
Interim Report – First Half 2020

Sydbank Group

Sydbank

Sydbank's Interim Report – First Half 2020

Higher than expected income raises expectations for the year's profit in 2020

1H 2020 – highlights

- Profit of DKK 324m equals a return on equity of 5.4% p.a. after tax.
- Core income of DKK 1,829m is 1% higher compared to the same period in 2019.
- Costs (core earnings) are 1% lower compared to the same period in 2019 and constitute DKK 1,418m.
- Impairment charges for loans and advances represent an expense of DKK 42m compared with an income of DKK 34m in the same period in 2019.
- Total credit intermediation amounts to DKK 141.2bn – a decline of DKK 3.9bn compared to year-end 2019.
- The CET1 ratio has risen by 2.4 percentage points compared to 31 December 2019 and constitutes 20.2% excluding profit for the period.
- The deposit surplus is the highest on record. This is a strain on income and consequently another reason why we will adjust our offers to retail customers. Our current offer where several accounts with a minimum amount are exempt from negative interest will be changed to a market consistent solution whereby customers will exclusively be offered a deposit account with a DKK 250,000 limit which can be exempted from negative interest. In the period ahead we will carefully consider reducing this limit.

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

- It is good news that profit for Q2 is substantially better than expected earlier this year. Consequently we can revise our expectations for the year's profit after tax to now being in the range of DKK 600-800m. Trading income, impairment charges for loans and advances and investment portfolio earnings are better than expected in connection with the most recent quarterly report.

CEO Karen Frøsig on the trends in customers' finances:

- Our customers as a whole have so far weathered the coronavirus crisis well. Due to greater uncertainty many customers have requested increased cash resources. However credit facility drawings are down significantly due to lower willingness to invest as well as the deferral of VAT and tax payments for businesses.
- We have not yet seen specific signs of a deterioration in credit quality and we can note that the previously recorded impairment charges were more than sufficient, which is why we see a net reversal of impairment charges in Q2 2020.

Board chairman Lars Mikkellaard-Jensen on capital resources in times of uncertainty:

- During times of higher than usual uncertainty it is especially reassuring to note that our capital position is more robust than ever. The CET1 ratio is substantially higher than the regulatory requirement and our own target.
- The Board of Directors is pleased that the Bank's employees have managed to service customers in a highly satisfactory manner during a period of time which is unusual in many respects involving for instance widespread home working and online meetings.

Outlook for 2020

- Significant negative growth is projected for the Danish economy in 2020.
- Core income is expected – despite lower activity caused by covid-19 – to be on a par with the core income generated in 2019.
- Despite underlying cost inflation, costs (core earnings) are projected to be at the same level as in 2019.
- Impairment charges for 2020 will be adversely impacted by the effects of covid-19.
- With the aim of enhancing efficiency and automating processes, investments of around DKK 75m will be made. This investment is recognised under non-recurring items.
- Profit after tax is expected to be in the range of DKK 600-800m.
- In light of the coronavirus crisis the outlook for 2020 is subject to greater uncertainty than usual.

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Group Financial Highlights

	1H 2020	1H 2019	Index 20/19	Q2 2020	Q2 2019	Full year 2019
Income statement (DKKm)						
Core income	1,829	1,805	101	869	905	3,655
Trading income	116	136	85	109	40	224
Total income	1,945	1,941	100	978	945	3,879
Costs, core earnings	1,418	1,429	99	700	710	2,783
Core earnings before impairment	527	512	103	278	235	1,096
Impairment of loans and advances etc	42	(34)	-	(42)	(20)	(97)
Core earnings	485	546	89	320	255	1,193
Investment portfolio earnings	(33)	(28)	118	45	(14)	(61)
Profit before non-recurring items	452	518	87	365	241	1,132
Non-recurring items, net	(37)	(39)	95	(20)	(22)	(51)
Profit before tax	415	479	87	345	219	1,081
Tax	91	90	101	76	35	228
Profit for the period	324	389	83	269	184	853
Balance sheet highlights (DKKbn)						
Loans and advances at amortised cost	55.5	60.9	91	55.5	60.9	60.6
Loans and advances at fair value	19.1	7.0	273	19.1	7.0	12.6
Deposits and other debt	84.2	89.1	95	84.2	89.1	84.3
Bonds issued at amortised cost	7.4	7.4	100	7.4	7.4	7.4
Subordinated capital	1.9	1.9	100	1.9	1.9	1.9
AT1 capital	0.8	0.8	100	0.8	0.8	0.8
Shareholders' equity	11.2	10.7	105	11.2	10.7	11.0
Total assets	150.4	152.1	99	150.4	152.1	147.7
Financial ratios per share (DKK per share of DKK 10)						
Profit for the period	5.1	6.0		4.4	2.9	13.4
Share price at end of period	123.0	125.1		123.0	125.1	139.8
Book value	190.2	176.1		190.2	176.1	184.9
Share price/book value	0.65	0.71		0.65	0.71	0.76
Average number of shares outstanding (in millions)	59.1	61.0		59.0	61.0	60.4
Dividend per share	-	-		-	-	-
Other financial ratios and key figures						
CET1 ratio	20.2	16.6		20.2	16.6	17.8
T1 capital ratio	22.0	18.3		22.0	18.3	19.4
Capital ratio	25.9	21.6		25.9	21.6	22.9
Pre-tax profit as % p.a. of average equity	7.1	8.7		12.1	7.9	9.7
Post-tax profit as % p.a. of average equity	5.4	7.0		9.3	6.6	7.5
Costs (core earnings) as % of total income	72.9	73.6		71.6	75.1	71.7
Return on assets (%)	0.2	0.3		0.2	0.3	0.6
Interest rate risk	0.9	1.3		0.9	1.3	1.6
Foreign exchange position	1.3	1.6		1.3	1.6	1.6
Foreign exchange risk	0.0	0.0		0.0	0.0	0.0
Liquidity, LCR (%)	232	207		232	207	174
Loans and advances relative to deposits	0.6	0.6		0.6	0.6	0.6
Loans and advances relative to equity	5.1	5.8		5.1	5.7	5.5
Growth in loans and advances during the period	(8.3)	(0.2)		(7.5)	0.0	(0.7)
Total large exposures	152	149		152	149	143
Accumulated impairment ratio	3.0	3.4		3.0	3.4	2.7
Impairment ratio for the period	0.06	(0.04)		(0.06)	(0.03)	(0.12)
Number of full-time staff at end of period	1,979	2,069	96	1,979	2,069	2,030

When calculating financial ratios AT1 capital is considered a liability regardless of the fact that it is accounted for as equity.

Reference is made to financial ratio definitions in the 2019 Annual Report page 112.

Highlights

Higher than expected income raises expectations for the year's profit in 2020

Sydbank's financial statements for 1H show a pre-tax profit of DKK 415m compared with DKK 479m in the same period in 2019. The decline is attributable to negative effects of covid-19 which have resulted in a decrease in trading income of DKK 20m, impairment charges of DKK 42m and negative investment portfolio earnings of DKK 33m.

Profit before tax equals a return of 7.1% p.a. on average equity.

Core income in 1H is on a par with the expectations presented in the 2019 Annual Report.

Net interest etc constitutes DKK 750m compared with DKK 754m in 2019 – a decline of DKK 4m.

Core income constitutes DKK 1,829m compared with DKK 1,805m in 2019 – an increase of DKK 24m.

Trading income in 1H is in line with the expectations presented in the 2019 Annual Report.

Total income amounts to DKK 1,945m compared with DKK 1,941m in 2019 – a rise of DKK 4m.

Costs (core earnings) in 1H 2020 are in line with the expectations presented in the 2019 Annual Report and show a drop of 1% compared to the same period in 2019.

Core earnings constitute DKK 485m compared with DKK 546m in 2019 – a decrease of DKK 61m.

Profit for the period amounts to DKK 324m compared with DKK 389m in 2019 – a decline of DKK 65m.

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

We are building a stronger bank focusing on 3 themes:

- Customer first
- More Sydbank
- Digitization.

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.

Digitization 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.

The strategic focus represents the values from the underlying philosophy and the Bank's core story with 3 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 2 factors combined are a condition for achieving a satisfactory return for the Bank's shareholders.

The strategic focus covers 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 1,829m, which is DKK 24m higher than in 1H 2019. The development in core income is mainly attributable to a rise in commission and brokerage income as well as remortgaging and loan fees.

Trading income constituted DKK 116m in 1H 2020 compared with DKK 136m in the same period in 2019.

Total income represents DKK 1,945m, an increase of DKK 4m compared to the same period in 2019.

Costs (core earnings) constitute DKK 1,418m compared with DKK 1,429m in 2019 – a decrease of DKK 11m.

The Group's impairment charges for loans and advances represent an expense of DKK 42m compared with an income of DKK 34m in 1H 2019.

Together the Group's position-taking and liquidity handling generated negative investment portfolio earnings of DKK 33m in 1H 2020 compared with negative earnings of DKK 28m a year ago.

Non-recurring items represent an expense of DKK 37m, equal to the expense in 1H 2019. The item consists of costs related to "A stronger bank".

Profit before tax for 1H 2020 amounts to DKK 415m compared with DKK 479m in the same period in 2019. Tax represents DKK 91m, equivalent to an effective tax rate of 22.0%. Profit for the period amounts to DKK 324m compared with DKK 389m in 2019.

Bank loans and advances

Bank loans and advances represented DKK 55.5bn at 30 June 2020 – a drop of DKK 5.1bn in the first half of 2020.

Bank loans and advances (DKKbn)	30 Jun 2020	31 Mar 2020	31 Dec 2019
Corporate clients	42.7	46.9	46.8
Retail clients	12.5	12.9	13.5
Public authorities	0.3	0.2	0.3
Total	55.5	60.0	60.6

Demand for loans remains subdued and competition for bank loans and advances continues to be fierce. However the development in bank loans and advances should be compared to the favourable conditions in the real property market, which means that an increasing share of customers' total housing debt is financed by way of mortgage loans. Arranged mortgage loans – Totalkredit went up by DKK 2.1bn in the first 6 months of 2020.

Lending to corporate clients is affected for instance by the government's relief packages, which include deferral of VAT and tax payments. Loans and advances to corporate clients dropped by DKK 4.1bn in the first half of 2020 primarily due to a decline in the drawings under existing credit facilities.

As a result of the uncertainty in connection with covid-19 and despite the above decline in drawings under credit facilities, many corporate clients have increased their cash resources, which the Bank has accommodated in the form of increased credit commitments.

