
Annual Report 2019

Sydbank Group



Sydbank

Preface



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

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

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

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

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

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

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

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

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

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

Outlook for 2020

- Limited growth is projected for the Danish economy.
- As a consequence of the income measures implemented, total income is expected to exceed the income generated in 2019.
- Despite underlying cost inflation, costs (core earnings) are projected to be at the same level as in 2019.
- Impairment charges for 2020 are forecast to be at a low level.
- With the aim of enhancing efficiency and automating processes investments of around DKK 75m will be made. This investment is recognised under non-recurring items.
- Profit after tax is expected to be in the range of DKK 700-1,000m.

2019 highlights

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

Negative interest

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

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

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

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

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

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The 2019 Annual Report is available in Danish at sydbank.dk and in English at sydbank.com.
In case of doubt the Danish version will apply.



Profit for the year

853

DKK m

ROE **7.5%**

Core income **DKK 3,655m**

Costs (core earnings) **DKK 2,783m**

Impairment of loans and advances **Minus DKK 97m**

Dividend **40% of profit for the year (DKK 5.70 per share)**

Share buyback **DKK 250m**

Bank loans and advances **DKK 60.6bn**

Total credit intermediation **DKK 145.1bn**

Customer satisfaction **Number 2 (retail and corporate)**
(among the 6 largest banks)

Group Financial Highlights

	2019	2018	Index 19/18	2017*	2016*	2015*
Income statement (DKKm)						
Core income	3,655	3,951	93	4,167	4,198	4,329
Trading income	224	138	162	233	237	215
Total income	3,879	4,089	95	4,400	4,435	4,544
Costs, core earnings	2,783	2,722	102	2,637	2,590	2,675
Core earnings before impairment	1,096	1,367	80	1,763	1,845	1,869
Impairment of loans and advances etc	(97)	(122)	80	(51)	87	316
Core earnings	1,193	1,489	80	1,814	1,758	1,553
Investment portfolio earnings	(61)	(127)	-	182	104	(80)
Profit before non-recurring items	1,132	1,362	83	1,996	1,862	1,473
Non-recurring items, net	(51)	58	-	(40)	7	0
Profit before tax	1,081	1,420	76	1,956	1,869	1,473
Tax	228	259	88	425	397	325
Profit for the year	853	1,161	73	1,531	1,472	1,148

Balance sheet highlights (DKKbn)						
Loans and advances at amortised cost	60.6	61.0	99	64.3	77.2	74.3
Loans and advances at fair value	12.6	6.5	194	5.2	6.1	10.2
Deposits and other debt	84.3	86.3	98	82.7	81.1	79.9
Bonds issued at amortised cost	7.4	3.7	200	3.7	3.7	3.7
Suordinated capital	1.9	1.9	100	1.9	2.1	2.1
AT1 capital	0.8	0.8	-	-	-	-
Shareholders' equity	11.0	10.9	101	11.9	11.8	11.4
Total assets	147.7	140.5	105	138.5	146.7	142.7

Financial ratios per share (DKK per share of DKK 10)						
EPS	13.4	17.6		22.4	20.9	15.8
Share price at year-end	139.8	155.1		249.9	219.2	221.8
Book value	184.9	179.0		178.3	169.2	160.2
Share price/book value	0.76	0.87		1.40	1.30	1.38
Average number of shares outstanding (in millions)	60.4	64.8		68.4	70.4	72.5
Proposed dividend	5.70	9.36		11.31	10.46	11.12

Other financial ratios and key figures						
CET1 ratio	17.8	17.3		17.3	16.1	14.5
T1 capital ratio	19.4	19.0		17.7	17.4	15.9
Capital ratio	22.9	22.4		20.8	19.2	17.6
Pre-tax profit as % of average equity	9.7	12.5		16.8	16.6	13.3
Post-tax profit as % of average equity	7.5	10.2		13.1	13.1	10.2
Costs (core earnings) as % of total income	71.7	66.6		59.9	58.4	58.9
Return on assets (%)	0.59	0.83		1.07	1.02	0.78
Interest rate risk	1.6	1.3		0.8	1.6	2.8
Foreign exchange position	1.6	1.3		1.2	2.2	2.2
Foreign exchange risk	0.0	0.0		0.0	0.0	0.0
Liquidity, LCR (%)	174	184		176	166	144
Loans and advances relative to deposits	0.6	0.6		0.6	0.8	0.8
Loans and advances relative to equity	5.5	5.6		5.4	6.6	6.5
Growth in loans and advances for the year	(0.7)	(5.2)		(16.7)	3.9	8.5
Total large exposures	143	147		131	-	-
Accumulated impairment ratio	2.7	3.8		3.6	3.6	4.7
Impairment ratio for the year	(0.1)	(0.2)		(0.1)	0.1	0.4
Number of full-time staff at year-end	2,030	2,098	97	2,064	2,037	2,044

* Comparative figures have been restated in accordance with previous accounting principles (IAS 39).
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 on page 112.

Summary

Strong credit quality and a strong capital position allow for a new high dividend distribution to shareholders of 40% of profit and a new share buyback programme of DKK 250m. Total distribution to shareholders represents 69% of profit for the year after tax

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

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

Strategy – A stronger bank

At a time when the banking environment in Denmark continues to be affected by macroeconomic factors such as negative interest rates, pressure on interest margins and a low demand for loans by businesses, the need increases to stick to one's values, show resilience while at the same time displaying the ability to introduce possible adjustments in income as well as costs. In such an environment there is a greater need to review on an ongoing basis whether the current strategy is the right one. In autumn 2019 we revisited the current strategy "A stronger bank". We are in a strong position – and note for instance:

- Sydbank's employee satisfaction is among the best in the sector, which gives strength to continue along this path
- Sydbank's strategy of ensuring high accessibility is having the intended effect, generating a high level of customer satisfaction
- Sydbank's commitment to streamline operations is beginning to show results where the solutions can reduce the process time – in selected areas – by more than 80%
- Adapting to market conditions means that Sydbank has launched measures to achieve a better balance between income and costs
- Sydbank's responsible lending policy has received the highest long-term issuer rating among Danish banks
- Sydbank's total capital ratio is very high and according to Moody's assessment Sydbank's capital position is in the best category.

The plan for the 3-year period 2019-2021 "A stronger bank" aims to ensure that the Bank continues to consolidate its position.

We are building a stronger bank focusing on 3 themes:

- Customer first
- More Sydbank
- Digitization.

Customer first ensures that we continue to focus on customer orientation. 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 using the new technology that works to improve customers' digital relationship with Sydbank and making even simpler and more efficient processes available to our employees enabling them to spend their time on customers. Digitization 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 its 3 promises – to its customers, to its employees and to its shareholders. The focus areas 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.

Summary

Sydbank's rules to live by

In 2019 Sydbank formulated 10 rules to live by that bind its core story and strategy together. These rules clarify what we stand for and show the way forward for the Bank in the short and long term. The 10 rules are described in more detail on page 31.

Results for 2019

As a result of the negative interest rate environment combined with fierce competition in the sector, the Group's net interest income remains under pressure. Net interest income has dropped by DKK 292m or 16% to DKK 1,483m. DKK 85m of the decline is attributable to the issue of non-preferred senior debt.

Other core income has gone down by DKK 4m compared to 2018.

Total core income has decreased by DKK 296m or 7% compared to 2018.

Trading income has risen by DKK 86m or 62% compared to 2018.

Total income has declined by DKK 210m or 5% compared to 2018.

Costs (core earnings) have gone up by DKK 61m or 2% compared to 2018. The increase is a consequence of general pay rises for the financial sector and a payroll tax increase of 0.5 percentage points.

The Group's impairment charges for loans and advances constitute an income of DKK 97m in 2019.

Core earnings have decreased by DKK 296m to DKK 1,193m compared with DKK 1,489m in 2018. The decline is attributable to lower income combined with rising costs.

Together the Group's position-taking and liquidity handling recorded negative investment portfolio earnings of DKK 61m in 2019 compared with negative earnings of DKK 127m in 2018.

Profit before tax constitutes DKK 1,081m compared to DKK 1,420m in 2018. Tax has been calculated at DKK 228m. Profit for the year amounts to DKK 853m compared to DKK 1,161m in 2018.

Bank loans and advances decreased by DKK 0.4bn in 2019.

Total credit intermediation represented DKK 145.1bn at year-end 2019 and rose by DKK 2.9bn in 2019.

Return on equity before and after tax constitutes 9.7% and 7.5% respectively against 12.5% and 10.2% in 2018.

Earnings per share stands at DKK 13.4 compared to DKK 17.6 in 2018.

During the year shareholders' equity went up by DKK 44m to DKK 10,966m.

Less the proposed dividend, the CET1 ratio and the capital ratio stand at 17.8% and 22.9% respectively at year-end 2019 compared to 17.3% and 22.4% at year-end 2018.

At 31 December 2019 the individual solvency need represented 10.8% (2018: 11.4%).

SIFI

Sydbank is designated as a SIFI (systemically important financial institution) in Denmark. As a result the Bank is subject to an additional buffer requirement of 1.0% as regards CET1 capital.

Capital targets

The Group's capital targets have been raised to a CET1 ratio of around 14.5% and a capital ratio of around 18.5%. Before the adjustment the capital targets were a CET1 ratio of around 14.0% and a capital ratio of around 18.0%.

Proposed dividend for 2019

The Board of Directors proposes – in compliance with the Bank's dividend policy – that a dividend of DKK 5.70 per share, equal to 40% of the Group's profit after tax, be distributed and that DKK 12m be donated to the sponsorship fund Sydbank Fonden.

No dividend will be distributed as regards the shares acquired in connection with the share buyback programme completed in 2019.

Share buyback in 2020

Following distribution of the proposed dividend, the capital ratios will remain above the capital targets. As a result the Board of Directors has decided to implement a share buyback totalling DKK 250m in 2020.

The Group will continue to be highly capitalised after the proposed dividend distribution and the share buyback.

Outlook for 2020

Limited growth is projected for the Danish economy.

As a consequence of the income measures implemented, total income is expected to exceed the income generated in 2019.

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

Impairment charges for 2020 are forecast to be at a low level.

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

Profit after tax is expected to be in the range of DKK 700-1,000m.

Performance in 2019

The Sydbank Group has recorded a profit before tax of DKK 1,081m (2018: DKK 1,420m). Profit before tax equals a return of 9.7% p.a. on average equity.

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

The financial statements are characterised by the following:

2019

- A 7% decrease in core income
- A 62% increase in trading income
- A 2% rise in costs (core earnings)
- A reversal of DKK 97m in impairment charges
- A decline in core earnings of DKK 296m to DKK 1,193m
- Negative investment portfolio earnings of DKK 61m
- Bank loans and advances of DKK 60.6bn (2018: DKK 61.0bn)
- Deposits of DKK 84.3bn (2018: DKK 86.3bn)
- A capital ratio of 22.9%, including a CET1 ratio of 17.8%
- An individual solvency need of 10.8%
- A proposed dividend of DKK 5.70 per share.

Q4

- Impairment charges for loans and advances constitute an income of DKK 48m
- Profit for the period amounts to DKK 195m.

Income statement

Group (DKK m)	2019	2018
Core income	3,655	3,951
Trading income	224	138
Total income	3,879	4,089
Costs, core earnings	2,783	2,722
Core earnings before impairment	1,096	1,367
Impairment of loans and advances etc	(97)	(122)
Core earnings	1,193	1,489
Investment portfolio earnings	(61)	(127)
Profit before non-recurring items	1,132	1,362
Non-recurring items, net	(51)	58
Profit before tax	1,081	1,420
Tax	228	259
Profit for the year	853	1,161

Core income

Total core income has declined by DKK 296m to DKK 3,655m.

As a result of the negative interest rate environment combined with fierce competition in the sector, the Group's net interest income remains under pressure. Net interest income has decreased by DKK 292m or 16% to DKK 1,483m. DKK 85m of the decline is attributable to the issue of non-preferred senior debt of EUR 500m, which was carried out on 18 September 2018, and the issue of non-preferred senior debt of EUR 500m, which was carried out on 4 February 2019. With these 2 issues the Group meets the MREL requirement that entered into force on 1 July 2019.

Net income from the cooperation with Totalkredit represents DKK 486m (2018: DKK 464m) after a set-off of loss of DKK 17m (2018: DKK 21m). The cooperation with DLR Kredit has generated an income of DKK 131m (2018: DKK 116m). Compared to 2018 total mortgage credit income has gone up by DKK 37m to DKK 620m – an increase of 6%. Income was positively affected by DKK 27m due to the historically high remortgaging activity in 2019.

Income from remortgaging and loan fees has climbed by DKK 44m to DKK 174m. Income was positively affected by DKK 51m due to the historically high remortgaging activity in 2019.

Commission and brokerage income has risen by DKK 17m to DKK 319m – an increase of 6% compared to 2018.

Income from commission etc concerning investment funds and pooled pension plans etc has fallen by DKK 99m to DKK 326m – a drop of 23% compared to 2018. DKK 41m of the decline is attributable to the revaluation of the shares in BI Holding A/S in 2018.

The remaining income components have declined by DKK 3m compared to 2018.

Core income

Group (DKKm)	2019	2018
Net interest etc	1,483	1,775
Mortgage credit	620	583
Payment services	180	196
Remortgaging and loan fees	174	130
Commission and brokerage	319	302
Commission etc investment funds and pooled pension plans	326	425
Asset management	269	270
Custody account fees	70	69
Other operating income	214	201
Total	3,655	3,951

Trading income

Trading income has risen by DKK 86m to DKK 224m compared to 2018.

In Fixed Income historically high trading activity was recorded in mortgage bonds in 2019.

In Equities income was affected by the positive market trend in 2019.

Costs and depreciation

The Group's costs and depreciation total DKK 2,871m, equal to an increase of DKK 90m compared with 2018.

Costs and depreciation

Group (DKKm)	2019	2018
Staff costs	1,666	1,638
Other administrative expenses	1,064	1,028
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	113	97
Other operating expenses	28	18
Total	2,871	2,781
Distributed as follows:		
Costs, core earnings	2,783	2,722
Costs, investment portfolio earnings	7	7
Non-recurring costs	81	52

Costs (core earnings) represent DKK 2,783m against DKK 2,722m in 2018. The increase is a consequence of general pay rises for the financial sector and a payroll tax increase of 0.5 percentage points.

At year-end 2019 the Group's staff numbered 2,030 (full-time equivalent).

The number of branches totals 60 in Denmark and 3 in Germany at year-end 2019.

Core earnings before impairment of loans and advances

Core earnings before impairment charges for loans and advances represent DKK 1,096m – a decline of DKK 271m compared to 2018.

Impairment of loans and advances etc

Impairment charges for loans and advances represent an income of DKK 97m. In 2018 impairment charges constituted an income of DKK 122m.

Additional impairment charges for agricultural exposures represent DKK 100m at 31 December 2019, equal to the level at year-end 2018.

Reference is made to the separate publication Credit Risk 2019 for further elaboration.

Impairment charges for the year by industry

Group (DKKm)	2019	2018
Agriculture etc	78	177
Trade	102	30
Real property	(66)	(87)
Other industries	(33)	(121)
Total corporate	81	(1)
Retail	(178)	(121)
Total	(97)	(122)

At year-end 2019 the impairment ratio for the year represents minus 0.15% relative to bank loans and advances and minus 0.12% relative to bank loans and advances and guarantees. At 31 December 2019 accumulated impairment and provisions amount to DKK 2,244m (1 January 2019: DKK 2,924m).

In 2019 reported losses amounted to DKK 598m (2018: DKK 452m). Of the reported losses DKK 464m has previously been written down.

Impairment charges are made for expected credit losses as regards all financial assets measured at amortised cost and similar provisions are made for expected credit losses as regards undrawn credit commitments and financial guarantees.

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 31 December 2019 allocated to these 3 stages are shown below.

Loans and advances and impairment charges

31 Dec 2019 (DKKm)	Stage 1	Stage 2	Stage 3	Total
Loans and advances before impairment charges	55,955	4,470	2,191	62,616
Impairment charges	104	790	1,168	2,062
Total loans and advances	55,851	3,680	1,023	60,554

31 Dec 2019 (%)	Stage 1	Stage 2	Stage 3	Total
Impairment charges as % of bank loans and advances	0.2	17.7	53.3	3.3
Share of bank loans and advances before impairment charges	89.4	7.1	3.5	100.0
Share of bank loans and advances after impairment charges	92.2	6.1	1.7	100.0

Credit impaired bank loans and advances – stage 3 – represent 3.5% (2018: 4.6%) of total bank loans and advances before impairment charges and 1.7% (2018: 2.2%) 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 31 December 2019 stand at 53.3% (2018: 53.7%).

Core earnings

Core earnings for 2019 represent DKK 1,193m – a decline of DKK 296m compared with 2018.

Investment portfolio earnings

Together the Group's position-taking and liquidity handling generated negative earnings of DKK 61m in 2019 compared to negative earnings of DKK 127m in 2018.

Investment portfolio earnings

Group (DKKm)	2019	2018
Position-taking	(23)	(107)
Liquidity generation and liquidity reserves	(32)	(18)
Strategic positions	1	5
Costs	(7)	(7)
Total	(61)	(127)

The unsatisfactory result for 2019 is mainly a consequence of the negative risk-free rates.

The interest rate risk at year-end 2019 is composed so that the Group would suffer a loss if interest rates rose.

Non-recurring items

Non-recurring items etc total a net expense of DKK 51m compared with a net income of DKK 58m in 2018.

In 2019 the item included costs of DKK 73m related to "A stronger bank" as well as one-off income of DKK 30m in connection with the sale of the shares in Sparinvest Holding A/S. Moreover a subsequent charge of DKK 8m concerning 2015-2018 of contributions to the resolution fund is charged to the income statement. The subsequent charge is due to a correction of an error at Finansiell Stabilitet.

In 2018 the item included costs of DKK 52m relating to process digitization in connection with Blue growth as well as one-off income of DKK 110m in connection with the sale of the shares in ValueInvest Asset Management S.A.

Profit for the year

Profit before tax amounts to DKK 1,081m (2018: DKK 1,420m). Tax represents DKK 228m (2018: DKK 259m), equivalent to an effective tax rate of 21.1%. Profit for the year amounts to DKK 853m (2018: DKK 1,161m).

Other comprehensive income

In accordance with IFRS 9 certain strategic shares are classified with value adjustment through other comprehensive income in the consolidated financial statements. In 2019 value adjustment represented DKK 11m (2018: minus DKK 38m).

Return

Return on shareholders' equity before and after tax constitutes 9.7% and 7.5% respectively against 12.5% and 10.2% in 2018. Earnings per share has fallen to DKK 13.4 from DKK 17.6 in 2018.

Sydbank – the parent

The Bank's total income before costs and impairment charges

for loans and advances represents DKK 3,784m (2018: DKK 3,966m). The income includes the consolidated profit on holdings in associates and subsidiaries of DKK 0m (2018: DKK 22m).

Total costs including non-recurring costs of DKK 81m (2018: DKK 52m) constitute DKK 2,795m (2018: DKK 2,721m).

A reversal of impairment charges for bank loans and advances of DKK 97m (2018: DKK 122m) has been recorded.

Pre-tax profit amounts to DKK 1,079m (2018: DKK 1,359m).

Post-tax profit amounts to DKK 861m (2018: DKK 1,123m).

Subsidiaries

Profit after tax of the subsidiaries represents DKK 4m (2018: DKK 21m).

Group – Q4 2019

The Group's profit before tax for the quarter stands at DKK 271m. Tax represents DKK 76m and profit for the period amounts to DKK 195m.

Compared with Q3 2019 profit before tax shows:

- a core income of DKK 926m (Q3: DKK 924m)
- a trading income of DKK 38m (Q3: DKK 50m)
- costs (core earnings) of DKK 703m (Q3: DKK 651m)

- impairment charges for loans and advances of minus DKK 48m (Q3: minus DKK 15m)
- investment portfolio earnings of minus DKK 14m (Q3: minus DKK 19m).

Total assets

The Group's total assets made up DKK 147.7bn at year-end 2019 against DKK 140.5bn at year-end 2018.

Assets

Group – year-end (DKKbn)	2019	2018
Amounts owed by credit institutions etc	11.3	15.8
Loans and advances at fair value (reverse transactions)	12.6	6.5
Loans and advances at amortised cost (bank loans and advances)	60.6	61.0
Securities and holdings etc	34.7	32.0
Assets related to pooled plans	19.0	16.2
Other assets etc	9.5	9.0
Total	147.7	140.5

Quarterly results

Group (DKKm)	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Core income	926	924	905	900	948
Trading income	38	50	40	96	(2)
Total income	964	974	945	996	946
Costs, core earnings	703	651	710	719	686
Core earnings before impairment	261	323	235	277	260
Impairment of loans and advances etc	(48)	(15)	(20)	(14)	(51)
Core earnings	309	338	255	291	311
Investment portfolio earnings	(14)	(19)	(14)	(14)	(59)
Profit before non-recurring items	295	319	241	277	252
Non-recurring items, net	(24)	12	(22)	(17)	(25)
Profit before tax	271	331	219	260	227
Tax	76	62	35	55	32
Profit for the period	195	269	184	205	195

The Group's bank loans and advances total DKK 60.6bn. Compared to 2018 this constitutes a decline of DKK 0.4bn. Corporate lending has grown by DKK 1.8bn and retail lending has dropped by DKK 2.2bn.

Equity and liabilities

Group - year-end (DKKbn)	2019	2018
Amounts owed to credit institutions etc	5.5	5.3
Deposits and other debt	84.3	86.3
Deposits in pooled plans	19.0	16.2
Bonds issued	7.4	3.7
Other liabilities etc	17.3	14.9
Provisions	0.5	0.5
Subordinated capital	1.9	1.9
Equity	11.8	11.7
Total	147.7	140.5

The Group's deposits make up DKK 84.3bn. This is a decline of DKK 2.0bn compared to 2018. Deposits have fallen due to a decline in time deposits of DKK 2.7bn, a decrease in deposits at notice of DKK 1.4bn, a drop of DKK 0.1bn regarding special categories of deposits as well as an increase in demand deposits of DKK 2.2bn.

Total credit intermediation

In addition to traditional bank loans and advances the Group arranges for mortgage loans from Totalkredit and DLR Kredit. The Group's total credit intermediation comprises bank loans and advances, mortgage-like loans funded by Totalkredit as well as mortgage loans arranged through Totalkredit and DLR Kredit. At 31 December 2019 credit intermediation totalled DKK 145.1bn – an increase of DKK 2.9bn since year-end 2018.

Total credit intermediation

Group - year-end (DKKbn)	2019	2018
Bank loans and advances	60.6	61.0
Funded mortgage-like loans	8.3	9.9
Arranged mortgage loans – Totalkredit	64.7	59.6
Arranged mortgage loans – DLR	11.5	11.7
Total	145.1	142.2

Share capital

As a result of a capital reduction in 2019 the share capital has declined from DKK 676,709,540 at year-end 2018 to DKK 617,540,000 at year-end 2019.

The Sydbank share

Number	2019	2018
Average number of shares outstanding	60,422,803	64,810,883
Number of shares outstanding at year-end	59,302,539	61,008,893
Number of shares issued at year-end	61,754,000	67,670,954

The number of shares outstanding has fallen from 61,008,893 (90.16%) at the end of 2018 to 59,302,539 (96.03%) at the end of 2019. The book value of the Sydbank share is 184.9 (2018: 179.0). At year-end 2019 the closing price of the Sydbank share stood at 139.8 and the share price/book value at 0.76.

Equity

At year-end 2019 shareholders' equity constituted DKK 10,966m – an increase of DKK 44m since the beginning of the year. The change comprises an addition from profit for the year of DKK 811m, net purchases of own shares of DKK 201m, dividend distribution etc of DKK 583m as well as other equity adjustments of DKK 17m.

Capital

The Bank completed a share buyback programme of DKK 250m in 2019. The buyback was initiated on 2 May 2019 and was completed on 20 December 2019. 2,077,680 shares worth DKK 250m were repurchased.

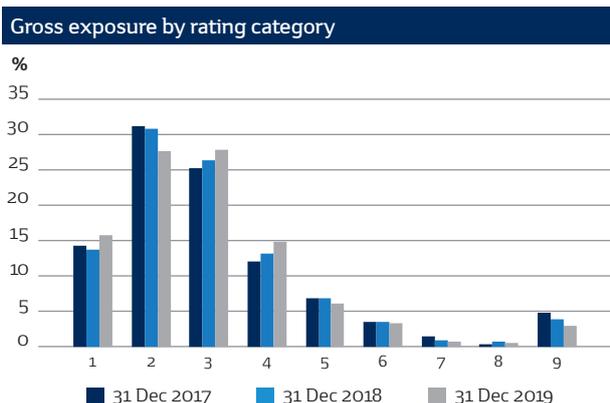
The issue of AT1 capital and the share buyback are part of the capital adjustment to optimise the capital structure in accordance with the Group's capital policy.

Since year-end 2018 the risk exposure amount (REA) has decreased by DKK 0.2bn to DKK 55.2bn. Credit risk has gone down by DKK 0.3bn predominantly as a result of a drop in bank loans and advances of DKK 0.4bn since year-end 2018. Market risk has increased by DKK 0.2bn. Other exposures have gone down by DKK 0.1bn.

REA

Group - year-end (DKKbn)	2019	2018
Credit risk	35.7	36.0
Market risk	6.2	6.0
Operational risk	7.2	7.7
Other exposures incl CVA	6.1	5.7
Total	55.2	55.4

The development in the breakdown by rating category from 2017 to 2019 is shown below.



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 gross exposure by rating category shows a positive development with an increasing share in the 4 best rating categories and a falling share in the 5 poorest rating categories.

Reference is made to the note on credit risk on page 119 and the separate publication Credit Risk 2019.

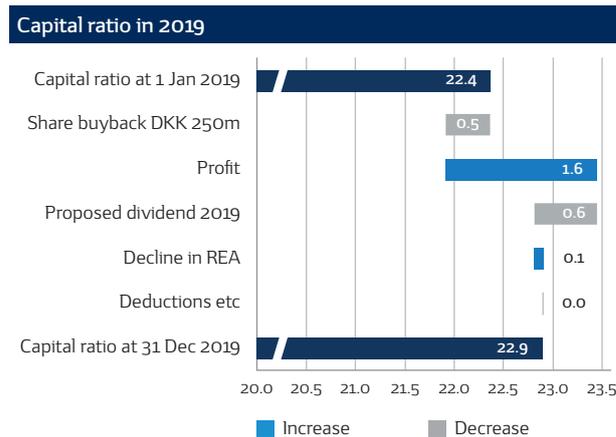
Solvency

Group - year-end (DKKm)	2019	2018
REA	55,160	55,402
CET1 capital	9,807	9,579
T1 capital	10,722	10,550
Total capital	12,620	12,390
CET1 ratio	17.8	17.3
T1 capital ratio	19.4	19.0
Capital ratio	22.9	22.4

At year-end 2019 the CET1 ratio and the capital ratio stand at 17.8% and 22.9% respectively compared to 17.3% and 22.4% at year-end 2018.

In 2019 the capital ratio was positively affected by profit for the

year (+1.6 percentage points) and the decline in risk exposure (+0.1 percentage points) and negatively affected by the proposed dividend (-0.6 percentage points) and the completed share buy-back programme (-0.5 percentage points).



At 31 December 2019 the individual solvency need represented 10.8% (2018: 11.4%).

Solvency of the parent

At year-end 2019 the CET1 ratio and the capital ratio stand at 17.1% and 22.0% respectively.

Advanced IRB – corporate exposures

Today Sydbank applies the advanced IRB approach to calculate the capital requirement as regards retail exposures and the foundation IRB approach to calculate the capital requirement as regards corporate exposures.

Sydbank is working on a project with the purpose of gaining approval to use the advanced IRB approach to calculate the capital requirement as regards corporate exposures. The objective is to gain approval in 2020/2021.

Capital policy

The Group's capital policy consistently supports the Group's strategy and at the same time takes into account Sydbank's status as a SIFI as well as full implementation of capital regulations. The Group's capital targets have been raised and the targets are currently a CET1 ratio of around 14.5% (previously 14.0%) and a capital ratio of around 18.5% (previously 18.0%). The capital targets have been set to ensure that the Group complies with all capital requirements, including buffer requirements, once these have been fully implemented.

Reference is made to Capital Management on page 24.

Dividend policy

The Group's dividend policy must contribute to creating long-term shareholder value. The objective is to distribute 30-50% of profit for the year after tax while taking into account growth plans and capital policy.

MREL

SIFIs in Denmark must meet a minimum requirement for own funds and eligible liabilities (MREL). The MREL 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"). The MREL at 31 December 2019 is as follows:

MREL		
Group (%)	Capital requirements	MREL
Solvency need	10.8	21.6
SIFI buffer	1.0	2.0
Capital conservation buffer	2.5	5.0
Countercyclical capital buffer	1.0	1.0
Total requirement (%)	15.3	29.6
Total requirement (DKKm)	8,426	16,327

Following 2 issues of non-preferred senior debt of EUR 500m on 18 September 2018 and on 4 February 2019, the Group's eligible liabilities represent 123% of the MREL. This corresponds to an excess cover of DKK 3.7bn based on the risk exposure amount at 31 December 2019.

Excess cover – MREL

Group (DKKm)	MREL
Total capital	12,620
Non-preferred senior debt, EUR 1,000m	7,437
Total eligible liabilities	20,057
MREL	16,327
Excess cover	3,730
Excess cover as % of MREL	22.8

Interest rate risk etc

The Group's interest rate risk represents DKK 169m at 31 December 2019 (2018: minus DKK 140m). As a result the Group would suffer a loss if interest rates rose.

The Group's exchange rate risk continues to be very low and its equity risk modest as regards its trading portfolio.

Funding and liquidity

The guidelines for calculating the Liquidity Coverage Ratio (LCR) specify a run-off of exposures while taking into account counterparty, 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 174% at 31 December 2019 (2018: 184%).

LCR

Group – year-end (DKKbn)	2019	2018
Total liquidity buffer	37.2	35.9
Net cash outflows	21.4	19.5
LCR (%)	174	184

The Group met the LCR requirement of 100% throughout the year and, as can be seen, its excess cover is significant at 31 December 2019.

Funding ratio

Group – year-end (DKKbn)	2019	2018
Equity and subordinated capital	13.6	13.5
Senior loans with maturities > 1 year	7.4	3.7
Stable deposits	77.3	77.3
Total stable funding	98.3	94.5
Loans and advances (excl reverse and funded mortgage-like loans)	60.6	61.0
Funding ratio (%)	162	155

The Group's stable funding exceeds the Group's loans and advances by DKK 37.7bn at 31 December 2019 (31 December 2018: DKK 33.5bn).

Accounting estimates

Estimates in relation to the measurement of assets and liabilities are based on assumptions considered reasonable by management but which by their nature are uncertain. They may prove to be incomplete or inaccurate as a result of developments differing from projections in the external environment in which the Group operates or in other respects relating to customers or business relations.

Rating

Moody's most recent rating of Sydbank:

Outlook: Stable

Long-term deposit: A1

Baseline Credit Assessment: Baa1

Senior unsecured: A1

Short-term deposit: P-1.

Shareholders

In 2019 the Sydbank share yielded a return of minus 10% (2018: minus 38%) as a result of the decline in the share price during the year. Dividend distribution represented DKK 9.36 per share.

Consequently the total return in 2019 represented minus 4% (2018: minus 33%).

The Board of Directors will propose to the AGM that 40% of the Group's profit after tax, equal to a dividend of DKK 5.70 per share, be distributed and that DKK 12m be donated to the sponsorship fund Sydbank Fonden.

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.

The calculations at year-end are shown below:

Supervisory Diamond Benchmarks

Group	2019	2018
Sum of 20 largest exposures < 175%	143	147
Lending growth < 20% annually	(1)	(5)
Commercial property exposure < 25%	6	8
Funding ratio < 1	0.59	0.63
Excess liquidity coverage > 100%	207	193

At 31 December 2019 the Group as well as the parent comply with all the benchmarks of the Supervisory Diamond.

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 31 December 2019 (2018: 6.8%) 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 be 6.4% (2018: 6.7%).

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

SIFI

Sydbank is designated as a SIFI in Denmark and in 2019 there is an additional buffer requirement of 1% as regards CET1 capital. The intention is to bring Danish SIFI capital requirements on a par with the requirements in other comparable European countries.

IFRS 9 – transitional effect

To counter an unintended impact on regulatory capital and hence banks' possibilities of supporting lending, a transitional arrangement has been adopted so that any adverse impact from the new impairment model will be phased in over a 5-year period. Sydbank has decided to apply the transitional rules.

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 December 2019 the Danish FSA set the MREL for Sydbank.

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.

The establishment of a resolution fund is underway. Credit institutions must make contributions to the fund according to their relative size and risk in Denmark. The resolution fund must be established and have assets at its disposal equal to at least 1% of the covered deposits of all Danish credit institutions by 31 December 2024.

The Group's contribution to the resolution fund for 2019 represents DKK 18m.

Basel IV

On 7 December 2017 the Basel Committee on Banking Supervision (BCBS) published its recommendations for a number of changes to the calculation of the capital requirements for credit institutions. These recommendations, also known as Basel IV, propose among other things to constrain the use of internal models and introduce a permanent floor for the risk exposure amount.

The recommendations are expected to have a limited impact on the Group's capital.

The recommendations must be implemented in the EU before they apply to Danish institutions. The Group is following developments closely. At present the extent of changes in relation to the Basel Committee's recommendations when implemented into EU regulation is unknown. The effective date is expected to be 1 January 2022 on which date the floor requirement is also expected to be implemented, starting at 50% and gradually increasing until finally reaching 72.5% on 1 January 2027.

Outlook for 2020

Limited growth is projected for the Danish economy.

As a consequence of the income measures implemented, total income is expected to exceed the income generated in 2019.

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

Impairment charges for 2020 are forecast to be at a low level.

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

Profit after tax is expected to be in the range of DKK 700-1,000m.



Capital Management

The Group's capital management ensures efficient deployment of capital relative to the Group's overall capital targets. The Group's risk profile is determined on the basis of the capital targets, which ensure first and foremost that there is adequate capital to meet the Group's growth expectations and cover fluctuations in the risks assumed by the Group.

