

Interim Q1 Report

2021

Sydbank Group

Strong and promising start to 2021

28 April 2021

Sydbank

Highlights – Q1 2021

Key points

Strong and promising start to 2021

Profit

Profit of DKK 291m – ROE of 9.5% p.a. after tax

Core income

Core income of DKK 1,105m in Q1 2021 – up by 15% compared with Q4 2020

Total income

Total income of DKK 1,178m in Q1 2021 – up by 14% compared with Q4 2020

Costs

Synergies/reduction of DKK 48m in Q1 2021 compared with Q1 2020

Impairment charges

Impairment charges represented an income of DKK 81m in Q1 2021

Bank loans

DKK 2.5bn increase in total credit intermediation and DKK 1.3bn increase in bank loans and advances in Q1 2021

CET1 ratio

CET1 ratio of 18.1% – down by 0.7% in Q1 2021

Core income – Q1 2021 up by 15% compared with Q4 2020 – 8% concerns Alm. Brand Bank

DKKm	Q1 2021	Q1 2020	Index	Q1 2021	Q4 2020	Index
Net interest income etc	434	389	112	434	372	117
Mortgage credit*	176	154	114	176	162	109
Payment services	47	40	118	47	41	115
Remortgaging and loan fees	53	48	110	53	44	120
Commission and brokerage	134	107	125	134	101	133
Commission etc investment funds and pooled pension plans	83	73	114	83	69	120
Asset management	89	70	127	89	78	114
Custody account fees	25	20	125	25	30	83
Other operating income	64	59	108	64	62	103
Total	1,105	960	115	1,105	959	115
* Set-off of loss Totalkredit	4	3	133	4	6	67

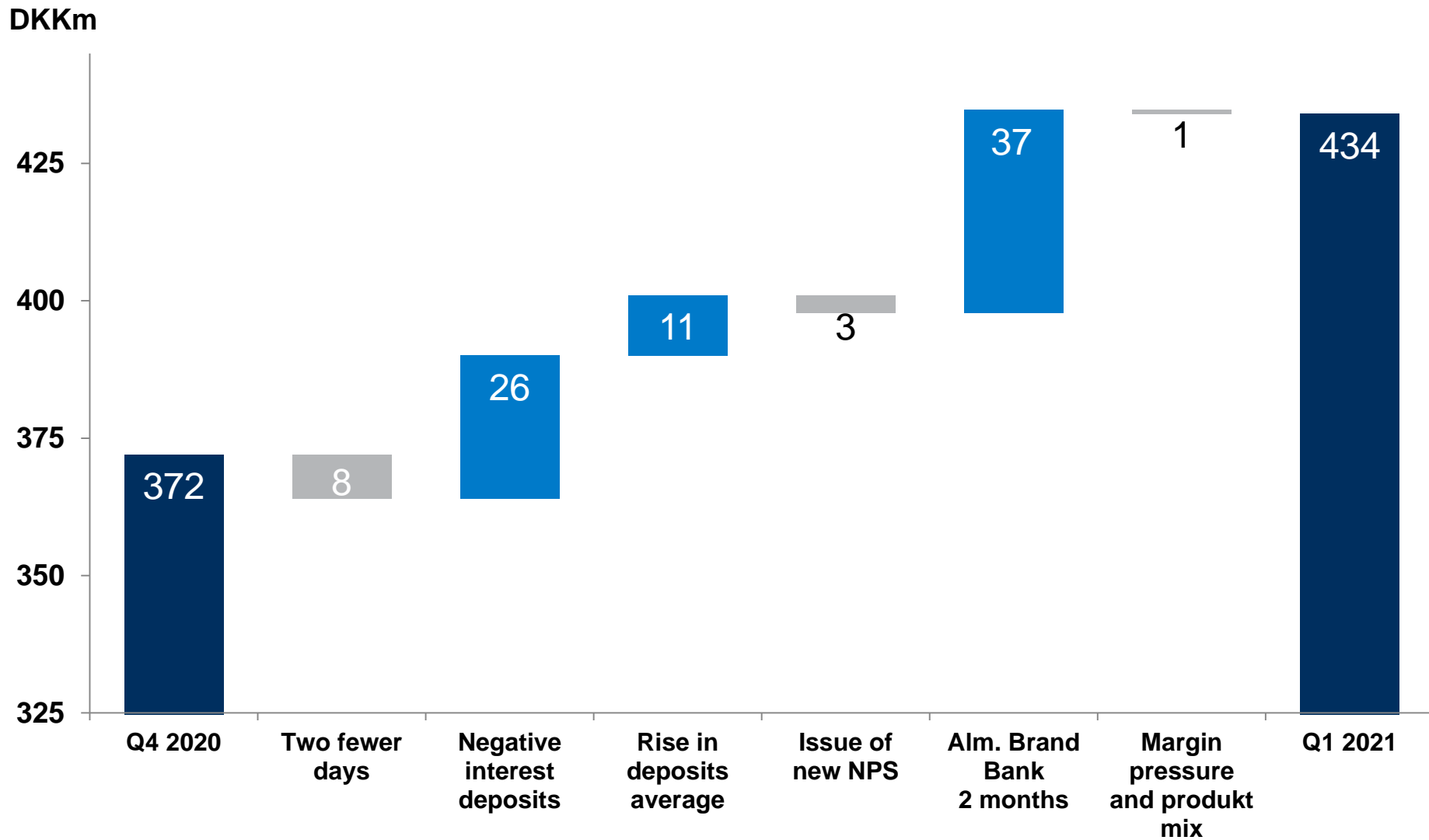
Key points Q1 21 vs Q1 20:

- Net interest income etc up by 12%
- Mortgage credit up by 14%
- Commission and brokerage up by 25% due to high trading activity
- Other items up by a total of 16%.

