
Interim Report – Q1 2019

Sydbank Group

Sydbank

Sydbank's Interim Report – Q1 2019

Q1 2019 was characterised by brisk activity in financial markets, strong credit quality and continued pressure on core income

On the back of the results achieved during the two most recent strategy periods, Sydbank has entered a new 3-year strategy period. The new strategy “**A stronger bank**” seeks to ensure that the positive trend since the beginning of 2014 continues.

CEO Karen Frøsig comments on Sydbank's Q1 result:

- We are pleased that despite significant pressure on the Bank's core income we have recorded an increase in total income compared with Q4 2018 thanks to very high activity in Sydbank Markets. Moreover it is positive to note continued growth in core corporate lending also in Q1 2019 as well as the reversal of impairment charges for the eighth consecutive quarter.

On the transition to Sydbank's new 3-year strategy plan she comments:

- Customers set great store by decency, accessibility, transparency and speed. In other words banks that can be trusted. We strive to honour this through Sydbank's strategy “A stronger bank”. A task taken on by everyone at Sydbank. Therefore it is highly satisfying to see a significant increase in employee engagement from an already high level and a continued positive development in customer satisfaction.

Q1 2019 – highlights

- Profit of DKK 205m equals a return on equity of 7.3% p.a. after tax.
- Total income of DKK 996m is 5% higher than total income in Q4 2018.
- Impairment charges for loans and advances represent an income of DKK 14m, on a par with the same period in 2018.
- Total credit intermediation has increased by DKK 0.3bn, equal to 0.2% compared to year-end 2018.
- A share buyback of DKK 250m will be commenced on 2 May 2019.
- Predominantly due to the announced share buyback programme, the Common Equity Tier 1 capital ratio has declined by 0.4 percentage points compared to year-end 2018 and constitutes 16.9% excluding profit for the period. When including 50% of profit for the period, the Common Equity Tier 1 capital ratio stands at 17.1%.

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.
- The outlook is subject to uncertainty and depends among other things on financial market developments and macroeconomic factors.

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Group Financial Highlights

	Q1 2019	Q1 2018*	Index 19/18	Full year 2018*
Income statement (DKKbn)				
Core income	900	1,053	85	3,951
Trading income	96	55	175	138
Total income	996	1,108	90	4,089
Costs, core earnings	719	703	102	2,722
Core earnings before impairment	277	405	68	1,367
Impairment of loans and advances etc	(14)	(13)	108	(122)
Core earnings	291	418	70	1,489
Investment portfolio earnings	(14)	(12)	117	(127)
Profit before non-recurring items	277	406	68	1,362
Non-recurring items, net	(17)	105	(16)	58
Profit before tax	260	511	51	1,420
Tax	55	80	69	259
Profit for the period	205	431	48	1,161
Balance sheet highlights (DKKbn)				
Loans and advances at amortised cost	60.9	63.5	96	61.0
Loans and advances at fair value	6.7	4.4	152	6.5
Deposits and other debt	86.3	81.5	106	86.3
Bonds issued at amortised cost	7.4	3.7	200	3.7
Subordinated capital	1.9	1.9	100	1.9
Additional Tier 1 capital	0.8	-	-	0.8
Shareholders' equity	10.5	11.3	93	10.9
Total assets	145.6	134.3	108	140.5
Financial ratios per share (DKK per share of DKK 10)				
Profit for the period	3.2	6.5		17.6
Share price at end of period	138.0	222.2		155.1
Book value	172.6	170.5		179.0
Share price/book value	0.80	1.30		0.87
Average number of shares outstanding (in millions)	61.0	66.8		64.8
Dividend per share	-	-		9.36
Other financial ratios and key figures				
Common Equity Tier 1 capital ratio	16.9	16.6		17.3
Tier 1 capital ratio	18.5	17.0		19.0
Capital ratio	22.0	20.2		22.4
Pre-tax profit as % p.a. of average equity	9.3	17.6		12.5
Post-tax profit as % p.a. of average equity	7.3	14.8		10.2
Costs (core earnings) as % of total income	72.2	63.4		66.6
Return on assets (%)	0.1	0.3		0.83
Interest rate risk	0.5	0.9		1.3
Foreign exchange position	1.4	1.6		1.3
Foreign exchange risk	0.0	0.0		0.0
Liquidity, LCR (%)	186	181		184
Loans and advances relative to deposits	0.6	0.6		0.6
Loans and advances relative to equity	5.8	5.6		5.6
Growth in loans and advances during the period	(0.2)	(1.2)		(5.2)
Total large exposures	0.0	30.3		0.0
Accumulated impairment ratio	3.6	4.0		3.8
Impairment ratio for the period	(0.02)	(0.02)		(0.16)
Number of full-time staff at end of period	2,111	2,088	101	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 2019 was characterised by brisk activity in financial markets, strong credit quality and continued pressure on core income

Sydbank's financial statements for Q1 show a pre-tax profit of DKK 260m compared with DKK 511m in Q1 2018. The decline is primarily attributable to a drop in non-recurring items of DKK 122m and a drop in total income of DKK 112m.

Profit before tax equals a return of 9.3% p.a. on average equity.

Total income, costs (core earnings), impairment charges and non-recurring items recorded in Q1 2019 are on a par with the expectations presented in the 2018 Annual Report.

Net interest etc constitutes DKK 381m compared with DKK 460m in 2018 – a decline of DKK 79m. DKK 20m of the decline is attributable to the issue of non-preferred senior debt to fulfil the MREL.

Core income represents DKK 900m compared with DKK 1,053m in 2018 – a decrease of DKK 153m.

Total income amounts to DKK 996m compared with DKK 1,108m in 2018 – a decline of DKK 112m.

Core earnings constitute DKK 291m compared with DKK 418m in 2018 – a decrease of DKK 127m.

Profit for the period amounts to DKK 205m compared with DKK 431m in 2018 – a decline of DKK 226m.

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

On the back of the satisfactory results achieved during the two most recent strategy periods, Sydbank has embarked on a new 3-year strategy plan to ensure that the positive trend since the beginning of 2014 continues. The strategy is named: “**A stronger bank**”.

We will build 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 performance

Core income totals DKK 900m, which is DKK 153m lower than in Q1 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 constitutes DKK 96m in Q1 2019 compared with DKK 55m in the same period in 2018.

Total income represents DKK 996m, a decrease of DKK 112m compared with Q1 2018.

Costs (core earnings) constitute DKK 719m compared with DKK 703m in 2018 – an increase of DKK 16m.

The Group's impairment charges for loans and advances represent an income of DKK 14m, which is an improvement of DKK 1m compared to Q1 2018.

Together the Group's position-taking and liquidity handling recorded negative investment portfolio earnings of DKK 14m in Q1 2019 compared with negative earnings of DKK 12m a year ago.

Non-recurring items represent a net expense of DKK 17m compared with an income of DKK 105m in Q1 2018. The item consists of costs of DKK 17m related to "A stronger bank".

Profit before tax for Q1 2019 amounts to DKK 260m compared with DKK 511m in the same period in 2018. Tax represents DKK 55m, equivalent to an effective tax rate of 21.2%. Profit for the period amounts to DKK 205m compared with DKK 431m 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 31 March 2019 credit intermediation totalled DKK 142.5bn – an increase of DKK 0.3bn since year-end 2018.

Total credit intermediation (DKKbn)	31 Mar 2019	31 Dec 2018
Bank loans and advances	60.9	61.0
Funded mortgage-like loans	9.6	9.9
Arranged mortgage loans – Totalkredit	60.3	59.6
Arranged mortgage loans – DLR	11.7	11.7
Total	142.5	142.2

Capital

The Bank will initiate the previously announced 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.

Corporate citizenship – we are happy to take responsibility in society

Companies’ responsibility as ‘citizens’ is discussed under various names such as CSR, corporate accountability, corporate ethics, ESG and sustainability. At Sydbank we have chosen ‘corporate citizenship’ as the collective term for our activities in this area. As we see it Sydbank is a citizen in a community that carries obligations but that is also evolving dynamically.

