
Interim Report – First Half 2019

Sydbank Group

Sydbank

Sydbank's Interim Report – First Half 2019

1H 2019 was characterised by solid credit quality and a new drop in interest rates which has caused historically high remortgaging activity

We are living in a time of great change – also when it comes to the economy. Uncertainty has grown and is spilling over into the interest rate environment, which has deteriorated even further. As a consequence we will introduce negative interest rates as regards retail customers' demand deposits in excess of DKK 7.5m.

The deposit surplus as regards retail customers has continued its march upwards. The deposit surplus can be deposited with the Danish central bank at an interest rate of minus 0.65% or be invested in bonds, which also have a negative interest rate – even long-term bonds. This has had a significant impact on the Bank's income. The negative interest rate environment is expected to continue for several years.

Therefore we will introduce a limit of DKK 7.5m on retail customers' demand deposits carrying an interest rate of 0%. The interest rate on deposits in excess of DKK 7.5m is subject to individual agreement with the Bank. In the absence of an agreement the interest rate will be minus 0.6% p.a.

Sydbank is working to build a stronger bank, which has already sparked a number of initiatives with a positive result. However the terms of running a bank are changing, including:

- A continued drop in interest margins due to the competitive environment
- A worsened negative interest rate environment which must be expected for a many years
- Additional costs due to regulation, including costs for compliance and the issue of NEP capital
- Low demand for loans.

As a result of these changes it is more important than ever to ensure efficient banking operations, including a strong focus on the development and implementation of automated processes as well as on the profitability of products and areas. In addition to compliance and IT security the Bank gives high priority to process automation. The objective is to ensure Sydbank a favourable position in the future financial industry.

CEO Karen Frøsig comments on Sydbank's 1H result:

- In these times of considerable economic uncertainty an important task is to improve the ability of customers and Sydbank to withstand financial blows. Therefore we are pleased that customers' finances improved also in this quarter and that we can reverse impairment charges for the ninth consecutive quarter and that we can see a further improvement in total credit intermediation.

Karen Frøsig elaborates:

- It is clear to us that our strategy, "A stronger bank", is moving Sydbank in the right direction and we are determined to remain on course. We still aim to strengthen the Bank's customer relationships, processes, reputation and results and we continue to focus sharply on costs.

1H 2019 – highlights

- Profit of DKK 389m equals a return on equity of 7.0% p.a. after tax.
- Total income of DKK 1,941m is 9% lower than total income in 1H 2018.
- Impairment charges for loans and advances represent an income of DKK 34m compared with an income of DKK 57m in the same period in 2018.
- Total credit intermediation has increased by DKK 0.7bn, equal to 0.5% 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 0.7 percentage points compared to year-end 2018 and constitutes 16.6% excluding profit for the period. When including 50% of profit for the period, the Common Equity Tier 1 capital ratio stands at 17.0%.

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.
- 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

	1H 2019	1H 2018*	Index 19/18	Q2 2019	Q2 2018*	Full year 2018*
Income statement (DKK m)						
Core income	1,805	2,040	88	905	987	3,951
Trading income	136	100	136	40	45	138
Total income	1,941	2,140	91	945	1,032	4,089
Costs, core earnings	1,429	1,397	102	710	694	2,722
Core earnings before impairment	512	743	69	235	338	1,367
Impairment of loans and advances etc	(34)	(57)	60	(20)	(44)	(122)
Core earnings	546	800	68	255	382	1,489
Investment portfolio earnings	(28)	(78)	36	(14)	(66)	(127)
Profit before non-recurring items	518	722	72	241	316	1,362
Non-recurring items, net	(39)	92	-	(22)	(13)	58
Profit before tax	479	814	59	219	303	1,420
Tax	90	146	62	35	66	259
Profit for the period	389	668	58	184	237	1,161
Balance sheet highlights (DKK bn)						
Loans and advances at amortised cost	60.9	62.5	97	60.9	62.5	61.0
Loans and advances at fair value	7.0	6.1	115	7.0	6.1	6.5
Deposits and other debt	89.1	84.1	106	89.1	84.1	86.3
Bonds issued at amortised cost	7.4	-	-	7.4	-	3.7
Subordinated capital	1.9	1.9	100	1.9	1.9	1.9
Additional Tier 1 capital	0.8	0.8	-	0.8	0.8	0.8
Shareholders' equity	10.7	11.3	95	10.7	11.3	10.9
Total assets	152.1	136.1	112	152.1	136.1	140.5
Financial ratios per share (DKK per share of DKK 10)						
Profit for the period	6.0	10.0		2.9	3.5	17.6
Share price at end of period	125.1	219.4		125.1	219.4	155.1
Book value	176.1	173.1		176.1	173.1	179.0
Share price/book value	0.71	1.27		0.71	1.27	0.87
Average number of shares outstanding (in millions)	61.0	66.5		61.0	66.2	64.8
Dividend per share	-	-		-	-	9.36
Other financial ratios and key figures						
Common Equity Tier 1 capital ratio	16.6	15.5		16.6	15.5	17.3
Tier 1 capital ratio	18.3	17.2		18.3	17.2	19.0
Capital ratio	21.6	20.4		21.6	20.4	22.4
Pre-tax profit as % p.a. of average equity	8.7	14.3		7.9	10.6	12.5
Post-tax profit as % p.a. of average equity	7.0	11.7		6.6	8.2	10.2
Costs (core earnings) as % of total income	73.6	65.3		75.1	67.2	66.6
Return on assets (%)	0.3	0.5		0.3	0.2	0.83
Interest rate risk	1.3	1.6		1.3	1.6	1.3
Foreign exchange position	1.6	3.6		1.6	3.6	1.3
Foreign exchange risk	0.0	0.0		0.0	0.0	0.0
Liquidity, LCR (%)	207	154		207	154	184
Loans and advances relative to deposits	0.6	0.6		0.6	0.6	0.6
Loans and advances relative to equity	5.8	5.5		5.8	5.5	5.6
Growth in loans and advances during the period	(0.2)	(2.8)		0.0	(1.6)	(5.2)
Total large exposures	149	146		149	146	147
Accumulated impairment ratio	3.4	3.6		3.4	3.6	3.8
Impairment ratio for the period	(0.04)	(0.07)		(0.02)	(0.06)	(0.16)
Number of full-time staff at end of period	2,069	2,102	98	2,069	2,102	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

1H 2019 was characterised by solid credit quality and a new drop in interest rates which has caused historically high remortgaging activity

Sydbank's financial statements for 1H show a pre-tax profit of DKK 479m compared with DKK 814m in 1H 2018. The decline is primarily attributable to a drop in total income of DKK 199m and a drop in non-recurring items of DKK 131m.

Profit before tax equals a return of 8.7% p.a. on average equity.

Core income in 1H 2019 is lower than the expectations presented in the 2018 Annual Report – predominantly as a result of lower net interest etc.

Trading income and impairment charges in 1H 2019 exceeded the expectations presented in the 2018 Annual Report.

Costs (core earnings) and non-recurring items in 1H 2019 are on a par with the expectations presented in the 2018 Annual Report.

Net interest etc constitutes DKK 754m compared with DKK 919m in 2018 – a decline of DKK 165m. DKK 50m of the decline is attributable to the issue of non-preferred senior debt to fulfil the MREL.

Core income represents DKK 1,805m compared with DKK 2,040m in 2018 – a decrease of DKK 235m.

Total income amounts to DKK 1,941m compared with DKK 2,140m in 2018 – a decline of DKK 199m.

Core earnings constitute DKK 546m compared with DKK 800m in 2018 – a decrease of DKK 254m.

Profit for the period amounts to DKK 389m compared with DKK 668m in 2018 – a decline of DKK 279m.

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

We are building 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.

1H performance

Core income totals DKK 1,805m, which is DKK 235m lower than in 1H 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 constituted DKK 136m in 1H 2019 compared with DKK 100m in the same period in 2018.

Total income represents DKK 1,941m, a decrease of DKK 199m compared with the same period in 2018.

Costs (core earnings) constitute DKK 1,429m compared with DKK 1,397m in 2018 – an increase of DKK 32m. The Group's impairment charges for loans and advances represent an income of DKK 34m compared with DKK 57m in 1H 2018.

Together the Group's position-taking and liquidity handling recorded negative investment portfolio earnings of DKK 28m in 1H 2019 compared with negative earnings of DKK 78m a year ago.

Non-recurring items represent a net expense of DKK 39m compared with an income of DKK 92m in 1H 2018. The item consists of costs of DKK 39m related to "A stronger bank".

Profit before tax for 1H 2019 amounts to DKK 479m compared with DKK 814m in the same period in 2018. Tax represents DKK 90m, equivalent to an effective tax rate of 18.9%. Profit for the period amounts to DKK 389m compared with DKK 668m 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 30 June 2019 credit intermediation totalled DKK 142.9bn – an increase of DKK 0.7bn since year-end 2018.

