
Interim Report – Q1-Q3 2018

Sydbank Group

Sydbank

Sydbank's Interim Report – Q1-Q3 2018

Q1-Q3 2018 is characterised by strong credit quality, improved customer satisfaction as well as lower income

On the back of the satisfactory results achieved during the two most recent strategy periods from 2014 and until now, Sydbank today releases a new 3-year strategy plan to ensure that the positive trend since the beginning of 2014 continues. The strategy is named: “**A stronger bank**”.

CEO Karen Frøsig comments on Sydbank's Q1-Q3 result:

- We want to be a bank with satisfied customers. Therefore it is highly satisfactory to note that the efforts made by all Sydbank employees have lifted customer satisfaction. The first nine months were characterised by a continued improvement in customers' sound financial health. Consequently impairment charges were reversed for the 6th consecutive quarter. As a result of lower than expected income in Q3 we have downgraded our forecast of profit after tax to be in the range of DKK 1,250m-1,325m.

On Sydbank's new 3-year strategy plan Karen Frøsig comments:

- We will build **a stronger bank** with the objective of enhancing our market position during the strategy period. Our customers must receive greater value, our employees must have even simpler and more efficient processes and we must be more distinct. This is a brief summary of our strategic direction for the next three years. It means that we will translate the values from our underlying philosophy and the Bank's core story more clearly into value – for our customers, for our shareholders, for our employees and for society.

Karen Frøsig elaborates:

- We will build **a stronger bank** focusing on three themes: “Customer first”, “More Sydbank” and “What works”. The themes must go hand in hand with a level of profitability ensuring that Sydbank will continue to be an independent and resourceful bank – also in the future. The themes will guide us and ensure that we can meet the new strategy's goals of continuing to focus on the customer, providing a workplace for some of our industry's most skilled and dedicated employees and strengthening our profile and visibility in the market place, among employees and in society at large.

Q1-Q3 2018 – highlights

- Profit of DKK 963m equals a return on shareholders' equity of 11.2% p.a. after tax.
- Core income of DKK 3,003m is 4% lower compared with the same period in 2017.
- Impairment charges for loans and advances represent an income of DKK 71m, equal to an improvement of DKK 33m compared with the same period in 2017.
- Total credit intermediation has declined by DKK 1.1bn, equal to 0.7% compared to year-end 2017.
- The share buyback of DKK 500m commenced on 21 February 2018 and was increased by DKK 750m at the extraordinary general meeting on 22 June 2018, bringing the total share buyback programme to DKK 1,250m. The overall share buyback programme has reduced capital ratios by 2.1 percentage points.
- Predominantly due to the overall share buyback programme, the Common Equity Tier 1 capital ratio has declined by 1.2 percentage points compared to year-end 2017 and constitutes 16.1% excluding profit for the period. When including 50% of profit for the period, the Common Equity Tier 1 capital ratio stands at 17.0%.

Outlook for 2018 – downward revision

- Limited growth is projected for the Danish economy in 2018.
- Total income is expected to be lower than the income generated in 2017.
- Costs (core earnings) are projected to rise slightly in 2018.
- Impairment charges for 2018 are forecast to be at a low level.
- Non-recurring items, net are expected to represent an income of around DKK 60m.
- Profit after tax is forecast to be in the range of DKK 1,250m-1,325m. In our interim report for the first half-year profit after tax for the year was expected to be in the lower part of the range of DKK 1,340m-1,540m.