The Group applies internal ratings based approaches to manage the credit risk of the Group's corporate and retail client portfolios. The Group applies the advanced IRB approach as regards retail clients and the foundation IRB approach as regards corporate clients to determine the Group's capital requirements. The Group expects to seek approval to use the advanced IRB approach as regards corporate clients in 2020.

The Group applies the Standardised Approach to credit risk in relation to exposures to governments and credit institutions.

Further details, also concerning the risk exposure amount (REA), capital information and capital ratios, are found in note 3.

The Group's capital management focuses on 4 capital elements: minimum capital, adequate total capital, capital requirements including buffers and total capital.

Minimum capital represents the necessary capital in compliance with CRR and adequate total capital is the Group's determination of the capital sufficient to protect depositors against loss under the prevailing economic conditions. The solvency need is defined as adequate total capital in percentage terms of REA.

The capital requirement including buffers is based on the solvency need to which a combined buffer requirement is added. The combined buffer requirement constitutes 4.5% at 31 December 2019. When fully loaded the combined buffer requirement will represent 5.5%, bringing the fully loaded CET1 ratio requirement to 11.6%.

Capital and solvency and capital requirements

% of REA	31 Dec 2019	Fully loaded*
Capital and solvency		
CET1 ratio	17.8	17.8
Capital ratio	22.9	22.9
Capital requirements (incl buffers)**		
Total capital requirement	15.3	16.3
CET1 capital requirement	10.6	11.6
- of which countercyclical capital buffer	1.0	2.0
- of which capital conservation buffer	2.5	2.5
- of which SIFI buffer	1.0	1.0
Excess capital		
CET1 capital	7.2	6.2
Total capital	7.6	6.6

* 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 31 December 2019.

The committees in the Group's risk organisation report directly to the Group Executive Management. The committees identify, monitor and assess risks within the individual risk areas and ensure that models and principles are formulated to calculate risks. The committees ensure that the Bank's business units proactively carry out their operations and address identified risks. Each committee reviews a risk assessment for its own area annually. The Group's Chief Risk Officer is a member of all committees, see Risk Management on page 118.

The adequate total capital is determined on the basis of the Danish FSA approach (8+). A proposal for the determination of the adequate total capital is prepared by Risk and is reviewed by the capital committee. The Board of Directors discusses and determines the adequate total capital on the basis of this proposal.

The proposal is based on the capital adequacy rules (Pillar 1) with add-ons for any risks deemed not to be sufficiently covered under Pillar 1. At year-end 2019 add-ons were allocated in relation to credit risk, market risk and operational risk.

The approaches and methods used to calculate the Pillar 1 capital requirement are described in more detail in note 3.

The adequate total capital/solvency need can be broken down as follows:

Adequate total capital/solvency need

	DKKm	% of REA
Credit risk	3,685	6.7
Market risk	950	1.7
Operational risk	824	1.5
Other exposures	485	0.9
Adequate total capital/solvency need	5,944	10.8

Other exposures include property, plant and equipment and the Group's equity investments.

Total capital is the actual capital that the Group has at its disposal.

Based on the adequate total capital the Group's capital structure can be specified as follows at 31 December 2019:

Capital structure

	DKKm	% of REA
Adequate total capital/solvency need	5,944	10.8
Combined buffer requirement	2,482	4.5
Capital requirement incl combined buffer requirement	8,426	15.3
Excess capital	4,194	7.6
Total capital	12,620	22.9

Stress testing is another important element when determining the adequate total capital.

The object of stress testing is to assess the impact of adverse events on capital needed and income. Stress test calculations show the impact for the coming 3 years under given economic scenarios.

At 31 December 2019 the Group has based its stress test calculations on the following macroeconomic scenarios:

Base case scenario which reflects the Group's forecast of developments in the economy.

Mild recession which reflects deteriorating economic conditions compared to the base case scenario. Annualised GDP is expected to develop slightly positively in the coming 3 years. Property prices and unemployment will remain at their current level during the entire period.

Global crisis which reflects that from mid-2020 the Danish economy will be hit by 2 blows: a domestic blow where confidence among Danish consumers and businesses will weaken significantly and a foreign blow where the international economy will be hit by a cyclical downturn. This scenario resembles a very deep recession and in terms of GDP it is on a par with the recession during the period 2008-2009. Unemployment will increase substantially. GDP developments will be positive in 2020 and negative in both 2021 and 2022 and property prices will drop sharply during the same period.

Deflation which reflects that inflation will continue to decrease in Denmark and the euro area leading to deflation where the overall level of prices will drop. Compared with the global crisis scenario, Denmark will see more significant declines in prices and lending.

Interest rate increase which reflects that all interest rates will go up by 200bp in Q1 2020 after which they will remain at this heightened level until the end of 2022. It is assumed that interest rates will rise significantly and quickly as a result of a faster than expected normalisation of monetary policy in USA and the euro area. Denmark will lose its status as a safe haven and therefore the global increases in interest rates will have full impact in Denmark. The rise in interest rates will have a negative effect on private demand. Overall this scenario will prompt a slight decline in GDP during the 3-year period. Unemployment will go up moderately and property prices will drop substantially.

Debt crisis which could reflect a change of government in Italy and renewed political uncertainty as a result. Another scenario could be the collapse of some struggling banks in Southern Europe. Both scenarios involve a new setback for Europe's economy and investors fleeing debt-ridden countries. Danish economic growth will be negative and unemployment will be higher than in the mild recession scenario. At the same time Denmark, via its status as a safe haven, will attract foreign capital, which will push interest rates lower than in the base case scenario. The improvement in deposits will disappear and be slightly negative.

The scenarios and their relevance are subject to ongoing assessment and the scenarios are approved by management as the basis for further stress test calculations. The impacts of the scenarios are included in the assessment of the adequate total capital. The stress tests conducted show that the Group is adequately capitalised.

Throughout 2019 the Group fully complied with external as well as internal capital requirements.

Capital Management

On the basis of the risk reporting at 31 December 2019, including the Group's ICAAP and ILAAP, the Board of Directors discusses an overall risk assessment for the purpose of making the Group's individual risks and overall risk visible.

The risk assessment contains a description and assessment of the types of risk to which the Group is exposed, including an assessment of the business model's impact on risks and risk level, as well as the activities to which the individual risks are related.

The most important types of risk and risk assessments are:

- credit risk, which is described in more detail in "Notes – Risk Management" and in Credit Risk 2019, which is available on the Bank's website
- market risk, liquidity risk and operational risk, which are described in more detail in "Notes – Risk Management"
- stress tests, including in particular consequences as regards capital and income, see above
- the Group's risk organisation, which is described in more detail above and in "Notes – Risk Management"
- the Group's overall control environment, including compliance, anti-money laundering, GDPR and IT security, which are described in more detail in "Mission Statement and Business Goals" and "Organisation and Corporate Governance"
- the Group's capital and its composition, see above
- employee resources, including an assessment of competences and number
- communication, including the Group's ability to communicate internally in a fast, efficient and targeted manner, the Group's ability to communicate externally in a manner that meets legislative expectations and expectations of external stakeholders, as well as communication via social media.

The risk assessment provides the basis for an assessment of whether policies and guidelines are appropriate in relation to business-related activities, organisation and resources as well as market conditions.

The Board of Directors has approved the risk assessment and finds that risks and risk management are appropriate with respect to the business model, risk appetite and capital.

Reference is made to "Notes – Risk Management" for more information on risks and risk management.



Investor Relations

To support its strategic goals the Group ensures that stakeholders receive accurate and complete information. This is achieved by targeting investor communication according to best practice and by maintaining a high degree of professionalism.

The Group strengthens and expands relations with investors and analysts by conducting roadshows when its financial statements are published.

In addition management interacts with analysts, shareholders and potential investors at a number of seminars and conferences where current issues concerning Sydbank are presented and discussed.

In 2019 Sydbank held approximately 150 meetings with investors in Western Europe and USA.

The Sydbank share

The Sydbank share is listed on Nasdaq Copenhagen and forms part of the OMX Copenhagen Large Cap index.

The Sydbank share dropped from 155.1 at year-end 2018 to 139.8 at year-end 2019, equal to a decrease of 9.9%. Adding dividend distributed in 2019 of DKK 9.36 per share, return to shareholders represented minus 3.8%. By comparison the bank index declined by 5.6%.

The Sydbank share	2019	2018
Share capital (DKK m)	618	677
Total market capitalisation at year-end (DKK m)	8,633	10,496
Share price at year-end	139.8	155.1
EPS (DKK)	13.42	17.56
Dividend per share (DKK)	5.70	9.36
Book value per share (DKK)	184.91	179.02
Share price/book value per share	0.76	0.87

At the end of 2019 8 analysts covered the Sydbank share.

The average daily turnover of the Sydbank share was DKK 28m in 2019 compared with DKK 49m in 2018. The share was the 27th most traded share on Nasdaq Copenhagen.

Share price developments 2019



1 January 2019 = index 155.1, ie Sydbank's share price

Dividend policy

Sydbank's overall financial goal is to provide its shareholders with a competitive return by way of price increases and dividends.

The Group's dividend policy must contribute to creating long-term shareholder value. The objective is to distribute 30-50% of profit for the year after tax while taking into account growth plans and the Group's capital policy.

In 2019 Sydbank distributed a dividend of 50%, of the Bank's dividend policy, equal to DKK 9.36 per share.

In continuation of the dividend distribution in 2019 Sydbank has acquired 2,077,680 own shares totalling DKK 250m. The share buyback was conducted as part of the adjustment to the Group's capital targets.

The Group's targets are a CET1 ratio of around 14.5% and a capital ratio of around 18.5%.

The Board of Directors will propose to the AGM that 40% of the Group's profit after tax, equal to a dividend of DKK 5.70 per share, be distributed and that DKK 12m be donated to the sponsorship fund Sydbank Fonden.

On the basis of a strong capital base it will be possible, in addition to the cash dividend, to launch a new share buyback programme of DKK 250m which is expected to be implemented in the period from early March to the end of 2020. Consequently a total of DKK 590m, equal to 69% of profit for the year after tax, will be distributed to Sydbank's shareholders.

Mission Statement and Business Goals

Sydbank has a solid financial foundation that offers room for more business with new customers as well as existing customers. Our growth will be built on a firm and sound footing. Sydbank wishes to remain a bank operating on its own terms and we aim to be the preferred business partner. We focus on our own products but use business partners for a wide variety of financial services, for instance mortgage credit, pensions and insurance.

As an advisory and service undertaking Sydbank's primary objective is to meet the financial requirements of its customers. Sydbank achieves this objective by striving to be among the absolute top performers in Denmark in terms of operating a bank and providing advisory services to customers based on their unique situation.

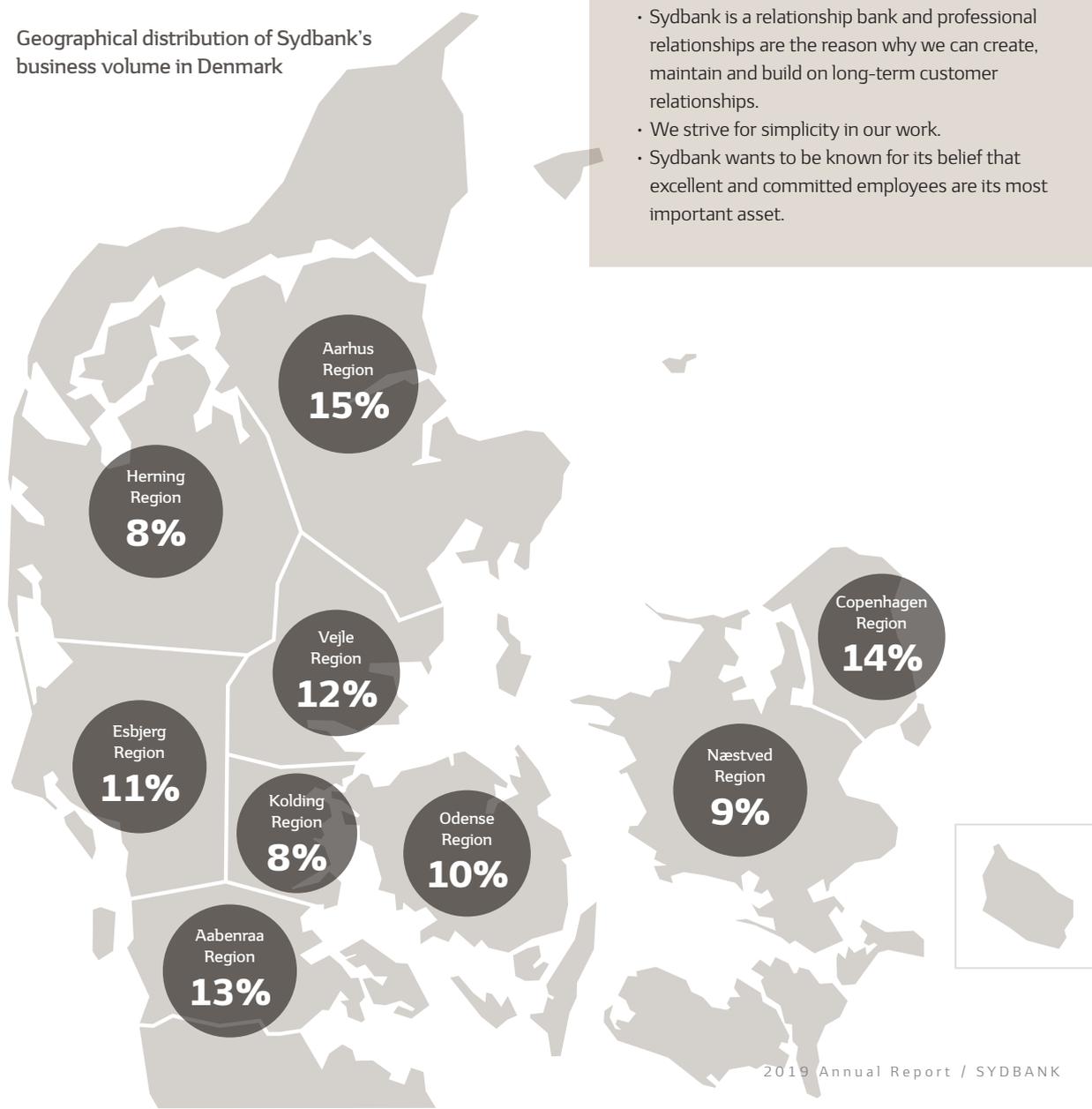
Sydbank's business volume is evenly distributed across 9 Danish regions which form the basis of the direct advisory services to the Bank's customers. The total business volume consists of loans and advances, deposits, guarantees and custody accounts. Depending on customer segment and type of business Sydbank has a market share of between 6 and 12%. The Bank's largest market share is within the SME segment.

Furthermore Sydbank has 3 branches in Northern Germany and together they constitute the Bank's 10th region.

Sydbank's business model

- Sydbank is a bank operating on its own terms.
- Sydbank is a competent and value-creating advisory bank.
- Sydbank is a relationship bank and professional relationships are the reason why we can create, maintain and build on long-term customer relationships.
- We strive for simplicity in our work.
- Sydbank wants to be known for its belief that excellent and committed employees are its most important asset.

Geographical distribution of Sydbank's business volume in Denmark



Mission Statement and Business Goals

Values and attitudes

Sydbank cooperates. Its interaction is expressed in the statement: "Excellence and relationships create value".

Our way of thinking

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.

Sydbank's rules to live by

In 2019 Sydbank formulated 10 rules to live by that bind its core story and strategy together. These rules clarify what we stand for and show the way forward for the Bank in the short and long term.

Our way of working

As a nationwide advisory bank, Sydbank has a significant presence in all parts of Denmark as well as in Northern Germany.

Efficient

Sydbank's organisation ensures high accessibility and easy access to decisions so we can act quickly.

Customers can get in touch with Sydbank via the branches in the Bank's 9 Danish regions, its branches in Germany and its specialist functions at the head office in Aabenraa. Providing full service to all customers, the Danish regions are organised in Corporate, Private Banking and Retail sections and serve the Bank's branches.

Online

Sydbank has a large number of online and digital solutions. In NetBank and MobilBank retail customers can carry out their everyday banking transactions.

For instance Sydbank offers its corporate clients MobilBank Corporate and Online Banking, both of which are fully integrated with customers' ERP systems. Sydbank is also part of the MobilePay cooperation.

Accessible

Sydbank Direct is the Bank's online advisory and service offering using a number of different channels. This enables customers to contact the Bank when and how it suits them best. In addition Sydbank Direct has a special advisory department for young customers aged between 18 and 29.

Sydbank Direct staff have a background in banking. The department is open all weekdays between 8am and 8pm and is only closed on public holidays and 24 and 31 December.

Sydbank's 10 rules to live by

We will remain an independent bank

That's why we strive to attract shareholders seeking long-term value creation.

And not them looking for a quick profit.

We will continuously strengthen our brand and reputation vis-à-vis all stakeholders

That's why we are consistent in our communication about our goals, strategy and policies internally and externally.

And our communication does not change before our goals or strategy change.

In the competitive Danish banking sector Sydbank enjoys a unique position where it can benefit from economies of scale and be close to its customers

That's why we continue to have a centralised risk and cost management set-up and a decentralised geographical structure focusing on close relationships.

And we do not attempt to limit the human contact with our customers.

In the current market we must balance investment and profitability

That's why we strive to have a return on equity that covers the cost of capital.

And we do not seek the highest possible earnings in the short term at the expense of investments in competences and services.

Confidence in banks is low

That's why we put ethics before profit and have a responsible approach to lending.

And we do not recommend problematic products to our customers.

In the current market revenue from banking business will decline

That's why we build long-term relationships with new and existing customers and evolve in line with their requirements.

And we do not compromise on our risk profile or business-related standards.

We believe there will also be a demand for banking services in the future

That's why we invest in achieving the best position and the best reputation in the long term.

And we do not react to short-term fluctuations in share markets.

We have acquired expertise and built relationships by providing advice to medium-sized and large businesses, retail clients and Private Banking clients

That's why we continue to expand our offerings to these customers.

And we do not favour customer groups we have no experience of.

We must continuously reduce operating costs while improving our customer service and complying with tighter regulatory requirements

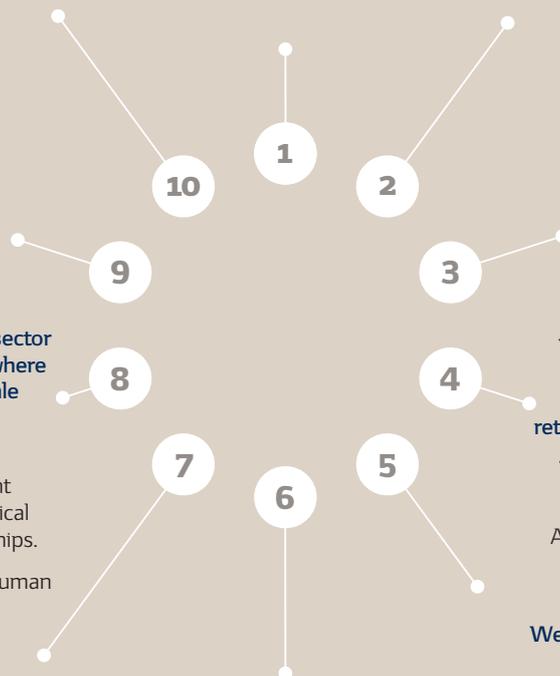
That's why we invest in lowering operating costs on an ongoing basis.

And we refrain from making our talented employees redundant due to cyclical fluctuations.

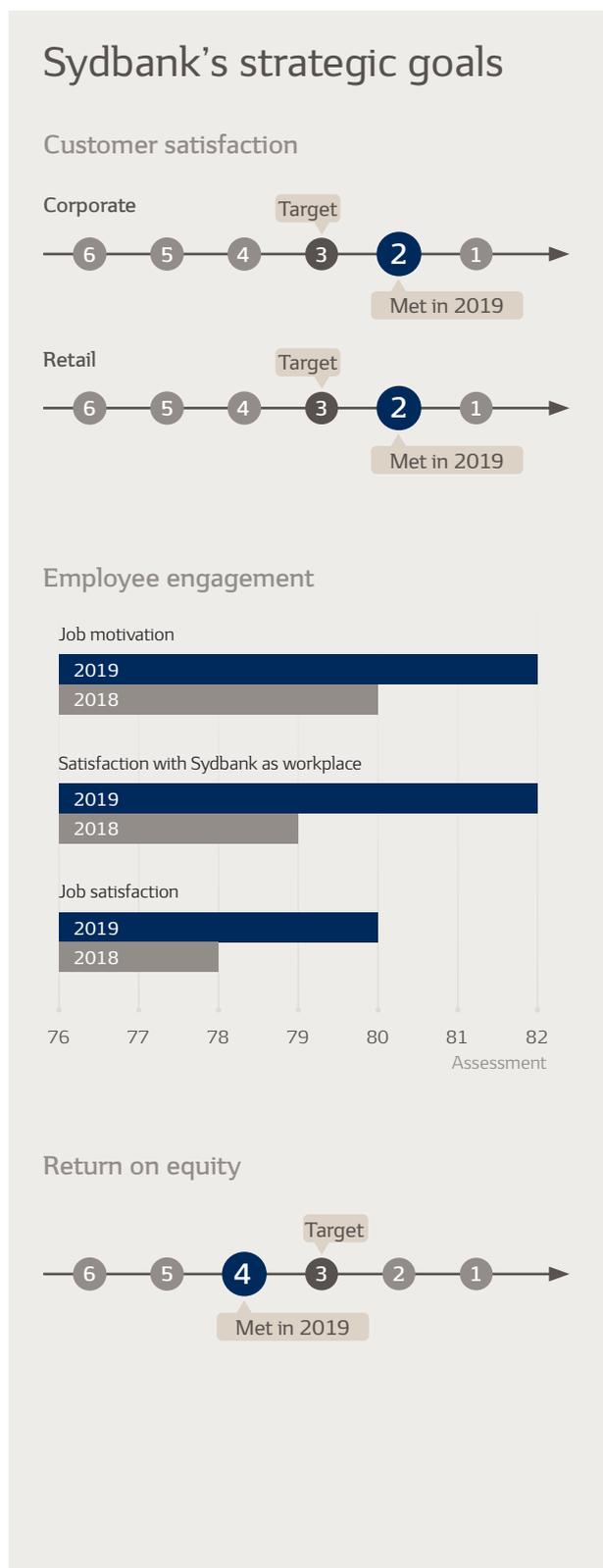
We must constantly be innovative

That's why we invest in documented value adding technology – as a fast follower.

But not as a pioneer in the area.



Mission Statement and Business Goals



Customer-oriented

Sydbank's customer policy states that each customer should experience being or becoming a customer of Sydbank as something special.

Sydbank wants to be seen as a flexible bank putting itself in the customer's place. In its customer contact Sydbank wishes to be known as a bank that is close to its customers and through this closeness build long-term relationships and provide advisory services that create value for customers and the Bank.

Sydbank seeks to ensure high accessibility and gives customers the possibility of contacting the Bank when and how it suits them best.

The Bank aims to have a diversified customer portfolio with only few large exposures and diversification across industries corresponding as far as possible to the Danish corporate structure.

A stronger bank

Sydbank's strategy for 2019-21 is named "A stronger bank". We will build a stronger bank with the purpose of enhancing Sydbank's market position. Our customers must receive greater value, our employees must have even simpler and more efficient processes and Sydbank must be more distinct. The strategy's 3 themes are visualised in Sydbank's strategy map.

Customer satisfaction

Sydbank's objective is to gain a top 3 ranking among the 6 largest Danish banks measured in terms of customer satisfaction in the corporate segment and the retail segment. Sydbank achieved this objective in 2019.

Employee engagement

Sydbank's objective is to be best in class through internal surveys conducted by Ennova. Sydbank carries out one comprehensive survey every other year and more condensed surveys during the period leading up to the next major survey. Sydbank was best in class (among financial institutions in Denmark) in 2018 and maintained this level in the pulse surveys in 2019.

Return on equity

Sydbank's objective is to achieve a top 3 ranking among the 6 largest Danish banks measured in terms of return on equity. Sydbank did not meet this target in 2019.

 Strategy direction	<h1>A stronger bank</h1>					
 Market assumptions	Macroeconomic outlook Low demand for loans Intensified competition Upward pressure on costs			Ramifications of the financial crisis Tighter legislation and regulations Higher qualification requirements		
 Themes	Customer first A sharper customer focus		More Sydbank A stronger profile		Digitization A more powerful engine room	
 Initiatives	<ul style="list-style-type: none"> • Customer culture • Customer relations • Accessibility • Relevance • Speed and quality 		<ul style="list-style-type: none"> • Profile • External awareness • Decency • Values 		<ul style="list-style-type: none"> • Simplification • Digitization • Optimisation • Driving forces • Fintech 	
 Strategic goals	Customer satisfaction Sydbank builds on long-term customer relationships.		Employee engagement Sydbank considers excellent and committed employees to be its most important asset.		ROE Top 3 ranking among the 6 largest banks.	

Corporate

Sydbank aims to be the preferred business partner for medium-sized and large businesses and prioritises building and maintaining value-creating relationships with all corporate clients.

The Bank's corporate clients receive advisory services from a personal adviser who knows the circumstances of the business and its plans for the future. As and when needed the personal adviser will select a team of highly skilled experts and work together with the business to formulate a business growth plan and a plan for the business relationship.

Sydbank is a full-scale corporate bank offering a wide variety of professional financing solutions tailored to the requirements of the individual business. Our corporate clients have access to efficient international commercial banking services. Sydbank offers payment services and cash management solutions virtually worldwide. This is effected through the Bank's branches in Germany and its international partner banks, including the Connector banks.

As a rule corporate clients are served by one of the Bank's regional head offices or by special corporate branches. Sydbank wishes primarily to have medium-sized and large businesses with growth potential as customers. The businesses must have

a sound financial footing and use the main part of the Bank's palette of products and services.

Corporate clients are divided into 5 segments and are served by the following entities:

- Corporate by Corporate & Institutional Banking
- Corporate Large by the corporate centres
- Corporate Medium by the corporate departments
- Corporate Local by retail branches with corporate local departments
- Agricultural clients by the agricultural centres.

Private Banking

Private Banking at Sydbank strives to provide qualified advisory services at all times. As a result the Bank focuses on long-term relationships with each customer.

Within Private Banking Sydbank has a physical Private Banking centre in each of the Bank's 9 regions as well as 1 in Northern Germany. Advisory services are provided by dedicated Private Bankers who are assisted by a team of experts tailored to the specific requirements of the individual customer. The entire team offers advice on optimising wealth in relation to pensions, investments and a range of other financial issues. In addition special experts from the Bank's central functions are called upon as required.

Mission Statement and Business Goals

Sydbank's Private Banking concept is offered to wealthy retail clients with investable assets or a household income above a specified level. As an add-on to the Private Banking concept, Sydbank offers its wealthiest customers Sydbank's Private Banking Elite.

The Private Banking concept consists of advisory services as well as a range of benefits, thereby providing customers with attractive terms regarding eg payment cards, insurance, investment products and related services as well as fees and charges.

For many years Sydbank has targeted the investment area and primarily focused on providing personal and individual advisory services to its customers. The extent of investment advisory services depends in general on a customer's investment preferences.

Retail

Our loyalty programme Sydbank Favorit is offered to retail clients. The flexible programme allows customers to choose the benefits that best suit them from a total of 10 benefits. In addition to Sydbank Favorit's optional benefits we offer our customers a number of fixed benefits, eg a discount on general insurance and a loyalty discount that is a special reward for the customer's years as a customer with Sydbank.

Customer dialogue – channels

Customers can contact Sydbank through many channels. We meet you where you are.

Sydbank Favorit customers with a significant business volume have a personal adviser at their branch who acts as the customer's account manager. Sydbank Favorit customers with a limited business volume are mainly served by Sydbank Direct.

The objective is that Sydbank's advisers always provide competent advice to customers on the basis of the Bank's knowledge of a customer's preferences and profile. This is ensured by:

- regularly updating advisers' professional qualifications
- analysing customers using customer data from the Bank's Data Warehouse as well as customers' choice of Sydbank Favorit benefits.

Asset Management

Sydbank offers advice and asset management to for instance investment funds, pooled pension plans, foundations and institutional clients. In addition the Bank offers asset management to wealthy customers through individual portfolio management agreements where the customer is assigned 2 portfolio managers responsible for the customer's portfolio.

Moreover the Bank offers investment management products to its different customer segments. The Bank cooperates with a

number of sub-suppliers in the investment fund area, eg Sydinvest, BankInvest, Sparinvest, ValueInvest and Maj Invest.

Asset Management is also responsible for the Bank's macro, equity and fixed income research activities.

Asset management

DKKbn	2019	2018
Pooled pension plans	19	16
PengePlan®	4	5
PM mandates	15	13
Management agreements	4	4
Investment funds and hedge funds	52	49
Total	94	87

During 2019 funds under management rose from approx DKK 87bn at the beginning of the year to approx DKK 94bn at the end of the year. The increase is mainly due to the very positive market developments in shares and corporate bonds. In other words 2019 was the overall best investment year since 2009. The introduction of the MiFID II rules in the summer of 2017 continues to affect customers' demand pattern in different ways. The demand for the investment product PengePlan® is still falling, the main reason being that the new fee to replace the commission is subject to VAT. On the other hand we can see that customers' interest in pooled pension plans continues to grow.

Custody account volume

DKKbn	2019	2018
Retail and corporate clients	112	105
Pooled pension plans	18	16
Financial institutions	6	6
Investment funds and hedge funds	51	49
Total	187	176

Custody account volume – retail and corporate clients

DKKbn	2019	2018
Danish bonds	11	12
Foreign bonds	3	3
Danish shares	36	34
Foreign shares	8	7
Investment funds and hedge funds	54	49
Total	112	105

The total custody account volume rose by approx DKK 11bn in 2019 to a total of DKK 187bn at year-end. The increase is particularly attributable to the favourable market trends which

have had a positive impact on the custody accounts of retail and corporate clients.

Sydbank Markets

Sydbank Markets offers advice and quotes prices as regards bonds, shares and foreign exchange as well as undertakes market-making obligations. Sydbank Markets serves institutional clients, central banks, asset managers, foreign clients, major clients, banks as well as Sydbank's investment centres and departments.

Moreover Sydbank Markets is a primary dealer in Danish government bonds and mortgage bonds and the Bank's primary mortgage credit partners are Nykredit, DLR Kredit, Realkredit Danmark and Nordea Kredit.

Human Resources and staff

Sydbank believes that excellent and committed employees are its most important asset and are key to ensuring the Bank's continued success and value creation for Sydbank's customers as well as the Bank itself.

By means of training and recruitment the Bank aims to have highly skilled and dedicated employees who are committed to building relationships. Sydbank wants to be a workplace offering excellent career opportunities and personal development opportunities. Sydbank wants to be an attractive and socially responsible workplace with a healthy work environment.

The Bank's employees are motivated to improve their skill set on an ongoing basis and Sydbank offers in-house and external education and training activities. The Bank has an introduction programme for new employees.

In connection with recruitment Human Resources tests qualified applicants to ensure that vacancies are filled by the most eligible candidates. Every other year Human Resources conducts a comprehensive employee survey in cooperation with an external supplier. Pulse surveys are carried out every 6 months, also in cooperation with an external supplier.

IT

IT is an essential part of the Bank's business model. Sydbank adapts its products and services on an ongoing basis to an increasingly digitized everyday life. The Bank's business is thus dynamically adapting to customers' growing demand for self-service and advisory services outside the traditional branch.

Sydbank has outsourced a considerable part of its IT operations and development to JN Data/Bankdata, which performs these activities on behalf of Sydbank.

Bankdata and Sydbank's own specialists work together to develop new IT systems. Focus is on the digitization of processes, creating a better online customer experience and new capital market systems. Development activities are divided into 3 areas:

- IT systems and applications
- Process management
- Data Warehouse.

In all 3 areas Bankdata as well as Sydbank have a role in terms of development activities.

Sydbank sees technology as a means to bring the Bank closer to the customer and to reduce complexity thus creating a simple and seamless customer experience.

IT operations and security

IT operations and security are a high priority as virtually all the Bank's business transactions involve the use of IT. Resources and skills are adjusted on an ongoing basis to meet Sydbank's own expectations in this area and those of society at large.

IT breakdowns and cybercrime pose considerable risks to banking operations, especially in light of increasing digitization. These risks are minimised via Sydbank's policy in this area, which includes a description of the contingency plans in place according to the type of event that could occur and how it is tackled depending on the cause.

DiBa Billån

DiBa Billån (car finance) is part of Sydbank. DiBa Billån offers customers fast and easy car finance and insurance by phone or online.

Sydbank Leasing

Sydbank Leasing offers leasing solutions for equipment, machinery and vehicles to corporate clients. Sydbank Leasing has offices in Jutland, Funen and Zealand.

Business partners

Sydbank cooperates with a number of sub-suppliers to ensure that its customers receive competitive quality products. Sydbank's primary mortgage credit partners are Totalkredit and DLR Kredit and its life insurance partners are Letpension and PFA. Sydbank's non-life insurance partner is Topdanmark.

National Banks in Denmark

Sydbank is a member of the industry association National Banks in Denmark together with Arbejdernes Landsbank, Nykredit Bank and Spar Nord Bank. The main object of the association is to strengthen members' position in relation to sector policy.

Organisation and Corporate Governance

Sydbank's management backs and actively addresses corporate governance.

Sydbank's Board of Directors and Group Executive Management consider corporate governance to be a basic prerequisite for meeting the Bank's financial and non-financial targets and maintaining a good dialogue and a good relationship with internal and external stakeholders alike.

The Bank complies with the recommendations of the Committee on Corporate Governance. As a SIFI, Sydbank publishes the statutory corporate governance report on its website. The overall position of the Board of Directors as regards the recommendations appears from Sydbank's Corporate Governance Principles. Read more at sydbank.com.

Sydbank's Board of Directors has also considered the management code of conduct of the Danish Bankers Association and follows all 12 recommendations. The overall position of the Bank as regards the management code of conduct of the Danish Bankers Association is available at sydbank.com.

The management of Sydbank is carried out by:

- the general meeting
- the Shareholders' Committee
- the Board of Directors
- the Group Executive Management.

Shareholders

A positive and ongoing dialogue with shareholders is important for Sydbank so that private and professional investors gain an insight into the Bank's strategy, business model and results.

