbank remains a financially sound and well-run business.

Strategic goals represent the values from the underlying philosophy and the Bank's core story with three promises – to its customers, to its employees and to its shareholders. The goals thus also reflect the values of the underlying philosophy under the heading “Excellence and relationships create value” as well as our basic belief that dedicated employees make for satisfied customers and that these two factors combined are a condition for achieving a satisfactory return for the Bank's shareholders.

The strategic goals cover these areas:

- Customer satisfaction
- Employee engagement
- Return on equity.

Customer satisfaction:

Sydbank builds on long-term customer relationships. We strive for a positive trend in customer satisfaction which we monitor closely through internal customer surveys across customers' touch points with the Bank.

Employee engagement:

Sydbank considers excellent and committed employees to be its most important asset and aims to retain the present high level. This is monitored closely through internal employee engagement surveys.

Return on equity:

Top 3 ranking among the 6 largest banks.

Q1-Q3 performance

Core income totals DKK 2,729m, which is DKK 274m lower than in Q1-Q3 2018. The development in core income is mainly attributable to a decline in net interest income and commission etc concerning investment funds and pooled pension plans. The decrease in commission concerning investment funds and pooled pension plans is predominantly due to a revaluation of the shares in BI Holding A/S of DKK 41m in 2018.

Trading income constituted DKK 186m in Q1-Q3 2019 compared with DKK 140m in the same period in 2018.

Total income represents DKK 2,915m, a decrease of DKK 228m compared with the same period in 2018.

Costs (core earnings) constitute DKK 2,080m compared with DKK 2,036m in 2018 – an increase of DKK 44m.

The Group's impairment charges for loans and advances represent an income of DKK 49m compared with DKK 71m in Q1-Q3 2018.

Together the Group's position-taking and liquidity handling recorded negative investment portfolio earnings of DKK 47m in Q1-Q3 2019 compared with negative earnings of DKK 68m a year ago.

Non-recurring items represent a net expense of DKK 27m compared with an income of DKK 83m in Q1-Q3 2018. The item consists of costs of DKK 57m related to "A stronger bank" as well as one-off income of DKK 30m in connection with the sale of the shares in Sparinvest Holding A/S.

Profit before tax for Q1-Q3 2019 amounts to DKK 810m compared with DKK 1,193m in the same period in 2018.

Tax represents DKK 152m, equivalent to an effective tax rate of 18.8%. Profit for the period amounts to DKK 658m compared with DKK 966m in 2018.

Credit intermediation

In addition to traditional bank loans and advances the Group arranges for mortgage loans from Totalkredit and DLR Kredit. The Group's total credit intermediation comprises bank loans and advances, mortgage-like loans funded by Totalkredit as well as mortgage loans arranged through Totalkredit and DLR Kredit. At 30 September 2019 credit intermediation totalled DKK 144.3bn – an increase of DKK 2.1bn since year-end 2018.

Total credit intermediation (DKKbn)	30 Sep 2019	31 Dec 2018
Bank loans and advances	60.9	61.0
Funded mortgage-like loans	8.9	9.9
Arranged mortgage loans – Totalkredit	63.0	59.6
Arranged mortgage loans – DLR	11.5	11.7
Total	144.3	142.2

Business-driven responsibility

With the adoption of the Paris Agreement on climate change and the UN 2030 Agenda for Sustainable

Development, the world's leaders have set global goals for achieving sustainable development.

The upcoming EU regulation on sustainable finance reflects the fact that the financial sector's role in developments in society will have to change to support the global sustainability agenda.

Sydbank wishes to be a significant player in terms of supporting and facilitating the desired and necessary sustainable development. Consequently we are stepping up our CSR efforts and over time all aspects of the Group's activities will be affected. From the outset our CSR efforts will focus on specific initiatives as well as external CSR reporting.

In terms of the latter our ambition is to make CSR issues and our CSR efforts more visible and thus improve our ESG ratings.

We strive to make a difference – also in relation to sustainable developments.

Capital

The Bank initiated a share buyback programme of DKK 250m on 2 May 2019. The total share buyback programme will be completed by 31 December 2019 at the latest.

Outlook for 2019

Limited growth is projected for the Danish economy in 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.

Sydbank's core story

Banking

Sydbank's mission is to be a bank that is close to its customers. We find solutions where they are – quickly and efficiently. We build on relationships between people. And we focus on what is important – banking and sound business. Banking – pure and simple.

Our bank

Rooted in Southern Jutland, Sydbank is a strong and independent nationwide bank operating on its own terms. For the backbone of the Danish corporate sector and for retail customers who value professional advice we are a bank for most people but not the same bank for everyone. Good old-fashioned attentiveness, new technology – we use what works. We know our customers and we are close to them providing advice that is tailored to their individual needs. Backed by the best business partners our competitive strength is increased. Our bank – excellence and relationships create value.

Sydbank

Our bank makes three promises – to our customers, to our employees and to our shareholders. You will know us for the value we create for our customers. You will know us for our belief that excellent and committed employees are our most important asset. And you will know us for always having a level of profitability that will enable us to remain an independent and resourceful bank. Sydbank – what can we do for you.

Financial Review – Performance in Q1-Q3 2019

The Sydbank Group has recorded a profit before tax of DKK 810m (Q1-Q3 2018: DKK 1,193m).

Profit before tax equals a return of 9.7% p.a. on average equity.

Profit for the period after tax represents DKK 658m compared with DKK 966m in 2018.

Profit after tax equals a return of 7.8% p.a. on average equity.

Profit for Q1-Q3 2019 is slightly below the expectations at the beginning of the year.

The result is characterised by:

Q1-Q3

- A decrease in core income of DKK 274m to DKK 2,729m
- A rise in trading income of DKK 46m
- A 2% increase in costs (core earnings) to DKK 2,080m
- A reversal of DKK 49m in impairment charges
- A decrease in core earnings of DKK 294m to DKK 884m
- Negative investment portfolio earnings of DKK 47m
- Bank loans and advances of DKK 60.9bn (year-end 2018: DKK 61.0bn)
- Bank deposits of DKK 89.1bn (year-end 2018: DKK 86.3bn)
- A capital ratio of 21.2%, including a Common Equity Tier 1 capital ratio of 16.2%
- An individual solvency need of 10.7% (year-end 2018: 11.4%).

Income statement – Q1-Q3 (DKKm)	2019	2018
Core income	2,729	3,003
Trading income	186	140
Total income	2,915	3,143
Costs, core earnings	2,080	2,036
Core earnings before impairment	835	1,107
Impairment of loans and advances etc	(49)	(71)
Core earnings	884	1,178
Investment portfolio earnings	(47)	(68)
Profit before non-recurring items	837	1,110
Non-recurring items, net	(27)	83
Profit before tax	810	1,193
Tax	152	227
Profit for the period	658	966

Core income

Core income represents DKK 2,729m – a drop of DKK 274m compared with 2018.

Net interest has decreased by DKK 238m to DKK 1,120m. DKK 75m of the decline is attributable to the issue of non-preferred senior debt of EUR 500m, which was carried out on 18 September 2018, and EUR 500m, which was carried out on 4 February 2019. With these two issues the Group meets the coming MREL requirement which entered into force on 1 July 2019.

Net income from the cooperation with Totalkredit represents DKK 367m (2018: DKK 349m) after a set-off of loss of DKK 11m (2018: DKK 15m).

The cooperation with DLR Kredit has generated an income of DKK 98m (2018: DKK 87m).

Total mortgage credit income has climbed by DKK 29m to DKK 467m – an increase of 7% compared to 2018.

Income from remortgaging and loan fees has gone up from DKK 98m in 2018 to DKK 122m – an increase of 24%.

Income from mortgage credit as well as remortgaging and loan fees is favourably affected by the historically high remortgaging activity in Q3 2019 in the amount of DKK 37m. The income is favourably affected in the amount of DKK 53m year-to-date.

Income from commission etc concerning investment funds and pooled pension plans has declined by DKK 82m compared with 2018 to DKK 248m, predominantly as a result of the revaluation of the shares in BI Holding A/S of DKK 41m in 2018.

The remaining income components have dropped by DKK 7m – a decrease of 1%.

Core income – Q1-Q3 (DKKm)	2019	2018
Net interest etc	1,120	1,358
Mortgage credit	467	438
Payment services	141	149
Remortgaging and loan fees	122	98
Commission and brokerage	230	228
Commission etc investment funds and pooled pension plans	248	330
Asset management	197	200
Custody account fees	52	52
Other operating income	152	150
Total	2,729	3,003

Trading income

Trading income constituted DKK 186m in Q1-Q3 2019 compared with DKK 140m in the same period in 2018.

In Fixed Income considerable trading activity was recorded in mortgage bonds in Q1-Q3 2019. In Equities income was affected by the positive market trend in Q1-Q3 2019.

Costs and depreciation

The Group's costs and depreciation totalled DKK 2,142m, equal to an increase of DKK 74m compared with 2018. The increase is predominantly a consequence of general pay rises for the financial sector and a payroll tax increase of 0.5%.

Costs and depreciation – Q1-Q3 (DKKm)	2019	2018
Staff costs	1,229	1,200
Other administrative expenses	822	783
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	80	72
Other operating expenses	11	13
Total costs and depreciation	2,142	2,068
Distributed as follows:		
Costs, core earnings	2,080	2,036
Costs, investment portfolio earnings	5	5
Non-recurring costs	57	27

Costs (core earnings) represent DKK 2,080m compared with DKK 2,036m in 2018.

At 30 September 2019 the Group's staff numbered 2,074 (full-time equivalent) compared with 2,123 at 30 September 2018.

The number of branches has been reduced by two compared with year-end 2018, bringing the number of branches to 60 in Denmark and three in Germany at end-September 2019.

Core earnings before impairment

Core earnings before impairment charges for loans and advances represent DKK 835m – a decrease of DKK 272m or 25% compared with the same period in 2018.

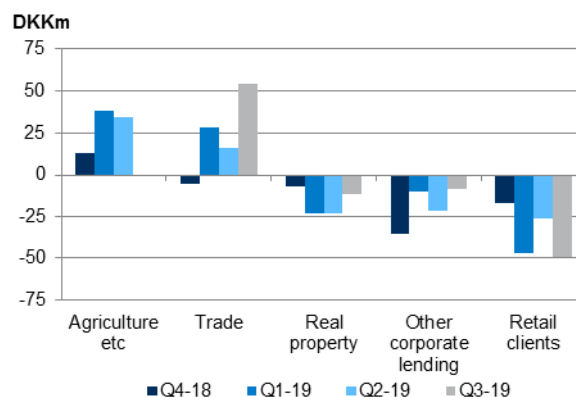
Impairment of loans and advances etc

Impairment charges for loans and advances represent an income of DKK 49m compared with an income of DKK 71m in the same period in 2018.

Additional impairment charges for agricultural exposures are unchanged compared with year-end 2018 and represented DKK 100m at 30 September 2019.

