

Sydbank's Interim Report – Q1-Q3 2019

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

Q1-Q3 2019 – highlights

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

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

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

Better balance between income and costs

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

Measures supporting a rise in core income:

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

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

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

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

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

CEO Karen Frøsig on the cost measures:

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

Negative interest rates on deposits

As a consequence of Danmarks Nationalbank's most recent change of the CD rate to minus 0.75% Sydbank will lower its interest rate on corporate deposits to minus 0.75% and will introduce negative interest rates as regards retail clients holding deposits in excess of DKK 750,000. The interest rate of minus 0.75% will also apply to retail clients. This is a change as regards the announcement in the interim financial statements according to which the Bank introduced a negative interest rate of minus 0.6% as regards retail clients holding deposits in excess of DKK 7.5m.

CEO Karen Frøsig on the change in deposit rates:

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

The strategy – “A stronger bank”

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

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

Outlook for 2019

- Limited growth is projected for the Danish economy in 2019.
- Total income is expected to be lower than the income generated in 2018.
- Costs (core earnings) are projected to rise slightly in 2019.
- Impairment charges for 2019 are forecast to be at a low level.
- Non-recurring costs are expected to represent around DKK 75m.
- Profit after tax is expected to be in the range of DKK 800-1,100m. Profit after tax is expected to be in the lower part of the range.

Additional information

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Karen Frøsig, CEO, Bjarne Larsen, Deputy Group Chief Executive, and Jørn Adam Møller, Deputy Group Chief Executive, will present the Interim Report today at 10.00 (CET) at a teleconference. The teleconference will be held in Danish and may be attended via <https://www.sydbank.com/about/investor-relations/annual-report>

Attendees are invited to call +45 35 44 55 77. Please quote the following code: 13590410#