To promote the dialogue with the Bank's private shareholders, shareholders' meetings are held where more than 10,000 of the Bank's private shareholders can gain insight into the Bank's operations and engage in dialogue with management. Moreover Sydbank takes part in investor presentations, investor conferences and roadshows where institutional investors can engage in dialogue with management and gain an insight into the Bank's development.

All the Bank's shareholders can get a fuller picture of Sydbank via the Bank's website, sydbank.com, where company announcements, interim reports and annual reports are available.

General meeting

Shareholders' voting rights are exercised at the general meeting. Sydbank complies with the recommendations of the Committee on Corporate Governance regarding organising the Bank's gener-

al meeting. Sydbank's Articles of Association contain information on convening the general meeting, the right to submit proposals as well as attendance and voting rights. The Bank's Articles of Association are available at sydbank.com.

Resolutions to amend the Articles of Association and resolutions to dissolve the Bank and/or to merge the Bank with other companies will only be adopted if at least 2/3 of the voting share capital is represented at the general meeting and the resolution is carried by at least 2/3 of the votes cast and of the voting share capital represented at the general meeting.

If at least 2/3 of the voting share capital is not represented at the general meeting but the resolution is carried by at least 2/3 of both the votes cast and the voting share capital represented at the general meeting, the resolution can be adopted at a new general meeting by the majority of votes cast as prescribed above irrespective of the proportion of voting share capital represented.

Resolutions to amend the Articles of Association submitted by the Shareholders' Committee or the Board of Directors may be finally adopted at a single general meeting by at least 2/3 of both the votes cast and the share capital represented at the general meeting.

Sydbank has a voting right limitation according to which no shareholder may cast a vote of more than 20,000 shares on his own behalf.

The share capital may be increased up to DKK 72,240,199 in one or more issues as determined by the Board of Directors. The authorisation applies until 1 March 2021. Increases in share capital pursuant to this authorisation may be effected without any pre-emption rights for the Bank's existing shareholders if effected by an unrestricted public subscription at market price or by conversion of debt.

The general meeting has authorised the Board of Directors to allow the Bank to acquire own shares within a total nominal value of 10% of the Bank's share capital. The authorisation applies until the Bank's AGM in 2020.

Shareholders' Committee

The Bank's Shareholders' Committee is elected by the general meeting. On the recommendation of the Board of Directors the general meeting determines the total number of Shareholders' Committee members and their distribution by region.

The Shareholders' Committee elects the members of the Board of Directors and determines their remuneration.

The Shareholders' Committee is obliged to work for the prosperity of the Bank as well as to represent the Bank to the best of its ability and assist the Board of Directors and the Group Executive Management.

Shareholders' Committee members are elected for a term of 3 years. Members are eligible for re-election.

Board of Directors

The Board of Directors consists of between 6 and 10 members elected by and from among the members of the Shareholders' Committee. Shareholder-elected board members are elected for a term of 1 year. Members are eligible for re-election. If the number of shareholder-elected board members is reduced to less than 6, the Shareholders' Committee will add to the number as soon as possible in order to increase the number to at least 6.

The Bank has no age limit applying to board members in the Articles of Association. The maximum term of office for shareholder-elected board members is 12 years.

The Board of Directors holds at least 11 ordinary meetings each year. In addition an annual strategy seminar is held as well as 2 annual training days. The Board of Directors carries out an annual self-evaluation where the work and results of the Board of Directors and its individual members are assessed. On the basis of the Bank's business model the competences required for the work of the Board of Directors are determined in connection with the evaluation. In continuation hereof the competences present are assessed with a view to identifying any need for further competences. The evaluation is carried out by the Bank's Nomination Committee and every 3rd year with external assistance. In 2017 the self-evaluation was conducted with external assistance. The conclusions of the Nomination Committee's discussions are presented to the Board of Directors.

Other directorships held by the Board of Directors can be seen on pp 136-141.

Board committees

Sydbank's Board of Directors has set up 5 committees that supervise special areas or prepare matters for subsequent consideration by the full Board of Directors:

- Audit Committee
- Risk Committee
- Remuneration Committee
- Nomination Committee
- Digitization Committee.

The terms of reference of the committees are available at sydbank.dk/organisation (in Danish only), which also contains an introduction to the members and their qualifications.

Audit Committee

The Audit Committee reports to the Board of Directors and convenes as a minimum 4 times a year.

The Audit Committee reviews accounting, auditing and security issues including issues which the Board of Directors, Internal Audit, the Audit Committee or the independent auditors wish to discuss.

The Audit Committee follows up on measures taken to rectify weaknesses in internal controls reported by Internal Audit or independent auditors and ensures that material errors and omissions in the financial statements are corrected. Moreover the Audit Committee monitors the Bank's compliance with orders issued by the Danish FSA.

The Audit Committee supervises the financial reporting process including accounting policies and reviews significant accounting estimates etc before the full-year and interim financial statements are presented to the Board of Directors.

The Audit Committee convened 8 times in 2019.

The Board of Directors has appointed Jacob Chr. Nielsen, Vice-Chairman, as the board member who possesses special qualifications within accounting and auditing. Jacob Chr. Nielsen has been a member of the Bank's Audit Committee for 5 years. Jacob Chr. Nielsen's educational background is in financial and management accounting specialising in accounting and taxation. His work areas include management accounting, reporting and controlling. In addition Jacob Chr. Nielsen has comprehensive knowledge of and insight into the financial affairs of a company through his board duties at the Bank and other companies.

Committee members: Jacob Chr. Nielsen (Chairman), CEO; and Lars Mikkjelgaard-Jensen, former CEO and managing director.

Reference is made to sydbank.dk/omsydbank/organisation/revisionsudvalg (in Danish only).

Risk Committee

At the end of 2019 the Risk Committee consists of the full Board of Directors. The committee will be reconstituted during the first quarter of 2020.

The Risk Committee must provide the Board of Directors with an overview of the Group's current risk scenario and serve as a pre-

Organisation and Corporate Governance

paratory committee in terms of determining the Group's overall risk profile and risk strategy including the risks associated with the Group's business model.

Moreover the Risk Committee must evaluate the Group's internal procedure for risk identification and the correlation with risk reporting and the calculation of the Group's solvency need. The Risk Committee is regularly informed of the models and measurement methods that form the basis of the Group's capital management including trends in and expectations of regulatory requirements.

The Risk Committee ensures that the policies and guidelines of the Board of Directors as regards risk are implemented and function effectively in the Group.

The Group's Chief Risk Officer must assist the committee with information and attend its meetings with a view to discussing the Group's risk management.

The Risk Committee convened 4 times in 2019.

Reference is made to sydbank.dk/omsydbank/organisation/risikoudvalg (in Danish only).

Remuneration Committee

The Remuneration Committee reports to the Board of Directors and convenes as a minimum once a year.

The Remuneration Committee formulates the Bank's remuneration policy and decides which of the Bank's functions are covered by the concept of "material risk takers". Following approval by the Board of Directors the remuneration policy is submitted to the general meeting, which will make the final decision. The Remuneration Committee ensures that the remuneration policy in force is complied with.

Legislation requires that the Remuneration Committee reviews information about remuneration issues presented to the general meeting, performs assessments and controls of the Bank's remuneration processes and ensures that the use of variable remuneration complies with the rules of the remuneration policy and legislation.

The Remuneration Committee also prepares a recommendation to the Board of Directors concerning the remuneration of the members of the Shareholders' Committee.

The Remuneration Committee convened twice in 2019.

Committee members: Janne Moltke-Leth (Chairman), CEO; and Jørn Krogh Sørensen, Senior Vice President, Corporate Department.

Reference is made to sydbank.dk/omsydbank/organisation/loenuudvalg (in Danish only).

Nomination Committee

The Nomination Committee reports to the Board of Directors and convenes as a minimum 4 times a year.

The Nomination Committee is tasked with evaluating management and must also identify and describe the competences required to serve on the Bank's Board of Directors and assess whether they are present.

Moreover the committee must propose new potential candidates for the Advisory Boards and the Shareholders' Committee so that new members to the Board of Directors may be recruited from the Shareholders' Committee to the widest extent possible.

The Nomination Committee convened 5 times in 2019.

Committee members: Janne Moltke-Leth (Chairman), CEO and Lars Mikkellaard-Jensen, former CEO and managing director.

Reference is made to sydbank.dk/omsydbank/organisation/nomineringsudvalg (in Danish only).

Digitization Committee

The Digitization Committee reports to the Board of Directors and convenes as a minimum 4 times a year.

The Digitization Committee is authorised to review, examine and analyse significant digitization initiatives in the financial sector in relation to the opportunities for Sydbank.

The Digitization Committee is tasked with advising on the Bank's long-term strategic digitization and discussing selected and planned initiatives.

The Digitization Committee convened 4 times in 2019.

Committee members: Lars Mikkellaard-Jensen (Chairman), former CEO and managing director; Janne Moltke-Leth, CEO; Susanne Schou, Deputy Chief Executive; and Jarl Oxlund, Chairman of Sydbank Kreds.

Policy and targets for the under-represented gender

Sydbank complies with the recommendations of the Committee on Corporate Governance that once a year the Board of Directors discusses activities to ensure diversity.

Attendance – Sydbank’s Board of Directors

2019	Board meetings	Audit Committee meetings	Risk Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Digitization Committee meetings
Lars Mikkjelgaard-Jensen (Chairman)	15/15	8/8	1/1		2/2	4/4
Jacob Chr. Nielsen (Vice-Chairman)	15/15	8/8	1/1			
Janne Moltke-Leth	14/15		1/1	2/2	5/5	4/4
Susanne Schou	15/15		1/1			4/4
Gitte Poulsen*	3/3		1/1			
Jon Stefansson*	3/3		1/1			
Carsten Andersen	15/15		1/1			
Kim Holmer	15/15		1/1			
Jarl Oxlund	15/15		1/1	1/1		4/4
Jørn Krogh Sørensen	15/15		1/1	1/1		
Torben Nielsen***	8/8	1/1	3/3	1/1	3/3	
John Lesbo***	8/8	5/5	3/3		3/3	
Frank Møller Nielsen***	8/8		3/3		3/3	
Jørgen Høholt**/***	5/5	4/4				

* Member as of 31 October 2019 ** Member as of 21 March 2019 *** Resigned as of 17 September 2019 (attendance/number of meetings)

The aim of the Board of Directors is that women will represent at least 25% of the board members. At year-end 2019 Sydbank’s Board of Directors consisted of 6 shareholder-elected board members and 4 members elected by the employees. Of the 10 board members, 7 are male and 3 are female. The defined target for the under-represented gender has therefore been met.

Reference is made to Sydbank’s CSR Report for 2019, which is published together with the annual report on Sydbank’s website, sydbank.com.

Group Executive Management

Sydbank’s Group Executive Management consists of 4 members. The Group Executive Management is appointed by the Board of Directors and consists of Karen Frøsig, CEO; Bjarne Larsen, Deputy Group Chief Executive; Jørn Adam Møller, Deputy Group Chief Executive; and Henning Dam, Deputy Group Chief Executive (as of 1 April 2020).

The Group Executive Management constitutes the top day-to-day management of the Bank in accordance with the guidelines and instructions issued by the Board of Directors. The distribution of duties between the Board of Directors and the Group Executive Management is laid down in the rules of procedure of the Board of Directors.

The Group Executive Management attends the meetings of the Shareholders’ Committee and the Board of Directors without any voting rights.

Further information is available at sydbank.dk/omsydbank/organisation (in Danish only).

Management’s remuneration

The Bank’s remuneration policy is determined by the Bank’s Board of Directors and describes Sydbank’s positions on remuneration and the use of variable remuneration components. The Board of Directors is responsible for making any necessary adjustments to the remuneration policy and for submitting the revised remuneration policy to the general meeting for adoption.

The remuneration policy must support the Bank’s aim of being a good place to work and being able to attract and retain competent employees. Furthermore the policy must create value for the Bank’s shareholders.

The remuneration policy must be consistent with and promote sound and effective risk management which does not encourage excessive risk taking as well as comply with the corporate governance rules on remuneration policies in listed companies.

Members of the Board of Directors receive a fixed fee. Board members are not covered by any type of bonus scheme.

The remuneration of the Group Executive Management is reviewed once a year. The remuneration is determined on the basis of a wish to attract and retain the right profiles in the Group Executive Management so that the Bank’s Group Executive Management has the right composition at all times. In connec-

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tion with the annual review of the remuneration of the Group Executive Management an assessment of the market level is made. In addition the remuneration of the Group Executive Management is adjusted according to the adjustment in the collective agreement concluded by the Danish Employers' Association for the Financial Sector and the Financial Services Union Denmark. No bonus schemes have been agreed as regards the Group Executive Management.

Within the limits of the remuneration policy the Board of Directors fixes the total remuneration of the Group Executive Management, including any severance terms.

The remuneration policy applies to the Sydbank Group. The remuneration of the Board of Directors and the Group Executive Management appears from the notes to the annual report.

Further information is available at sydbank.dk/omsydbank/undersider/loenpolitik (in Danish only).

Significant internal controls and risk management systems

Sydbank's risk management and internal controls relating to financial reporting are designed for the purpose of preparing:

- management accounts which make it possible to measure and follow up on the Group's performance
- financial statements which give a true and fair view without material misstatement and which are in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed financial companies.

The Group Executive Management is responsible for maintaining effective internal controls and a risk management system in connection with financial reporting. The Group Executive Management has designed and implemented controls considered necessary and effective to counter identified risks relating to financial reporting. The Group's internal controls and risk management systems are updated on an ongoing basis and are designed with a view to identifying and eliminating errors and omissions in the financial statements.

Risk assessment

The Board of Directors and the Group Executive Management regularly assess the risks relating to the Group, including those affecting financial reporting. A description of the most significant identified risks is given in the annual report under "Accounting estimates and judgements" and "Notes – Risk Management".

Procedures have been put into place to ensure that Sydbank at all times complies with relevant legislation and other regulations

in connection with financial reporting. The Audit Committee is regularly informed of significant changes in legislation.

Monitoring

Analyses and control activities are conducted in connection with the preparation of the annual report to ensure that financial reporting is in compliance with IFRS as described under "Accounting policies" (note 1).

Risk organisation

Sydbank has a formal risk organisation comprising a number of risk committees and a Chief Risk Officer (CRO) reporting directly to the Bank's Group Executive Management. The CRO is responsible for prudent risk management within the Group and compliance with the requirements of the Danish executive order on management and control of banks etc. The risk committees are headed by a member of the Bank's Group Executive Management and the CRO is a permanent member.

The risk committees identify, monitor and assess risks within the individual risk areas and ensure that models and principles are formulated to calculate risk. The committees ensure that the Bank's business units address identified risks.

Further information is available in "Notes – Risk Management" on page 118.

Compliance

Compliance is an independent division reporting directly to the Bank's Group Executive Management. The division also comprises the Bank's Data Protection Officer (DPO), whose responsibilities are described in further detail in the following.

Compliance supervises and assesses whether the Bank's business units have efficient procedures to comply with legislation and internal rules. The objective is to minimise the Bank's compliance risks, for example the risk of financial loss, the loss of good standing or administrative sanctions as a result of non-compliance with rules.

The work is organised so that all the Bank's activities are assessed using a risk-based approach. For each control and assessment carried out by Compliance the conclusion is reported to the relevant business unit managers who are responsible for correcting any errors or omissions identified, including adjusting inadequate systems or procedures. Compliance follows up on the implementation of appropriate measures. Moreover Compliance follows up on the controls and assessments carried out. The time horizon for this work depends on the risk identified.

In addition Compliance is responsible for the assessment of new products and services in terms of risk. This assessment is made in cooperation with the relevant business units in the Bank as well as the Bank's risk function. The assessment is taken into account by the Group Executive Management in its deliberations on how to launch new products.

The Bank has established a Compliance Committee. The chairman is the Bank's Risk Executive (Group Executive Management member). The committee also consists of relevant group executive vice presidents or their representatives as well as the Bank's DPO. The committee meets at least once every quarter to discuss current compliance risks as well as future legislative measures.

Compliance submits quarterly reports of its most significant activities to the Bank's Group Executive Management and the Board of Directors.

Anti-money laundering

Compliance with anti-money laundering legislation is an important factor in terms of successfully managing the social task and social responsibility of preventing money laundering and terrorist financing. To strengthen its efforts to combat money laundering and terrorist financing, Sydbank has established a strong corporate governance structure in this area. Sydbank has appointed an AML Executive (Group Executive Management member), established an AML function within the Legal Department, which assesses on an ongoing basis the Bank's risks in this area, and set up an AML Committee, where relevant group executive vice presidents meet once every quarter to discuss and assess Sydbank's efforts to combat money laundering and terrorist financing. The AML function reports to the Group Executive Management and the Board of Directors on a quarterly basis on the measures taken to combat money laundering and terrorist financing and on developments in the overall risks in this area.

The Danish Anti-Money Laundering Act places great emphasis on the financial sector having a risk-based approach to combat money laundering and terrorist financing. Every year Sydbank prepares a risk assessment in which relevant risks relating to money laundering and terrorist financing are identified and assessed so that the Bank has a complete overview of the areas in which the Bank may be used for money laundering and terrorist financing. On the basis of the conclusions of the risk assessment the Board of Directors has adopted a policy for prevention of money laundering, terrorist financing and sanctions breaches and an appendix regarding the Bank's risk tolerance in this area. The policy sets out the overall framework for the procedures, routines, job descriptions and controls to minimise the Bank's risk of being used for money laundering and terrorist financing. The

policy is available on the Bank's website so that it is accessible for customers and other interested parties.

To strengthen its ongoing efforts in terms of combating money laundering and terrorist financing, the Bank has established a quality assurance department to ensure ongoing implementation of all necessary measures in this respect in the entire Bank and among all the Bank's employees. The quality assurance department ensures that sufficient measures are implemented to address the risks identified and assessed by the AML function. In addition the quality assurance department ensures that all relevant employees receive training in anti-money laundering rules.

In its efforts to prevent the Bank from being used for money laundering and terrorist financing, Sydbank has established transaction monitoring of all transactions as well as daily screening of foreign transactions against existing EU, UN and OFAC sanctions lists. When the Bank becomes aware of or suspects money laundering or terrorist financing the necessary reports are filed with the relevant authorities. Sydbank works continuously to optimise transaction monitoring.

Furthermore Sydbank works constructively with all stakeholders and authorities with a view to combating money laundering and terrorist financing. The Bank takes part in relevant collaboration forums within the financial sector and on a regulatory level in order to gain knowledge about suspicious transactions and financial crime. In 2019 Sydbank also participated in Finance Denmark's anti-money laundering taskforce, which submitted a number of recommendations in late 2019 on how the financial sector can contribute to a greater degree to combat money laundering and terrorist financing. In 2020 Sydbank will work to implement these recommendations, including setting up a dedicated webpage where Sydbank can provide information on a continuing basis about its efforts to combat money laundering and terrorist financing.

Data Protection Officer

Sydbank complies with the General Data Protection Regulation, which has replaced previous data protection legislation and imposed stricter requirements regarding the manner in which businesses store and process personal data.

One of the requirements is that some businesses which store and process personal data of a certain scale must have a Data Protection Officer (DPO). In line with Compliance, the tasks of the DPO are to monitor and assess whether the Bank complies with the rules regarding personal data. The DPO must also report to the Bank's management.

Organisation and Corporate Governance

Sydbank's DPO reports to the Bank's Board of Directors and Group Executive Management quarterly. The reports and the current risk scenario as regards the General Data Protection Regulation are discussed by the Bank's Compliance Committee, of which the DPO is a member.

Internal Audit

To gain an objective and independent assessment of the adequacy, effectiveness and quality of the Group's internal controls, Sydbank has established an internal audit function reporting to the Bank's Board of Directors.

Internal Audit performs audits focusing, among other factors, on the most significant areas of the Bank's compliance and risk management.

In addition Internal Audit oversees that:

- the Group has good administrative and accounting practices
- there are business procedures and internal controls for all important areas of activity
- management's instructions on security and controls are incorporated into business procedures and are observed
- there are prudent control and security measures within IT.



Sydbank's Corporate Social Responsibility

The objective for Sydbank's CSR efforts in the current strategy period is to fully integrate CSR in its core business. Full integration in its core business means that Sydbank's CSR efforts focus on the areas that have the greatest impact for a bank, namely investments and lending.

It is difficult and ambitious to integrate CSR in these areas but at Sydbank social responsibility is about doing something because it is the right thing to do and because it can be done properly and as an integral part of the Bank's business. This is why we believe our greatest responsibility is to the challenges in society that are closest to our core activities as a bank.

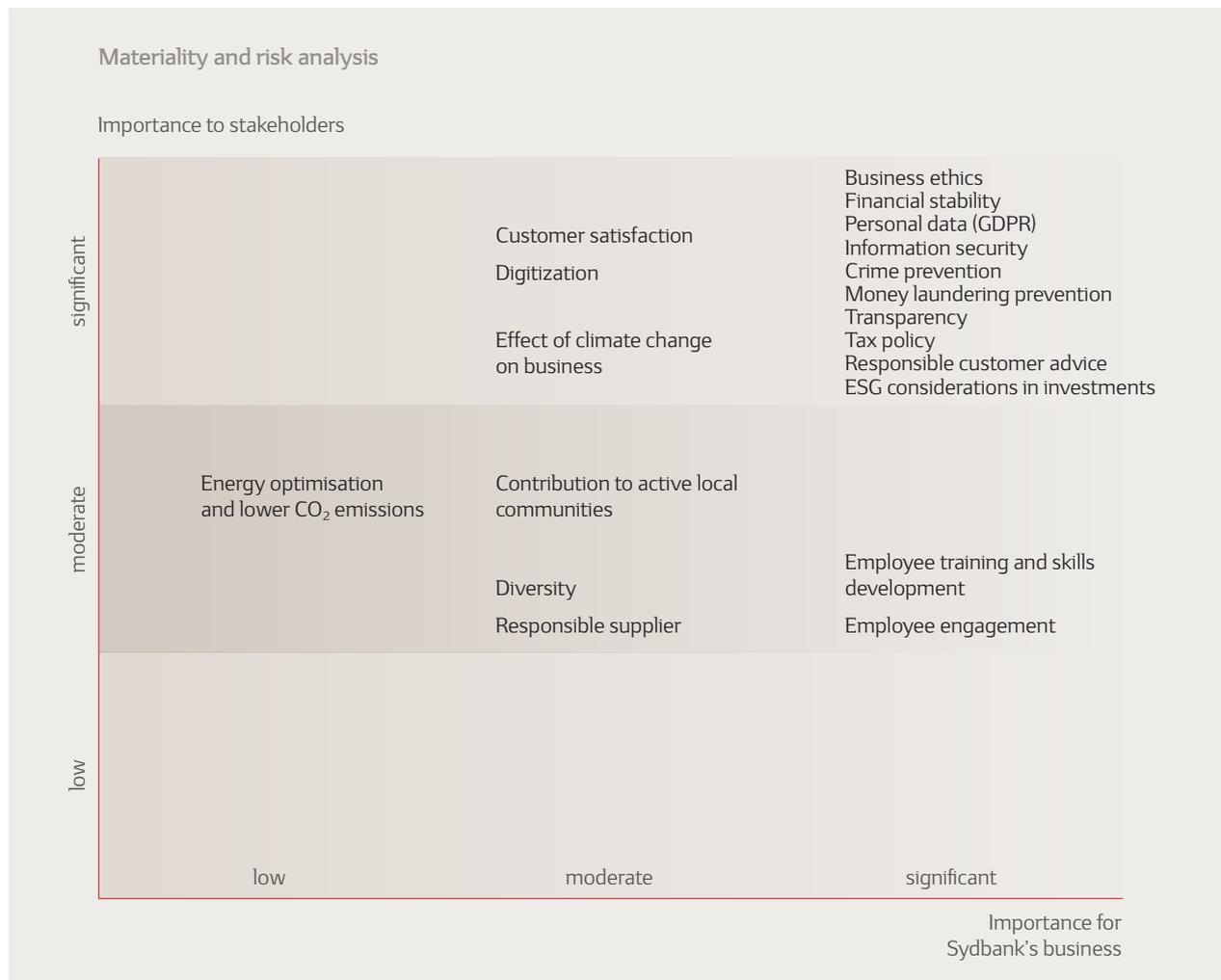
The Bank's CSR focuses on the areas that are especially relevant for us as a bank and therefore it is important that CSR is integrated into our business and our efforts are not just disconnected parallel activities.

Sydbank's CSR reporting structure

Sydbank's corporate social responsibility report covers the Group's CSR activities as well as the 5 mandatory reporting areas: social issues, climate issues, environmental issues, human rights and anti-corruption measures. In addition the Bank reports on sponsorships and donations. Sydbank's CSR report 2019 is available at sydbank.com.

The report has the following thematic structure:

1. Our corporate social responsibility
2. Financial stability
3. Anti-corruption and crime fighting
4. Responsible investment
5. Responsible employer
6. Our climate footprint
7. Active local communities.



Materiality and risk analysis

The separate objectives for the reporting themes are defined on the basis of a risk assessment including business risks as well as social risks.

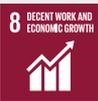
The materiality and risk analysis also provides an overview of the areas that are especially relevant for us as a bank and most important to our customers, investors and society at large. These are the same areas that Sydbank has chosen to focus on in its CSR efforts.

SDGs on the agenda

Sydbank greatly respects the UN's efforts to establish a global partnership to work for a sustainable future. The objective as regards the Bank's corporate social responsibility is directly related to the sustainable development goals (SDGs) where our business can make a difference and we work continuously to develop and implement measures that help to support the SDGs and the 2030 Agenda for Sustainable Development.

The sustainable development goals highlight the areas needing to be addressed to achieve transformative change that will ensure a sustainable future for generations to come.

In 2019 we greatly contributed to 5 of the 17 SDGs, namely goals 5, 7, 8, 9 and 16.

	SDG 5 - Gender equality Target 5.5., indicator 5.5.2.
	SDG 7 - Affordable and clean energy Target 7.2., indicator 7.2.1.
	SDG 8 - Decent work and economic growth Target 16.4., indicator 16.4.1.
	SDG 9 - Industry, innovation and infrastructure Target 9.3., indicator 9.3.2.
	SDG 16 - Peace, justice and strong institutions Target 16.4., indicator 16.4.1.

CSR organisation and management at Sydbank

In 2019 the Bank's CSR forum was formalised with the approval of terms of reference describing its tasks and powers. The frequency of meetings was increased from twice to 4 times a year.

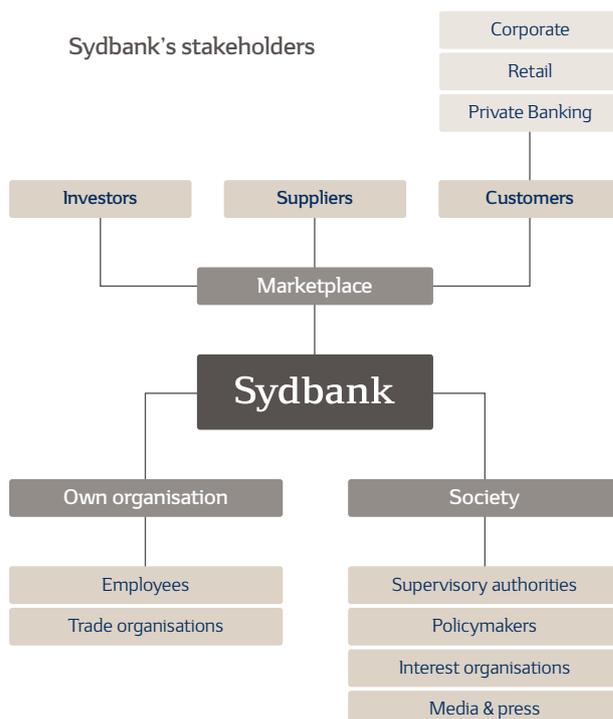
Communications & Marketing serves as the secretariat for the Bank's CSR forum and is responsible for initiating CSR activities with the assistance of the various business units within the Bank.

In order to ensure coherence and follow-up of work carried out in the CSR forum and in our business on the basis of the forum's decisions, the CSR governance structure follows the calendar year.

Dialogue with stakeholders

Sydbank's growth and existence depend on dialogue and interaction with stakeholders in our own organisation, in the marketplace and in society at large.

Common regulation of the banking sector is necessary to ensure security, transparency and stability. It is important for Sydbank that regulation is developed through a dialogue between the authorities, legislators and the banking sector. In this way it can be ensured that regulations and legislation can be implemented and managed in practice.



Anti-corruption and crime fighting

Combating money laundering and terrorist financing

One important element in our efforts to prevent money laundering is the training course that is mandatory for all Sydbank's employees. The course aims to inform and train employees as to which circumstances they should pay special attention to in order to prevent the Bank from being used for money laundering.

In 2019 the AML function was transferred from Compliance to the Legal Department.

Bribery

Sydbank disapproves of any form of corruption and bribery and does not tolerate its existence in its relationship with public authorities or business partners.

Vast amounts are traded on securities markets and it is important that markets are protected against abuse. The Bank takes an active part in preventing market abuse. Sydbank has measures in place to ensure the correct handling of inside information within the Bank, by management and employees as well as measures relating to customers' use of the Bank.

Personal data

Ongoing efforts are made to ensure that we have implemented the existing rules on data security. The only data processed about a customer is the data necessary to provide the best advice and the best possible service or the data that we are required to process according to current legislation.

All employees at Sydbank receive mandatory training in the correct processing of personal data.

Human Resources has a follow-up procedure for employees who have not completed this training. Together with the employee's immediate superior the reason for not completing the training is found. If it proves difficult to find the cause and it is not due to for instance leave or illness the matter is reported to Compliance and the Bank's Data Protection Officer (DPO).

Information security – employee conduct is crucial

The rules concerning IT risk management were tightened in autumn 2019 due to an amendment to the Danish executive order on management and control of banks. As a result Sydbank launched internal mandatory training in information security in October 2019.

All employees are responsible for contributing to maintaining a high level of security. Our conduct can be decisive for information

security and therefore the new training course is based on the most common methods criminals use to attempt to gain access through employees. The course also includes information on how employees should respond in case of a security breach.

Human rights

The 10 principles of the UN Global Compact define the overall framework for Sydbank's efforts in the investment area. The Bank signed the UN PRI in 2010 and consequently we are committed to complying with the 6 principles for responsible investment, all of which concern ESG issues.

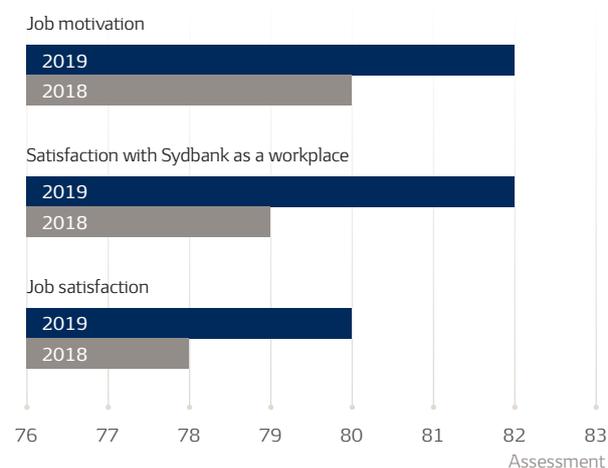
Companies that the Bank invests in must as a rule comply with these principles. If this is not the case we enter into a dialogue with the company in question via our business partner to encourage the company to act more responsibly. We will ultimately exclude the company from the portfolio.

Consequently ESG issues are always taken into account when Sydbank invests in companies and government bonds.

Employee issues

The Bank wishes to be a workplace with excellent and committed employees. Employee engagement is strong at Sydbank and we want it to stay that way. Therefore it is important for us to know which factors affect employees' job satisfaction as this will help us learn what should be changed so that employees feel passionate about their jobs at Sydbank.

An employee engagement survey is carried out every 6 months. This questionnaire is a more condensed version of the full-length questionnaire used every other year, most recently in 2018. Ennova has been responsible for measuring employee engagement since 2018. The cooperation with Ennova enables us to compare



ourselves with other Danish banks and companies in the financial sector.

Consequently we have no results from a comprehensive detailed survey in 2019, only results from 2 more condensed surveys. As a result the 2 biannual pulse surveys carried out in 2019 are not directly comparable with the results of the full-length employee engagement survey conducted in 2018.

The comparison on page 46 is based on the average of the 2 employee engagement surveys from 2019 and the in-depth survey from 2018.

Diversity and non-discrimination

Sydbank acknowledges the principles of the UN Global Compact including to respect and observe international human rights and to combat discrimination in all its forms.

When recruiting new employees, we ensure that there is always an open and unbiased selection process without any form of discrimination and that the organisation aptly reflects the labour market's composition in terms of diversity. Our employee policy must ensure that discrimination and harassment does not occur and, should it happen all the same, that the matter is handled appropriately.

Reported incidents

Work-related injuries are individually assessed by Sydbank's head of security and the employee concerned. As a general rule

Sydbank reports all reported work-related injuries regardless of whether the employee is absent from work as a result.

The Bank reported 11 work-related injuries in 2019, which is one more than in 2018. Sydbank's goal is still 0.

Climate and environmental issues

The Bank has its own energy management to ensure ongoing improvements in its energy performance, consumption and energy efficiency. Sydbank's energy consumption is monitored on an hourly basis and the system sends a warning to the Bank's technicians in case of above normal readings.

In 2019 Sydbank decided to calculate its energy consumption and CO₂ emissions in accordance with the Greenhouse Gas (GHG) Protocol in order to have CO₂ accounts that are comparable with the CO₂ accounts of other businesses. The GHG Protocol is an internationally recognised CO₂ emissions reporting standard.

In 2019 the Bank received planning permission to set up a solar cell system at the head office in Aabenraa. The system is designed to handle the head office's stand-by consumption and is estimated to generate around 400,000 kWh per year. The installation will be completed during the first 6 months of 2020.

ESG key figures

The Bank's ESG data for 2017-2019 and the goals for 2020 are shown below. The data disclosed is calculated on the basis of the recommendations of the guidance on ESG key figures by CFA Society Denmark, FSR - Danish Auditors and Nasdaq Copenhagen.