The chart below shows impairment charges for loans and advances in the last four quarters as regards agriculture etc, trade, real property, other corporate lending as well as retail clients.

Individual impairment charges – quarterly



The impairment ratio relative to bank loans and advances and guarantees at 30 September 2019 represents minus 0.06%. At end-September 2019 accumulated impairment and provisions amounted to DKK 2,542m – a decline of DKK 382m compared to year-end 2018.

In Q1-Q3 2019 reported losses amounted to DKK 440m (Q1-Q3 2018: DKK 339m). Of the reported losses an impairment charge of DKK 364m (Q1-Q3 2018: DKK 232m) has previously been recorded.

Impairment charges for expected credit losses depend on whether the credit risk of a financial asset has increased significantly since initial recognition and follow a three-stage model:

- **Stage 1** – facilities with no significant increase in credit risk. The asset is written down by an amount equal to the expected credit loss as a result of the probability of default over the coming 12 months
- **Stage 2** – facilities with a significant increase in credit risk. The asset is transferred to stage 2 and is written down by an amount equal to the expected credit loss over the life of the asset
- **Stage 3** – facilities where the financial asset is in default or is otherwise credit impaired.

The Group's loans and advances and impairment charges at 30 September 2019 allocated to these three stages are shown below.

Loans and advances and impairment charges (DKK m)				
30 Sep 2019	Stage 1	Stage 2	Stage 3	Total
Loans/advances before impairment charges	55,435	4,942	2,847	63,224
Impairment charges	106	806	1,441	2,353
Loans/advances after impairment charges	55,329	4,136	1,406	60,871

30 Sep 2019	Stage 1	Stage 2	Stage 3	Total
Impairment charges as % of bank loans and advances	0.2	16.3	50.6	3.7
Share of bank loans and advances before impairment charges (%)	87.7	7.8	4.5	100.0
Share of bank loans and advances after impairment charges (%)	90.9	6.8	2.3	100.0

Credit impaired bank loans and advances – stage 3 – represent 4.5% of total bank loans and advances before impairment charges and 2.3% of total bank loans and advances after impairment charges.

Impairment charges concerning credit impaired bank loans and advances as a percentage of credit impaired bank loans and advances at 30 September 2019 stand at 50.6%.

Core earnings

Core earnings represent DKK 884m – a drop of DKK 294m or 25% compared to the same period in 2018.

Investment portfolio earnings

Together the Group's position-taking and liquidity handling generated negative investment portfolio earnings of DKK 47m in Q1-Q3 2019 compared with negative earnings of DKK 68m a year ago.

The negative investment portfolio earnings in Q1-Q3 2019 are a consequence of lower interest rates.

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

Investment portfolio earnings – Q1-Q3 (DKK m)	2019	2018
Position-taking	(31)	(42)
Liquidity generation and liquidity reserves	(12)	(9)
Strategic positions	1	(12)
Costs	(5)	(5)
Total	(47)	(68)

Margin expenses as regards the Group's non-callable senior issues are included under liquidity generation and liquidity reserves and represented DKK 8m in Q1-Q3 2018. The Group did not issue non-callable senior debt in Q1-Q3 2019.

Non-recurring items, net

Non-recurring items represent a net expense of DKK 27m compared with an income of DKK 83m in Q1-Q3 2018. The item consists of costs of DKK 57m related to "A stronger bank" as well as one-off income of DKK 30m in connection with the sale of the shares in Sparinvest Holding A/S.

In Q1-Q3 2018 the item consisted of costs of DKK 27m for process digitization related to Blue growth and the establishment of a new mortgage platform as well as an income of DKK 110m in connection with the sale of the shares in ValueInvest Asset Management S.A.

Profit for the period

Profit before tax amounts to DKK 810m (Q1-Q3 2018: DKK 1,193m). Tax represents DKK 152m, equivalent to an effective tax rate of 18.8%. Profit for the period amounts to DKK 658m compared with DKK 966m in 2018.

Return

Profit for the period equals a return on average equity of 7.8% p.a. after tax against 11.2% p.a. in Q1-Q3 2018. Earnings per share stands at DKK 10.3 compared with DKK 14.5 in 2018.

Subsidiaries

Ejendomsselskabet has recorded a profit after tax of DKK 7m (Q1-Q3 2018: DKK 5m). Profit after tax in DiBa A/S and Syd Fund Management A/S represents minus DKK 1m (Q1-Q3 2018: DKK 6m) and DKK 14m (Q1-Q3 2018: DKK 15m) respectively. Profit after tax in Sydbank (Schweiz) AG in Liquidation constitutes minus DKK 2m (Q1-Q3 2018: DKK 0m).

Q3 2019 compared with Q2 2019

Profit before tax for Q3 represents DKK 331m. Compared with Q2 2019 profit before tax reflects:

- a rise in core income of DKK 19m
- an increase in trading income of DKK 10m
- a decline in costs (core earnings) of DKK 59m
- a rise in impairment charges for loans and advances of DKK 5m
- a rise in core earnings of DKK 83m to DKK 338m
- investment portfolio earnings of minus DKK 19m (Q2 2019: minus DKK 14m).

Profit for the period (DKKbn)	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Core income	924	905	900	948	963	987	1,053
Trading income	50	40	96	(2)	40	45	55
Total income	974	945	996	946	1,003	1,032	1,108
Costs, core earnings	651	710	719	686	639	694	703
Core earnings before impairment	323	235	277	260	364	338	405
Impairment of loans and advances etc	(15)	(20)	(14)	(51)	(14)	(44)	(13)
Core earnings	338	255	291	311	378	382	418
Investment portfolio earnings	(19)	(14)	(14)	(59)	10	(66)	(12)
Profit before non-recurring items	319	241	277	252	388	316	406
Non-recurring items, net	12	(22)	(17)	(25)	(9)	(13)	105
Profit before tax	331	219	260	227	379	303	511
Tax	62	35	55	32	82	65	80
Profit for the period	269	184	205	195	297	238	431

Total assets

The Group's total assets made up DKK 162.5bn at 30 September 2019 against DKK 140.5bn at year-end 2018.

Assets (DKKbn)	30 Sep 2019	31 Dec 2018
Amounts owed by credit institutions etc	17.1	15.8
Loans and advances at fair value (reverse transactions)	12.5	6.5
Loans and advances at amortised cost (bank loans and advances)	60.9	61.0
Securities and holdings etc	42.6	32.0
Assets related to pooled plans	18.3	16.2
Other assets etc	11.1	9.0
Total	162.5	140.5

The Group's bank loans and advances made up DKK 60.9bn at end-September 2019 compared with DKK 61.0bn at year-end 2018 and DKK 62.1bn at end-September 2018.

Equity and liabilities (DKKbn)	30 Sep 2019	31 Dec 2018
Amounts owed to credit institutions etc	8.4	5.3
Deposits and other debt	89.1	86.3
Deposits in pooled plans	18.3	16.2
Bonds issued	7.4	3.7
Other liabilities etc	25.3	14.9
Provisions	0.5	0.5
Subordinated capital	1.9	1.9
Equity	11.6	11.7
Total	162.5	140.5

The Group's deposits made up DKK 89.1bn against DKK 86.3bn at year-end 2018 and DKK 82.7bn at end-September 2018. Other liabilities represented DKK 25.3bn compared to DKK 14.9bn at year-end

2018. The increase is attributable to negative portfolio reverse transactions.

Capital

At 30 September 2019 shareholders' equity constituted DKK 10,812m – a drop of DKK 110m since year-end 2018. The change comprises an addition from profit for the period of DKK 626m less actual distribution of DKK 583m, net purchases of own shares etc of DKK 163m as well as a positive value adjustment of strategic shares of DKK 10m.

The Bank initiated a share buyback programme of DKK 250m on 2 May 2019. The programme will be completed by 31 December 2019 at the latest. At end-September 1,548,000 shares worth DKK 181m, made up at the trade date, had been repurchased.

REA (DKKbn)	30 Sep 2019	31 Dec 2018
Credit risk	36.9	36.0
Market risk	7.0	6.0
Operational risk	7.7	7.7
Other exposures incl CVA	5.4	5.7
Total	57.0	55.4

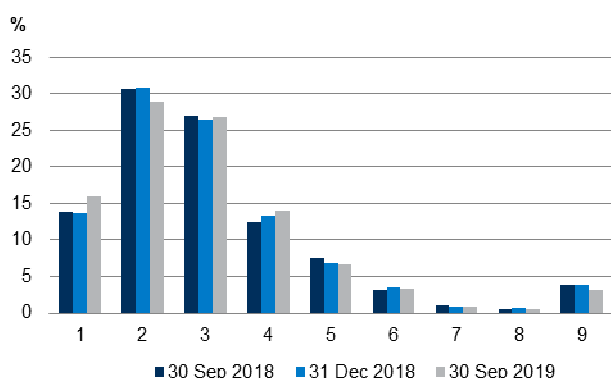
The risk exposure amount represents DKK 57.0bn (year-end 2018: DKK 55.4bn). The change is mainly attributable to a rise in market risk of DKK 1.0bn and an increase in credit risk of DKK 0.9bn.

The increase in credit risk is attributable to a rise in guarantees as a result of the remortgaging activity.

The development in the gross exposure by rating category at 30 September 2018, 31 December 2018 and 30 September 2019 appears below.

The gross exposure by rating category at 30 September 2019 shows that the four best rating categories continue to account for a large share – equal to the level at 31 December 2018.

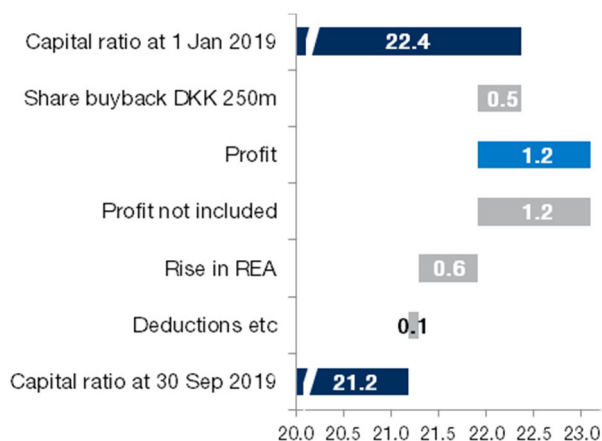
Gross exposure by rating category



The gross exposure consists of loans and advances, undrawn credit commitments, interest receivable, guarantees and counterparty risk on derivatives. The graph comprises exposures treated according to IRB. Exposures relating to clients in default are not included in the breakdown of rating categories. Impairment charges for exposures have not been deducted from the exposure.

The Group's capital ratio stands at 21.2%, of which the Tier 1 capital ratio represents 17.8% compared with 22.4% and 19.0% respectively at year-end 2018. The Common Equity Tier 1 capital ratio stands at 16.2% (31 December 2018: 17.3%). The development in the Group's capital ratio from 31 December 2018 to 30 September 2019 is illustrated below.