Companies’ social responsibility, especially that of banks, is the subject of growing attention and debate. We welcome this. As companies we have better opportunities to perform effectively when there is harmony between our conduct and the expectations of the general public or other stakeholders. The key to this is dialogue.

The below matrix illustrates Sydbank’s most important corporate citizenship themes and their potential consequences. The size of the circles indicates Sydbank’s possibility of contributing to solutions at a societal level.



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 clients 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 2019

The Sydbank Group has recorded a profit before tax of DKK 260m (Q1 2018: DKK 511m).

Profit before tax equals a return of 9.3% p.a. on average equity.

Profit for the period after tax represents DKK 205m compared with DKK 431m in 2018.

Profit after tax equals a return on average equity of 7.3% p.a.

Profit for Q1 2019 is in line with the expectations at the beginning of the year.

The result is characterised by:

Q1

- A decrease in core income of DKK 153m to DKK 900m
- A rise in trading income of DKK 41m
- A 2% increase in costs (core earnings) to DKK 719m
- A reversal of DKK 14m in impairment charges for loans and advances
- A drop in core earnings of DKK 127m to DKK 291m
- Negative investment portfolio earnings of DKK 14m
- Bank loans and advances of DKK 60.9bn (year-end 2018: DKK 61.0bn)
- Bank deposits of DKK 86.3bn (year-end 2018: DKK 86.3bn)
- A capital ratio of 22.0%, including a Common Equity Tier 1 capital ratio of 16.9%
- An individual solvency need of 11.2% (year-end 2018: 11.4%).

Income statement – Q1 (DKK m)	2019	2018
Core income	900	1,053
Trading income	96	55
Total income	996	1,108
Costs, core earnings	719	703
Core earnings before impairment	277	405
Impairment of loans and advances etc	(14)	(13)
Core earnings	291	418
Investment portfolio earnings	(14)	(12)
Profit before non-recurring items	277	406
Non-recurring items, net	(17)	105
Profit before tax	260	511
Tax	55	80
Profit for the period	205	431

Core income

Core income represents DKK 900m – a drop of DKK 153m compared with 2018.

Net interest has decreased by DKK 79m to DKK 381m. DKK 20m 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 enters into force on 1 July 2019.

Net income from the cooperation with Totalkredit represents DKK 112m (2018: DKK 115m) after a set-off of loss of DKK 6m (2018: DKK 6m).

The cooperation with DLR Kredit has generated an income of DKK 29m (2018: DKK 30m).

Compared to 2018 total mortgage credit income has gone down by DKK 5m to DKK 141m – a decrease of 3%.

Commission and brokerage income has fallen from DKK 82m to DKK 78m – a decrease of 5% compared to 2018.

Income from commission etc concerning investment funds and pooled pension plans has declined by DKK 59m compared with 2018 to DKK 84m 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 decreased by DKK 6m compared to 2018 – a decline of 3%.

Core income – Q1 (DKK m)	2019	2018
Net interest etc	381	460
Mortgage credit	141	146
Payment services	48	45
Remortgaging and loan fees	34	38
Commission and brokerage	78	82
Commission etc investment funds and pooled pension plans	84	143
Asset management	66	67
Custody account fees	18	19
Other operating income	50	53
Total	900	1,053

Trading income

Trading income constitutes DKK 96m in Q1 2019 compared with DKK 55m in the same period in 2018.

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

Costs and depreciation

The Group's costs and depreciation totalled DKK 738m, equal to an increase of DKK 28m compared with 2018. The increase is a consequence of general pay rises for the financial sector and a payroll tax increase of 0.5%.

Costs and depreciation – Q1 (DKKm)	2019	2018
Staff costs	425	404
Other administrative expenses	282	277
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	27	24
Other operating expenses	4	5
Total costs and depreciation	738	710
Distributed as follows:		
Costs, core earnings	719	703
Costs, investment portfolio earnings	2	2
Non-recurring costs	17	5

Costs (core earnings) represent DKK 719m compared with DKK 703m in 2018.

At 31 March 2019 the Group's staff numbered 2,111 (full-time equivalent) compared with 2,088 at 31 March 2018.

The number of branches has been reduced by two compared with year-end 2018: 60 in Denmark and three in Germany.

Core earnings before impairment

Core earnings before impairment charges for loans and advances represent DKK 277m – a decrease of DKK 128m or 32% compared with the same period in 2018.

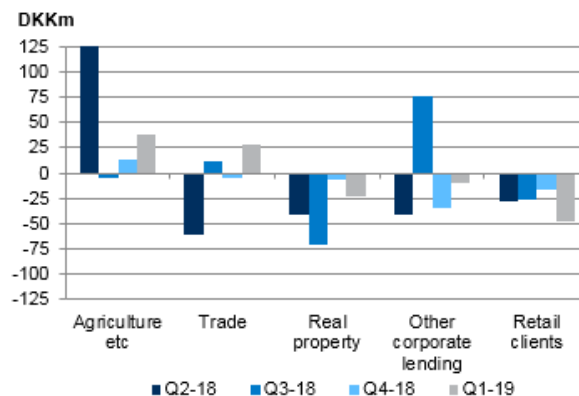
Impairment of loans and advances etc

Impairment charges for loans and advances represent an income of DKK 14m compared with an income of DKK 13m in the same period in 2018.

Additional impairment charges for agricultural exposures are unchanged compared with year-end 2018 and represent DKK 100m at 31 March 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 31 March 2019 represents minus 0.02%. At end-March 2019 accumulated impairment and provisions amount to DKK 2,788m – a decline of DKK 136m compared to year-end 2018.

In Q1 2019 reported losses amounted to DKK 155m (Q1 2018: DKK 119m). Of the reported losses an impairment charge of DKK 152m 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 31 March 2019 allocated to these three stages are shown below.

31 Mar 2019 (DKKm)	Stage 1	Stage 2	Stage 3	Total
Loans/advances before impairment charges	55,262	5,190	2,997	63,449
Impairment charges	98	903	1,598	2,599
Loans/advances after impairment charges	55,164	4,287	1,399	60,850

31 Mar 2019 (%)	Stage 1	Stage 2	Stage 3	Total
Impairment charges as % of bank loans and advances	0.2	17.4	53.3	4.1
Share of bank loans and advances before impairment charges (%)	87.1	8.2	4.7	100.0
Share of bank loans and advances after impairment charges (%)	90.7	7.0	2.3	100.0

Credit impaired bank loans and advances – stage 3 – represent 4.7% 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 31 March 2019 stand at 53.3%.

Core earnings

Core earnings represent DKK 291m – a decrease of DKK 127m or 30% compared with the same period in 2018.

Investment portfolio earnings

Together the Group's position-taking and liquidity handling generated negative investment portfolio earnings of DKK 14m in Q1 2019 compared with negative earnings of DKK 12m a year ago.

The negative investment portfolio earnings in Q1 2019 are a consequence of a decline in interest rates.

Risk has changed during Q1 2019 and at present investment portfolio earnings are virtually neutral in terms of interest rate changes.

Investment portfolio earnings – Q1 (DKKm)	2019	2018
Position-taking	(20)	(4)
Liquidity generation and liquidity reserves	7	(1)
Strategic positions	1	(5)
Costs	(2)	(2)
Total	(14)	(12)

Margin expenses as regards the Group's non-callable senior issues are included under liquidity generation and liquidity reserves and represented DKK 5m in Q1 2018. The Group did not issue non-callable senior debt in Q1 2019.

Non-recurring items

Non-recurring items total a net expense of DKK 17m compared with an income of DKK 105m in Q1 2018. In Q1 2018 the item consisted of costs of DKK 5m 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. In Q1 2019 the item consisted of costs related to "A stronger bank".

Profit for the period

Profit before tax amounts to DKK 260m (Q1 2018: DKK 511m). Tax represents DKK 55m, equivalent to an effective tax rate of 21.2%. Profit for the period amounts to DKK 205m compared with DKK 431m in 2018.