Total credit intermediation (DKKbn)	30 Jun 2019	31 Dec 2018
Bank loans and advances	60.9	61.0
Funded mortgage-like loans	9.3	9.9
Arranged mortgage loans – Totalkredit	61.2	59.6
Arranged mortgage loans – DLR	11.5	11.7
Total	142.9	142.2

Business-driven responsibility

With the adoption of the Paris Agreement on climate change and the UN 2030 Agenda for Sustainable Development, the world's leaders have set global goals for achieving sustainable development.

The upcoming EU regulation on sustainable finance reflects the fact that the financial sector's role in developments in society will have to change to support the global sustainability agenda.

Sydbank wishes to be a significant player in terms of supporting and facilitating the desired and necessary sustainable development. Consequently we are stepping up our CSR efforts as over time all aspects of the Group's activities will be affected by CSR. From the outset our CSR efforts will focus on specific initiatives as well as the external CSR reporting. In terms of the latter our ambition is to make CSR issues and our CSR efforts more visible and thus improve our ESG ratings. We strive to make a difference – also in relation to sustainable developments.

In Q2 2019 we established a CSR forum chaired by CEO Karen Frøsig. The forum aims to ensure that business-driven responsibility, eg by way of decency and sustainability, is given the right priority on a strategic level, on a tactical level and on an operational level.

Capital

The Bank initiated a 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. Profit after tax is expected to be in the lower part of the range.

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 customers 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 1H 2019

The Sydbank Group has recorded a profit before tax of DKK 479m (1H 2018: DKK 814m).

Profit before tax equals a return of 8.7% p.a. on average equity.

Profit for the period after tax represents DKK 389m compared with DKK 668m in 2018.

Profit after tax equals a return of 7.0% p.a. on average equity.

Profit for 1H 2019 is slightly below the expectations at the beginning of the year.

The result is characterised by:

1H

- A decrease in core income of DKK 235m to DKK 1,805m
- A rise in trading income of DKK 36m
- A 2% increase in costs (core earnings) to DKK 1,429m
- A reversal of DKK 34m in impairment charges for loans and advances
- A decrease in core earnings of DKK 254m to DKK 546m
- Negative investment portfolio earnings of DKK 28m
- Bank loans and advances of DKK 60.9bn (year-end 2018: DKK 61.0bn)
- Bank deposits of DKK 89.1bn (year-end 2018: DKK 86.3bn)
- A capital ratio of 21.6%, including a Common Equity Tier 1 capital ratio of 16.6%
- An individual solvency need of 11.2% (year-end 2018: 11.4%).

Income statement – 1H (DKKm)	2019	2018
Core income	1,805	2,040
Trading income	136	100
Total income	1,941	2,140
Costs, core earnings	1,429	1,397
Core earnings before impairment	512	743
Impairment of loans and advances etc	(34)	(57)
Core earnings	546	800
Investment portfolio earnings	(28)	(78)
Profit before non-recurring items	518	722
Non-recurring items, net	(39)	92
Profit before tax	479	814
Tax	90	146
Profit for the period	389	668

Core income

Core income represents DKK 1,805m – a drop of DKK 235m compared with 2018.

Net interest has decreased by DKK 165m to DKK 754m. DKK 50m 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 entered into force on 1 July 2019.

Net income from the cooperation with Totalkredit represents DKK 237m (2018: DKK 230m) after a set-off of loss of DKK 8m (2018: DKK 12m).

The cooperation with DLR Kredit has generated an income of DKK 62m (2018: DKK 58m).

Compared to 2018 total mortgage credit income has climbed by DKK 11m to DKK 300m – an increase of 4%.

Commission and brokerage income has fallen from DKK 158m in 2018 to DKK 150m – a decrease of 5%.

Income from commission etc concerning investment funds and pooled pension plans has declined by DKK 73m compared with 2018 to DKK 167m predominantly as a result of the revaluation of the shares in BI Holding A/S of DKK 41m in 2018.

The remaining income components are on a par with the level a year ago.

Core income – 1H (DKKm)	2019	2018
Net interest etc	754	919
Mortgage credit	300	289
Payment services	93	97
Remortgaging and loan fees	69	68
Commission and brokerage	150	158
Commission etc investment funds and pooled pension plans	167	240
Asset management	132	134
Custody account fees	35	35
Other operating income	105	100
Total	1,805	2,040

Trading income

Trading income constituted DKK 136m in 1H 2019 compared with DKK 100m in the same period in 2018.

In Fixed Income considerable trading activity was recorded in mortgage bonds in 1H 2019. In Equities

income was affected by the positive market trend in 1H 2019.

Costs and depreciation

The Group's costs and depreciation totalled DKK 1,471m, equal to an increase of DKK 52m 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 – 1H (DKKm)	2019	2018
Staff costs	854	828
Other administrative expenses	556	536
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	53	47
Other operating expenses	8	8
Total costs and depreciation	1,471	1,419
Distributed as follows:		
Costs, core earnings	1,429	1,397
Costs, investment portfolio earnings	4	4
Non-recurring costs	39	18

Costs (core earnings) represent DKK 1,429m compared with DKK 1,397m in 2018.

At 30 June 2019 the Group's staff numbered 2,069 (full-time equivalent) compared with 2,102 at 30 June 2018.

The number of branches has been reduced by two compared with year-end 2018, bringing the number of branches to 60 in Denmark and three in Germany at end-June 2019.

Core earnings before impairment

Core earnings before impairment charges for loans and advances represent DKK 512m – a decrease of DKK 231m or 31% compared with the same period in 2018.

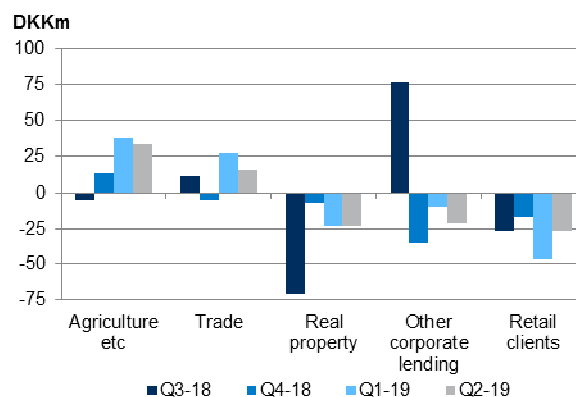
Impairment of loans and advances etc

Impairment charges for loans and advances represent an income of DKK 34m compared with an income of DKK 57m in the same period in 2018.

Additional impairment charges for agricultural exposures are unchanged compared with year-end 2018 and represent DKK 100m at 30 June 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 30 June 2019 represents minus 0.04%. At end-June 2019 accumulated impairment and provisions amount to DKK 2,673m – a decline of DKK 251m compared to year-end 2018.

In 1H 2019 reported losses amounted to DKK 279m (1H 2018: DKK 244m). Of the reported losses an impairment charge of DKK 243m 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 30 June 2019 allocated to these three stages are shown below.

Loans and advances and impairment charges (DKK m)				
30 Jun 2019	Stage 1	Stage 2	Stage 3	Total
Loans/advances before impairment charges	55,522	4,934	2,897	63,353
Impairment charges	97	882	1,505	2,484
Loans/advances after impairment charges	55,425	4,052	1,392	60,869

30 Jun 2019	Stage 1	Stage 2	Stage 3	Total
Impairment charges as % of bank loans and advances	0.2	17.9	52.0	3.9
Share of bank loans and advances before impairment charges (%)	87.6	7.8	4.6	100.0
Share of bank loans and advances after impairment charges (%)	91.0	6.7	2.3	100.0

Credit impaired bank loans and advances – stage 3 – represent 4.6% 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 30 June 2019 stand at 52.0%.

Core earnings

Core earnings represent DKK 546m – a decrease of DKK 254m or 32% 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 28m in 1H 2019 compared with negative earnings of DKK 78m a year ago.

The negative investment portfolio earnings in 1H 2019 are a consequence of a decline in interest rates.

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

Investment portfolio earnings – 1H (DKK m)	2019	2018
Position-taking	(27)	(58)
Liquidity generation and liquidity reserves	3	(4)
Strategic positions	0	(12)
Costs	(4)	(4)
Total	(28)	(78)

Margin expenses as regards the Group's non-callable senior issues are included under liquidity generation and liquidity reserves and represented DKK 8m in 1H 2018. The Group did not issue non-callable senior debt in 1H 2019.

Non-recurring items, net

Non-recurring items total a net expense of DKK 39m compared with an income of DKK 92m in 1H 2018. In 1H 2018 the item consisted of costs of DKK 18m 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 1H 2019 the item consisted of costs related to "A stronger bank".

