
Interim Report Q1 Report 2020

Negative effects of covid-19 and a rise in core income as a result of implemented measures
29 April 2020

Highlights – Q1 2020

Key points

Negative effects of covid-19 and positive development in core income

A stronger bank

Measures to ensure a better balance between income and costs executed as planned

Profit

Profit of DKK 55m – ROE of 1.6% p.a. after tax

Core income

Core income of DKK 960m in Q1 2020 – up by 4% compared with Q4 2019

Costs

Costs at the same level as in 2019

Impairment charges

Impairment charges represent an expense of DKK 84m in Q1 2020 due to effects of covid-19

Bank loans

Total credit intermediation at the same level as in Q4 2019
DKK 0.6bn decline in bank loans and advances in Q1 2020

CET1 ratio

CET1 ratio of 19.0% – up by 1.2% in Q1 2020

Payout

Dividend for 2019 cancelled and DKK 250m share buyback stopped

Core income – up as a result of income measures and high trading activity

DKKm	Q1 2020	Q1 2019	Index	Q1 2020	Q4 2019	Index
Net interest income etc	389	381	102	389	363	107
Mortgage credit *	154	141	109	154	153	101
Payment services	40	48	83	40	39	103
Remortgaging and loan fees	48	34	141	48	52	92
Commission and brokerage	107	78	137	107	89	120
Commission etc investment funds and pooled pension plans	73	84	87	73	78	94
Asset management	70	66	106	70	72	97
Custody account fees	20	18	111	20	18	111
Other operating income	59	50	118	59	62	95
Total	960	900	107	960	926	104
* Set-off of loss Totalcredit	3	6	50	3	5	60

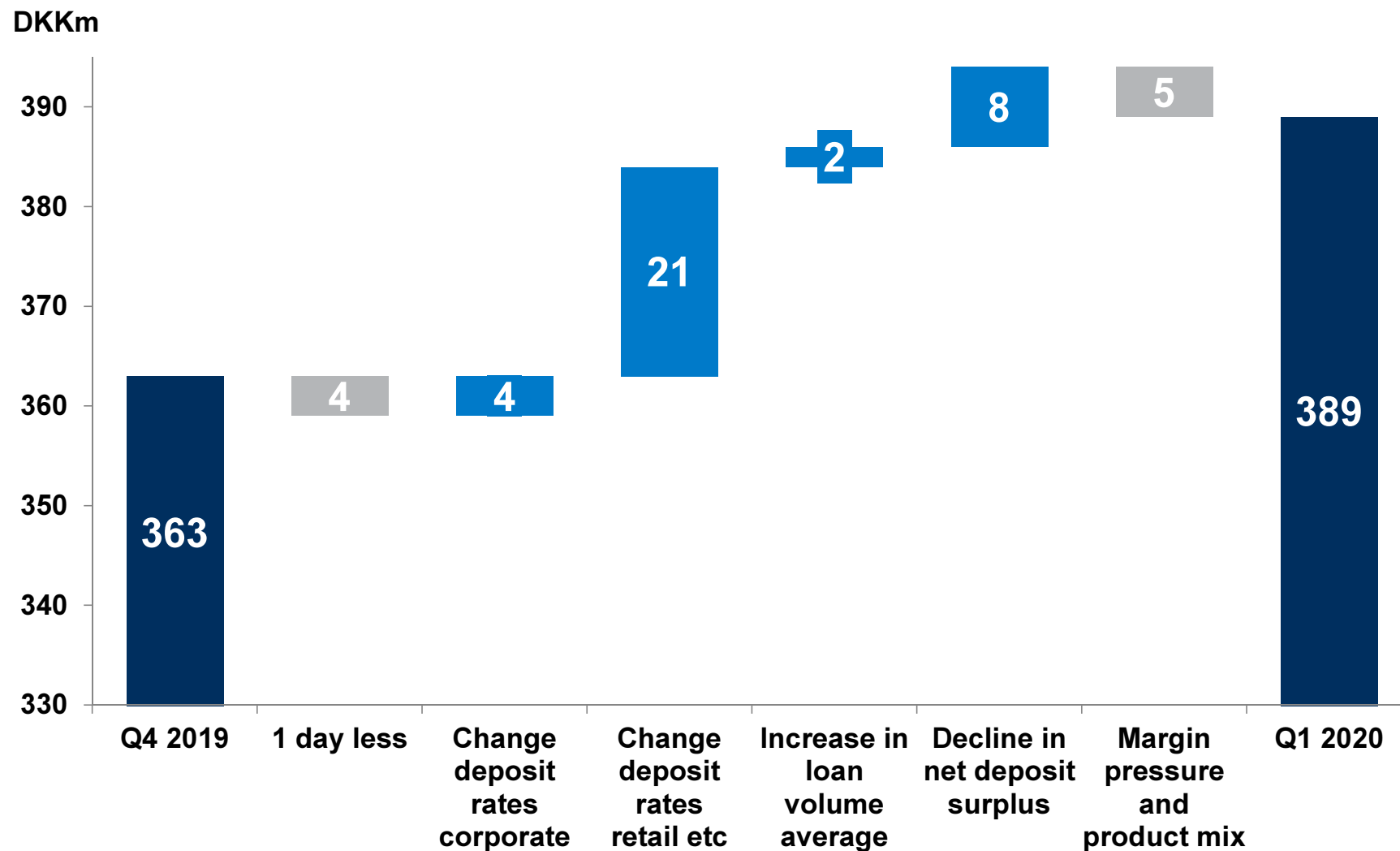
Key points Q1 20 vs Q1 19:

- Net interest income etc up by 2%
- Remortgaging and loan fees up by 41% due to remortgaging activity
- Commission and brokerage up by 37% due to high trading activity
- Other items up by a total of 2%.