Credit facilities – corporate clients (DKKbn)	30 Jun 2020	31 Dec 2019	30 Jun 2019
Drawn credit facilities = loans and advances before impairment charges	44.4	48.4	47.9
Undrawn credit facilities	35.8	29.0	26.2
Total credit facilities	80.2	77.4	74.1

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 respectively. At 30 June 2020 credit intermediation totalled DKK 141.2bn – a drop of DKK 3.9bn compared to year-end 2019.

The change is attributable to a drop in bank loans and advances of DKK 5.1bn, a decline in funded mortgage-like loans of DKK 0.7bn and an increase in arranged mortgage loans of DKK 1.9bn.

Total credit intermediation (DKKbn)	30 Jun 2020	31 Dec 2019
Bank loans and advances	55.5	60.6
Funded mortgage-like loans	7.6	8.3
Arranged mortgage loans – Totalkredit	66.8	64.7
Arranged mortgage loans – DLR	11.3	11.5
Total	141.2	145.1

Capital

The Bank announced a share buyback programme of DKK 250m on 26 February 2020. The share buyback programme was scheduled to end no later than on 30 September 2020.

The share buyback programme was terminated on 17 March 2020 as the Bank's Board of Directors, for reasons of prudence, did not wish to continue with the programme as the economic effects of covid-19 are uncertain. Under the programme 279,000 own shares were repurchased at a transaction value of DKK 31m.

Outlook for 2020

Significant negative growth is projected for the Danish economy in 2020.

Core income is expected – despite lower activity caused by covid-19 – to be on a par with the core income generated in 2019.

Despite underlying cost inflation, costs (core earnings) are projected to be at the same level as in 2019.

Impairment charges for 2020 will be adversely impacted by the effects of covid-19.

With the aim of enhancing efficiency and automating processes, investments of around DKK 75m will be made. This investment is recognised under non-recurring items.

Profit after tax is expected to be in the range of DKK 600-800m.

In light of the coronavirus crisis the outlook for 2020 is subject to greater uncertainty than usual.

Profit after tax was expected to be in the range of DKK 400-800m after Q1 2020.

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 3 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 2020

The Sydbank Group has recorded a profit before tax of DKK 415m (1H 2019: DKK 479m).

Profit before tax equals a return of 7.1% p.a. on average equity.

Profit for the period after tax represents DKK 324m compared with DKK 389m in 2019.

Profit after tax equals a return of 5.4% p.a. on average equity.

Profit for 1H 2020 is below the expectations at the beginning of the year as a result of negative effects of covid-19.

The result is characterised by:

- A rise in core income of DKK 24m to DKK 1,829m
- A drop in trading income of DKK 20m due to uncertainty caused by covid-19
- A decline in costs (core earnings) – despite underlying cost inflation
- Impairment charges of DKK 42m due to covid-19
- A decrease in core earnings of DKK 61m to DKK 485m
- Negative investment portfolio earnings of DKK 33m due to covid-19
- Bank loans and advances of DKK 55.5bn (year-end 2019: DKK 60.6bn) – a drop of DKK 5.1bn
- Bank deposits of DKK 84.2bn (year-end 2019: DKK 84.3bn)
- A CET1 ratio of 20.2% (year-end 2019: 17.8%)
- An individual solvency need of 11.6% (year-end 2019: 10.8%).

Income statement – 1H (DKKm)	2020	2019
Core income	1,829	1,805
Trading income	116	136
Total income	1,945	1,941
Costs, core earnings	1,418	1,429
Core earnings before impairment	527	512
Impairment of loans and advances etc	42	(34)
Core earnings	485	546
Investment portfolio earnings	(33)	(28)
Profit before non-recurring items	452	518
Non-recurring items, net	(37)	(39)
Profit before tax	415	479
Tax	91	90
Profit for the period	324	389

Core income

Core income represents DKK 1,829m – an increase of DKK 24m compared to 2019.

Net interest has dropped by DKK 4m to DKK 750m compared to 2019. Net interest is positively affected by an improvement of DKK 95m in net interest as regards deposits. Net interest is adversely affected by a drop of DKK 106m in interest income on loans and advances.

Net income from the cooperation with Totalkredit represents DKK 233m (2019: DKK 237m) after a set-off of loss of DKK 4m (2019: DKK 8m). The cooperation with DLR Kredit has generated an income of DKK 66m (2019: DKK 62m). Total mortgage credit income of DKK 300m is on a par with the same period in 2019.

Income from remortgaging and loan fees has gone up from DKK 69m in 2019 to DKK 85m – an increase of 23%.

Compared to 2019 commission and brokerage income has risen by DKK 36m to DKK 186m. The rise is attributable to increased trading activity.

The remaining income components have dropped by DKK 24m, equal to a decrease of 5%.

Core income – 1H (DKKm)	2020	2019
Net interest etc	750	754
Mortgage credit	300	300
Payment services	72	93
Remortgaging and loan fees	85	69
Commission and brokerage	186	150
Commission etc investment funds and pooled pension plans	139	167
Asset management	139	132
Custody account fees	39	35
Other operating income	119	105
Total	1,829	1,805

Trading income

Trading income constituted DKK 116m in 1H 2020 compared with DKK 136m in the same period in 2019. The lower income is predominantly attributable to the equity desk, which was affected by the negative market trend in the first half of 2020.

In Fixed Income considerable trading activity was recorded in mortgage bonds in 1H 2020.

Costs and depreciation

The Group's costs and depreciation totalled DKK 1,459m, equal to a decrease of DKK 12m compared to the same period in 2019.

Costs and depreciation – 1H (DKKm)	2020	2019
Staff costs	820	854
Other administrative expenses	580	556
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	47	53
Other operating expenses	12	8
Total costs and depreciation	1,459	1,471
Distributed as follows:		
Costs, core earnings	1,418	1,429
Costs, investment portfolio earnings	4	4
Non-recurring costs	37	39

Costs (core earnings) represent DKK 1,418m compared with DKK 1,429m in 2019.

At 30 June 2020 the Group's staff numbered 1,979 (full-time equivalent) compared with 2,069 at 30 June 2019, a reduction of 90 employees.

The number of branches has been reduced by 2 compared to year-end 2019, bringing the number of branches to 58 in Denmark and 3 in Germany at end-June 2020.

Core earnings before impairment

Core earnings before impairment charges for loans and advances represent DKK 527m – an increase of DKK 15m or 3% compared to the same period in 2019.

Impairment of loans and advances etc

Impairment charges for loans and advances represent an expense of DKK 42m compared with an income of DKK 34m in the same period in 2019.

The Group's impairment charges include a management estimate of DKK 225m to cover the consequences of the covid-19 outbreak. The estimate is based on a current assessment of the effects of covid-19 on the Group's lending portfolio and therefore the estimate may change in the coming quarters.

At 30 June 2020 Sydbank's unsecured loans and advances in the weakest rating categories (exclusive of agriculture, but including mink farming) amount to DKK 589m. These loans and advances are not subject to objective evidence of credit impairment but in the short term they are the most critical in terms of credit impairment due to covid-19. The impairment charges include a management estimate

of DKK 125m to hedge the risk of these loans and advances, equal to approx 20%.

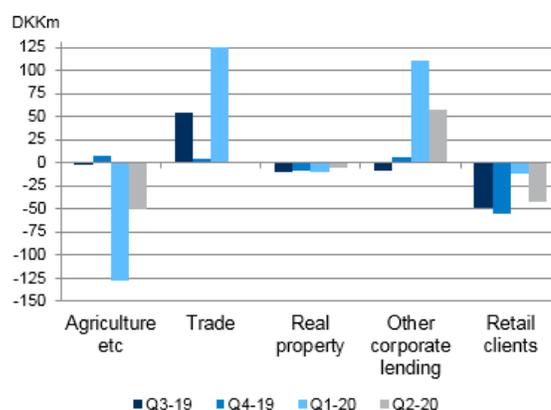
Furthermore impairment charges include a management estimate of DKK 100m to cover unforeseen events as regards the remaining part of the lending portfolio, the credit risk of which is satisfactory or normal.

The Group's total lending to the entertainment industry, retail and small businesses is low.

Management estimates as a result of covid-19 total DKK 225m.

The chart below shows impairment charges for loans and advances in the last 4 quarters as regards agriculture etc, trade, real property, other corporate lending as well as retail clients.

Impairment charges - quarterly



The impairment ratio relative to bank loans and advances and guarantees at 30 June 2020 represents 0.06%. At end-June 2020 accumulated impairment and provisions amounted to DKK 2,183m – a decline of DKK 61m compared to year-end 2019.

In 1H 2020 reported losses amounted to DKK 175m (1H 2019: DKK 279m). Of the reported losses an impairment charge of DKK 140m (1H 2019: 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 3-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 2020 allocated to these 3 stages are shown below.

Loans/advances and impairment charges – 30 Jun 2020				
(DKKm)	Stage 1	Stage 2	Stage 3	Total
Loans/advances before impairment charges	51,403	3,911	2,217	57,531
Impairment charges	178	637	1,201	2,016
Loans/advances after impairment charges	51,225	3,274	1,016	55,515

30 Jun 2020	Stage 1	Stage 2	Stage 3	Total
Impairment charges as % of bank loans and advances	0.3	16.3	54.2	3.5
Share of bank loans and advances before impairment charges (%)	89.3	6.8	3.9	100.0
Share of bank loans and advances after impairment charges (%)	92.3	5.9	1.8	100.0

Credit impaired bank loans and advances – stage 3 – represent 3.9% (year-end 2019: 3.5%) of total bank loans and advances before impairment charges and 1.8% (year-end 2019: 1.7%) 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 2020 stand at 54.2% (year-end 2019: 53.3%).

Core earnings

Core earnings represent DKK 485m – a drop of DKK 61m or 11% compared to the same period in 2019.

Investment portfolio earnings

Together the Group's position-taking and liquidity handling generated negative investment portfolio earnings of DKK 33m in 1H 2020 compared with negative earnings of DKK 28m a year ago.

The investment portfolio earnings in 1H 2020 are primarily a consequence of increased uncertainty, which has also resulted in widening credit spreads on mortgage bonds and corporate bonds.

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

Investment portfolio earnings – 1H (DKKm)	2020	2019
Position-taking	0	(27)
Liquidity generation and liquidity reserves	(26)	3
Strategic positions	(3)	0
Costs	(4)	(4)
Total	(33)	(28)

Non-recurring items, net

Non-recurring items represent a net expense of DKK 37m, equal to the expense in 1H 2019. The item consists of costs related to "A stronger bank".