Capital ratio in Q1-Q3



Profit for the period is not included in the calculation of capital ratios at 30 September 2019. If 50% of profit for the period after tax had been included the capital ratios would have been 0.6 percentage points higher.

At 30 September 2019 the individual solvency need represented 10.7% (31 December 2018: 11.4%).

The parent's capital ratio stands at 20.4%, of which the Tier 1 capital ratio represents 17.1% compared with 21.5% and 18.4% respectively at year-end 2018. The Common Equity Tier 1 capital ratio stands at 15.6% (31 December 2018: 16.7%).

Capital requirements

The Group's capital management is anchored in the Internal Capital Adequacy Assessment Process (ICAAP), a review conducted to identify risks and determine the individual solvency need.

At end-September 2019 the individual solvency need represented 10.7%. The solvency need consists of a minimum capital requirement of 8% under Pillar I and a capital add-on under Pillar II. Approximately 56% of the solvency need must be covered by Common Equity Tier 1 capital, equal to 6.0% of the risk exposure amount.

In addition to the solvency need the Group must meet a combined buffer requirement of 4.5% at 30 September 2019. When fully loaded the combined buffer requirement will represent 5.0%, bringing the fully loaded CET1 capital ratio requirement to 11.0%.

Capital and solvency and capital requirements (% of REA)	30 Sep 2019	Fully loaded*
Capital and solvency		
Common Equity Tier 1 capital ratio	16.2	16.2
Capital ratio	21.2	21.2
Capital requirements (incl buffers)**		
Total capital requirement	15.2	15.7
CET1 capital requirement	10.5	11.0
-of which countercyclical capital buffer	1.0	1.5
-of which capital conservation buffer	2.5	2.5
-of which SIFI buffer	1.0	1.0
Excess capital		
Common Equity Tier 1 capital	5.7	5.2
Total capital	6.0	5.5

* Based on fully loaded CRR/CRD IV rules and requirements.

** The total capital requirement consists of an individual solvency need and a combined buffer requirement. The fully loaded countercyclical capital buffer is based on the adopted requirement as at 30 September 2019.

Market risk

At 30 September 2019 the Group's interest rate risk represented DKK 129m. The Group's exchange rate risk continues to be very low and its equity position modest.

Funding and liquidity

The guidelines for calculating the Liquidity Coverage Ratio (LCR) specify a run-off of exposures while taking into account counterparties, funding size, hedging and duration. Consequently the most stable deposits are favoured relative to large deposits, in particular large deposits from businesses and financial counterparties.

The Group's LCR constituted 133% at 30 September 2019 (31 December 2018: 184%).

LCR (DKKbn)	30 Sep 2019	31 Dec 2018	30 Sep 2018
Total liquidity buffer	30.9	35.9	32.9
Net cash outflows	23.2	19.5	19.1
LCR (%)	133	184	173

The significant drop in the LCR in Q3 2019 is attributable to a change in the placement of excess liquidity. As a result there is a limit on Level 1B assets in the LCR. Without this limit the LCR would have represented 185% at 30 September 2019.

The Group has met the LCR requirement throughout the period and as can be seen its excess cover continues to be significant at 30 September 2019.

Funding ratio (DKKbn)	30 Sep 2019	31 Dec 2018	30 Sep 2018
Equity and subordinated capital	13.5	13.5	13.8
Senior loans with maturities > 1 year	7.4	3.7	3.7
Stable deposits	78.5	77.3	73.6
Total stable funding	99.3	94.5	91.1
Loans and advances (excl reverse and funded mortgage-like loans)	60.9	61.0	62.1
Funding ratio (%)	163	155	147

As shown above the Group's stable funding exceeded the Group's loans and advances by DKK 38.4bn at 30 September 2019 (31 December 2018: DKK 33.5bn).

Rating

Moody's most recent ratings of Sydbank:

- Outlook: Stable
- Long-term deposit: A1
- Baseline Credit Assessment: Baa1
- Senior unsecured: A1
- Short-term deposit: P-1.

Supervisory Diamond

The Supervisory Diamond sets up a number of benchmarks to indicate banking activities that initially should be regarded as involving a higher risk. Any breach of the Supervisory Diamond is subject to reactions by the Danish FSA. Sydbank A/S complies with all the benchmarks of the Supervisory Diamond.

Supervisory Diamond	30 Sep 2019	31 Dec 2018	30 Sep 2018
Sum of 20 largest exposures < 175%	153	147	151
Lending growth < 20% annually	(2)	(5)	(7)
Commercial property exposure < 25%	6	8	8
Funding ratio < 1	0.59	0.63	0.66
Excess liquidity coverage > 100%	202	193	187

Bank Recovery and Resolution Directive

The directive, including the bail-in provisions, was implemented in Danish law on 1 June 2015. According to legislation each credit institution must meet a minimum requirement for own funds and

eligible liabilities (MREL). In February 2019 the Danish FSA set the MREL for Sydbank at 13.8% of the Bank's total liabilities and total capital, equal to 30.0% of the risk exposure amount made up at year-end 2017.

The general resolution principle for SIFIs is that it should be possible to restructure them and send them back to the market with adequate capitalisation to ensure market confidence. In accordance with this principle the MREL for SIFIs has been set at twice the total capital requirement with the exception of the countercyclical capital buffer which is only included once in the MREL. The MREL must be met with convertible instruments ("contractual bail-in").

MREL (%)	Capital requirements	MREL
Solvency need	10.7	21.4
SIFI buffer	1.0	2.0
Capital conservation buffer	2.5	5.0
Countercyclical capital buffer	1.0	1.0
Total requirement (%)	15.2	29.4
Total requirement (DKKbn)	8,670	16,770

Following two issues of non-preferred senior debt of EUR 500m on 18 September 2018 and on 4 February 2019, the Group's eligible liabilities represent 116.4% of MREL. This equals an excess cover of DKK 2.7bn based on the risk exposure amount at 30 September 2019. Consequently the MREL has been met.

Excess cover – MREL (DKKbn)	
Total capital	12,083
Non-preferred senior debt, EUR 1,000m	7,430
Total eligible liabilities	19,513
MREL	16,770
Excess cover	2,743
Excess cover as % of MREL	16.4

The establishment of a resolution fund is underway. Credit institutions must make contributions to the fund according to their relative size and risk in Denmark.

The resolution fund must be established and have assets at its disposal equal to at least 1% of the covered deposits of all Danish credit institutions by 31 December 2024.

The Group's contribution to the resolution fund for 2019 is expected to represent DKK 16m.

Leverage ratio

The CRR/CRD IV rules require credit institutions to calculate, report, monitor and disclose their leverage

ratio, which is defined as Tier 1 capital as a percentage of total exposure. The European Commission's proposal for a revision of CRR includes a proposal to introduce a minimum leverage ratio requirement of 3%.

The Group's leverage ratio constituted 5.6% at 30 September 2019 (year-end 2018: 6.8%) taking into account the transitional rules.

Assuming fully loaded Tier 1 capital under CRR/CRD IV without any refinancing of non-eligible Additional Tier 1 capital, the leverage ratio would represent 5.5% (year-end 2018: 6.7%).

The introduction of a minimum leverage ratio requirement is not expected to be of significance to the Group.

IFRS 9 – transitional effect

To counter an unintended impact on regulatory capital and hence banks' possibilities of supporting lending, a transitional arrangement has been adopted so that any adverse impact from the new impairment model will be phased in over a five-year period which expires at year-end 2022. Sydbank has decided to apply the transitional rules.

Basel IV

On 7 December 2017 the Basel Committee on Banking Supervision (BCBS) published its recommendations for a number of changes to the calculation of the capital requirements for credit institutions. These recommendations, also known as Basel IV, propose among other things to constrain the use of internal models and introduce a permanent floor for the risk exposure amount.

The recommendations are expected to have a limited impact on the Group's capital.

The recommendations must be implemented in the EU before they will apply to Danish institutions. The Group is following developments closely. At present the extent of changes in relation to the Basel Committee's recommendations when implemented into EU regulation is unknown. The effective date is expected to be 1 January 2022 on which date the floor requirement is also expected to be implemented, starting at 50% and gradually increasing until finally reaching 72.5% on 1 January 2027.

Focus on agriculture

The final financial results for 2018 of every branch of farming are substantially below the levels in 2017. 2018 was characterised by a drought and low settlement prices and as a result many farms have needed liquidity to purchase feed in 2019.

Pork

Following a weak Q1 2019 we experienced sharp increases in pork and piglet prices over the summer due to the outbreak of swine fever in China and

elsewhere as well as the trade war between USA and China. With the prospects of continued high quotations for pork and relatively low feed prices we forecast highly satisfactory profits for pork producers. As a result Danish pork producers are offered a historical opportunity for consolidation.

The quotation for pork is currently DKK 13.00 per kg, which is DKK 3.79 above the average settlement price in 2018.

In addition to the increases in pork prices pig producers are benefiting from a drop in feed prices.

The biggest elements of uncertainty as regards pork prices are China's imports, further spreading of swine fever in the EU and a potentially hard Brexit.

Milk

As was the case in 2018 milk producers have seen stable milk prices in 2019 and it is expected that organic and conventional milk producers alike on average will achieve positive and slightly better results than last year.

The biggest elements of uncertainty are the trade war between USA and China, the situation in the Middle East and the Strait of Hormuz and a potentially hard Brexit.

Crop production

It looks like this year's harvest will reach a normal to above-normal level. As a result, following a difficult 2018, crop producers are forecast to achieve a profit again in 2019.

The biggest elements of uncertainty are the developments in the dollar rate, the weather in the major producer countries as well as trade restrictions.

Credit impaired bank loans and advances to agriculture represented DKK 763m at 30 September 2019, equal to 19.4% of total loans and advances to agriculture.

Of total loans and advances to agriculture an impairment charge of 16.4% was recorded at 30 September 2019 compared with 16.9% at year-end 2018.

The positive development in earnings expectations for 2019 does not change the fact that the agricultural sector overall has too large debts and is consequently vulnerable to developments in settlement prices and interest rates.

In Q1-Q3 2019 individual impairment charges of DKK 71m were recorded on agricultural exposures. The management estimate of DKK 100m has been maintained, equal to the estimate at year-end 2018.

A breakdown by industry of bank loans and advances to the agricultural sector is shown below.