Profit for the period

Profit before tax amounts to DKK 479m (1H 2018: DKK 814m). Tax represents DKK 90m, equivalent to an effective tax rate of 18.9%. Profit for the period amounts to DKK 389m compared with DKK 668m in 2018.

Return

Profit for the period equals a return on average equity of 7.0% p.a. after tax against 11.7% p.a. in 1H 2018. Earnings per share stands at DKK 6.0 compared with DKK 10.0 in 2018.

Subsidiaries

Ejendomsselskabet has recorded a profit after tax of DKK 4m (1H 2018: DKK 4m). Profit after tax in DiBa A/S and Syd Fund Management A/S represents DKK 0m (1H 2018: DKK 6m) and DKK 7m (1H 2018: DKK 8m) respectively.

Q2 2019 compared with Q1 2019

Profit before tax for the quarter represents DKK 219m.

Compared with Q1 2019 profit before tax reflects:

- a rise in core income of DKK 5m
- a drop in trading income of DKK 56m
- a decline in costs (core earnings) of DKK 9m
- a decrease in impairment charges for bank loans and advances of DKK 6m
- a drop in core earnings of DKK 36m to DKK 255m
- investment portfolio earnings of minus DKK 14m (Q1 2019: minus DKK 14m).

Profit for the period (DKKm)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Core income	905	900	948	963	987	1,053
Trading income	40	96	(2)	40	45	55
Total income	945	996	946	1,003	1,032	1,108
Costs, core earnings	710	719	686	639	694	703
Core earnings before impairment	235	277	260	364	338	405
Impairment of loans and advances etc	(20)	(14)	(51)	(14)	(44)	(13)
Core earnings	255	291	311	378	382	418
Investment portfolio earnings	(14)	(14)	(59)	10	(66)	(12)
Profit before non-recurring items	241	277	252	388	316	406
Non-recurring items, net	(22)	(17)	(25)	(9)	(13)	105
Profit before tax	219	260	227	379	303	511
Tax	35	55	32	82	65	80
Profit for the period	184	205	195	297	238	431

Total assets

The Group's total assets made up DKK 152.1bn at 30 June 2019 against DKK 140.5bn at year-end 2018.

Assets (DKKbn)	30 Jun 2019	31 Dec 2018
Amounts owed by credit institutions etc	21.1	15.8
Loans and advances at fair value (reverse transactions)	7.0	6.5
Loans and advances at amortised cost (bank loans and advances)	60.9	61.0
Securities and holdings etc	34.9	32.0
Assets related to pooled plans	17.8	16.2
Other assets etc	10.4	9.0
Total	152.1	140.5

The Group's bank loans and advances make up DKK 60.9bn at end-June 2019 against DKK 61.0bn at year-end 2018 and DKK 62.5bn at end-June 2018.

Equity and liabilities (DKKbn)	30 Jun 2019	31 Dec 2018
Amounts owed to credit institutions etc	5.0	5.3
Deposits and other debt	89.1	86.3
Deposits in pooled plans	17.8	16.2
Bonds issued	7.4	3.7
Other liabilities etc	18.9	14.9
Provisions	0.5	0.5
Subordinated capital	1.9	1.9
Equity	11.5	11.7
Total	152.1	140.5

The Group's deposits make up DKK 89.1bn against DKK 86.3bn at year-end 2018 and DKK 84.1bn at end-June 2018.

Capital

At 30 June 2019 shareholders' equity constitutes DKK 10,677m – a drop of DKK 245m since year-end 2018. The change comprises an addition from profit for the period of DKK 369m less actual distribution of DKK 583m, net purchases of own shares etc of DKK 49m as well as a positive value adjustment of strategic shares of DKK 18m.

The Bank initiated a share buyback programme of DKK 250m on 2 May 2019. The share buyback programme will be completed by 31 December 2019 at the latest. At end-June 555,000 shares worth DKK 70m, made up at the trade date, had been repurchased.

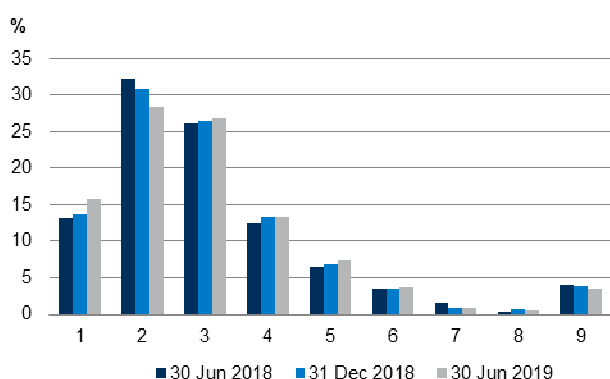
REA (DKKbn)	30 Jun 2019	31 Dec 2018
Credit risk	36.3	36.0
Market risk	6.3	6.0
Operational risk	7.7	7.7
Other exposures incl CVA	5.6	5.7
Total	55.9	55.4

The risk exposure amount represents DKK 55.9bn (year-end 2018: DKK 55.4bn). The change is mainly attributable to a rise in market risk of DKK 0.3bn and an increase in credit risk of DKK 0.3bn.

The development in the gross exposure by rating category at 30 June 2018, 31 December 2018 and 30 June 2019 appears below.

The gross exposure by rating category at 30 June 2019 shows that the four best rating continue to account for a large share – equal to the level at 31 December 2018.

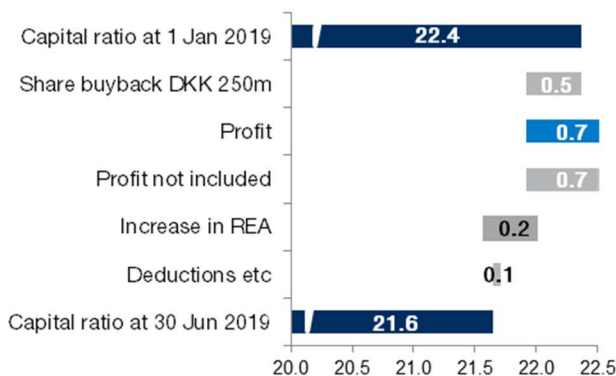
Gross exposure by rating category



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 21.6%, of which the Tier 1 capital ratio represents 18.3% compared with 22.4% and 19.0% respectively at year-end 2018. The Common Equity Tier 1 capital ratio stands at 16.6% (31 December 2018: 17.3%). The development in the Group's capital ratio from 31 December 2018 to 30 June 2019 is illustrated below.

Capital ratio in 1H



Profit for the period is not included in the calculation of capital ratios at 30 June 2019. If 50% of profit for the period after tax had been included the capital ratios would have been 0.4 percentage points higher.

At 30 June 2019 the individual solvency need represents 11.2% (31 December 2018: 11.4%).

The parent's capital ratio stands at 20.8%, of which the Tier 1 capital ratio represents 17.6% compared with 21.5% and 18.4% respectively at year-end 2018. The Common Equity Tier 1 capital ratio stands at 16.0% (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-June 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 30 June 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)	30 Jun 2019	Fully loaded*
Capital and solvency		
Common Equity Tier 1 capital ratio	16.6	16.6
Capital ratio	21.6	21.6
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	6.3	5.9
Total capital	6.4	6.0

* 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 30 June 2019.

Market risk

At 30 June 2019 the Group's interest rate risk represents DKK 131m. 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 207% at 30 June 2019 (31 December 2018: 184%).

LCR (DKKbn)	30 Jun 2019	31 Dec 2018	30 Jun 2018
Total liquidity buffer	39.6	35.9	27.8
Net cash outflows	19.1	19.5	18.0
LCR (%)	207	184	154

The Group has met the LCR requirement throughout the period and as can be seen its excess cover is significant at 30 June 2019.

Funding ratio (DKKbn)	30 Jun 2019	31 Dec 2018	30 Jun 2018
Equity and subordinated capital	13.3	13.5	14.0
Senior loans with maturities > 1 year	7.4	3.7	-
Stable deposits	80.0	77.3	74.6
Total stable funding	100.7	94.5	88.6
Loans and advances (excl reverse and funded mortgage-like loans)	60.9	61.0	62.5
Funding ratio (%)	165	155	142

As shown above the Group's stable funding exceeds the Group's loans and advances by DKK 39.8bn at 30 June 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	30 Jun 2019	31 Dec 2018	30 Jun 2018
Sum of 20 largest exposures < 175%	149	147	146
Lending growth < 20% annually	(3)	(5)	(11)
Commercial property exposure < 25%	7	8	9
Funding ratio < 1	0.58	0.63	0.65
Excess liquidity coverage > 100%	232	193	178

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 from 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)	8,500	16,721

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 116.8% of MREL. This equals an excess cover of DKK 2.8bn based on the risk exposure amount at 30 June 2019. Consequently the MREL has been met.