Profit for the period

Profit before tax amounts to DKK 415m (1H 2019: DKK 479m). Tax represents DKK 91m, equivalent to an effective tax rate of 22.0%. Profit for the period amounts to DKK 324m compared with DKK 389m in 2019.

Return

Profit for the period equals a return on average equity of 5.4% p.a. after tax against 7.0% p.a. in 1H 2019. Earnings per share stands at DKK 5.1 compared with DKK 6.0 in 2019.

Subsidiaries

Ejendomsselskabet has recorded a profit after tax of DKK 5m (1H 2019: DKK 4m). Profit after tax in Syd Administration A/S and Syd Fund Management A/S represents DKK 1m (1H 2019: DKK 0m) and DKK 9m (1H 2019: DKK 7m) respectively. Profit after tax in Sydbank (Schweiz) AG in Liquidation constitutes minus DKK 3m (1H 2019: DKK 0m).

Q2 2020 compared with Q1 2020

Profit before tax for Q2 represents DKK 345m (Q1 2020: DKK 70m).

Compared to Q1 2020 profit before tax reflects:

- a decline in core income of DKK 91m
- a rise in trading income of DKK 102m
- a drop in costs (core earnings) of DKK 18m
- an income in impairment charges for loans and advances of DKK 42m in Q2 and an expense of DKK 84m in Q1
- an increase in core earnings of DKK 155m to DKK 320m
- investment portfolio earnings of DKK 45m (Q1 2020: minus DKK 78m)
- bank loans and advances of DKK 55.5bn (31 March 2020: DKK 60.0bn) – a drop of DKK 4.5bn.

Profit for the period (DKKm)	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Core income	869	960	926	924	905	900
Trading income	109	7	38	50	40	96
Total income	978	967	964	974	945	996
Costs, core earnings	700	718	703	651	710	719
Core earnings before impairment	278	249	261	323	235	277
Impairment of loans and advances etc	(42)	84	(48)	(15)	(20)	(14)
Core earnings	320	165	309	338	255	291
Investment portfolio earnings	45	(78)	(14)	(19)	(14)	(14)
Profit before non-recurring items	365	87	295	319	241	277
Non-recurring items, net	(20)	(17)	(24)	12	(22)	(17)
Profit before tax	345	70	271	331	219	260
Tax	76	15	76	62	35	55
Profit for the period	269	55	195	269	184	205

Total assets

The Group's total assets made up DKK 150.4bn at 30 June 2020 against DKK 147.7bn at year-end 2019.

19.6bn compared to DKK 17.3bn at year-end 2019. The increase is attributable to negative portfolio reverse transactions.

Assets (DKKbn)	30 Jun 2020	31 Dec 2019
Amounts owed by credit institutions etc	22.4	11.3
Loans and advances at fair value (reverse transactions)	19.1	12.6
Loans and advances at amortised cost (bank loans and advances)	55.5	60.6
Securities and holdings etc	25.1	34.7
Assets related to pooled plans	18.5	19.0
Other assets etc	9.8	9.5
Total	150.4	147.7

The Group's bank loans and advances made up DKK 55.5bn at end-June 2020 against DKK 60.6bn at year-end 2019 and DKK 60.9bn at end-June 2019.

Equity and liabilities (DKKbn)	30 Jun 2020	31 Dec 2019
Amounts owed to credit institutions etc	6.3	5.5
Deposits and other debt	84.2	84.3
Deposits in pooled plans	18.5	19.0
Bonds issued	7.4	7.4
Other liabilities etc	19.6	17.3
Provisions	0.5	0.5
Subordinated capital	1.9	1.9
Equity	12.0	11.8
Total	150.4	147.7

The Group's deposits made up DKK 84.2bn against DKK 84.3bn at year-end 2019 and DKK 89.1bn at end-June 2019. Other liabilities represented DKK

Capital

At 30 June 2020 shareholders' equity constituted DKK 11,239m – an increase of DKK 273m since year-end 2019. The change comprises an addition from profit for the period of DKK 302m and net sales of own shares etc of DKK 29m.

The Bank announced a share buyback programme of DKK 250m on 26 February 2020. The share buyback programme was scheduled to end no later than on 30 September 2020.

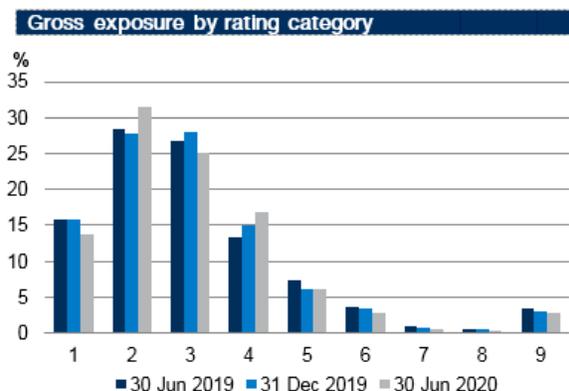
The share buyback programme was terminated on 17 March 2020 as the Bank's Board of Directors, for reasons of prudence, did not wish to continue with the programme as the economic effects of covid-19 are uncertain. Under the programme 279,000 own shares were repurchased at a transaction value of DKK 31m.

REA (DKKbn)	30 Jun 2020	31 Dec 2019
Credit risk	31.6	35.7
Market risk	4.9	6.2
Operational risk	7.2	7.2
Other exposures incl CVA	5.9	6.1
Total	49.6	55.2

The risk exposure amount represents DKK 49.6bn (year-end 2019: DKK 55.2bn). The change is mainly attributable to a decrease in credit risk of DKK 4.1bn and a decline in market risk of DKK 1.3bn.

The development in the gross exposure by rating category at 30 June 2020, 31 December 2019 and 30 June 2019 appears below.

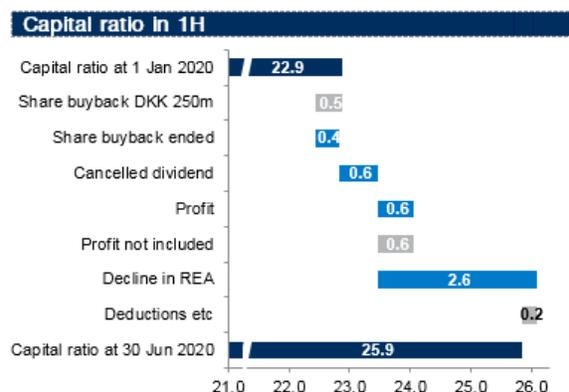
The gross exposure by rating category shows that a large share continues to be in the 4 best rating categories. Compared with 31 December 2019 the share is high also at 30 June 2020.



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 25.9%, of which the T1 capital ratio represents 22.0% compared with 22.9% and 19.4% respectively at year-end 2019. The CET1 ratio stands at 20.2% (31 December 2019: 17.8%).

The development in the Group's capital ratio from 31 December 2019 to 30 June 2020 is illustrated below.



Profit for the period is not included in the calculation of capital ratios at 30 June 2020.

At 30 June 2020 the individual solvency need represented 11.6% (31 December 2019: 10.8%).

The parent's capital ratio stands at 24.8%, of which the T1 capital ratio represents 21.1% compared with 22.0% and 18.6% respectively at year-end 2019. The CET1 ratio stands at 19.4% (31 December 2019: 17.1%).

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 2020 the individual solvency need represented 11.6%. 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 solvency need must be covered by CET1 capital, equivalent to 6.5% of the risk exposure amount.

In addition to the solvency need the Group must meet a combined buffer requirement of 3.5% at 30 June 2020. When fully loaded the combined buffer requirement will represent 3.5%, bringing the fully loaded CET1 ratio requirement to 10.0%.

Capital and solvency and capital requirements (% of REA)	30 Jun 2020	Fully loaded*
Capital and solvency		
CET1 ratio	20.2	20.0
Capital ratio	25.9	25.6
Capital requirements (incl buffers)**		
Total capital requirement	15.1	15.1
CET1 capital requirement	10.0	10.0
-of which countercyclical capital buffer	0.0	0.0
-of which capital conservation buffer	2.5	2.5
-of which SIFI buffer	1.0	1.0
Excess capital		
CET1 capital	10.2	10.0
Total capital	10.8	10.5

* 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 at 30 June 2020.

Market risk

At 30 June 2020 the Group's interest rate risk represented DKK 99m. 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 maturity. 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 232% at 30 June 2020 (31 December 2019: 174%).

LCR (DKKbn)	30 Jun 2020	31 Dec 2019	30 Jun 2019
Total liquidity buffer	43.3	37.2	39.6
Net cash outflows	18.6	21.4	19.1
LCR (%)	232	174	207

The Group has met the LCR requirement throughout the period and as can be seen its excess cover continues to be significant at 30 June 2020.

Funding ratio (DKKbn)	30 Jun 2020	31 Dec 2019	30 Jun 2019
Equity and subordinated capital	13.9	13.6	13.3
Senior loans with maturities > 1 year	7.4	7.4	7.4
Stable deposits	78.7	77.3	80.0
Total stable funding	100.0	98.3	100.7
Loans and advances (excl reverse and funded mortgage-like loans)	55.5	60.6	60.9
Funding ratio (%)	180	162	165

As shown above the Group's stable funding exceeded the Group's loans and advances by DKK 44.5bn at 30 June 2020 (31 December 2019: DKK 37.7bn).

Rating

Moody's most recent ratings of Sydbank:

- Outlook: Stable
- Long-term deposit: A1
- 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 2020	31 Dec 2019	30 Jun 2019
Sum of 20 largest exposures < 175%	152	143	149
Lending growth < 20% annually	(9)	(1)	(3)
Commercial property exposure < 25%	8	6	7
Funding ratio < 1	0.54	0.59	0.58
Excess liquidity coverage > 100%	254	207	232

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 March 2020 the Danish FSA set the MREL for Sydbank at 11.8% of the total liabilities and total capital, equal to 28.4% of the risk exposure amount made up at 30 September 2019.

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	11.6	23.2
SIFI buffer	1.0	2.0
Capital conservation buffer	2.5	5.0
Countercyclical capital buffer	0.0	0.0
Total requirement (%)	15.1	30.2
Total requirement (DKKbn)	7,484	14,968

Following 2 issues of non-preferred senior debt of EUR 500m on 18 September 2018 and 4 February 2019, the Group's eligible liabilities represent 135.2% (31 December 2019: 122.8%) of MREL. This equals an excess cover of DKK 5.3bn (31 December 2019: DKK 3.7bn) based on the risk exposure amount at 30 June 2020. Consequently the MREL has been met.