30 Sep 2019 (DKKkm)	Pig farming	Cattle farming	Crop production	Other agriculture	Total loans/ advances
Loans and advances – stage 1	603	521	666	663	2,453
Loans and advances – stage 2	216	174	231	102	723
Loans and advances – stage 3 – credit impaired	102	225	166	270	763
Bank loans and advances before impairment charges	921	920	1,063	1,035	3,939
Impairment charges for loans and advances – stage 1	3	4	2	1	10
Impairment charges for loans and advances – stage 2	40	34	56	13	143
Impairment charges for loans and advances – stage 3	42	140	63	147	392
Management estimates	50	50			100
Total impairment charges for bank loans and advances	135	228	121	161	645
Bank loans and advances after impairment charges	786	692	942	874	3,294
Credit impaired as % of bank loans and advances	11.1	24.5	15.6	26.1	19.4
Impairment as % of credit impaired bank loans and advances	41.2	62.2	38.0	54.4	51.4
Impairment as % of bank loans and advances	14.7	24.8	11.4	15.6	16.4

31 Dec 2018 (DKKkm)	Pig farming	Cattle farming	Crop production	Other agriculture	Total loans/ advances
Loans and advances – stage 1	642	521	560	690	2,413
Loans and advances – stage 2	226	278	321	193	1,018
Loans and advances – stage 3 – credit impaired	153	129	69	189	540
Bank loans and advances before impairment charges	1,021	928	950	1,072	3,971
Impairment charges for loans and advances – stage 1	2	4	2	2	10
Impairment charges for loans and advances – stage 2	60	71	78	31	240
Impairment charges for loans and advances – stage 3	108	78	26	108	320
Management estimates	75	25			100
Total impairment charges for bank loans and advances	245	178	106	141	670
Bank loans and advances after impairment charges	776	750	844	931	3,301
Credit impaired as % of bank loans and advances	15.0	13.9	7.3	17.6	13.6
Impairment as % of credit impaired bank loans and advances	70.6	60.5	37.7	57.1	59.3
Impairment as % of bank loans and advances	24.0	19.2	11.2	13.2	16.9

Income Statement

DKKm	Note	Q1-Q3 2019	Q1-Q3 2018*	Q3 2019	Q3 2018*
Interest income calculated using the effective interest method		1,265	1,449	414	473
Other interest income		162	41	62	18
Interest income	2	1,427	1,490	476	491
Interest expense	3	145	73	44	30
Net interest income		1,282	1,417	432	461
Dividends on shares		30	27	2	1
Fee and commission income	4	1,647	1,608	571	520
Fee and commission expense		269	232	94	78
Net interest and fee income		2,690	2,820	911	904
Market value adjustments	5	185	361	67	114
Other operating income		24	16	7	6
Staff costs and administrative expenses	6	2,050	1,984	640	620
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment		80	72	27	25
Other operating expenses	8	11	13	3	5
Impairment of loans and advances etc	9	(48)	(59)	(15)	(4)
Profit on holdings in associates and subsidiaries	10	4	6	1	1
Profit before tax		810	1,193	331	379
Tax	11	152	227	62	82
Profit for the period		658	966	269	297
Distribution of profit for the period					
Shareholders of Sydbank A/S		626	953	257	287
Holders of Additional Tier 1 capital and minority shareholders		32	13	12	10
Total amount to be allocated		658	966	269	297
Interest paid to holders of Additional Tier 1 capital		29	13	10	10
Minority shareholders		3	-	2	-
Transfer to equity		626	953	257	287
Total amount allocated		658	966	269	297
EPS Basic (DKK)**		10.3	14.5	4.3	4.5
EPS Diluted (DKK)**		10.3	14.5	4.3	4.5
Dividend per share (DKK)		-	-	-	-

* Comparative figures have not been restated for the effect of implementing IFRS 16.

** Calculated on the basis of average number of shares outstanding, see page 21.

Statement of Comprehensive Income

Profit for the period	658	966	269	297
Other comprehensive income				
<u>Items that may be reclassified to the income statement:</u>				
Translation of foreign entities	8	8	5	5
Hedge of net investment in foreign entities	(8)	(8)	(5)	(5)
Property revaluation	(2)	0	-	-
<u>Items that may not be reclassified to the income statement:</u>				
Value adjustment of certain strategic shares	10	-	(8)	-
Other comprehensive income after tax	8	0	(8)	0
Comprehensive income for the period	666	966	261	297

Balance Sheet

DKKm	Note	30 Sep 2019	31 Dec 2018*	30 Sep 2018*
Assets				
Cash and balances on demand at central banks		2,025	2,073	1,988
Amounts owed by credit institutions and central banks	12	15,113	13,696	11,073
Loans and advances at fair value		12,467	6,510	5,955
Loans and advances at amortised cost	13	60,871	60,983	62,062
Bonds at fair value		40,285	29,668	26,251
Shares etc		2,198	2,196	2,219
Holdings in associates etc		145	152	150
Assets related to pooled plans		18,270	16,220	16,870
Intangible assets		244	259	265
Owner-occupied property		1,068	1,080	1,075
Owner-occupied property, leasing		77	-	-
Other property, plant and equipment		48	75	78
Current tax assets		186	211	30
Deferred tax assets		39	39	46
Assets in temporary possession		1	1	1
Other assets	14	9,420	7,278	6,844
Prepayments		69	73	70
Total assets		162,526	140,514	134,977
Equity and liabilities				
Amounts owed to credit institutions and central banks	15	8,445	5,339	4,744
Deposits and other debt	16	89,077	86,277	82,662
Deposits in pooled plans		18,270	16,220	16,870
Bonds issued at amortised cost		7,430	3,706	3,701
Current tax liabilities		-	-	22
Other liabilities	17	25,375	14,938	12,821
Deferred income		3	2	4
Total liabilities		148,600	126,482	120,824
Provisions	18	464	489	399
Subordinated capital	19	1,862	1,861	1,858
Equity:				
Share capital		618	677	677
Revaluation reserves		102	104	97
Other reserves:				
Reserves according to articles of association		425	425	425
Other reserves		4	4	2
Retained earnings		9,663	9,122	9,946
Proposed dividend etc		-	590	-
Shareholders of Sydbank A/S		10,812	10,922	11,147
Holders of Additional Tier 1 capital		750	760	749
Minority shareholders		38	-	-
Total equity		11,600	11,682	11,896
Total equity and liabilities		162,526	140,514	134,977

* Comparative figures have not been restated for the effect of implementing IFRS 16.

Financial Highlights – Quarterly

	Q3 2019	Q2 2019	Q1 2019	Q4 2018*	Q3 2018*	Q2 2018*	Q1 2018*
Income statement (DKK m)							
Core income	924	905	900	948	963	987	1,053
Trading income	50	40	96	(2)	40	45	55
Total income	974	945	996	946	1,003	1,032	1,108
Costs, core earnings	651	710	719	686	639	694	703
Core earnings before impairment	323	235	277	260	364	338	405
Impairment of loans and advances etc	(15)	(20)	(14)	(51)	(14)	(44)	(13)
Core earnings	338	255	291	311	378	382	418
Investment portfolio earnings	(19)	(14)	(14)	(59)	10	(66)	(12)
Profit before non-recurring items	319	241	277	252	388	316	406
Non-recurring items, net	12	(22)	(17)	(25)	(9)	(13)	105
Profit before tax	331	219	260	227	379	303	511
Tax	62	35	55	32	82	65	80
Profit for the period	269	184	205	195	297	238	431
Balance sheet highlights (DKK bn)							
Loans and advances at amortised cost	60.9	60.9	60.9	61.0	62.1	62.5	63.5
Loans and advances at fair value	12.5	7.0	6.7	6.5	6.0	6.1	4.4
Deposits and other debt	89.1	89.1	86.3	86.3	82.7	84.1	81.5
Bonds issued at amortised cost	7.4	7.4	7.4	3.7	3.7	-	3.7
Subordinated capital	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Additional Tier 1 capital	0.8	0.8	0.8	0.8	0.8	0.8	-
Shareholders' equity	10.8	10.7	10.5	10.9	11.1	11.3	11.3
Total assets	162.5	152.1	145.6	140.5	135.0	136.1	134.3
Financial ratios per share (DKK per share of DKK 10)							
Profit for the period	4.3	2.9	3.2	3.0	4.5	3.5	6.5
Share price at end of period	120.8	125.1	138.0	155.1	189.0	219.4	222.2
Book value	181.3	176.1	172.6	179.0	179.5	173.1	170.5
Share price/book value	0.67	0.71	0.80	0.87	1.05	1.27	1.30
Average number of shares outstanding (in millions)	60.1	61.0	61.0	61.9	64.4	66.2	66.8
Dividend per share	-	-	-	9.36	-	-	-
Other financial ratios and key figures							
Common Equity Tier 1 capital ratio	16.2	16.6	16.9	17.3	16.1	15.5	16.6
Tier 1 capital ratio	17.8	18.3	18.5	19.0	17.9	17.2	17.0
Capital ratio	21.2	21.6	22.0	22.4	21.2	20.4	20.2
Pre-tax profit as % p.a. of average equity	11.9	7.9	9.3	7.9	13.1	10.6	17.6
Post-tax profit as % p.a. of average equity	9.5	6.6	7.3	6.7	10.2	8.2	14.8
Costs (core earnings) as % of total income	66.8	75.1	72.2	72.5	63.7	67.2	63.4
Return on assets (%)	0.2	0.3	0.1	0.1	0.2	0.2	0.3
Interest rate risk	1.3	1.3	0.5	1.3	1.2	1.6	0.9
Foreign exchange position	2.5	1.6	1.4	1.3	1.8	3.6	1.6
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liquidity, LCR (%)	133	207	186	184	172	154	181
Loans and advances relative to deposits	0.6	0.6	0.6	0.6	0.7	0.6	0.6
Loans and advances relative to equity	5.6	5.7	5.8	5.6	5.5	5.5	5.6
Growth in loans and advances during the period	0.0	0.0	(0.2)	(1.7)	(0.7)	(1.6)	(1.2)
Total large exposures	153	149	147	147	151	146	140
Accumulated impairment ratio	3.1	3.4	3.6	3.8	3.8	3.9	4.0
Impairment ratio for the period	(0.02)	(0.03)	(0.02)	(0.07)	(0.01)	(0.06)	(0.02)
Number of full-time staff at end of period	2,074	2,069	2,111	2,098	2,123	2,102	2,088

* Comparative figures have not been restated for the effect of implementing IFRS 16.

When calculating financial ratios AT1 capital is considered a liability regardless of the fact that it is accounted for as equity.