Excess cover – MREL (DKKm)

Total capital	12,106
Non-preferred senior debt, EUR 1,000m	7,425
Total eligible liabilities	19,531
MREL	16,721
Excess cover	2,810
Excess cover as % of MREL	16.8

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 6.0% at 30 June 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 5.9% (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 five-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 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

The final financial results for 2018 of every branch of farming are substantially below 2017. Although 2018 did not fare as badly as forecast in autumn 2018 the financial statements are adversely affected by crop losses as a result of the drought. The consequence is that many farms will need liquidity to purchase feed in 2019.

Following a challenging 2018 with a drought and low quotations for pork 2019 has seen a far more favourable trend. Pork prices have gone up significantly and even though several regions in Denmark have also experienced a drought in 2019 the initial crop yield forecasts are much better than in

2018 and some farms project an above average harvest.

Pork

Pork quotations were low at the beginning of 2019 but in week 11 they 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. In June SEGES adjusted its pork quotation forecast for 2019 and 2020. The quotation for pork is projected to be DKK 11.06 in 2019 and DKK 11.50 in 2020. Based on this forecast highly satisfactory earnings for pork producers are projected in 2019 and 2020. The biggest elements of uncertainty as regards pork prices are China's imports, which fluctuate greatly at times, a possible outbreak of swine fever in the EU and a potentially hard Brexit.

Milk

Despite stable milk prices in 2018 we saw a halving of the result before owners' wages from 2017 to 2018, which was primarily attributable to the drought. SEGES' forecast for milk prices shows a stable level throughout 2019 and 2020 of approx DKK 0.10 below the price in 2018 of DKK 2.65. Currently the roughage yield seems to be decent and satisfactory results in milk production are forecast for 2019 as well as 2020. The biggest elements of uncertainty as regards milk prices are China's imports and a potentially hard Brexit.

Crop production

Despite the drought in 2018 many crop producers have recorded satisfactory results, which is attributable to low costs for harvesting and drying as well as higher grain prices. The initial crop forecasts for 2019 are positive and an above average harvest is projected. Prices are sagging compared with 2018 but due to higher crop yields crop producers are also expected to generate satisfactory earnings for 2019.

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 785m at 30 June 2019, equal to 19.9% of total loans and advances to agriculture.

Of total loans and advances to agriculture an impairment charge of 17.1% was recorded at 30 June 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 vulnerable to developments in settlement prices and interest rates.

In 1H 2019 individual impairment charges of DKK 72m were recorded on agricultural exposures. The

management estimate of DKK 100m has been maintained, equal to the estimate at year-end 2018.

30 Jun 2019 (DKKm)	Pig farming	Cattle farming	Crop production	Other agriculture	Total loans/ advances
Loans and advances – stage 1	642	502	624	680	2,448
Loans and advances – stage 2	233	168	223	86	710
Loans and advances – stage 3 – credit impaired	127	211	144	303	785
Bank loans and advances before impairment charges	1,002	881	991	1,069	3,943
Impairment charges for loans and advances – stage 1	3	3	2	2	10
Impairment charges for loans and advances – stage 2	49	32	55	14	150
Impairment charges for loans and advances – stage 3	58	130	60	168	416
Management estimates	75	25			100
Total impairment charges for bank loans and advances	185	190	117	184	676
Bank loans and advances after impairment charges	817	691	874	885	3,267
Credit impaired as % of bank loans and advances	12.7	24.0	14.5	28.3	19.9
Impairment as % of credit impaired bank loans and advances	45.7	61.6	41.7	55.4	53.0
Impairment as % of bank loans and advances	18.5	21.6	11.8	17.2	17.1

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	Sydbank Group		Sydbank A/S	
		1H 2019	1H 2018*	1H 2019	1H 2018*
Interest income calculated using the effective interest method		851	976	853	979
Other interest income		100	23	100	23
Interest income	2	951	999	953	1,002
Interest expense	3	101	43	101	49
Net interest income		850	956	852	953
Dividends on shares		28	26	28	26
Fee and commission income	4	1,076	1,088	995	1,010
Fee and commission expense		175	154	136	119
Net interest and fee income		1,779	1,916	1,739	1,870
Market value adjustments	5	118	247	118	247
Other operating income		17	10	17	10
Staff costs and administrative expenses	6	1,410	1,364	1,384	1,339
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment		53	47	52	46
Other operating expenses	8	8	8	8	8
Impairment of loans and advances etc	9	(33)	(55)	(33)	(55)
Profit on holdings in associates and subsidiaries	10	3	5	14	22
Profit before tax		479	814	477	811
Tax	11	90	146	88	143
Profit for the period		389	668	389	668
Distribution of profit for the period					
Shareholders of Sydbank A/S				369	665
Holders of Additional Tier 1 capital and minority shareholders				20	3
Total amount to be allocated				389	668
Interest paid to holders of Additional Tier 1 capital				19	3
Minority shareholders				1	-
Transfer to equity				369	665
Total amount allocated				389	668
EPS Basic (DKK)**		6.0	10.0	6.0	10.0
EPS Diluted (DKK)**		6.0	10.0	6.0	10.0
Dividend per share (DKK)		-	-	-	-

* 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 20.

Statement of Comprehensive Income

Profit for the period	389	668	389	668
Other comprehensive income				
<u>Items that may be reclassified to the income statement:</u>				
Translation of foreign entities	3	3	3	3
Hedge of net investment in foreign entities	(3)	(3)	(3)	(3)
Property revaluation	(2)	-	(2)	-
<u>Items that may not be reclassified to the income statement:</u>				
Value adjustment of certain strategic shares	18	-	18	-
Other comprehensive income after tax	16	0	16	0
Comprehensive income for the period	405	668	405	668

Balance Sheet

DKKm	Note	Sydbank Group		Sydbank A/S	
		30 Jun 2019	31 Dec 2018*	30 Jun 2019	31 Dec 2018*
Assets					
Cash and balances on demand at central banks		1,972	2,073	1,972	2,073
Amounts owed by credit institutions and central banks	12	19,177	13,696	19,175	13,694
Loans and advances at fair value		6,982	6,510	6,982	6,510
Loans and advances at amortised cost	13	60,869	60,983	61,065	61,184
Bonds at fair value		32,551	29,668	32,551	29,668
Shares etc		2,205	2,196	2,205	2,196
Holdings in associates etc		148	152	148	152
Holdings in subsidiaries etc		-	-	2,373	2,408
Assets related to pooled plans		17,833	16,220	17,833	16,220
Intangible assets		249	259	249	259
Owner-occupied property		1,150	1,080	928	856
Other property, plant and equipment		55	75	54	75
Current tax assets		253	211	260	216
Deferred tax assets		39	39	12	12
Assets in temporary possession		1	1	1	1
Other assets	14	8,517	7,278	8,495	7,273
Prepayments		73	73	69	72
Total assets		152,074	140,514	154,372	142,869
Equity and liabilities					
Amounts owed to credit institutions and central banks	15	4,978	5,339	5,215	5,574
Deposits and other debt	16	89,116	86,277	91,240	88,410
Deposits in pooled plans		17,833	16,220	17,833	16,220
Bonds issued at amortised cost		7,425	3,706	7,425	3,706
Other liabilities	17	18,921	14,938	18,896	14,927
Deferred income		5	2	5	2
Total liabilities		138,278	126,482	140,614	128,839
Provisions	18	463	489	461	487
Subordinated capital	19	1,861	1,861	1,861	1,861
Equity:					
Share capital		618	677	618	677
Revaluation reserves		102	104	102	104
Other reserves:					
Reserves according to articles of association		425	425	425	425
Other reserves		4	4	4	4
Retained earnings		9,528	9,122	9,528	9,122
Proposed dividend etc		-	590	-	590
Shareholders of Sydbank A/S		10,677	10,922	10,677	10,922
Holders of Additional Tier 1 capital		759	760	759	760
Minority shareholders		36	-	-	-
Total equity		11,472	11,682	11,436	11,682
Total equity and liabilities		152,074	140,514	154,372	142,869