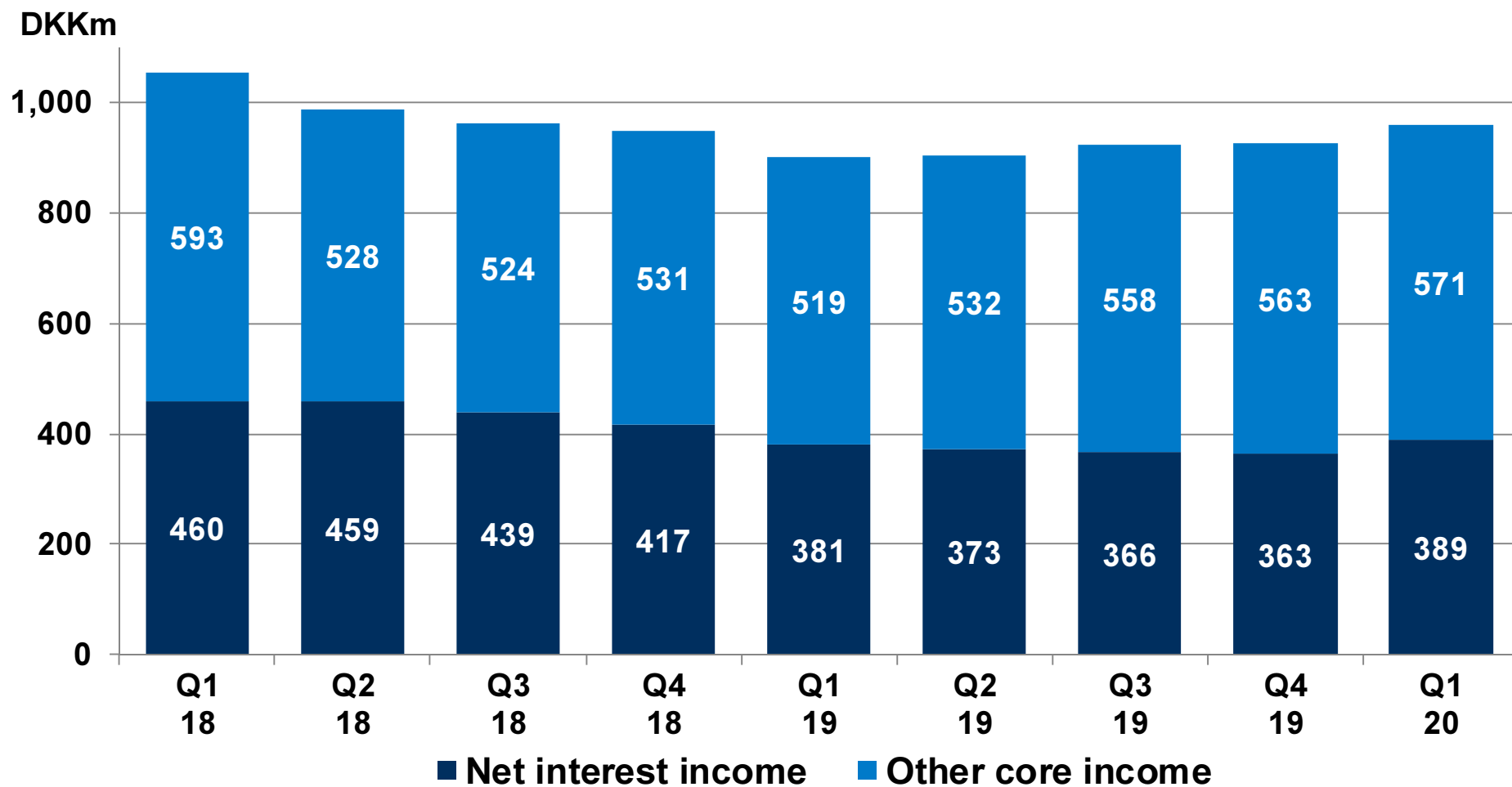
Key points Q1 20 vs Q4 19:

- Net interest income etc up by 7%
- Commission and brokerage up by 20% due to high trading activity
- Other items down by a total of 2%.