Financial Highlights – Q1-Q3

	Q1-Q3 2019	Q1-Q3 2018*	Q1-Q3 2017*	Q1-Q3 2016*	Q1-Q3 2015*
Income statement (DKK m)					
Core income	2,729	3,003	3,129	3,131	3,289
Trading income	186	140	197	188	167
Total income	2,915	3,143	3,326	3,319	3,456
Costs, core earnings	2,080	2,036	1,992	1,958	2,009
Core earnings before impairment	835	1,107	1,334	1,361	1,447
Impairment of loans and advances etc	(49)	(71)	(38)	114	272
Core earnings	884	1,178	1,372	1,247	1,175
Investment portfolio earnings	(47)	(68)	195	41	(87)
Profit before non-recurring items	837	1,110	1,567	1,288	1,088
Non-recurring items, net	(27)	83	(23)	21	0
Profit before tax	810	1,193	1,544	1,309	1,088
Tax	152	227	340	281	256
Profit for the period	658	966	1,204	1,028	832
Balance sheet highlights (DKK bn)					
Loans and advances at amortised cost	60.9	62.1	66.8	78.1	72.4
Loans and advances at fair value	12.5	6.0	5.9	6.9	6.6
Deposits and other debt	89.1	82.7	80.8	78.6	76.9
Bonds issued at amortised cost	7.4	3.7	3.7	7.1	3.7
Subordinated capital	1.9	1.9	1.3	2.1	2.1
Additional Tier 1 capital	0.8	0.8	-	-	-
Shareholders' equity	10.8	11.1	11.8	11.4	11.2
Total assets	162.5	135.0	131.9	146.2	140.9
Financial ratios per share (DKK per share of DKK 10)					
Profit for the period	10.3	14.5	17.5	14.6	11.4
Share price at end of period	120.8	189.0	261.3	201.4	253.9
Book value	181.3	179.5	174.0	163.0	156.3
Share price/book value	0.67	1.05	1.50	1.24	1.62
Average number of shares outstanding (in millions)	60.7	65.8	68.7	70.6	72.8
Dividend per share	-	-	-	-	-
Other financial ratios and key figures					
Common Equity Tier 1 capital ratio	16.2	16.1	15.5	14.9	14.4
Tier 1 capital ratio	17.8	17.9	16.0	16.2	15.9
Capital ratio	21.2	21.2	18.1	18.0	17.6
Pre-tax profit as % p.a. of average equity	9.7	13.9	17.8	15.7	13.0
Post-tax profit as % p.a. of average equity	7.8	11.2	13.9	12.3	10.0
Costs (core earnings) as % of total income	71.4	64.8	59.9	59.0	58.1
Return on assets (%)	0.4	0.7	0.9	0.7	0.6
Interest rate risk	1.3	1.2	1.6	0.6	2.0
Foreign exchange position	2.5	1.8	2.4	1.4	1.3
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0
Liquidity, LCR (%)	133	172	143	152	112
Loans and advances relative to deposits	0.6	0.7	0.7	0.8	0.8
Loans and advances relative to equity	5.6	5.5	5.7	6.9	6.5
Growth in loans and advances during the period	(0.2)	(3.5)	(13.5)	5.1	5.8
Total large exposures	153	151	143	-	-
Accumulated impairment ratio	3.1	3.8	3.4	4.2	4.9
Impairment ratio for the period	(0.06)	(0.09)	(0.05)	0.12	0.31
Number of full-time staff at end of period	2,074	2,123	2,069	2,048	2,113

* Comparative figures have not been restated for the effect of implementing IFRS 16.

When calculating financial ratios AT1 capital is considered a liability regardless of the fact that it is accounted for as equity.

Capital

DKKm	Share capital	Revaluation reserves	Reserves acc to articles of association	Reserve for net revaluation acc to equity method	Retained earnings	Proposed dividend etc	Shareholders of Sydbank A/S	AT1 capital*	Minority shareholders	Total equity
Equity at 1 Jan 2019	677	104	425	4	9,122	590	10,922	760	-	11,682
Profit for the period					626		626	29	3	658
Other comprehensive income		(2)			10		8			8
Comprehensive income for the period	-	(2)	-	-	636	-	634	29	3	666
Transactions with owners										
Purchase of own shares					(1,435)		(1,435)			(1,435)
Sale of own shares					1,339		1,339			1,339
Reduction of share capital	(59)						(59)			(59)
Interest paid on AT1 capital								(39)		(39)
Exchange rate adjustment					0		0	0		0
Dividend etc paid						(590)	(590)		(4)	(594)
Dividend, own shares					7		7			7
Sale of holdings in subsidiaries					(6)		(6)		39	33
Total transactions with owners	(59)	-	-	-	(95)	(590)	(744)	(39)	35	(748)
Equity at 30 Sep 2019	618	102	425	4	9,663	-	10,812	750	38	11,600
Equity at 31 Dec 2017	704	97	425	2	9,922	776	11,926			11,926
New accounting policies, IFRS 9					(216)		(216)			(216)
Tax effect, IFRS 9					48		48			48
Equity at 1 Jan 2018	704	97	425	2	9,754	776	11,758	-	-	11,758
Profit for the period					953		953	13		966
Other comprehensive income					0		0			0
Comprehensive income for the period	-	-	-	-	953	-	953	13	-	966
Transactions with owners										
Issue of AT1 capital								745		745
Transaction costs					(7)		(7)			(7)
Interest paid on AT1 capital								(10)		(10)
Exchange rate adjustment					(1)		(1)	1		0
Purchase of own shares					(1,965)		(1,965)			(1,965)
Sale of own shares					1,201		1,201			1,201
Reduction of share capital	(27)						(27)			(27)
Dividend etc paid						(776)	(776)			(776)
Dividend, own shares					11		11			11
Total transactions with owners	(27)	-	-	-	(761)	(776)	(1,564)	736	-	(828)
Equity at 30 Sep 2018	677	97	425	2	9,946	-	11,147	749	-	11,896

* Additional Tier 1 capital has no maturity date. Payment of interest and repayment of principal are voluntary. Therefore AT1 capital is accounted for as equity. In May 2018 Sydbank issued EUR 100m with optional redemption on 28 August 2025. The issue carries interest at the Mid-Swap Rate + a margin of 4.62%, a total of 5.25%. Under the issue the loan will be written down if the Common Equity Tier 1 capital ratio of Sydbank A/S or the Sydbank Group drops below 7%.

The Sydbank share	30 Sep 2019	31 Dec 2018	30 Sep 2018
Share capital (DKK)	617,540,000	676,709,540	676,709,540
Shares issued (number)	61,754,000	67,670,954	67,670,954
Shares outstanding at end of period (number)	59,636,131	61,008,893	63,229,572
Average number of shares outstanding (number)	60,702,524	64,810,883	65,787,926

The Bank has only one class of shares as all shares carry the same rights.

Capital

DKK ^m	30 Sep 2019	31 Dec 2018	30 Sep 2018
Solvency			
Common Equity Tier 1 capital ratio	16.2	17.3	16.1
Tier 1 capital ratio	17.8	19.0	17.9
Capital ratio	21.2	22.4	21.2
Total capital			
Equity	10,812	10,922	11,147
Expected maximum dividend based on dividend policy	(626)	-	(963)
Minority shareholders	38	-	-
Prudent valuation	(97)	(59)	(54)
Actual or contingent obligations to purchase own shares	(71)	-	(451)
Proposed dividend	-	(588)	-
Intangible assets and capitalised deferred tax assets	(227)	(244)	(256)
Significant investments in financial sector	(709)	(612)	(645)
Transitional arrangement IFRS 9	144	160	181
Common Equity Tier 1 capital	9,264	9,579	8,959
Additional Tier 1 capital – equity	747	747	746
Additional Tier 1 capital – debt	168	224	223
Tier 1 capital	10,179	10,550	9,928
Tier 2 capital	1,694	1,636	1,635
Difference between expected losses and impairment for accounting purposes	210	204	205
Total capital	12,083	12,390	11,768
Credit risk*	36,925	36,032	36,168
Market risk	6,988	6,036	6,001
Operational risk	7,654	7,654	8,023
Other exposures incl CVA	5,473	5,680	5,395
REA	57,040	55,402	55,587
Pillar I capital requirement	4,563	4,432	4,447
* Credit risk			
Corporate clients, IRB	27,790	26,586	26,547
Retail clients, IRB	7,264	7,371	7,638
Corporate clients, STD	259	312	316
Retail clients, STD	894	865	823
Credit institutions etc	718	898	844
Total	36,925	36,032	36,168

Cash Flow Statement

DKKm	Q1-Q3 2019	Full year 2018	Q1-Q3 2018
Operating activities			
Pre-tax profit for the period	810	1,420	1,193
Taxes paid	(129)	(323)	(203)
Adjustment for non-cash operating items	7	41	(25)
Cash flows from working capital	(9,450)	49	1,734
Cash flows from operating activities	(8,762)	1,187	2,699
Investing activities			
Purchase and sale of holdings in associates	6	8	8
Sale of holdings in subsidiaries	33	-	-
Purchase and sale of intangible assets and property, plant and equipment	(102)	(84)	(63)
Cash flows from investing activities	(63)	(76)	(55)
Financing activities			
Purchase and sale of own holdings	(156)	(1,171)	(793)
Dividends etc	(583)	(765)	(765)
Issue of Additional Tier 1 capital etc	-	737	737
Issue of bonds	3,715	3,702	3,701
Redemption of bonds issued	-	(3,724)	(3,727)
Cash flows from financing activities	2,976	(1,221)	(847)
Cash flows for the period	(5,849)	(110)	1,797
Cash and cash equivalents at 1 Jan	8,858	8,968	8,968
Cash flows for the period	(5,849)	(110)	1,797
Cash and cash equivalents at end of period	3,009	8,858	10,765

Segment Reporting etc

DKKkM	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
Operating segments						
Q1-Q3 2019						
Core income	2,475	197	57	-	-	2,729
Trading income	-	-	186	-	-	186
Total income	2,475	197	243	-	-	2,915
Costs, core earnings	1,838	74	115	-	53	2,080
Impairment of loans and advances etc	(49)	-	-	-	-	(49)
Core earnings	686	123	128	-	(53)	884
Investment portfolio earnings	-	-	-	(47)	-	(47)
Profit before non-recurring items	686	123	128	(47)	(53)	837
Non-recurring items, net	(27)	-	-	-	-	(27)
Profit before tax	659	123	128	(47)	(53)	810

DKKkM	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
Operating segments						
Q1-Q3 2018						
Core income	2,745	200	58	-	-	3,003
Trading income	-	-	140	-	-	140
Total income	2,745	200	198	-	-	3,143
Costs, core earnings	1,795	74	119	-	48	2,036
Impairment of loans and advances etc	(71)	-	-	-	-	(71)
Core earnings	1,021	126	79	-	(48)	1,178
Investment portfolio earnings	(12)	-	-	(56)	-	(68)
Profit before non-recurring items	1,009	126	79	(56)	(48)	1,110
Non-recurring items, net	83	-	-	-	-	83
Profit before tax	1,092	126	79	(56)	(48)	1,193

Segment Reporting etc

DKKkm	Core income	Trading income	Costs (core earnings)	Impairment of loans and advances etc	Core earnings	Investment portfolio earnings	Non-recurring items, net	Profit before tax
Correlation between performance measures and the income statement according to IFRS								
Q1-Q3 2019								
Net interest and fee income	2,492	145		-	2,637	53		2,690
Market value adjustments	209	41		1	251	(96)	30	185
Other operating income	24				24			24
Income	2,725	186	-	1	2,912	(42)	30	2,899
Staff costs and administrative expenses			(1,989)		(1,989)	(5)	(57)	(2,050)
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment			(80)		(80)			(80)
Other operating expenses			(11)		(11)			(11)
Impairment of loans and advances etc				48	48			48
Profit on holdings in associates and subsidiaries	4				4			4
Profit before tax	2,729	186	(2,080)	49	884	(47)	(27)	810
Q1-Q3 2018								
Net interest and fee income	2,701	189		-	2,890	(70)		2,820
Market value adjustments	280	(49)		12	243	8	110	361
Other operating income	16				16			16
Income	2,997	140	-	12	3,149	(62)	110	3,197
Staff costs and administrative expenses			(1,951)		(1,951)	(5)	(27)	(1,984)
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment			(72)		(72)			(72)
Other operating expenses			(13)		(13)			(13)
Impairment of loans and advances etc				59	59			59
Profit on holdings in associates and subsidiaries	6				6			6
Profit before tax	3,003	140	(2,036)	71	1,178	(68)	83	1,193

Notes

Note 1

Accounting policies

The Interim Report is prepared in compliance with IAS 34 “Interim Financial Reporting” as adopted by the EU and in compliance with additional Danish disclosure requirements for interim reports. As a result of the use of IAS 34, the presentation is less complete compared with the presentation of an annual report and the recognition and measurement principles are in compliance with IFRS.

