

Sydbank's 2019 Annual Report

2019 characterised by growth in total credit intermediation and historically high remortgaging activity

Sydbank's 2019 financial statements show a profit before tax of DKK 1,081m compared to DKK 1,420m in 2018. The decrease of DKK 339m is mainly attributable to a drop in total income of DKK 210m and a change in non-recurring items of DKK 109m. Profit before tax equals a return of 9.7% p.a. on average equity.

Profit for the year after tax represents DKK 853m against DKK 1,161m in 2018, equal to a return on average equity of 7.5%. At the beginning of 2019 profit after tax was projected to be in the region of DKK 800-1,100m.

CEO Karen Frøsig comments on the year's result and the current strategy:

- It is good news that a sizeable improvement in total credit intermediation of almost DKK 3bn has been recorded and that credit quality is still so good that we were able to reverse impairment charges amounting to almost DKK 100m in 2019. This means that impairment charges have been reversed for the last 3 years.

- Our strategy is well underway where focus is on creating a stronger bank with the keywords "Customer first", "More Sydbank" and "Digitization". The response has been a high level of customer satisfaction and deeply committed employees.

Karen Frøsig comments on the initiatives to create a better balance between income and costs:

- The measures are being implemented completely according to plan. The corporate deposit rate was lowered in November 2019, negative interest on retail deposits was introduced in January 2020 and changes in fees regarding payment cards and other services will be effective from March 2020. As a result income in 2020 is expected to exceed income in 2019. In terms of costs the clearest proof that these measures are working is the fact that the number of employees was reduced from 2,074 to 2,030 during Q4 2019.

Chairman of Sydbank's Board of Directors Lars Mikkjelgaard-Jensen comments:

- A strengthened board is now fully in place. We are looking forward and focusing on a constructive collaboration with the Group Executive Management, which has also been strengthened and will be at full capacity in a month. We will distribute around 70% of the profit for 2019. 40% of profit will be distributed as dividend and the rest via a new share buyback programme of DKK 250m. After a total distribution of DKK 590m, the Bank will continue to be well capitalised.

2019 highlights

- A 5% decrease in total income
- A 2% rise in costs (core earnings)
- A reversal of DKK 97m in impairment charges
- A drop in core earnings of DKK 296m to DKK 1,193m
- Negative investment portfolio earnings of DKK 61m
- Bank loans and advances of DKK 60.6bn
- Total credit intermediation of DKK 145.1bn
- Deposits of DKK 84.3bn
- A capital ratio of 22.9%, including a CET1 ratio of 17.8%
- A proposed dividend of DKK 5.70 per share
- New share buyback programme of DKK 250m to be initiated.

Negative interest

Following the introduction of negative interest as regards retail clients at the beginning of 2020 around 50% of the Bank's deposits remain exempt from negative interest. During the last 5 years the negative interest rate environment, which has existed virtually uninterrupted since 2012, has contributed to a decline in Sydbank's net interest income of approx DKK 1bn, equal to approx 40%.

It is expected that the negative interest rate level will continue for some years and as a result Sydbank finds it necessary effective from 1 May 2020 to set a DKK 250,000 exemption limit regarding negative interest on retail clients' deposits. This will apply if a client has a NemKonto account with Sydbank. On other accounts NemKonto clients will continue to pay negative interest on amounts exceeding DKK 50,000.

If a client does not have a NemKonto account with Sydbank, the client will be charged interest on all deposits.

All other things being equal, deposits in the region of DKK 6-7bn will be affected by the above changes.

Sydbank's experience so far with providing advice to retail clients who are affected by negative interest is positive. The advice offers clients one or several ways to avoid being affected by negative interest. It is expected that this will continue to be the case even though the exemption limit for negative interest is lowered.

Outlook for 2020

- Limited growth is projected for the Danish economy.
- As a consequence of the income measures implemented, total income is expected to exceed the income generated in 2019.
- Despite underlying cost inflation, costs (core earnings) are projected to be at the same level as in 2019.
- Impairment charges for 2020 are forecast to be at a low level.

- With the aim of enhancing efficiency and automating processes investments of around DKK 75m will be made. This investment is recognised under non-recurring items.
- Profit after tax is expected to be in the range of DKK 700-1,000m.

Additional information

Jørn Adam Møller, Deputy Group Chief Executive, tel +45 74 37 20 30

Louise Degn-Hansen, press relations officer, tel +45 61 20 48 04

Karen Frøsig, CEO, Bjarne Larsen, Deputy Group Chief Executive, and Jørn Adam Møller, Deputy Group Chief Executive, will present the 2019 Annual Report today at 10.00 (CET) at a teleconference. The teleconference will be held in Danish and may be attended via www.sydbank.dk/omsydbank.

Attendees are invited to call +45 35 44 55 77. Please quote the following code: 33630841#