Excess cover – MREL (DKKbn)	
Total capital	12,814
Non-preferred senior debt, EUR 1,000m	7,427
Total eligible liabilities	20,241
MREL	14,968
Excess cover	5,273
Excess cover as % of MREL	35.2

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 2020 is expected to represent DKK 22m.

Leverage ratio

The CRR/CRD IV rules require credit institutions to calculate, report, monitor and disclose their leverage ratio, which is defined as T1 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 6.5% at 30 June 2020 (year-end 2019: 6.5%) taking into account the transitional rules.

Assuming fully loaded T1 capital under CRR/CRD IV without any refinancing of non-eligible AT1 capital, the leverage ratio would represent 6.4% (year-end 2019: 6.4%).

The introduction of a minimum leverage ratio requirement is not expected to be of significance to the Group.

IFRS 9 – transitional arrangement

To counter an unintended impact on regulatory capital and hence banks' possibilities of supporting lending, a transitional arrangement has been adopted so that the adverse impact from the impairment model in accordance with IFRS 9 is phased in on an ongoing basis. As a result of covid-19 the arrangement has been prolonged until 2024.

Sydbank has decided to apply the transitional rules. The static approach applies to Sydbank and will expire unchanged in 2022. At present the dynamic approach cannot be applied by Sydbank.

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 not expected to have a significant impact on the Group's capital.

The recommendations must be implemented in the EU before they 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 2023 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 2028.

Exposures affected by covid-19

The following exposures are considered to be the most affected by covid-19:

- Severely impacted industries
- Weak corporate clients
- Small corporate clients.

Severely impacted industries

Mainly businesses within the following industries are considered to be severely impacted by covid-19:

- Sea and air transport
- Specialised retailers, exclusive of cars
- Hotels, restaurants and entertainment.

Loans and advances to these industries represented DKK 1.9bn at 30 June 2020, equivalent to 3.4% of total loans and advances of DKK 55.5bn.

Weak corporate clients

Customers who were already weak before the coronavirus crisis – corresponding to rating categories 7, 8, 9 and default – will be even more challenged during times of crisis.

Impairment charges are recorded on a regular basis on all customers subject to objective evidence of credit impairment and as a result these customers are given individual focus.

Loans and advances to weak corporate clients without objective evidence of credit impairment (exclusive of agriculture, but including mink farming) represent DKK 0.7bn. After deduction of collateral received of DKK 0.1bn, unsecured loans and advances total DKK 0.6bn.

Small corporate clients

By experience the smallest businesses are often less robust.

Loans and advances to the smallest businesses – with a balance sheet total of less than DKK 5m – represented DKK 1.0bn at 30 June 2020, equivalent to 1.8% of total loans and advances of DKK 55.5bn.

Income Statement

DKKm	Note	Sydbank Group		Sydbank A/S	
		1H 2020	1H 2019	1H 2020	1H 2019
Interest income calculated using the effective interest method		922	965	925	967
Other interest income		119	143	119	143
Interest income	2	1,041	1,108	1,044	1,110
Interest expense	3	236	258	236	258
Net interest income		805	850	808	852
Dividends on shares		24	28	24	28
Fee and commission income	4	1,097	1,076	1,028	995
Fee and commission expense		153	175	133	136
Net interest and fee income		1,773	1,779	1,727	1,739
Market value adjustments	5	131	118	131	118
Other operating income		8	17	9	17
Staff costs and administrative expenses	6	1,400	1,410	1,372	1,384
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment		47	53	46	52
Other operating expenses	8	12	8	12	8
Impairment of loans and advances etc	9	42	(33)	42	(33)
Profit/(Loss) on holdings in associates and subsidiaries	10	4	3	12	14
Profit before tax		415	479	407	477
Tax	11	91	90	86	88
Profit for the period		324	389	321	389
Distribution of profit for the period					
Shareholders of Sydbank A/S				302	370
Holders of AT1 capital				19	19
Total amount to be allocated				321	389
Interest paid to holders of AT1 capital				19	19
Transfer to equity				302	370
Total amount allocated				321	389
EPS Basic for the period (DKK)*		5.1	6.0	5.1	6.0
EPS Diluted for the period (DKK)*		5.1	6.0	5.1	6.0
Dividend per share (DKK)		-	-	-	-

* Calculated on the basis of average number of shares outstanding, see page 19.

Statement of Comprehensive Income

Profit for the period	324	389	321	389
Other comprehensive income				
<u>Items that may be reclassified to the income statement:</u>				
Translation of foreign entities	4	3	4	3
Hedge of net investment in foreign entities	(4)	(3)	(4)	(3)
Property revaluation	-	(2)	-	(2)
<u>Items that may not be reclassified to the income statement:</u>				
Value adjustment of certain strategic shares	0	18	0	18
Other comprehensive income after tax	0	16	0	16
Comprehensive income for the period	324	405	321	405

Balance Sheet

DKKm	Note	Sydbank Group		Sydbank A/S	
		30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Assets					
Cash and balances on demand at central banks		2,344	2,428	2,344	2,428
Amounts owed by credit institutions and central banks	12	20,093	8,863	20,093	8,863
Loans and advances at fair value		19,052	12,602	19,052	12,602
Loans and advances at amortised cost	13	55,515	60,554	55,938	61,013
Bonds at fair value		22,783	32,357	22,783	32,357
Shares etc		2,196	2,211	2,196	2,211
Holdings in associates etc		147	147	147	147
Holdings in subsidiaries etc		-	-	2,369	2,362
Assets related to pooled plans		18,531	19,042	18,531	19,042
Intangible assets		229	239	229	239
Owner-occupied property		1,064	1,077	843	853
Owner-occupied property, leasing		66	72	66	72
Total land and buildings		1,130	1,149	909	925
Other property, plant and equipment		58	61	57	61
Current tax assets		143	173	151	178
Deferred tax assets		33	33	15	15
Other assets	14	8,085	7,809	7,701	7,442
Prepayments		62	70	62	68
Total assets		150,401	147,738	152,577	149,953
Equity and liabilities					
Amounts owed to credit institutions and central banks	15	6,302	5,497	6,546	5,739
Deposits and other debt	16	84,239	84,295	86,364	86,430
Deposits in pooled plans		18,531	19,042	18,531	19,042
Bonds issued at amortised cost		7,427	7,437	7,427	7,437
Other liabilities	17	19,545	17,360	19,386	17,237
Deferred income		5	3	5	3
Total liabilities		136,049	133,634	138,259	135,888
Provisions	18	461	477	461	476
Subordinated capital	19	1,860	1,863	1,860	1,863
Equity:					
Share capital		618	618	618	618
Revaluation reserves		116	116	116	116
Other reserves:					
Reserves according to articles of association		425	425	425	425
Other reserves		4	4	4	4
Retained earnings		10,076	9,451	10,076	9,451
Proposed dividend etc		-	352	-	352
Shareholders of Sydbank A/S		11,239	10,966	11,239	10,966
Holders of AT1 capital		758	760	758	760
Minority shareholders		34	38	-	-
Total equity		12,031	11,764	11,997	11,726
Total equity and liabilities		150,401	147,738	152,577	149,953

Financial Highlights – Quarterly

	Sydbank Group					
	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Income statement (DKKm)						
Core income	869	960	926	924	905	900
Trading income	109	7	38	50	40	96
Total income	978	967	964	974	945	996
Costs, core earnings	700	718	703	651	710	719
Core earnings before impairment	278	249	261	323	235	277
Impairment of loans and advances etc	(42)	84	(48)	(15)	(20)	(14)
Core earnings	320	165	309	338	255	291
Investment portfolio earnings	45	(78)	(14)	(19)	(14)	(14)
Profit before non-recurring items	365	87	295	319	241	277
Non-recurring items, net	(20)	(17)	(24)	12	(22)	(17)
Profit before tax	345	70	271	331	219	260
Tax	76	15	76	62	35	55
Profit for the period	269	55	195	269	184	205
Balance sheet highlights (DKKbn)						
Loans and advances at amortised cost	55.5	60.0	60.6	60.9	60.9	60.9
Loans and advances at fair value	19.1	19.6	12.6	12.5	7.0	6.7
Deposits and other debt	84.2	82.2	84.3	89.1	89.1	86.3
Bonds issued at amortised cost	7.4	7.4	7.4	7.4	7.4	7.4
Subordinated capital	1.9	1.9	1.9	1.9	1.9	1.9
AT1 capital	0.8	0.8	0.8	0.8	0.8	0.8
Shareholders' equity	11.2	11.0	11.0	10.8	10.7	10.5
Total assets	150.4	150.2	147.7	162.5	152.1	145.6
Financial ratios per share (DKK per share of DKK 10)						
Profit for the period	4.4	0.7	3.1	4.3	2.9	3.2
Share price at end of period	123.0	96.1	139.8	120.8	125.1	138.0
Book value	190.2	185.8	184.9	181.3	176.1	172.6
Share price/book value	0.65	0.52	0.76	0.67	0.71	0.80
Average number of shares outstanding (in millions)	59.0	59.2	59.6	60.1	61.0	61.0
Dividend per share	-	-	-	-	-	-
Other financial ratios and key figures						
CET1 ratio	20.2	19.0	17.8	16.2	16.6	16.9
T1 capital ratio	22.0	20.6	19.4	17.8	18.3	18.5
Capital ratio	25.9	24.3	22.9	21.2	21.6	22.0
Pre-tax profit as % p.a. of average equity	12.1	2.1	9.6	11.9	7.9	9.3
Post-tax profit as % p.a. of average equity	9.3	1.6	6.8	9.5	6.6	7.3
Costs (core earnings) as % of total income	71.6	74.3	72.9	66.8	75.1	72.2
Return on assets (%)	0.2	0.0	0.1	0.2	0.3	0.1
Interest rate risk	0.9	0.6	1.6	1.3	1.3	0.5
Foreign exchange position	1.3	2.3	1.6	2.5	1.6	1.4
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0	0.0
Liquidity, LCR (%)	232	196	174	133	207	186
Loans and advances relative to deposits	0.6	0.6	0.6	0.6	0.6	0.6
Loans and advances relative to equity	5.1	5.5	5.5	5.6	5.7	5.8
Growth in loans and advances during the period	(7.5)	(0.9)	(0.5)	0.0	0.0	(0.2)
Total large exposures	152	139	143	153	149	147
Accumulated impairment ratio	3.0	2.7	2.7	3.1	3.4	3.6
Impairment ratio for the period	(0.06)	0.10	(0.06)	(0.02)	(0.03)	(0.02)
Number of full-time staff at end of period	1,979	2,004	2,030	2,074	2,069	2,111

When calculating financial ratios AT1 capital is considered a liability regardless of the fact that it is accounted for as equity. Reference is made to financial ratio definitions in the 2019 Annual Report page 112.