ESG data	Unit	2019	2018	2017
<i>Environmental data</i>				
CO ₂ emissions, scope 1	Tonne	821	855	821
CO ₂ emissions, scope 2	Tonne	1,991	2,114	2,300
Energy consumption	kWh	6,746,458	7,272,271	7,247,956
Water consumption	m ³	14,070	15,432	15,106
<i>Social data</i>				
Full-time staff	FTE	2,107	2,130	2,104
Gender balance (M/F) among employees	%	48/52	49/51	48/52
Women in management positions	%	30	30	31
Pay gap between men and women	Times	1.2	1.2	1.2
Employee turnover rate	%	12	9.1	11.5
Absence due to illness	Days/FTE	3.1	2.8	2.6
<i>Governance data</i>				
Women board members	%	30	21	17
Pay gap between CEO and employees	Times	12.6	12.6	11.9

Sydbank has decided to follow the guidance on ESG key figures because it is consistent with the Bank's ambition to operate a responsible and transparent business.

Active local communities

Local relationships are important to Sydbank. Therefore our focus is on supporting local projects that create value and relationships in the local communities. Local association activities and sports activities are most definitely activities where value and relationships are created. This is also why our sponsorships are in these areas.

In order to ensure that Sydbank's sponsorships support local developments and activities they are given priority and nurtured by the Bank's local management teams. The sponsorships include all the Bank's 10 regions, including Northern Germany. In 2019 sponsorships amounted to DKK 2.9m.



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Income Statement

DKKm	Note	Sydbank Group		Sydbank A/S	
		2019	2018	2019	2018
Interest income calculated using the effective interest method		1,907	2,091	1,911	2,095
Other interest income		335	139	335	139
Interest income	7	2,242	2,230	2,246	2,234
Interest expense	8	536	362	535	367
Net interest income		1,706	1,868	1,711	1,867
Dividends on shares	9	31	27	35	27
Fee and commission income	10	2,206	2,140	2,058	1,987
Fee and commission expense	10	341	310	285	242
Net interest and fee income		3,602	3,725	3,519	3,639
Market value adjustments	11	226	335	236	286
Other operating income	12	28	19	29	19
Staff costs and administrative expenses	13	2,729	2,666	2,666	2,611
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment		113	97	101	93
Other operating expenses		28	18	28	17
Impairment of loans and advances etc	14	(90)	(114)	(90)	(114)
Profit/(Loss) on holdings in associates and subsidiaries	15	5	8	0	22
Profit before tax		1,081	1,420	1,079	1,359
Tax	16	228	259	218	236
Profit for the year		853	1,161	861	1,123
Distribution of profit for the year					
Shareholders of Sydbank A/S				822	1,100
Holders of AT1 capital				39	23
Total amount to be allocated				861	1,123
Proposed dividend to shareholders of Sydbank A/S				340	578
Interest paid to holders of AT1 capital				39	23
Proposal for allocation for other purposes				12	12
Transfer to equity				470	510
Total amount allocated				861	1,123
EPS Basic (DKK)*		13.4	17.6	13.6	17.0
EPS Diluted (DKK)*		13.4	17.6	13.6	17.0
Proposed dividend per share (DKK)		5.70	9.36	5.70	9.36

* Calculated on the basis of average number of shares outstanding, see page 18.

Statement of Comprehensive Income

Profit for the year	853	1,161	861	1,123
Other comprehensive income				
<u>Items that may be reclassified to the income statement:</u>				
Translation of foreign entities	8	10	8	10
Hedge of net investment in foreign entities	(8)	(10)	(8)	(10)
<u>Items that may not be reclassified to the income statement:</u>				
Property revaluation	12	7	12	7
Value adjustment of certain strategic shares	11	(38)	-	-
Other comprehensive income after tax	23	(31)	12	7
Comprehensive income for the year	876	1,130	873	1,130

Balance Sheet

DKKm	Note	Sydbank Group		Sydbank A/S	
		2019	2018	2019	2018
Assets					
Cash and balances on demand at central banks		2,428	2,073	2,428	2,073
Amounts owed by credit institutions and central banks	17	8,863	13,696	8,863	13,694
Loans and advances at fair value	18	12,602	6,510	12,602	6,510
Loans and advances at amortised cost	18	60,554	60,983	61,013	61,184
Bonds at fair value	19	32,357	29,668	32,357	29,668
Shares etc	20	2,211	2,196	2,211	2,196
Holdings in associates etc	21	147	152	147	152
Holdings in subsidiaries etc	22	-	-	2,362	2,408
Assets related to pooled plans	23	19,042	16,220	19,042	16,220
Intangible assets	24	239	259	239	259
Owner-occupied property	25	1,077	1,080	853	856
Owner-occupied property (leasing)		72	-	72	-
Total land and buildings		1,149	1,080	925	856
Other property, plant and equipment	26	61	75	61	75
Current tax assets		173	211	178	216
Deferred tax assets	16	33	39	15	12
Assets in temporary possession		-	1	-	1
Other assets	27	7,809	7,278	7,442	7,273
Prepayments		70	73	68	72
Total assets		147,738	140,514	149,953	142,869
Equity and liabilities					
Amounts owed to credit institutions and central banks	28	5,497	5,339	5,739	5,574
Deposits and other debt	29	84,295	86,277	86,430	88,410
Deposits in pooled plans		19,042	16,220	19,042	16,220
Bonds issued at amortised cost	30	7,437	3,706	7,437	3,706
Other liabilities	31	17,360	14,938	17,237	14,927
Deferred income		3	2	3	2
Total liabilities		133,634	126,482	135,888	128,839
Provisions	32	477	489	476	487
Subordinated capital	33	1,863	1,861	1,863	1,861
Equity					
Share capital		618	677	618	677
Revaluation reserves		116	104	116	104
Other reserves:					
Reserves according to articles of association		425	425	425	425
Reserve for net revaluation according to equity method		4	4	4	4
Retained earnings		9,451	9,122	9,451	9,122
Proposed dividend etc		352	590	352	590
Shareholders of Sydbank A/S		10,966	10,922	10,966	10,922
Holders of AT1 capital		760	760	760	760
Minority shareholders		38	-	-	-
Total equity		11,764	11,682	11,726	11,682
Total equity and liabilities		147,738	140,514	149,953	142,869

Statement of Changes in Equity

Sydbank Group

DKK m	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 share-holders	Total equity
Equity at 1 Jan 2019	677	104	425	4	9,122	590	10,922	760		11,682
Profit for the period					459	352	811	39	3	853
Other comprehensive income		12			11		23			23
Comprehensive income for the year	-	12	-	-	470	352	834	39	3	876
Transactions with owners										
Purchase of own shares					(1,721)		(1,721)			(1,721)
Sale of own shares					1,520		1,520			1,520
Reduction of share capital	(59)				59		-			-
Interest paid on AT1 capital							-	(39)		(39)
Exchange rate adjustment							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)	-	-	-	(141)	(590)	(790)	(39)	35	(794)
Equity at 31 Dec 2019	618	116	425	4	9,451	352	10,966	760	38	11,764
Equity at 31 Dec 2017	704	97	425	2	9,922	776	11,926			11,926
New accounting policies, IFRS 9					(216)		(216)			(216)
Tax effect, IFRS 9					48		48			48
Equity at 1 Jan 2018	704	97	425	2	9,754	776	11,758	-		11,758
Profit for the period				2	546	590	1,138	23		1,161
Other comprehensive income		7			(38)		(31)			(31)
Comprehensive income for the year	-	7	-	2	508	590	1,107	23		1,130
Transactions with owners										
Issue of AT1 capital							-	745		745
Transaction costs					(8)		(8)			(8)
Interest paid on AT1 capital							-	(10)		(10)
Exchange rate adjustment					(2)		(2)	2		-
Tax					2		2			2
Purchase of own shares					(2,508)		(2,508)			(2,508)
Sale of own shares					1,338		1,338			1,338
Reduction of share capital	(27)				27		-			-
Dividend etc paid						(776)	(776)			(776)
Dividend, own shares					11		11			11
Total transactions with owners	(27)	-	-	-	(1,140)	(776)	(1,943)	737		(1,206)
Equity at 31 Dec 2018	677	104	425	4	9,122	590	10,922	760		11,682

* Reserves according to the articles of association equal the undistributable savings bank reserve in accordance with Article 4 of the Articles of Association.

** 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%.

DKKm	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**	Total equity
Equity at 1 Jan 2019	677	104	425	4	9,122	590	10,922	760	11,682
Profit for the period					470	352	822	39	861
Other comprehensive income		12			-		12		12
Comprehensive income for the year	-	12	-	0	470	352	834	39	873
Transactions with owners									
Purchase of own shares					(1,721)		(1,721)		(1,721)
Sale of own shares					1,520		1,520		1,520
Reduction of share capital	(59)				59		-		-
Interest paid on AT1 capital							-	(39)	(39)
Exchange rate adjustment							0	0	-
Dividend etc paid						(590)	(590)		(590)
Dividend, own shares					7		7		7
Sale of holdings in subsidiaries					(6)		(6)		(6)
Total transactions with owners	(59)	-	-	-	(141)	(590)	(790)	(39)	(829)
Equity at 31 Dec 2019	618	116	425	4	9,451	352	10,966	760	11,726
Equity at 31 Dec 2017	704	97	425	2	9,922	776	11,926		11,926
New accounting policies, IFRS 9					(216)		(216)		(216)
Tax effect, IFRS 9					48		48		48
Equity at 1 Jan 2018	704	97	425	2	9,754	776	11,758	-	11,758
Profit for the period				2	508	590	1,100	23	1,123
Other comprehensive income		7					7		7
Comprehensive income for the year	-	7	-	2	508	590	1,107	23	1,130
Transactions with owners									
Issue of AT1 capital							-	745	745
Transaction costs					(8)		(8)		(8)
Interest paid on AT1 capital							-	(10)	(10)
Exchange rate adjustment					(2)		(2)	2	-
Tax					2		2		2
Purchase of own shares					(2,508)		(2,508)		(2,508)
Sale of own shares					1,338		1,338		1,338
Reduction of share capital	(27)				27		-		-
Dividend etc paid						(776)	(776)		(776)
Dividend, own shares					11		11		11
Total transactions with owners	(27)	-	-	-	(1,140)	(776)	(1,943)	737	(1,206)
Equity at 31 Dec 2018	677	104	425	4	9,122	590	10,922	760	11,682

The share capital comprises 61,754,000 shares at a nominal value of DKK 10 or a total of DKK 617.5m.
The Bank has only one class of shares as all shares carry the same rights.

Cash Flow Statement

Sydbank Group

DKKm	2019	2018
Operating activities		
Pre-tax profit for the year	1,081	1,420
Taxes paid	(160)	(323)
Adjustment for non-cash operating items:		
Profit/(Loss) on holdings in associates	1	(3)
Amortisation and depreciation of intangible assets and property, plant and equipment	113	97
Impairment of loans and advances/guarantees	(90)	(114)
Other non-cash operating items	(19)	61
	926	1,138
Changes in working capital:		
Credit institutions and central banks	2,530	(1,906)
Trading portfolio	(2,704)	(3,885)
Other financial instruments at fair value	(658)	176
Loans and advances	(5,573)	2,013
Deposits	(1,982)	3,587
Other assets/liabilities	2,437	64
Cash flows from operating activities	(5,024)	1,187
Investing activities		
Purchase of holdings in associates	(8)	0
Sale of holdings in associates	13	8
Sale of holdings in subsidiaries	33	-
Purchase of property, plant and equipment	(59)	(105)
Sale of property, plant and equipment	9	21
Cash flows from investing activities	(12)	(76)
Financing activities		
Purchase and sale of own holdings	(201)	(1,171)
Dividends etc	(583)	(765)
Raising of subordinated capital	-	737
Issue of bonds	3,715	3,702
Redemption of bonds	-	(3,724)
Cash flows from financing activities	2,931	(1,221)
Cash flows for the year	(2,105)	(110)
Cash and cash equivalents at 1 Jan	8,858	8,968
Cash flows for the year (changes during the year)	(2,105)	(110)
Cash and cash equivalents at 31 Dec	6,753	8,858
Cash and cash equivalents at 31 Dec		
Cash and balances on demand at central banks	2,428	2,073
Fully secured cash and cash equivalent balances on demand with credit institutions and insurance companies	1,255	904
Unencumbered certificates of deposit	3,070	5,881
Cash and cash equivalents at 31 Dec	6,753	8,858

Notes

Note 1 Accounting policies

Basis of preparation

The consolidated financial statements of Sydbank are prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements of the parent, Sydbank A/S, are prepared in compliance with the Danish Financial Business Act, including the Danish executive order on financial reporting of credit institutions and brokerage firms etc, which is in compliance with the provisions on recognition and measurement according to IFRS.

Furthermore the annual report is prepared in compliance with additional Danish disclosure requirements for annual reports of listed financial companies.

On 26 February 2020 the Board of Directors and the Group Executive Management reviewed and approved the 2019 Annual Report of Sydbank A/S. The Annual Report will be submitted for adoption by the AGM on 19 March 2020.

New accounting policies

The following new or amended IFRS standards have been implemented effective from 1 January 2019:

- IFRS 16 Leases
- Amendments to IFRS 9 regarding prepayment features with negative compensation
- Amendments to IAS 12 regarding income taxes
- Amendments to IAS 19 regarding changes in pension plans during the accounting period
- Amendments to IAS 28 regarding long-term interests in associates and joint ventures
- IFRIC 23 regarding uncertain tax positions
- Amendments to different standards pursuant to "Annual Improvements to IFRSs".

Apart from IFRS 16 and changes to IAS 12 the above has not had any effect on recognition and measurement in the consolidated financial statements and the financial statements and consequently it has had no impact on EPS Basic.

The presentation of interest income and interest expense has been adjusted and negative interest will not be set off. Comparative figures have been restated.

Apart from the above the accounting policies applied are consistent with those adopted in the previous year.

Effect of implementation of IFRS 16

Sydbank has implemented the new standard on leases, IFRS 16, effective from 1 January 2019. The standard has been implemented by using the modified retrospective transitional

approach, which means that comparative figures for 2018 and previous years have not been restated. The accounting policy for leases for 2018 (IAS 17) is presented separately below with respect to the areas that differ significantly from IFRS 16.

Compared to previously all leases, including operating leases, are recognised in the balance sheet as an asset and a lease liability. The Group leases a number of properties that are used in the branch network. IFRS 16 changes the accounting treatment of the leases whereby the capitalised value of the right-of-use asset and the lease liability during the contract period is recognised as property, plant and equipment and a financial liability respectively. Depreciation of the asset and interest costs of the financial liability are recognised in the income statement.

In connection with the implementation of IFRS 16 as of 1 January 2019 the Group has recognised a lease asset, primarily concerning property, of DKK 85m and a lease liability of DKK 85m. As a result equity is unaffected with regard to the transition.

Lease assets are depreciated on a straight-line basis over the expected lease term of 4-13 years.

When measuring lease liabilities the Group has used an alternative borrowing rate to discount future lease payments of 2.5% for branch properties and 2.5% for operating equipment.

Effect of changes to IAS 12

Effective from 1 January 2019 IAS 12 regarding income taxes has been changed whereby the tax effect of interest on AT1 capital issued by the Bank must be recognised in the income statement. Previously the tax effect was recognised directly in equity. Comparative figures as regards the income statement have been restated. For 2019 tax in the income statement has decreased by DKK 9m whereby profit after tax has increased correspondingly. Similarly the tax effect, which is no longer recognised in equity, has decreased by DKK 9m (2018: DKK 5m) which means that overall the new accounting policy has no effect on equity.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Group and the value of the asset can be measured reliably. Liabilities are recognised in the balance sheet when they are probable and can be measured reliably.

Income is recognised in the income statement as earned. Costs incurred to earn the year's income are recognised in the income statement. Value adjustments of financial assets, financial liabilities and derivatives are recognised in the income statement apart from value adjustments of derivatives used to provide foreign

Notes

Note 1 Accounting policies – continued

currency hedge of net investments in foreign subsidiaries and associates. The latter value adjustments are recognised in the statement of comprehensive income.

Purchase and sale of financial instruments are recognised on the settlement date.

Significant recognition and measurement principles

Consolidated financial statements

The consolidated financial statements include the parent, Sydbank A/S, as well as subsidiaries in which Sydbank A/S exercises control over financial and operating policies. "Group holdings and enterprises" (note 44) lists the consolidated entities.

The consolidated financial statements combine the financial statements of the parent and the individual subsidiaries in accordance with the Group's accounting policies, in which intra-group income, costs, shareholdings, balances and dividends as well as realised and unrealised gains on intra-group transactions have been eliminated.

Entities acquired are included from the acquisition date.

The assets (including identifiable intangible assets), liabilities and contingent liabilities of entities acquired are recognised at the acquisition date at fair value in accordance with the acquisition method.

Where the cost of acquisition exceeds the fair value of the net assets of the entity acquired, the difference is recognised as goodwill. Costs in connection with acquisition are recognised in the income statement when incurred.

Entities disposed of are included until the transfer date.

Foreign currency translation

The consolidated financial statements are presented in DKK, the functional currency of the parent. Transactions in foreign currencies are translated at the exchange rate on the date of transaction. Balances in foreign currencies are translated at the closing rate.

Offsetting

The Group sets off assets and liabilities only when the Group has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income criteria

Income and expenses, including interest income and interest expense, are accrued over the periods to which they relate and are recognised in profit or loss at the amounts relevant to the accounting period. Guarantee commission is recognised as income over the life of the guarantees. Income for implementing a given transaction, including securities fees and payment service fees, is recognised as income when the transaction has been implemented.

The Group's fees are divided into the following categories:

1. Fees that are an integral part of the effective interest rate
2. Fees obtained when a service has been supplied
3. Fees obtained on performance of a specific act.

Fees that are an integral part of the effective interest rate are recognised as income over the expected life of the loans and are included under interest income, see note 7.

Fees covered by 2 and 3 above are recognised as income when the service has been supplied and when the transaction has taken place respectively. The fees are specified in note 10.

Loan fees, which appear from note 10, primarily concern arranged mortgage loans.

Financial assets and liabilities

General provisions concerning recognition and measurement

Financial assets are classified on the basis of the Group's business model and the contractual cash flow characteristics of the individual financial assets. With this as a basis, measurement is according to one of the following principles:

- Amortised cost (AMC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL).

Except for certain strategic shareholdings that are measured at FVOCI, the Group only has financial assets that are measured at AMC or FVPL.

The Group's financial assets are measured at AMC if they are held for a commercial purpose in order to collect the contractual cash flows of the assets ("hold to collect") and if such contractual cash flows of the financial assets consist solely of payments of principal and interest on the amount outstanding.

With the exception of certain strategic shareholdings the Group's other financial assets are measured at FVPL, including financial

Note 1 Accounting policies – continued

assets which are held for a different commercial purpose, eg financial assets which are managed on a fair value basis or form part of the trading portfolio, and financial assets for which the contractual cash flows of the financial assets do not solely consist of payments of principal and interest on the amount outstanding.

Some of the Group's strategic shareholdings are measured at FVOCI. Dividends on such shareholdings are recognised in the income statement whereas unrealised and realised market value adjustments are recognised in other comprehensive income and therefore do not have an impact on the income statement.

Assessment of business model

The Group's operating segments include Banking, which has a "hold to collect" business model. Financial assets consist primarily of loans and advances. Sydbank Markets' business model is neither based on "hold to collect" or "hold to collect and sell" and consequently financial assets must be recognised at fair value through profit or loss. Assets comprise bonds, shares, repo transactions and loans and advances. Certain of these financial assets form part of portfolios with a trading pattern meeting the definition of "held for trading" whereas other portfolios are managed on a fair value basis.

Assessment of contractual cash flow characteristics (solely payments of principal and interest on amount outstanding)

The classification of financial assets which form part of portfolios that are either "hold to collect" or "hold to collect and sell" is assessed based on whether the contractual cash flows of the financial asset consist solely of payments of principal and interest on the amount outstanding. The principal reflects the fair value at initial recognition and subsequent changes, eg as a result of repayment. Interest payments should only reflect consideration for the time value of money, for the credit risk and for other basic lending risks as well as a margin consistent with the basic lending arrangement.

Guarantee scheme

Contributions to the Guarantee Fund and the Resolution Fund, for instance to cover losses related to the winding-up or bankruptcy of banks, are recognised under "Other operating expenses".

Repo and reverse transactions

Securities sold under agreements to repurchase the same remain on the balance sheet. Consideration received is recognised as a debt and the difference between selling and buying prices is recognised over the life as interest in the income statement. Gains or losses on securities are recognised in the income statement.

Securities bought under agreements to resell the same are not recognised in the balance sheet and gains or losses on securities are not recognised in the income statement. Consideration paid is recognised as a receivable and the difference between buying and selling prices is recognised over the life as interest in the income statement.

Repo and reverse transactions are recognised and measured at fair value as they are regarded as an integral part of the trading portfolio and form part of ongoing risk management and determination of gains thereon.

Transfer of loans

The Group transfers certain loans secured on real property to a mortgage credit institution under the joint funding provisions of the Danish Financial Business Act. As of the transfer date the loans are no longer recognised in the Group's balance sheet because the Group has transferred control and a certain share of the risks and benefits associated with the loans to the mortgage credit institution. The Group provides a guarantee for part of the risk associated with the loans for which it receives guarantee commission. Moreover the Group receives fee income from the mortgage credit institution for ongoing servicing of the loans transferred.

Amounts owed and loans and advances

Initial recognition of amounts owed by credit institutions and central banks as well as loans and advances is at fair value plus transaction costs and less origination fees received.

Subsequent measurement of amounts owed by credit institutions etc and loans and advances that are not reverse transactions is at amortised cost less impairment charges for expected losses.

Amounts owed by credit institutions etc and loans and advances at amortised cost are all assessed to determine whether evidence of credit impairment exists.

ECL impairment model

Impairment charges are recorded for expected credit losses as regards all financial assets measured at amortised cost and similar provisions are made for expected credit losses as regards loan commitments and financial guarantees. As regards financial assets recognised at amortised cost, impairment charges for expected credit losses are recognised in the income statement and deducted from the value of the asset in the balance sheet. Provisions for loan commitments and financial guarantees are recognised as a liability.

Notes

Note 1 Accounting policies – continued

According to the impairment model impairment charges are recorded for all exposures on the basis of an expected loss model. At the date of initial recognition an exposure is written down by an amount equal to the expected credit loss within 12 months (stage 1). Impairment charges for expected credit losses subsequently depend on whether the credit risk of a financial asset (facility) 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. As opposed to stages 1 and 2 interest income is recognised solely on the basis of the impaired value of the asset.

The staging assessment and the calculation of expected credit loss is based on the Group's rating models and credit management.

Expected losses regarding exposures in stages 1 and 2 are calculated on the basis of models while the calculation for exposures in stage 3 and weak stage 2 is based on an individual assessment.

Model calculation is based on the Group's rating model, which has been instrumental in connection with credit management for many years, and is supplemented by macroeconomic factors adjusting the calculated PD values.

The retail client model is based primarily on account behaviour (overdue payments and overdrafts). On the basis of this data and inherent statistical correlations, clients are rated according to their probability of default vis-à-vis the Group within the next 12 months.

The corporate client model is, in addition to account behaviour, based on accounting data, financial conduct as well as appraisals by the credit officer and/or the account manager of the client's current strength profile and an industry analysis.

The assessment of whether credit risk has increased significantly since initial recognition is made by assessing changes in the risk of default over the remaining life of the financial asset rather than

assessing the increase in the expected credit loss. A facility is transferred from stage 1 to stage 2 when the following increase in PD is observed:

- Facilities with a PD below 1% on establishment: an increase in the 12-month PD of the facility of at least 0.5 percentage points and a doubling of the lifetime PD of the facility since its establishment
- Facilities with a PD above 1% on establishment: an increase in the 12-month PD of the facility of at least 2 percentage points or a doubling of the lifetime PD of the facility.

Facilities more than 30 days past due are transferred to stage 2 (or stage 3). If special terms have been granted the client is also transferred to stage 2 if losses are not expected in the most likely scenario or the client is in a 2-year waiting period for loans on special terms.

Exposures belonging to clients whose ability to pay shows significant signs of weakness are classified in weak stage 2. By means of analyses and random sampling, Risk Follow-up monitors the credit quality, registrations, impairment calculations of the exposures as well as the compliance with policies and business procedures in general. Risk Follow-up evaluates on the basis of a credit expert assessment whether the Group's rating models rank exposures correctly.

The Group does not transfer exposures back to stage 1 regardless of whether the contractual cash flows are reassessed to a level reflecting client risk.

In connection with renegotiations an exposure is regarded as a new exposure and consequently renegotiation will not result in recognition of gains or losses.

The expected credit loss is calculated for each individual facility on the basis of EAD (exposure at default) multiplied by PD (probability of default) and LGD (loss given default).

Exposures in default, see the definition below, or as regards which the most likely situation is a loss, are credit impaired and will be classified as stage 3.

The expected credit loss over the life of the financial asset covers the expected remaining life of the facility. For most facilities the expected life is limited to the remaining contractual term. For facilities consisting of a loan as well as an undrawn loan commitment and for which a contractual right to demand early repayment and cancellation of the undrawn loan commitment exists,

Note 1 Accounting policies – continued

the Group's exposure to credit losses is not limited to the contractual notice period. In this case the expected life is assumed to equal the period during which the Group expects to be exposed to credit losses. The expected life is determined on the basis of the historical life of the instruments in question. Facilities for which the expected life is longer than the remaining contractual term comprise for instance credit cards, overdraft facilities and certain revolving credit facilities.

The calculation of the expected loss reflects management's current expectations. Scenarios are prepared: baseline, upturn and downturn, including an assessment of the likelihood of each scenario. Management's review of the scenarios may imply that changes are made to the scenarios or the probability weighting.

In addition to the calculated impairment charges to cover expected credit losses at exposure level management makes a number of estimates of factors which are expected to affect future losses on the exposures existing on the balance sheet date, including for instance expectations of macroeconomic conditions, industry developments or particularly risky portfolios. On the basis thereof adjustments of calculated impairment charges are recognised.

Default

The definition of default used to measure expected credit losses and assess whether an asset must be transferred to another stage corresponds to the definition applied for internal risk management purposes and is adapted to the Capital Requirements Regulation (CRR). Consequently exposures which for regulatory purposes are considered to be in default are always classified as stage 3, both as regards the number of days past due (90 days) and the assessment of factors which will probably lead to non-payment and hence default according to the regulatory rules.

According to the Group's rating system a client is in default if at least one of the following events has occurred:

- A write-off has been recorded as regards the client
- The client has at least one non-accrual credit facility
- An impairment charge/provision has been registered in connection with the client and a loss must be regarded as unavoidable
- The exposure has been transferred to the Group's central department for non-performing exposures.

Write-off policy

The Group's practice is that a debt is written off for accounting purposes if the legal claim is forfeited or the likelihood of collection is very remote. The fundamental principles as regards write-offs are as follows:

- For retail clients a debt is written off in part or in full if the management of the customer relationship is transferred to the Bank's collection department
- For corporate clients a debt is written off in part or in full in connection with a forthcoming bankruptcy, restructuring or initiated realisation of collateral.

Debt which has been written off for accounting purposes but where a legal claim has been upheld is specified in the notes.

Leases (lessor)

Lease assets in connection with finance leases in which the Group is the lessor are recognised under loans and advances at the net investment in the leases less amortisation (repayment) which is computed according to the annuity method over the lease term. Income from the lease assets is recognised on the basis of the agreed effective interest rate of the leases and is recognised in profit or loss under "Interest income". Sales proceeds from lease assets are recognised under "Other operating income".

Leases (lessee) – effective from 1 January 2019

Lease assets and lease liabilities are recognised in the balance sheet when the Group, under the terms of a lease agreement concerning a specifically identified asset, is given possession of the lease asset during the lease term and when the Group obtains the right to substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

Lease liabilities are measured initially at the present value of future lease payments discounted using an alternative borrowing rate. The following lease payments are recognised as part of the lease liability:

- Fixed payments
- Variable payments depending on changes in an index or an interest rate based on the index or interest rate in question
- Payments due under residual value guarantees
- The exercise price of a purchase option if management is reasonably certain to exercise the option
- Payments comprised by an option to extend a lease if the Group is reasonably certain to exercise the option
- Penalties relating to an option to terminate a lease unless the Group is reasonably certain not to exercise the option.

A lease liability is measured at amortised cost using the effective interest method. The lease liability is reassessed if there are changes in the underlying contractual cash flows as a result of changes in an index or an interest rate, if there are changes in

Notes

Note 1 Accounting policies – continued

the Group's estimate of a residual value guarantee or if the Group changes its assessment of whether it is reasonably certain to exercise a purchase option or an option to extend or terminate a lease.

A lease asset is initially measured at cost, which corresponds to the value of the lease liability less any prepayments of lease payments plus any directly related costs and estimated costs for dismantling, restoration or similar and less any discounts or other types of incentive payments from the lessor.

The asset is subsequently measured at cost less accumulated depreciation and impairment charges. The lease asset is depreciated over the shorter of the lease term and the useful life of the lease asset. Depreciation is recognised in profit or loss on a straight-line basis.

The lease asset is adjusted for changes in the lease liability as a result of changes in the terms and conditions of the lease or changes in the contractual cash flows depending on changes in an index or an interest rate.

Lease assets are depreciated on a straight-line basis over the expected lease term of 4-13 years.

The Group presents lease assets and lease liabilities separately in the balance sheet.

The Group has elected not to recognise lease assets of a low value and short-term leases in the balance sheet. Instead lease payments concerning these leases are recognised in profit or loss on a straight-line basis.

Leases – effective before 2019

Up to and including 2018 leases were classified for accounting purposes as financial leases or operating leases. A lease was classified as a financial lease if it transferred substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Other leases were classified as operating leases.

With regard to assets held under finance leases cost was determined as the lower of the fair value of the assets and the present value of future minimum lease payments.

Lease payments under operating leases were recognised in profit or loss over the lease term on a straight-line basis.

Bonds and shares etc

Bonds and shares etc are recognised and measured at fair value. Similarly for shares outside the trading portfolio the fair value option is used and changes in value are recognised in profit or loss apart from certain strategic shareholdings which are measured at FVOCI.

Fair value is the amount for which a financial asset can be exchanged between knowledgeable, willing parties. In an active market fair value is expressed by quoted prices. Alternatively it is expressed by a model value, based on recognised models and observable market data, which corresponds to fair value. The fair value of unlisted shares and other holdings is calculated on the basis of available information on trades and taking into account any shareholders' agreements etc. Alternatively it is calculated on the basis of a discounted value of expected cash flows.

Purchase and sale of securities are recognised on the settlement date.

Holdings in associates

Associates are entities in which the Group has holdings and significant influence but not control. Holdings in associates are recognised and measured according to the equity method. The proportionate share of the profit or loss after tax of the entities is recognised under "Profit/(Loss) on holdings in associates and subsidiaries".

Derivatives and hedge accounting

Derivatives are recognised and measured at fair value. Positive market values are recognised under "Other assets". Negative market values are recognised under "Other liabilities".

Market value adjustment of derivatives concluded for the purpose of hedging the interest rate risk of fixed-rate loans and advances generates immediate asymmetry in the financial statements as fixed-rate loans and advances are measured at amortised cost. This asymmetry is eliminated by using the macro hedging rules of IAS 39 (fair value hedging) as dynamic hedging with daily updating. The calculated change in the fair value of the loans and advances effectively hedged is recognised in the balance sheet under "Other assets" or under "Other liabilities" and is recognised in the income statement under "Market value adjustments".

Note 1 Accounting policies – continued

Pooled plans

All pooled assets and deposits are recognised in separate balance sheet items. Return on pooled assets and distribution to holders of pooled assets are recognised under "Market value adjustments". The assets in which holders' savings are placed are measured at fair value.

The portfolio of shares and bonds issued by the Group has been reduced in equity and bonds issued respectively. Consequently "Deposits in pooled plans" exceeds "Assets related to pooled plans".

Intangible assets

Intangible assets concern the value of customer relationships acquired in connection with acquisitions as well as goodwill.

The value of customer relationships acquired is measured at cost less accumulated amortisation and impairment charges. The value of customer relationships acquired is amortised over the expected useful life of 5-15 years.

Initial recognition of goodwill is at cost in the balance sheet. Subsequent measurement of goodwill is at cost less accumulated impairment charges. Goodwill is not amortised. Goodwill is tested for impairment annually and is written down to its recoverable amount through profit or loss if the carrying amount is higher. The recoverable amount is determined as the present value of the future net cash flows expected to be derived from the activity to which goodwill is related. The determination of cash-generating units follows the management structure and management control. Management assesses the lowest level of cash-generating units to which the carrying amount of goodwill may be allocated.

Impairment charges for goodwill are not reversed.

Owner-occupied property

Owner-occupied property is property mainly used by the Group to operate its banking business.

Owner-occupied property is recognised on acquisition at cost and subsequently carried at a revalued amount corresponding to the fair value at the date of revaluation less depreciation and impairment charges. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Any decrease in the carrying amount as a result of the revaluation of owner-occupied property is charged to the income statement except where the decrease reverses previously recognised increases. Any increase as a result of the revaluation of owner-occupied property is recognised in other comprehensive income and transferred to revaluation reserves under equity except where an increase reverses previously recognised impairment charges as regards the property in question. Owner-occupied property is depreciated on a straight-line basis over the expected useful life of 50 years taking into account the expected residual value at the expiry of the useful life.

As regards ongoing measurement of land and buildings, the value of the individual property is measured on the basis of the return method. The underlying assumptions, return and rate of return are assessed by external valuers.

Depreciation and impairment charges are recognised in the income statement under "Depreciation and impairment of property, plant and equipment".

Other property, plant and equipment

Other property, plant and equipment consists primarily of IT equipment, furniture and fixtures and leasehold improvements and is measured at cost less depreciation and impairment charges. Depreciation is provided on a straight-line basis over the expected useful life, typically 3-5 years. Leasehold improvements are depreciated over the term of the lease. Depreciation and impairment charges are recognised in the income statement under "Depreciation and impairment of property, plant and equipment".

Other assets

This item includes assets not recognised under other asset items, eg positive market values of spot transactions and derivatives, cash collateral provided in connection with CSA agreements as well as interest receivable.

Dividend

Proposed dividend is recognised as a liability at the date of adoption by the AGM. Proposed dividend for the year is recognised as a separate item in equity until adoption.

AT1 capital

AT1 capital which has no maturity and with voluntary payment of interest and voluntary repayment of principal is recognised in equity. Similarly the interest expense related to the issue is recognised as dividend. Interest is deducted from equity at the time of payment.

Notes

Note 1 Accounting policies – continued

Own shares

Consideration paid or received in connection with the Group's purchase and sale of Sydbank shares is recognised directly in equity.