Return

Profit for the period equals a return on average equity of 7.3% p.a. after tax against 14.8% p.a. in Q1 2018. Earnings per share stands at DKK 3.2 compared with DKK 6.5 in 2018.

Subsidiaries

Ejendomsselskabet has recorded a profit after tax of DKK 2m (Q1 2018: DKK 2m). Profit after tax in DiBa A/S and Syd Fund Management A/S represents DKK 0m (Q1 2018: DKK 6m) and DKK 6m (Q1 2018: DKK 6m) respectively.

Q1 2019 compared with Q4 2018

Profit before tax for the quarter represents DKK 260m.

Compared with Q4 2018 profit before tax reflects:

- a decrease in core income of DKK 48m
- a rise in trading income of DKK 98m
- an increase in costs (core earnings) of DKK 33m
- a rise in impairment charges for bank loans and advances of DKK 37m
- a drop in core earnings of DKK 20m to DKK 291m
- investment portfolio earnings of minus DKK 14m (Q4 2018: minus DKK 59m).

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

Total assets

The Group's total assets made up DKK 145.6bn at 31 March 2019 against DKK 140.5bn at year-end 2018.

Assets (DKKbn)	31 Mar 2019	31 Dec 2018
Amounts owed by credit institutions etc	15.3	15.8
Loans and advances at fair value (reverse transactions)	6.7	6.5
Loans and advances at amortised cost (bank loans and advances)	60.9	61.0
Securities and holdings etc	35.7	32.0
Assets related to pooled plans	17.4	16.2
Other assets etc	9.6	9.0
Total	145.6	140.5

The Group's bank loans and advances make up DKK 60.9bn at end-March 2019 against DKK 61.0bn at year-end 2018 and DKK 63.5bn at end-March 2018.

Equity and liabilities (DKKbn)	31 Mar 2019	31 Dec 2018
Amounts owed to credit institutions etc	5.5	5.3
Deposits and other debt	86.3	86.3
Deposits in pooled plans	17.4	16.2
Bonds issued	7.4	3.7
Other liabilities etc	15.3	14.9
Provisions	0.5	0.5
Subordinated capital	1.9	1.9
Equity	11.3	11.7
Total	145.6	140.5

The Group's deposits make up DKK 86.3bn – unchanged compared with year-end 2018.

Capital

At 31 March 2019 shareholders' equity constitutes DKK 10,539m – a drop of DKK 383m since year-end 2018. The change comprises an addition from profit for the period of DKK 205m less actual distribution of DKK 583m and net purchases of own shares etc of DKK 5m.

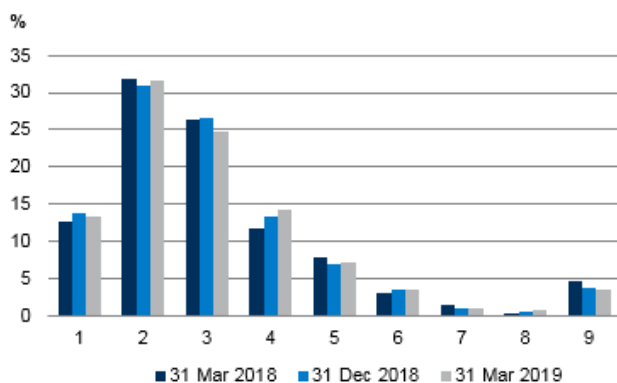
The Bank will initiate the previously announced share buyback programme of DKK 250m on 2 May 2019. The share buyback programme will be completed by 31 December 2019 at the latest.

REA (DKKbn)	31 Mar 2019	31 Dec 2018
Credit risk	36.1	36.0
Market risk	5.7	6.0
Operational risk	7.7	7.7
Other exposures incl CVA	5.7	5.7
Total	55.2	55.4

The risk exposure amount represents DKK 55.2bn (year-end 2018: DKK 55.4bn). The change is mainly attributable to a decrease in market risk of DKK 0.3bn and an increase in credit risk of DKK 0.1bn.

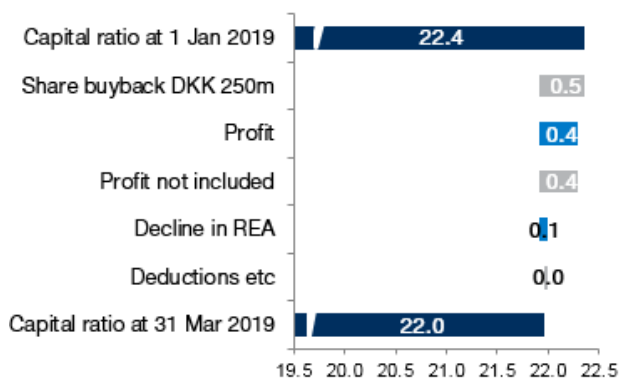
The development in the gross exposure by rating category at 31 March 2018, 31 December 2018 and 31 March 2019 appears below.

Compared with 31 December 2018 the gross exposure by rating category shows an overall positive development with a larger share in the four best rating categories.

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 22.0%, of which the Tier 1 capital ratio represents 18.5% compared with 22.4% and 19.0% respectively at year-end 2018. The Common Equity Tier 1 capital ratio stands at 16.9% (31 December 2018: 17.3%). The development in the Group's capital ratio from 31 December 2018 to 31 March 2019 is illustrated below.

Capital ratio in Q1

Profit for the period is not included in the calculation of capital ratios at 31 March 2019. If 50% of profit for the period after tax had been included the capital ratios would have been 0.2 percentage points higher.

At 31 March 2019 the individual solvency need represents 11.2% (31 December 2018: 11.4%).

The parent's capital ratio stands at 21.1%, of which the Tier 1 capital ratio represents 17.8 percentage points compared with 21.5% and 18.4 percentage points respectively at year-end 2018. The Common Equity Tier 1 capital ratio stands at 16.2% (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-March 2019 the individual solvency need represented 11.2%. 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 need must be covered by Common Equity Tier 1 capital, equal to 6.3% of the risk exposure amount.

In addition to the solvency need the Group must meet a combined buffer requirement of 4.0% at 31 March 2019. When fully loaded the combined buffer requirement will represent 4.4%, bringing the fully loaded CET1 capital ratio requirement to 10.7%.

Capital and solvency and capital requirements (% of REA)	31 Mar 2019	Fully loaded*
Capital and solvency		
Common Equity Tier 1 capital ratio	16.9	16.9
Capital ratio	22.0	22.0
Capital requirements (incl buffers)**		
Total capital requirement	15.2	15.6
CET1 capital requirement	10.3	10.7
-of which countercyclical capital buffer	0.5	0.9
-of which capital conservation buffer	2.5	2.5
-of which SIFI buffer	1.0	1.0
Excess capital		
Common Equity Tier 1 capital	6.6	6.2
Total capital	6.8	6.4

* 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 31 March 2019.

Market risk

At 31 March 2019 the Group's interest rate risk represents DKK 48m. 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 186% at 31 March 2019 (31 December 2018: 184%).

LCR (DKKbn)	31 Mar 2019	31 Dec 2018	31 Mar 2018
Total liquidity buffer	36.3	35.9	26.6
Net cash outflows	19.5	19.5	14.6
LCR (%)	186	184	181

The Group has met the LCR requirement throughout the period and as can be seen its excess cover is significant at 31 March 2019.

Funding ratio (DKKbn)	31 Mar 2019	31 Dec 2018	31 Mar 2018
Equity and subordinated capital	13.2	13.5	13.2
Senior loans with maturities > 1 year	7.4	3.7	-
Stable deposits	77.1	77.3	71.8
Total stable funding	97.7	94.5	85.0
Loans and advances (excl reverse and funded mortgage-like loans)	60.9	61.0	63.5
Funding ratio (%)	161	155	134

As shown above the Group's stable funding exceeds the Group's loans and advances by DKK 36.8bn at 31 March 2019 (31 December 2018: DKK 33.5bn).