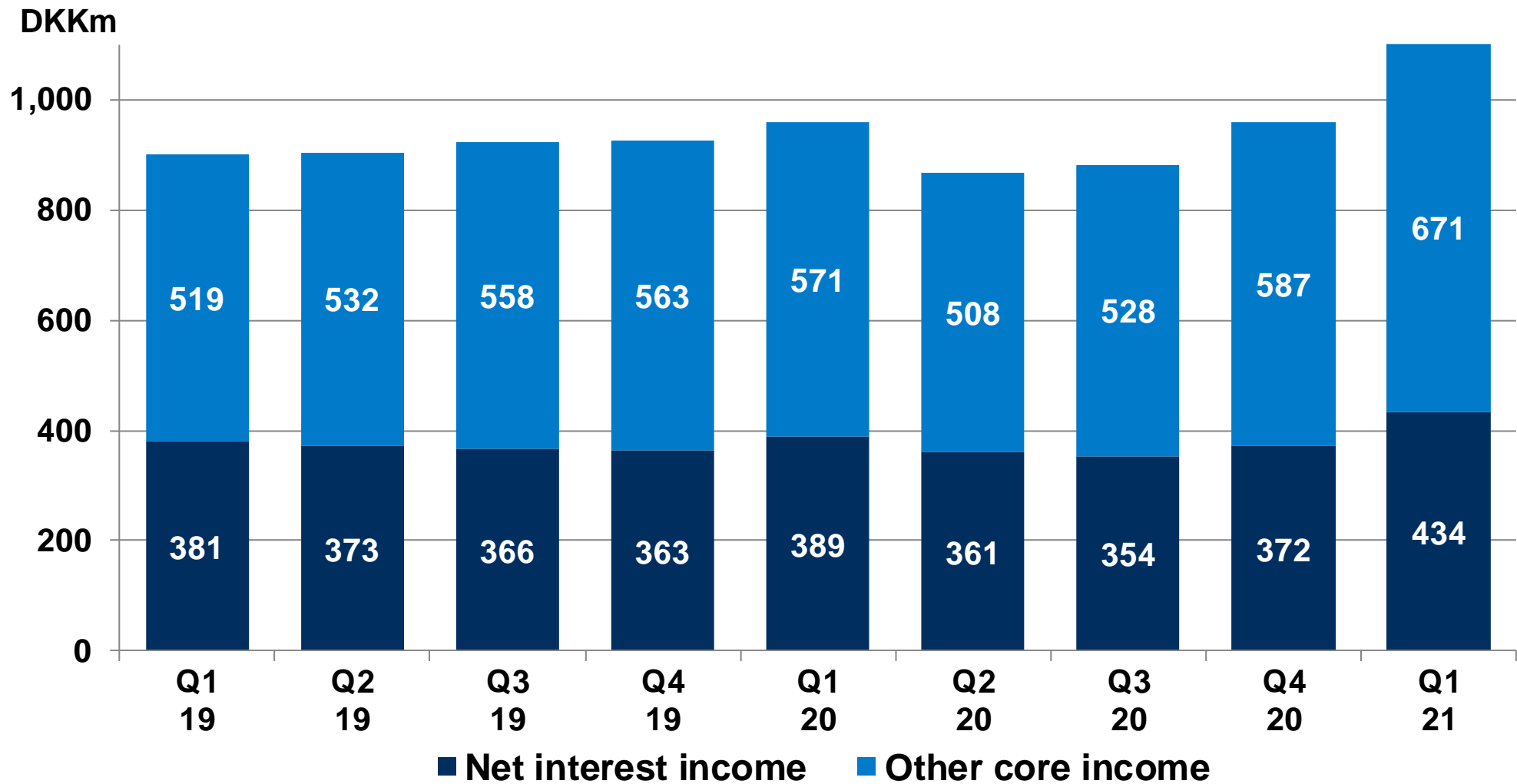
Key points Q1 21 vs Q4 20:

- Net interest income etc up by 17%
- Mortgage credit up by 9%
- Commission and brokerage up by 33% due to high trading activity
- Other items up by a total of 11%.

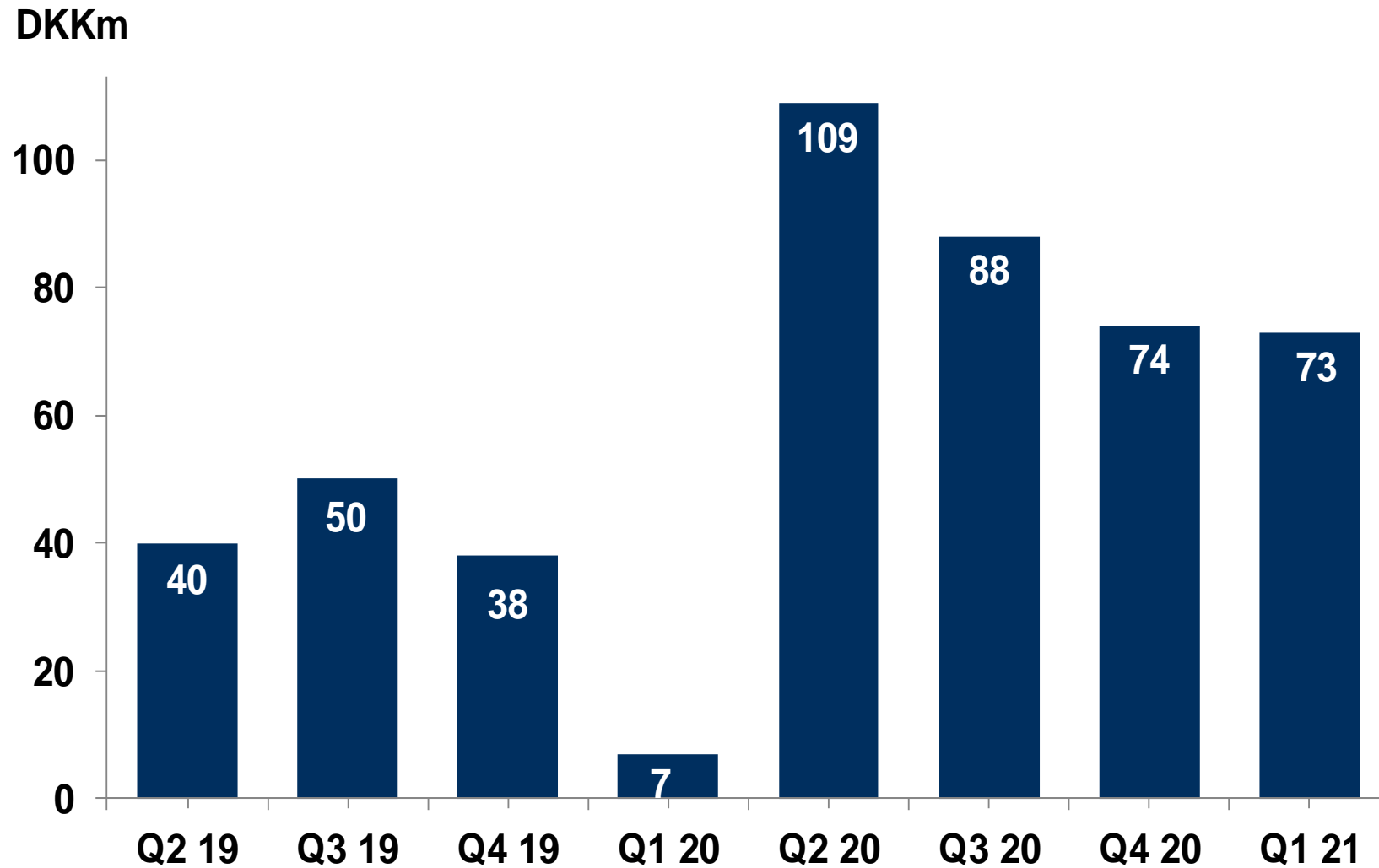
Net interest income etc – development from Q4 2020 to Q1 2021