With the exception of the below the accounting policies are consistent with those adopted in the 2018 Annual Report, to which reference is made.

The 2018 Annual Report provides a comprehensive description of the accounting policies applied.

New accounting policies

The following amendments to IFRS have been implemented effective as from 1 January 2019:

- IFRS 16 Leases
- Amendments to IFRS 9 – prepayments
- Amendments to IAS 19 – changes to pension plans during accounting period
- Amendments to IAS 28 – long-term interests in associates and joint ventures
- IFRIC 23 – uncertain tax treatments
- Amendments to different standards pursuant to “Annual Improvements to IFRSs”, including amendments to IAS 12 – income taxes.

Of the above only IFRS 16 and the amendments to IAS 12 have influenced recognition and measurement in the Interim Report. The effect in connection with the transition at 1 January 2019 is shown below.

On 18 March 2019 Sydbank A/S sold 33% of its shares in the previously wholly owned subsidiary Syd Fund Management A/S. Syd Fund Management A/S is still fully consolidated and the minority shareholders’ share of the Group’s result and equity are accounted for as a separate item in relation to the income statement and as part of the Group’s equity respectively. Changes in ownership interests in subsidiaries as a result of which there is no loss of control are treated as equity transactions.

Implementation of IFRS 16

IFRS 16 Leases, which replaces IAS 17, has changed the accounting treatment of leases in which the Group is the lessee. The previous distinction between finance leases and operating leases has been eliminated as regards lessees and consequently all leases are treated according to the same principles. The Group leases a number of properties which are used in the branch network. As a result of the implementation of IFRS 16 the accounting treatment of the leases has changed whereby the capitalised value of the right-of-use asset and the lease liability during the contract period are recognised as property, plant and equipment and a financial liability respectively (other liabilities). Depreciation of the asset and interest costs of the financial liability are recognised in the income statement.

As from 1 January 2019 the Group has implemented the new standard using the modified retrospective approach and as a result comparative figures for 2018 and previous years have not been restated and therefore continue to be presented in accordance with IAS 17.

In compliance with the transitional provisions the Group has decided in connection with the implementation:

- not to recognise leases with a term of less than 12 months or of low value
- to reassess whether an existing agreement constitutes or comprises a lease.

Leased property used in the branch network is recognised as owner-occupied property. The contract period is typically 10-20 years but the term of an individual lease for the purpose of the accounting treatment and measurement is fixed on the basis of the expected lease term, including options to extend which are expected with reasonable confidence to be exercised. In connection with the implementation of IFRS 16 the term of the leases has been fixed at the expected remaining lease term at 1 January 2019.

As regards its leases of owner-occupied property, the Group has in its assessment of the alternative lending rate determined the alternative lending rate on the basis of a mortgage bond yield with a maturity corresponding to the lease term and in the same currency as that in which lease payments are settled. The interest rate of the funding of the part for which a mortgage loan cannot be used is estimated on the basis of a reference rate plus a credit margin derived from the Group’s existing funding facilities.

Notes

Note 1 – continued

Effect of implementation of IFRS 16

In connection with the implementation of IFRS 16 at 1 January 2019 the Group has recognised a leased asset of DKK 82m and a lease liability of DKK 82m. Consequently the impact on equity is DKK 0.

Leased owner-occupied property is depreciated on a straight-line basis over the expected lease term.

Effect of changes to IAS 12

Effective from 1 January 2019 IAS 12 has been changed whereby the tax effect of interest on AT1 capital issued must be recognised in the income statement. Previously the tax effect was recognised directly in equity. Comparative figures as regards the income statement have been restated to reflect the new practice. For Q1-Q3 2019 tax in the income statement has decreased by DKK 6m whereby profit after tax has increased correspondingly. Similarly the tax effect, which is no longer recognised in equity, has decreased by DKK 6m whereby total equity has not been affected by the amended accounting policies.

Accounting estimates and uncertainty

The measurement of certain assets and liabilities requires management estimates as to how future events will affect the value of such assets and liabilities. The significant estimates made by management in the use of the Group's accounting policies and the inherent considerable uncertainty of such estimates used in the preparation of the condensed interim report are identical to those used in the preparation of the annual report as at 31 December 2018 with the exception of the above-mentioned changes.

The Group's significant risks and the external elements which may affect the Group are described in greater detail in the 2018 Annual Report.

Notes

DKK m	Q1-Q3 2019	Q1-Q3 2018	Q3 2019	Q3 2018
Note 2				
Interest income				
Reverse transactions with credit institutions and central banks	(30)	(22)	(13)	(6)
Amounts owed by credit institutions and central banks	(45)	(29)	(19)	(10)
Reverse loans and advances	(28)	(16)	(14)	(6)
Loans and advances and other amounts owed	1,319	1,478	432	483
Bonds	124	87	42	33
Derivatives	96	(8)	47	(3)
comprising:				
Foreign exchange contracts	56	27	15	10
Interest rate contracts	40	(35)	32	(13)
Other interest income	(9)	0	1	0
Total	1,427	1,490	476	491
Fair value, designated at initial recognition	(58)	(38)	(27)	(12)
Fair value, held for trading	220	79	89	30
Assets recognised at amortised cost	1,265	1,449	414	473
Total	1,427	1,490	476	491
Note 3				
Interest expense				
Repo transactions with credit institutions and central banks	(13)	(9)	(7)	(2)
Credit institutions and central banks	18	9	6	5
Repo deposits	(5)	(3)	(3)	(1)
Deposits and other debt	42	46	12	18
Bonds issued	77	6	27	2
Subordinated capital	24	24	8	8
Other interest expense	2	0	1	0
Total	145	73	44	30
Fair value, designated at initial recognition	(18)	(12)	(10)	(3)
Liabilities recognised at amortised cost	163	85	54	33
Total	145	73	44	30
Note 4				
Fee and commission income				
Securities trading and custody accounts	765	786	255	247
Payment services	236	233	81	81
Loan fees	144	107	62	33
Guarantee commission	101	94	36	31
Income concerning funded mortgage-like loans	112	119	37	39
Other fees and commission	289	269	100	89
Total	1,647	1,608	571	520
Total fee and commission expense	269	232	94	78
Net fee and commission income	1,378	1,376	477	442

Except for guarantee commission recognised according to IFRS 9, fee and commission income is recognised according to IFRS 15. The set-off of loss concerning arranged mortgage loans represents DKK 11m (2018: DKK 15m) and has been deducted from commission received which is included under other fees and commission.

Notes

DKKm	Q1-Q3 2019	Q1-Q3 2018	Q3 2019	Q3 2018
Note 5				
Market value adjustments				
Other loans and advances and amounts owed at fair value	0	1	0	0
Bonds	(13)	(33)	(47)	(117)
Shares etc	143	243	70	41
Foreign exchange	110	132	38	45
Total derivatives	(56)	18	5	145
Assets related to pooled plans	1,199	(104)	210	114
Deposits in pooled plans	(1,199)	104	(210)	(114)
Other assets/liabilities	1	0	1	0
Total	185	361	67	114

Note 6

Staff costs and administrative expenses

Salaries and remuneration:

Group Executive Management	13	12	4	4
Board of Directors	4	4	1	1
Shareholders' Committee	3	3	1	1
Total	20	19	6	6

Staff costs:

Wages and salaries	963	952	288	288
Pensions	96	93	32	31
Social security contributions	12	11	4	4
Payroll tax etc	137	125	44	43
Total	1,208	1,181	368	366

Other administrative expenses:

IT	551	478	180	155
Rent etc*	74	87	15	27
Marketing and entertainment expenses	62	64	20	20
Other costs	135	155	51	46
Total	822	784	266	248
Total	2,050	1,984	640	620

* In Q1-Q3 2019 rent etc comprises a rental expense of DKK 26m concerning short-term leases as well as leases of low value.

Note 7

Staff

Average number of staff (full-time equivalent)	2,115	2,125	2,099	2,139
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Notes

DKKm	Q1-Q3 2019	Q1-Q3 2018	Q3 2019	Q3 2018
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Note 8

Other operating expenses

Contribution to the Resolution Fund	11	12	3	4
Other expenses	-	1	-	1
Total	11	13	3	5

Note 9

Impairment of loans and advances recognised in the income statement

Impairment and provisions	(56)	(92)	(6)	(10)
Write-offs	76	107	40	38
Recovered from debt previously written off	68	74	49	32
Impairment of loans and advances etc	(48)	(59)	(15)	(4)

Impairment and provisions at end of period (allowance account)

	IFRS 9	IFRS 9	IFRS 9	IFRS 9
Stage 1	132	119	132	119
Stage 2	756	1,142	756	1,142
Stage 3	1,554	1,651	1,554	1,651
Management estimates	100	125	100	125
Impairment and provisions at end of period	2,542	3,037	2,542	3,037

Impairment and provisions

Impairment and provisions at 31 Dec 2017, cf IAS 39		2,887		
Previous fair value adjustments		204		
Effect of transition to IFRS 9		216		
Impairment and provisions at 1 Jan	2,924	3,307	2,673	3,088
New impairment charges and provisions during the period, net	(18)	(38)	(10)	6
Impairment charges previously recorded, now finally written off	364	232	121	57
Impairment and provisions at end of period	2,542	3,037	2,542	3,037

Impairment charges for loans and advances	2,353	2,808	2,353	2,808
Provisions for undrawn credit commitments	40	36	40	36
Provisions for guarantees	149	193	149	193
Impairment and provisions at end of period	2,542	3,037	2,542	3,037

Losses recognised for the period constitute DKK 440m. As regards losses recognised for the period a legal claim of DKK 322m has been upheld. As regards losses recognised a legal claim of DKK 246m has been upheld at 31 December 2018.