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Group Financial Highlights

	Q1-Q3 2018	Q1-Q3 2017	Index 18/17	Q3 2018	Q3 2017	Full year 2017
Income statement (DKK m)						
Core income	3,003	3,129	96	963	1,036	4,167
Trading income	140	197	71	40	58	233
Total income	3,143	3,326	94	1,003	1,094	4,400
Costs, core earnings	2,036	1,992	102	639	623	2,637
Core earnings before impairment	1,107	1,334	83	364	471	1,763
Impairment of loans and advances etc	(71)	(38)	-	(14)	(29)	(51)
Core earnings	1,178	1,372	86	378	500	1,814
Investment portfolio earnings	(68)	195	-	10	8	182
Profit before non-recurring items	1,110	1,567	71	388	508	1,996
Non-recurring items, net	83	(23)	-	(9)	(11)	(40)
Profit before tax	1,193	1,544	77	379	497	1,956
Tax	230	340	68	84	109	425
Profit for the period	963	1,204	80	295	388	1,531
Balance sheet highlights (DKK bn)						
Loans and advances at amortised cost	62.1	66.8	93	62.1	66.8	64.3
Loans and advances at fair value	6.0	5.9	102	6.0	5.9	5.2
Deposits and other debt	82.7	80.8	102	82.7	80.8	82.7
Bonds issued at amortised cost	3.7	3.7	100	3.7	3.7	3.7
Subordinated capital	1.9	1.3	146	1.9	1.3	1.9
Holders of Additional Tier 1 (AT1) capital	0.8	-	-	0.8	-	-
Shareholders' equity	11.1	11.8	94	11.1	11.8	11.9
Total assets	135.0	131.9	102	135.0	131.9	138.5
Financial ratios per share (DKK per share of DKK 10)						
EPS Basic */**	14.4	17.5		4.4	5.7	22.4
EPS Diluted */**	14.4	17.5		4.4	5.7	22.4
Share price at end of period	189.0	261.3		189.0	261.3	249.9
Book value **	179.5	174.0		179.5	174.0	178.3
Share price/book value **	1.05	1.50		1.05	1.50	1.40
Average number of shares outstanding (in millions)	65.8	68.7		64.4	68.0	68.4
Dividend per share	-	-		-	-	11.31
Other financial ratios and key figures						
Common Equity Tier 1 capital ratio	16.1	15.5		16.1	15.5	17.3
Tier 1 capital ratio	17.9	16.0		17.9	16.0	17.7
Capital ratio	21.2	18.1		21.2	18.1	20.8
Pre-tax profit as % p.a. of average shareholders' equity **	13.9	17.8		13.1	17.1	16.8
Post-tax profit as % p.a. of average shareholders' equity **	11.2	13.9		10.2	13.3	13.1
Costs (core earnings) as % of total income	64.8	59.9		63.7	56.9	59.9
Return on assets (%)	0.7	0.9		0.2	0.3	1.1
Interest rate risk	1.2	1.6		1.2	1.6	0.8
Foreign exchange position	1.8	2.4		1.8	2.4	1.2
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	0.7	0.6
Loans and advances relative to shareholders' equity ***	5.5	5.7		5.5	5.7	5.4
Growth in loans and advances for the period ***	(3.5)	(13.5)		(0.7)	(5.3)	(16.7)
Excess cover relative to statutory liquidity requirements	280.3	223.9		280.3	223.9	232.1
Total large exposures	0.0	11.2		0.0	11.2	0.0
Accumulated impairment ratio	3.8	3.4		3.8	3.4	3.6
Impairment ratio for the period *	(0.09)	(0.05)		(0.01)	(0.03)	(0.05)
Number of full-time staff at end of period	2,123	2,069	103	2,123	2,069	2,064

* Half-year and quarterly ratios have not been converted to a full-year basis.

** Financial ratios are calculated as if Additional Tier 1 capital is accounted for as a liability.

*** Ratios calculated on the basis of loans and advances at amortised cost.

Highlights

Q1-Q3 2018 is characterised by strong credit quality, improved customer satisfaction as well as lower income

Sydbank's financial statements for Q1-Q3 show a profit before tax of DKK 1,193m compared with DKK 1,544m one year ago. The decline is primarily attributable to a drop in investment portfolio earnings of DKK 263m and a drop in income of DKK 183m.

Profit before tax equals a return on average shareholders' equity of 13.9% p.a.