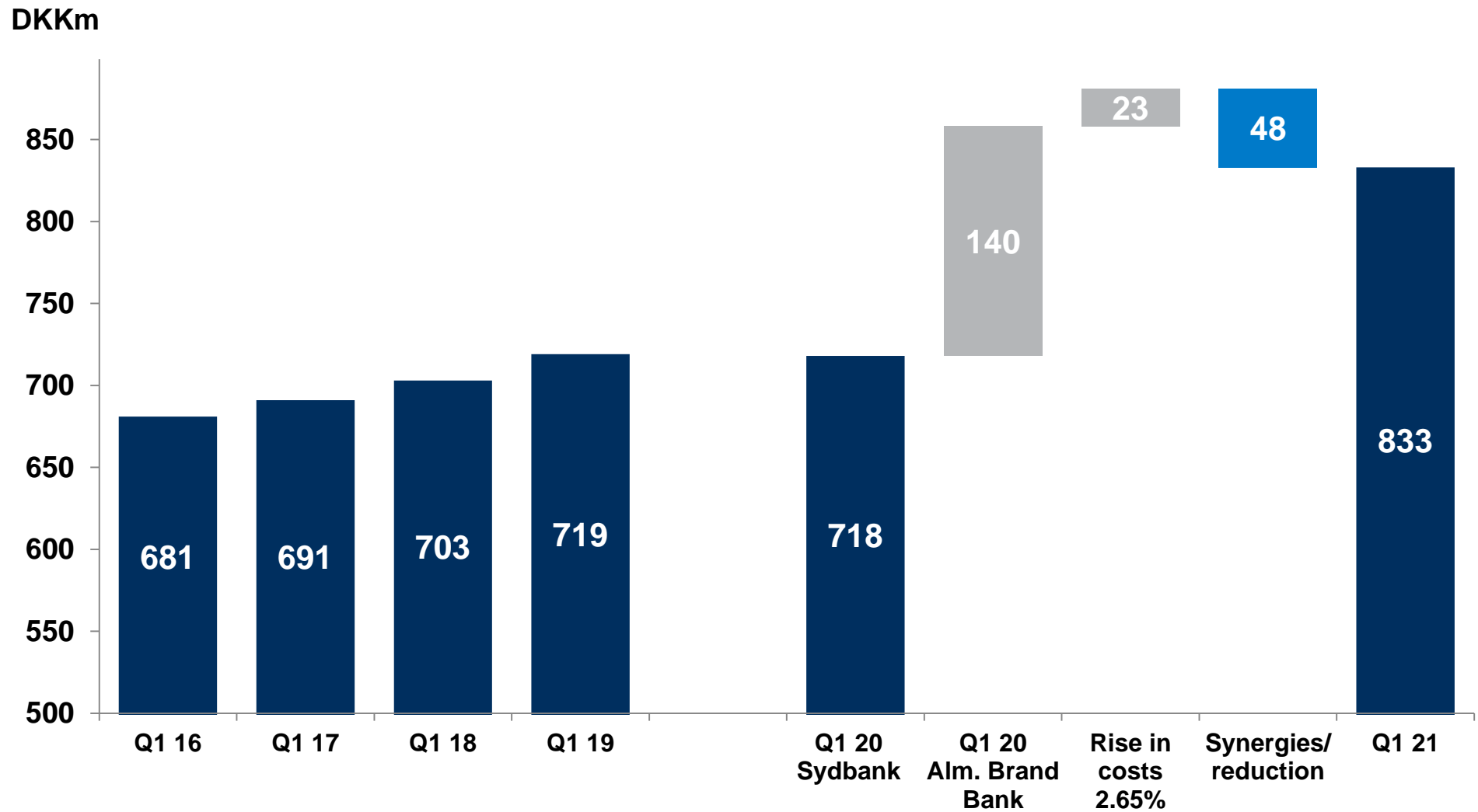
Core income up by 15% compared with Q4 2020