Notes

Industry	Loans/advances and guarantees		Impairment charges and provisions		Impairment of loans and advances etc for the period		Loss for the period	
	30 Sep	31 Dec	30 Sep	31 Dec	Q1-Q3	Q1-Q3	Q1-Q3	Q1-Q3
	2019	2018	2019	2018	2019	2018	2019	2018
DKK m								
Note 9 – continued								
Loans and advances and guarantees as well as impairment charges for loans and advances etc by industry								
Agriculture, hunting, forestry and fisheries	4,777	4,716	693	729	71	164	134	109
<i>Pig farming</i>	1,149	1,193	144	262	(36)	124	60	45
<i>Cattle farming</i>	1,154	1,161	254	204	60	4	28	44
<i>Crop production</i>	1,299	1,159	125	110	4	25	4	6
<i>Other agriculture</i>	1,175	1,203	170	153	43	11	42	14
Manufacturing and extraction of raw materials	10,380	9,639	243	275	(19)	28	16	14
Energy supply etc	2,241	2,840	5	14	(9)	(9)	8	2
Building and construction	4,183	3,793	109	130	10	14	34	7
Trade	14,091	13,035	517	479	98	35	92	75
Transportation, hotels and restaurants	3,522	3,484	64	80	(1)	(62)	5	19
Information and communication	423	340	8	7	0	(4)	0	0
Finance and insurance	5,755	5,876	87	113	(12)	(27)	28	14
Real property	4,596	5,134	176	310	(57)	(68)	63	22
<i>Leasing of commercial property</i>	1,764	2,442	105	156	(17)	(33)	33	20
<i>Leasing of residential property</i>	1,011	922	43	61	(12)	(24)	3	1
<i>Housing associations and cooperative housing associations</i>	425	945	3	2	1	(1)	0	0
<i>Purchase, development and sale on own account</i>	1,343	667	23	66	(16)	12	27	0
<i>Other related to real property</i>	53	158	2	25	(13)	(22)	0	1
Other industries	4,023	3,469	127	149	(7)	(27)	8	10
Total corporate	53,991	52,326	2,029	2,286	74	44	388	272
Public authorities	304	352	1	2	0	1	-	-
Retail	28,045	24,894	512	636	(122)	(104)	52	67
Total	82,340	77,572	2,542	2,924	(48)	(59)	440	339

Notes

DKKm	Q1-Q3 2019	Q1-Q3 2018	Q3 2019	Q3 2018
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Note 10

Profit on holdings in associates and subsidiaries

Profit on holdings in associates etc	4	6	1	1
Total	4	6	1	1

Note 11

Effective tax rate

Current tax rate of Sydbank	22.0	22.0	22.0	22.0
Permanent differences (tax-free capital gain etc)	(3.2)	(2.8)	(3.3)	-
Adjustment of prior year tax charges	-	-	-	-
Effective tax rate	18.8	19.2	18.7	22.0

DKKm	30 Sep 2019	31 Dec 2018	30 Sep 2018
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Note 12

Amounts owed by credit institutions and central banks

Amounts owed at notice by central banks	4,246	8,493	7,124
Amounts owed by credit institutions	10,867	5,203	3,949
Total	15,113	13,696	11,073
Of which reverse transactions	9,704	2,922	2,093

Notes

DKKkm	Stage 1	Stage 2	Stage 3	30 Sep 2019 Total	31 Dec 2018 Total
Note 13					
Loans and advances, guarantees and allowance account by stage					
Loans and advances before impairment charges	55,435	4,942	2,847	63,224	63,691
Guarantees	18,169	728	219	19,116	13,881
Total loans and advances and guarantees	73,604	5,670	3,066	82,340	77,572
%	89.4	6.9	3.7	100.0	
Impairment charges for loans and advances	106	806	1,441	2,353	2,708
Provisions for undrawn credit commitments	18	11	11	40	44
Provisions for guarantees	8	39	102	149	172
Total allowance account	132	856	1,554	2,542	2,924
Allowance account at 1 Jan	117	1,104	1,703	2,924	3,307
New impairment charges and provisions during the period, net	15	(248)	215	(18)	(96)
Impairment charges previously recorded, now finally written off	-	-	(364)	(364)	(287)
Total allowance account at end of period	132	856	1,554	2,542	2,924
Impairment charges as % of loans and advances	0.2	16.3	50.6	3.7	4.3
Provisions as % of guarantees	0.0	5.4	46.6	0.8	1.2
Allowance account as % of loans and advances and guarantees	0.2	15.1	50.7	3.1	3.8
Loans and advances before impairment charges	55,435	4,942	2,847	63,224	63,691
Impairment charges for loans and advances	106	806	1,441	2,353	2,708
Loans and advances after impairment charges	55,329	4,136	1,406	60,871	60,983
%	90.9	6.8	2.3	100.0	

Notes

DKK m	Stage 1	Stage 2	Stage 3	30 Sep 2019 Total	31 Dec 2018 Total
Note 13 – continued					
Loans and advances before impairment charges					
Rating category					
1	5,707	-	-	5,707	6,000
2	13,449	6	-	13,455	16,225
3	18,811	48	-	18,859	14,777
4	8,510	7	-	8,517	9,822
5	5,112	613	-	5,725	5,363
6	2,290	944	-	3,234	2,901
7	215	594	-	809	788
8	(1)	483	-	482	564
9	-	2,225	1,342	3,567	3,750
Default	-	-	1,502	1,502	2,020
NR/STD	1,342	22	3	1,367	1,481
Total	55,435	4,942	2,847	63,224	63,691

Impairment charges for loans and advances

Rating category					
1	-	-	-	-	-
2	15	-	-	15	14
3	15	-	-	15	9
4	24	-	-	24	24
5	19	7	-	26	24
6	16	23	-	39	34
7	4	27	-	31	33
8	-	24	-	24	31
9	-	489	622	1,111	1,142
Default	-	-	810	810	1,145
NR/STD	13	11	9	33	27
Collective impairment charges	-	225	-	225	225
Total	106	806	1,441	2,353	2,708

Loans and advances after impairment charges

Rating category					
1	5,707	-	-	5,707	6,000
2	13,434	6	-	13,440	16,211
3	18,796	48	-	18,844	14,768
4	8,486	7	-	8,493	9,798
5	5,093	606	-	5,699	5,339
6	2,274	921	-	3,195	2,867
7	211	567	-	778	755
8	(1)	459	-	458	533
9	-	1,736	720	2,456	2,608
Default	-	-	692	692	875
NR/STD	1,329	11	(6)	1,334	1,454
Collective impairment charges	-	(225)	-	(225)	(225)
Total	55,329	4,136	1,406	60,871	60,983

Notes

DKKmn	Stage 1	Stage 2	Stage 3	30 Sep 2019 Total	31 Dec 2018 Total
Note 13 – continued					
Loans and advances before impairment charges					
1 Jan	55,409	5,332	2,950	63,691	67,197
Transfers between stages					
Transferred to stage 1	1,060	(998)	(62)	-	-
Transferred to stage 2	(1,572)	1,779	(207)	-	-
Transferred to stage 3	(164)	(763)	927	-	-
New exposures	10,696	345	199	11,240	12,889
Redeemed exposures	(9,480)	(679)	(470)	(10,629)	(14,322)
Changes in balances	(514)	(74)	(50)	(638)	(1,621)
Write-offs	-	-	(440)	(440)	(452)
End of period	55,435	4,942	2,847	63,224	63,691
Impairment charges for loans and advances					
1 Jan	94	1,030	1,584	2,708	3,059
Transfers between stages					
Transferred to stage 1	174	(144)	(30)	-	-
Transferred to stage 2	(5)	99	(94)	-	-
Transferred to stage 3	(1)	(207)	208	-	-
New exposures	27	83	266	376	72
Redeemed exposures	(17)	(150)	(209)	(376)	(421)
Changes in balances	(166)	95	80	9	285
Write-offs	-	-	(364)	(364)	(287)
End of period	106	806	1,441	2,353	2,708
Loans and advances after impairment charges					
1 Jan	55,315	4,302	1,366	60,983	64,138
Transfers between stages					
Transferred to stage 1	886	(854)	(32)	-	-
Transferred to stage 2	(1,567)	1,680	(113)	-	-
Transferred to stage 3	(163)	(556)	719	-	-
New exposures	10,669	262	(67)	10,864	12,817
Redeemed exposures	(9,463)	(529)	(261)	(10,253)	(13,901)
Changes in balances	(348)	(169)	(130)	(647)	(1,906)
Write-offs	-	-	(76)	(76)	(165)
End of period	55,329	4,136	1,406	60,871	60,983

Notes

DKKkm	30 Sep 2019	31 Dec 2018	30 Sep 2018
Note 14			
Other assets			
Positive market value of derivatives etc	6,056	4,374	4,390
Sundry debtors	698	701	456
Interest and commission receivable	166	178	185
Cash collateral provided, CSA agreements	2,500	2,025	1,813
Other assets	0	0	0
Total	9,420	7,278	6,844
Note 15			
Amounts owed to credit institutions and central banks			
Amounts owed to central banks	37	13	34
Amounts owed to credit institutions	8,408	5,326	4,710
Total	8,445	5,339	4,744
Of which repo transactions	3,996	2,190	993
Note 16			
Deposits and other debt			
On demand	76,414	73,833	68,187
At notice	212	1,598	3,806
Time deposits	7,851	6,450	6,266
Special categories of deposits	4,600	4,396	4,403
Total	89,077	86,277	82,662
Of which repo transactions	3,374	1,052	826
Of which secured lending	4,000	5,000	5,000
Note 17			
Other liabilities			
Negative market value of derivatives etc	6,371	4,600	4,462
Sundry creditors	5,248	3,661	3,800
Negative portfolio, reverse transactions	12,874	5,770	3,755
Lease liability	78	-	-
Interest and commission etc	70	47	31
Cash collateral received, CSA agreements	734	860	773
Total	25,375	14,938	12,821

Notes

DKK m	30 Sep 2019	31 Dec 2018	30 Sep 2018
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Note 18

Provisions

Provisions for pensions and similar obligations	3	3	3
Provisions for deferred tax	269	269	156
Provisions for guarantees	149	172	193
Other provisions*	43	45	47
Total	464	489	399

* Other provisions mainly concern provisions for onerous contracts and legal actions.

Note 19

Subordinated capital

Interest rate	Note		Nominal (m)	Maturity			
2.13 (fixed)	1)	Bond loan	EUR 100	11 Mar 2027	744	743	742
1.48 (floating)	2)	Bond loan	EUR 75	2 Nov 2029	558	558	557
1.11 (floating)	3)	Bond loan	EUR 75	Perpetual	560	560	559
Total Tier 2 capital					1,862	1,861	1,858
Total subordinated capital					1,862	1,861	1,858

1) Optional redemption from 11 March 2022 after which the interest rate will be fixed at 1.72% above 5Y Mid-Swap.

2) Optional redemption from 2 November 2024 after which the interest rate will be fixed at 1.85% above 3M EURIBOR.

3) The interest rate follows the 10Y Mid-Swap plus a margin of 0.2%.