Other liabilities

This item includes negative market values of spot transactions and derivatives, cash collateral received in connection with CSA agreements, negative portfolios in connection with reverse transactions, interest payable as well as provisions for employee benefits.

Negative portfolios in connection with reverse transactions arise when the Group resells assets received as collateral in connection with reverse transactions. The assets received are not recognised in the balance sheet and any resale will therefore result in a negative portfolio.

Wages and salaries, payroll tax, social security contributions as well as paid absences are recognised in the financial year in which the related service has been rendered by the Group's employees. Costs relating to the Group's long-term employee benefits are accrued and follow the service rendered by the employees in question. Pension contributions are paid into the employees' pension plans on a continuing basis and are charged to the income statement.

Employee shares

When the Group's employees are given an option to subscribe for shares at a price below the market price, the bonus element is recognised from the grant date as a cost under staff costs. The set-off is recognised directly in equity as an owner's transaction. The bonus element is expensed successively during the vesting period as the difference between the fair value and the subscription price of the shares subscribed or the subscription rights.

Provisions

Provisions include provisions for guarantees, provisions for onerous contracts as well as legal actions etc. Initial recognition of financial guarantees is at fair value, which is often equal to the guarantee premium received. Subsequent measurement of guarantees is at the higher of the guarantee premium received amortised over the guarantee period and any provision for expected losses.

A provision for a guarantee or an onerous contract is recognised if claims for payment under the guarantee or contract are probable and the size of the liability can be measured reliably. Provisions

are based on management's best estimates of the size of the liabilities. Measurement of provisions includes discounting when significant.

Financial liabilities

Deposits, bonds issued, subordinated capital and amounts owed to credit institutions etc are recognised initially at fair value less transaction costs incurred.

Subsequent measurement of deposits, bonds issued, subordinated capital and amounts owed to credit institutions etc that are not repo transactions is at amortised cost using the effective interest rate method whereby the difference between net proceeds and nominal value is recognised in the income statement under "Interest expense" over the loan period.

Other liabilities are measured at net realisable value.

Assets in temporary possession

Assets in temporary possession include property, plant and equipment and disposal groups held for sale, including assets or entities taken over in connection with non-performing exposures.

Assets are classified as being in temporary possession when their carrying amount will be recovered principally through a sale transaction within 12 months in accordance with a formal plan. Assets or disposal groups in temporary possession are measured at the lower of the carrying amount and fair value less costs to sell. Assets are not depreciated or amortised from the time when they are classified as being in temporary possession.

Impairment losses arising at initial classification as assets being in temporary possession and gains or losses at subsequent measurement at the lower of the carrying amount and fair value less costs to sell are recognised in the income statement under the items they concern.

Tax

The Bank is jointly taxed with its Danish consolidated entities. The Group has not opted for international joint taxation.

Sydbank A/S has been appointed the management company of the joint taxation entity. Corporation tax on income subject to joint taxation is fully distributed on payment of joint taxation contributions between the Danish consolidated entities. Tax for the year includes tax on taxable income for the year, adjustment of deferred tax, adjustment of prior year tax charges and tax on interest paid to holders of AT1 capital. Tax for the year is recognised in the income statement as regards the elements attributable to

Note 1 Accounting policies – continued

profit for the year, in other comprehensive income as regards the elements attributable thereto and directly in equity as regards the elements attributable to items recognised directly in equity.

Current tax liabilities and current tax assets are recognised in the balance sheet as calculated tax on taxable income for the year adjusted for tax on prior year taxable income as well as for tax paid on account.

Deferred tax is recognised on the basis of all temporary differences between the carrying amounts and the tax base of the balance sheets of each consolidated entity as well as tax loss carry forwards that are expected to be used. Deferred tax is measured on the basis of the tax rules and tax rates that, according to the rules in force at the balance sheet date, are applicable at the time the deferred tax is expected to crystallise as current tax.

Fair value measurement

The Group uses the concept of fair value in connection with certain disclosure requirements as well as for recognition and measurement of financial instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

Fair value is a market-based measurement, not a group-specific measurement. The Group uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result the Group's intention to hold an asset or to settle a liability is not considered when measuring fair value.

Fair value measurement is based on the principal market. If there is no principal market the most advantageous market is used as a basis, ie the market achieving the highest price for the asset or liability less transaction costs.

Fair value measurement is based to the widest extent possible on market values in active markets or alternatively on values derived from observable market data.

In so far as such observations are not available or cannot be used without significant modifications, acknowledged valuation techniques and reasonable estimates are used as the basis of fair values.

Cash flow statement

The cash flow statement presents the cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year. The cash flow

statement is presented using the indirect method based on profit before tax.

The cash flow effect of the acquisition and disposal of entities is reported separately under cash flows from investing activities. The cash flow statement recognises cash flows concerning entities acquired from the acquisition date and cash flows concerning entities disposed of until the transfer date.

Cash flows from operating activities are determined as profit before tax for the year adjusted for non-cash operating items, taxes paid as well as changes in working capital.

Cash flows from investing activities include purchase and sale of property, plant and equipment, intangible assets as well as holdings in associates.

Cash flows from financing activities include dividends paid as well as changes in equity, subordinated capital and bonds issued.

Cash and cash equivalents comprise cash and balances on demand at central banks, fully secured cash and cash equivalent balances on demand with credit institutions and insurance companies as well as unencumbered certificates of deposit.

Segment reporting

The Group consists of a number of business units and central functions. The business units are segmented according to product and service characteristics and comprise Banking, Asset Management, Sydbank Markets, Treasury and Other. Further details of the business units are provided in note 5. The correlation between the income statement according to IFRS and the Group's performance measures is shown in note 6.

Segment reporting as regards the business units complies with the Group's accounting policies as regards recognition and measurement. 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.

The following performance measures are used in connection with the Group's management control, see segment information stated in note 5.

Core income

Core income comprises income from clients served by the Group's branch network, including interest, commission, investment fund commission, custody account fees and asset management fees.

Notes

Note 1 Accounting policies – continued

Trading income

Trading income only comprises income from clients affiliated with Sydbank Markets as well as income from flows and market-making as regards securities and other financial instruments as well as related position-taking.

Core earnings before impairment

Core earnings before impairment charges for loans and advances etc represent core income and trading income less costs relating to these activities.

Impairment of loans and advances etc

Impairment of loans and advances etc represents impairment charges for bank loans and advances, provisions for guarantees as well as credit valuation adjustment of derivatives.

Core earnings

Core earnings represent core income and trading income less costs and impairment charges for loans and advances etc relating to these activities.

Investment portfolio earnings

Investment portfolio earnings represent the return on the portfolios of shares, bonds, derivatives and holdings managed by Treasury, a department within the business unit Sydbank Markets. Investment portfolio earnings are less funding charges and administrative costs.

Forthcoming standards and interpretations

The International Accounting Standards Board (IASB) has issued the following new International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) which are not mandatory for the Group in connection with the preparation of the 2019 financial statements. These include IFRS 17 as well as amendments to IFRS 3, IAS 1 and Conceptual Framework.

The Group does not plan to implement the new standards and interpretations until they become mandatory. New/amended standards and interpretations are not expected to have any significant impact on the Group's financial reporting.

Accounting policies of the parent

The financial statements of the parent are prepared in accordance with the Danish Financial Business Act and the Danish FSA's executive order on financial reporting of credit institutions. The financial statements of the parent are prepared according to the same accounting policies as the consolidated financial statements except for:

- strategic shareholdings where value adjustment is through profit or loss in the financial statements of the parent and through other comprehensive income in the consolidated financial statements. This difference is due to incompatibility between the Danish FSA's executive order on financial reporting of credit institutions and IFRS in this regard. The balance sheet and equity are not affected. For the impact on profit for the year, reference is made to note 46.
- the leasing of property from subsidiaries by the parent, which in accordance with the Danish FSA's executive order on financial reporting of credit institutions is not treated according to the principles of IFRS 16 but continues to be treated according to the principles of IAS 17, see the description of the 2 standards under the Group's accounting policies. This is due to the fact that the properties are fully financed by the parent and therefore the application of IFRS 16 would result in double recognition of the properties in the balance sheet of the parent.

Subsidiaries are entities in which the parent has control. Holdings in subsidiaries are recognised and measured according to the equity method. The proportionate share of profit or loss after tax of the entities is recognised under "Profit/(Loss) on holdings in associates and subsidiaries".

Accounting supervision

The Danish FSA has audited the 2018 Annual Report. As a result the Bank has been ordered to include in its consolidated financial statements for 2019 certain information which the Bank had previously regarded as insignificant. The information concerns predominantly additional information regarding principles and methods applied to the impairment of exposures and as regards hedge accounting. Furthermore the Bank was ordered to present negative interest as a gross figure. The Bank has taken note of this and incorporated the additional information in its consolidated financial statements for 2019 with comparative figures for 2018.

Note 2 Accounting estimates and judgements

Management's estimates and judgements are based on assumptions considered reasonable by management but which by their nature are uncertain and unpredictable. These assumptions may be incomplete or inaccurate and unexpected future events or

circumstances may occur. Consequently it is by nature difficult to make estimates and judgements and since they also involve customer relationships and other counterparties they will be subject to uncertainty. It may be necessary to change previous estimates

Note 2 Accounting estimates and judgements – continued

as a result of changes in the basis of previous estimates or because of new knowledge or subsequent events.

The areas where critical estimates and judgements have the most significant effect on the financial statements are:

- Measurement of loans and advances and guarantees etc
- Fair value of financial instruments.

Measurement of loans and advances and guarantees etc

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 31 December 2019 the probability of the downturn scenario was fixed at 50%. At 31 December 2018 the probability of the downturn scenario was estimated at 25%.

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 exposed industries or customer segments are needed. At 31 December 2019 such an impairment charge of DKK 100m (2018: DKK 100m) was recognised as regards agriculture.

Reference is made to the notes on risk management for a more detailed description of impairment charges for loans and advances. Loans and advances constitute 50% of the Group's assets at the end of 2019.

Provisions for guarantees and undrawn credit commitments issued in connection with client exposures are made according to the same principles as those applying to the impairment of loans and advances and involve the same elements of uncertainty.

Fair value of financial instruments

The Group measures a number of financial instruments at fair value, including all derivatives as well as shares and bonds.

Judgements are made in connection with the determination of the fair value of financial instruments in the following areas:

- Choice of valuation technique
- Determination of when available quoted prices do not represent fair value
- Calculation of fair value adjustments to take into account relevant risk factors such as credit risk, model risk and liquidity risk
- Assessment of which market parameters must be observed
- Estimate of future cash flows and required rates of return as regards unlisted shares.

Management estimates are based on an assessment in accordance with the Group's accounting policies and generally accepted valuation techniques.

As part of its operations the Group has acquired strategic holdings. Strategic holdings are measured at fair value on the basis of available information on trades in the relevant entity's holdings or alternatively a valuation model based on recognised methods and current market data, including a judgement of projected future earnings and cash flows. Measurement will also be influenced by co-ownership, trade and shareholders' agreements etc.

As regards financial instruments where measurement is only to a limited extent based on observable market data, measurement is affected by estimates. This is the case as regards for instance unlisted shares and certain bonds for which there is no active market. Measurement of illiquid bonds is affected by the assumption of the relevant credit spread.

Reference is made to "Accounting policies" (note 1) and to "Fair value disclosure" (note 39) for a more detailed description. Financial instruments measured on the basis of unobservable inputs represent DKK 1,863m, equivalent to 1.3% of the Group's assets at the end of 2019.

Notes

Note 3 Solvency

The Group uses the following methods and approaches to calculate solvency:

Credit risk outside trading portfolio, retail clients	Advanced IRB
Credit risk outside trading portfolio, corporate clients	Foundation IRB
Credit risk outside trading portfolio, financial counterparties	Standardised Approach
Counterparty risk	Mark-to-Market Method
Valuation of collateral	Financial Collateral Comprehensive Method
Market risk	Standardised Approach
Operational risk	Standardised Approach
Credit valuation adjustment	Standardised Approach

The Group's portfolio of equity investments primarily comprises strategic sector shares etc and in the Group's solvency calculation it is included under other exposures incl credit valuation adjustment.

Various types of collateral are used to mitigate the risk of the Group's lending portfolio. The most significant types of collateral comprise charges and guarantees.

Charges include deposit accounts and financial assets in the form of bonds and shares. The Group ensures that the items charged are separate from clients' right of disposal and that the charge is of legal validity. Valuation is ensured via the requirements of the Financial Collateral Comprehensive Method according to the Capital Requirements Regulation and Directive (CRR/CRD IV) which reduces the value of collateral on the basis of issuer, maturity and liquidity.

The Group has concluded netting agreements with all significant counterparties.

DKKm	Sydbank Group	
	2019	2018
CET1 ratio	17.8	17.3
T1 capital ratio	19.4	19.0
Capital ratio	22.9	22.4
Total capital		
Equity, shareholders of Sydbank A/S	10,966	10,922
Minority shareholders	38	-
Prudent valuation	(72)	(59)
Proposed dividend	(352)	(588)
Intangible assets and capitalised deferred tax assets	(213)	(244)
Significant investments in financial sector	(704)	(612)
Transitional arrangement IFRS 9	144	160
CET1 capital	9,807	9,579
AT1 capital - equity	747	747
AT1 capital - debt	168	224
T1 capital	10,722	10,550
T2 capital	1,695	1,636
Difference between expected losses and impairment for accounting purposes	203	204
Total capital	12,620	12,390

Note 3 Solvency – continued

Sydbank Group

DKKm	2019	2018
Credit risk	35,747	36,032
Market risk	6,177	6,036
Operational risk	7,171	7,654
Other exposures incl CVA	6,065	5,680
REA	55,160	55,402
Pillar 1 capital requirements (8%)	4,413	4,432

Note 4 Leverage ratio

Sydbank Group

Sydbank A/S

	2019	2018	2019	2018
Leverage ratio exposures				
Total assets	147,738	140,514	149,953	142,869
Of which pooled assets	(19,042)	(16,220)	(19,042)	(16,220)
Correction derivatives etc	6,093	6,663	6,093	6,663
Guarantees etc	20,060	13,881	20,069	13,881
Undrawn credit commitments etc	10,685	10,704	10,700	10,714
Other adjustments	(745)	(625)	(730)	(607)
Total	164,789	154,917	167,043	157,300
T1 capital - current (transitional rules)	10,722	10,550	10,700	10,574
T1 capital - fully loaded	10,554	10,326	10,532	10,350
Leverage ratio (%) - current (transitional rules)	6.5	6.8	6.4	6.7
Leverage ratio (%) - fully loaded	6.4	6.7	6.3	6.6

Note 5 Segment reporting

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.

Notes

Note 5 Segment reporting – continued

Sydbank Group

DKKm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
Operating segments 2019						
Core income	3,306	269	80	-	-	3,655
Trading income	-	-	224	-	-	224
Total income	3,306	269	304	-	-	3,879
Costs, core earnings	2,452	100	150	-	81	2,783
Impairment of loans and advances etc	(97)	-	-	-	-	(97)
Core earnings	951	169	154	-	(81)	1,193
Investment portfolio earnings	1	-	-	(62)	-	(61)
Profit before non-recurring items	952	169	154	(62)	(81)	1,132
Non-recurring items, net	(51)	-	-	-	-	(51)
Profit before tax	901	169	154	(62)	(81)	1,081
Depreciation and impairment of property, plant and equipment	103	3	6	-	2	113
Full-time staff at 31 Dec	1,850	45	102	4	29	2,030
Operating segments 2018						
Core income	3,600	270	81	-	-	3,951
Trading income	-	-	138	-	-	138
Total income	3,600	270	219	-	-	4,089
Costs, core earnings	2,407	98	154	-	63	2,722
Impairment of loans and advances etc	(122)	-	-	-	-	(122)
Core earnings	1,315	172	65	-	(63)	1,489
Investment portfolio earnings	5	-	-	(132)	-	(127)
Profit before non-recurring items	1,320	172	65	(132)	(63)	1,362
Non-recurring items, net	58	-	-	-	-	58
Profit before tax	1,378	172	65	(132)	(63)	1,420
Depreciation and impairment of property, plant and equipment	89	2	5	-	1	97
Full-time staff at 31 Dec	1,916	45	109	4	24	2,098

The Sydbank Group's internal reporting is not made on the basis of products and services. Reference is made to notes 7 and 10 for the distribution of interest income as well as fee and commission income.

Note 5 Segment reporting – continued

Sydbank Group

DKKm	2019		2018	
	Total income	Assets	Total income	Assets
Geographical segments				
Denmark	3,697	1,544	3,894	1,514
Abroad	182	52	195	52
Total	3,879	1,596	4,089	1,566

Income from external clients is broken down by organisational affiliation within the Sydbank Group. Assets, comprising only intangible assets, land and buildings, other property, plant and equipment as well as holdings in associates, are broken down by location.

The geographical breakdown of the Group's income and assets is disclosed in compliance with IFRS and does not reflect the Group's management structure. Management is of the opinion that operating segmentation provides a more informative description of the Group's activities.

Note 6 Correlation between the Group's performance measures and the income statement according to IFRS

Sydbank Group

DKKm					Core earnings	Investment portfolio earnings	Non-recurring items, net	Profit before tax
	Core income	Trading income	Costs, core earnings	Impairment of loans/advances etc				
2019								
Net interest and fee income	3,338	201			3,539	63		3,602
Market value adjustments	283	23		7	313	(117)	30	226
Other operating income	28				28			28
Income	3,650	224	-	7	3,881	(54)	30	3,857
Staff costs and administrative expenses			(2,650)		(2,650)	(7)	(73)	(2,729)
Amortisation and depreciation and impairment of intangible assets and property, plant and equipment			(113)		(113)			(113)
Other operating expenses			(20)		(20)		(8)	(28)
Impairment of loans and advances etc				90	90			90
Profit/(Loss) on holdings in associates and subsidiaries	5				5			5
Profit before tax	3,655	224	(2,783)	97	1,177	(61)	(51)	1,081
2018								
Net interest and fee income	3,563	220			3,783	(58)		3,725
Market value adjustments	361	(82)		8	287	(62)	110	335
Other operating income	19				19			19
Income	3,943	138	-	8	4,089	(120)	110	4,079
Staff costs and administrative expenses			(2,607)		(2,607)	(7)	(52)	(2,666)
Amortisation and depreciation and impairment of intangible assets and property, plant and equipment			(97)		(97)			(97)
Other operating expenses			(18)		(18)			(18)
Impairment of loans and advances etc				114	114			114
Profit/(Loss) on holdings in associates and subsidiaries	8				8			8
Profit before tax	3,951	138	(2,722)	122	1,489	(127)	58	1,420

Notes

Note 7 Interest income	Sydbank Group		Sydbank A/S		
	DKKm	2019	2018	2019	2018
Interest income calculated using the effective interest method					
Amounts owed by credit institutions and central banks		20	27	20	27
Loans and advances and other amounts owed		1,737	1,949	1,741	1,953
Other interest income		1	1	1	1
Interest on deposits*		149	114	149	114
Total		1,907	2,091	1,911	2,095
Other interest income					
Repo transactions with credit institutions and central banks and repo deposits*		29	15	29	15
Bonds		178	137	178	137
Total derivatives		128	(13)	128	(13)
comprising:					
Foreign exchange contracts		59	30	59	30
Interest rate contracts		69	(43)	69	(43)
Other contracts		0	0	0	0
Total		335	139	335	139
Total interest income		2,242	2,230	2,246	2,234
* Negative interest expense					
Fair value, designated at initial recognition		29	15	29	15
Fair value, held for trading		306	124	306	124
Assets recognised at amortised cost		1,907	2,091	1,911	2,095
Total		2,242	2,230	2,246	2,234

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" (note 5) as well as in the Group's financial review, which also takes funding of the positions into account.

Note 8 Interest expense

DKKm	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
Reverse transactions with credit institutions and central banks and reverse loans and advances*	90	50	90	50
Amounts owed to credit institutions and central banks	22	14	22	14
Deposits and other debt	185	178	184	183
Bonds*	13	7	13	7
Bonds issued	105	20	105	20
Interest on amounts owed by credit institutions and central banks*	77	60	77	60
Subordinated capital	30	32	30	32
Other interest expense	14	1	14	1
Total	536	362	535	367

* Negative interest income

Fair value, designated at initial recognition	90	50	90	50
Fair value, held for trading	13	7	13	7
Liabilities recognised at amortised cost	433	305	432	310
Total	536	362	535	367

Note 9 Dividends on shares

Fair value, designated at initial recognition (FVPL)	31	26	31	26
Fair value, held for trading	-	1	4	1
Total	31	27	35	27

Notes

Note 10 Fee and commission income	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
DKKm				
Securities trading and custody accounts	711	724	563	571
Advisory fee, asset management	303	319	303	319
Payment services	312	310	312	310
Loan fees	201	142	201	142
Guarantee commission	135	126	135	126
Income concerning funded mortgage-like loans	149	157	149	157
Other fees and commission	395	362	395	362
Total fee and commission income	2,206	2,140	2,058	1,987
Total fee and commission expense	341	310	285	242
Net fee and commission income	1,865	1,830	1,773	1,745

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 17m (2018: DKK 21m) and has been deducted from commission received which is included under other fees and commission.

Note 11 Market value adjustments

Other loans and advances and amounts owed at fair value	0	1	0	1
Bonds	(82)	(91)	(82)	(91)
Shares etc	188	281	198	232
Foreign exchange	148	174	148	174
Derivatives	(28)	(31)	(28)	(31)
Assets related to pooled plans	1,616	(1,031)	1,616	(1,031)
Deposits in pooled plans	(1,616)	1,031	(1,616)	1,031
Other assets/liabilities	0	1	0	1
Total	226	335	236	286
Fair value, held for trading, trading portfolio	80	180	80	180
Fair value, designated at initial recognition, equity investments (FVPL)	146	155	156	106
Total	226	335	236	286

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" (note 5) as well as in the Group's financial review, which also takes funding of the positions into account.

Note 12 Other operating income

Rental income – real property	12	13	12	13
Other operating income	16	6	17	6
Total	28	19	29	19



Notes

Note 13 Staff costs and administrative expenses

DKKm	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
Salaries and remuneration				
Group Executive Management	26	16	26	16
Board of Directors	6	6	6	6
Shareholders' Committee	4	4	4	4
Total	36	26	36	26
Staff costs				
Wages and salaries	1,310	1,305	1,294	1,290
Pensions	130	125	128	124
Social security contributions	17	14	16	14
Payroll tax	172	168	170	166
Total	1,629	1,612	1,608	1,594
Other administrative expenses				
IT	751	674	733	662
Rent etc	115	127	127	139
Marketing and entertainment expenses	81	87	68	75
Other costs	117	140	94	115
Total	1,064	1,028	1,022	991
Total	2,729	2,666	2,666	2,611
Audit fees				
Statutory audit	3	2	3	2
Assurance engagements	1	0	1	0
Tax consultancy	0	0	0	0
Fees for other services	0	1	0	1
Total	4	3	4	3
<p>In addition to the statutory audit, services provided by the Bank's independent auditor have comprised statutory and other reports, including in connection with the A-IRB application, audit services in connection with bond issues as well as accounting and regulatory advice.</p> <p>In addition to fees paid to the independent auditor, operating expenses have been incurred as regards the Group's Internal Audit.</p>				
Staff				
Average number of staff (full-time equivalent)	2,107	2,130	2,087	2,111

Note 13 Staff costs and administrative expenses – continued

Sydbank Group

DKK thousand			2019	2018
	Directors' remuneration	Committee fees	Total	Total
Directors' remuneration				
Lars Mikkjelgaard-Jensen (Chairman as of 17 September 2019)	522	124	646	440
Jacob Chr. Nielsen (Vice-Chairman as of 17 September 2019)	413	106	519	461
Torben Nielsen (resigned as of 17 September 2019 - former Chairman)	779	233	1,012	1,344
John Lesbo (resigned as of 17 September 2019 - former Vice-Chairman)	454	242	696	804
Carsten Andersen (member as of 14 March 2018)	347	-	347	256
Peder Damgaard (resigned as of 14 March 2018)	-	-	-	207
Alex Slot Hansen (resigned as of 14 March 2018)	-	-	-	98
Jørgen Høholt (member as of 21 March 2019/ resigned as of 17 September 2019)	174	51	225	-
Frank Møller Nielsen (resigned as of 17 September 2019)	259	141	400	501
Kim Holmer (member as of 14 March 2018)	347	-	347	256
Janne Moltke-Leth	347	143	490	460
Jarl Oxlund	348	14	362	407
Gitte Poulsen (member as of 31 October 2019)	58	-	58	-
Susanne Schou (member as of 14 March 2018)	347	-	347	256
Jon Stefansson (member as of 31 October 2019)	58	-	58	-
Jørn Krogh Sørensen (member as of 14 March 2018)	348	42	390	256
Margrethe Weber (resigned as of 14 March 2018)	-	-	-	84
Total	4,801	1,096	5,897	5,830
Of which committee fees				
Audit Committee – of which fee to the chairman of DKK 132,000			384	381
Risk Committee – of which fee to the chairman of DKK 101,000			253	332
Remuneration Committee – of which fee to the chairman of DKK 56,000			155	180
Nomination Committee – of which fee to the chairman of DKK 87,000			304	341
Digitization Committee – set up on 1 April 2019 – no fees at present			-	-

Sydbank's Board of Directors receive fixed remuneration. In addition board committee members receive a fixed committee fee.

Directors' remuneration is adjusted in accordance with the adjustment of the collective agreement concluded between the Employers' Association for the Financial Sector and the Financial Services Union Denmark.

Notes

Note 13 Staff costs and administrative expenses – continued

Sydbank Group

DKKm	Karen Frøsig	Bjarne Larsen	Jørn Adam Møller	Jan Svarre
Remuneration of the Group Executive Management				
2019				
Fixed remuneration	6.9	5.1	0.5	4.4
Benefits by way of company car etc	0.3	0.3	0.0	0.3
Remuneration during severance period etc	-	-	-	10.0
Of which fees received in connection with directorships	(0.3)	(0.1)	0.0	(0.2)
Group costs	6.9	5.3	0.5	14.5
			Member as of 25 Oct 2019	Dismissed as of 25 Oct 2019
2018				
Fixed remuneration	6.8	5.0	-	5.0
Benefits by way of company car etc	0.3	0.3	-	0.3
Of which fees received in connection with directorships	(0.3)	(0.1)	-	(0.2)
Group costs	6.8	5.2	-	5.1

The Group Executive Management receives no variable remuneration. In connection with the annual review of the remuneration of the Group Executive Management an assessment of the market level is made. Moreover the remuneration of the Group Executive Management is adjusted in accordance with the adjustment of the collective agreement concluded between the Employers' Association for the Financial Sector and the Financial Services Union Denmark.

Group Executive Management – severance terms

Karen Frøsig, Bjarne Larsen and Jørn Adam Møller

The notice of termination is 6 and 12 months for the Group Executive Management member and the Bank respectively.

In respect of dismissal by the Bank, the Group Executive Management member is entitled to receive severance pay equal to 12 months' salary.

Further details about the Bank's remuneration policy are available at the Bank's website sydbank.dk/omsydbank/organisation/loenpolitik (in Danish only).

DKKm	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
Remuneration to material risk takers				
Fixed remuneration	34.2	35.9	32.3	33.9
Variable remuneration	0.1	0.2	0.1	0.2
Total	34.3	36.1	32.4	34.1
Number of full-time staff (average)	23.5	24.2	22.5	23.2
Remuneration to material control functions				
Fixed remuneration	12.3	8.6	12.3	8.6
Variable remuneration	0.0	0.0	0.0	0.0
Total	12.3	8.6	12.3	8.6
Number of full-time staff (average)	10.5	7.5	10.5	7.5

Material risk takers and control functions only receive variable remuneration below the minimum threshold, cf the Danish executive order on remuneration.

In addition to the above material risk takers and control functions receive benefits by way of company car and telephone etc, cf the Group's remuneration policy.

Note 14 Impairment of loans and advances etc	Sydbank Group		Sydbank A/S	
	DKKm	2019	2018	2019
Impairment of loans and advances recognised in the income statement				
Impairment and provisions	(110)	(173)	(110)	(173)
Write-offs	134	165	134	165
Recovered from debt previously written off	114	106	114	106
Impairment of loans and advances etc	(90)	(114)	(90)	(114)
Impairment and provisions at 31 Dec (allowance account)				
Stage 1	131	117	131	117
Stage 2	745	1,004	745	1,004
Stage 3	1,268	1,703	1,425	1,703
Management estimates	100	100	100	100
Impairment and provisions at 31 Dec	2,244	2,924	2,401	2,924
Impairment and provisions				
Impairment and provisions at 1 Jan	2,924	3,307	2,924	3,307
New impairment charges and provisions during the period, net	(59)	(96)	(59)	(96)
Impairment charges previously recorded, now finally written off	464	287	464	287
Acquisition of entity	(157)	-	-	-
Impairment and provisions at 31 Dec	2,244	2,924	2,401	2,924
Impairment charges for loans and advances	2,062	2,708	2,219	2,708
Provisions for undrawn commitments	42	44	42	44
Provisions for guarantees	140	172	140	172
Impairment and provisions at 31 Dec	2,244	2,924	2,401	2,924

Losses recognised for the year where a legal claim has been upheld represent DKK 451m at year-end 2019 (2018: DKK 246m).

Notes

Note 15 Profit/(Loss) on holdings in associates and subsidiaries

DKKm	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
Profit/(Loss) on holdings in associates etc	5	8	5	8
Profit/(Loss) on holdings in subsidiaries	-	-	(5)	14
Total	5	8	0	22

Note 16 Tax

Tax calculated on income for the year	195	138	193	122
Deferred tax	28	123	20	116
Adjustment of prior year tax charges	5	(2)	5	(2)
Total	228	259	218	236

Effective tax rate

Current tax rate of Sydbank	22.0	22.0	22.0	22.0
Permanent differences	(1.4)	(4.1)	(2.3)	(4.5)
Adjustment of prior year tax charges	0.5	0.3	0.5	(0.1)
Effective tax rate	21.1	18.2	20.2	17.4
Of which effective tax rate in Germany	34.6	31.3	34.6	31.3

Deferred tax

Deferred tax at 31 Dec preceding year	230	157	255	189
New accounting policies IFRS 9	-	(48)	-	(48)
Deferred tax at 1 Jan	230	109	255	141
Deferred tax for the year recognised in profit for the year	28	123	20	116
Deferred tax for the year recognised directly in equity	0	(2)	0	(2)
Deferred tax at 31 Dec, net	258	230	275	255
Deferred tax assets	33	39	15	12
Deferred tax liabilities	291	269	290	267
Deferred tax at 31 Dec, net	258	230	275	255

Note 16 Tax – continued

Sydbank Group

DKKm	2019				2018			
	1 Jan	Recognised in profit for the year	Recognised directly in equity	31 Dec	1 Jan	Recognised in profit for the year	Recognised directly in equity	31 Dec
Breakdown of deferred tax								
Loans and advances at amortised cost (incl IFRS 9 adjustment)	231	21	-	252	153	78	-	231
Shares	4	(4)	-	0	-	4	-	4
Land and buildings	3	(1)	-	2	2	1	-	3
Property, plant and equipment	(21)	1	-	(20)	(20)	(1)	-	(21)
Intangible assets	34	11	-	45	20	14	-	34
Other assets	30	(1)	-	29	8	22	-	30
Provisions	(1)	0	-	(1)	(1)	0	-	(1)
Other liabilities	(26)	(1)	-	(27)	(31)	5	-	(26)
Capitalised losses, jointly taxed income	(22)	2	-	(20)	(22)	-	-	(22)
AT1 capital	(2)	-	0	(2)	-	-	(2)	(2)
Deferred tax at 31 Dec, net	230	28	0	258	109	123	(2)	230

Note 17 Amounts owed by credit institutions and central banks

Sydbank Group

Sydbank A/S

DKKm	2019		2018	
Amounts owed at notice by central banks	4,266	8,493	4,266	8,493
Amounts owed by credit institutions	4,597	5,203	4,597	5,201
Total	8,863	13,696	8,863	13,694
On demand	2,474	911	2,474	909
3 months or less	6,389	12,785	6,389	12,785
Total	8,863	13,696	8,863	13,694
Of which reverse transactions	3,062	2,922	3,062	2,922

Notes

Note 18 Loans and advances

DKKm	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
On demand	15,346	14,371	15,629	14,572
3 months or less	13,807	7,825	13,807	7,825
Over 3 months not exceeding 1 year	23,651	22,983	23,651	22,983
Over 1 year not exceeding 5 years	12,334	12,946	12,510	12,946
Over 5 years	8,018	9,368	8,018	9,368
Total	73,156	67,493	73,615	67,694
Loans and advances at fair value – reverse transactions	12,602	6,510	12,602	6,510
Loans and advances at amortised cost – bank loans and advances	60,554	60,983	61,013	61,184
Total	73,156	67,493	73,615	67,694

Loans and advances and guarantee debtors by sector and industry (%)

Agriculture, hunting, forestry and fisheries	3.9	5.0	3.9	5.0
Manufacturing and extraction of raw materials	10.9	11.5	10.8	11.5
Energy supply etc	2.8	3.5	2.8	3.5
Building and construction	4.4	4.5	4.4	4.5
Trade	14.3	15.4	14.5	15.4
Transportation, hotels and restaurants	3.5	4.2	3.5	4.2
Information and communication	0.5	0.4	0.5	0.4
Finance and insurance	20.0	15.1	20.1	15.3
Real property	5.4	6.0	5.4	5.9
Other industries	4.0	4.1	4.0	4.1
Total corporate	69.7	69.7	69.9	69.8
Public authorities	0.3	0.4	0.3	0.4
Retail	30.0	29.9	29.8	29.8
Total	100.0	100.0	100.0	100.0

Collateral received and types of collateral

Loans and advances at fair value	12,602	6,510	12,602	6,510
Loans and advances at amortised cost	60,554	60,983	61,013	61,184
Guarantees	20,060	13,881	20,069	13,881
Credit exposure for accounting purposes	93,216	81,374	93,684	81,575
Collateral value	56,179	45,342	56,179	45,342
Total unsecured	37,037	36,032	37,505	36,233

Types of collateral

Real property	8,386	10,065	8,386	10,065
Financial collateral	17,776	12,536	17,776	12,536
Lease assets, mortgages etc	7,038	6,519	7,038	6,519
Floating charges, operating equipment etc	7,402	6,546	7,402	6,546
Guarantees	985	1,245	985	1,245
Other items of collateral	446	229	446	229
Total collateral used	42,033	37,140	42,033	37,140
Particularly secured transactions (mortgage guarantees)	14,146	8,202	14,146	8,202
Total	56,179	45,342	56,179	45,342

In the event that the Group uses collateral that is not immediately convertible into liquid holdings, it is the Group's policy to dispose of such assets as quickly as possible. Real property is handed over to an estate agent. Repossessed leased equipment is sold as quickly as possible. In 2019 repossessed equipment as well as real property taken over in connection with non-performing exposures amounted to DKK 24m (2018: DKK 12m). Lease assets are assessed and depreciated on an ongoing basis. As a result the calculated collateral as regards the Group's leasing activities will decline during periods of lower lease asset prices. As regards acquired entities reference is made to note 47.