Rating

Moody's most recent rating of Sydbank:

- * Long-term deposit: A1 – stable outlook
- * 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	31 Mar 2019	31 Dec 2018	31 Mar 2018
Sum of 20 largest exposures < 175%	147	147	140
Lending growth < 20% annually	(4)	(5)	(11)
Commercial property exposure < 25%	7	8	9
Funding ratio < 1	0.60	0.63	0.66
Excess liquidity coverage > 100%	216	193	-

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 13.6% of the Bank's total liabilities and total capital, equal to 29.5% of the risk exposure amount. The MREL must be met by 1 July 2019. On 30 September 2019 the MREL will increase to 13.8% of total liabilities and total capital, equal to 30.0% of

the risk exposure amount at year-end 2017 – due to the rise in the countercyclical capital buffer.

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	11.2	22.4
SIFI buffer	1.0	2.0
Capital conservation buffer	2.5	5.0
Countercyclical capital buffer	0.5	0.5
Total requirement (%)	15.2	29.9
Total requirement (DKKm)	8,387	16,498

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 118.4% of MREL. This equals an excess cover of DKK 3.0bn based on the risk exposure amount at 31 March 2019. Consequently the MREL has been met.

Excess cover – MREL (DKKm)

Total capital	12,116
Non-preferred senior debt, EUR 1,000m	7,425
Total eligible liabilities	19,541
MREL	16,498
Excess cover	3,043
Excess cover as % of MREL	18.4

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 6.6% at 31 March 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 be 6.5% (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 5-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 Basel IV 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

2018 was a challenging year for farming as the protracted drought resulted in significant crop losses, low pork prices and high feed prices. And 2018 was designated the worst year for Danish agriculture in recent memory.

In October 2018 SEGES published a forecast for the results of the different farming branches and comparing them with an analysis of the most recent financial data from a number of large consultancy firms every branch of farming has exceeded expectations.

SEGES had estimated an average loss of DKK 640,000 for pork producers in 2018 and the analysis

shows a loss of DKK 219,000. For piglet producers SEGES had estimated an average loss of DKK 940,000 and the analysis shows a loss of DKK 451,000.

Quotations were low during the first 10 weeks of 2019. In week 11 pork quotations started to go up. The increase is primarily due to the spread of African swine fever in China, which has resulted in a large Chinese demand for pork imports. Moreover it is expected that the free trade deal between the EU and Japan will contribute to boosting demand for European pork.

Danish Crown lifted the pork quotation by DKK 0.70 in week 15, bringing the price to DKK 10.30 per kg – the biggest increase in 18 years. Consequently the price is DKK 1.50 higher per kg than at the same time in 2018, albeit still below the quotation of DKK 11.60 per kg two years ago.

Given a decline in the EU's pig population the basis for a rise in the pork quotation is present. The biggest elements of uncertainty as regards pork prices are China's imports, the spreading of swine fever in the EU and a potentially hard Brexit.

Conventional milk producers are forecast to see a halving of their result before owners' wages from 2017 to 2018 with results averaging DKK 805,000 compared with DKK 510,000 as forecast by SEGES.

The analysis shows that organic milk producers will have an operating profit before owners' wages of DKK 570,000 on average compared with DKK 390,000 as forecast by SEGES.

Fairly stable milk prices are forecast for 2019. The current price for conventional milk is DKK 2.60 per kg and for organic milk DKK 3.43 per kg. The average price for 2019 is forecast to constitute DKK 2.56 per kg and DKK 3.38 per kg respectively.

The biggest elements of uncertainty as regards milk prices are China's imports and a potentially hard Brexit.

As regards crop producers it would seem so far that 2018 will generate a profit despite lower crop yields in 2018. The profit has been achieved as a result of higher grain prices as well as limited drying expenses etc. Crop producers are expected to break even in 2019. The biggest element of uncertainty as regards grain prices is the weather in the large grain producing regions.

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

Credit impaired bank loans and advances to agriculture represent DKK 679m at 31 March 2019, equal to 17.5% of total loans and advances to agriculture.

Of total loans and advances to agriculture an impairment charge of 16.6% was recorded at 31 March 2019 compared with 16.9% at year-end 2018.

The positive development in earnings expectations for 2018 and the expectation of generating a profit in 2019 do not change the fact that the agricultural sector overall has too large debts and is

consequently very vulnerable to developments in settlement prices and interest rates.

In Q1 2019 individual impairment charges of DKK 30m were recorded on agricultural exposures. The management estimate of DKK 100m has been maintained, equal to the estimate at year-end 2018.

31 Mar 2019 (DKKm)	Pig farming	Cattle farming	Crop production	Other agriculture	Total loans/ advances
Loans and advances – stage 1	676	470	571	660	2,377
Loans and advances – stage 2	207	209	238	174	828
Loans and advances – stage 3 – credit impaired	173	151	131	224	679
Bank loans and advances before impairment charges	1,056	830	940	1,058	3,884
Impairment charges for loans and advances – stage 1	2	3	2	2	9
Impairment charges for loans and advances – stage 2	49	47	55	17	168
Impairment charges for loans and advances – stage 3	91	97	50	131	369
Management estimates	75	25			100
Total impairment charges for bank loans and advances	217	172	107	150	646
Bank loans and advances after impairment charges	839	658	833	908	3,238
Credit impaired as % of bank loans and advances	16.4	18.2	13.9	21.2	17.5
Impairment as % of credit impaired bank loans and advances	52.6	64.2	38.2	58.5	54.3
Impairment as % of bank loans and advances	20.5	20.7	11.4	14.2	16.6

31 Dec 2018 (DKKm)	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 2019	Q1 2018*	Full year 2018*
Interest income calculated using the effective interest method	2	421	492	1,917
Other interest income		43	8	67
Interest income		464	500	1,984
Interest expense	3	48	17	116
Net interest income		416	483	1,868
Dividends on shares		3	5	27
Fee and commission income	4	534	537	2,140
Fee and commission expense		84	64	310
Net interest and fee income		869	961	3,725
Market value adjustments	5	106	246	335
Other operating income		7	4	19
Staff costs and administrative expenses	6	707	681	2,666
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment		27	24	97
Other operating expenses	8	4	5	18
Impairment of loans and advances etc	9	(14)	(7)	(114)
Profit on holdings in associates and subsidiaries	10	2	3	8
Profit before tax		260	511	1,420
Tax	11	55	80	259
Profit for the period		205	431	1,161
Distribution of profit for the period				
Shareholders of Sydbank A/S		195	431	1,138
Holders of Additional Tier 1 capital and minority shareholders		10	-	23
Total amount to be allocated		205	431	1,161
Proposed dividend		-	-	578
Interest paid to holders of Additional Tier 1 capital		10	-	23
Minority shareholders		0	-	-
Proposal for allocation for other purposes		-	-	12
Transfer to equity		195	431	548
Total amount allocated		205	431	1,161
EPS Basic (DKK) **		3.2	6.5	17.6
EPS Diluted (DKK) **		3.2	6.5	17.6
Dividend per share (DKK)		-	-	9.36

* 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 19.