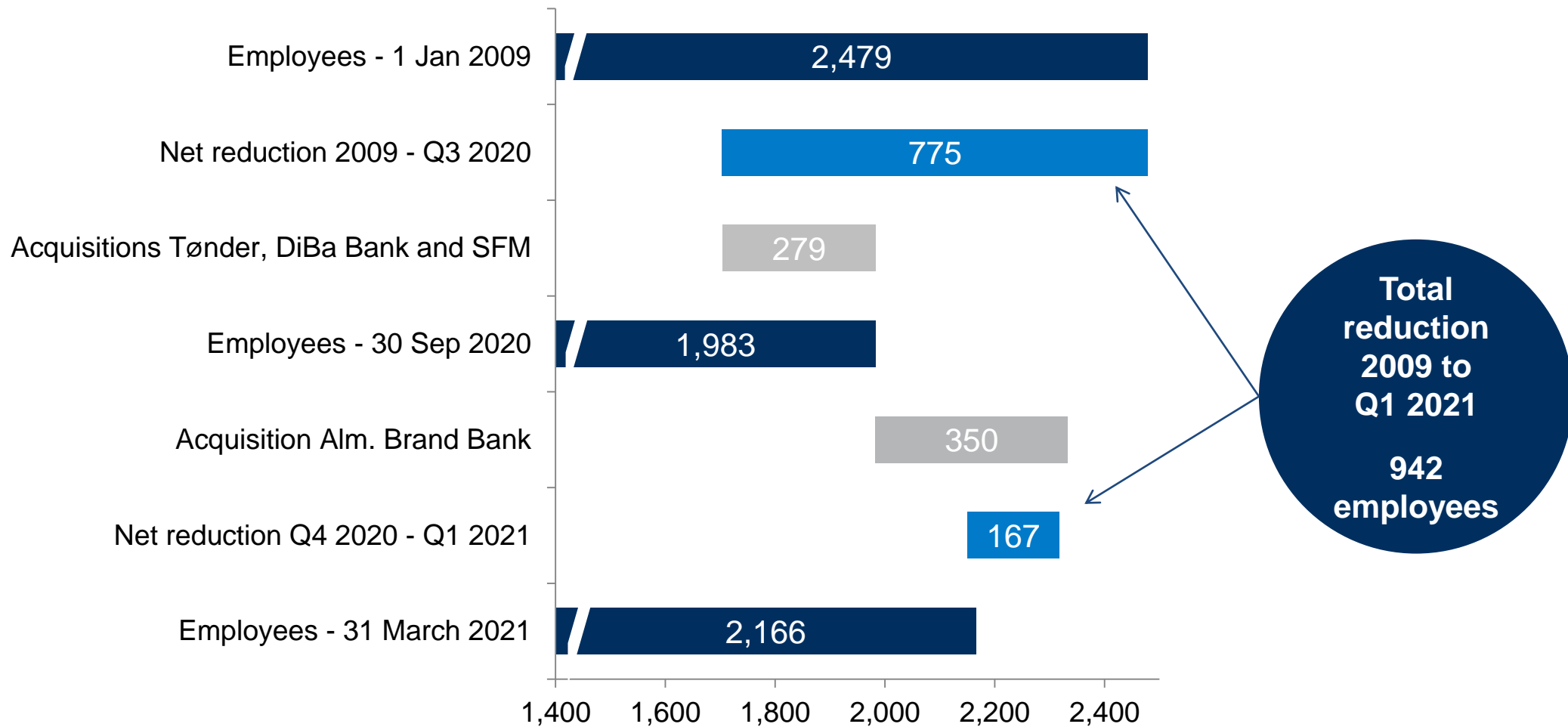
Trading income – high level continued in Q1 2021