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

Financial Highlights – Quarterly

	Sydbank Group					
	Q2	Q1	Q4	Q3	Q2	Q1
	2019	2019	2018*	2018*	2018*	2018*
Income statement (DKKm)						
Core income	905	900	948	963	987	1,053
Trading income	40	96	(2)	40	45	55
Total income	945	996	946	1,003	1,032	1,108
Costs, core earnings	710	719	686	639	694	703
Core earnings before impairment	235	277	260	364	338	405
Impairment of loans and advances etc	(20)	(14)	(51)	(14)	(44)	(13)
Core earnings	255	291	311	378	382	418
Investment portfolio earnings	(14)	(14)	(59)	10	(66)	(12)
Profit before non-recurring items	241	277	252	388	316	406
Non-recurring items, net	(22)	(17)	(25)	(9)	(13)	105
Profit before tax	219	260	227	379	303	511
Tax	35	55	32	82	65	80
Profit for the period	184	205	195	297	238	431
Balance sheet highlights (DKKbn)						
Loans and advances at amortised cost	60.9	60.9	61.0	62.1	62.5	63.5
Loans and advances at fair value	7.0	6.7	6.5	6.0	6.1	4.4
Deposits and other debt	89.1	86.3	86.3	82.7	84.1	81.5
Bonds issued at amortised cost	7.4	7.4	3.7	3.7	-	3.7
Subordinated capital	1.9	1.9	1.9	1.9	1.9	1.9
Additional Tier 1 capital	0.8	0.8	0.8	0.8	0.8	-
Shareholders' equity	10.7	10.5	10.9	11.1	11.3	11.3
Total assets	152.1	145.6	140.5	135.0	136.1	134.3
Financial ratios per share (DKK per share of DKK 10)						
Profit for the period	2.9	3.2	3.0	4.5	3.5	6.5
Share price at end of period	125.1	138.0	155.1	189.0	219.4	222.2
Book value	176.1	172.6	179.0	179.5	173.1	170.5
Share price/book value	0.71	0.80	0.87	1.05	1.27	1.30
Average number of shares outstanding (in millions)	61.0	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	16.6	16.9	17.3	16.1	15.5	16.6
Tier 1 capital ratio	18.3	18.5	19.0	17.9	17.2	17.0
Capital ratio	21.6	22.0	22.4	21.2	20.4	20.2
Pre-tax profit as % p.a. of average equity	7.9	9.3	7.9	13.1	10.6	17.6
Post-tax profit as % p.a. of average equity	6.6	7.3	6.6	10.2	8.2	14.8
Costs (core earnings) as % of total income	75.1	72.2	72.5	63.7	67.2	63.4
Return on assets (%)	0.3	0.1	0.1	0.2	0.2	0.3
Interest rate risk	1.3	0.5	1.3	1.2	1.6	0.9
Foreign exchange position	1.6	1.4	1.3	1.8	3.6	1.6
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0	0.0
Liquidity, LCR (%)	207	186	184	172	154	181
Loans and advances relative to deposits	0.6	0.6	0.6	0.7	0.6	0.6
Loans and advances relative to equity	5.8	5.8	5.6	5.5	5.5	5.6
Growth in loans and advances during the period	0.0	(0.2)	(1.7)	(0.7)	(1.6)	(1.2)
Total large exposures	149	147	147	151	146	140
Accumulated impairment ratio	3.4	3.6	3.8	3.8	3.9	4.0
Impairment ratio for the period	(0.03)	(0.02)	(0.07)	(0.01)	(0.06)	(0.02)
Number of full-time staff at end of period	2,069	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.

Financial Highlights – Half-yearly

	Sydbank Group				
	1H 2019	1H 2018*	1H 2017*	1H 2016*	1H 2015*
Income statement (DKKm)					
Core income	1,805	2,040	2,093	2,101	2,227
Trading income	136	100	139	123	152
Total income	1,941	2,140	2,232	2,224	2,379
Costs, core earnings	1,429	1,397	1,369	1,346	1,374
Core earnings before impairment	512	743	863	878	1,005
Impairment of loans and advances etc	(34)	(57)	(9)	81	217
Core earnings	546	800	872	797	788
Investment portfolio earnings	(28)	(78)	187	(8)	(95)
Profit before non-recurring items	518	722	1,059	789	693
Non-recurring items, net	(39)	92	(12)	26	-
Profit before tax	479	814	1,047	815	693
Tax	90	146	231	172	163
Profit for the period	389	668	816	643	530
Balance sheet highlights (DKKbn)					
Loans and advances at amortised cost	60.9	62.5	70.6	78.8	71.4
Loans and advances at fair value	7.0	6.1	7.4	6.8	9.7
Deposits and other debt	89.1	84.1	84.7	79.9	81.2
Bonds issued at amortised cost	7.4	-	3.7	7.1	3.7
Subordinated capital	1.9	1.9	1.3	2.1	2.1
Additional Tier 1 capital	0.8	0.8	-	-	-
Shareholders' equity	10.7	11.3	11.5	11.1	11.1
Total assets	152.1	136.1	140.1	148.0	153.1
Financial ratios per share (DKK per share of DKK 10)					
Profit for the period	6.0	10.0	11.8	9.1	7.2
Share price at end of period	125.1	219.4	245.4	167.2	255.8
Book value	176.1	173.1	169.0	157.6	153.1
Share price/book value	0.71	1.27	1.45	1.06	1.67
Average number of shares outstanding (in millions)	61.0	66.5	69.1	71.0	73.2
Dividend per share	-	-	-	-	-
Other financial ratios and key figures					
Common Equity Tier 1 capital ratio	16.6	15.5	15.6	14.8	14.1
Tier 1 capital ratio	18.3	17.2	16.1	16.1	15.5
Capital ratio	21.6	20.4	18.1	18.0	17.2
Pre-tax profit as % p.a. of average equity	8.7	14.3	18.2	14.9	12.5
Post-tax profit as % p.a. of average equity	7.0	11.7	14.2	11.7	9.5
Costs (core earnings) as % of total income	73.6	65.3	61.3	60.5	57.8
Return on assets (%)	0.3	0.5	0.6	0.4	0.3
Interest rate risk	1.3	1.6	0.7	0.6	2.2
Foreign exchange position	1.6	3.6	3.9	2.1	3.0
Foreign exchange risk	0.0	0.0	0.1	0.0	0.0
Liquidity, LCR (%)	207	154	225	139	121
Loans and advances relative to deposits	0.6	0.6	0.7	0.9	0.8
Loans and advances relative to equity	5.8	5.5	6.1	7.1	6.4
Growth in loans and advances during the period	(0.2)	(2.8)	(8.6)	6.1	4.3
Total large exposures	149	146	150	-	-
Accumulated impairment ratio	3.4	3.6	3.6	4.2	4.9
Impairment ratio for the period	(0.04)	(0.07)	(0.01)	0.09	0.24
Number of full-time staff at end of period	2,069	2,102	2,092	2,032	2,164

* 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					369		369	19	1	389
Other comprehensive income		(2)			18		16			16
Comprehensive income for the period	-	(2)	-	-	387	-	385	19	1	405
Transactions with owners										
Purchase of own shares					(1,173)		(1,173)			(1,173)
Sale of own shares					1,191		1,191			1,191
Reduction of share capital	(59)						(59)			(59)
Interest paid on Additional Tier 1 capital							0	(20)		(20)
Exchange rate adjustment					0		0	0		0
Dividend etc paid						(590)	(590)		(4)	(594)
Dividend, own shares					7		7			7
Sale of holdings in subsidiaries					(6)		(6)		39	33
Total transactions with owners	(59)	-	-	-	19	(590)	(630)	(20)	35	(615)
Equity at 30 Jun 2019	618	102	425	4	9,528	-	10,677	759	36	11,472
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					665		665	3		668
Other comprehensive income					0		0			0
Comprehensive income for the period	-	-	-	-	665	-	665	3	-	668
Transactions with owners										
Issue of Additional Tier 1 capital								745		745
Transaction costs					(7)		(7)			(7)
Exchange rate adjustment					(1)		(1)	1		0
Tax					2		2			2
Purchase of own shares					(1,285)		(1,285)			(1,285)
Sale of own shares					1,009		1,009			1,009
Reduction of share capital	(27)						(27)			(27)
Dividend etc paid						(776)	(776)			(776)
Dividend, own shares					11		11			11
Total transactions with owners	(27)	-	-	-	(271)	(776)	(1,074)	746	-	(328)
Equity at 30 Jun 2018	677	97	425	2	10,148	-	11,349	749	-	12,098

* 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	30 Jun 2019	31 Dec 2018	30 Jun 2018
Share capital (DKK)	617,540,000	676,709,540	676,709,540
Shares issued (number)	61,754,000	67,670,954	67,670,954
Shares outstanding at end of period (number)	60,639,641	61,008,893	65,560,539
Average number of shares outstanding (number)	61,000,769	64,810,883	66,500,559