Note 18 Loans and advances – continued

Sydbank Group

DKKm								
	Loans/ advances	Guaran- tees	Collateral value	2019 Unse- cured	Loans/ advances	Guaran- tees	Collateral value	2018 Unse- cured
Collateral by rating category								
Rating category								
1	6,783	8,301	13,083	2,001	6,410	4,131	8,223	2,318
2	18,804	4,004	13,287	9,521	18,520	3,464	12,412	9,572
3	21,155	3,617	11,328	13,444	18,042	2,624	11,327	9,339
4	13,482	1,579	10,122	4,939	10,362	1,097	5,221	6,238
5	5,105	1,059	3,186	2,978	5,363	842	2,851	3,354
6	3,066	394	1,877	1,583	2,901	364	1,591	1,674
7	747	145	448	444	788	124	357	555
8	469	66	191	344	564	76	234	406
9	3,202	346	1,498	2,050	3,750	486	1,988	2,248
Default	1,025	76	403	698	2,020	148	634	1,534
NR/STD	1,380	473	756	1,097	1,481	525	504	1,502
Total	75,218	20,060	56,179	39,099	70,201	13,881	45,342	38,740
Impairment of loans and advances	2,062			2,062	2,708			2,708
Total	73,156	20,060	56,179	37,037	67,493	13,881	45,342	36,032
Stage 1	68,453	19,151	52,892	34,712	61,825	13,043	41,625	33,243
Stage 2	3,680	737	2,415	2,002	4,302	613	2,726	2,189
Stage 3	1,023	172	872	323	1,366	225	991	600
Total	73,156	20,060	56,179	37,037	67,493	13,881	45,342	36,032

In addition to loans and advances and guarantees the Group's credit risks comprise credit commitments. For further details of guarantees and irrevocable credit commitments see note 35.

Sydbank Group

DKKm						
	Retail	Corporate	2019 Total	Retail	Corporate	2018 Total
Past due amounts but not credit impaired*						
0-30 days	38	107	145	41	75	116
31-60 days	2	1	3	1	2	3
61-90 days	-	-	-	-	-	-
Total	40	108	148	42	77	119
Rating category						
1	4	0	4	9	1	10
2	4	9	13	7	10	17
3	1	27	28	7	14	21
4	0	15	15	2	21	23
5	2	34	36	1	15	16
6	2	4	6	1	6	7
7	0	5	5	0	2	2
8	12	2	14	2	2	4
9	8	12	20	0	6	6
NR/STD	7	0	7	13	0	13
Total	40	108	148	42	77	119

* Past due amounts concerning loans and advances etc not subject to individual impairment. Loans and advances and amounts owed payable beyond 90 days are treated as credit impaired.

As shown above a limited share of past due amounts concerns high credit risk clients.

Notes

Note 18 Loans and advances – continued

Sydbank Group

DKKm				2019	2018
	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances, guarantees and allowance account by stage					
Loans and advances before impairment charges	55,955	4,470	2,191	62,616	63,691
Guarantees	19,151	737	172	20,060	13,881
Total loans and advances and guarantees	75,106	5,207	2,363	82,676	77,572
%	90.8	6.3	2.9	100.0	100.0
Impairment charges for loans and advances					
Impairment charges for loans and advances	104	790	1,168	2,062	2,708
Provisions for undrawn credit commitments	20	13	9	42	44
Provisions for guarantees	7	42	91	140	172
Total allowance account	131	845	1,268	2,244	2,924
Allowance account at 1 Jan					
Allowance account at 1 Jan	117	1,104	1,703	2,924	3,307
New impairment charges and provisions during the period, net	14	(259)	186	(59)	(96)
Impairment charges previously recorded, now finally written off	-	-	(464)	(464)	(287)
Of which at 31 Dec concerning subsidiary	-	-	(157)	(157)	-
Total allowance account at 31 Dec	131	845	1,268	2,244	2,924
Impairment charges as % of loans and advances					
Impairment charges as % of loans and advances	0.2	17.7	53.3	3.3	4.3
Provisions as % of guarantees					
Provisions as % of guarantees	-	5.7	52.9	0.7	1.2
Allowance account as % of loans and advances and guarantees	0.2	16.2	53.7	2.7	3.8
Loans and advances after impairment charges					
Loans and advances before impairment charges	55,955	4,470	2,191	62,616	63,691
Impairment charges for loans and advances	104	790	1,168	2,062	2,708
Loans and advances after impairment charges	55,851	3,680	1,023	60,554	60,983
%	92.2	6.1	1.7	100.0	100.0

The principles regarding the staging of exposures were not changed in 2019.

During 2019 a few minor adjustments were made to the calculation methods concerning the calculation of expected losses. The adjustments form an integral part of ongoing model improvement as a result of growing experience in using it.

In addition to individually calculated impairment charges, collective impairment charges of DKK 225m have been recorded at year-end 2019 (2018: DKK 225m), of which management estimates concerning agriculture constitute DKK 100m. Collective impairment charges at year-end 2019 concern stage 2.

Note 18 Loans and advances – continued

Sydbank Group

DKKm	Allowance account		Impairment of loans and advances etc	
	2019	2018	2019	2018
Industry breakdown of the Group's allowance account and impairment of loans and advances etc recognised in the income statement				
Industry				
Agriculture, hunting, forestry and fisheries	666	729	78	177
Manufacturing and extraction of raw materials	235	275	3	22
Energy supply etc	6	14	(5)	(14)
Building and construction	91	130	3	(11)
Trade	340	479	102	30
Transportation, hotels and restaurants	63	80	(1)	(70)
Information and communication	11	7	3	(5)
Finance and insurance	66	113	4	(25)
Real property	154	310	(66)	(75)
Other industries	98	149	(33)	(22)
Total corporate	1,730	2,286	88	7
Public authorities	1	2	0	0
Retail	513	636	(178)	(121)
Total	2,244	2,924	(90)	(114)

Notes

Note 18 Loans and advances – continued

Sydbank Group

DKKm				2019	2018
	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances before impairment charges					
Rating category					
1	5,595	-	-	5,595	6,000
2	13,752	-	-	13,752	16,225
3	20,009	1	-	20,010	14,777
4	8,288	38	-	8,326	9,822
5	4,551	554	-	5,105	5,363
6	2,165	840	-	3,005	2,901
7	243	504	-	747	788
8	-	469	-	469	564
9	-	2,039	1,163	3,202	3,750
Default	-	-	1,025	1,025	2,020
NR/STD	1,352	25	3	1,380	1,481
Collective impairment charges	-	-	-	-	-
Total	55,955	4,470	2,191	62,616	63,691

Impairment of loans and advances

Rating category					
1	-	-	-	-	-
2	17	-	-	17	14
3	16	-	-	16	9
4	23	1	-	24	24
5	17	10	-	27	24
6	15	22	-	37	34
7	3	25	-	28	33
8	-	25	-	25	31
9	-	472	602	1,074	1,142
Default	-	-	563	563	1,145
NR/STD	13	10	3	26	27
Collective impairment charges	-	225	-	225	225
Total	104	790	1,168	2,062	2,708

Loans and advances after impairment charges

Rating category					
1	5,595	-	-	5,595	6,000
2	13,735	-	-	13,735	16,211
3	19,993	1	-	19,994	14,768
4	8,265	37	-	8,302	9,798
5	4,534	544	-	5,078	5,339
6	2,150	818	-	2,968	2,867
7	240	479	-	719	755
8	-	444	-	444	533
9	-	1,567	561	2,128	2,608
Default	-	-	462	462	875
NR/STD	1,339	15	-	1,354	1,454
Collective impairment charges	-	(225)	-	(225)	(225)
Total	55,851	3,680	1,023	60,554	60,983

Note 18 Loans and advances – continued

Sydbank Group

DKKm				2019	2018
	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances before impairment charges					
1 Jan	55,409	5,332	2,950	63,691	67,197
Transfers between stages					
Transferred to stage 1	1,212	(1,145)	(67)	-	-
Transferred to stage 2	(1,762)	1,946	(184)	-	-
Transferred to stage 3	(243)	(754)	997	-	-
New exposures	14,980	346	146	15,472	12,889
Redeemed exposures	(11,717)	(985)	(245)	(12,947)	(14,322)
Changes in balances	(1,924)	(270)	(387)	(2,581)	(1,621)
Write-offs	-	-	(598)	(598)	(452)
Acquisition of entity	-	-	(421)	(421)	-
31 Dec	55,955	4,470	2,191	62,616	63,691
Impairment of loans and advances					
1 Jan	94	1,030	1,584	2,708	3,059
Transfers between stages					
Transferred to stage 1	184	(151)	(33)	-	-
Transferred to stage 2	(6)	95	(89)	-	-
Transferred to stage 3	(1)	(210)	211	-	-
New exposures	30	106	71	207	72
Redeemed exposures	(5)	(185)	(76)	(266)	(421)
Changes in balances	(192)	105	121	34	285
Write-offs	-	-	(464)	(464)	(287)
Acquisition of entity	-	-	(157)	(157)	-
31 Dec	104	790	1,168	2,062	2,708
Loans and advances after impairment charges					
1 Jan	55,315	4,302	1,366	60,983	64,138
Transfers between stages					
Transferred to stage 1	1,028	(994)	(34)	-	-
Transferred to stage 2	(1,756)	1,851	(95)	-	-
Transferred to stage 3	(242)	(544)	786	-	-
New exposures	14,950	240	75	15,265	12,817
Redeemed exposures	(11,712)	(800)	(169)	(12,681)	(13,901)
Changes in balances	(1,732)	(375)	(508)	(2,615)	(1,906)
Write-offs	-	-	(134)	(134)	(165)
Acquisition of entity	-	-	(264)	(264)	-
31 Dec	55,851	3,680	1,023	60,554	60,983

Notes

Note 18 Loans and advances – continued

Sydbank Group

DKKm	2019				2018			
	Loans/advances neither with evidence of credit impairment nor past due by rating category	Loans/advances with evidence of credit impairment	Past due loans/advances	Loans/advances	Loans/advances neither with evidence of credit impairment nor past due by rating category	Loans/advances with evidence of credit impairment	Past due loans/advances	Loans/advances
Rating category								
1	6,779		4	6,783	6,400		10	6,410
2	18,791		13	18,804	18,503		17	18,520
3	21,127		28	21,155	18,021		21	18,042
4	13,467		15	13,482	10,339		23	10,362
5	5,069		36	5,105	5,347		16	5,363
6	3,060		6	3,066	2,894		7	2,901
7	742		5	747	786		2	788
8	455		14	469	560		4	564
9	33	3,149	20	3,202	68	3,676	6	3,750
Default	0	1,025	0	1,025	0	2,020	0	2,020
NR/STD	1,347	26	7	1,380	1,437	31	13	1,481
	70,870	4,200	148	75,218	64,355	5,727	119	70,201
Impairment charges	434	1,628		2,062	441	2,267		2,708
Total	70,436	2,572	148	73,156	63,914	3,460	119	67,493

Sydbank Group

DKKm	2019			2018		
	Gross investments	Unearned interest	Net investments	Gross investments	Unearned interest	Net investments
Lease payment receivables						
- finance leases						
1 year or less	1,942	84	1,858	1,771	92	1,679
Over 1 year not exceeding 5 years	4,121	153	3,968	4,098	157	3,941
Over 5 years	508	13	495	446	12	434
Total	6,571	250	6,321	6,315	261	6,054

Lease payment receivables comprise receivables on leasing of various operating equipment under non-cancellable leases.

The leases are fixed-rate and floating-rate leases in foreign and Danish currencies.

Loans and advances at amortised cost include finance lease payment receivables of DKK 6,321m at year-end 2019 (2018: DKK 6,054m).

Impairment charges for uncollectible lease payment receivables represent DKK 0m for 2019 (2018: DKK 0m).

Note 18 Loans and advances – continued

Sydbank Group

DKKm	2019			2018		
	Loans/ advances and guarantees before impair- ment charges	Impairment charges	Book value	Loans/ advances and guarantees before impair- ment charges	Impairment charges	Book value
Forborne loans and advances and guarantees						
Stage 1	59	6	53	-	-	-
Stage 2	187	43	144	44	13	31
Stage 3	984	502	482	660	358	302
Total	1,230	551	679	704	371	333
Credit impaired non-defaulted loans and advances and guarantees	475	169	306	149	71	78
Credit impaired defaulted loans and advances and guarantees	755	382	373	555	300	255
Total	1,230	551	679	704	371	333
Due to financial difficulties:						
- Interest rates have been reduced	753	381	372	530	277	253
- Interest-only terms have been granted	387	126	261	88	51	37
- Other special terms have been granted	90	44	46	86	43	43
Total	1,230	551	679	704	371	333

Forborne loans and advances and guarantees are defined as loans and advances and guarantees where:

- there has been a change in loan terms that would not have been granted if the borrower had not been experiencing financial difficulties, see EBA guidance (ANNEX V).

Sydbank Group

DKKm	Credit impaired loans and advances	Impairment charges	Carrying amount	Value of collateral	Unsecured part of carrying amount
2019					
Credit impaired loans and advances					
Corporate	1,939	986	953	776	177
Retail	252	182	70	99	(29)
Total	2,191	1,168	1,023	875	148
2018					
Credit impaired loans and advances					
Corporate	2,620	1,348	1,272	941	331
Retail	330	236	94	63	31
Total	2,950	1,584	1,366	1,004	362

Notes

Note 19 Bonds at fair value DKKm	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
Government bonds	450	849	450	849
Mortgage bonds	31,032	28,666	31,032	28,666
Other bonds	875	153	875	153
Total	32,357	29,668	32,357	29,668

Government bonds - by country

Denmark	450	849	450	849
Total	450	849	450	849

Note 20 Shares etc

Listed on Nasdaq Copenhagen A/S	301	337	301	337
Listed on other exchanges	4	2	4	2
Unlisted shares recognised at fair value	1,906	1,857	1,906	1,857
Total	2,211	2,196	2,211	2,196

Trading portfolio	159	229	159	229
Portfolio of equity investments, FVPL	1,887	1,837	1,887	1,837
Portfolio of equity investments, FVOCI	165	130	165	130
Total	2,211	2,196	2,211	2,196

Note 21 Holdings in associates etc

Carrying amount at 1 Jan	152	157	152	157
Of which credit institutions	-	-	-	-

Cost at 1 Jan	148	156	148	156
Exchange rate adjustment	0	0	0	0
Additions	8	0	8	0
Disposals	13	8	13	8
Cost at 31 Dec	143	148	143	148

Revaluations and impairment charges at 1 Jan	4	1	4	1
Dividend	(5)	(4)	(5)	(4)
Share of profit	5	7	5	7
Reversal of revaluations and impairment charges	-	-	-	-
Revaluations and impairment charges at 31 Dec	4	4	4	4
Carrying amount at 31 Dec	147	152	147	152

Note 22 Holdings in subsidiaries etc

Sydbank A/S

DKKm	2019	2018
Carrying amount at 1 Jan	2,408	2,329
Cost at 1 Jan	2,782	2,705
Exchange rate adjustment	14	17
Additions	-	60
Disposals	35	-
Cost at 31 Dec	2,761	2,782
Revaluations and impairment charges at 1 Jan	(374)	(376)
Exchange rate adjustment	(6)	(7)
Profit/(Loss)	(5)	14
Dividend	(7)	(7)
Other capital movements	(7)	2
Revaluations and impairment charges at 31 Dec	(399)	(374)
Carrying amount at 31 Dec	2,362	2,408

Note 23 Assets related to pooled plans

Sydbank Group

Sydbank A/S

DKKm	2019	2018	2019	2018
Cash deposits	793	979	793	979
Indexed bonds	0	422	0	422
Other bonds	10,899	9,247	10,899	9,247
Other shares etc	7,347	5,608	7,347	5,608
Other items	3	(36)	3	(36)
Total	19,042	16,220	19,042	16,220

Notes

Note 24 Intangible assets

Intangible assets

The Group's intangible assets comprise the value of customer relationships as well as goodwill acquired in connection with acquisitions. Activities acquired are allocated to the operating segments Banking, Asset Management and Sydbank Markets. Goodwill represents DKK 170m at year-end 2019 (2018: DKK 170m) and primarily concerns Banking. Goodwill is tested for impairment annually. The impairment test carried out in 2019 did not result in impairment of goodwill.

The value of customer relationships represents DKK 69m at year-end 2019 (2018: DKK 89m). Customer relationships are amortised on a straight-line basis over the expected useful life of 5-15 years.

Impairment test

The Group's goodwill is tested for impairment annually and where there is any indication of impairment.

The impairment test compares the carrying amount and the estimated present value of expected future cash flows. As a consequence of the special capital structure of financial groups, calculation of the present value of future cash flows is based on an equity model/ dividend discount model.

Future cash flows are determined on the basis of approved strategies and earnings estimates for the budget period. Earnings for the budget period are based on the budget for 2020 as approved by management which involves a steady development in the Bank's profit. Earnings at the end of the budget period are subsequently projected on the basis of expected long-term growth. Annualised growth in the terminal period is assumed to represent 1.5%.

Expected future cash flows are discounted at the Group's risk-adjusted required rates of return which constitute 9.5% before tax and 7.5% after tax at year-end 2019 (2018: 11.5% before tax and 9.0% after tax). The required rate of return and consequently the discount rate are based on current market data and external benchmarks.

The impairment test conducted does not indicate any impairment at 31 December 2019.

An increase in the Group's risk-adjusted required rate of return from 7.5% to for instance 11.0% would not result in goodwill impairment. Correspondingly a decline in estimated growth in the terminal period of 1 percentage point would not result in impairment. In addition a decrease in earnings of 15% during the terminal period would not result in impairment.

Note 24 Intangible assets – continued

DKKm	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
Carrying amount at 1 Jan	259	281	259	280
Cost at 1 Jan	389	389	384	384
Additions	-	-	-	-
Disposals	-	-	-	-
Cost at 31 Dec	389	389	384	384
Amortisation and impairment charges at 1 Jan	130	108	125	104
Amortisation and impairment charges for the year	20	22	20	21
Amortisation and impairment charges at 31 Dec	150	130	145	125
Carrying amount at 31 Dec	239	259	239	259

The value of customer relationships is amortised over 5-15 years.

Note 25 Owner-occupied property

Carrying amount at 1 Jan	1,080	1,075	856	857
Exchange rate adjustment	0	0	0	0
Additions, including improvements	19	22	7	2
Disposals	5	20	5	6
Depreciation for the year	7	7	6	6
Value adjustment recognised directly in equity	23	7	21	5
Value adjustment recognised in the income statement	(33)	3	(20)	4
Carrying amount at 31 Dec	1,077	1,080	853	856
Required rate of return applied to calculate fair value (%)	4.5-12.0	4.5-12.0	4.5-12.0	4.5-12.0

Sensitivity analysis: Other things being equal an increase of 0.5 percentage points in the required rate of return will reduce fair value by DKK 75m (2018: DKK 75m).

Notes

Note 26 Other property, plant and equipment

DKKm	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
Carrying amount at 1 Jan	75	71	75	71
Cost at 1 Jan	556	519	555	519
Exchange rate adjustment	0	0	0	0
Additions	40	78	40	77
Disposals	34	41	33	41
Cost at 31 Dec	562	556	562	555
Depreciation and impairment charges at 1 Jan	481	448	480	448
Exchange rate adjustment	0	0	0	0
Depreciation for the year	50	72	51	71
Reversal of depreciation and impairment charges	30	39	30	39
Depreciation and impairment charges at 31 Dec	501	481	501	480
Carrying amount at 31 Dec	61	75	61	75

Note 27 Other assets

Positive market value of derivatives etc	4,834	4,374	4,834	4,374
Sundry debtors	983	701	616	696
Interest and commission receivable	148	178	148	178
Cash collateral provided, CSA agreements etc	1,844	2,025	1,844	2,025
Other assets	0	0	0	0
Total	7,809	7,278	7,442	7,273

Note 28 Amounts owed to credit institutions and central banks

Amounts owed to central banks	12	13	12	13
Amounts owed to credit institutions	5,485	5,326	5,727	5,561
Total	5,497	5,339	5,739	5,574
On demand	1,159	1,024	1,401	1,259
3 months or less	4,316	4,241	4,316	4,241
Over 3 months not exceeding 1 year	22	74	22	74
Total	5,497	5,339	5,739	5,574
Of which repo transactions	2,227	2,190	2,227	2,190

Note 29 Deposits and other debt

DKKm	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
On demand	76,025	73,833	78,160	75,966
At notice	194	1,598	194	1,598
Time deposits	3,815	6,450	3,815	6,450
Special categories of deposits	4,261	4,396	4,261	4,396
Total	84,295	86,277	86,430	88,410
On demand	76,323	74,170	78,458	76,303
3 months or less	4,369	6,314	4,369	6,314
Over 3 months not exceeding 1 year	86	2,160	86	2,160
Over 1 year not exceeding 5 years	305	284	305	284
Over 5 years	3,212	3,349	3,212	3,349
Total	84,295	86,277	86,430	88,410
Of which repo transactions	2,419	1,052	2,419	1,052
Of which secured lending	1,000	5,000	1,000	5,000

Note 30 Bonds issued at amortised cost

Over 1 year not exceeding 5 years	7,437	3,706	7,437	3,706
Total	7,437	3,706	7,437	3,706

Note 31 Other liabilities

Negative market value of derivatives etc	4,958	4,600	4,958	4,600
Sundry creditors	5,009	3,661	4,886	3,650
Negative portfolio, reverse transactions	6,763	5,770	6,763	5,770
Interest and commission etc	86	47	86	47
Cash collateral received, CSA agreements etc	544	860	544	860
Total	17,360	14,938	17,237	14,927

Note 32 Provisions

Provisions for pensions and similar obligations	3	3	3	3
Provisions for deferred tax	291	269	290	267
Provisions for guarantees	140	172	140	172
Other provisions	43	45	43	45
Total	477	489	476	487

Notes

Note 32 Provisions – continued

Sydbank Group

DKKm					2019
	Provisions for pensions and similar obligations	Provisions for deferred tax	Provisions for guarantees	Other provisions	Total provisions
Carrying amount at 1 Jan	3	269	172	45	489
Additions	0	22	0	0	22
Disposals	0	0	32	2	34
Carrying amount at 31 Dec	3	291	140	43	477

Other provisions mainly concern provisions for onerous contracts and legal actions.

Note 33 Subordinated capital

Sydbank Group

Sydbank A/S

Interest rate	Note		Nominal (m)	Maturity	2019	2018	2019	DKKm 2018
2.13 (fixed)	1	Bond loan	EUR 100	11 Mar 2027	745	743	745	743
1.46 (floating)	2	Bond loan	EUR 75	2 Nov 2029	558	558	558	558
0.28 (floating)	3	Bond loan	EUR 75	Perpetual	560	560	560	560
Total T2 capital					1,863	1,861	1,863	1,861
Total subordinated capital					1,863	1,861	1,863	1,861

1) Optional redemption from 11 March 2022 after which the interest rate will be fixed at 1.72% above 5Y Mid-Swap.

2) Optional redemption from 2 November 2024 after which the interest rate will be fixed at 1.85% above 3M EURIBOR.

3) The interest rate follows the 10Y Mid-Swap plus a margin of 0.2%.

Over 1 year not exceeding 5 years	1,303	743	1,303	743
Over 5 years	560	1,118	560	1,118
Total	1,863	1,861	1,863	1,861
Costs relating to the raising and redemption of subordinated capital	0	0	0	0

Correlation between subordinated capital and financing activities in cash flow statement

DKKm	1 Jan	Cash flows		Non-cash changes		31 Dec
		Raising	Redemption	Exchange rate	Other	
Subordinated capital – 2019	1,861	-	-	1	1	1,863
Subordinated capital – 2018	1,854	-	-	5	2	1,861

Fair value changes comprise the impact of market value adjustments and transaction costs. Cash flows from raised and redeemed debt are based on the exchange rate on the date of transaction. The note shows changes in the nominal value of subordinated capital. Raising and redemption amounts are based on the exchange rate at the balance sheet date.

Note 34 Own holdings	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
DKKm				
Nominal portfolio of own holdings	25	67	25	67
Nominal portfolio of own holdings as % of share capital	4.0	9.8	4.0	9.8
Shares outstanding (number)	59,302,539	61,008,893	59,302,539	61,008,893
Holding of own shares (number)	2,451,461	6,662,061	2,451,461	6,662,061
Total share capital (number)	61,754,000	67,670,954	61,754,000	67,670,954
Own holdings purchased during the year				
Number of shares	6,430,510	9,103,494	6,430,510	9,103,494
Nominal value	64	91	64	91
Consideration paid	803	1,836	803	1,836
Number of shares as % of share capital	10.4	13.5	10.4	13.5
Own holdings sold during the year				
Number of shares	10,641,110	5,901,903	10,641,110	5,901,903
Nominal value	106	59	106	59
Consideration received	1,520	1,338	1,520	1,338
Number of shares as % of share capital	17.2	8.7	17.2	8.7

Within the share buyback programme 2,077,680 shares totalling DKK 250m were purchased during the period from 2 May to 20 December 2019.

In addition the Bank has purchased and sold own holdings as part of the ordinary banking transactions of Sydbank A/S.

Notes

Note 35 Contingent liabilities and other obligating agreements

DKKm	Sydbank Group		Sydbank A/S	
	2019	2018	2019	2018
Contingent liabilities				
Financial guarantees	4,147	3,933	4,156	3,933
Mortgage finance guarantees	3,150	3,140	3,150	3,140
Funded mortgage-like loan guarantees	1,645	1,810	1,645	1,810
Registration and remortgaging guarantees	9,351	3,252	9,351	3,252
Other contingent liabilities	1,767	1,746	1,767	1,746
Total	20,060	13,881	20,069	13,881
Other obligating agreements				
Irrevocable credit commitments	1,242	1,303	1,242	1,303
Other liabilities*	12	104	84	184
Total	1,254	1,407	1,326	1,487
* Of which intra-group liabilities in relation to rented premises	-	-	72	80

DKKm	Sydbank Group				
	Stage 1	Stage 2	Stage 3	2019 Total	2018 Total
Guarantees					
1 Jan	13,043	613	225	13,881	13,562
Transfers between stages					
Transferred to stage 1	159	(157)	(2)	-	-
Transferred to stage 2	(218)	242	(24)	-	-
Transferred to stage 3	(23)	(33)	56	-	-
New exposures	15,044	342	73	15,459	8,877
Redeemed exposures	(8,307)	(269)	(126)	(8,702)	(8,269)
Changes in balances	(547)	(1)	(30)	(578)	(289)
31 Dec	19,151	737	172	20,060	13,881

Provisions for guarantees

1 Jan	7	53	112	172	185
Transfers between stages					
Transferred to stage 1	8	(7)	(1)	-	-
Transferred to stage 2		27	(27)	-	-
Transferred to stage 3		(9)	9	-	-
New exposures	3	6	3	12	12
Redeemed exposures	(3)	(8)	(18)	(29)	(48)
Changes in balances	(8)	(20)	13	(15)	23
31 Dec	7	42	91	140	172

Rating category/DKKm	1	2	3	4	5	6	7	8	9	Default	Total
Irrevocable credit commitments											
2019	7	276	388	344	214	12	1	-	-	-	1,242
2018	-	504	527	10	222	-	-	17	-	23	1,303

Note 35 Contingent liabilities and other obligating agreements – 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 6.1% 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 36 Fair value hedging of interest rate risks (macro hedge)

The overall risk of fixed-rate loans and advances consists of credit risk, foreign exchange risk and interest rate risk. Similarly the overall risk of the hedging transactions – primarily interest rate swaps – consists of counterparty risk, foreign exchange risk and interest rate risk. Credit risk is managed separately in line with the credit risk of floating-rate loans and advances whereas the foreign exchange risk of loans and advances and the hedging transactions is subject to ongoing hedging. The counterparty risk of the hedging transactions is subject to ongoing hedging via CSA agreements requiring exchange of collateral to hedge positive market values, see note "Derivatives".

The remaining part of risk is attributable to the risk-free interest rate which the Group manages by means of a cash flow model which delivers a synthetic cash flow divided into maturity zones expressing the Group's risk positions. The model is updated daily with all the Group's positions. These are allocated to portfolios according to responsibility and product.

One of these portfolios consists of the Group's positions in fixed-rate loans and advances, including leasing, fixed-rate deposits and related hedging transactions.

The Group's basis for concluding hedging transactions (rebalancing) is thus a synthetic net cash flow which is updated daily based on the actual cash flow of loans and advances, deposits and previously concluded hedging transactions in the relevant portfolio.

The synthetic cash flows are placed in maturity zones (under 1 year, 1-3 years, 3-7 years, and over 7 years) for each currency. Each zone is subject to an interest rate limit (typically DKK 1m) and a requirement that the interest rate risk of the hedging transaction must not exceed the hedged item.

This ensures that the interest rate risk in this portfolio is kept at a minimum as the Group wishes to place its interest rate risk in other portfolios containing bonds and other cash equivalent positions.

The Group applies the rules on macro hedge which aim to ensure symmetry between income and expense in the financial statements. Symmetry is achieved by making a hedge adjustment of the hedged loans and advances and deposits corresponding to the part of the market value adjustment of derivatives which concerns future periods. This hedge adjustment is recorded under "Other liabilities" and represents DKK 63m at 31 December 2019 (2018: DKK 8m under "Other liabilities").

During the year a net gain on hedging transactions of DKK 98m was recorded (2018: net gain of DKK 27m). The gain eliminates a corresponding net loss on hedged items.

The Group's interest rate risk management is described in more detail in "Notes – Risk Management" on page 118.

Notes

Note 36 Fair value hedging of interest rate risks (macro hedge) – continued	Sydbank Group		Sydbank A/S		
	DKKm	2019	2018	2019	2018
Fixed-rate loans and advances					
Carrying amount		2,612	2,338	2,612	2,338
Swaps					
Principal		5,837	4,673	5,837	4,673
Fair value		(52)	(38)	(52)	(38)
Fixed-rate subordinated capital/bonds issued/AT1 capital					
Carrying amount		9,596	5,789	9,596	5,789
Swaps					
Principal		9,516	5,777	9,516	5,777
Fair value		175	134	175	134

Note 37 Collateral

At the end of 2019 the Group had deposited as collateral securities and cash at a value of DKK 1,608m with Danish and foreign exchanges and clearing centres etc in connection with margin calls and securities settlements etc. In addition the Group has provided cash collateral in connection with CSA agreements of DKK 1,709m and deposited as collateral securities at a market value of DKK 12m. The correlation to market values of derivatives appears from "Notes – Derivatives".

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. For the breakdown by amounts owed to credit institutions and deposits, see notes 28 and 29.

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".

	Sydbank Group		Sydbank A/S		
	DKKm	2019	2018	2019	2018
Assets sold as part of repo transactions					
Bonds at fair value		4,634	3,224	4,634	3,224
Assets purchased as part of reverse transactions					
Bonds at fair value		15,768	9,390	15,768	9,390

Note 38 Related parties

Sydbank Group

DKKm	2019			2018		
	Associates	Board of Directors	Group Executive Management	Associates	Board of Directors	Group Executive Management
Loans and advances and loan commitments	3	8	0	3	9	0
Deposits and other debt	267	10	8	309	18	9
Guarantees issued	0	0	0	0	0	0
Collateral received	0	5	0	0	2	0
Interest income	0	0	0	5	0	0
Interest expense	(1)	0	0	0	0	0
Fee and commission income	0	0	0	0	0	0
Other expenses	544	0	0	679	0	0

Interest rates 2019:

Group Executive Management: No loans and advances

Board of Directors: 0.50-3.50% p.a.*

* Interest rates concern loans in different currencies.

There are no parties with significant influence over Sydbank A/S (ownership share of at least 20%). The Board of Directors and the Group Executive Management columns comprise the Group's exposures to and transactions with members of the Board of Directors and the Group Executive Management as well as their dependants. Further information on the remuneration of management appears from note 13.

Other expenses include primarily IT costs to Bankdata.

Transactions with related parties are settled on an arm's length basis and are subject to the terms and conditions in force. No unusual transactions took place with related parties in 2019.

Amounts owed by and to subsidiaries etc

Sydbank Group

Sydbank A/S

DKKm	2019		2018	
Amounts owed by credit institutions and central banks	-	-	-	-
Loans and advances at amortised cost	-	-	617	201
Total asset items	-	-	617	201
Amounts owed to credit institutions	-	-	242	235
Deposits and other debt	-	-	2,135	2,133
Total liability items	-	-	2,377	2,368

Notes

Note 38 Related parties - continued

Sydbank Group

Number					
	1 Jan 2019	On appointment/ resignation	Additions	Disposals	31 Dec 2019
Sydbank A/S shares held by					
Board of Directors (personal holdings)					
Lars Mikkelsen-Jensen (Chairman)	2,000		2,000		4,000
Jacob Chr. Nielsen (Vice-Chairman)	77				77
Carsten Andersen	575		600		1,175
Jørgen Høholt	-	0			-
John Lesbo	1,057	(1,057)			-
Frank Møller Nielsen	1,988	(1,988)			-
Kim Holmer	1,542		249		1,791
Torben Nielsen	7,000	(7,000)			-
Janne Moltke-Leth	93				93
Jarl Oxlund	1,216		448		1,664
Gitte Poulsen	-	5,330			5,330
Susanne Schou	110				110
Jon Stefansson	-	389			389
Jørn Krogh Sørensen	2,537		547		3,084
Total	18,195	(4,326)	3,844	0	17,713
Board of Directors (own holdings and holdings of dependants)					
Lars Mikkelsen-Jensen (Chairman)	2,000		2,000		4,000
Jacob Chr. Nielsen (Vice-Chairman)	77				77
Carsten Andersen	575		600		1,175
Jørgen Høholt	-	0			-
John Lesbo	1,057	(1,057)			-
Frank Møller Nielsen	1,988	(1,988)			-
Kim Holmer	1,642		249		1,891
Torben Nielsen	7,000	(7,000)			-
Janne Moltke-Leth	93				93
Jarl Oxlund	1,216		448		1,664
Gitte Poulsen	-	5,360			5,360
Susanne Schou	420				420
Jon Stefansson	-	389			389
Jørn Krogh Sørensen	2,637		547		3,184
Total	18,705	(4,296)	3,844	0	18,253
Group Executive Management (own holdings and holdings of dependants)					
Karen Frøsig	3,766		1,942		5,708
Bjarne Larsen	1,967		3,082		5,049
Jørn Adam Møller	-	3,356	1,250		4,606
Jan Svarre	2,300	(2,265)		35	-
Total	8,033	1,091	6,274	35	15,363
Total	26,738	(3,205)	10,118	35	33,616



Note 39 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.