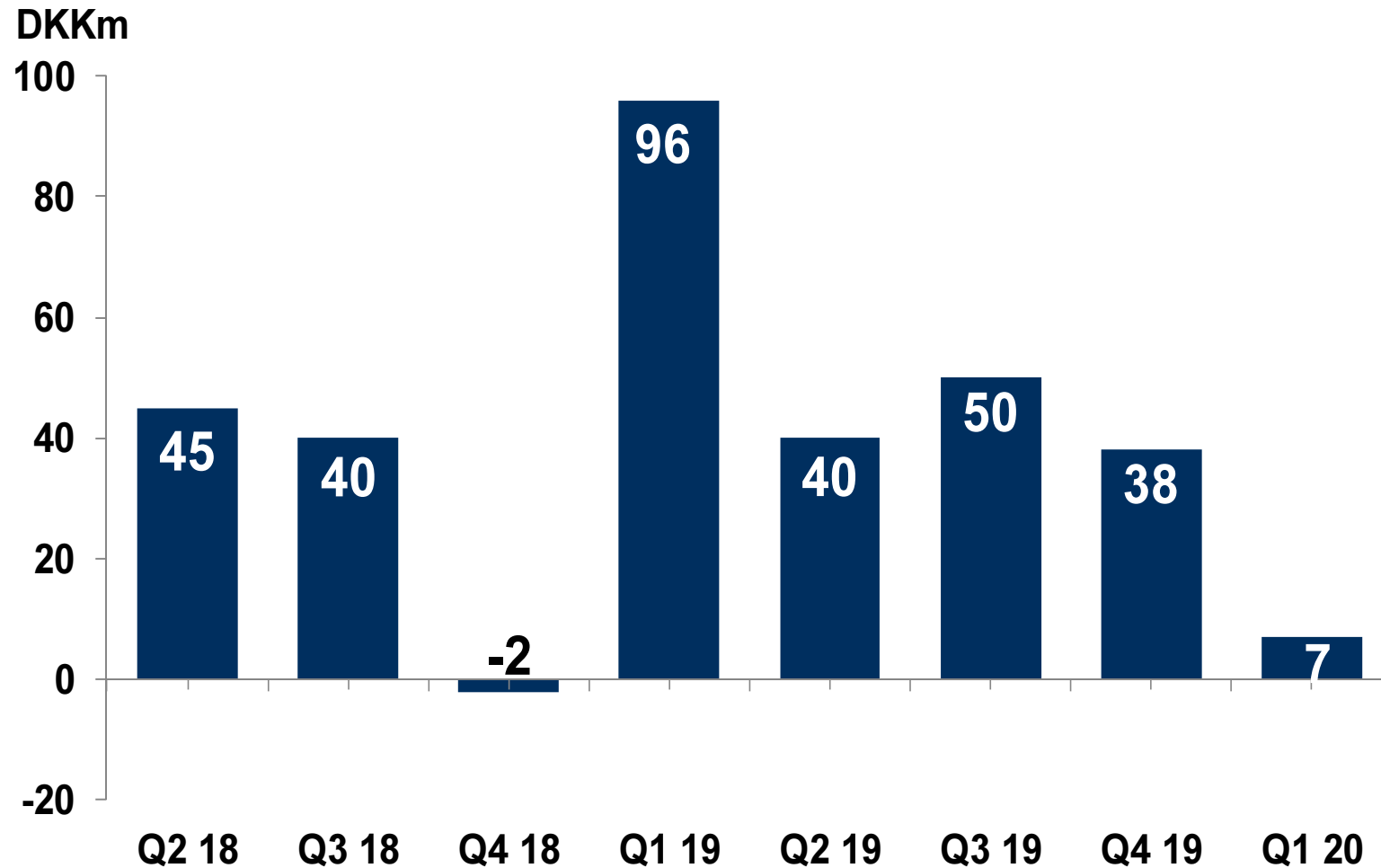
Net interest income etc – development from Q4 2019 to Q1 2020