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

Capital

DKKm	Sydbank Group		
	30 Jun 2019	31 Dec 2018	30 Jun 2018
Solvency			
Common Equity Tier 1 capital ratio	16.6	17.3	15.0
Tier 1 capital ratio	18.3	19.0	17.2
Capital ratio	21.6	22.4	20.4
Total capital			
Equity	10,677	10,922	11,349
Expected maximum dividend based on dividend policy	(389)	-	(668)
Minority shareholders	36	-	-
Prudent valuation	(70)	(59)	(58)
Actual or contingent obligations to purchase own shares	(185)	-	(941)
Proposed dividend	-	(588)	-
Intangible assets and capitalised deferred tax assets	(231)	(244)	(261)
Significant investments in financial sector	(686)	(612)	(634)
Transitional arrangement IFRS 9	143	160	168
Common Equity Tier 1 capital	9,295	9,579	8,955
Additional Tier 1 capital – equity	746	747	746
Additional Tier 1 capital – debt	168	224	222
Tier 1 capital	10,209	10,550	9,923
Tier 2 capital	1,693	1,636	1,633
Difference between expected losses and impairment for accounting purposes	204	204	209
Total capital	12,106	12,390	11,765
Credit risk*	36,385	36,032	36,810
Market risk	6,324	6,036	7,567
Operational risk	7,654	7,654	8,023
Other exposures incl CVA	5,559	5,680	5,329
REA	55,922	55,402	57,729
Pillar I capital requirement	4,474	4,432	4,618
* Credit risk			
Corporate clients, IRB	26,855	26,586	26,983
Retail clients, IRB	7,040	7,371	7,816
Corporate clients, STD	312	312	320
Retail clients, STD	870	865	772
Credit institutions etc	1,308	898	919
Total	36,385	36,032	36,810

Cash Flow Statement

DKKm	Sydbank Group		
	1H 2019	Full year 2018	1H 2018
Operating activities			
Pre-tax profit for the period	479	1,420	814
Taxes paid	(137)	(323)	(199)
Adjustment for non-cash operating items	(7)	41	(3)
Cash flows from working capital	(3,230)	49	2,845
Cash flows from operating activities	(2,895)	1,187	3,457
Investing activities			
Purchase and sale of holdings in associates	5	8	-
Sale of holdings in subsidiaries	33	-	-
Purchase and sale of intangible assets and property, plant and equipment	(92)	(84)	(46)
Cash flows from investing activities	(54)	(76)	(46)
Financing activities			
Purchase and sale of own holdings	(43)	(1,171)	(303)
Dividends etc	(583)	(765)	(765)
Issue of Additional Tier 1 capital etc	-	737	740
Issue of bonds	3,715	3,702	-
Redemption of bonds issued	-	(3,724)	(3,727)
Cash flows from financing activities	3,089	(1,221)	(4,055)
Cash flows for the period	140	(110)	(644)
Cash and cash equivalents at 1 Jan	8,858	8,968	8,968
Cash flows for the period	140	(110)	(644)
Cash and cash equivalents at end of period	8,998	8,858	8,324

Segment Reporting etc

DKKm						Sydbank Group	
	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total	
Operating segments							
1H 2019							
Core income	1,634	132	39	-	-	1,805	
Trading income	-	-	136	-	-	136	
Total income	1,634	132	175	-	-	1,941	
Costs, core earnings	1,258	53	79	-	39	1,429	
Impairment of loans and advances etc	(34)	-	-	-	-	(34)	
Core earnings	410	79	96	-	(39)	546	
Investment portfolio earnings	-	-	-	(28)	-	(28)	
Profit before non-recurring items	410	79	96	(28)	(39)	518	
Non-recurring items, net	(39)	-	-	-	-	(39)	
Profit before tax	371	79	96	(28)	(39)	479	

DKKm						Sydbank Group	
	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total	
Operating segments							
1H 2018							
Core income	1,866	134	40	-	-	2,040	
Trading income	-	-	100	-	-	100	
Total income	1,866	134	140	-	-	2,140	
Costs, core earnings	1,233	51	81	-	32	1,397	
Impairment of loans and advances etc	(57)	-	-	-	-	(57)	
Core earnings	690	83	59	-	(32)	800	
Investment portfolio earnings	(13)	-	-	(65)	-	(78)	
Profit before non-recurring items	677	83	59	(65)	(32)	722	
Non-recurring items, net	92	-	-	-	-	92	
Profit before tax	769	83	59	(65)	(32)	814	

Segment Reporting etc

DKKkm	Sydbank Group							
	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								
1H 2019								
Net interest and fee income	1,654	95		-	1,749	30		1,779
Market value adjustments	131	40		1	172	(54)		118
Other operating income	17				17			17
Income	1,802	136	-	1	1,939	(24)	-	1,914
Staff costs and administrative expenses			(1,367)		(1,367)	(4)	(39)	(1,410)
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment			(53)		(53)			(53)
Other operating expenses			(8)		(8)			(8)
Impairment of loans and advances etc				33	33			33
Profit on holdings in associates and subsidiaries	3				3			3
Profit before tax	1,805	136	(1,429)	34	546	(28)	(39)	479
1H 2018								
Net interest and fee income	1,833	95			1,928	(12)		1,916
Market value adjustments	192	5		2	199	(62)	110	247
Other operating income	10				10			10
Income	2,035	100	-	2	2,137	(74)	110	2,173
Staff costs and administrative expenses			(1,342)		(1,342)	(4)	(18)	(1,364)
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment			(47)		(47)			(47)
Other operating expenses			(8)		(8)			(8)
Impairment of loans and advances etc				55	55			55
Profit on holdings in associates and subsidiaries	5				5			5
Profit before tax	2,040	100	(1,397)	57	800	(78)	92	814

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 lessee. 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 contract period 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.

Effect of changes to IAS 12

Effective from 1 January 2019 IAS 12 has been changed whereby the tax effect of interest on the AT1 capital issued by the Bank 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. For 1H 2019 tax in the income statement has decreased by DKK 4m whereby profit after tax has increased correspondingly. Similarly the tax effect, which is no longer recognised in equity, has decreased by DKK 4m whereby total equity has not been affected by the amended accounting policies.

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	Sydbank Group		Sydbank A/S	
	1H 2019	1H 2018	1H 2019	1H 2018
Note 2				
Interest income				
Reverse transactions with credit institutions and central banks	(17)	(16)	(17)	(16)
Amounts owed by credit institutions and central banks	(26)	(19)	(26)	(19)
Reverse loans and advances	(14)	(10)	(14)	(10)
Loans and advances and other amounts owed	887	995	889	998
Bonds	82	54	82	54
Derivatives	49	(5)	49	(5)
comprising:				
Foreign exchange contracts	41	17	41	17
Interest rate contracts	8	(22)	8	(22)
Other interest income	(10)	0	(10)	0
Total	951	999	953	1,002
Fair value, designated at initial recognition	(31)	(26)	(31)	(26)
Fair value, held for trading	131	49	131	49
Assets recognised at amortised cost	851	976	853	979
Total	951	999	953	1,002
Note 3				
Interest expense				
Repo transactions with credit institutions and central banks	(6)	(7)	(6)	(7)
Credit institutions and central banks	12	5	12	5
Repo deposits	(2)	(2)	(2)	(2)
Deposits and other debt	30	27	30	33
Bonds issued	50	4	50	4
Subordinated capital	16	16	16	16
Other interest expense	1	0	1	0
Total	101	43	101	49
Fair value, designated at initial recognition	(8)	(9)	(8)	(9)
Liabilities recognised at amortised cost	109	52	109	58
Total	101	43	101	49
Note 4				
Fee and commission income				
Securities trading and custody accounts	510	539	429	461
Payment services	155	152	155	152
Loan fees	82	74	82	74
Guarantee commission	65	63	65	63
Income concerning funded mortgage-like loans	75	80	75	80
Other fees and commission	189	180	189	180
Total	1,076	1,088	995	1,010
Total fee and commission expense	175	154	136	119
Net fee and commission income	901	934	859	891

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 8m (2018: DKK 12m) and has been deducted from commission received which is included under other fee and commission.

Notes

DKK m	Sydbank Group		Sydbank A/S	
	1H 2019	1H 2018	1H 2019	1H 2018

Note 5

Market value adjustments

Other loans and advances and amounts owed at fair value	0	1	0	1
Bonds	34	84	34	84
Shares etc	73	202	73	202
Foreign exchange	72	87	72	87
Total derivatives	(61)	(127)	(61)	(127)
Assets related to pooled plans	989	(218)	989	(218)
Deposits in pooled plans	(989)	218	(989)	218
Other assets/liabilities	0	0	0	0
Total	118	247	118	247

Note 6

Staff costs and administrative expenses

Salaries and remuneration:				
Group Executive Management	9	8	9	8
Board of Directors	3	3	3	3
Shareholders' Committee	2	2	2	2
Total	14	13	14	13

Staff costs:

Wages and salaries	675	664	666	656
Pensions	64	62	64	61
Social security contributions	8	7	8	7
Payroll tax etc	93	82	92	81
Total	840	815	830	805

Other administrative expenses:

IT	371	323	363	316
Rent etc*	59	60	57	65
Marketing and entertainment expenses	42	44	37	41
Other costs	84	109	83	99
Total	556	536	540	521
Total	1,410	1,364	1,384	1,339

* In 1H 2019 rent etc comprises a rental expense of DKK 18m concerning short-term leases as well as leases of low value.