Costs (core earnings) – synergies/reduction of DKK 48m in Q1 2021

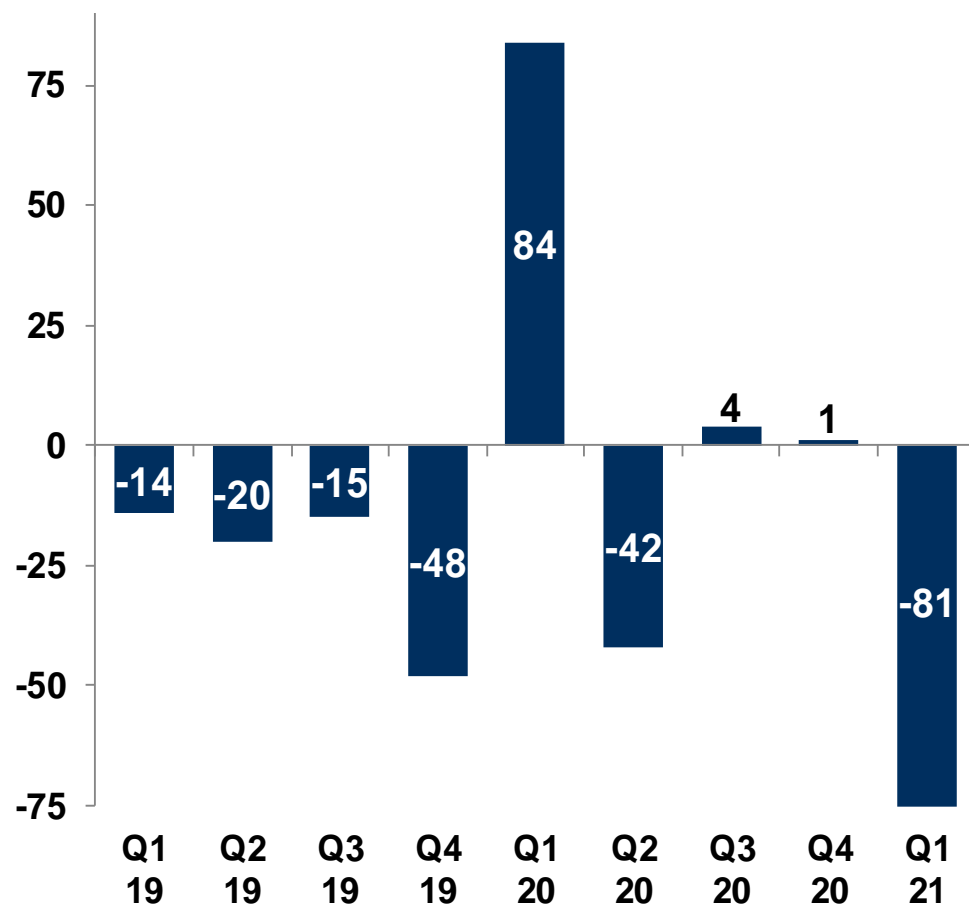


Employees – total reduction of 942 since the beginning of 2009



Impairment charges represented an income of DKK 81m in Q1 2021

DKKm Impairment charges for bank loans



Key points

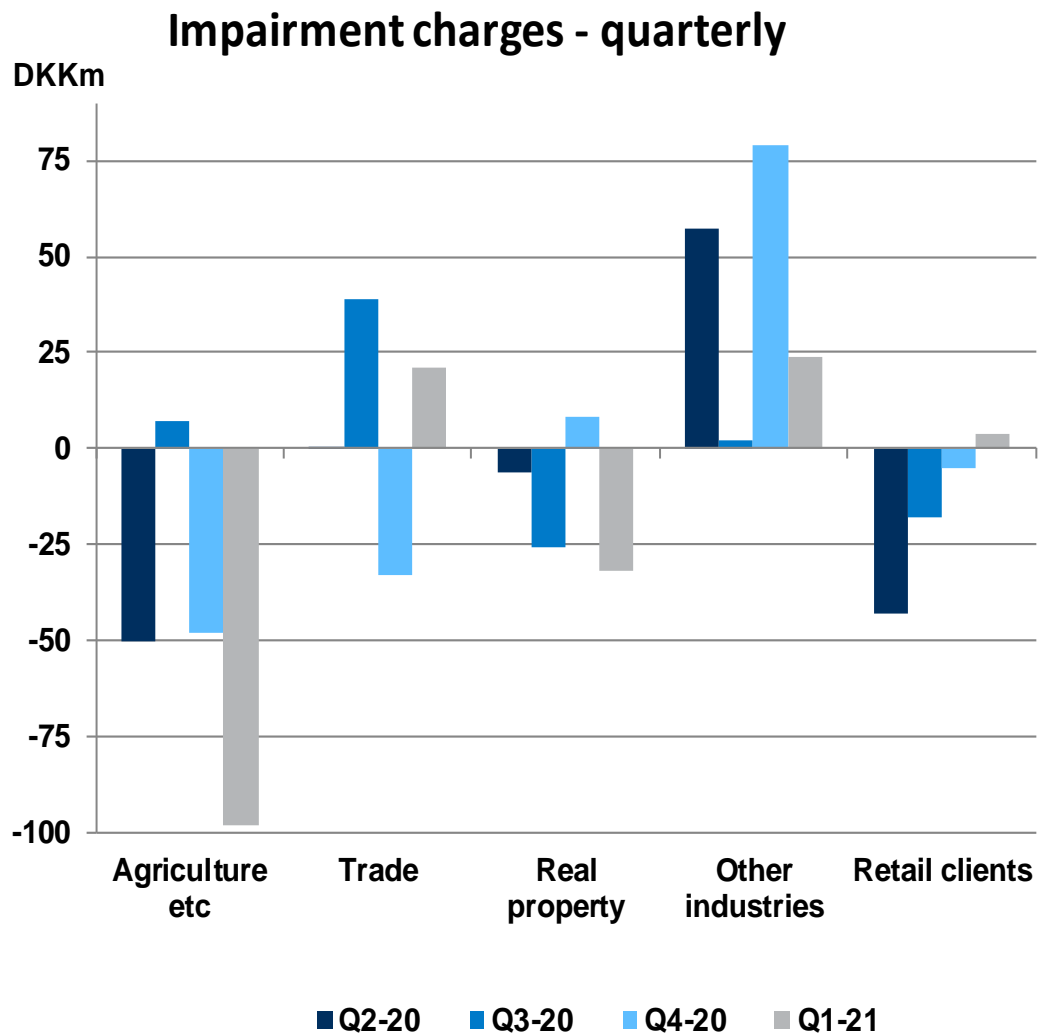
Impairment charges for loans and advances represented an income of DKK 81m in Q1 2021.

Unsecured loans in the weakest rating categories without objective evidence of credit impairment represent DKK 624m (excluding agriculture). The impairment charges include a management estimate of DKK 125m to hedge the risk of these loans, equal to 20%.

Furthermore the impairment charges include a management estimate of DKK 200m to cover unforeseen events as regards the remaining part of the lending portfolio, the credit risk of which is satisfactory or normal.

Management estimates as a result of Covid-19 continue to represent DKK 325m (Q4 2020: DKK 325m).

Impairment charges – breakdown by industry



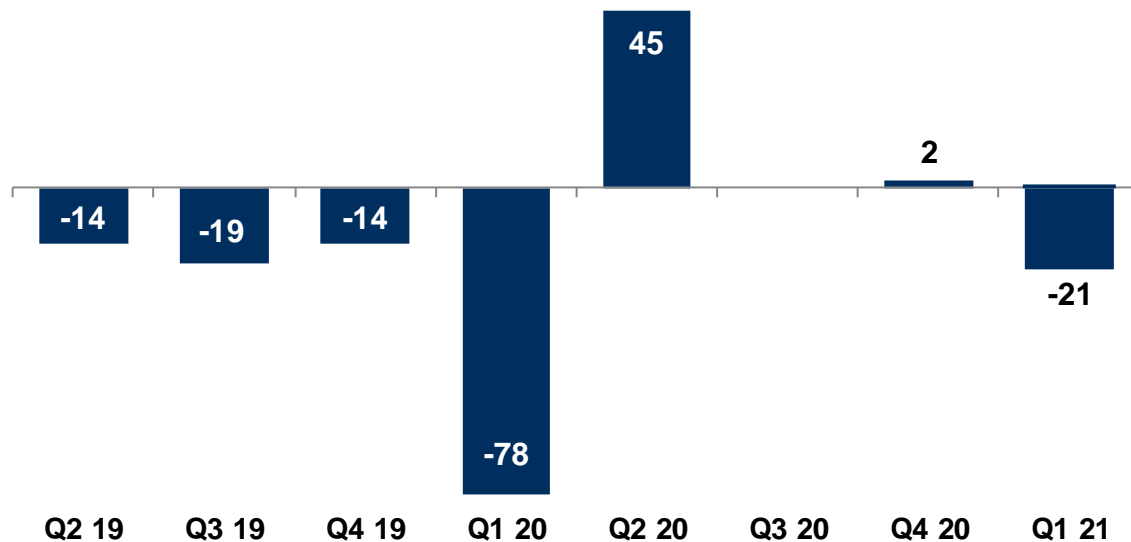
Key points Q1 2021:

- Impairment charges as regards corporate exposures represent an income of DKK 85m, of which an income of DKK 49m concerning mink farming
- Impairment charges as regards retail exposures represent an expense of DKK 4m.