Financial Highlights – Half-yearly

	Sydbank Group				
	1H 2020	1H 2019	1H 2018	1H 2017	1H 2016
Income statement (DKKm)					
Core income	1,829	1,805	2,040	2,093	2,101
Trading income	116	136	100	139	123
Total income	1,945	1,941	2,140	2,232	2,224
Costs, core earnings	1,418	1,429	1,397	1,369	1,346
Core earnings before impairment	527	512	743	863	878
Impairment of loans and advances etc	42	(34)	(57)	(9)	81
Core earnings	485	546	800	872	797
Investment portfolio earnings	(33)	(28)	(78)	187	(8)
Profit before non-recurring items	452	518	722	1,059	789
Non-recurring items, net	(37)	(39)	92	(12)	26
Profit before tax	415	479	814	1,047	815
Tax	91	90	146	231	172
Profit for the period	324	389	668	816	643
Balance sheet highlights (DKKbn)					
Loans and advances at amortised cost	55.5	60.9	62.5	70.6	78.8
Loans and advances at fair value	19.1	7.0	6.1	7.4	6.8
Deposits and other debt	84.2	89.1	84.1	84.7	79.9
Bonds issued at amortised cost	7.4	7.4	-	3.7	7.1
Subordinated capital	1.9	1.9	1.9	1.3	2.1
AT1 capital	0.8	0.8	0.8	-	-
Shareholders' equity	11.2	10.7	11.3	11.5	11.1
Total assets	150.4	152.1	136.1	140.1	148.0
Financial ratios per share (DKK per share of DKK 10)					
Profit for the period	5.1	6.0	10.0	11.8	9.1
Share price at end of period	123.0	125.1	219.4	245.4	167.2
Book value	190.2	176.1	173.1	169.0	157.6
Share price/book value	0.65	0.71	1.27	1.45	1.06
Average number of shares outstanding (in millions)	59.1	61.0	66.5	69.1	71.0
Dividend per share	-	-	-	-	-
Other financial ratios and key figures					
CET1 ratio	20.2	16.6	15.5	15.6	14.8
T1 capital ratio	22.0	18.3	17.2	16.1	16.1
Capital ratio	25.9	21.6	20.4	18.1	18.0
Pre-tax profit as % p.a. of average equity	7.1	8.7	14.3	18.2	14.9
Post-tax profit as % p.a. of average equity	5.4	7.0	11.7	14.2	11.7
Costs (core earnings) as % of total income	72.9	73.6	65.3	61.3	60.5
Return on assets (%)	0.2	0.3	0.5	0.6	0.4
Interest rate risk	0.9	1.3	1.6	0.7	0.6
Foreign exchange position	1.3	1.6	3.6	3.9	2.1
Foreign exchange risk	0.0	0.0	0.0	0.1	0.0
Liquidity, LCR (%)	232	207	154	225	139
Loans and advances relative to deposits	0.6	0.6	0.6	0.7	0.9
Loans and advances relative to equity	5.1	5.8	5.5	6.1	7.1
Growth in loans and advances during the period	(8.3)	(0.2)	(2.8)	(8.6)	6.1
Total large exposures	152	149	146	150	-
Accumulated impairment ratio	3.0	3.4	3.6	3.6	4.2
Impairment ratio for the period	0.06	(0.04)	(0.07)	(0.01)	0.09
Number of full-time staff at end of period	1,979	2,069	2,102	2,092	2,032

When calculating financial ratios AT1 capital is considered a liability regardless of the fact that it is accounted for as equity. Reference is made to financial ratio definitions in the 2019 Annual Report page 112.

Capital

Sydbank Group										
DKKmn	Share capital	Revaluation reserves	Reserves acc to articles of association	Reserve for net revaluation acc to equity method	Retained earnings	Proposed dividend etc	Shareholders of Sydbank A/S	AT1 capital*	Minority shareholders	Total equity
Equity at 1 Jan 2020	618	116	425	4	9,451	352	10,966	760	38	11,764
Profit for the period					302		302	19	3	324
Other comprehensive income					0		0			0
Comprehensive income for the period	-	-	-	-	302	-	302	19	3	324
Transactions with owners										
Purchase of own shares					(442)		(442)			(442)
Sale of own shares					419		419			419
Interest paid on AT1 capital								(20)		(20)
Exchange rate adjustment					1		1	(1)		-
Cancelled dividend etc					345	(345)				-
Dividend etc paid						(7)	(7)		(5)	(12)
Purchase of holdings in subsidiaries									(2)	(2)
Total transactions with owners	-	-	-	-	323	(352)	(29)	(21)	(7)	(57)
Equity at 30 Jun 2020	618	116	425	4	10,076	-	11,239	758	34	12,031
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 AT1 capital								(20)		(20)
Exchange rate adjustment					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

* AT1 capital has no maturity date. Payment of interest and repayment of principal are voluntary. Therefore AT1 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 CET1 ratio of Sydbank A/S or the Sydbank Group drops below 7%.

The Sydbank share	30 Jun 2020	31 Dec 2019	30 Jun 2019
Share capital (DKK)	617,540,000	617,540,000	617,540,000
Shares issued (number)	61,754,000	61,754,000	61,754,000
Shares outstanding at end of period (number)	59,079,658	59,302,539	60,639,641
Average number of shares outstanding (number)	59,143,101	60,422,803	61,000,769

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

Capital

DKKm	Sydbank Group		
	30 Jun 2020	31 Dec 2019	30 Jun 2019
Solvency			
CET1 ratio	20.2	17.8	16.6
T1 capital ratio	22.0	19.4	18.3
Capital ratio	25.9	22.9	21.6
Total capital			
Equity, shareholders of Sydbank A/S	11,239	10,966	10,677
Expected maximum dividend based on dividend policy	(323)	-	(389)
Minority shareholders	-	38	36
Prudent valuation	(75)	(72)	(70)
Actual or contingent obligations to purchase own shares	(8)	-	(185)
Proposed dividend	-	(352)	-
Intangible assets and capitalised deferred tax assets	(204)	(213)	(231)
Significant investments in financial sector	(714)	(704)	(686)
Transitional arrangement IFRS 9	118	144	143
CET1 capital	10,033	9,807	9,295
AT1 capital – equity	745	747	746
AT1 capital – debt	112	168	168
T1 capital	10,890	10,722	10,209
T2 capital	1,748	1,695	1,693
Difference between expected losses and impairment for accounting purposes	176	203	204
Total capital	12,814	12,620	12,106
Credit risk*	31,628	35,747	36,385
Market risk	4,836	6,177	6,324
Operational risk	7,171	7,171	7,654
Other exposures incl CVA	5,929	6,065	5,559
REA	49,564	55,160	55,922
Pillar I capital requirement	3,965	4,413	4,474
* Credit risk			
Corporate clients, IRB	22,921	26,353	26,855
Retail clients, IRB	6,336	7,425	7,040
Corporate clients, STD	273	262	312
Retail clients, STD	937	903	870
Credit institutions etc	1,161	804	1,308
Total	31,628	35,747	36,385

Cash Flow Statement

DKKm	Sydbank Group		
	1H 2020	Full year 2019	1H 2019
Operating activities			
Pre-tax profit for the period	415	1,081	479
Taxes paid	(66)	(160)	(137)
<u>Adjustment for non-cash operating items:</u>			
Profit/(Loss) on holdings in associates	0	1	(1)
Amortisation and depreciation of intangible assets and property, plant and equipment	47	113	53
Impairment of loans and advances/guarantees	42	(90)	(33)
Other non-cash operating items	(15)	(19)	(26)
	423	926	335
<u>Changes in working capital:</u>			
Credit institutions and central banks	(7,760)	2,530	(5,601)
Trading portfolio	9,588	(2,704)	(2,892)
Other financial instruments at fair value	74	(658)	(1,108)
Loans and advances	(1,452)	(5,573)	(325)
Deposits	(56)	(1,982)	2,839
Other assets/liabilities	1,811	2,437	3,857
Cash flows from operating activities	2,628	(5,024)	(2,895)
Investing activities			
Purchase of holdings in associates	-	(8)	5
Sale of holdings in associates	-	13	-
Purchase of holdings in subsidiaries	(2)	-	-
Sale of holdings in subsidiaries	-	33	33
Purchase of property, plant and equipment	(15)	(59)	(92)
Sale of property, plant and equipment	0	9	0
Cash flows from investing activities	(17)	(12)	(54)
Financing activities			
Purchase and sale of own holdings	(24)	(201)	(43)
Dividends etc	(7)	(583)	(583)
Issue of bonds	-	3,715	3,715
Cash flows from financing activities	(31)	2,931	3,089
Cash flows for the period	2,580	(2,105)	140
Cash and cash equivalents at 1 Jan	6,753	8,858	8,858
Cash flows for the period	2,580	(2,105)	140
Cash and cash equivalents at end of period	9,333	6,753	8,998
Cash and cash equivalents at end of period			
Cash and balances on demand at central banks	2,344	2,428	1,972
Fully secured cash and cash equivalent balances on demand with credit institutions and insurance companies	1,150	1,255	1,903
Unencumbered certificates of deposit	5,839	3,070	5,123
Cash and cash equivalents at end of period	9,333	6,753	8,998

Segment Reporting etc

DKK M	Sydbank Group					
	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
Operating segments						
1H 2020						
Core income	1,644	139	46	-	-	1,829
Trading income	-	-	116	-	-	116
Total income	1,644	139	162	-	-	1,945
Costs, core earnings	1,255	57	79	-	27	1,418
Impairment of loans and advances etc	42	-	-	-	-	42
Core earnings	347	82	83	-	(27)	485
Investment portfolio earnings	(3)	-	-	(30)	-	(33)
Profit before non-recurring items	344	82	83	(30)	(27)	452
Non-recurring items, net	(37)	-	-	-	-	(37)
Profit before tax	307	82	83	(30)	(27)	415
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

Operating segments

The Group's segment statements are divided into the following business units: Banking, Asset Management, Sydbank Markets, Treasury and Other.

Banking serves all types of retail and corporate clients.