Note 7

Staff

Average number of staff (full-time equivalent)	2,123	2,106	2,104	2,086
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Notes

DKKm	Sydbank Group		Sydbank A/S	
	1H 2019	1H 2018	1H 2019	1H 2018

Note 8

Other operating expenses

Contribution to the Resolution Fund	8	8	8	8
Other expenses	-	0	-	0
Total	8	8	8	8

Note 9

Impairment of loans and advances recognised in the income statement

Impairment and provisions	(50)	(82)	(50)	(82)
Write-offs	36	69	36	69
Recovered from debt previously written off	19	42	19	42
Impairment of loans and advances etc	(33)	(55)	(33)	(55)

Impairment and provisions at end of period (allowance account)	IFRS 9	IFRS 9	IFRS 9	IFRS 9
Stage 1	121	121	121	121
Stage 2	834	1,052	834	1,052
Stage 3	1,618	1,790	1,618	1,790
Management estimates	100	125	100	125
Impairment and provisions at end of period	2,673	3,088	2,673	3,088

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	2,924	3,307
New impairment charges and provisions during the period, net	(8)	(44)	(8)	(44)
Impairment charges previously recorded, now finally written off	243	175	243	175
Impairment and provisions at end of period	2,673	3,088	2,673	3,088
Impairment charges for loans and advances	2,484	2,816	2,484	2,816
Provisions for undrawn credit commitments	39	41	39	41
Provisions for guarantees	150	231	150	231
Impairment and provisions at end of period	2,673	3,088	2,673	3,088

Losses recognised for the period constitute DKK 279m. As regards losses recognised for the period a legal claim of DKK 244m 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		Sydbank Group	
	30 Jun	31 Dec	30 Jun	31 Dec	1H	1H	1H	1H
	2019	2018	2019	2018	2019	2018	2019	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	4,792	4,716	722	729	72	169	103	58
<i>Pig farming</i>	1,244	1,193	199	262	6	79	46	0
<i>Cattle farming</i>	1,152	1,161	209	204	21	41	25	44
<i>Crop production</i>	1,191	1,159	122	110	5	40	3	6
<i>Other agriculture</i>	1,205	1,203	192	153	40	9	29	8
Manufacturing and extraction of raw materials	10,065	9,639	250	275	(10)	(33)	12	14
Energy supply etc	1,986	2,840	4	14	(8)	(10)	0	2
Building and construction	4,268	3,793	116	130	10	8	20	6
Trade	13,438	13,035	481	479	44	23	61	78
Transportation, hotels and restaurants	3,570	3,484	57	80	(10)	(61)	4	18
Information and communication	444	340	8	7	1	(5)	0	0
Finance and insurance	6,075	5,876	95	113	(11)	(18)	7	10
Real property	4,489	5,134	250	310	(46)	(7)	29	2
<i>Leasing of commercial property</i>	1,744	2,442	130	156	(25)	14	11	1
<i>Leasing of residential property</i>	960	922	58	61	(5)	(20)	2	1
<i>Housing associations and cooperative housing associations</i>	533	945	3	2	1	(1)	0	0
<i>Purchase, development and sale on own account</i>	1,175	667	54	66	(4)	3	8	0
<i>Other related to real property</i>	77	158	5	25	(13)	(3)	8	0
Other industries	3,592	3,469	139	149	(2)	(43)	6	9
Total corporate	52,719	52,326	2,122	2,286	40	23	242	197
Public authorities	301	352	1	2	-	-	-	-
Retail	25,999	24,894	550	636	(73)	(78)	37	47
Total	79,019	77,572	2,673	2,924	(33)	(55)	279	244

Notes

DKKm	Sydbank Group		Sydbank A/S	
	1H 2019	1H 2018	1H 2019	1H 2018

Note 10

Profit on holdings in associates and subsidiaries

Profit on holdings in associates etc	3	5	3	5
Profit on holdings in subsidiaries etc	-	-	11	17
Total	3	5	14	22

Note 11

Effective tax rate

Current tax rate of Sydbank	22.0	22.0	22.0	22.0
Permanent differences (tax-free capital gain etc)	(3.1)	(4.1)	(3.4)	(4.3)
Adjustment of prior year tax charges	0.0	0.0	0.0	0.0
Effective tax rate	18.9	17.9	18.6	17.7

DKKm	Sydbank Group		Sydbank A/S	
	30 Jun 2019	31 Dec 2018	30 Jun 2019	31 Dec 2018

Note 12

Amounts owed by credit institutions and central banks

Amounts owed at notice by central banks	8,855	8,493	8,855	8,493
Amounts owed by credit institutions	10,322	5,203	10,320	5,201
Total	19,177	13,696	19,175	13,694
Of which reverse transactions	5,935	2,922	5,935	2,922

Notes

DKKm	Sydbank Group				
	Stage 1	Stage 2	Stage 3	30 Jun 2019 Total	31 Dec 2018 Total
Note 13					
Loans and advances, guarantees and allowance account by stage					
Loans and advances before impairment charges	55,522	4,934	2,897	63,353	63,691
Guarantees	14,752	675	239	15,666	13,881
Total loans and advances and guarantees	70,274	5,609	3,136	79,019	77,572
%	88.9	7.1	4.0	100.0	
Impairment charges for loans and advances	97	882	1,505	2,484	2,708
Provisions for undrawn credit commitments	17	12	10	39	44
Provisions for guarantees	7	40	103	150	172
Total allowance account	121	934	1,618	2,673	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	(170)	158	(8)	(96)
Impairment charges previously recorded, now finally written off	-	-	(243)	(243)	(287)
Total allowance account at end of period	121	934	1,618	2,673	2,924
Impairment charges as % of loans and advances	0.2	17.9	52.0	3.9	4.3
Provisions as % of guarantees	0.0	5.9	43.1	1.0	1.2
Allowance account as % of loans and advances and guarantees	0.2	16.7	51.6	3.4	3.8
Loans and advances before impairment charges	55,522	4,934	2,897	63,353	63,691
Impairment charges for loans and advances	97	882	1,505	2,484	2,708
Loans and advances after impairment charges	55,425	4,052	1,392	60,869	60,983
%	91.0	6.7	2.3	100.0	

Notes

DKKm	Sydbank Group				
	Stage 1	Stage 2	Stage 3	30 Jun 2019 Total	31 Dec 2018 Total
Note 13 – continued					
Loans and advances before impairment charges					
Rating category					
1	6,286	-	-	6,286	6,000
2	14,285	8	-	14,293	16,225
3	16,593	45	-	16,638	14,777
4	9,218	26	-	9,244	9,822
5	5,246	706	-	5,952	5,363
6	2,330	709	-	3,039	2,901
7	229	557	-	786	788
8	-	449	-	449	564
9	-	2,405	1,111	3,516	3,750
Default	-	-	1,782	1,782	2,020
NR/STD	1,335	29	4	1,368	1,481
Total	55,522	4,934	2,897	63,353	63,691
Impairment charges for loans and advances					
Rating category					
1	-	-	-	-	-
2	14	-	-	14	14
3	11	-	-	11	9
4	24	-	-	24	24
5	18	8	-	26	24
6	15	18	-	33	34
7	3	26	-	29	33
8	-	23	-	23	31
9	-	574	531	1,105	1,142
Default	-	-	968	968	1,145
NR/STD	12	8	6	26	27
Collective impairment charges	-	225	-	225	225
Total	97	882	1,505	2,484	2,708
Loans and advances after impairment charges					
Rating category					
1	6,286	0	-	6,286	6,000
2	14,271	8	-	14,279	16,211
3	16,582	45	-	16,627	14,768
4	9,194	26	-	9,220	9,798
5	5,228	698	-	5,926	5,339
6	2,315	691	-	3,006	2,867
7	226	531	-	757	755
8	-	426	-	426	533
9	-	1,831	580	2,411	2,608
Default	-	-	814	814	875
NR/STD	1,323	21	(2)	1,342	1,454
Collective impairment charges	-	(225)	-	(225)	(225)
Total	55,425	4,052	1,392	60,869	60,983

