
Interim Report 9M 2020

Better than expected income raises profit expectations for 2020

28 October 2020

Highlights – 9M 2020

Key points

Better than expected income raises profit expectations for 2020

Profit

Profit of DKK 573m – ROE of 6.4% p.a. after tax

Core income

Core income of DKK 882m in Q3 2020 – up by 1% compared with Q2 2020

Total income

Total income of DKK 970m in Q3 2020 – down by 1% compared with Q2 2020

Costs

Costs (core earnings) down by 2% compared with 9M 2019

Impairment charges

Impairment charges represent an expense of DKK 4m in Q3 2020

Bank loans

DKK 1.5bn increase in total credit intermediation – DKK 0.5bn increase in bank loans and advances – in Q3 2020

CET1 ratio

CET1 ratio of 20.1% – down by 0.1% in Q3 2020

Deposits

The terms and conditions for corporate clients and retail clients will be adjusted

Core income – 1% higher than in Q2 2020

DKKm	9M 2020	9M 2019	Index	Q3 2020	Q2 2020	Index
Net interest income etc	1,104	1,120	99	354	361	98
Mortgage credit *	445	467	95	145	146	99
Payment services	111	141	79	39	32	122
Remortgaging and loan fees	128	122	105	43	37	116
Commission and brokerage	271	230	118	85	79	108
Commission etc investment funds and pooled pension plans	209	248	84	70	66	106
Asset management	210	197	107	71	69	103
Custody account fees	58	52	112	19	19	100
Other operating income	175	152	115	56	60	93
Total	2,711	2,729	99	882	869	101
* Set-off of loss Totalkredit	7	11	64	3	1	300

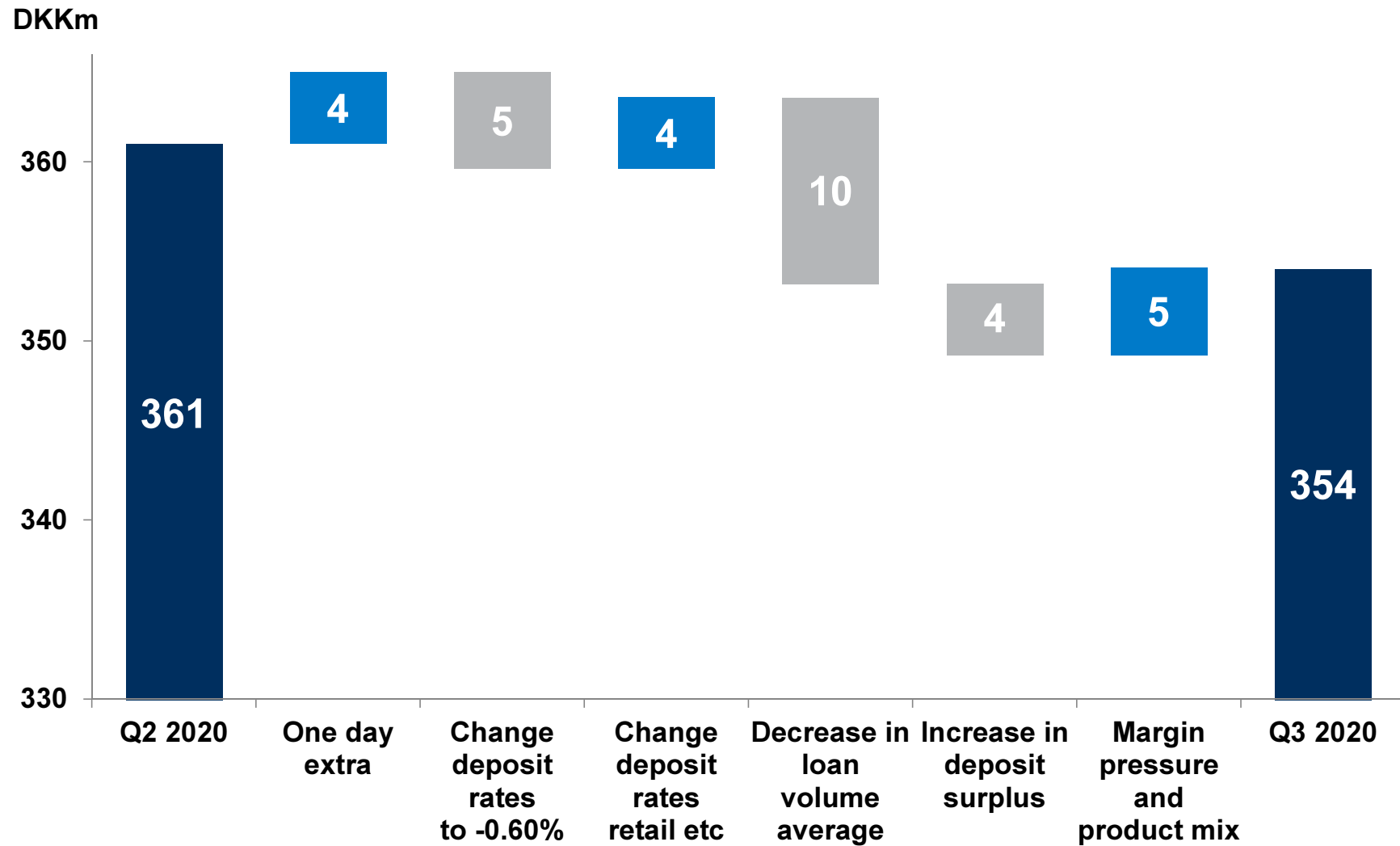
Key points Q3 20 vs Q3 19:

- Net interest income etc down by 1%
- Remortgaging and loan fees up by 5%
- Commission and brokerage up by 18% due to high trading activity in Q1 20
- Other items down by a total of 4%.