Asset Management primarily comprises the Bank's advisory-related income from clients and investment funds.

Sydbank Markets comprises trading income as well as a share of the income from clients with decentral affiliation calculated on the basis of the market price thereof. The share represents the payment by Banking for Sydbank Markets' facilities, including advisory services and administration.

Treasury comprises the Group's return on positions handled by Treasury, including liquidity allocation.

Other includes non-recurring items, costs to the Group Executive Management etc as well as return on strategic shareholdings that are not allocated to Banking or Sydbank Markets.

Inter-segment transactions are settled on an arm's length basis. Centrally incurred costs are allocated to the business units in accordance with their estimated proportionate share of overall activities.

Surplus liquidity is settled primarily at short-term money market rates whereas other balances are settled on an arm's length basis.

Segment Reporting etc

DKKm	Sydbank Group							
	Core income	Trading income	Costs, core earnings	Impairment of loans/ advances etc	Core earnings	Investment portfolio earnings	Non-recurring items, net	Profit before tax
Correlation between the Group's performance measures and the income statement according to IFRS								
1H 2020								
Net interest and fee income	1,686	122			1,808	(35)		1,773
Market value adjustments	131	(6)		0	125	6		131
Other operating income	8				8			8
Income	1,825	116	-	0	1,941	(29)	-	1,912
Staff costs and administrative expenses			(1,359)		(1,359)	(4)	(37)	(1,400)
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment			(47)		(47)			(47)
Other operating expenses			(12)		(12)			(12)
Impairment of loans and advances etc				(42)	(42)			(42)
Profit/(Loss) on holdings in associates and subsidiaries	4				4			4
Profit before tax	1,829	116	(1,418)	(42)	485	(33)	(37)	415
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/(Loss) on holdings in associates and subsidiaries	3				3			3
Profit before tax	1,805	136	(1,429)	34	546	(28)	(39)	479

The Sydbank Group's internal financial reporting is not made on the basis of products and services. Reference is made to notes 2 and 4 for the distribution of interest income as well as fee and commission income.

Notes

Note 1

Accounting policies

The Interim Report for the period from 1 January to 30 June 2020 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 of listed financial companies. 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.

The accounting policies are consistent with those adopted in the 2019 Annual Report, to which reference is made.

The 2019 Annual Report provides a comprehensive description of the accounting policies applied.

Accounting estimates and judgements

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 interim report are identical to those used in the preparation of the 2019 Annual Report.

Impairment of loans and advances and provisions for guarantees and undrawn credit commitments are made to take into account the expected losses on conclusion as well as any credit impairment after initial recognition. The determination of impairment charges for expected losses is subject to a number of estimates, including which loans and advances or portfolios of loans and advances are subject to credit impairment as well as calculation of expected losses.

Assessing the degree of credit impairment of exposures involves a number of estimates which may be subject to uncertainty.

To a large extent the determination of expected losses at exposure level is based on risk registrations, models and past experience but it also involves a number of estimates of risks and expected developments in the individual exposure, including the future ability to pay and the value of collateral which in particular comprises mortgages on property. During periods of uncertain economic trends or significant demographic or structural changes uncertainty is greater. This is reflected in the need for management adjustments that by their nature are subject to uncertainty.

The Group’s models to calculate impairment of exposures in stages 1 and 2 include expectations as to economic developments. The outlook is based on estimates of the probability of different outcomes of economic growth. The outlook results in a determination of the probability of the scenarios baseline, upturn and downturn. At 30 June 2020 the probability of the downturn scenario was fixed at 95% (2019: 50%).

Impairment of exposures in stage 3 and the weakest part of stage 2 is based on individual assessments which include expectations of future changes in collateral value etc.

In addition to the calculated impairment charges management estimates whether special impairment charges as regards severely impacted industries or customer segments etc are needed.

At 30 June 2020 an impairment charge of DKK 225m was recognised to cover the consequences of the covid-19 outbreak on the Bank’s lending portfolio and therefore the estimate may change in the coming quarters.

The Group’s significant risks and the external elements which may affect the Group are described in greater detail in the 2019 Annual Report.

Notes

DKKm	Sydbank Group		Sydbank A/S	
	1H 2020	1H 2019	1H 2020	1H 2019

Note 2

Interest income calculated using the effective interest method

Amounts owed by credit institutions and central banks	12	20	12	20
Loans and advances and other amounts owed	781	887	784	889
Other interest income	4	(10)	4	(10)
Interest on deposits*	125	68	125	68
Total	922	965	925	967

Other interest income

Repo transactions with credit institutions and central banks and repo deposits*	16	8	16	8
Bonds	54	86	54	86
Total derivatives	49	49	49	49
comprising:				
Foreign exchange contracts	2	41	2	41
Interest rate contracts	47	8	47	8
Total	119	143	119	143
Total interest income	1,041	1,108	1,044	1,110

* Negative interest expense

Fair value, designated at initial recognition	16	8	16	8
Fair value, held for trading	103	135	103	135
Assets recognised at amortised cost	922	965	925	967
Total	1,041	1,108	1,044	1,110

The Group's cash resources are primarily placed in Danish mortgage bonds. The interest rate risk concerning these positions has been reduced via derivatives. As a result the Group's external income statement is affected in terms of interest income and the market value adjustment of bonds and derivatives. The same applies to the Group's position-taking as regards bonds as well as shares. The breakdown by income statement item does not disclose income independently and consequently these items must be regarded as one as they are in "Segment reporting" as well as in the Group's financial review, which also takes funding of the positions into account.

Notes

DKKm	Sydbank Group		Sydbank A/S	
	1H 2020	1H 2019	1H 2020	1H 2019

Note 3

Interest expense

Reverse transactions with credit institutions and central banks and reverse loans and advances*	60	31	60	31
Amounts owed to credit institutions and central banks	4	12	4	12
Deposits and other debt	60	98	60	98
Bonds*	5	4	5	4
Bonds issued	55	50	55	50
Interest on amounts owed by credit institutions and central banks*	38	46	38	46
Subordinated capital	13	16	13	16
Other interest expense	1	1	1	1
Total	236	258	236	258

* Negative interest income

Fair value, designated at initial recognition	60	31	60	31
Fair value, held for trading	5	4	5	4
Liabilities recognised at amortised cost	171	223	171	223
Total	236	258	236	258

Note 4

Fee and commission income

Securities trading and custody accounts	375	360	306	279
Advisory fee, asset management	150	150	150	150
Payment services	135	155	135	155
Loan fees	96	82	96	82
Guarantee commission	73	65	73	65
Income concerning funded mortgage-like loans	62	75	62	75
Other fees and commission	206	189	206	189
Total fee and commission income	1,097	1,076	1,028	995
Total fee and commission expense	153	175	133	136
Net fee and commission income	944	901	895	859

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 4m (2019: DKK 8m) and has been deducted from commission received which is included under other fees and commission.

Notes

DKKm	Sydbank Group		Sydbank A/S	
	1H 2020	1H 2019	1H 2020	1H 2019

Note 5

Market value adjustments

Other loans and advances and amounts owed at fair value	1	0	1	0
Bonds	(42)	34	(42)	34
Shares etc	52	73	52	73
Foreign exchange	82	72	82	72
Total derivatives	38	(61)	38	(61)
Assets related to pooled plans	(918)	989	(918)	989
Deposits in pooled plans	918	(989)	918	(989)
Other assets/liabilities	0	0	0	0
Total	131	118	131	118

Note 6

Staff costs and administrative expenses

Salaries and remuneration:

Group Executive Management	9	9	9	9
Board of Directors	3	3	3	3
Shareholders' Committee	2	2	2	2
Total	14	14	14	14

Staff costs:

Wages and salaries	645	675	625	666
Pensions	62	64	59	64
Social security contributions	8	8	8	8
Payroll tax etc	91	93	88	92
Total	806	840	780	830

Other administrative expenses:

IT	374	380	369	363
Rent etc	46	50	53	57
Marketing and entertainment expenses	28	42	25	37
Other costs	132	84	131	83
Total	580	556	578	540
Total	1,400	1,410	1,372	1,384

Note 7

Staff

Average number of staff (full-time equivalent)	2,028	2,123	1,958	2,104
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Notes

DKKm	Sydbank Group		Sydbank A/S	
	1H 2020	1H 2019	1H 2020	1H 2019

Note 8

Other operating expenses

Contribution to the Resolution Fund	12	8	12	8
Other expenses	0	-	0	-
Total	12	8	12	8

Note 9

Impairment of loans and advances recognised in the income statement

Impairment and provisions	56	(50)	56	(50)
Write-offs	35	36	35	36
Recovered from debt previously written off	49	19	49	19
Impairment of loans and advances etc	42	(33)	42	(33)

Impairment and provisions at end of period (allowance account)

Stage 1	154	121	154	121
Stage 2	521	834	521	834
Stage 3	1,283	1,618	1,440	1,618
Management estimates	225	100	225	100
Impairment and provisions at end of period	2,183	2,673	2,340	2,673

Impairment and provisions

Impairment and provisions at 1 Jan	2,244	2,924	2,401	2,924
New impairment charges and provisions during the period, net	79	(8)	79	(8)
Impairment charges previously recorded, now finally written off	140	243	140	243
Impairment and provisions at end of period	2,183	2,673	2,340	2,673

Impairment of loans and advances	2,016	2,484	2,173	2,484
Provisions for undrawn credit commitments	50	39	50	39
Provisions for guarantees	117	150	117	150
Impairment and provisions at end of period	2,183	2,673	2,340	2,673

Losses recognised for the period constitute DKK 175m. As regards losses recognised for the period a legal claim of DKK 163m has been upheld. As regards losses recognised a legal claim of DKK 451m has been upheld at 31 December 2019.