Costs relating to the raising and redemption of subordinated capital	0	0	0
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Note 20

Contingent liabilities and other obligating agreements

Contingent liabilities

Financial guarantees	4,605	3,933	3,896
Mortgage finance guarantees	3,395	3,140	3,186
Funded mortgage-like loan guarantees	1,645	1,810	1,852
Registration and remortgaging guarantees	7,871	3,252	2,864
Other contingent liabilities	1,600	1,746	1,736
Total	19,116	13,881	13,534

Other obligating agreements

Irrevocable credit commitments	792	1,303	689
Other liabilities*	96	104	97
Total	888	1,407	786

Notes

DKKm	30 Sep 2019	31 Dec 2018	30 Sep 2018
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Note 20 – continued

Totalkredit loans arranged for by Sydbank are comprised by an agreed right of set-off against future current commission which Totalkredit may invoke in the event of losses on the loans arranged. Sydbank does not expect that this set-off will have a significant effect on Sydbank's financial position.

As a result of the Bank's membership of Bankdata, the Bank will be obligated to pay an exit charge in the event of exit.

As a result of the statutory participation in the deposit guarantee scheme, the industry paid an annual contribution of 2.5% of covered net deposits until the Banking Department's capital exceeded 1% of total covered net deposits, which was reached at year-end 2015. The Banking Department will cover the direct losses in connection with the winding-up of distressed financial institutions under Bank Package III and Bank Package IV which are attributable to covered net deposits. Any losses as a result of the final winding-up will be covered by the Guarantee Fund via the Winding-up and Restructuring Department as regards which Sydbank is currently liable for 6.7% of any losses.

As a result of the statutory participation in the resolution financing arrangement (the Resolution Fund), credit institutions will pay an annual contribution over a 10-year period to reach a target funding level totalling 1% of covered deposits. Credit institutions must make contributions to the fund according to their relative size and risk in Denmark. Sydbank expects that contributions will total approximately DKK 200m over a 10-year period.

The Group is party to legal actions. These legal actions are under continuous review and the necessary provisions made are based on an assessment of the risk of loss. Pending legal actions are not expected to have any significant effect on the financial position of the Group.

Note 21

Collateral

At 30 September 2019 the Group had deposited as collateral securities at a market value of DKK 4,319m with Danish and foreign exchanges and clearing centres etc in connection with margin calls and securities settlements etc. In addition the Group had provided cash collateral of DKK 2,500m as well as deposited as collateral securities at a market value of DKK 16m in connection with CSA agreements.

In connection with repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet and consideration received is recognised as a debt. Repo transaction securities are treated as assets provided as collateral for liabilities. Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

In connection with reverse transactions, which involve purchasing securities to be resold at a later date, the Group is entitled to sell the securities or deposit them as collateral for other loans. The securities are not recognised in the balance sheet and consideration paid is recognised as a receivable.

Assets received as collateral in connection with reverse transactions may be sold to a third party. In such cases a negative portfolio may arise as a result of the accounting rules. This is recognised under "Other liabilities".

Assets sold as part of repo transactions

Bonds at fair value	7,345	3,224	1,813
Shares	1	-	-

Assets purchased as part of reverse transactions

Bonds at fair value	22,144	9,390	8,021
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Notes

DKKm	Q1-Q3 2019	Q1-Q3 2018	Index 19/18	Full year 2018
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Note 22

Related parties

Sydbank is the bank of a number of related parties. Transactions with related parties are settled on an arm's length basis.

No unusual transactions took place with related parties in Q1-Q3 2019. Reference is made to the Group's 2018 Annual Report for a detailed description of related party transactions.

Note 23

Reporting events occurring after the balance sheet date

After the expiry of Q3 no matters of significant impact on the financial position of the Sydbank Group have occurred.

Note 24

Large shareholders

Silchester International Investors LLP, England, owns more than 15% of Sydbank's share capital and Dimensional Holding Inc., USA, announced on 21 October 2019 that it has reduced its ownership share to below 5% of Sydbank's share capital.

Note 25

Core income

Net interest etc	1,120	1,358	82	1,775
Mortgage credit*	467	438	107	583
Payment services	141	149	95	196
Remortgaging and loan fees	122	98	124	130
Commission and brokerage	230	228	101	302
Commission etc investment funds and pooled pension plans	248	330	75	425
Asset management	197	200	99	270
Custody account fees	52	52	100	69
Other operating income	152	150	101	201
Total	2,729	3,003	91	3,951

* Mortgage credit

Totalkredit cooperation	378	364	104	485
Totalkredit, set-off of loss	11	15	73	21
Totalkredit cooperation, net	367	349	105	464
DLR Kredit	98	87	113	116
Other mortgage credit income	2	2	100	3
Total	467	438	107	583

Notes

DKKm

Note 26

Financial instruments recognised at fair value

Measurement of financial instruments is based on quoted prices from an active market, on generally accepted valuation models with observable market data or on available data that only to a limited extent are observable market data.

Measurement of financial instruments for which prices are quoted in an active market or which is based on generally accepted valuation models with observable market data is not subject to significant estimates.

As regards financial instruments where measurement is based on available data that only to a limited extent are observable market data, measurement is subject to estimates. Such financial instruments appear from the column unobservable inputs below and include primarily unlisted shares, including shares in DLR Kredit A/S.

The fair value of unlisted shares and other holdings is calculated on the basis of available information on trades etc – including to a very significant extent on shareholders' agreements based on book value. To an insignificant extent fair value is calculated on the basis of expected cash flows.

A 10% change in the calculated market value of financial assets measured on the basis of unobservable inputs will affect profit before tax by DKK 183m.

Notes

30 Sep 2019					
DKKm	Quoted prices	Observable inputs	Unobservable inputs	Total fair value	Carrying amount

Note 26 – continued

Financial assets

Amounts owed by credit institutions and central banks	-	9,704	-	9,704	9,704
Loans and advances at fair value	-	12,467	-	12,467	12,467
Bonds at fair value	-	40,285	-	40,285	40,285
Shares etc	320	46	1,832	2,198	2,198
Assets related to pooled plans	7,183	11,087	-	18,270	18,270
Other assets	152	6,011	-	6,163	6,163
Total	7,655	79,600	1,832	89,087	89,087

Financial liabilities

Amounts owed to credit institutions and central banks	-	3,996	-	3,996	3,996
Deposits and other debt	-	3,374	-	3,374	3,374
Deposits in pooled plans	-	18,270	-	18,270	18,270
Other liabilities	154	19,094	-	19,248	19,248
Total	154	44,734	-	44,888	44,888

DKKm	30 Sep 2019	31 Dec 2018	30 Sep 2018
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Assets measured on the basis of unobservable inputs

Carrying amount at 1 Jan	1,800	1,822	1,822
Additions	-	-	1
Disposals	82	308	309
Market value adjustment	114	286	253
Carrying amount at end of period	1,832	1,800	1,767

Recognised in profit for the period

Dividend	26	21	21
Market value adjustment	114	286	253
Total	140	307	274

Notes

DKK m	30 Sep 2019	31 Dec 2018	30 Sep 2018
Note 27			
Leverage ratio			
Exposure to calculate leverage ratio			
Total assets	162,526	140,514	134,977
Pooled assets excluded	(18,270)	(16,220)	(16,870)
Correction derivatives etc	8,318	6,663	5,454
Guarantees etc	19,116	13,881	13,534
Undrawn credit commitments etc	10,713	10,704	10,863
Other adjustments	(942)	(625)	(596)
Total	181,461	154,917	147,362
Tier 1 capital – current (transitional rules)	10,179	10,550	9,928
Tier 1 capital – fully loaded	10,008	10,326	9,705
Leverage ratio (%) – current (transitional rules)	5.6	6.8	6.7
Leverage ratio (%) – fully loaded	5.5	6.7	6.6

30 Sep 2019					
DKK m	Activity	Share capital (m)	Equity (DKK m)	Profit (DKK m)	Ownership share (%)
Note 28					
Group holdings and enterprises					
Sydbank A/S		DKK	618		
Consolidated subsidiaries					
DiBa A/S, Aabenraa	Investment	DKK	300	2,037	0
Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa	Real property	DKK	11	21	4
Syd Fund Management A/S, Aabenraa	Administration	DKK	100	108	7
Sydbank (Schweiz) AG, in Liquidation, St. Gallen, Switzerland*	-	CHF	40	238	(1)
Holdings in associates					
Foreningen Bankdata, Fredericia**	IT	DKK	531	531	32
Komplementarselskabet Core Property Management A/S, Copenhagen**	Real property	DKK	1	24	5
Core Property Management P/S, Copenhagen**	Real property	DKK	5	45	21

* With no activity at 30 September 2019.

** Financial information according to the companies' most recently published annual reports (2018).

Management Statement

We have considered and approved the Interim Report – Q1-Q3 2019 of Sydbank A/S.

The consolidated interim financial statements are prepared in accordance with IAS 34 “Interim Financial Reporting” as approved by the EU. Furthermore the interim financial statements (of the parent company) are prepared in compliance with Danish disclosure requirements for interim reports of listed financial companies.

The Interim Report has not been audited or reviewed.

In our opinion the interim financial statements give a true and fair view of the Group’s and the parent company’s assets, equity and liabilities and financial position at 30 September 2019 and of the results of the Group’s and the parent company’s operations and consolidated cash flows for the period 1 January – 30 September 2019. Moreover it is our opinion that the management’s review includes a fair review of the developments in the Group’s and the parent company’s operations and financial position as well as a description of the most significant risks and elements of uncertainty which may affect the Group and the parent company.

Aabenraa, 30 October 2019

Group Executive Management

Karen Frøsig
CEO

Bjarne Larsen

Jørn Adam Møller

Board of Directors

Lars Mikkjelgaard-Jensen
Chairman

Jacob Chr. Nielsen
Vice-Chairman

Carsten Andersen

Kim Holmer

Janne Moltke-Leth

Jarl Oxlund

Susanne Schou

Jørn Krogh Sørensen

Supplementary Information

Financial calendar

In 2020 the Group's preliminary announcement of financial statements will be released as follows:

– Announcement of the 2019 Financial Statements
26 February 2020

- Annual General Meeting 2020*
19 March 2020

- Interim Report – Q1 2020
29 April 2020

- Interim Report – First Half 2020
26 August 2020

- Interim Report – Q1-Q3 2020
28 October 2020

* Motions submitted by shareholders to be discussed at the Annual General Meeting on 19 March 2020 must be received by the Bank no later than 6 February 2020.

Sydbank contacts

Karen Frøsig, CEO
Tel +45 74 37 20 00

Jørn Adam Møller, Deputy Group Chief Executive
Tel +45 74 37 24 00

Address

Sydbank A/S
Peberlyk 4
6200 Aabenraa, Denmark
Tel +45 74 37 37 37
CVR No DK 12626509

Relevant links

sydbank.dk
sydbank.com

For further information reference is made to Sydbank's 2018 Annual Report at sydbank.com.