Statement of Comprehensive Income

Profit for the period	205	431	1,161
Other comprehensive income			
<u>Items that may be reclassified to the income statement:</u>			
Translation of foreign entities	1	(2)	10
Hedge of net investment in foreign entities	(1)	2	(10)
Property revaluation	(2)	-	7
<u>Items that may not be reclassified to the income statement:</u>			
Value adjustment of certain strategic shares	5	-	(38)
Other comprehensive income after tax	3	0	(31)
Comprehensive income for the period	208	431	1,130

Balance Sheet

DKKm	Note	31 Mar 2019	31 Dec 2018*	31 Mar 2018*
Assets				
Cash and balances on demand at central banks		1,973	2,073	2,165
Amounts owed by credit institutions and central banks	12	13,342	13,696	12,212
Loans and advances at fair value		6,684	6,510	4,412
Loans and advances at amortised cost	13	60,850	60,983	63,520
Bonds at fair value		33,320	29,668	24,070
Shares etc		2,212	2,196	2,234
Holdings in associates etc		153	152	160
Assets related to pooled plans		17,368	16,220	16,331
Intangible assets		254	259	275
Owner-occupied property		1,156	1,080	1,064
Other property, plant and equipment		67	75	70
Current tax assets		287	211	141
Deferred tax assets		39	39	46
Assets in temporary possession		1	1	1
Other assets	14	7,785	7,278	7,586
Prepayments		67	73	61
Total assets		145,558	140,514	134,348
Equity and liabilities				
Amounts owed to credit institutions and central banks	15	5,472	5,339	5,321
Deposits and other debt	16	86,337	86,277	81,455
Deposits in pooled plans		17,368	16,220	16,331
Bonds issued at amortised cost		7,425	3,706	3,725
Current tax liabilities		-	-	2
Other liabilities	17	15,299	14,938	13,887
Deferred income		4	2	3
Total liabilities		131,905	126,482	120,724
Provisions	18	463	489	419
Subordinated capital	19	1,862	1,861	1,856
Equity:				
Share capital		677	677	704
Revaluation reserves		102	104	97
Other reserves:				
Reserves according to articles of association		425	425	425
Other reserves		4	4	2
Retained earnings		9,331	9,122	10,121
Proposed dividend etc		-	590	-
Shareholders of Sydbank A/S		10,539	10,922	11,349
Holders of Additional Tier 1 capital		750	760	-
Minority shareholders		39	-	-
Total equity		11,328	11,682	11,349
Total equity and liabilities		145,558	140,514	134,348

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

Financial Highlights – Quarterly

	Q1 2019	Q4 2018*	Q3 2018*	Q2 2018*	Q1 2018*
Income statement (DKK m)					
Core income	900	948	963	987	1,053
Trading income	96	(2)	40	45	55
Total income	996	946	1,003	1,032	1,108
Costs, core earnings	719	686	639	694	703
Core earnings before impairment	277	260	364	338	405
Impairment of loans and advances etc	(14)	(51)	(14)	(44)	(13)
Core earnings	291	311	378	382	418
Investment portfolio earnings	(14)	(59)	10	(66)	(12)
Profit before non-recurring items	277	252	388	316	406
Non-recurring items, net	(17)	(25)	(9)	(13)	105
Profit before tax	260	227	379	303	511
Tax	55	32	82	65	80
Profit for the period	205	195	297	238	431
Balance sheet highlights (DKK bn)					
Loans and advances at amortised cost	60.9	61.0	62.1	62.5	63.5
Loans and advances at fair value	6.7	6.5	6.0	6.1	4.4
Deposits and other debt	86.3	86.3	82.7	84.1	81.5
Bonds issued at amortised cost	7.4	3.7	3.7	-	3.7
Subordinated capital	1.9	1.9	1.9	1.9	1.9
Additional Tier 1 capital	0.8	0.8	0.8	0.8	-
Shareholders' equity	10.5	10.9	11.1	11.3	11.3
Total assets	145.6	140.5	135.0	136.1	134.3
Financial ratios per share (DKK per share of DKK 10)					
Profit for the period	3.2	3.0	4.5	3.5	6.5
Share price at end of period	138.0	155.1	189.0	219.4	222.2
Book value	172.6	179.0	179.5	173.1	170.5
Share price/book value	0.80	0.87	1.05	1.27	1.30
Average number of shares outstanding (in millions)	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	16.9	17.3	16.1	15.5	16.6
Tier 1 capital ratio	18.5	19.0	17.9	17.2	17.0
Capital ratio	22.0	22.4	21.2	20.4	20.2
Pre-tax profit as % p.a. of average equity	9.3	7.9	13.1	10.6	17.6
Post-tax profit as % p.a. of average equity	7.3	6.6	10.2	8.2	14.8
Costs (core earnings) as % of total income	72.2	72.5	63.7	67.2	63.4
Return on assets (%)	0.1	0.1	0.2	0.2	0.3
Interest rate risk	0.5	1.3	1.2	1.6	0.9
Foreign exchange position	1.4	1.3	1.8	3.6	1.6
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0
Liquidity, LCR (%)	186	184	172	154	181
Loans and advances relative to deposits	0.6	0.6	0.7	0.6	0.6
Loans and advances relative to equity	5.8	5.6	5.5	5.5	5.6
Growth in loans and advances during the period	(0.2)	(1.7)	(0.7)	(1.6)	(1.2)
Total large exposures	0.0	0.0	0.0	0.0	30.3
Accumulated impairment ratio	3.6	3.8	3.8	3.9	4.0
Impairment ratio for the period	(0.02)	(0.07)	(0.01)	(0.06)	(0.02)
Number of full-time staff at end of period	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.

Capital

DKKm	Share capital	Revaluation reserves	Reserves acc to articles of association	Reserve for net re-valuation 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					195		195	10	0	205
Other comprehensive income		(2)			5		3			3
Comprehensive income for the period	-	(2)	-	-	200	-	198	10	0	208
Transactions with owners										
Purchase of own shares					(158)		(158)			(158)
Sale of own shares					166		166			166
Interest paid on Additional Tier 1 capital								(20)		(20)
Exchange rate adjustment								0		0
Dividend etc paid						(590)	(590)			(590)
Dividend, own shares					7		7			7
Sale of holdings in subsidiaries					(6)		(6)		39	33
Total transactions with owners	-	-	-	-	9	(590)	(581)	(20)	39	(562)
Equity at 31 Mar 2019	677	102	425	4	9,331	-	10,539	750	39	11,328
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					431		431			431
Other comprehensive income					0		0			0
Comprehensive income for the period	-	-	-	-	431	-	431	-	-	431
Transactions with owners										
Purchase of own shares					(287)		(287)			(287)
Sale of own shares					212		212			212
Dividend etc paid					-	(776)	(776)			(776)
Dividend, own shares					11		11			11
Total transactions with owners	-	-	-	-	(64)	(776)	(840)	-	-	(840)
Equity at 31 Mar 2018	704	97	425	2	10,121	-	11,349	-	-	11,349

* Additional Tier 1 capital has no maturity date. Payment of interest and repayment of principal are voluntary. Therefore Additional Tier 1 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	31 Mar 2019	31 Dec 2018	31 Mar 2018
Share capital (DKK)	676,709,540	676,709,540	703,611,740
Shares issued (number)	67,670,954	67,670,954	70,361,174
Shares outstanding at end of period (number)	61,057,632	61,008,893	66,580,457
Average number of shares outstanding (number)	61,010,812	64,810,883	66,835,351

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

Capital

DKKm	31 Mar 2019	31 Dec 2018	31 Mar 2018
Solvency			
Common Equity Tier 1 capital ratio	16.9	17.3	16.6
Tier 1 capital ratio	18.5	19.0	17.0
Capital ratio	22.0	22.4	20.2
Total capital			
Equity	10,539	10,922	11,349
Expected maximum dividend based on dividend policy	(205)	-	(431)
Minority shareholders	39	-	-
Prudent valuation	(65)	(59)	(56)
Actual or contingent obligations to purchase own shares	(250)	-	(424)
Proposed dividend	-	(588)	-
Intangible assets and capitalised deferred tax assets	(237)	(244)	(266)
Significant investments in financial sector	(659)	(612)	(792)
Transitional arrangement IFRS 9	143	160	163
Common Equity Tier 1 capital	9,305	9,579	9,543
Additional Tier 1 capital – equity	750	747	-
Additional Tier 1 capital – debt	164	224	224
Tier 1 capital	10,219	10,550	9,767
Tier 2 capital	1,693	1,636	1,632
Difference between expected losses and impairment for accounting purposes	204	204	214
Total capital	12,116	12,390	11,613
Credit risk *	36,132	36,032	38,328
Market risk	5,718	6,036	5,815
Operational risk	7,654	7,654	8,023
Other exposures incl credit valuation adjustment	5,670	5,680	5,351
REA	55,174	55,402	57,517
Pillar I capital requirement	4,414	4,432	4,601
* Credit risk			
Corporate clients, IRB	26,895	26,586	27,522
Retail clients, IRB	7,053	7,371	8,080
Corporate clients, STD	309	312	342
Retail clients, STD	858	865	744
Credit institutions etc	1,017	898	1,640
Total	36,132	36,032	38,328