DKK m	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21
Agriculture etc	7	-128	-50	7	-48	-98
Trade	4	125	0	39	-33	21
Real property	-9	-11	-6	-26	8	-32
Other industries	6	110	57	2	79	24
Total corporate lending	8	96	1	22	6	-85
Retail clients	-56	-12	-43	-18	-5	4
Total	-48	84	-42	4	1	-81

Investment portfolio earnings – negative in Q1 2021

Investment portfolio earnings – DKKm



Investment portfolio earnings constitute minus DKK 21m in Q1 2021 compared with negative earnings of DKK 78m a year ago.

Investment portfolio earnings in Q1 2021 are affected by the development in position-taking, which is attributable to widening credit spreads as well as interest rate increases.

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

Investment portfolio earnings

DKKm	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21
Position-taking	8	-48	48	16	9	-9
Liquidity generation and reserves	-20	-26	0	-14	-10	-11
Strategic positions	0	-2	-1	-1	5	1
Costs	-2	-2	-2	-1	-2	-2
Total	-14	-78	45	0	2	-21

Income statement – ROE of 9.5% in Q1 2021

DKKm	Q1 2021	Q1 2020	Index	Q1 2021	Q4 2020	Index
Core income	1,105	960	115	1,105	959	115
Trading income	73	7	-	73	74	99
Total income	1,178	967	122	1,178	1,033	114
Costs, core earnings	833	718	116	833	728	114
Core earnings before impairment	345	249	139	345	305	113
Impairment of loans and advances etc	-81	84	-	-81	1	-
Core earnings	426	165	258	426	304	140
Investment portfolio earnings	-21	-78	-	-21	2	-
Profit before non-recurring items	405	87	466	405	306	132
Non-recurring items, net	-32	-17	188	-32	-20	160
Profit before tax	373	70	533	373	286	130
Tax	82	15	547	82	60	137
Profit for the period	291	55	526	291	226	129
Costs (core earnings) / total income, C/I	0.71	0.74		0.71	0.70	
Return on equity, ROE full-year basis	9.5	1.6		9.5	7.4	
Earnings per share, EPS	4.7	0.7		4.7	3.6	

Key points Q1 21 vs Q1 20:

- Core income up by 15%
- Total income up by 22%
- Costs (core earnings) up by 16% due to acquisition of Alm. Brand Bank
- Impairment charges – an income of DKK 81m
- Core earnings up by DKK 261m.