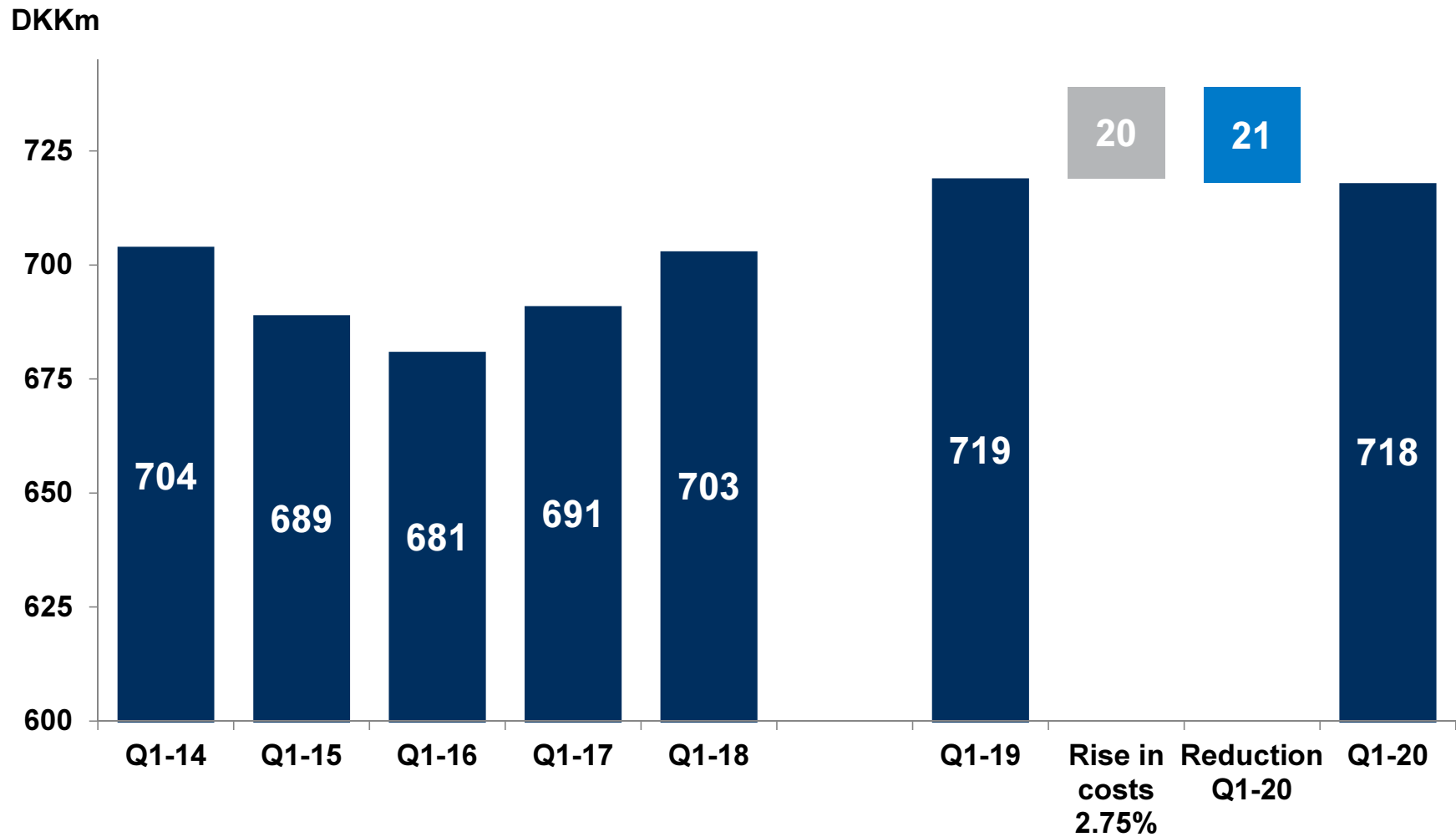
Core income back to the level of Q3 2018



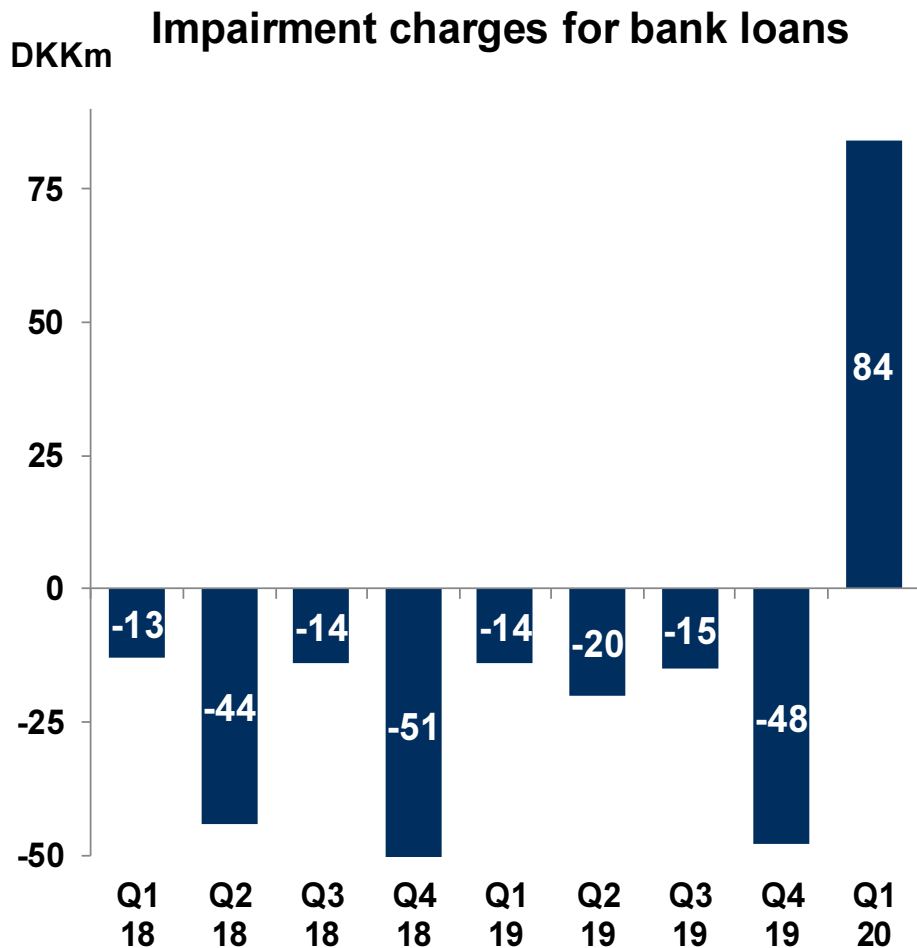
Trading income – highly volatile quarter – widening credit spreads and share price drops – high activity



Costs (core earnings) – reduction of DKK 21m in Q1 2020



Impairment charges: DKK 84m in Q1 2020 due to the effect of covid-19



Key points

Impairment charges for loans and advances represent an expense of DKK 84m after reversals for 11 consecutive quarters.