Cash Flow Statement

DKKm	Q1 2019	Full year 2018	Q1 2018
Operating activities			
Pre-tax profit for the period	260	1,420	511
Taxes paid	(131)	(323)	(190)
Adjustment for non-cash operating items	(15)	41	(43)
Cash flows from working capital	(7,839)	49	(2,443)
Cash flows from operating activities	(7,725)	1,187	(2,165)
Investing activities			
Purchase and sale of holdings in associates	-	8	-
Sale of holdings in subsidiaries	33	-	-
Purchase and sale of intangible assets and property, plant and equipment	(88)	(84)	(174)
Cash flows from investing activities	(55)	(76)	(174)
Financing activities			
Purchase and sale of own holdings	7	(1,171)	(75)
Dividends etc	(583)	(765)	(765)
Issue of Additional Tier 1 capital etc	-	737	-
Issue of bonds	3,715	3,702	-
Redemption of bonds issued	-	(3,724)	-
Cash flows from financing activities	3,139	(1,221)	(840)
Cash flows for the period	(4,641)	(110)	(3,179)
Cash and cash equivalents at 1 Jan	8,858	8,968	8,968
Cash flows for the period	(4,641)	(110)	(3,179)
Cash and cash equivalents at end of period	4,217	8,858	5,789

Segment Reporting etc

DKKkm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
Operating segments						
Q1 2019						
Core income	816	66	18	-	-	900
Trading income	-	-	96	-	-	96
Total income	816	66	114	-	-	996
Costs, core earnings	631	29	43	-	16	719
Impairment of loans and advances etc	(14)	-	-	-	-	(14)
Core earnings	199	37	71	-	(16)	291
Investment portfolio earnings	1	-	-	(15)	-	(14)
Profit before non-recurring items	200	37	71	(15)	(16)	277
Non-recurring items, net	(17)	-	-	-	-	(17)
Profit before tax	183	37	71	(15)	(16)	260

DKKkm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
Operating segments						
Q1 2018						
Core income	964	67	22	-	-	1,053
Trading income	-	-	55	-	-	55
Total income	964	67	77	-	-	1,108
Costs, core earnings	629	24	35	-	15	703
Impairment of loans and advances etc	(13)	-	-	-	-	(13)
Core earnings	348	43	42	-	(15)	418
Investment portfolio earnings	(5)	-	-	(7)	-	(12)
Profit before non-recurring items	343	43	42	(7)	(15)	406
Non-recurring items, net	105	-	-	-	-	105
Profit before tax	448	43	42	(7)	(15)	511

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 2019								
Net interest and fee income	814	40			854	15		869
Market value adjustments	77	56			133	(27)		106
Other operating income	7				7			7
Income	898	96	-	-	994	(12)	-	982
Staff costs and administrative expenses			(688)		(688)	(2)	(17)	(707)
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment			(27)		(27)			(27)
Other operating expenses			(4)		(4)			(4)
Impairment of loans and advances etc				14	14			14
Profit on holdings in associates and subsidiaries	2				2			2
Profit before tax	900	96	(719)	14	291	(14)	(17)	260
Q1 2018								
Net interest and fee income	922	72			994	(33)		961
Market value adjustments	124	(17)		6	113	23	110	246
Other operating income	4				4			4
Income	1,050	55	-	6	1,111	(10)	110	1,211
Staff costs and administrative expenses			(674)		(674)	(2)	(5)	(681)
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment			(24)		(24)			(24)
Other operating expenses			(5)		(5)			(5)
Impairment of loans and advances etc				7	7			7
Profit on holdings in associates and subsidiaries	3				3			3
Profit before tax	1,053	55	(703)	13	418	(12)	105	511

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 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 lessor. 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 is 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 contractual lease term 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.

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.

Impact of changes to IAS 12

Effective from 1 January 2019 IAS 12 has been changed whereby the tax effect of interest on the Bank's issued AT1 capital 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. However this has not had an impact on profit for Q1 2018 as the issue was not implemented until 30 May 2018.

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 2019	Q1 2018	Full year 2018
Note 2			
Interest income			
Reverse transactions with credit institutions and central banks	(8)	(9)	(28)
Amounts owed by credit institutions and central banks	(12)	(9)	(33)
Reverse loans and advances	(7)	(4)	(22)
Loans and advances and other amounts owed	443	501	1,949
Bonds	38	27	130
Derivatives	20	(6)	(13)
comprising:			
Foreign exchange contracts	19	3	30
Interest rate contracts	1	(9)	(43)
Other interest income	(10)	0	1
Total	464	500	1,984
Fair value, designated at initial recognition	(15)	(13)	(50)
Fair value, held for trading	58	21	117
Assets recognised at amortised cost	421	492	1,917
Total	464	500	1,984
Note 3			
Interest expense			
Repo transactions with credit institutions and central banks	(3)	(3)	(12)
Credit institutions and central banks	7	0	14
Repo deposits	(1)	(1)	(3)
Deposits and other debt	14	11	64
Bonds issued	22	3	20
Subordinated capital	8	7	32
Other interest expense	1	0	1
Total	48	17	116
Fair value, designated at initial recognition	(4)	(4)	(15)
Liabilities recognised at amortised cost	52	21	131
Total	48	17	116
Note 4			
Fee and commission income			
Securities trading and custody accounts	258	257	1,043
Payment services	80	73	310
Loan fees	38	40	142
Guarantee commission	31	32	126
Income concerning funded mortgage-like loans	37	41	157
Other fees and commission	90	94	362
Total	534	537	2,140
Total fee and commission expense	84	64	310
Net fee and commission income	450	473	1,830

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 6m (2018: DKK 6m) and has been deducted from commission received which is included under other fee and commission.

Notes

DKK m	Q1 2019	Q1 2018	Full year 2018
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Note 5

Market value adjustments

Other loans and advances and amounts owed at fair value	0	1	1
Bonds	39	(10)	(91)
Shares etc	51	187	281
Foreign exchange	38	42	174
Total derivatives	(22)	26	(31)
Assets related to pooled plans	910	(296)	(1,031)
Deposits in pooled plans	(910)	296	1,031
Other assets/liabilities	0	0	1
Total	106	246	335

Note 6

Staff costs and administrative expenses

Salaries and remuneration:			
Group Executive Management	4	4	16
Board of Directors	2	1	6
Shareholders' Committee	1	1	4
Total	7	6	26

Staff costs:

Wages and salaries	337	330	1,305
Pensions	33	31	125
Social security contributions	4	3	14
Payroll tax etc	44	33	168
Total	418	397	1,612

Other administrative expenses:

IT	175	157	674
Rent etc *	25	26	127
Marketing and entertainment expenses	23	24	87
Other costs	59	71	140
Total	282	278	1,028
Total	707	681	2,666

* Rent etc comprises a rental expense of DKK 9m concerning short-term leases as well as leases of low value.