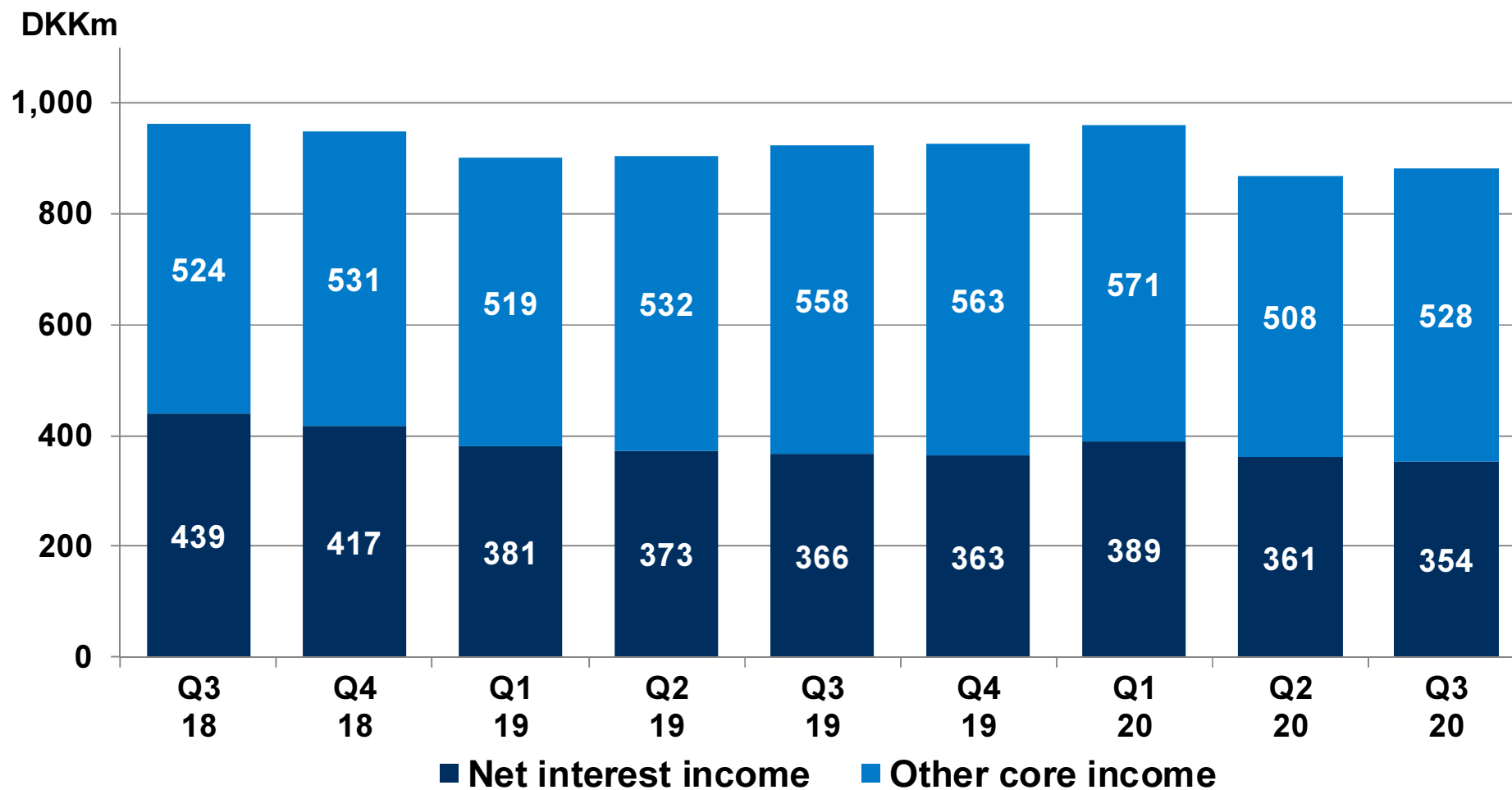
Key points Q3 20 vs Q2 20:

- Net interest income etc down by 2%
- Remortgaging and loan fees up by 16%
- Commission and brokerage up by 8% due to high trading activity
- Other items up by a total of 2%.

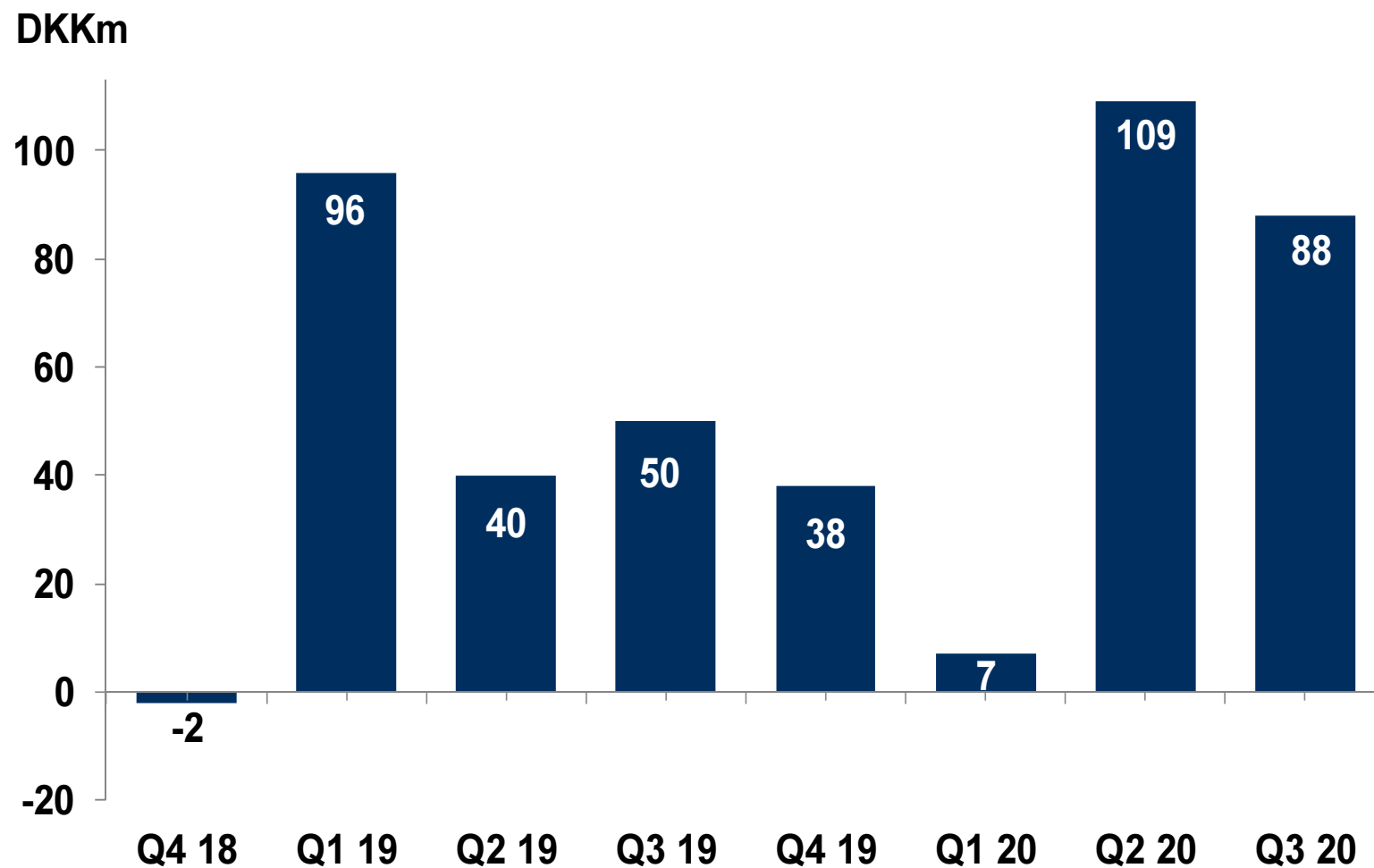
Net interest income etc – development from Q2 2020 to Q3 2020