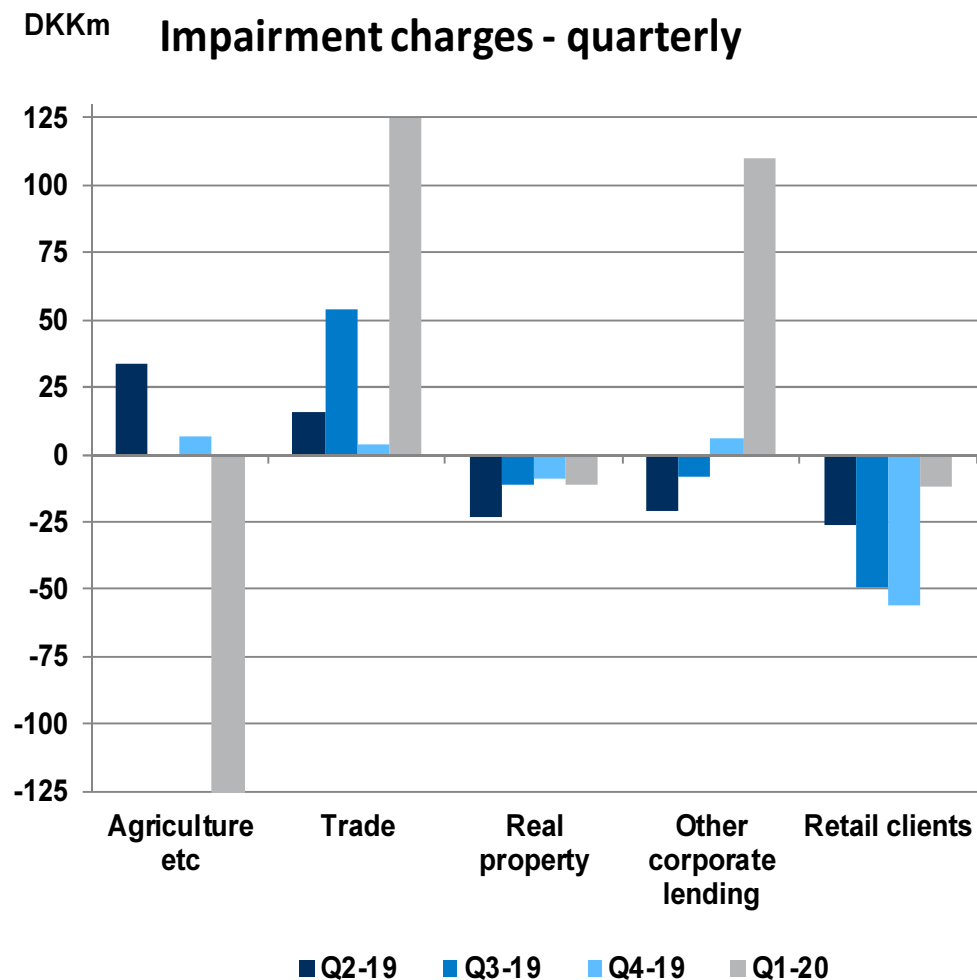
In Q1 2020 Sydbank recorded impairment charges of around DKK 175m due to covid-19. Moreover the Bank recorded reversals as regards agriculture for instance.

Unsecured loans in the weakest rating categories without objective evidence of credit impairment represent DKK 610m (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 20%.

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



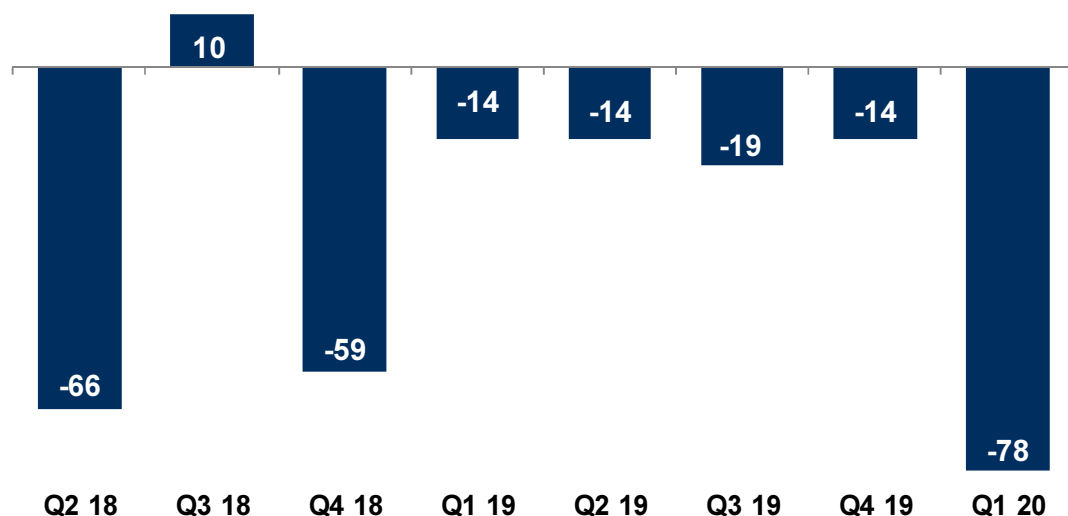
Key points Q1 2020:

- Impairment charges as regards corporate exposures represent an expense of DKK 96m
- Provision as regards agriculture has been lifted and contributes to a reversal of DKK 128m
- Impairment charges as regards retail exposures represent income of DKK 12m.

DKKm	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20
Agriculture etc	13	38	34	-1	7	-128
Trade	-5	28	16	54	4	125
Real property	-7	-23	-23	-11	-9	-11
Other corporate lending	-35	-10	-21	-8	6	110
Total corporate lending	-34	33	6	34	8	96
Retail clients	-17	-47	-26	-49	-56	-12
Total	-51	-14	-20	-15	-48	84

Investment portfolio earnings – significantly effected by widening credit spreads

Investment portfolio earnings – DKKm



Investment portfolio earnings in Q1 2020 represent minus DKK 78m compared with earnings of minus DKK 14m in Q1 2019.

Investment portfolio earnings in Q1 2020 are primarily a consequence of increased uncertainty, which has also resulted in widening credit spreads on mortgage bonds and corporate bonds.

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

Investment portfolio earnings

DKKm	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20
Position-taking	-65	-20	-8	-3	8	-48
Liquidity generation and reserves	-9	7	-4	-15	-20	-26
Strategic positions	17	1	-1	1	0	-2
Costs	-2	-2	-1	-2	-2	-2
Total	-59	-14	-14	-19	-14	-78

Income statement – ROE of 1.6% in Q1 2020

DKKm	Q1 2020	Q1 2019	Index	Q1 2020	Q4 2019	Index
Core income	960	900	107	960	926	104
Trading income	7	96	7	7	38	18
Total income	967	996	97	967	964	100
Costs, core earnings	718	719	100	718	703	102
Core earnings before impairment	249	277	90	249	261	95
Impairment of loans and advances etc	84	-14	-	84	-48	-
Core earnings	165	291	57	165	309	53
Investment portfolio earnings	-78	-14	-	-78	-14	-
Profit before non-recurring items	87	277	31	87	295	29
Non-recurring items, net	-17	-17	100	-17	-24	71
Profit before tax	70	260	27	70	271	26
Tax	15	55	28	15	76	20
Profit for the period	55	205	27	55	195	28
Costs (core earnings) / total income, C/I	0.74	0.72		0.74	0.73	
Return on equity, ROE full-year basis	1.6	7.3		1.6	6.8	
Earnings per share, EPS	0.8	3.2		0.8	3.1	

Key points Q1 20 vs Q1 2019:

- Core income up by 7%
- Total income down by 3%
- Costs (core earnings) unchanged
- Impairment charges – an expense of DKK 84m
- Core earnings down by 43%
- Negative investment portfolio earnings.