Note 7

Staff

Average number of staff (full-time equivalent)	2,134	2,108	2,130
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Notes

DKKm	Q1 2019	Q1 2018	Full year 2018
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Note 8

Other operating expenses

Contribution to the Resolution Fund	4	5	17
Other expenses	-	-	1
Total	4	5	18

Note 9

Impairment of loans and advances recognised in the income statement

Impairment and provisions	(7)	(27)	(173)
Write-offs	3	48	165
Recovered from debt previously written off	10	28	106
Impairment of loans and advances etc	(14)	(7)	(114)

Impairment and provisions at end of period (allowance account)	IFRS 9	IFRS 9	IFRS 9
Stage 1	121	143	117
Stage 2	852	1,643	1,004
Stage 3	1,715	1,337	1,703
Management estimates	100	110	100
Impairment and provisions at end of period	2,788	3,233	2,924

Impairment and provisions

Impairment and provisions at 31 Dec 2017, cf IAS 39		2,887	2,887
Previous fair value adjustments		204	204
Effect of transition to IFRS 9		216	216
Impairment and provisions at 1 Jan	2,924	3,307	3,307
New impairment charges and provisions during the period, net	16	(3)	(96)
Impairment charges previously recorded, now finally written off	152	71	287
Impairment and provisions at end of period	2,788	3,233	2,924

Impairment charges for loans and advances	2,599	2,978	2,708
Provisions for undrawn credit commitments	38	40	44
Provisions for guarantees	151	215	172
Impairment and provisions at end of period	2,788	3,233	2,924

Losses recognised for the period constitute DKK 155m. As regards losses recognised for the period a legal claim of DKK 139m 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	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018	Q1 2019	Q1 2018	Q1 2019	Q1 2018
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	4,577	4,716	698	729	38	43	76	23
<i>Pig farming</i>	1,190	1,193	234	262	20	18	48	0
<i>Cattle farming</i>	1,001	1,161	186	204	1	14	18	11
<i>Crop production</i>	1,211	1,159	114	110	3	5	3	6
<i>Other agriculture</i>	1,175	1,203	164	153	14	6	7	6
Manufacturing and extraction of raw materials	9,771	9,639	293	275	16	(32)	0	6
Energy supply etc	2,596	2,840	4	14	(1)	(3)	0	2
Building and construction	3,939	3,793	115	130	(4)	11	11	2
Trade	13,788	13,035	499	479	28	84	21	49
Transportation, hotels and restaurants	3,603	3,484	70	80	(4)	(68)	6	5
Information and communication	485	340	7	7	1	(2)	0	0
Finance and insurance	5,494	5,876	101	113	(6)	(8)	5	5
Real property	4,500	5,134	285	310	(23)	38	19	1
<i>Leasing of commercial property</i>	2,004	2,442	147	156	(8)	35	11	0
<i>Leasing of residential property</i>	881	922	61	61	(4)	(1)	0	0
<i>Housing associations and cooperative housing associations</i>	638	945	1	2	(1)	0	0	0
<i>Purchase, development and sale on own account</i>	854	667	63	66	(3)	6	0	0
<i>Other related to real property</i>	123	158	13	25	(7)	(2)	8	1
Other industries	3,455	3,469	130	149	(12)	(19)	3	1
Total corporate	52,208	52,326	2,202	2,286	33	44	141	94
Public authorities	266	352	1	2	-	-	-	-
Retail	24,345	24,894	585	636	(47)	(51)	14	25
Total	76,819	77,572	2,788	2,924	(14)	(7)	155	119

Notes

DKKm	Q1 2019	Q1 2018	Full year 2018
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Note 10

Profit on holdings in associates and subsidiaries

Profit on holdings in associates etc	2	3	8
Total	2	3	8

Note 11

Effective tax rate

Current tax rate of Sydbank	22.0	22.0	22.0
Permanent differences *	(0.8)	(6.4)	(4.1)
Adjustment of prior year tax charges	0.0	0.0	0.3
Effective tax rate	21.2	15.6	18.2

* Permanent differences in Q1 2018 predominantly consist of a capital gain of DKK 110m concerning the sale of shares in ValueInvest Asset Management S.A. as well as a revaluation of the shares in BI Holding A/S of DKK 41m.

DKKm	31 Mar 2019	31 Dec 2018	31 Mar 2018
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Note 12

Amounts owed by credit institutions and central banks

Amounts owed at notice by central banks	5,857	8,493	864
Amounts owed by credit institutions	7,485	5,203	11,348
Total	13,342	13,696	12,212
Of which reverse transactions	4,670	2,922	7,335

Notes

DKKm	Stage 1	Stage 2	Stage 3	31 Mar 2019 Total	31 Dec 2018 Total
Note 13					
Loans and advances, guarantees and allowance account by stage					
Loans and advances before impairment charges	55,262	5,190	2,997	63,449	63,691
Guarantees	12,615	558	197	13,370	13,881
Total loans and advances and guarantees	67,877	5,748	3,194	76,819	77,572
%	88.4	7.5	4.1	100.0	
Impairment charges for loans and advances	98	903	1,598	2,599	2,708
Provisions for undrawn credit commitments	16	12	10	38	44
Provisions for guarantees	7	37	107	151	172
Total allowance account	121	952	1,715	2,788	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	4	(152)	164	16	(96)
Impairment charges previously recorded, now finally written off	-	-	(152)	(152)	(287)
Total allowance account at end of period	121	952	1,715	2,788	2,924
Impairment charges as % of loans and advances	0.2	17.4	53.3	4.1	4.3
Provisions as % of guarantees	0.1	6.6	54.3	1.1	1.2
Allowance account as % of loans and advances and guarantees	0.2	16.6	53.7	3.6	3.8
Loans and advances before impairment charges	55,262	5,190	2,997	63,449	63,691
Impairment charges for loans and advances	98	903	1,598	2,599	2,708
Loans and advances after impairment charges	55,164	4,287	1,399	60,850	60,983
%	90.7	7.0	2.3	100.0	

Notes

DKKm	Stage 1	Stage 2	Stage 3	31 Mar 2019 Total	31 Dec 2018 Total
Note 13 – continued					
Loans and advances before impairment charges					
Rating category					
1	5,936	1	-	5,937	6,000
2	16,421	17	-	16,438	16,225
3	13,839	4	-	13,843	14,777
4	10,684	18	-	10,702	9,822
5	4,703	554	-	5,257	5,363
6	2,140	812	-	2,952	2,901
7	205	635	-	840	788
8	-	654	-	654	564
9	-	2,462	1,132	3,594	3,750
Default	-	-	1,863	1,863	2,020
NR/STD	1,334	33	2	1,369	1,481
Collective impairment charges	-	-	-	-	-
Total	55,262	5,190	2,997	63,449	63,691

Impairment charges for loans and advances

Rating category					
1	-	-	-	-	-
2	14	-	-	14	14
3	9	-	-	9	9
4	27	-	-	27	24
5	18	8	-	26	24
6	14	19	-	33	34
7	3	31	-	34	33
8	-	36	-	36	31
9	-	575	517	1,092	1,142
Default	-	-	1,080	1,080	1,145
NR/STD	13	9	1	23	27
Collective impairment charges	-	225	-	225	225
Total	98	903	1,598	2,599	2,708

Loans and advances after impairment charges

Rating category					
1	5,936	1	-	5,937	6,000
2	16,407	17	-	16,424	16,211
3	13,830	4	-	13,834	14,768
4	10,657	18	-	10,675	9,798
5	4,685	546	-	5,231	5,339
6	2,126	793	-	2,919	2,867
7	202	604	-	806	755
8	-	618	-	618	533
9	-	1,887	615	2,502	2,608
Default	-	-	783	783	875
NR/STD	1,321	24	1	1,346	1,454
Collective impairment charges	-	(225)	-	(225)	(225)
Total	55,164	4,287	1,399	60,850	60,983

Notes

DKKm	Stage 1	Stage 2	Stage 3	31 Mar 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	675	(665)	(10)	-	-
Transferred to stage 2	(945)	1,107	(162)	-	-
Transferred to stage 3	(53)	(457)	510	-	-
New exposures	4,783	139	40	4,962	12,889
Redeemed exposures	(4,245)	(296)	(73)	(4,614)	(14,322)
Changes in balances	(362)	30	(103)	(435)	(1,621)
Write-offs	-	-	(155)	(155)	(452)
End of period	55,262	5,190	2,997	63,449	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	34	(31)	(3)	-	-
Transferred to stage 2	(5)	80	(75)	-	-
Transferred to stage 3	0	(149)	149	-	-
New exposures	7	11	4	22	72
Redeemed exposures	(5)	(27)	(33)	(65)	(421)
Changes in balances	(27)	(11)	124	86	285
Write-offs	-	-	(152)	(152)	(287)
End of period	98	903	1,598	2,599	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	641	(634)	(7)	-	-
Transferred to stage 2	(940)	1,027	(87)	-	-
Transferred to stage 3	(53)	(308)	361	-	-
New exposures	4,776	128	36	4,940	12,817
Redeemed exposures	(4,240)	(269)	(40)	(4,549)	(13,901)
Changes in balances	(335)	41	(227)	(521)	(1,906)
Write-offs	-	-	(3)	(3)	(165)
End of period	55,164	4,287	1,399	60,850	60,983