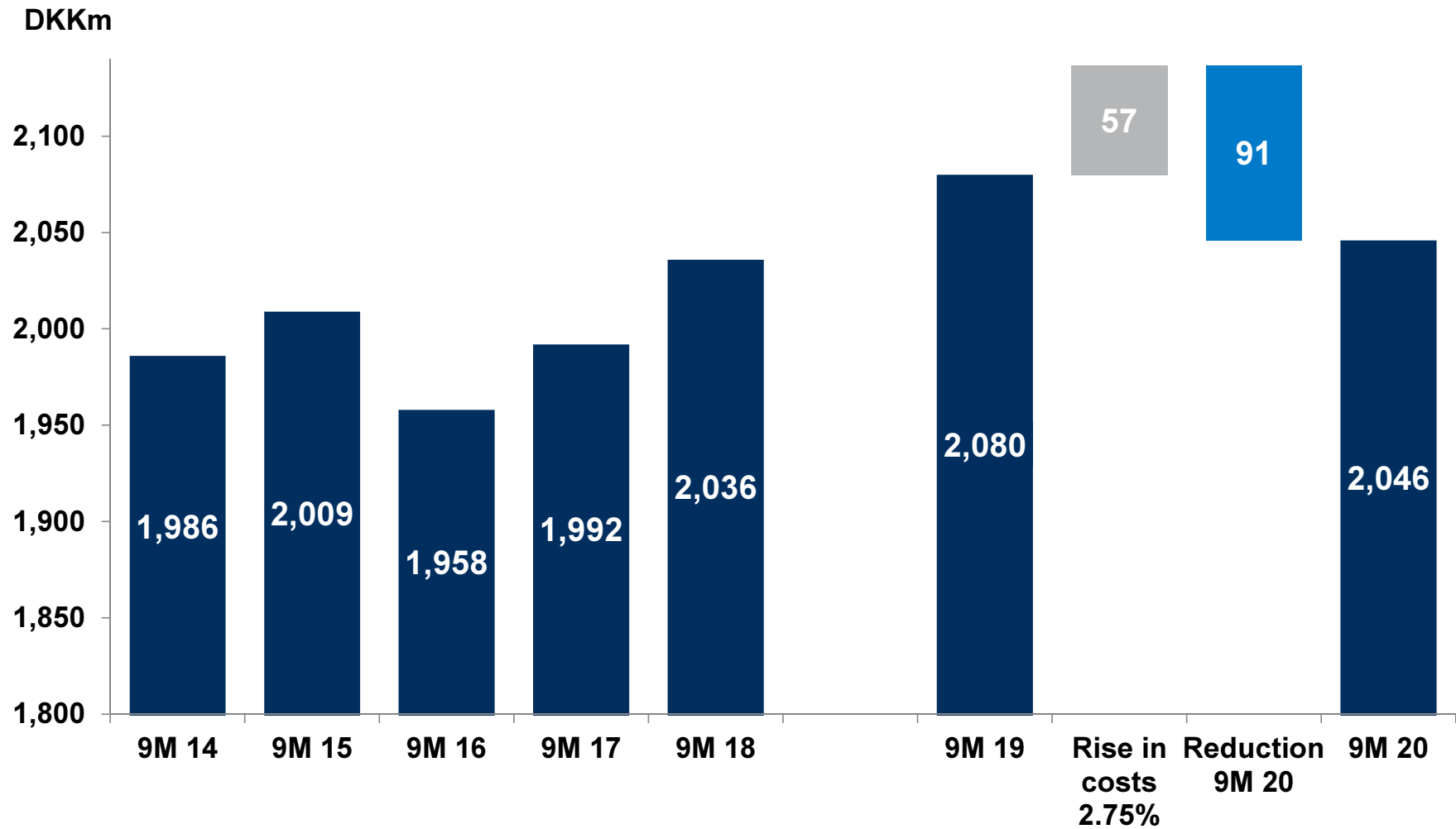
Core income up by 1% compared with Q2 2020