Total income recorded in Q1-Q3 2018 is lower than forecast in the 2017 Annual Report. Costs (core earnings) are in line with the expectations announced in the 2017 Annual Report. Impairment charges and non-recurring items recorded in Q1-Q3 2018 exceed the expectations presented in the 2017 Annual Report.

Net interest etc constitutes DKK 1,358m compared with DKK 1,520m in 2017 – a decline of DKK 162m. DKK 50m of the decline is attributable to an increase in the extent of funded mortgage-like loans.

Core income represents DKK 3,003m compared with DKK 3,129m in 2017 – a decline of DKK 126m.

Total income amounts to DKK 3,143m against DKK 3,326m in 2017.

Core earnings constitute DKK 1,178m compared with DKK 1,372m in 2017 – a decrease of DKK 194m.

Profit for the period amounts to DKK 963m compared with DKK 1,204m in 2017 – a decline of DKK 241m.

Follow-up on the 3-year plan – Blue growth

The strategy for the 3-year period 2016-2018 is named "Blue growth". Blue growth means high-quality and profitable banking – pure and simple.

Blue growth – targets:

- Realise a return on shareholders' equity (ROE) of a minimum of 12% after tax or be in the top 3 of the 6 largest banks
- Maintain top 3 ranking among the 6 largest banks in terms of customer satisfaction.

Status – targets

Target	Objective	Status at 30 September 2018	Comment
ROE after tax	Over 12% *	11.2%	Currently not met
Customer satisfaction – Corporate	Top 3 **	3rd – Aalund	Met in 2018
Customer satisfaction – Retail	Top 3 **	3rd – EPSI	Met in 2018
Common Equity Tier 1 capital ratio	Around 14.0%	16.1%	Met from Q3 2013
Capital ratio	Around 18.0%	21.2%	Met from Q1 2015
Dividend	30-50% of profit for the year after tax	50% of profit for the year after tax in 2017	Met in 2017

* or top 3 ranking among the 6 largest banks

** among the 6 largest banks

A stronger bank – new 3-year plan

On the back of the satisfactory results achieved during the strategy periods from 2014 and until now, Sydbank today releases a new 3-year strategy plan to ensure that the positive trend since the beginning of 2014 continues. The strategy is named: "**A stronger bank**".

We will build **a stronger bank** focusing on three themes:

- Customer first
- More Sydbank
- What works

Customer first lifts our customer focus to a new and higher level. The direct link between highly satisfied

customers and a positive trend in the top line is the driving force behind the priority of this theme.

More Sydbank seeks to strengthen Sydbank's profile and visibility internally as well as externally. We will make "Banking" more attractive to customers, employees and shareholders. We will create a more distinct identity and communicate our fundamental values more clearly.

What works is an investment in the customer meeting a bank – at every touch point – where focus is on the wishes, needs and expectations of the customer. It is an investment in our employees having even simpler and more efficient processes enabling us to spend our time on the customer. It is an investment in using the new technology that

works to improve the customer's digital relationship with Sydbank. And it is an investment in ensuring that Sydbank remains a financially sound and well-run business.

The strategic goals represent the values from the underlying philosophy and the Bank's core story with three promises – to its customers, to its employees and to its shareholders. The goals thus also reflect the values of the underlying philosophy under the heading "Excellence and relationships create value" as well as our basic belief that dedicated employees make for satisfied customers and that these two factors combined are a condition for achieving a satisfactory return to the Bank's shareholders.

The strategic goals cover these areas:

- Customer satisfaction
- Employee engagement
- Return on shareholders' equity (ROE)

Customer satisfaction

Sydbank builds on long-term customer relationships. We aim 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 commitment surveys.

Return on shareholders' equity (ROE)

Top 3 ranking among the 6 largest banks.

Q1-Q3 performance

Core income totals DKK 3,003m, which is DKK 126m lower than in Q1-Q3 2017. The development in core income is mainly attributable to a decline in net interest income, commission and brokerage as well as an increase in mortgage credit income and commission etc concerning investment funds and pooled pension plans. The rise in commission concerning investment funds and pooled pension plans is due to a revaluation of the shares in BI Holding A/S of DKK 41m.