Notes

DKKm	31 Mar 2019	31 Dec 2018	31 Mar 2018
Note 14			
Other assets			
Positive market value of derivatives etc	4,723	4,374	4,898
Sundry debtors	707	701	477
Interest and commission receivable	149	178	168
Cash collateral provided, CSA agreements	2,193	2,025	2,042
Other assets	13	0	1
Total	7,785	7,278	7,586
Note 15			
Amounts owed to credit institutions and central banks			
Amounts owed to central banks	8	13	0
Amounts owed to credit institutions	5,464	5,326	5,321
Total	5,472	5,339	5,321
Of which repo transactions	1,667	2,190	2,497
Note 16			
Deposits and other debt			
On demand	74,835	73,833	67,632
At notice	228	1,598	2,305
Time deposits	6,563	6,450	6,813
Special categories of deposits	4,711	4,396	4,705
Total	86,337	86,277	81,455
Of which repo transactions	1,220	1,052	887
Of which secured lending	5,000	5,000	5,000
Note 17			
Other liabilities			
Negative market value of derivatives etc	4,969	4,600	4,923
Sundry creditors	3,861	3,661	3,706
Lease liability	5,565	5,770	4,477
Negative portfolio, reverse transactions	79	-	-
Interest and commission etc	53	47	24
Cash collateral received, CSA agreements	772	860	757
Total	15,299	14,938	13,887

Notes

DKKm	31 Mar 2019	31 Dec 2018	31 Mar 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	151	172	215
Other provisions *	40	45	45
Total	463	489	419

* 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	741
1.53 (floating)	2	Bond loan	EUR 75	2 Nov 2029	558	558	556
1.11 (floating)	3	Bond loan	EUR 75	Perpetual	560	560	559
Total Tier 2 capital					1,862	1,861	1,856
Total subordinated capital					1,862	1,861	1,856

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	3,857	3,933	3,781
Mortgage finance guarantees	3,438	3,140	2,809
Funded mortgage-like loan guarantees	1,770	1,810	1,883
Registration and remortgaging guarantees	2,606	3,252	3,098
Other contingent liabilities	1,699	1,746	1,626
Total	13,370	13,881	13,197

Other obligating agreements

Irrevocable credit commitments	1,241	1,303	1,150
Other liabilities	103	104	39
Total	1,344	1,407	1,189

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 impact on Sydbank's financial position.

Notes

DKKm	31 Mar 2019	31 Dec 2018	31 Mar 2018
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Note 20 – continued

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 impact on the financial position of the Group.

Note 21

Collateral

At 31 March 2019 the Group had deposited as collateral securities at a market value of DKK 5,453m with Danish and foreign exchanges and clearing centres etc in connection with margin calls and securities settlements etc. In addition the Group has provided cash collateral in connection with CSA agreements of DKK 2,193m.

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	2,877	3,234	3,382
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Assets purchased as part of reverse transactions

Bonds at fair value	11,339	9,390	11,767
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Notes

DKKm	Q1 2019	Q1 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 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 Q1, no matters of significant impact on the financial position of the Sydbank Group have occurred.

Note 24

Large shareholders

Silchester International Investors LLP, London, owns more than 10% of Sydbank's share capital and Sydbank A/S owns more than 5% of Sydbank's share capital.

Note 25

Core income

Net interest etc	381	460	83	1,775
Mortgage credit *	141	146	97	583
Payment services	48	45	107	196
Remortgaging and loan fees	34	38	89	130
Commission and brokerage	78	82	95	302
Commission etc investment funds and pooled pension plans	84	143	59	425
Asset management	66	67	99	270
Custody account fees	18	19	95	69
Other operating income	50	53	94	201
Total	900	1,053	86	3,951

* Mortgage credit

Totalkredit cooperation	118	121	98	485
Totalkredit, set-off of loss	6	6	100	21
Totalkredit cooperation, net	112	115	97	464
DLR Kredit	29	30	97	116
Other mortgage credit income	0	1	0	3
Total	141	146	97	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 185m.

Notes

31 Mar 2019					
DKKm	Quoted prices	Observable inputs	Un-observable inputs	Total fair value	Carrying amount

Note 26 – continued

Financial assets

Amounts owed by credit institutions and central banks	-	4,670	-	4,670	4,670
Loans and advances at fair value	-	6,684	-	6,684	6,684
Bonds at fair value	-	33,320	-	33,320	33,320
Shares etc	321	44	1,847	2,212	2,212
Assets related to pooled plans	6,533	10,835	-	17,368	17,368
Other assets	369	4,607	-	4,976	4,976
Total	7,223	60,160	1,847	69,230	69,230

Financial liabilities

Amounts owed to credit institutions and central banks	-	1,667	-	1,667	1,667
Deposits and other debt	-	1,220	-	1,220	1,220
Deposits in pooled plans	-	17,368	-	17,368	17,368
Other liabilities	352	10,182	-	10,534	10,534
Total	352	30,437	-	30,789	30,789

DKKm	31 Mar 2019	31 Dec 2018	31 Mar 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	0	-	1
Disposals	0	308	102
Market value adjustment	47	286	194
Carrying amount at end of period	1,847	1,800	1,915

Recognised in profit for the period

Dividend	0	21	0
Market value adjustment	47	286	194
Total	47	307	194

Notes

DKKm	31 Mar 2019	31 Dec 2018	31 Mar 2018
Note 27			
Leverage ratio			
Exposure for computation of leverage ratio			
Total assets	145,558	140,514	134,348
Pooled assets excluded	(17,368)	(16,220)	(16,331)
Correction derivatives etc	4,173	6,663	4,534
Guarantees etc	13,370	13,881	13,197
Undrawn credit commitments etc	10,596	10,704	11,301
Other adjustments	(633)	(625)	(1,097)
Total	155,696	154,917	145,952
Tier 1 capital – current (transitional rules)	10,219	10,550	9,767
Tier 1 capital – fully loaded	10,051	10,326	9,543
Leverage ratio (%) – current (transitional rules)	6.6	6.8	6.7
Leverage ratio (%) – fully loaded	6.5	6.7	6.5

31 Mar 2019						
DKKm	Activity	Share capital (m)	Equity (DKKm)	Profit (DKKm)	Ownership share (%)	
Note 28						
Group holdings and enterprises						
Sydbank A/S		DKK	677			
Consolidated subsidiaries						
DiBa A/S, Aabenraa	Investment	DKK	300	2,037	5	100
Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa	Real property	DKK	11	18	5	100
Syd Fund Management A/S, Aabenraa	Administration	DKK	100	112	11	67
Sydbank (Schweiz) AG, in Liquidation, St. Gallen, Switzerland *	-	CHF	40	236	0	100
Holdings in associates						
Foreningen Bankdata, Fredericia **	IT	DKK	531	531	32	30
Komplementarselskabet Core Property Management A/S, Copenhagen **	Real property	DKK	1	24	5	20
Core Property Management P/S, Copenhagen **	Real property	DKK	5	45	21	20

* With no activity at 31 March 2019.

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

Management Statement

We have reviewed and approved the Interim Report – Q1 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 31 March 2019 and of the results of the Group’s and the parent company’s operations and consolidated cash flows for the period 1 January – 31 March 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, 1 May 2019

Group Executive Management

Karen Frøsig
CEO

Bjarne Larsen

Jan Svarre

Board of Directors

Torben Nielsen
Chairman

John Lesbo
Vice-Chairman

Carsten Andersen

Kim Holmer

Jørgen Høholt

Lars Mikkelsen-Jensen

Janne Moltke-Leth

Frank Møller Nielsen

Jacob Christian Nielsen

Jarl Oxlund

Susanne Schou

Jørn Krogh Sørensen

Supplementary Information

Financial calendar

In 2019 the Group's preliminary announcement of financial statements will be released as follows:

- Interim Report – First Half 2019
28 August 2019
- Interim Report – Q1-Q3 2019
30 October 2019

Sydbank contacts

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Relevant links

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