Trading income – high level in Q3 2020

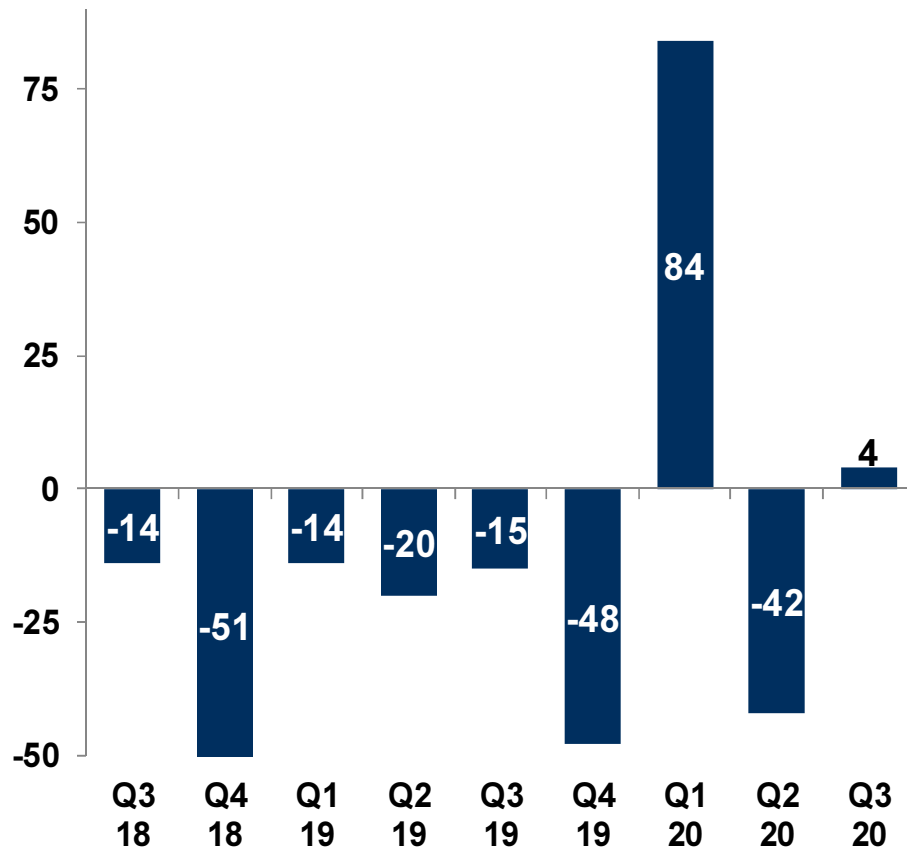


Costs (core earnings) – reduction of DKK 91m in 9M 2020



Impairment charges in Q3 2020 represent DKK 4m

DKKm Impairment charges for bank loans



Key points

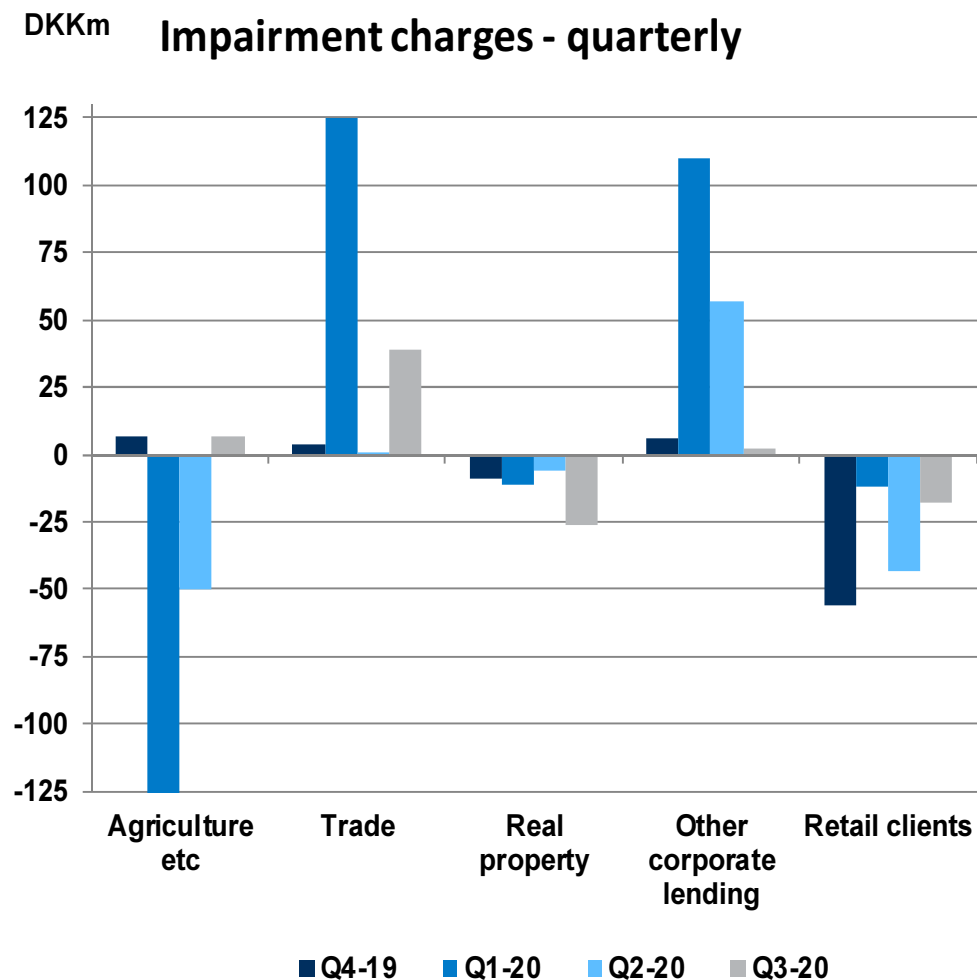
Impairment charges for loans and advances represent an expense of DKK 4m.