Trading income constitutes DKK 140m in Q1-Q3 2018 compared with DKK 197m in the same period in 2017.

Total income represents DKK 3,143m, a decrease of DKK 183m compared with Q1-Q3 2017.

Costs (core earnings) constitute DKK 2,036m compared with DKK 1,992m in 2017 – an increase of DKK 44m.

The Group's impairment charges for loans and advances represent an income of DKK 71m, which is

an improvement of DKK 33m compared to Q1-Q3 2017.

Together the Group's position-taking and liquidity handling recorded negative investment portfolio earnings of DKK 68m in Q1-Q3 2018 compared with earnings of DKK 195m a year ago.

Non-recurring items represent a net income of DKK 83m compared with an expense of DKK 23m in Q1-Q3 2017. The item consists of costs of DKK 27m for process digitization related to Blue growth and the establishment of a new mortgage platform as well as an income of DKK 110m in connection with the sale of the shares in ValueInvest Asset Management S.A.

Profit before tax for Q1-Q3 2018 amounts to DKK 1,193m compared with DKK 1,544m in the same period in 2017. Tax represents DKK 230m, equivalent to an effective tax rate of 19.2%. The low level is due to the fact that the income of DKK 110m and DKK 41m concerning ValueInvest and BI Holding respectively is tax-exempt. Profit for the period amounts to DKK 963m compared with DKK 1,204m in 2017.

Credit intermediation

In addition to traditional bank loans and advances the Group arranges for mortgage loans from Totalkredit and DLR Kredit. The Group's total credit intermediation comprises bank loans and advances, mortgage-like loans funded by Totalkredit as well as mortgage loans arranged through Totalkredit and DLR Kredit respectively. At 30 September 2018 credit intermediation totalled DKK 142.9bn – a drop of DKK 1.1bn since year-end 2017.

Total credit intermediation (DKKbn)	30 Sep 2018	31 Dec 2017
Bank loans and advances	62.1	64.3
Funded mortgage-like loans	10.1	10.0
Arranged mortgage loans – Totalkredit	59.2	58.0
Arranged mortgage loans – DLR	11.5	11.7
Total	142.9	144.0

Capital

The Bank issued Additional Tier 1 capital worth EUR 100m on 30 May 2018. The capital is perpetual with optional redemption on 28 August 2025.

The Bank initiated a share buyback programme of DKK 500m on 21 February 2018. On 22 June 2018 the programme was increased by DKK 750m to DKK 1,250m. The total share buyback programme will be completed by 31 January 2019 at the latest. At end-September 3,765,000 shares worth DKK 812m, made up at the trade date, had been repurchased.

The issue of Additional Tier 1 capital as well as the share buyback are part of the capital adjustment to optimise the capital structure in accordance with the Group's capital policy published in the 2017 Annual Report.

Outlook for 2018 – downward revision

Limited growth is projected for the Danish economy in 2018.

Total income is expected to be lower than the income generated in 2017.

Costs (core earnings) are projected to rise slightly in 2018.

Impairment charges for 2018 are forecast to be at a low level.

Non-recurring items, net are expected to represent an income of around DKK 60m.

Profit after tax is forecast to be in the range of DKK 1,250m-1,325m. In our interim report for the first half-year profit after tax for the year was expected to be in the lower part of the range of DKK 1,340m-1,540m.

Sydbank's core story

Banking

Sydbank's mission is to be a bank that is close to its customers. We find solutions where they are – quickly and efficiently. We build on relationships between people. And we focus on what is important – banking and sound business. Banking – pure and simple.

Our bank

Rooted in Southern Jutland we run a strong and independent nationwide bank operating on its own terms. For the backbone of the Danish corporate sector and for retail clients 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 suits their situation. Backed by the best business partners we provide competitive power. Our bank – excellence and relationships create value.