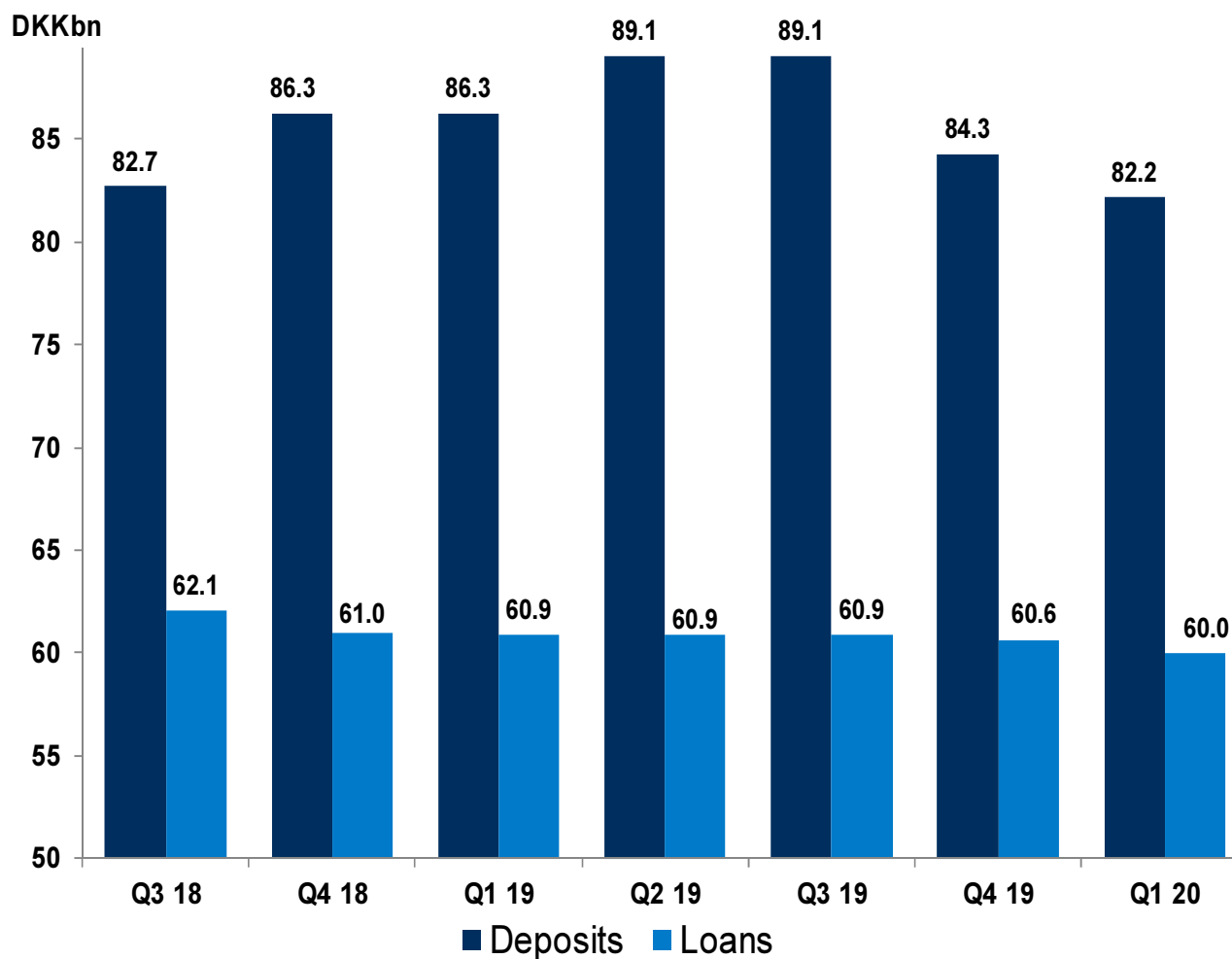
Key points Q1 20 vs Q4 19:

- Core income up by 4%
- Total income on same level
- Costs (core earnings) up by 2% due to seasonal fluctuations.

Non-recurring items, Q1 20:

- Costs of DKK 17m related to “A stronger bank” projects.

Loans and advances declined by DKK 0.6bn and deposits declined by 2.1bn in Q1 2020



Corporate loans – total core corporate up by DKK 333m in Q1 2020

DKKbn	Q1 20	Q4 19	Q3 19	Q4 18
Manufacturing and extraction of raw materials	9.356	9.426	9.443	8.469
Energy supply etc	2.511	2.309	1.903	2.168
Building and construction	3.256	3.021	3.112	2.857
Trade	12.277	12.387	12.808	11.855
Transportation, hotels and restaurants	3.052	3.069	3.223	3.185
Information and communication	483	418	397	324
Finance and insurance	5.754	5.410	5.111	5.228
Other industries	3.044	3.360	3.493	3.134
Total core corporate	39.733	39.400	39.490	37.220
Agriculture, hunting, forestry and fisheries	2.757	2.849	3.294	3.301
Real property	4.387	4.542	3.961	4.428
Total corporate	46.877	46.791	46.745	44.949
Change in Q1 2020 - core corporate	333			
Change in Q1 2020 - other corporate	-247			
Change in Q1 2020 - total corporate	86			

Total credit intermediation – unchanged in Q1 2020

Total credit intermediation

DKKbn	Q4 2017	Q4 2018	Q4 2019	Q1 2020	Change Q1
Bank loans - retail	18.0	15.7	13.5	12.9	-0.5
Bank loans - corporate	46.0	45.0	46.8	46.9	0.1
Bank loans - public authorities	0.3	0.3	0.3	0.2	-0.1
Bank loans - total	64.3	61.0	60.5	60.0	-0.5
Funded mortgage-like loans	10.0	9.9	8.3	7.9	-0.5
Bank loans and funded mortgage-like loans	74.3	70.9	68.9	67.9	-1.0
Arranged mortgage loans - Totalkredit	58.0	59.6	64.7	65.8	1.0
Arranged mortgage loans - DLR	11.7	11.7	11.4	11.3	-0.1
Total	144.0	142.2	145.1	145.0	-0.1

- Total credit intermediation unchanged in Q1 2020.
- Total credit intermediation to retail clients – by way of bank loans and advances, funded mortgage-like loans and arranged mortgage loans – is unchanged in Q1 2020.
- Total credit intermediation to corporate clients, incl DLR, unchanged in Q1 2020.