Unsecured loans in the weakest rating categories without objective evidence of credit impairment represent DKK 515m (exclusive of agriculture, but including mink farming). The impairment charges include a management estimate of DKK 125m to hedge the risk of these loans, equal to approx 24%.

Furthermore the impairment charges include a management estimate of DKK 100m to cover unforeseen events as regards the remaining part of the lending portfolio, the credit risk of which is satisfactory or normal.

Management estimates as a result of covid-19 total DKK 225m.

Impairment charges – breakdown by industry



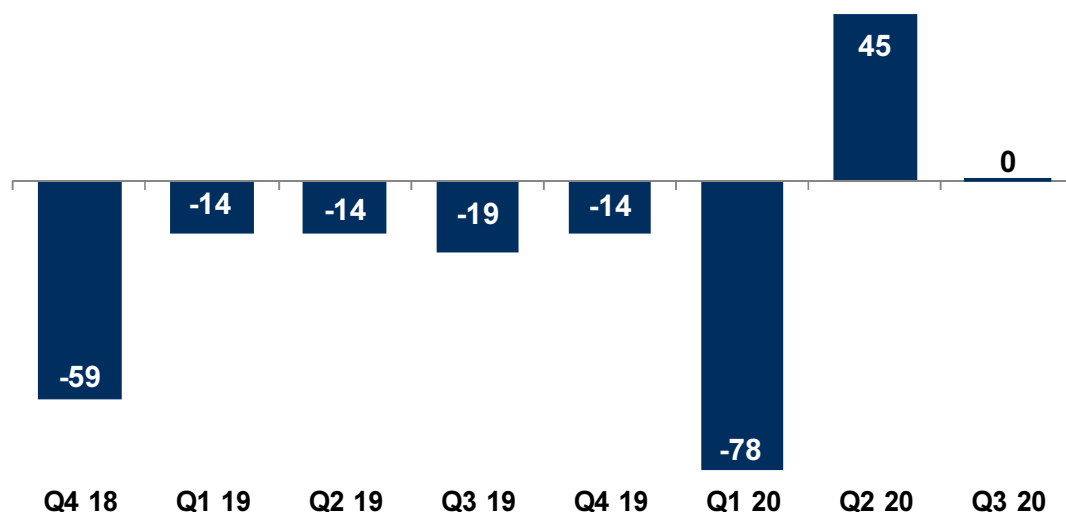
Key points Q3 2020:

- Impairment charges as regards corporate exposures represent an expense of DKK 22m.
- Impairment charges as regards retail exposures represent an income of DKK 18m.

DKKm	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20
Agriculture etc	34	-1	7	-128	-50	7
Trade	16	54	4	125	0	39
Real property	-23	-11	-9	-11	-6	-26
Other corporate lending	-21	-8	6	110	57	2
Total corporate lending	6	34	8	96	1	22
Retail clients	-26	-49	-56	-12	-43	-18
Total	-20	-15	-48	84	-42	4

Investment portfolio earnings – zero in Q3 20

Investment portfolio earnings – DKKm



Investment portfolio earnings in 9M 2020 represent minus DKK 33m compared with earnings of minus DKK 47m in 9M 2019.

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

Investment portfolio earnings

DKKm	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20
Position-taking	-8	-3	8	-48	48	16
Liquidity generation and reserves	-4	-15	-20	-26	0	-14
Strategic positions	-1	1	0	-2	-1	-1
Costs	-1	-2	-2	-2	-2	-1
Total	-14	-19	-14	-78	45	0

Income statement – ROE of 6.4% in 9M 2020

DKKm	9M 2020	9M 2019	Index	Q3 2020	Q2 2020	Index
Core income	2,711	2,729	99	882	869	101
Trading income	204	186	110	88	109	81
Total income	2,915	2,915	100	970	978	99
Costs, core earnings	2,046	2,080	98	628	700	90
Core earnings before impairment	869	835	104	342	278	123
Impairment of loans and advances etc	46	-49	-	4	-42	-
Core earnings	823	884	93	338	320	106
Investment portfolio earnings	-33	-47	70	0	45	-
Profit before non-recurring items	790	837	94	338	365	93
Non-recurring items, net	-55	-27	204	-18	-20	90
Profit before tax	735	810	91	320	345	93
Tax	162	152	107	71	76	93
Profit for the period	573	658	87	249	269	93
Costs (core earnings) / total income, C/I	0.70	0.71		0.65	0.72	
Return on equity, ROE full-year basis	6.4	7.8		8.4	9.3	
Earnings per share, EPS	9.1	10.3		4.0	4.4	

Key points 9M 2020 vs 9M 2019:

- Core income down by 1%
- Total income on same level
- Costs (core earnings) down by 2%
- Impairment charges – an expense of DKK 46m
- Core earnings down by 7%
- Investment portfolio earnings up by DKK 14m.