Sydbank

Our bank makes three promises – to our customers, to our employees and to our shareholders. You will know us for the value we create for our customers. You will know us for our belief that excellent and committed employees are our most important asset. And you will know us for always having a level of profitability that will enable us to remain an independent and resourceful bank. Sydbank – what can we do for you?

Financial Review – Performance in Q1-Q3 2018

The Sydbank Group has recorded a profit before tax of DKK 1,193m (Q1-Q3 2017: DKK 1,544m).

Profit before tax equals a return on average shareholders' equity of 13.9% p.a.

Profit for the period after tax amounts to DKK 963m compared with DKK 1,204m in 2017.

Profit after tax equals a return on average shareholders' equity of 11.2% p.a.

Profit for Q1-Q3 2018 is in line with our expectations at the beginning of the year. At the beginning of the year profit after tax was forecast to be in the range of DKK 1,200-1,400m.

The result is characterised by:

Q1-Q3

- A decrease in core income of DKK 126m to DKK 3,003m
- A drop in trading income of DKK 57m
- A 2% increase in costs (core earnings) to DKK 2,036m
- A reversal of impairment charges for loans and advances of DKK 71m
- A decline in core earnings of DKK 194m to DKK 1,178m
- Negative investment portfolio earnings of DKK 68m
- Bank loans and advances of DKK 62.1bn (year-end 2017: DKK 64.3bn)
- Bank deposits of DKK 82.7bn (year-end 2017: DKK 82.7bn)
- A capital ratio of 21.2%, including a Common Equity Tier 1 capital ratio of 16.1%
- An individual solvency need of 11.4% (year-end 2017: 11.0%).

Income statement – Q1-Q3 (DKKm)	2018	2017
Core income	3,003	3,129
Trading income	140	197
Total income	3,143	3,326
Costs, core earnings	2,036	1,992
Core earnings before impairment	1,107	1,334
Impairment of loans and advances etc	(71)	(38)
Core earnings	1,178	1,372
Investment portfolio earnings	(68)	195
Profit before non-recurring items	1,110	1,567
Non-recurring items, net	83	(23)
Profit before tax	1,193	1,544
Tax	230	340
Profit for the period	963	1,204

Core income

Core income of DKK 3,003m represents a drop of DKK 126m compared with 2017.

Net interest has decreased by DKK 162m to DKK 1,358m. DKK 50m of the decline is attributable to an increase in the extent of funded mortgage-like loans.

Net income from the cooperation with Totalkredit represents DKK 349m (2017: DKK 312m) after a set-off of loss of DKK 15m (2017: DKK 22m).

The cooperation with DLR Kredit has generated an income of DKK 87m (2017: DKK 113m).

Total mortgage credit income has risen by DKK 11m to DKK 438m – an increase of 3% compared to 2017.

DKK 39m of the increase of DKK 11m is attributable to an increase in the extent of funded mortgage-like loans.

Income from commission and brokerage has gone down from DKK 273m in 2017 to DKK 228m – a decline of 16%.

Compared with 2017 income from asset management has gone up by DKK 12m to DKK 200m – a rise of 6%.

Income from commission etc concerning investment funds and pooled pension plans has increased by DKK 39m compared with 2017 to DKK 330m as a result of the revaluation of the shares in BI Holding A/S of DKK 41m.

The remaining income components have risen by DKK 19m compared to 2017 – an increase of 4%.

Core income – Q1-Q3 (DKKm)	2018	2017
Net interest etc	1,358	1,520
Mortgage credit	438	427
Payment services	149	149
Remortgaging and loan fees	98	104
Commission and brokerage	228	273
Commission etc investment funds and pooled pension plans	330	291
Asset management	200	188
Custody account fees	52	53
Other operating income	150	124
Total	3,003	3,129

Trading income

Trading income constitutes DKK 140m in Q1-Q3 2018 compared with DKK 197m in the same period in 2017.

In Fixed Income considerable trading activity was recorded in mortgage bonds in Q1-Q3 2018. In Equities income was affected by the negative market trend in Q1-Q3 2018.