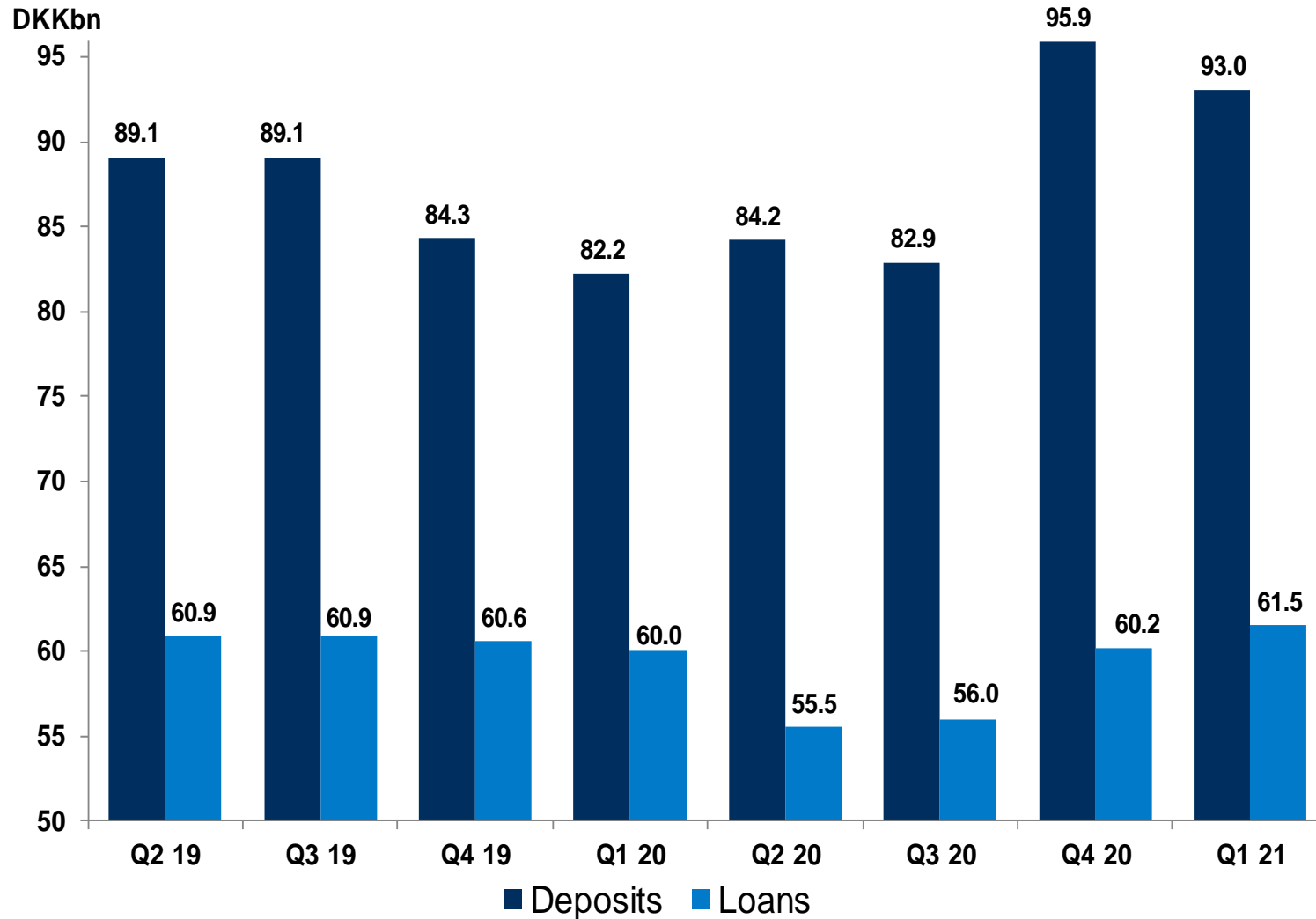
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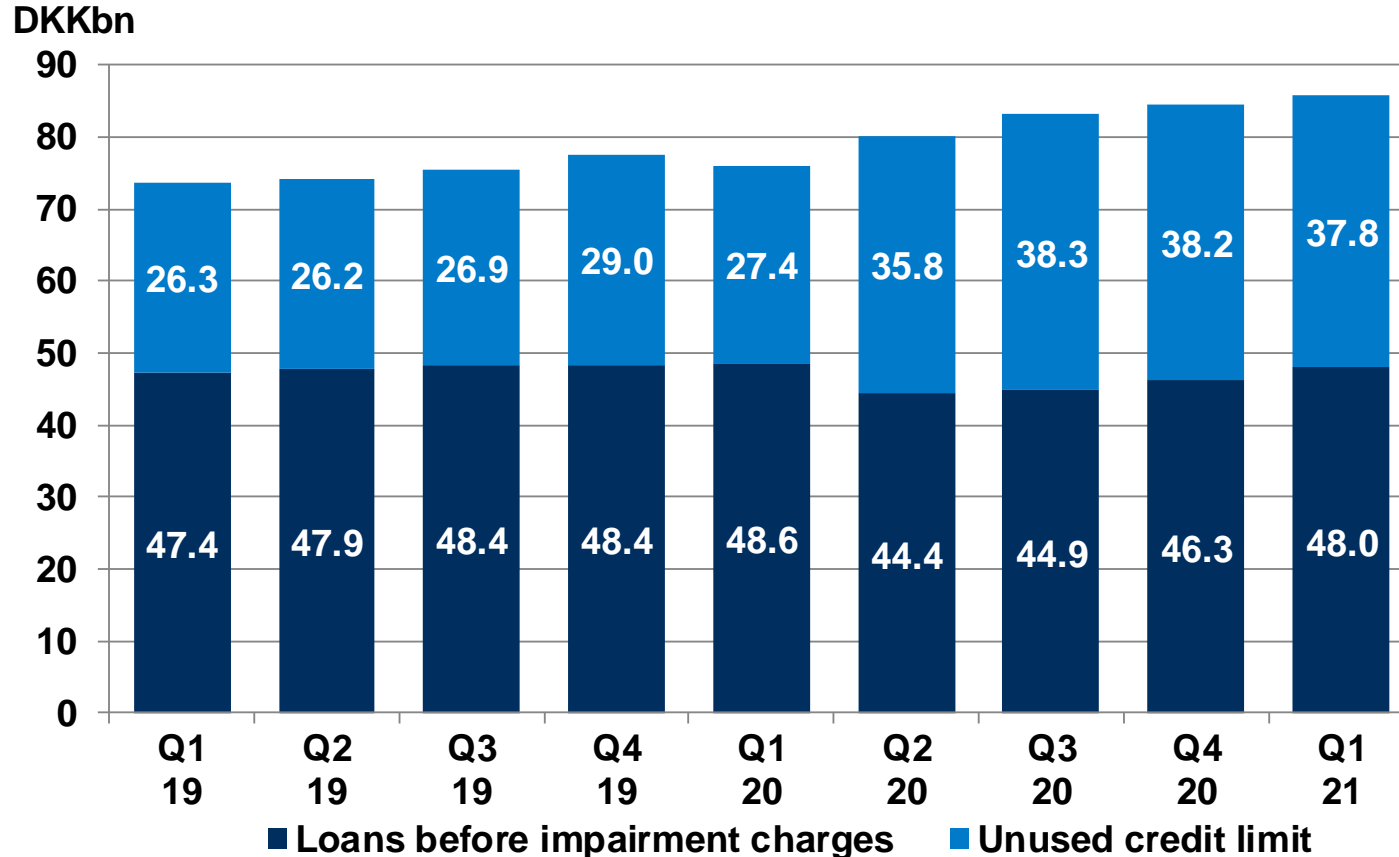
Non-recurring items, Q1 21:

- Costs of DKK 32m related to the integration of Alm. Brand Bank of DKK 23m and costs related to "A stronger bank" of DKK 9m.

Q1 2021: Loans and advances up by DKK 1.3bn and deposits down by DKK 2.9bn



Rise in credit facilities to corporate clients



Key points:

- Lending to corporate clients has been affected for instance by lower willingness to invest as well as the government's relief packages, which include deferral of VAT and tax payments
- Loans and advances to corporate clients increased by DKK 1.7bn in Q1 2021
- 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.

Corporate loans – rise in core corporate of DKK 2.2bn in Q1 2021

DKKbn	Q1 21	Q4 20	Q3 20	Q2 20	Q4 19
Manufacturing and extraction of raw materials	8,761	8,460	8,239	8,405	9,426
Energy supply etc	2,328	2,675	2,410	2,512	2,309
Building and construction	3,784	3,541	3,306	3,287	3,021
Trade	12,140	10,575	10,215	10,114	12,387
Transportation, hotels and restaurants	2,813	2,682	2,666	2,742	3,069
Information and communication	605	629	602	505	418
Finance and insurance	5,418	5,176	5,721	5,374	5,410
Other industries	3,359	3,253	2,934	2,985	3,360
Total core corporate	39,208	36,991	36,093	35,924	39,400
Agriculture, hunting, forestry and fisheries	2,647	2,677	2,861	2,728	2,849
Real property	4,613	5,054	4,337	4,085	4,542
Total corporate	46,468	44,722	43,291	42,737	46,791
Change in Q1 2021 - core corporate	2,217				
Change in Q1 2021 - other corporate	-471				
Change in Q1 2021 - total corporate	1,746				

Total credit intermediation – DKK 2.5bn increase in Q1 2021

Total credit intermediation

DKKbn	Q4 2018	Q4 2019	Q4 2020	Q1 2021	Change Q1
Bank loans - retail	15.7	13.5	15.5	15.0	-0.5
Bank loans - corporate	45.0	46.8	44.7	46.5	1.7
Bank loans - public authorities	0.3	0.3	0.0	0.0	0.0
Bank loans - total	61.0	60.6	60.2	61.5	1.3
Funded mortgage-like loans	9.9	8.3	7.0	6.5	-0.5
Bank loans and funded mortgage-like loans	70.9	68.9	67.2	68.0	0.8
Arranged mortgage loans - Totalkredit	59.6	64.7	85.7	87.2	1.5
Arranged mortgage loans - DLR	11.7	11.4	12.7	12.9	0.2
Total	142.2	145.1	165.6	168.1	2.5

- Total credit intermediation increased by DKK 2.5bn in Q1 2021

- Total credit intermediation to retail clients – by way of bank loans and advances, funded mortgage-like loans and arranged mortgage loans – up by DKK 0.5bn in Q1 2021

- Total credit intermediation to corporate clients, incl DLR, up by DKK 1.9bn in Q1 2021.