Notes

Industry	Sydbank Group							
	Loans/advances and guarantees		Impairment charges and provisions		Impairment of loans and advances etc for the period		Loss for the period	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019	1H 2020	1H 2019	1H 2020	1H 2019
DKK m								
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	3,839	4,280	469	666	(178)	72	29	103
<i>Pig farming</i>	787	890	36	110	(83)	6	0	46
<i>Cattle farming</i>	1,020	1,012	139	209	(47)	21	22	25
<i>Crop production</i>	966	1,198	79	113	(34)	5	2	3
<i>Other agriculture</i>	1,066	1,180	215	234	(14)	40	5	29
Manufacturing and extraction of raw materials	9,418	10,383	312	235	94	(10)	27	12
Energy supply etc	2,853	2,632	11	6	4	(8)	0	0
Building and construction	4,367	4,178	117	91	31	10	11	20
Trade	11,555	13,635	420	340	125	44	67	61
Transportation, hotels and restaurants	3,026	3,355	83	63	18	(10)	3	4
Information and communication	531	446	7	11	(4)	1	0	0
Finance and insurance	5,980	6,111	64	66	1	(11)	7	7
Real property	4,683	5,188	138	154	(17)	(46)	1	29
<i>Leasing of commercial property</i>	1,557	2,066	89	89	(1)	(25)	0	11
<i>Leasing of residential property</i>	1,037	1,184	31	43	(12)	(5)	0	2
<i>Housing associations and cooperative housing associations</i>	548	506	4	1	1	1	0	0
<i>Purchase, development and sale on own account</i>	1,492	1,374	12	19	(6)	(4)	1	8
<i>Other related to real property</i>	49	58	2	2	1	(13)	0	8
Other industries	3,439	3,814	139	98	23	(2)	1	6
Total corporate	49,691	54,022	1,760	1,730	97	40	146	242
Public authorities	252	287	-	1	-	-	-	-
Retail	23,933	28,367	423	513	(55)	(73)	29	37
Total	73,876	82,676	2,183	2,244	42	(33)	175	279

Notes

DKKm	Sydbank Group		Sydbank A/S	
	1H 2020	1H 2019	1H 2020	1H 2019

Note 10

Profit/(Loss) on holdings in associates and subsidiaries

Profit/(Loss) on holdings in associates etc	4	3	4	3
Profit/(Loss) on holdings in subsidiaries etc	-	-	8	11
Total	4	3	12	14

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)	0.0	(3.1)	(0.8)	(3.4)
Adjustment of prior year tax charges	0.0	0.0	0.0	0.0
Effective tax rate	22.0	18.9	21.2	18.6

DKKm	Sydbank Group		Sydbank A/S	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019

Note 12

Amounts owed by credit institutions and central banks

Amounts owed at notice by central banks	11,878	4,266	11,878	4,266
Amounts owed by credit institutions	8,215	4,597	8,215	4,597
Total	20,093	8,863	20,093	8,863
Of which reverse transactions	4,546	3,062	4,546	3,062

Notes

DKKm	Sydbank Group				
	Stage 1	Stage 2	Stage 3	30 Jun 2020 Total	31 Dec 2019 Total
Note 13					
Loans and advances, guarantees and allowance account by stage					
Loans and advances before impairment charges	51,403	3,911	2,217	57,531	62,616
Guarantees	15,576	621	148	16,345	20,060
Total loans and advances and guarantees	66,979	4,532	2,365	73,876	82,676
%	90.7	6.1	3.2	100.0	
Impairment charges for loans and advances	178	637	1,201	2,016	2,062
Provisions for undrawn credit commitments	28	18	4	50	42
Provisions for guarantees	10	29	78	117	140
Total allowance account	216	684	1,283	2,183	2,244
Allowance account at 1 Jan	131	845	1,268	2,244	2,924
New impairment charges and provisions during the period, net	85	(161)	155	79	(59)
Impairment charges previously recorded, now finally written off	-	-	(140)	(140)	(464)
Of which at end of period concerning subsidiary	-	-	-	-	(157)
Total allowance account at end of period	216	684	1,283	2,183	2,244
Impairment charges as % of loans and advances	0.3	16.3	54.2	3.5	3.3
Provisions as % of guarantees	0.1	4.7	52.7	0.7	0.7
Allowance account as % of loans and advances and guarantees	0.3	15.1	54.2	3.0	2.7
Loans and advances before impairment charges	51,403	3,911	2,217	57,531	62,616
Impairment charges for loans and advances	178	637	1,201	2,016	2,062
Loans and advances after impairment charges	51,225	3,274	1,016	55,515	60,554
%	92.3	5.9	1.8	100.0	

Notes

DKKm	Stage 1	Stage 2	Stage 3	Sydbank Group	
				30 Jun 2020 Total	31 Dec 2019 Total
Note 13 – continued					
Loans and advances before impairment charges					
Rating category					
1	5,403	1		5,404	5,595
2	14,497			14,497	13,752
3	15,874	36		15,910	20,010
4	8,013	8		8,021	8,326
5	4,271	817		5,088	5,105
6	1,865	698		2,563	3,005
7	136	321		457	747
8		355		355	469
9		1,646	1,438	3,084	3,202
Default			761	761	1,025
NR/STD	1,344	29	18	1,391	1,380
Total	51,403	3,911	2,217	57,531	62,616
Impairment charges for loans and advances					
Rating category					
1	1			1	-
2	38			38	17
3	25	1		26	16
4	47			47	24
5	29	32		61	27
6	19	37		56	37
7	7	69		76	28
8		92		92	25
9		400	734	1,134	1,074
Default			467	467	563
NR/STD	12	6		18	26
Collective impairment charges					225
Total	178	637	1,201	2,016	2,062
Loans and advances after impairment charges					
Rating category					
1	5,402	1		5,403	5,595
2	14,459			14,459	13,735
3	15,849	35		15,884	19,994
4	7,966	8		7,974	8,302
5	4,242	785		5,027	5,078
6	1,846	661		2,507	2,968
7	129	252		381	719
8		263		263	444
9		1,246	704	1,950	2,128
Default			294	294	462
NR/STD	1,332	23	18	1,373	1,354
Collective impairment charges					(225)
Total	51,225	3,274	1,016	55,515	60,554

Notes

DKKm	Sydbank Group				
	Stage 1	Stage 2	Stage 3	30 Jun 2020 Total	31 Dec 2019 Total
Note 13 – continued					
Loans and advances before impairment charges					
1 Jan	55,955	4,470	2,191	62,616	63,691
Transfers between stages					
Transferred to stage 1	949	(885)	(64)	-	-
Transferred to stage 2	(1,253)	1,416	(163)	-	-
Transferred to stage 3	(176)	(528)	704	-	-
New exposures	8,002	195	142	8,339	15,472
Redeemed exposures	(8,093)	(490)	(164)	(8,747)	(12,947)
Changes in balances	(3,981)	(267)	(254)	(4,502)	(2,581)
Write-offs			(175)	(175)	(598)
Acquisition of entity				-	(421)
End of period	51,403	3,911	2,217	57,531	62,616
Impairment charges for loans and advances					
1 Jan	104	790	1,168	2,062	2,708
Transfers between stages					
Transferred to stage 1	186	(155)	(31)	-	-
Transferred to stage 2	(4)	66	(62)	-	-
Transferred to stage 3	(1)	(77)	78	-	-
New exposures	37	42	61	140	207
Redeemed exposures	(18)	(71)	(31)	(120)	(266)
Changes in balances	(126)	42	158	74	34
Write-offs			(140)	(140)	(464)
Acquisition of entity				-	(157)
End of period	178	637	1,201	2,016	2,062
Loans and advances after impairment charges					
1 Jan	55,851	3,680	1,023	60,554	60,983
Transfers between stages					
Transferred to stage 1	763	(730)	(33)	-	-
Transferred to stage 2	(1,249)	1,350	(101)	-	-
Transferred to stage 3	(175)	(451)	626	-	-
New exposures	7,965	153	81	8,199	15,265
Redeemed exposures	(8,075)	(419)	(133)	(8,627)	(12,681)
Changes in balances	(3,855)	(309)	(412)	(4,576)	(2,615)
Write-offs			(35)	(35)	(134)
Acquisition of entity				-	(264)
End of period	51,225	3,274	1,016	55,515	60,554

Notes

DKKm	Sydbank Group		Sydbank A/S	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019

Note 14

Other assets

Positive market value of derivatives etc	5,152	4,834	5,152	4,834
Sundry debtors	865	983	497	616
Interest and commission receivable	104	148	88	148
Cash collateral provided, CSA agreements	1,964	1,844	1,964	1,844
Other assets	0	0	0	0
Total	8,085	7,809	7,701	7,442

Note 15

Amounts owed to credit institutions and central banks

Amounts owed to central banks	335	12	335	12
Amounts owed to credit institutions	5,967	5,485	6,211	5,727
Total	6,302	5,497	6,546	5,739
Of which repo transactions	3,459	2,227	3,459	2,227

Note 16

Deposits and other debt

On demand	78,204	76,025	80,329	78,160
At notice	161	194	161	194
Time deposits	2,327	3,815	2,327	3,815
Special categories of deposits	3,547	4,261	3,547	4,261
Total	84,239	84,295	86,364	86,430
Of which repo transactions	2,098	2,419	2,098	2,419
Of which secured lending	-	1,000	-	1,000

Note 17

Other liabilities

Negative market value of derivatives etc	5,299	4,958	5,299	4,958
Sundry creditors	4,337	4,936	4,178	4,813
Negative portfolio, reverse transactions	9,181	6,763	9,181	6,763
Lease liability	67	73	67	73
Interest and commission etc	74	86	74	86
Cash collateral received, CSA agreements	587	544	587	544
Total	19,545	17,360	19,386	17,237

Notes

DKKm	Sydbank Group		Sydbank A/S	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019

Note 18

Provisions

Provisions for pensions and similar obligations	3	3	3	3
Provisions for deferred tax	291	291	291	290
Provisions for guarantees	117	140	117	140
Other provisions*	50	43	50	43
Total	461	477	461	476

* 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	742	745	742	745
1.59 (floating)	2)	Bond loan	EUR 75	2 Nov 2029	558	558	558	558
0.07 (floating)	3)	Bond loan	EUR 75	Perpetual	560	560	560	560
Total T2 capital					1,860	1,863	1,860	1,863
Total subordinated capital					1,860	1,863	1,860	1,863
Costs relating to the raising and redemption of subordinated capital					0	0	0	0

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%.

Note 20

Contingent liabilities and other obligating agreements

Contingent liabilities

Financial guarantees	4,715	4,147	4,715	4,156
Mortgage finance guarantees	3,684	3,150	3,683	3,150
Funded mortgage-like loan guarantees	1,347	1,645	1,348	1,645
Registration and remortgaging guarantees	4,787	9,351	4,787	9,351
Other contingent liabilities	1,812	1,767	1,812	1,767
Total	16,345	20,060	16,345	20,069

Other obligating agreements

Irrevocable credit commitments	1,415	1,242	1,415	1,242
Other liabilities*	12	12	81	84
Total	1,427	1,254	1,496	1,326

* Of which intra-group liabilities in relation to rented premises - - 69 76

Notes

DKKm	Sydbank Group		Sydbank A/S	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019

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 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 2020 the Group had deposited as collateral securities at a market value of DKK 582m with Danish and foreign exchanges and clearing centres etc in connection with margin calls and securities settlements etc. In addition the Group had provided cash collateral of DKK 1,964m and deposited as collateral securities at a market value of DKK 73m in connection with CSA agreements.