DKKm				Sydbank Group	
	Mandatory fair value (trading portfolio)	Fair value option	FVOCI	Total fair value	2019 AMC
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	112,289
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

Note 39 Fair value disclosure – continued

DKKm				Sydbank Group	
	Mandatory fair value (trading portfolio)	Fair value option	FVOCI	Total fair value	2018 AMC
Financial assets					
Cash and balances on demand at central banks				-	2,073
Amounts owed by credit institutions and central banks	2,922			2,922	10,774
Loans and advances at fair value	6,510			6,510	-
Loans and advances at amortised cost	-			-	60,983
Bonds at fair value	15,569	14,099		29,668	-
Shares etc	229	1,837	130	2,196	-
Assets related to pooled plans		16,220		16,220	-
Other assets	4,394	85		4,479	2,799
Total	29,624	32,241	130	61,995	76,629
Undrawn credit commitments				-	41,877
Maximum credit risk, collateral not considered	29,624	32,241	130	61,995	118,506
Financial liabilities					
Amounts owed to credit institutions and central banks	2,190			2,190	3,149
Deposits and other debt	1,052			1,052	85,225
Deposits in pooled plans		16,220		16,220	-
Bonds issued at amortised cost				-	3,706
Other liabilities	10,372			10,372	4,566
Subordinated capital				-	1,861
Total	13,614	16,220		29,834	98,507

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 186m.

Notes

Note 39 Fair value disclosure – continued

Sydbank Group

DKKm	Quoted prices	Observable inputs	Unobservable inputs	Total fair value
2019				
Financial assets				
Amounts owed by credit institutions and central banks	-	3,062	-	3,062
Loans and advances at fair value	-	12,602	-	12,602
Bonds at fair value	-	32,357	-	32,357
Shares etc	308	40	1,863	2,211
Assets related to pooled plans	7,347	11,695	-	19,042
Other assets	388	4,532	-	4,920
Total	8,043	64,288	1,863	74,194
Financial liabilities				
Amounts owed to credit institutions and central banks	-	2,227	-	2,227
Deposits and other debt	-	2,419	-	2,419
Deposits in pooled plans	-	19,042	-	19,042
Other liabilities	291	11,433	-	11,724
Total	291	35,121	-	35,412
2018				
Financial assets				
Amounts owed by credit institutions and central banks	-	2,922	-	2,922
Loans and advances at fair value	-	6,510	-	6,510
Bonds at fair value	-	29,668	-	29,668
Shares etc	339	57	1,800	2,196
Assets related to pooled plans	5,608	10,612	-	16,220
Other assets	15	4,464	-	4,479
Total	5,962	54,233	1,800	61,995
Financial liabilities				
Amounts owed to credit institutions and central banks	-	2,190	-	2,190
Deposits and other debt	-	1,052	-	1,052
Deposits in pooled plans	-	16,220	-	16,220
Other liabilities	20	10,352	-	10,372
Total	20	29,814	-	29,834

Note 39 Fair value disclosure – continued

Sydbank Group

DKKm	2019	2018
Assets measured on the basis of unobservable inputs		
Carrying amount at 1 Jan	1,800	1,822
Additions	0	0
Disposals	82	308
Market value adjustment	145	286
Value at 31 Dec	1,863	1,800
Recognised in profit for the year		
Interest income	-	-
Dividend	26	21
Market value adjustment	145	286
Total	171	307

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 year-end 2019 CVA constitutes DKK 19m compared to DKK 25m at year-end 2018.

Client margins recognised in connection with derivatives are amortised over the life of the transaction. At year-end 2019 client margins presently not recognised as income total DKK 26m compared to DKK 29m at year-end 2018.

Financial instruments recognised at amortised cost

The vast majority of the Group's amounts owed, loans and advances and deposits cannot be transferred without the prior consent of clients and no active market exists for trading in such financial instruments. Consequently fair value disclosures are solely based on circumstances where market conditions have changed after initial recognition of the instrument, including in particular changes in interest rates. Fair value disclosures on financial instruments recognised at amortised cost are based on the assumptions below:

- As regards financial instruments for which a quoted price exists in the market, such a price is applied. This applies to bonds issued and subordinated capital. In the absence of a market price, the value is determined on the basis of estimates of the market's existing required rate of return.
- As regards loans and advances, impairment charges are presumed to equal the fair value of the credit risk.
- As regards financial instruments with a maturity of less than 6 months, amortised cost is presumed to equal fair value.
- As a rule the interest rate risk of fixed-rate deposits and loans and advances with a maturity exceeding 6 months is hedged by derivatives, primarily interest rate swaps. The hedge is treated as a fair value hedge for accounting purposes. As a result of the application of these rules this portfolio, taken as a whole, is recognised at fair value in the balance sheet. The portfolio comprises loans and advances, deposits and swaps, see note 36.

Based on the above it is the overall assessment that the fair value of loans and advances and deposits corresponds to the carrying amount at 31 December 2019 in all material respects.

Sydbank Group

DKKm	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds issued at amortised cost	7,437	7,584	3,706	3,641
Subordinated capital	1,863	1,660	1,861	1,596

Notes

Note 40 Financial liabilities – contractual maturities

Sydbank Group

DKKm					
	On demand	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years
2019					
Amounts owed to credit institutions and central banks	1,159	4,316	22	-	-
Deposits and other debt	76,323	4,369	86	305	3,212
Bonds issued at amortised cost	-	-	-	7,437	-
Subordinated capital	-	-	-	1,303	560
Total	77,482	8,685	108	9,045	3,772
Contingent liabilities (guarantees)	7,205	9,580	721	442	2,112
2018					
Amounts owed to credit institutions and central banks	1,024	4,241	74	-	-
Deposits and other debt	74,170	6,314	2,160	284	3,349
Bonds issued at amortised cost	-	-	-	3,706	-
Subordinated capital	-	-	-	743	1,118
Total	75,194	10,555	2,234	4,733	4,467
Contingent liabilities (guarantees)	8,926	3,637	704	418	196

Amounts are exclusive of interest.

Note 41 Activity per country

Sydbank Group

DKKm					
	Turnover	Number of employees	Profit before tax	Tax	Public subsidies received
2019					
Denmark, banking and leasing	4,281	1,962	1,074	225	-
Germany, banking	182	68	9	3	-
Switzerland, in liquidation	-	-	(2)	0	-
Total	4,463	2,030	1,081	228	-
2018					
Denmark, banking and leasing	4,198	2,032	1,398	252	-
Germany, banking	183	67	22	7	-
Switzerland, in liquidation	-	-	-	0	-
Total	4,382	2,098	1,420	259	-

Turnover is defined as interest income, fee and commission income and other operating income.

Note 42 Financial highlights

Sydbank Group

DKKm	2019	2018	2017*	2016*	2015*
Income statement highlights (DKKm)					
Net interest and fee income	3,602	3,725	3,856	4,002	4,170
Market value adjustments	226	335	727	553	251
Staff costs and administrative expenses	2,729	2,666	2,537	2,487	2,455
Impairment of loans and advances etc	(90)	(114)	(45)	98	311
Profit/(Loss) on holdings in associates etc	5	8	(7)	2	5
Profit for the year**	853	1,161	1,531	1,472	1,148
Balance sheet highlights (DKKbn)					
Loans and advances	73.2	67.5	69.6	83.3	84.4
Total equity	11.8	11.7	11.9	11.8	11.4
Total assets	147.7	140.5	138.5	146.7	142.7
Financial ratios per share (DKK per share of DKK 10)					
EPS	13.5	17.8	22.5	20.9	15.5
Book value	184.9	179.0	178.3	169.2	160.2
Dividend	5.70	9.36	11.31	10.46	11.12
Share price/EPS	10.4	8.7	11.1	10.5	14.3
Share price/book value	0.76	0.87	1.40	1.30	1.38
Other financial ratios and key figures					
Capital ratio	22.9	22.4	20.8	19.2	17.6
T1 capital ratio	19.4	19.0	17.7	17.4	15.9
Pre-tax profit as % of average equity	9.5	12.2	16.5	16.1	13.0
Post-tax profit as % of average equity	7.5	10.0	12.9	12.7	10.1
Income/cost ratio (DKK)	1.39	1.51	1.74	1.69	1.49
Interest rate risk	1.6	1.3	0.8	1.6	2.8
Foreign exchange position	1.6	1.3	1.2	2.2	2.2
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0
Loans and advances relative to deposits	0.7	0.7	0.7	0.9	1.0
Loans and advances relative to equity	6.7	6.2	5.8	7.1	7.4
Grown in loans and advances for the year	(0.7)	(5.2)	(16.7)	3.9	8.5
Total large exposures	143	147	131	-	-
Impairment ratio for the year	(0.1)	(0.1)	(0.1)	0.1	0.3
Return on assets (%)	0.59	0.83	1.07	1.02	0.78

* Comparative figures have been restated in accordance with previous accounting principles (IAS 39).

** Determined according to IFRS.

Financial highlights and financial ratios are specified in the Danish FSA's executive order on financial reporting of credit institutions etc.

Notes

Note 42 Financial highlights – continued

Sydbank A/S

DKKm	2019	2018	2017*	2016*	2015*
Income statement highlights (DKKm)					
Net interest and fee income	3,519	3,639	3,789	3,835	4,116
Market value adjustments	236	286	727	553	252
Staff costs and administrative expenses	2,666	2,611	2,482	2,431	2,413
Impairment of loans and advances etc	(90)	(114)	(45)	98	311
Profit/(Loss) on holdings in associates etc	0	22	(26)	71	(23)
Profit for the year	861	1,123	1,531	1,472	1,148
Balance sheet highlights (DKKbn)					
Loans and advances	73.6	67.7	69.8	83.5	84.6
Total equity	11.7	11.7	11.9	11.8	11.4
Total assets	150.0	142.9	140.8	148.9	144.9
Financial ratios per share (DKK per share of DKK 10)					
EPS	13.7	17.2	22.5	20.9	15.5
Book value	184.9	179.0	178.3	169.2	160.2
Dividend	5.70	9.36	11.31	10.46	11.12
Share price/EPS	10.2	9.0	11.1	10.5	14.3
Share price/book value	0.76	0.87	1.40	1.30	1.38
Other financial ratios and key figures					
Capital ratio	22.0	21.5	20.1	18.7	17.2
T1 capital ratio	18.6	18.4	17.2	16.8	15.5
Pre-tax profit as % of average equity	9.5	11.7	16.4	15.9	12.8
Post-tax profit as % of average equity	7.5	9.6	12.9	12.7	10.1
Income/cost ratio (DKK)	1.39	1.52	1.76	1.69	1.50
Interest rate risk	1.6	1.3	0.8	1.6	2.8
Foreign exchange position	1.6	1.3	1.2	2.2	2.2
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0
Loans and advances relative to deposits	0.7	0.7	0.7	0.9	0.9
Loans and advances relative to equity	6.7	6.2	5.8	7.1	7.4
Grown in loans and advances for the year	(0.3)	(5.2)	(16.6)	3.9	8.5
Total large exposures	143	147	131	-	-
Impairment ratio for the year	(0.1)	(0.1)	(0.1)	0.1	0.3
Return on assets (%)	0.59	0.79	1.06	1.00	0.77

* Comparative figures have been restated in accordance with previous accounting principles (IAS 39).

Financial highlights and financial ratios are specified in the Danish FSA's executive order on financial reporting of credit institutions etc.

Note 43 Reporting events occurring after the balance sheet date

No matters of significant impact on the financial position of the Group have occurred after the expiry of the financial year.

Note 44 Group holdings and enterprises

				Sydbank Group	
31 December 2019	Activity	Share capital (m)	Equity (DKK m)	Profit/ (Loss) (DKK m)	Ownership share (%)
Sydbank A/S		DKK 618			
Consolidated subsidiaries					
	Investments & administration	DKK 300	2,034	(3)	100
Syd Administration A/S, Aabenraa					
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	14	67
Sydbank (Schweiz) AG in Liquidation, St. Gallen, Switzerland*	-	CHF 40	242	(2)	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	531	32	29
Komplementarselskabet Core Property Management A/S, Copenhagen**	Real property	DKK 1	24	5	20
Core Property Management P/S, Copenhagen**	Real property	DKK 5	45	21	20

* With no activity at 31 December 2019.

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

*** Entity acquired on 1 October 2019.

Note 45 Large shareholders

Silchester International Investors LLP, London, owns more than 15% of Sydbank's share capital.

Note 46 Correlation between Group profit and equity according to IFRS and the Danish FSA accounting rules

The Group's financial statements are prepared according to IFRS. The Group's accounting policies correspond to the provisions of the Danish FSA's rules excepting that the Danish FSA's executive order does not allow the use of value adjustment through other comprehensive income as regards shareholdings. In the Group's reporting to the Danish FSA all shareholdings are measured at FVPL.

DKK m	Sydbank Group			
	Profit for the year		Equity	
	2019	2018	2019	2018
The Group's profit and equity according to IFRS	853	1,161	11,764	11,682
Value adjustment of certain strategic shares	14	(49)	-	-
Tax on value adjustment of certain strategic shares	(3)	11	-	-
Group profit and equity according to the Danish FSA accounting rules	864	1,123	11,764	11,682

Note 47 Acquisition of subsidiaries

Acquisitions in 2019

On 1 October 2019 the Group acquired the shares in Green Team Group A/S. Sydbank is the main banker to the Green Team group and acquired it without consideration as a consequence of the company's situation. Green Team is consolidated in accordance with the rules applying to "Assets held for sale", as it is expected that the entities of the group will be disposed of as soon as possible when market conditions allow. The entity's assets totalling DKK 351m and its liabilities totalling DKK 86m, excluding the facilities with Sydbank, are recognised under "Other assets" and "Other liabilities" respectively. The entity's staff numbers approx 52. They are not included in the number of full-time employees in "Group Financial Highlights" on page 10.

The financial performance has not resulted in a change in the net realisable value which was recognised on acquisition.

Definitions – Group Financial Ratios & Performance Measures

Financial ratio/performance measure	Definition
EPS Basic (DKK)*	Profit for the year divided by average number of shares outstanding.
EPS Diluted (DKK)*	Profit for the year divided by average number of shares outstanding, including dilutive effect of share options and restricted shares.
Share price at year-end	Closing price of the Sydbank share at year-end.
Book value per share (DKK)	Equity at year-end divided by number of shares outstanding at year-end.
CET1 ratio	CET1 capital divided by risk exposure amount.
T1 capital ratio	T1 capital including AT1 capital divided by risk exposure amount.
Capital ratio	Total capital divided by risk exposure amount.
Pre-tax profit as % of average equity*	Pre-tax profit divided by quarterly average equity calculated as an average of equity of the year's 4 quarters at year-end.
Post-tax profit as % of average equity*	Post-tax profit divided by quarterly average equity calculated as an average of equity of the year's 4 quarters at year-end.
Return on assets (%)	Profit for the year divided by total average assets.
Loans and advances relative to deposits	Loans and advances at amortised cost divided by deposits (deposits and other debt and deposits in pooled plans).
Loans and advances relative to equity	Loans and advances at amortised cost divided by equity.
Grown in loans and advances for the year	Calculated on the basis of loans and advances at amortised cost.
Accumulated impairment ratio	Impairment charges and provisions at year-end (allowance account) divided by loans and advances at amortised cost and guarantees before impairment charges and provisions.
Impairment ratio for the year	Impairment charges for loans and advances etc divided by loans and advances at amortised cost and guarantees before impairment charges and provisions.
Number of full-time staff at year-end	Number of full-time equivalent staff (part-time staff translated into full-time staff) at year-end.

Reference is made to "Accounting policies" (note 1) for a definition of core income and investment portfolio earnings.

* Financial ratios are calculated as if AT1 capital is accounted for as a liability.



Notes – Derivatives

Distribution by maturity

DKKm	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years	Total 2019	Total 2018
Nominal values						
Foreign exchange contracts:						
Spot, bought	344	-	-	-	344	1,641
Spot, sold	467	-	-	-	467	1,575
Forwards/futures, bought	15,959	2,016	278	0	18,253	13,852
Forwards/futures, sold	13,726	2,155	563	0	16,444	18,564
Swaps	0	7	327	434	768	841
Options, acquired	1,127	361	3	0	1,491	1,224
Options, written	1,020	279	2	0	1,301	890
Interest rate contracts:						
Spot, bought	11,240	-	-	-	11,240	3,701
Spot, sold	13,989	-	-	-	13,989	4,565
Forwards/futures, bought	6,909	198	0	0	7,107	7,556
Forwards/futures, sold	5,068	100	0	0	5,168	8,674
Forward rate agreements, bought	0	0	0	0	0	0
Forward rate agreements, sold	0	0	0	0	0	0
Swaps	4,639	9,163	87,520	33,831	135,153	105,677
Options, acquired	1,965	218	1,048	560	3,791	5,441
Options, written	3	714	527	794	2,038	8,538
Equity contracts:						
Spot, bought	347	-	-	-	347	187
Spot, sold	374	-	-	-	374	234
Forwards/futures, bought	0	0	0	0	0	0
Forwards/futures, sold	0	0	0	0	0	0
Options, acquired	1	0	0	0	1	1
Options, written	1	0	0	0	1	2
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit default swaps	0	0	0	0	0	0

Distribution by maturity

DKKm	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years	Total 2019	Total 2018
Net market values						
Foreign exchange contracts:						
Spot, bought	1	-	-	-	1	(1)
Spot, sold	0	-	-	-	0	(4)
Forwards/futures, bought	37	21	4	0	62	308
Forwards/futures, sold	37	(4)	(1)	0	32	(190)
Swaps	0	1	5	18	24	19
Options, acquired	4	5	0	0	9	10
Options, written	(3)	(3)	0	0	(6)	(10)
Interest rate contracts:						
Spot, bought	(12)	-	-	-	(12)	6
Spot, sold	16	-	-	-	16	(6)
Forwards/futures, bought	(15)	1	0	0	(14)	9
Forwards/futures, sold	12	0	0	0	12	(4)
Forward rate agreements, bought	0	0	0	0	0	0
Forward rate agreements, sold	0	0	0	0	0	0
Swaps	(8)	(9)	(137)	(201)	(355)	(408)
Options, acquired	84	74	49	1	208	251
Options, written	0	(102)	1	1	(100)	(205)
Equity contracts:						
Spot, bought	(3)	-	-	-	(3)	1
Spot, sold	2	-	-	-	2	(1)
Forwards/futures, bought	(2)	0	0	0	(2)	3
Forwards/futures, sold	2	0	0	0	2	(3)
Options, acquired	1	0	0	0	1	6
Options, written	(1)	0	0	0	(1)	(6)
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit default swaps	0	0	0	0	0	0
Total net market values					(124)	(226)

Notes – Derivatives

DKKm	Total contracts 2019*			Total contracts 2018*		
	Positive	Negative	Net	Positive	Negative	Net
Market values						
Foreign exchange contracts:						
Spot, bought	1	0	1	2	(3)	(1)
Spot, sold	2	(2)	0	2	(6)	(4)
Forwards/futures, bought	126	(64)	62	371	(63)	308
Forwards/futures, sold	107	(75)	32	117	(307)	(190)
Swaps	33	(9)	24	29	(11)	18
Options, acquired	9	0	9	11	0	11
Options, written	0	(6)	(6)	0	(10)	(10)
Interest rate contracts:						
Spot, bought	2	(14)	(12)	7	(1)	6
Spot, sold	18	(2)	16	1	(7)	(6)
Forwards/futures, bought	2	(16)	(14)	11	(2)	9
Forwards/futures, sold	13	(1)	12	2	(6)	(4)
Forward rate agreements, bought	0	0	0	0	0	0
Forward rate agreements, sold	0	0	0	0	0	0
Swaps	4,303	(4,658)	(355)	3,556	(3,965)	(409)
Options, acquired	208	0	208	251	0	251
Options, written	2	(102)	(100)	3	(207)	(204)
Equity contracts:						
Spot, bought	2	(5)	(3)	2	(1)	1
Spot, sold	3	(1)	2	1	(2)	(1)
Forwards/futures, bought	0	(2)	(2)	3	0	3
Forwards/futures, sold	2	0	2	0	(3)	(3)
Options, acquired	1	0	1	6	0	6
Options, written	0	(1)	(1)	0	(6)	(6)
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit default swaps	0	0	0	0	0	0
Total market values	4,834	(4,958)	(124)	4,375	(4,600)	(226)

* All contracts are non-guaranteed.

DKKm	Total contracts 2019*			Total contracts 2018*		
	Positive	Negative	Net	Positive	Negative	Net
Average market values						
Foreign exchange contracts:						
Spot, bought	3	(5)	(2)	8	(7)	1
Spot, sold	7	(10)	(3)	9	(20)	(11)
Forwards/futures, bought	211	(56)	155	384	(144)	240
Forwards/futures, sold	90	(152)	(62)	201	(211)	(10)
Swaps	35	(11)	24	302	(307)	(5)
Options, acquired	12	0	12	33	0	33
Options, written	0	(12)	(12)	0	(19)	(19)
Interest rate contracts:						
Spot, bought	8	(3)	5	5	(2)	3
Spot, sold	5	(5)	0	2	(4)	(2)
Forwards/futures, bought	39	(9)	30	16	(7)	9
Forwards/futures, sold	4	(7)	(3)	7	(18)	(11)
Forward rate agreements, bought	0	0	0	0	0	0
Forward rate agreements, sold	0	0	0	0	0	0
Swaps	4,475	(4,892)	(417)	3,563	(3,901)	(338)
Options, acquired	279	(1)	278	227	0	227
Options, written	3	(236)	(233)	3	(201)	(198)
Equity contracts:						
Spot, bought	3	(4)	(1)	3	(2)	1
Spot, sold	4	(3)	1	3	(3)	0
Forwards/futures, bought	1	(1)	0	1	(1)	0
Forwards/futures, sold	1	(1)	0	1	(1)	0
Options, acquired	2	0	2	5	0	5
Options, written	0	(3)	(3)	0	(5)	(5)
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit default swaps	0	0	0	0	0	0
Total average market values	5,182	(5,411)	(229)	4,773	(4,853)	(80)

Average market value calculations are based on monthly statements.

DKKm	Market values		Collateral		Exposure by counterparty	
	Positive	Negative	Provided	Received	Amount due	Amount owed
2019						
Exposure						
Counterparties with CSA agreements	3,703	4,730	1,709	544	182	44
Counterparties without CSA agreements	1,131	228	-	-	1,064	160
Total	4,834	4,958	1,709	544	1,246	204
2018						
Exposure						
Counterparties with CSA agreements	3,206	4,345	2,025	860	110	83
Counterparties without CSA agreements	1,168	255	-	-	1,032	119
Total	4,374	4,600	2,025	860	1,142	202

Notes – Risk Management

On the basis of the strategic objectives for the Group, the Board of Directors has issued guidelines for the Group Executive Management and has adopted policies as regards credit risk, liquidity risk, market risk, operational risk, insurance and IT security.

The Board of Directors has set up a Risk Committee to address risk management in greater detail. The chairman of the Board of Directors is the chairman of the Risk Committee, which also consists of the vice-chairman of the Board of Directors, 2 ordinary board members, the Bank's CEO, the Bank's Risk Executive (Group Executive Management member) as well as the Group's Chief Risk Officer (CRO). The committee convenes as a minimum every quarter where ongoing reporting to the Board of Directors is reviewed and current issues are discussed. At subsequent board meetings the contents and conclusions of the Risk Committee meetings are presented to the full Board of Directors.

Credits is responsible for the day-to-day handling of credit risk whereas Sydbank Markets is responsible for the day-to-day handling of liquidity and market risks. The individual business units are each responsible for the day-to-day handling of operational risk. Finance is responsible for handling the Group's insurances and IT Service & Development is responsible for the Group's IT security.

Overall risk management, including ongoing reporting to the Group Executive Management and the Board of Directors, is performed by Risk. The Group Executive Vice President of Risk is the CRO of the Sydbank Group.

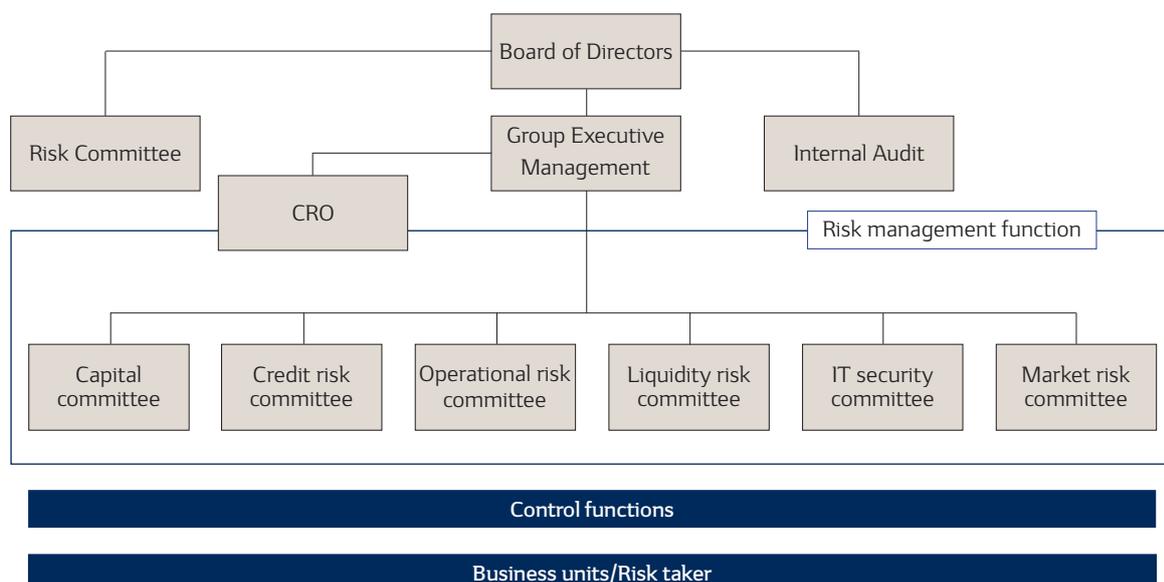
Risk management is supported by the Group's risk organisation, see the chart below.

The relevant business units are represented in the committees, each headed by a Group Executive Management member. The CRO is a member of all committees.

It is the responsibility of the committees, within their respective risk areas, to identify, assess and follow up on the Group's risks including principles to determine risk, models applied, and to assess whether exposures and risks comply with the Group's intended profile and policy.

The committees convene as a minimum every quarter and prepare once a year a risk analysis which is included as an important element in the annual risk assessment of the Group.

The risk assessment at 31 December 2019 together with the Group's 2019 financial statements, Credit Risk 2019, the Group's Internal Liquidity Adequacy Assessment Process (ILAAP) at 31 December 2019 and the Group's Internal Capital Adequacy Assessment Process (ICAAP) at 31 December 2019 constitute the main elements of Risk Committee and Audit Committee meetings as well as board meetings at the beginning of 2020. On the basis of the discussions at these meetings the Board of Directors will subsequently update the Group's policies and guidelines.



Credit risk

Credit and client policy

The Group's overall credit risk is managed according to policies and limits determined and adopted by the Board of Directors.

The Board of Directors lays down the general framework for credit granting and the largest exposures are submitted on a regular basis to the Board of Directors for approval or information.

Employees with a lending authority may grant approvals. Such authority is adjusted to the employee's client portfolio. The lending authority is risk-based, ie a higher risk means reduced lending authority.

Retail clients

Credit granting to retail clients is based on the client's disposable amount, wealth and leverage (defined as total household debt divided by household personal income) as well as knowledge of the client.

The objective is that the majority of retail client exposures are approved by the client's branch and that the remaining client exposures are approved by specially appointed heads of credit. Consequently exposures where the client has negative assets of more than DKK 100,000 are approved by heads of credit. Major exposures and exposures with an increased risk are reviewed centrally by Credits.

Corporate clients

As a rule corporate clients are served by the regional head office or by special corporate departments. The Group's largest and most complex exposures are handled by Corporate & Institutional Banking. The objective is that all small corporate exposures with satisfactory credit quality are approved at regional level. Medium-size and major exposures are approved centrally by Credits, the Group Executive Management or the Board of Directors.

The Group's credit-related decisions are based on a systematic and structured review of the client's circumstances and industry affiliation. The review is based on all accessible information, including industry analyses and financial analyses, and also comprises an assessment of the client's forward-looking business plan and its risk and feasibility.

Credit activities

Credit activities are conducted partly in the retail and corporate departments and partly centrally in Credits. As described below, the Group has developed rating models to assess risks to retail clients, corporate clients and investment clients.

The Group's credit activities are an active element in the Group's efforts to increase its earnings by:

- maintaining and increasing the portfolio of profitable and promising retail, corporate and investment clients
- maintaining and increasing clients' business volume with the Group through a balanced composition of:
 - loans and advances and guarantees
 - deposits
 - payment services transactions
 - trading in securities etc
 - financial instruments
- avoiding/reducing risk of loss by implementing action plans for weak exposures. These action plans involve reducing the Group's exposure as well as hedging risks by securing additional collateral.

Risks in connection with lending must be precalculated on an informed and well-founded basis.

The Group's credit exposure is in particular to clients in Denmark and Northern Germany.

Particular focus is given to weak exposures. The objective is to ensure that the Group's action plans for these exposures are evaluated and adjusted on an ongoing basis to reduce the risk of loss.

Moreover Credits has a department which is assigned to exposures with a significant risk of loss. These exposures are closely monitored and Credits is actively involved in preparing solutions to mitigate the Group's credit risk.

On the basis of a risk-based approach Credit Control ensures that procedures and lending authorities are complied with as well as checks the Bank's systems and business procedures in the credit area. Moreover Credit Control, which is a separate department, follows up that any errors detected are corrected and reports to the Bank's management about its activities.

Risk Follow-up

Risk Follow-up is part of the division Risk.

By means of analyses and random sampling Risk Follow-up monitors the credit quality of exposures, registrations, impairment charge calculations as well as the compliance with policies and business procedures in general.

This process involves research and analyses using information from the Group's database of all exposures.

Moreover Risk Follow-up conducts regular credit quality analyses of the Group's new exposures as well as regular random sampling of the retail and corporate client portfolios.

Finally Risk Follow-up evaluates on the basis of a credit expert assessment whether the Group's rating models rank clients correctly.

Notes – Risk Management

Credit risk – continued

Collateral

The Group aims to mitigate the risk on individual exposures by way of charges on assets, netting agreements and guarantees.

The most frequent types of charges include mortgages and charges on financial assets (shares, bonds and units).

The Group receives different kinds of guarantees for exposures. Many of these are provided by companies or individuals who have a group relationship with the debtor.

The Group assesses on an ongoing basis the value of collateral provided. The value is determined as the expected net proceeds on realisation.

The 2 tables below illustrate the breakdown of collateral by type and rating category respectively.

Collateral received and types of collateral

DKKm	2019	2018
Loans and advances at fair value	12,602	6,510
Loans and advances at amortised cost	60,554	60,983
Guarantees	20,060	13,881
Credit exposure for accounting purposes	93,216	81,374
Collateral value	56,179	45,342
Total unsecured	37,037	36,032

Types of collateral

Real property	8,386	10,065
Financial collateral	17,776	12,536
Lease assets, mortgages etc	7,038	6,519
Floating charges, operating equipment etc	7,402	6,546
Guarantees	985	1,245
Other items of collateral	446	229
Total collateral used	42,033	37,140
Particularly secured transactions (mortgage guarantees)	14,146	8,202
Total	56,179	45,342

In the event that the Group uses collateral that is not immediately convertible into liquid holdings, it is the Group's policy to dispose of such assets as quickly as possible. In 2019 repossessed equipment as well as real property taken over in connection with non-performing exposures amounted to DKK 24m (2018: DKK 12m). Lease assets are assessed and depreciated on an ongoing basis. As a result the calculated collateral as regards the Group's leasing activities will decline during periods of lower lease asset prices.

Mortgages on real property have fallen by DKK 1,679m from DKK 10,065m in 2018 to DKK 8,386m in 2019.

The decrease is primarily attributable to the decline in mortgage-like loans to retail clients.

Financial collateral has increased by DKK 5,240m from DKK 12,536m in 2018 to DKK 17,776m in 2019, which is primarily attributable to the rise in loans and advances at fair value which have gone up by DKK 6,092m.

Loans and advances at fair value are repo loans and advances with financial collateral.

Credit risk – continued

The table below shows the size of loans and advances, guarantees as well as collateral according to rating category. The value of collateral is assessed relative to loans and advances and guaran-

tees. Excess collateral is not included in the calculation of collateral. 60.3% (2018: 55.7%) of the Group's loans and advances and guarantees after impairment charges is covered via collateral.

Collateral by rating category

DKKm Rating category	Loans/advances	Guarantees	Collateral value	2019
				Unsecured
1	6,783	8,301	13,083	2,001
2	18,804	4,004	13,287	9,521
3	21,155	3,617	11,328	13,444
4	13,482	1,579	10,122	4,939
5	5,105	1,059	3,186	2,978
6	3,066	394	1,877	1,583
7	747	145	448	444
8	469	66	191	344
9	3,202	346	1,498	2,050
Default	1,025	76	403	698
STD/NR	1,380	473	756	1,097
Total	75,218	20,060	56,179	39,099
Impairment of loans and advances	2,062			2,062
Total	73,156	20,060	56,179	37,037

Financial counterparties

Trading in securities, currencies and derivatives, as well as payment services etc involve exposure to financial counterparties in the form of delivery risk or credit risk.