Capital ratio down by 1.0pp in Q1 21 – mainly due to new definition of default

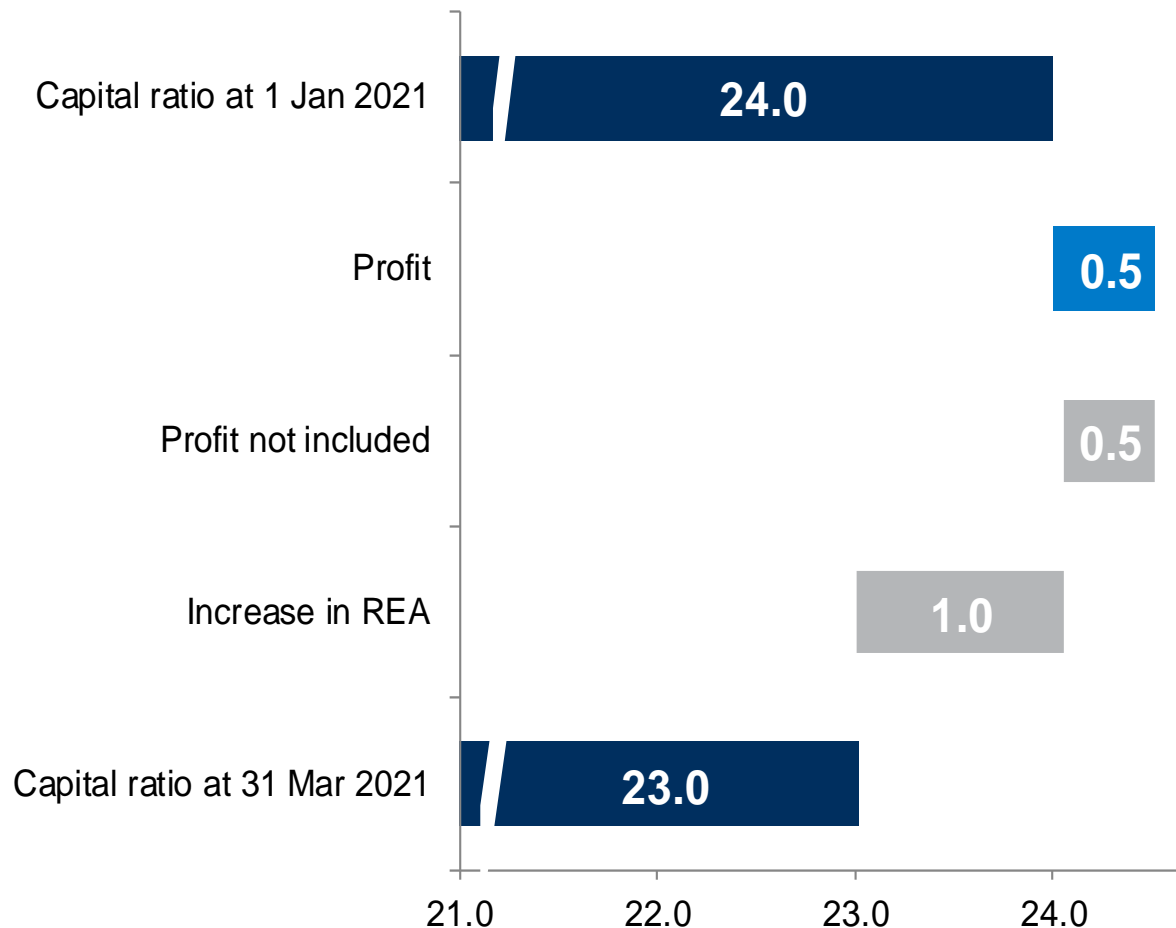
DKKm	Q4 2018	Q4 2019	Q4 2020	Q1 2021
Credit risk	36,032	35,747	33,355	37,501
Market risk	6,036	6,177	6,675	5,975
Operational risk	7,654	7,171	6,708	6,708
Other exposures incl CVA	5,680	6,065	7,302	6,315
Risk exposure amount	55,402	55,160	54,040	56,500
CET1	9,579	9,807	10,185	10,226
Tier 1	10,550	10,722	11,041	11,025
Total capital	12,390	12,620	12,952	12,985
CET1 ratio	17.3	17.8	18.8	18.1
Tier 1 ratio	19.0	19.4	20.4	19.5
Capital ratio	22.4	22.9	24.0	23.0
Individual solvency need	11.4	10.8	10.8	11.3

Key points Q1 2021:

- The DKK 2.5bn increase in REA is primarily attributable to an increase in credit risk due to a new definition of default as from 1 January 2021.
- The drop in the capital ratio by 1.0pp in Q1 2021 is due to the increase in REA.
- Assuming use of the Group's future advanced risk models, the long-term effect on the risk exposure amount is expected to be significantly smaller.

DKKm	Q4 2018	Q4 2019	Q4 2020	Q1 2021
Corporate, IRB	26,586	26,353	21,811	25,839
Retail, IRB	7,371	7,425	5,798	5,815
Corporate, STD	312	262	460	670
Retail, STD	865	903	4,559	3,980
Credit institutions etc	898	804	727	1,198
Total credit risk	36,032	35,747	33,355	37,501

Capital ratio in Q1 2021 – down by 1.0pp



Key points:

- The capital ratio declined by 1.0 percentage points in Q1 due to an increase in the risk exposure amount, which is attributable to the new definition of default as from 1 January 2021.

Outlook for 2021

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

Thank you

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- 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.