Capital ratios positively affected by a decline in risk exposure and dividend cancellation in 2019

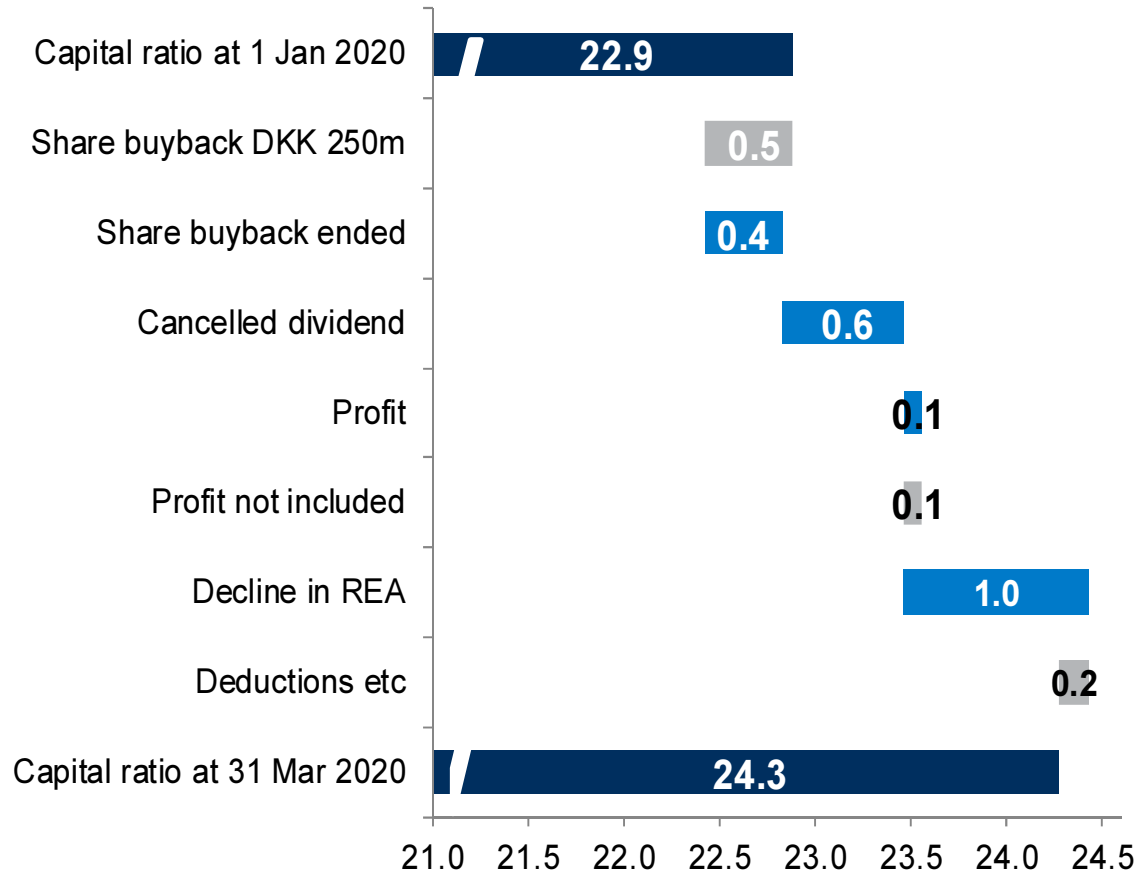
DKKm	Q4 2017	Q4 2018	Q4 2019	Q1 2020
Credit risk	38,933	36,032	35,747	35,399
Market risk	6,239	6,036	6,177	4,310
Operational risk	8,023	7,654	7,171	7,171
Other exposures incl CVA	5,694	5,680	6,065	6,076
Risk exposure amount	58,889	55,402	55,160	52,956
CET1	10,167	9,579	9,807	10,045
Tier 1	10,446	10,550	10,722	10,904
Total capital	12,240	12,390	12,620	12,852
CET1 ratio	17.3	17.3	17.8	19.0
Tier 1 ratio	17.7	19.0	19.4	20.6
Capital ratio	20.8	22.4	22.9	24.3
Individual solvency need	11.0	11.4	10.8	11.5

Key points Q1 2020:

- The DKK 2.1bn decline in REA is primarily attributable to a DKK 1.9bn decline in market risk.
- The capital ratio rose by 1.0pp in Q1 2020 due to the decline in REA.
- The capital ratio grew by 0.6pp due to cancellation of dividend for 2019.

DKKm	Q4 2017	Q4 2018	Q4 2019	Q1 2020
Corporate, IRB	28,131	26,586	26,353	26,129
Retail, IRB	8,271	7,371	7,425	6,794
Corporate, STD	413	312	262	275
Retail, STD	731	865	898	923
Credit institutions etc.	1,387	898	809	1,278
Total credit risk	38,933	36,032	35,747	35,399

Capital ratio in Q1 2020 – up by 1.4pp



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 market risk.

Outlook for 2020

- Significant negative growth is projected for the Danish economy in 2020.
- As a consequence of the income measures implemented, core income is expected to exceed the core income generated in 2019.
- Despite underlying cost inflation, costs (core earnings) are projected to be at the same level as in 2019.
- Impairment charges for 2020 will be adversely impacted by the effects of covid-19.
- With the aim of enhancing efficiency and automating processes, investments of around DKK 75m will be made. This investment is recognised under non-recurring items.
- Profit after tax is expected to be in the range of DKK 400-800m.
- The expectations regarding impairment charges and profit after tax are subject to significant uncertainty at the moment.

Thank you

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