Notes

DKKm	Stage 1	Stage 2	Stage 3	Sydbank Group	
				30 Jun 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	1,034	(1,005)	(29)	-	-
Transferred to stage 2	(1,425)	1,610	(185)	-	-
Transferred to stage 3	(123)	(585)	708	-	-
New exposures	9,007	258	82	9,347	12,889
Redeemed exposures	(7,691)	(537)	(215)	(8,443)	(14,322)
Changes in balances	(689)	(139)	(135)	(963)	(1,621)
Write-offs	-	-	(279)	(279)	(452)
End of period	55,522	4,934	2,897	63,353	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	147	(137)	(10)	-	-
Transferred to stage 2	(5)	93	(88)	-	-
Transferred to stage 3	(1)	(164)	165	-	-
New exposures	22	84	48	154	72
Redeemed exposures	(17)	(117)	(50)	(184)	(421)
Changes in balances	(143)	93	99	49	285
Write-offs	-	-	(243)	(243)	(287)
End of period	97	882	1,505	2,484	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	887	(868)	(19)	-	-
Transferred to stage 2	(1,420)	1,517	(97)	-	-
Transferred to stage 3	(122)	(421)	543	-	-
New exposures	8,985	174	34	9,193	12,817
Redeemed exposures	(7,674)	(420)	(165)	(8,259)	(13,901)
Changes in balances	(546)	(232)	(234)	(1,012)	(1,906)
Write-offs	-	-	(36)	(36)	(165)
End of period	55,425	4,052	1,392	60,869	60,983

Notes

DKKm	Sydbank Group		Sydbank A/S	
	30 Jun 2019	31 Dec 2018	30 Jun 2019	31 Dec 2018
Note 14				
Other assets				
Positive market value of derivatives etc	5,435	4,374	5,435	4,374
Sundry debtors	624	701	602	696
Interest and commission receivable	159	178	159	178
Cash collateral provided, CSA agreements	2,299	2,025	2,299	2,025
Other assets	0	0	0	0
Total	8,517	7,278	8,495	7,273
Note 15				
Amounts owed to credit institutions and central banks				
Amounts owed to central banks	4	13	4	13
Amounts owed to credit institutions	4,974	5,326	5,211	5,561
Total	4,978	5,339	5,215	5,574
Of which repo transactions	2,842	2,190	2,842	2,190
Note 16				
Deposits and other debt				
On demand	78,378	73,833	80,502	75,966
At notice	212	1,598	212	1,598
Time deposits	5,869	6,450	5,869	6,450
Special categories of deposits	4,657	4,396	4,657	4,396
Total	89,116	86,277	91,240	88,410
Of which repo transactions	1,524	1,052	1,524	1,052
Of which secured lending	4,000	5,000	4,000	5,000
Note 17				
Other liabilities				
Negative market value of derivatives etc	5,690	4,600	5,690	4,600
Sundry creditors	5,164	3,661	5,139	3,650
Negative portfolio, reverse transactions	6,959	5,770	6,959	5,770
Lease liability	80	-	80	-
Interest and commission etc	80	47	80	47
Cash collateral received, CSA agreements	948	860	948	860
Total	18,921	14,938	18,896	14,927

Notes

DKK m	Sydbank Group		Sydbank A/S	
	30 Jun 2019	31 Dec 2018	30 Jun 2019	31 Dec 2018

Note 18

Provisions

Provisions for pensions and similar obligations	3	3	3	3
Provisions for deferred tax	269	269	267	267
Provisions for guarantees	150	172	150	172
Other provisions*	41	45	41	45
Total	463	489	461	487

* 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	743	743	743	743
1.54 (floating)	2)	Bond loan	EUR 75	2 Nov 2029	558	558	558	558
1.11 (floating)	3)	Bond loan	EUR 75	Perpetual	560	560	560	560
Total Tier 2 capital					1,861	1,861	1,861	1,861
Total subordinated capital					1,861	1,861	1,861	1,861

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	0
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Note 20

Contingent liabilities and other obligating agreements

Contingent liabilities

Financial guarantees	4,132	3,933	4,132	3,933
Mortgage finance guarantees	4,283	3,140	4,283	3,140
Funded mortgage-like loan guarantees	1,717	1,810	1,717	1,810
Registration and remortgaging guarantees	3,841	3,252	3,841	3,252
Other contingent liabilities	1,693	1,746	1,693	1,746
Total	15,666	13,881	15,666	13,881

Other obligating agreements

Irrevocable credit commitments	974	1,303	974	1,303
Other liabilities*	100	104	176	184
Total	1,074	1,407	1,150	1,487

* Including intra-group liabilities in relation to rented premises

Notes

DKKm	Sydbank Group		Sydbank A/S	
	30 Jun 2019	31 Dec 2018	30 Jun 2019	31 Dec 2018

Note 20 – continued

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 effect on Sydbank's financial position.

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 effect on the financial position of the Group.

Note 21

Collateral

At 30 June 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 2,299m.

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	4,351	3,224	4,351	3,224
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Assets purchased as part of reverse transactions

Bonds at fair value	12,870	9,390	12,870	9,390
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Notes

DKKkm	1H	1H	Sydbank Group	
	2019	2018	Index	Full year
			19/18	2018

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 1H 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 1H, no matters of significant impact on the financial position of the Sydbank Group have occurred.

Note 24

Large shareholders

Silchester International Investors LLP, England, owns more than 15% of Sydbank's share capital and Dimensional Holdings Inc., USA, owns more than 5% of Sydbank's share capital.

Note 25

Core income

Net interest etc	754	919	82	1,775
Mortgage credit*	300	289	104	583
Payment services	93	97	96	196
Remortgaging and loan fees	69	68	101	130
Commission and brokerage	150	158	95	302
Commission etc investment funds and pooled pension plans	167	240	70	425
Asset management	132	134	99	270
Custody account fees	35	35	100	69
Other operating income	105	100	105	201
Total	1,805	2,040	88	3,951

* Mortgage credit

Totalkredit cooperation	245	242	101	485
Totalkredit, set-off of loss	8	12	67	21
Totalkredit cooperation, net	237	230	103	464
DLR Kredit	62	58	107	116
Other mortgage credit income	1	1	100	3
Total	300	289	104	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 184m.

Notes

30 Jun 2019	Sydbank Group				
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	-	5,935	-	5,935	5,935
Loans and advances at fair value	-	6,982	-	6,982	6,982
Bonds at fair value	-	32,551	-	32,551	32,551
Shares etc	323	38	1,844	2,205	2,205
Assets related to pooled plans	6,848	10,985	-	17,833	17,833
Other assets	369	5,166	-	5,535	5,535
Total	7,540	61,657	1,844	71,041	71,041

Financial liabilities

Amounts owed to credit institutions and central banks	-	2,842	-	2,842	2,842
Deposits and other debt	-	1,524	-	1,524	1,524
Deposits in pooled plans	-	17,833	-	17,833	17,833
Other liabilities	352	12,299	-	12,651	12,651
Total	352	34,498	-	34,850	34,850

DKKm	30 Jun 2019	31 Dec 2018	Sydbank Group 30 Jun 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	-	-	1
Disposals	7	308	292
Market value adjustment	51	286	219
Carrying amount at end of period	1,844	1,800	1,750

Recognised in profit for the period

Dividend	24	21	20
Market value adjustment	51	286	219
Total	75	307	239

Notes

DKKm	Sydbank Group		Sydbank A/S	
	30 Jun 2019	31 Dec 2018	30 Jun 2019	31 Dec 2018
Note 27				
Leverage ratio				
Exposure to calculate leverage ratio				
Total assets	152,074	140,514	154,372	142,869
Pooled assets excluded	(17,833)	(16,220)	(17,833)	(16,220)
Correction derivatives etc	9,683	6,663	9,683	6,663
Guarantees etc	15,666	13,881	15,666	13,881
Undrawn credit commitments etc	10,581	10,704	10,592	10,714
Other adjustments	(850)	(625)	(834)	(607)
Total	169,321	154,917	171,646	157,300
Tier 1 capital – current (transitional rules)	10,209	10,550	10,194	10,574
Tier 1 capital – fully loaded	10,042	10,326	10,026	10,350
Leverage ratio (%) – current (transitional rules)	6.0	6.8	5.9	6.7
Leverage ratio (%) – fully loaded	5.9	6.7	5.8	6.6

30 Jun 2019					
DKKm	Activity	Share capital (m)	Equity (DKKm)	Profit (DKKm)	Ownership share (%)
Note 28					
Group holdings and enterprises					
Sydbank A/S		DKK	618		
Consolidated subsidiaries					
DiBa A/S, Aabenraa	Investment	DKK	300	2,037	0
Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa	Real property	DKK	11	21	4
Syd Fund Management A/S, Aabenraa	Administration	DKK	100	108	7
Sydbank (Schweiz) AG, in Liquidation, St. Gallen, Switzerland*	-	CHF	40	238	(1)
Holdings in associates					
Foreningen Bankdata, Fredericia**	IT	DKK	531	531	32
Komplementarselskabet Core Property Management A/S, Copenhagen**	Real property	DKK	1	24	5
Core Property Management P/S, Copenhagen**	Real property	DKK	5	45	21

* With no activity at 30 June 2019.

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

Management Statement

We have considered and approved the Interim Report – First Half 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 30 June 2019 and of the results of the Group’s and the parent company’s operations and consolidated cash flows for the period 1 January – 30 June 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, 28 August 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 – Q1-Q3 2019
30 October 2019

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Relevant links

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