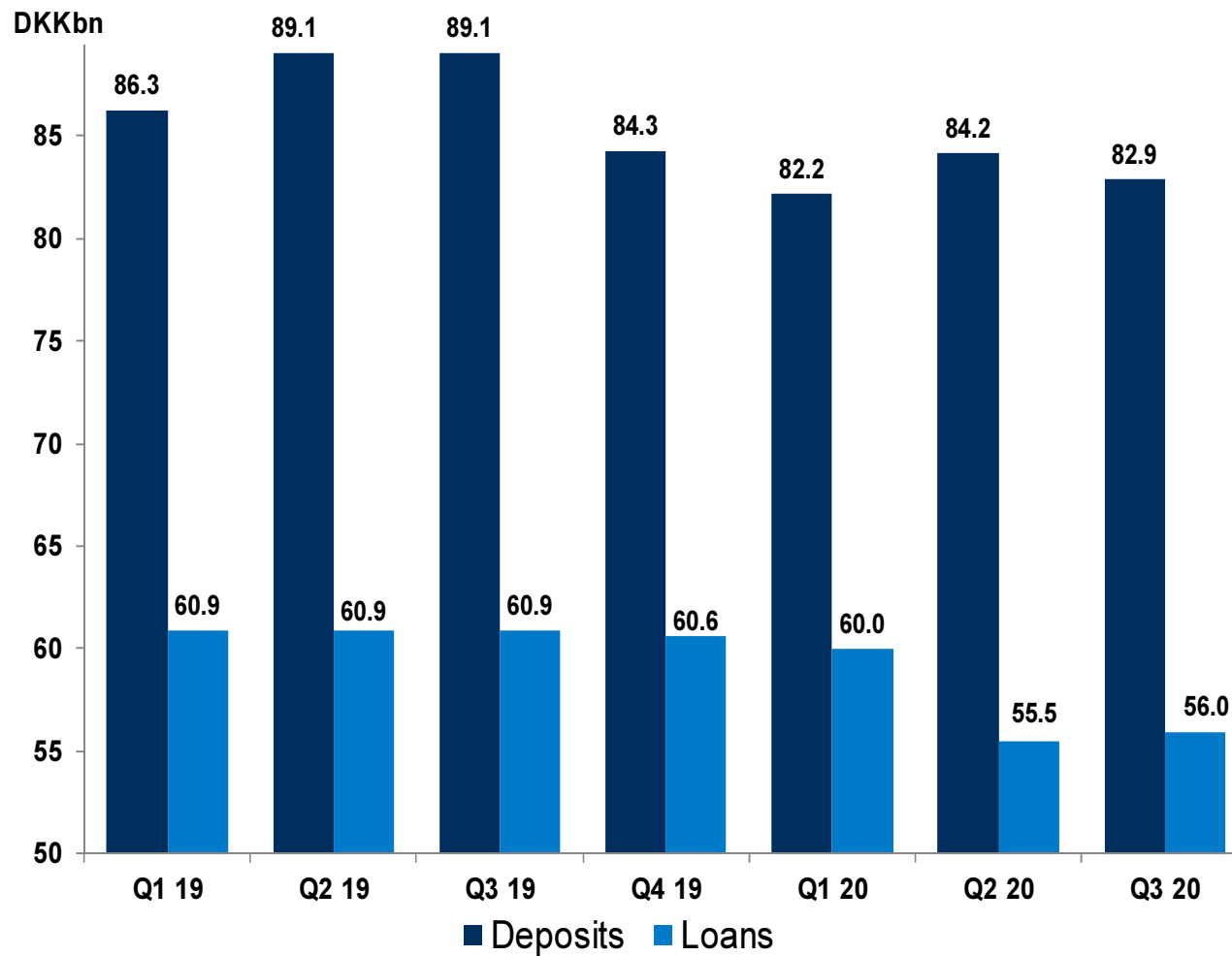
Key points Q3 20 vs Q2 20:

- Core income up by 1%
- Total income down by 1%
- Costs (core earnings) down by 10% due to seasonal fluctuations.

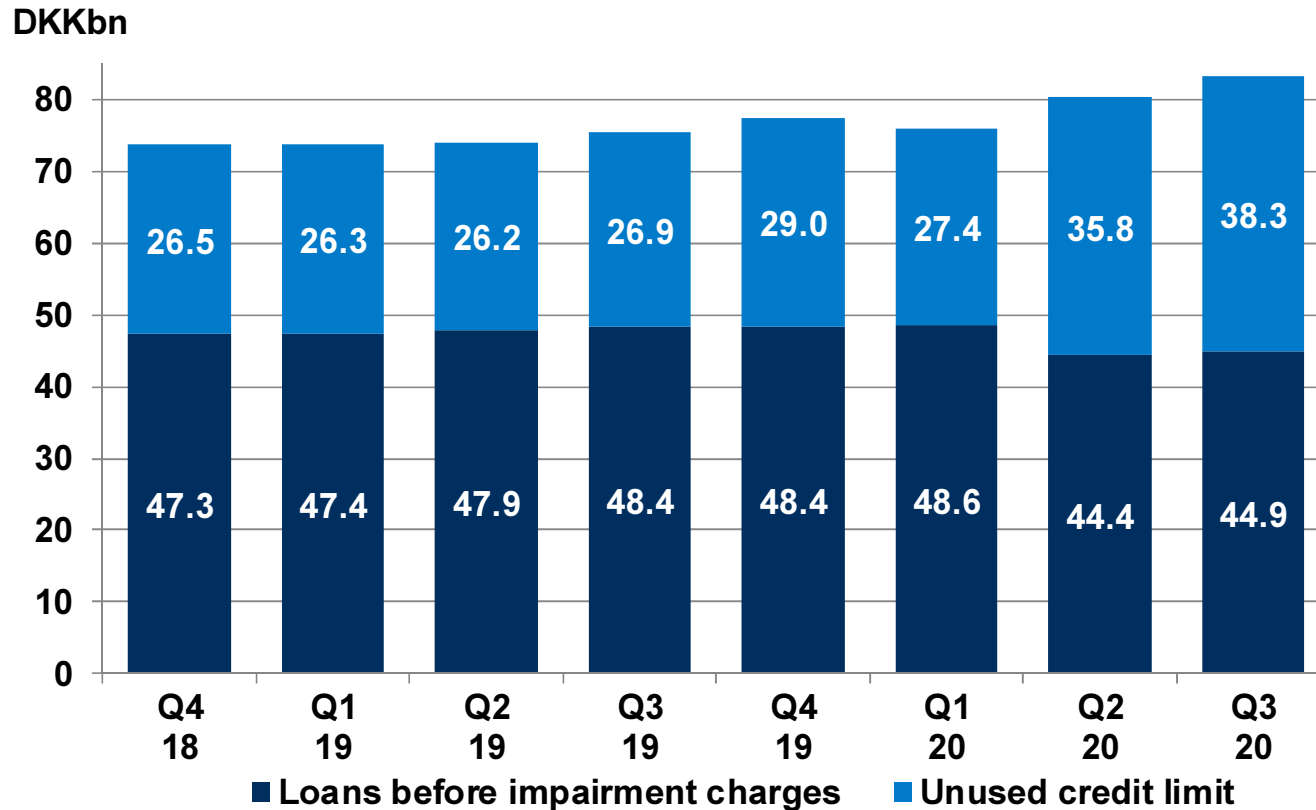
Non-recurring items, 9M 20:

- Costs of DKK 55m related to “A stronger bank” projects.

