

Sydbank's Interim Report – First Half 2019

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

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

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

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

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

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

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

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

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

Karen Frøsig elaborates:

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

1H 2019 – highlights

- Profit of DKK 389m equals a return on equity of 7.0% p.a. after tax.
- Total income of DKK 1,941m is 9% lower than total income in 1H 2018.
- Impairment charges for loans and advances represent an income of DKK 34m compared with an income of DKK 57m in the same period in 2018.
- Total credit intermediation has increased by DKK 0.7bn, equal to 0.5% compared to year-end 2018.
- A share buyback of DKK 250m was commenced on 2 May 2019.

- Predominantly due to the announced share buyback programme, the Common Equity Tier 1 capital ratio has declined by 0.7 percentage points compared to year-end 2018 and constitutes 16.6% excluding profit for the period. When including 50% of profit for the period, the Common Equity Tier 1 capital ratio stands at 17.0%.

Outlook for 2019

- Limited growth is projected for the Danish economy in 2019.
- Total income is expected to be lower than the income generated in 2018.
- Costs (core earnings) are projected to rise slightly in 2019.
- Impairment charges for 2019 are forecast to be at a low level.
- Non-recurring costs are expected to represent around DKK 75m.
- Profit after tax is expected to be in the range of DKK 800-1,100m. Profit after tax is expected to be in the lower part of the range.
- The outlook is subject to uncertainty and depends among other things on financial market developments and macroeconomic factors.

Additional information

Jørn Adam Møller, CFO, tel +45 74 37 24 00

Louise Degn-Hansen, Head of Communications, tel +45 61 20 48 04

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

Attendees are invited to call +45 35 44 55 77. Please quote the following code: 301290491#