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	5,538	4,634	5,538	4,634
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Assets purchased as part of reverse transactions

Bonds at fair value	23,887	15,768	23,887	15,768
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Notes

DKKm	Sydbank Group			
	1H 2020	1H 2019	Index 20/19	31 Dec 2019

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 2020. Reference is made to the Group's 2019 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, London, owns more than 15% of Sydbank's share capital.

Note 25

Core income

Net interest etc	750	754	99	1,483
Mortgage credit*	300	300	100	620
Payment services	72	93	77	180
Remortgaging and loan fees	85	69	123	174
Commission and brokerage	186	150	124	319
Commission etc investment funds and pooled pension plans	139	167	83	326
Asset management	139	132	105	269
Custody account fees	39	35	111	70
Other operating income	119	105	113	214
Total	1,829	1,805	101	3,655

* Mortgage credit

Totalkredit cooperation	237	245	97	503
Totalkredit, set-off of loss	4	8	50	17
Totalkredit cooperation, net	233	237	98	486
DLR Kredit	66	62	106	131
Other mortgage credit income	1	1	-	3
Total	300	300	100	620

Notes

DKKm	Mandatory fair value (trading portfolio)	Fair value option	FVOCI	Total fair value	30 Jun 2020 AMC
Note 26					
Fair value disclosure					
Financial instruments are included in the balance sheet either at fair value or at amortised cost. The table below breaks down financial instruments by valuation technique.					
Financial assets					
Cash and balances on demand at central banks				-	2,344
Amounts owed by credit institutions and central banks	4,546			4,546	15,547
Loans and advances at fair value	19,052			19,052	-
Loans and advances at amortised cost				-	55,515
Bonds at fair value	12,216	10,567		22,783	-
Shares etc	133	1,928	135	2,196	-
Assets related to pooled plans		18,531		18,531	-
Other assets	5,126	26		5,152	2,933
Total	41,073	31,052	135	72,260	76,339
Undrawn credit commitments				-	47,990
Maximum credit risk, collateral not considered	41,073	31,052	135	72,260	124,329
Financial liabilities					
Amounts owed to credit institutions and central banks	3,459			3,459	2,843
Deposits and other debt	2,098			2,098	82,141
Deposits in pooled plans			18,531	18,531	-
Bonds issued at amortised cost				-	7,427
Other liabilities	14,482			14,482	5,063
Subordinated capital				-	1,860
Total	20,039	18,531	-	38,570	99,334

Notes

DKKm	Mandatory fair value (trading portfolio)	Fair value option	FVOCI	31 Dec 2019	
				Total fair value	AMC
Note 26 – continued					
Financial assets					
Cash and balances on demand at central banks				-	2,428
Amounts owed by credit institutions and central banks	3,062			3,062	5,801
Loans and advances at fair value	12,602			12,602	-
Loans and advances at amortised cost				-	60,554
Bonds at fair value	20,067	12,290		32,357	-
Shares etc	159	1,887	165	2,211	-
Assets related to pooled plans		19,042		19,042	-
Other assets	4,886	34		4,920	2,889
Total	40,776	33,253	165	74,194	71,672
Undrawn credit commitments				-	41,599
Maximum credit risk, collateral not considered	40,776	33,253	165	74,194	113,271
Financial liabilities					
Amounts owed to credit institutions and central banks	2,227			2,227	3,270
Deposits and other debt	2,419			2,419	81,876
Deposits in pooled plans		19,042		19,042	-
Bonds issued at amortised cost				-	7,437
Other liabilities	11,724			11,724	5,636
Subordinated capital				-	1,863
Total	16,370	19,042		35,412	100,082

To take into account changes in credit risk concerning derivatives with positive fair value, an adjustment is made – CVA. CVA is a function of the risk of counterparty default (PD), the expected positive exposure and the loss ratio in the event of default. PD is determined on the basis of the Group's credit models – default probability in 12 months. PD beyond 12 months is adjusted on the basis of market data of exposures with a similar PD level. At 30 June 2020 CVA constituted DKK 19m compared to DKK 19m at year-end 2019.

Client margins recognised in connection with derivatives are amortised over the life of the transaction. At 30 June 2020 client margins presently not recognised as income totalled DKK 24m compared to DKK 26m at year-end 2019.

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 191m (31 December 2019: DKK 186m).

Notes

DKKm	Quoted prices	Observable inputs	Unobservable inputs	Sydbank Group	
				Total fair value	Carrying amount
Note 26 – continued					
30 Jun 2020					
Financial assets					
Amounts owed by credit institutions and central banks					
	-	4,546	-	4,546	4,546
Loans and advances at fair value	-	19,052	-	19,052	19,052
Bonds at fair value	-	22,783	-	22,783	22,783
Shares etc	246	42	1,908	2,196	2,196
Assets related to pooled plans	7,545	10,986	-	18,531	18,531
Other assets	298	4,854	-	5,152	5,152
Total	8,089	62,263	1,908	72,260	72,260
Financial liabilities					
Amounts owed to credit institutions and central banks					
	-	3,459	-	3,459	3,459
Deposits and other debt	-	2,098	-	2,098	2,098
Deposits in pooled plans	-	18,531	-	18,531	18,531
Other liabilities	221	14,261	-	14,482	14,482
Total	221	38,349	-	38,570	38,570
31 Dec 2019					
Financial assets					
Amounts owed by credit institutions and central banks					
	-	3,062	-	3,062	3,062
Loans and advances at fair value	-	12,602	-	12,602	12,602
Bonds at fair value	-	32,357	-	32,357	32,357
Shares etc	308	40	1,863	2,211	2,211
Assets related to pooled plans	7,347	11,695	-	19,042	19,042
Other assets	388	4,532	-	4,920	4,920
Total	8,043	64,288	1,863	74,194	74,194
Financial liabilities					
Amounts owed to credit institutions and central banks					
	-	2,227	-	2,227	2,227
Deposits and other debt	-	2,419	-	2,419	2,419
Deposits in pooled plans	-	19,042	-	19,042	19,042
Other liabilities	291	11,433	-	11,724	11,724
Total	291	35,121	-	35,412	35,412

DKKm	Sydbank Group		
	30 Jun 2020	31 Dec 2019	30 Jun 2019
Assets measured on the basis of unobservable inputs			
Carrying amount at 1 Jan	1,863	1,800	1,800
Additions	3	-	-
Disposals	11	82	7
Market value adjustment	53	145	51
Carrying amount at end of period	1,908	1,863	1,844
Recognised in profit for the period			
Dividend	18	26	24
Market value adjustment	53	145	51
Total	71	171	75

Notes

DKKm	Sydbank Group		Sydbank A/S	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019

Note 27

Leverage ratio

Leverage ratio exposures

Total assets	150,401	147,738	152,577	149,953
Of which pooled assets	(18,531)	(19,042)	(18,531)	(19,042)
Correction derivatives etc	9,387	6,093	9,387	6,093
Guarantees etc	16,345	20,060	16,345	20,069
Undrawn credit commitments etc	11,534	10,685	11,549	10,700
Other adjustments	(1,040)	(745)	(1,005)	(730)
Total	168,096	164,789	170,322	167,043
T1 capital – current (transitional rules)	10,890	10,722	10,912	10,700
T1 capital – fully loaded	10,778	10,554	10,800	10,532
Leverage ratio (%) – current (transitional rules)	6.5	6.5	6.4	6.4
Leverage ratio (%) – fully loaded	6.4	6.4	6.3	6.3

30 Jun 2020	Activity	Share capital (m)	Equity (DKKm)	Sydbank Group	
				Profit/ (Loss) (DKKm)	Ownership share (%)

Note 28

Group holdings and enterprises

Sydbank A/S		DKK	618			
Consolidated subsidiaries						
Syd Administration A/S, Aabenraa	Inv. & adm.	DKK	300	2,034	1	100
Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa	Real property	DKK	11	12	5	100
Syd Fund Management A/S, Aabenraa	Administration	DKK	100	114	9	69
Sydbank (Schweiz) AG in Liquidation, St. Gallen, Switzerland*	-	CHF	40	242	(3)	100
Held for sale						
Green Team Group A/S, Sønder Omme	Wholesale	DKK	101	11	***	100
Holdings in associates						
Foreningen Bankdata, Fredericia**	IT	DKK	472	476	(55)	29
Komplementarselskabet Core Property Management A/S, Copenhagen**	Real property	DKK	1	16	2	20
Core Property Management P/S, Copenhagen**	Real property	DKK	5	63	32	20

* With no activity at 30 June 2020.

** Financial information according to the companies' most recently published annual reports (2019).

*** Entity acquired on 1 October 2019.

Management Statement

We have reviewed and approved the Interim Report – First Half 2020 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 2020 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 2020. 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, 26 August 2020

Group Executive Management

Karen Frøsig
CEO

Henning Dam

Bjarne Larsen

Jørn Adam Møller

Board of Directors

Lars Mikkjelgaard-Jensen
Chairman

Jacob Chr. Nielsen
Vice-Chairman

Carsten Andersen

Henrik Hoffmann

Søren Holm

Kim Holmer

Janne Moltke-Leth

Jarl Oxlund

Gitte Poulsen

Susanne Schou

Jon Stefansson

Jørn Krogh Sørensen

Supplementary Information

Financial calendar

In 2020 and 2021 the Group's preliminary announcement of financial statements will be released as follows:

- Interim Report – Q1-Q3 2020
28 October 2020
- Announcement of the 2020 Financial Statements
2 March 2021
- Annual General Meeting 2021*
25 March 2021
- Interim Report – Q1 2021
28 April 2021
- Interim Report – First Half 2021
25 August 2021
- Interim Report – Q1-Q3 2021
27 October 2021

* Business to be transacted at the Bank's AGM scheduled for 25 March 2021 must have been received by the Bank in writing no later than on 11 February 2021.

The preliminary announcements of financial statements are expected to be released at 8.30am on the dates listed above. The preliminary announcements of financial statements will be available at sydbank.dk and sydbank.com immediately following their release.

Sydbank contacts

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Relevant links

sydbank.dk
sydbank.com

For further information reference is made to Sydbank's 2019 Annual Report at sydbank.com.