Loans and advances increased by DKK 0.5bn and deposits declined by DKK 1.3bn in Q3 2020



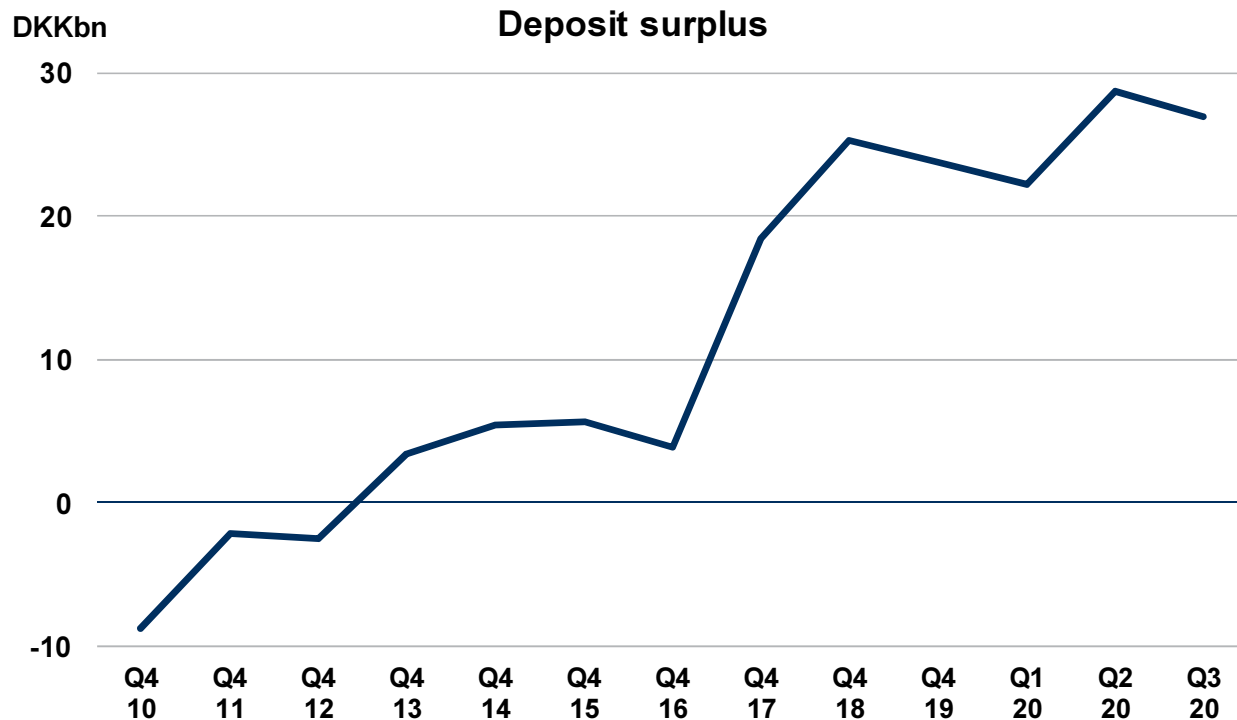
Rise in credit facilities to corporate clients



Key points:

- Lending to corporate clients is affected for instance by the government's relief packages, which include deferral of VAT and tax payments.
- Loans and advances to corporate clients increased by DKK 0.5bn in Q3 2020.
- As a result of the uncertainty in connection with covid-19, many corporate clients have increased their cash resources, which the Bank has accommodated in the form of increased credit commitments.

Deposit surplus strains earnings and causes adjustment of terms and conditions for corporate clients and retail clients



New terms and conditions for deposit products:

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

Corporate loans – rise in core corporate of DKK 0.2bn in Q3 2020

DKKbn	Q3 20	Q2 20	Q1 20	Q4 19	Q4 18
Manufacturing and extraction of raw materials	8,239	8,405	9,356	9,426	8,469
Energy supply etc	2,410	2,512	2,511	2,309	2,168
Building and construction	3,306	3,287	3,256	3,021	2,857
Trade	10,215	10,114	12,277	12,387	11,855
Transportation, hotels and restaurants	2,666	2,742	3,052	3,069	3,185
Information and communication	602	505	483	418	324
Finance and insurance	5,721	5,374	5,754	5,410	5,228
Other industries	2,934	2,985	3,044	3,360	3,134
Total core corporate	36,093	35,924	39,733	39,400	37,220
Agriculture, hunting, forestry and fisheries	2,861	2,728	2,757	2,849	3,301
Real property	4,337	4,085	4,387	4,542	4,428
Total corporate	43,291	42,737	46,877	46,791	44,949
Change in Q3 2020 - core corporate	169				
Change in Q3 2020 - other corporate	385				
Change in Q3 2020 - total corporate	554				

Total credit intermediation – DKK 1.5bn increase in Q3 2020

Total credit intermediation

DKKbn	Q4 2018	Q4 2019	Q2 2020	Q3 2020	Change Q2
Bank loans - retail	15.7	13.5	12.5	12.5	0.0
Bank loans - corporate	45.0	46.8	42.7	43.3	0.6
Bank loans - public authorities	0.3	0.3	0.2	0.2	-0.1
Bank loans - total	61.0	60.6	55.5	56.0	0.5
Funded mortgage-like loans	9.9	8.3	7.6	7.3	-0.3
Bank loans and funded mortgage-like loans	70.9	68.9	63.1	63.3	0.2
Arranged mortgage loans - Totalkredit	59.6	64.7	66.8	68.1	1.3
Arranged mortgage loans - DLR	11.7	11.4	11.3	11.3	0.0
Total	142.2	145.1	141.2	142.7	1.5

- Total credit intermediation increased by DKK 1.5bn in Q3 2020
- Total credit intermediation to retail clients – by way of bank loans and advances, funded mortgage-like loans and arranged mortgage loans – up by DKK 1.0bn in Q3 2020
- Total credit intermediation to corporate clients, incl DLR, up by DKK 0.5bn in Q3 2020.