Delivery risk is the risk that the Group does not receive payments or securities in connection with the settlement of securities or currency transactions equalling the securities or payments delivered by the Group.

Management grants delivery risk lines and credit risk lines to financial counterparties based on the risk profile of the individual counterparty which is assessed in terms of rating, earnings, capital position as well as the size of the financial counterparty. Risks and lines to financial counterparties are monitored continuously.

The Group participates in an international foreign exchange settlement system, CLS®, which aims to reduce delivery risk. In CLS® payment is made on the net position for each currency and only one amount for each currency is paid or received. In addition this net exposure is only to one counterparty, who is the Group's partner in the system.

The Group aims to mitigate credit risk to financial counterparties in many ways, eg by concluding netting agreements (ISDA agreements). Moreover the Group has entered into agreements (CSA agreements) with all significant counterparties to ensure credit risk mitigation of derivatives. Exposures are calculated on a daily basis after which the parties settle collateral. Consequently exposures are reset in all material respects on a daily basis. The agreements are managed by Global Transaction Services.

Notes – Risk Management

Market risk

Market risk is the risk that the market value of the Group's assets and liabilities will be affected as a result of changes in market prices.

Assuming market risk is considered a natural and integral part of all-round banking. Assuming risk must be on a conscious and well-documented basis. To the extent possible, risk should be assumed in products which offer a possibility of eliminating or mitigating risk at short notice.

Interest rate and foreign exchange risks deriving from deposits by and loans and advances to the Group's clients are hedged on an ongoing basis and are consequently not used for position-taking.

For further information reference is made to note 36.

The Group operates with the following types of market risk:

- Interest rate risk
- Credit spread risk
- Equity risk
- Foreign exchange risk
- Other market risks.

For security and control reasons, the Board of Directors emphasises that the Group's market risk is subject to central decision-making and management. Consequently the Group's most significant interest rate, foreign exchange and equity risks must be assumed by the parent.

The Board of Directors has determined the Group's risk tolerance as follows: medium as regards interest rate risk and low as regards the other types of market risk.

Market risk is managed by Sydbank Markets according to policies and limits determined and adopted by the Bank's Board of Directors. The Group Executive Management has passed on the overall limits from the Board of Directors to Sydbank Markets and Treasury. Sydbank Markets manages trading and market-making as regards the Group's clients and financial counterparties. Treasury manages the Group's long-term interest rate positions and hedging, including the Group's primary liquidity positions as well as liquidity generation. The Group's returns in Sydbank Markets and Treasury appear from "Segment reporting" (note 5). Treasury has primarily interest rate risks and credit spread risks.

Middle Office in Global Transaction Services as well as Risk continuously monitor the individual risk areas and provide management with extensive reporting on a regular basis.

Interest rate risk

Interest rate risk comprises the Group's total risk of loss resulting from interest rate changes in financial markets.

The Group uses a cash flow model to determine the interest rate risk of fixed-rate positions. A duration model is used to calculate the interest rate risk of Danish callable mortgage bonds. Interest rate risk makes up the bulk of the Group's overall market risk.

In accordance with the Danish FSA's method of calculation, interest rate risk is calculated as the change in market values at a parallel shift in the interest rate level of plus 1 percentage point in all currencies and at 31 December 2019 it represents DKK 169m or 1.7% of the Group's CET1 capital.

Interest rate risk by maturity and currency

DKKm	0-1 yr	1-2 yrs	2-3 yrs	> 3 yrs	Total 2019	Total 2018
DKK	79	2	9	97	187	36
EUR	6	(15)	5	(18)	(22)	(173)
EUR/DKK	85	(13)	14	79	165	(137)
Other	1	1	0	2	4	(3)
Total 2019	86	(12)	14	81	169	
Total 2018	47	(1)	7	(193)		(140)

The Group's interest rate risk is predominantly attributable to positions with a maturity of less than 1 year or a maturity exceeding 3 years. The Group has no significant interest rate risk apart from EUR/DKK.

The Group's interest rate risk is – in contrast to year-end 2018 – positive, ie the Group's profit will be adversely affected by an interest rate increase.

The Danish FSA's method of calculation allows full set-off between different currencies, maturities and yield curves. The Group is aware of the risk of these assumptions and monitors these risks separately on an ongoing basis.

Market risk – continued

The bulk of the Group's interest rate risk at 31 December 2019 is attributable to the Group's positions in Sydbank Markets.

Interest rate risk – Sydbank Markets and Treasury

DKKm	2019			2018		
	Sydbank Markets	Treasury	Total	Sydbank Markets	Treasury	Total
DKK	111	76	187	83	(47)	36
EUR	(22)	0	(22)	(30)	(143)	(173)
EUR/DKK	89	76	165	53	(190)	(137)
Other	2	2	4	(4)	1	(3)
Total	91	78	169	49	(189)	(140)

Credit spread risk

Credit spread risk is the risk that the credit spreads of the bonds in the bond portfolio change to the detriment of the Group.

The Group determines its credit spread risk on the basis of the following credit spread changes:

- Government bonds 25bp
- Mortgage bonds 50bp
- Other high-yield bonds 100bp.

The Group's credit spread risk makes up DKK 321m at 31 December 2019 and is included when determining the solvency need.

Equity risk

The Group's portfolio of shares and holdings in associates represents DKK 2,358m at 31 December 2019 (2018: DKK 2,348m), including equity investments totalling DKK 2,199m (2018: DKK 2,119m).

In the event of a 10% change in share prices, profit before tax will be affected by DKK 220m (2018: DKK 222m) as well as other comprehensive income by DKK 16m (2018: DKK 13m). Equity investments represent DKK 204m (2018: DKK 199m) and DKK 16m (2018: DKK 13m) respectively.

Foreign exchange risk

As in previous years the Group's foreign exchange risk was insignificant in 2019 and consequently a 10% change in foreign exchange rates against DKK at 31 December 2019 will not affect profit before tax significantly.

Other market risks

The Group does not have any other significant market risks at 31 December 2019.

Notes – Risk Management

Liquidity risk

Liquidity risk is the risk that the Group cannot meet its payment obligations as they mature or is only able to do so via disproportionately large funding costs.

The Bank's Board of Directors has adopted a liquidity risk policy which sets out the framework for the Group's liquidity management, including operational targets for the Group's risk tolerance as well as requirements for the funding structure, liquidity buffer calculations and stress tests. Moreover the liquidity risk policy sets out requirements for employee competences, contingency plans and reporting as well as determines the framework for asset encumbrance and allocation of the Group's liquidity costs.

Targets and policies:

- Consistently strong and stable deposit base which ensures stability in the long-term funding of the Group's lending activities.
- Prudent funding of long-term loans and advances.
- Maintenance of high ratings.
- Active participation in international money markets as well as access to international capital markets through the application of loan programmes. Coupled with a high rating this ensures that the Group has uninterrupted access to a diversified and competitive funding basis.
- Maintenance of a liquidity buffer which together with prudent management of the run-off profile of funding ensures that the Group's operating activities do not depend on capital market funding. In other words the liquidity buffer may counterbalance the effects of an adverse liquidity situation in the short and medium term.

The Bank's Board of Directors determines the Group's risk tolerance as regards liquidity risk. Operational targets for the Group's risk tolerance comprise:

- A minimum share of stable funding by way of deposits from non-financial counterparties and equity.
- A funding ratio (stable funding incl senior issues with maturities in excess of 1 year relative to loans and advances).
- Liquidity Coverage Ratio (LCR).
- A 3-month stress scenario (LCR3) calculated according to the excess liquidity coverage benchmark of the Supervisory Diamond.
- Positive liquidity in 12 months in the Group's combined scenario.
- Liquidity Coverage Ratio euro (LCR EUR).
- Requirements regarding funding of long-term loans and advances.

LCR, LCR3 and the Group's combined scenario are based on a regulatory cautiously determined liquidity buffer. The buffer must be sufficient to survive a 30-day stress scenario (LCR) according to regulatory guidance, a stress scenario (LCR3) calculated according to the excess liquidity coverage benchmark, and an internal scenario (combined scenario) without market funding possibilities and with significant run-off of the funding of deposits. The LCR's 30-day horizon specifies a run-off of the Group's exposures while taking into account counterparties, funding size, hedging and maturity. Consequently the most stable deposits (small deposits covered by a guarantee scheme) are favoured relative to large deposits, in particular large deposits from businesses and financial counterparties.

LCR (DKKbn)	2019	2018
Total liquidity buffer	37.2	35.9
Net cash outflows	21.4	19.5
LCR (%)	174	184

The Group has met the regulatory LCR requirement of 100% throughout the year and its excess cover is significant at 31 December 2019.

Funding ratio (DKKbn)	2019	2018
Equity and subordinated capital	13.6	13.5
NPS loans with maturities over 1 year	7.4	3.7
Stable deposits	77.3	77.3
Total stable funding	98.3	94.5
Loans and advances (excl reverse and funded mortgage-like loans)	60.6	61.0
Funding ratio (%)	162	155

As shown above the Group's stable funding exceeds the Group's loans and advances by DKK 37.7bn at 31 December 2019 (2018: DKK 33.5bn).

The maturity profiles of the Group's debt exposures appear from note 40.

The Board of Directors' requirements regarding the funding structure are based on the following:

- The Group's funding must be diversified so as to minimise to the greatest extent possible reliance on individual sources.

Liquidity risk – continued

- Compliance with the LCR and the funding ratio target ensures a prudent funding profile and an adequate level of stable non-market-based funding and longer-term market-based funding.
- The LCR and the funding ratio ensure that the higher the level of stable deposits, the lower the necessary level of long-term senior funding. In contrast a falling level of stable deposits will increase the need for long-term senior funding.
- Short-term market funding and funding from financial counterparties must predominantly be used to fund short-term placements and investments in securities which can be realised or which are eligible as collateral with Danmarks Nationalbank or the repo market.

The Group's risk policy states that:

- asset encumbrance may only occur as part of ordinary banking operations and includes securities provided as collateral with the central bank and in the repo market, collateral for clearing transactions as well as collateral under CSA agreements
- asset encumbrance may be by way of deposits with credit institutions or securities
- moreover asset encumbrance may be by way of funding of mortgage-like loans via external counterparties.

The asset encumbrance appears from note 37.

On 18 September 2018 the Group issued non-preferred senior loans of EUR 500m (DKK 3.7bn) with a maturity of 5 years and on 4 February 2019 a further EUR 500m (DKK 3.7bn) with a maturity of 3 years was issued.

With these 2 issues the Group complies with the MREL requirement as determined by the Danish FSA.

Notes – Risk Management

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

The Group collects data on all operational events and classifies them in 4 main groups:

- Operational events without loss
- Operational events, IT
- Operational events, internal
- Operational events, compensation.

Management receives reporting on the basis of these data. Furthermore they form the basis for analyses and research for the purpose of identifying systematics as well as improving on an ongoing basis internal controls, business procedures and routines to minimise the number of errors and the risk of loss.

Moreover the system for collecting data on operational events ensures compliance with the Group's business procedures for approval, information, accounting and payment, if any.

The Group reviews all business units annually with the aim of identifying, describing and analysing the largest individual risks where the Group may incur significant losses as well as the relevant business procedures and routines for the purpose of minimising such risks.

A risk analysis of operational risks conducted in autumn 2019 shows that the Group has a number of scenarios in which the risk of loss exceeds DKK 5m. At the same time it must be expected that such scenarios – despite risk mitigation by way of for instance business procedures and control environment, requirements as regards access and authorisation as well as insurance cover – will occur within a foreseeable time horizon.

The Group's management has reviewed the extent of such loss scenarios and related risks.

The Group applies the Standardised Approach to calculate the capital requirement in accordance with Basel III.

IT supports a large part of the systems and tools used by the

IT security

Bank's customers and advisers. This function is strengthened by the increased digitization in Sydbank which customers experience by way of increased self-service and improved online services.

Consequently IT security is a significant aspect of the Bank's operational risk.

The Group regularly reviews this area – on a strategic level, on an operational level and on a system level if the system is business-critical. As a result requirements have been specified as regards confidentiality, accessibility and integrity of the individual elements of IT security. These requirements are adjusted on an ongoing basis to new statutory requirements and regulations. Currently there is considerable focus on the additional requirements resulting from the entry into force of the General Data Protection Regulation in May 2018.

The Board of Directors specifies and formulates requirements as regards IT risk management in the IT security policy and IT contingency policy and these policies form the basis of the IT security efforts. As part of the IT security efforts a risk analysis is prepared annually in which the objectives regarding the confidentiality, accessibility and integrity of each system are assessed in terms of probability, maturity of preventive and corrective ad-

ministrative and technical measures as well as implications. As a result of this assessment a risk score is assigned to each system. The Board of Directors reviews, updates and approves the 2 policies on the basis of the risk analysis.

In the policies the Board of Directors assesses the current risk scenario and against this background specifies the requirements for eg accessibility and reliability in terms of the different elements of IT supply, including systems and data. As a result of these requirements, a significant part of the Group's use of IT has been mirrored to minimise the risk of operational disruptions.

The IT security policy as well as the IT contingency policy apply to all aspects of the Bank's use of IT and consequently also where IT or parts of it has been outsourced. As a result Sydbank's collaboration with Bankdata, including JN Data, which is responsible for the day-to-day operations, is also comprised by this IT security process.

Contingency exercises are performed on a regular basis to ensure that the Bank is able to tackle any events that may arise.

In accordance with current anti-terrorism and anti-money laundering rules the Bank must ensure that it has proof of identity of its customers. Moreover the Bank performs routine testing of transactions submitted through its systems. Suspicious transactions are reported.

Notes – Total Capital

Total capital

The Bank is a licensed financial services provider and must therefore comply with the capital requirements determined by the EU.

The capital adequacy rules require a minimum capital level of 8.0% of the risk exposure amount plus any additional individual capital needed. Detailed rules regulate the calculation of capital as well as the risk exposure amount.

Total capital is made up of T1 capital and T2 capital. T1 capital comprises equity and AT1 capital.

The difference between shareholders' equity and total capital is shown in note 3.

The Group's subordinated capital, AT1 capital and T2 capital may, subject to certain conditions, be included in total capital. The conditions are specified in CRR. The Group's subordinated capital is shown in note 33.

The Group has determined capital targets and considers a CET1 ratio of 14.5% as well as a capital ratio of 18.5% as being satisfactory for the years ahead.

The international rating agency Moody's regularly assesses the Group's ability to honour its payment obligations. The rating targets are an essential part of the Group's capital targets because good ratings give the Group access to the capital markets.

In 2019 the Group met regulatory capital requirements as well as internal capital targets.

Management Statement

We have reviewed and approved the 2019 Annual Report of Sydbank A/S.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the parent company financial statements are prepared in accordance with the Danish Financial Business Act. Furthermore the consolidated financial statements are prepared in compliance with Danish disclosure requirements for listed financial companies.

In our opinion the consolidated financial statements and the parent company 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 31 December 2019 and of the results of the Group's and the parent company's operations and consolidated cash flows for the financial year 1 January – 31 December 2019.

Moreover it is our opinion that the management's review includes a fair review of the developments in the Group's and the parent company's operations and financial position as well as a description of the most significant risks and elements of uncertainty which may affect the Group and the parent company.

We propose that the Annual Report be submitted for adoption by the AGM.

Aabenraa, 26 February 2020

Group Executive Management

Karen Frøsig
(CEO)

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

Auditors' Reports

Internal Audit

To the shareholders of Sydbank A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Sydbank A/S for the financial year 1 January – 31 December 2019, which comprise an income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group and the Company, as well as a cash flow statement for the Group. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions and the parent company financial statements have been prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Group's and the Company's operations and the Group's cash flows for the financial year 1 January – 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions in respect of the consolidated financial statements and in accordance with the Danish Financial Business Act in respect of the parent company financial statements.

Basis for opinion

We conducted our audit in accordance with the Danish Financial Supervisory Authority's Executive Order on Auditing Financial Undertakings etc. as well as Financial Groups and in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark.

We planned and performed our audit to issue an auditor's report that includes a reasonable assurance conclusion about whether the consolidated financial statements and the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error. We have participated in the audit of all material and risky areas.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on the Management's review

Our opinion on the consolidated financial statements and the parent company financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent company financial statements we have read the Management's review and, when doing so, considered whether the Management's review is materially inconsistent with the consolidated financial statements or the parent company financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Based on the work we have performed, we concluded that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements in the Danish Financial Business Act. We did not identify any material misstatements of the Management's review.

Aabenraa, 26 February 2020

Poul-Erik Winther
Head of Internal Audit

To the shareholders of Sydbank A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Sydbank A/S for the financial year 1 January – 31 December 2019, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company, and a consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of listed financial companies, and the parent company financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2019 and of the results of the Group's operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of listed financial companies.

Further, in our opinion the parent company financial statements give a true and fair view of the financial position of the Parent Company at 31 December 2019 and of the results of the Parent Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other

ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor

We were initially appointed as auditor of Sydbank A/S on 10 May 1990 for the financial year 1990. We have been reappointed annually by resolution of the general meeting for a total consecutive period of 30 years up until and including the financial year 2019.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2019. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Measurement of loans and guarantees

- **Risk:** A substantial amount of the company's assets consist of loans to customers (41% of the consolidated assets) which are subject to impairment risks due to the customer's lack of ability to pay. In addition, the company offers guarantees and other financial products that also imply risk of losses.

Our audit focused on impairment charges of loans and guarantees since this implies significant amounts and a high level of judgement applied by Management. This concerns especially staging assessment and the assessment of impairment events identification, collateral valuation and the customer's ability to pay in case of default on loans.

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Large loans are evaluated individually while impairment of smaller loans for private customers is based on models and portfolio level considerations. The applied assumptions and parameters used for estimation of expected credit loss is subject to judgements made by Management.

- **Audit approach:** Our audit comprises processes for staging assessment, impairment events identification and monitoring of loans. We have performed analyses and risk-based test of loans and by review of the company's procedures verified, that estimation of expected credit losses are recognized in accordance with the accounting policies.

The review has comprised the largest and most risky loans as well as any loans taken over. For impairments based on models we have evaluated the assumptions and methodology applied, including moreover the judgements applied by Management in addition to the individual impairments and impairments based on models, including additions to impairments on loans to agriculture.

Also we have reviewed and tested that the disclosures on loans, impairment charges and credit risk meet the relevant accounting rules (note 14, 18 and 47).

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of listed financial companies and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Business Act.

Moreover, Management is responsible for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material mis-

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statement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
 - Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Aabenraa, 26 February 2020

Ernst & Young

Godkendt Revisionspartnerselskab

CVR-nr. 30 70 02 28

Lars Rhod Søndergaard
State Authorised Public Accountant
MNE no. 28632

Anne Tønsberg
State Authorised Public Accountant
MNE no. 32121

Notice Convening the Annual General Meeting

Notice Convening the Annual General Meeting of Sydbank A/S

Sydbank's Annual General Meeting will be held on Thursday 19 March 2020 at 3:00pm at Folkehjem, Haderslevvej 7, 6200 Aabenraa.

Agenda according to Article 8 of the Articles of Association:

1. Report of the Board of Directors on the Bank's activities in 2019.
2. Submission of the audited annual report including the auditors' report for adoption.
3. Motion for the allocation of profit or cover of loss according to the adopted annual report.
4. Election of members to the Shareholders' Committee.
5. Appointment of auditors.
The Board of Directors proposes the reappointment of Ernst & Young, Godkendt Revisionspartnerselskab in accordance with the recommendation of the Audit Committee. The Audit Committee has in no way been influenced by third parties or been subjected to any agreement with a third party which would limit the general meeting's appointment of certain auditors or audit firms.
6. Motions submitted by the Board of Directors or shareholders:
 - a) The Board of Directors proposes that the Bank's share capital be reduced by DKK 20,776,800 to DKK 596,763,200. The capital reduction will be effected as a payment to shareholders and will be implemented by cancelling 2,077,680 shares of DKK 10 each purchased during the Bank's share buyback programme in 2019. Payment will be at a premium of 120.33 corresponding to the average repurchase price during the share buyback programme. A resolution will imply the following amendment to Article 2 (1) of the Articles of Association:
"The share capital of the Bank is DKK 596,763,200 divided into shares in denominations of DKK 10. The share capital is fully paid up."
 - b) Adoption of remuneration policy
A resolution will imply the following amendment to Article 18 (5) of the Articles of Association:
"Sydbank's remuneration policy sets out the framework of the Bank's remuneration of members of the Group Executive Management. The remuneration policy is adopted by the general meeting and is published on the Bank's website."
 - c) To amend Article 2 (5) of the Articles of Association to:
"The Bank's register of shareholders is maintained by VP Securities A/S, Weidekampsgade 14, 2300 Copenhagen S."

7. Sydbank's Board of Directors is authorised to allow the Bank to acquire own shares at a total value of up to 10% of the Bank's share capital. The price paid for shares may not differ by more than 10% from the price quoted on Nasdaq Copenhagen at the time of purchase. The authorisation is effective until the next Annual General Meeting.

8. Any other business.

The agenda, complete proposals and audited annual report including the auditors' report will be available for inspection by the shareholders at sydbank.dk/generalforsamling and sydbank.com/generalmeeting and at Sydbank's branches no later than three weeks before the General Meeting.

The Bank's share capital totals DKK 617,540,000. As regards shareholders' voting rights, reference is made to Article 10 of the Bank's Articles of Association.

Shareholders are entitled to attend and to raise questions at the General Meeting and to vote according to the number of shares held by a shareholder on the date of registration, which is 12 March 2020.

Admission cards for the General Meeting can be ordered at any of Sydbank's branches or at sydbank.dk/generalforsamling and sydbank.com/generalmeeting no later than Friday 13 March 2020.

If a shareholder wishes to vote by postal vote or to issue an instrument of proxy to the Board of Directors or others, the necessary documents are available on the Bank's websites. Instruments of proxy must have been received by the Bank no later than 13 March 2020 and postal votes must have been received by the Bank no later than 17 March 2020 at 4:00pm.

Aabenraa, 19 February 2020

Board of Directors of Sydbank A/S
Lars Mikkelsen-Jensen
Chairman

Board of Directors



Chairman

Lars Mikkelsen-Jensen

Former CEO and managing director

Born: 5 August 1954

Education: MSc (Economics)

Elected to Board of Directors: 2015

Expiry of current term of office: 2020

Independent: Yes

Committee memberships: Chairman of Digitization Committee, member of Audit Committee and Nomination Committee.

Directorships and other offices:

M.J. Grønbech & Sønner Holding A/S, board member

Industripension Holding A/S, board member

Industriens Pensionsforsikring A/S, board member.

Specific competences: IT/digital, robotics, management, strategy and business development, and macroeconomics.

Number of Sydbank shares at year-end 2019: 4,000



Vice-Chairman

Jacob Chr. Nielsen

CEO

Born: 7 June 1973

Education: Graduate Diploma in Business Administration, MBA

Elected to Board of Directors: 2014

Expiry of current term of office: 2020

Independent: Yes

Committee memberships: Chairman of Audit Committee.

Directorships and other offices:

Erhvervshus Syddjylland, CEO

Work Life Stay, board member.

Specific competences: Management, accounting, insurance, industry, finance and auditing.

Number of Sydbank shares at year-end 2019: 77



Board member

Janne Moltke-Leth

CEO

Born: 4 August 1966

Education: MSc in Business, Language and Culture; Graduate Diploma – strategic management

Elected to Board of Directors: 2016

Expiry of current term of office: 2020

Independent: Yes

Committee memberships: Chairman of Remuneration Committee and Nomination Committee and member of Digitization Committee.

Directorships and other offices:

Hotel Sanders København A/S, CEO
Greengate Europe A/S, board member
Krebs Skole, board member.

Specific competences: Management, strategy, business development, innovation, change management and optimisation.

Number of Sydbank shares at year-end 2019: 93



Board member

Susanne Schou

Deputy Chief Executive

Born: 24 April 1964

Education: -

Elected to Board of Directors: 2018

Expiry of current term of office: 2020

Independent: Yes

Committee memberships: Member of Digitization Committee.

Directorships and other offices:

Swienty A/S, board member
Sydbank Fonden, board member.

Specific competences: Business development, change management and strategy development.

Number of Sydbank shares at year-end 2019: 110

Board of Directors



Board member

Gitte Poulsen

CEO

Born: 5 August 1967

Education: -

Elected to Board of Directors: 2019

Expiry of current term of office: 2020

Independent: Yes

Committee memberships: -

Directorships and other offices:

A/S af 20.02.2014, chairman

KPC Holding A/S, chairman

Ejendomsselskabet af 29.06.2006 A/S, chairman

KPC Herning A/S, board member

KPC København A/S, board member

KPC Finans II A/S, chairman

Gitte Poulsen Holding ApS, executive manager

KPC Finans I A/S, chairman

Holdingselskabet af 01.01.2013 A/S, CEO

KPC Ejendomsudvikling A/S, board member

KPC Group ApS, chairman

KPC Holding 2019 A/S, board member

Gitte Poulsen Holding 2019 ApS, executive manager

Holdingselskabet af 10.05.2019 ApS, chairman.

Specific competences: Management, strategy and business development.

Number of Sydbank shares at year-end 2019: 5,330



Board member

Jon Stefansson

Attorney

Born: 27 June 1973

Education: Attorney

Elected to Board of Directors: 2019

Expiry of current term of office: 2020

Independent: Yes

Committee memberships: -

Directorships and other offices:

Michael Nissen Holding APS, chairman

P. Christensen A/S, chairman

P. Christensen Carranty A/S, chairman

Moravia Invest A/S, chairman

P. Christensen Ejendomme A/S, chairman

P. Christensen Biludlejning A/S, chairman

Andersen Partners International ApS, board member

Andersen Partners Ejendomsadministration P/S, board member

A Tower ApS, board member

Andersen Partners Advokatpartnerselskab, board member

KAI D Fonden, chairman

P. Christensen, Odense, Holding A/S, chairman.

Specific competences: Compliance/law, management, strategy and business development.

Number of Sydbank shares at year-end 2019: 389



Board member
Henrik Hoffmann
Former head of credits
Born: 15 August 1958
Education: Banking, Graduate Diploma in Foreign Trade
Elected to Board of Directors: 2020
Expiry of current term of office: 2021
Independent: Yes

Committee memberships: -

Directorships and other offices:
LFI A/S (Landbrugets Finansieringsinstitut A/S), executive manager and board member.

Specific competences: Financial business management, risk and credit management, finance, strategy and business development.

Number of Sydbank shares: 750



Board member
Søren Holm
Former group executive
Born: 15 November 1956
Education: Msc (Economics)
Elected to Board of Directors: 2020
Expiry of current term of office: 2021
Independent: Yes

Committee memberships: -

Directorships and other offices:
VP Securities A/S, board member
European Banking Authority, BSG member.

Specific competences: Financial business management, financial management, accounting, risk and credit management, CSR, issuance of securities, auditing, strategy and business development, and governance.

Number of Sydbank shares: 373

Board of Directors



Board member

Carsten Andersen

Account Manager, Corporate Clients

Born: 3 September 1984

Education: Academy Profession (AP) Degree in Financial Advice – banking, trained estate agent, Graduate Diploma in Business Administration

Elected to Board of Directors: 2018

Expiry of current term of office: 2022

Independent: No

Elected by the employees

Committee memberships: -

Directorships and other offices:

Sundeved Venstrevælgerforening, board member

Kommuneforeningen for Venstre i Sønderborg, board member.

Specific competences: Credit granting, finance, economics and accounting.

Number of Sydbank shares at year-end 2019: 1,175



Board member

Kim Holmer

Vice-Chairman of Sydbank Kreds

Born: 15 February 1964

Education: Banking, Graduate Diploma in Business Administration

Elected to Board of Directors: 2018

Expiry of current term of office: 2022

Independent: No

Elected by the employees

Committee memberships: -

Directorships and other offices:

FTF-a, member of executive council

Sydbank Kreds/Financial Services Union Denmark, vice-chairman Sydbank Kreds.

Specific competences: Banking and finance, strategy development and organisational development, workplace agreements.

Number of Sydbank shares at year-end 2019: 1,791



Board member

Jarl Oxlund

Chairman of Sydbank Kreds

Born: 29 April 1967

Education: Banking, Graduate Diploma in Business Administration, MSc (Organisational Psychology)

Elected to Board of Directors: 2014

Expiry of current term of office: 2022

Independent: No

Elected by the employees

Committee memberships: Member of Digitization Committee.

Directorships and other offices:

Financial Services Union Denmark, member of executive council

Sydbank Kreds/Financial Services Union Denmark, chairman of Sydbank Kreds.

Specific competences: Accounting, banking products, credit risks and organisation.

Number of Sydbank shares at year-end 2019: 1,664



Board member

Jørn Krogh Sørensen

Senior Vice President, Corporate Department

Born: 16 October 1965

Education: Banking, Graduate Diploma in Business Administration, Master in Leadership

Elected to Board of Directors: 2018

Expiry of current term of office: 2022

Independent: No

Elected by the employees

Committee memberships: Member of Remuneration Committee.

Directorships and other offices: -

Specific competences: Credits, finance, risk management, accounting and management.

Number of Sydbank shares at year-end 2019: 3,084

Group Executive Management



CEO

Karen Frøsig

Born: 23 September 1958

Group Executive Management member since: 2008

CEO since: 2010

Directorships:

Sydbank Fonden, board member

BOKIS A/S, board member

Ejendomsselskabet af 1. juni 1986 A/S, chairman

National Banks in Denmark, chairman

Syd Administration A/S, chairman

Foreningen Bankdata, chairman

Finance Denmark, board member

PRAS A/S, board member

BI Holding A/S, board member

Musikhuset Esbjerg, Fond, board member

FR I af 16. september 2015 A/S, board member

Totalkredit A/S, board member

Museum Sønderjylland, board member

Kunsten ApS, board member.



Deputy Group Chief Executive

Bjarne Larsen

Born: 5 November 1963

Group Executive Management member since: 2013

Directorships:

DLR Kredit A/S, board member

Syd Administration A/S, vice-chairman

Ejendomsselskabet af 1. juni 1986 A/S, board member.



Deputy Group Chief Executive

Jørn Adam Møller

Born: 6 January 1963

Group Executive Management member since: 2019

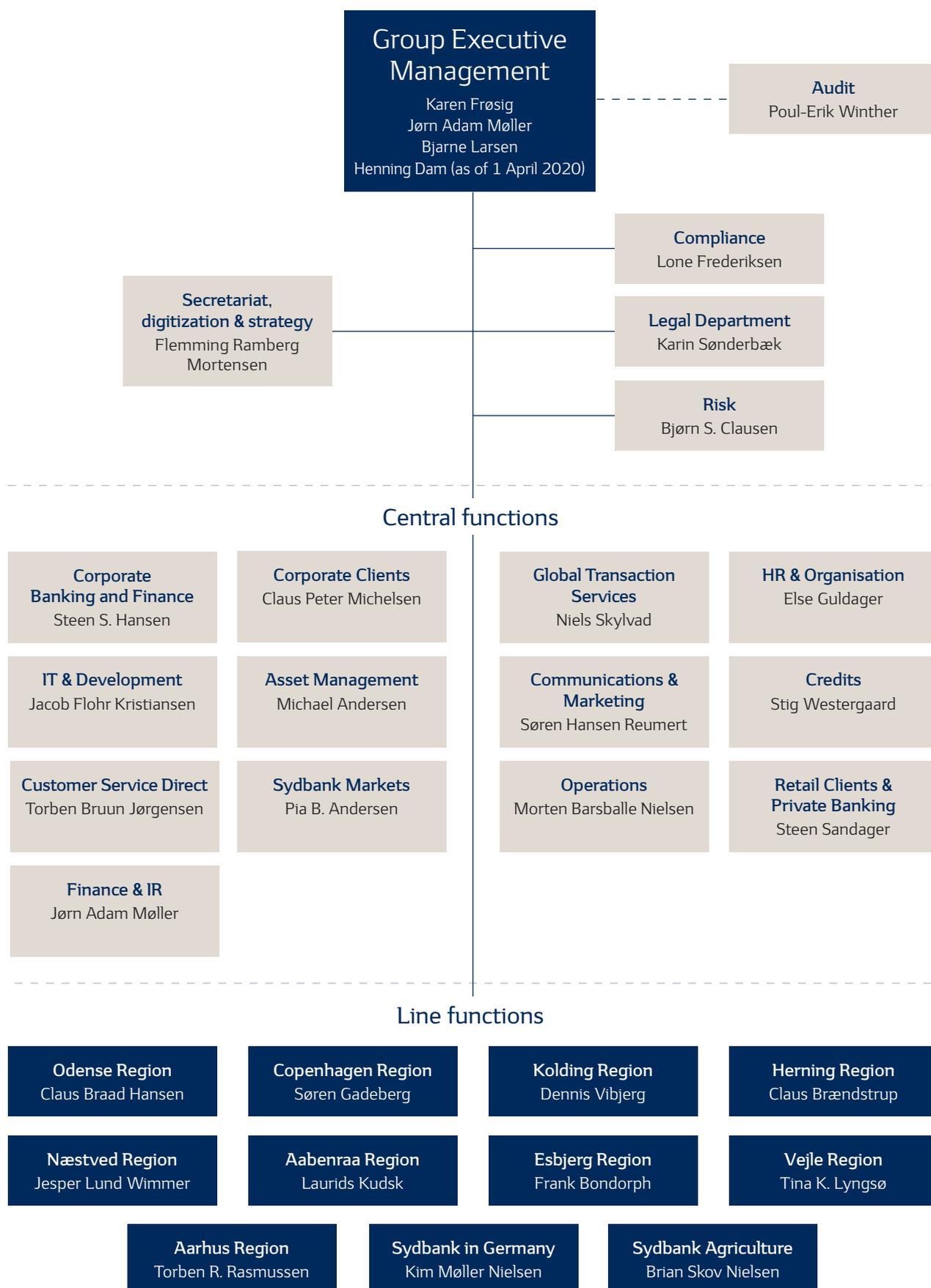
Directorships:

e-nettet A/S, board member

Syd Administration A/S, executive manager and board member

Ejendomsselskabet af 1. juni 1986 A/S, executive manager and board member.

Organisation



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info@sydbank.dk

CVR No DK 12626509

Sydbank