Capital ratios down by 0.3pp in 9M 20

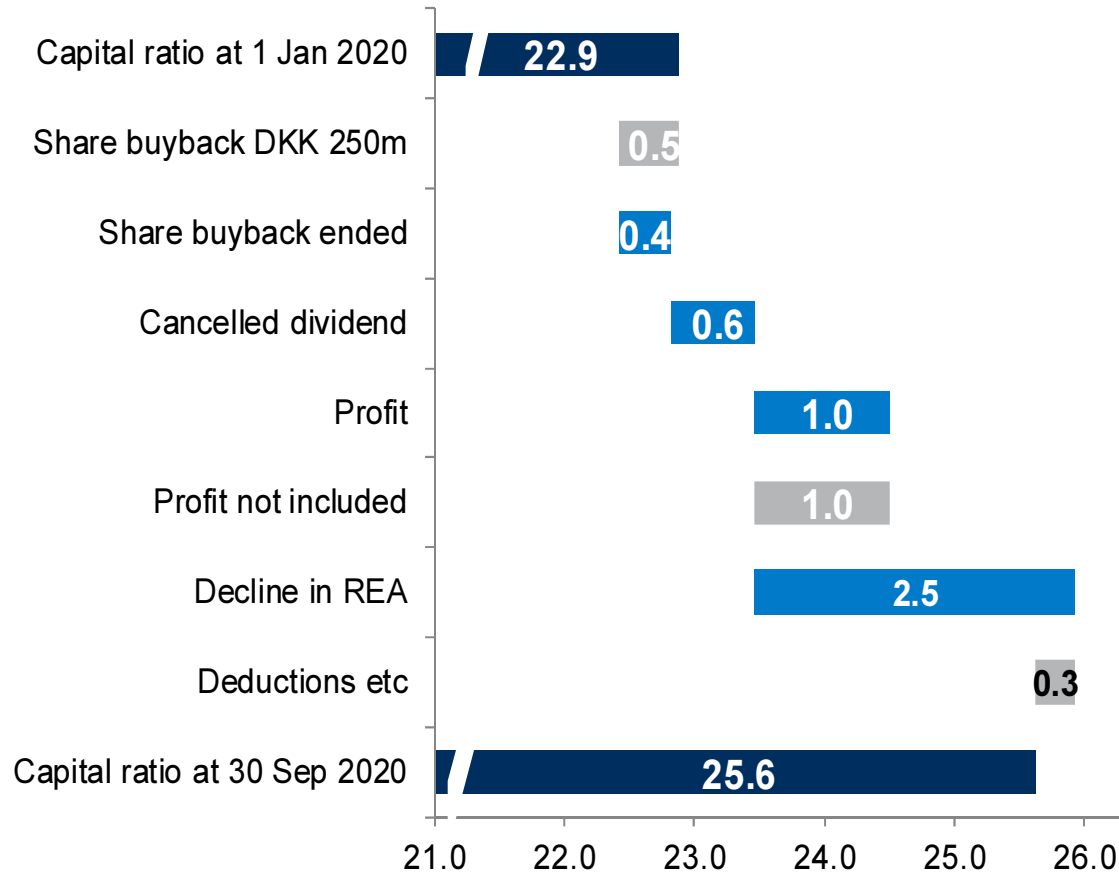
DKKm	Q4 2018	Q4 2019	Q2 2020	Q3 2020
Credit risk	36,032	35,747	31,628	30,997
Market risk	6,036	6,177	4,836	5,729
Operational risk	7,654	7,171	7,171	7,171
Other exposures incl CVA	5,680	6,065	5,929	5,946
Risk exposure amount	55,402	55,160	49,564	49,843
CET1	9,579	9,807	10,033	9,995
Tier 1	10,550	10,722	10,890	10,851
Total capital	12,390	12,620	12,814	12,768
CET1 ratio	17.3	17.8	20.2	20.1
Tier 1 ratio	19.0	19.4	22.0	21.8
Capital ratio	22.4	22.9	25.9	25.6
Individual solvency need	11.4	10.8	11.6	11.7

Key points Q3 2020:

- The DKK 0.3bn increase in REA is attributable to a decline in credit risk and an increase in market risk
- The capital ratio down by 0.3pp due to the increase in REA.

DKKm	Q4 2018	Q4 2019	Q2 2020	Q3 2020
Corporate, IRB	26,586	26,353	22,921	22,290
Retail, IRB	7,371	7,425	6,336	6,169
Corporate, STD	312	262	273	260
Retail, STD	865	903	937	991
Credit institutions etc	898	804	1,161	1,287
Total credit risk	36,032	35,747	31,628	30,997

Capital ratio in 9M 2020 – up by 2.7pp



Key points:

- Dividend cancellation and discontinued share buyback programme have improved the capital ratio by 1.0pp.
- The decline in risk exposure is primarily attributable to credit risk.

We are undertaking 4 initiatives to strengthen

1.

our retail banking activities

by acquisition of Alm. Brand Bank A/S



2.

our earnings

with new terms and conditions on deposit products



3.

closeness

by expanding Sydbank's decentralised organisation



4.

Sydbank's position

Denmark's corporate bank – comprehensive campaign in 2021



Outlook for 2020

- Significant negative growth is projected for the Danish economy in 2020.
- Profit after tax is expected to be in the range of DKK 700-800m.
- In light of the coronavirus crisis the outlook for 2020 is subject to greater uncertainty than usual.

Thank you

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Forward-looking statements

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

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