Trading income – Q1-Q3 (DKKm)	2018	2017
Bonds	85	129
Shares	29	44
Foreign exchange, interest etc	26	24
Total	140	197

Costs and depreciation

The Group's costs and depreciation totalled DKK 2,068m, equal to an increase of DKK 48m compared with 2017. The increase is a consequence of general pay rises for the financial sector and a payroll tax increase of 0.5%.

Costs and depreciation – Q1-Q3 (DKKm)	2018	2017
Staff costs	1,200	1,147
Other administrative expenses	783	781
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	72	72
Other operating expenses	13	20
Total costs and depreciation	2,068	2,020
Distributed as follows:		
Costs, core earnings	2,036	1,992
Costs, investment portfolio earnings	5	5
Non-recurring costs	27	23

Costs (core earnings) represent DKK 2,036m compared with DKK 1,992m in 2017.

At 30 September 2018 the Group's staff numbered 2,123 (full-time equivalent) compared with 2,069 at 30 September 2017.

The number of branches is unchanged compared with year-end 2017: 62 in Denmark and 3 in Germany.

Core earnings before impairment

Core earnings before impairment charges for loans and advances represent DKK 1,107m – a decrease of DKK 227m or 17% compared with the same period in 2017.

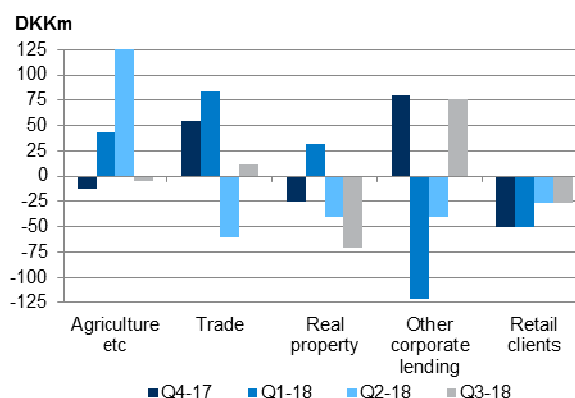
Impairment of loans and advances etc

Impairment charges for loans and advances represent an income of DKK 71m compared with an income of DKK 38m in the same period in 2017.

Additional impairment charges for agricultural exposures represent DKK 125m at 30 September 2018 – a DKK 50m increase compared with year-end 2017.

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

Individual impairment charges – quarterly



The impairment ratio relative to bank loans and advances and guarantees at 30 September 2018 represents minus 0.09%. At end-September 2018 accumulated impairment and provisions amount to DKK 3,037m – a decline of DKK 270m compared with 1 January 2018.

In Q1-Q3 2018 reported losses amount to DKK 339m (Q1-Q3 2017: DKK 506m). Of the reported losses DKK 232m has previously been written down.

As a result of **IFRS 9**, which became effective on 1 January 2018, 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 lines 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 are divided into 3 stages:

- **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 September 2018 divided into these 3 stages are shown in the table below.

30 Sep 2018 (DKKm)	Stage 1	Stage 2	Stage 3	Total
Loans/advances before impairment charges	56,528	5,686	2,656	64,870
Impairment charges	97	1,186	1,525	2,808
Loans/advances after impairment charges	56,431	4,500	1,131	62,062

30 Sep 2018 (%)	Stage 1	Stage 2	Stage 3	Total
Impairment charges as % of bank loans and advances	0.2	20.9	57.4	4.3
Share of bank loans and advances before impairment charges (%)	87.1	8.8	4.1	100.0
Share of bank loans and advances after impairment charges (%)	90.9	7.3	1.8	100.0

Credit impaired bank loans and advances – stage 3 – represent 4.1% of total bank loans and advances before impairment charges and 1.8% of total bank loans and advances after impairment charges.

Impairment charges concerning credit impaired bank loans and advances as a percentage of credit impaired bank loans and advances at 30 September 2018 stand at 57.4%.

In compliance with the transitional rules comparative figures for 2017 have not been restated.

Core earnings

Core earnings represent DKK 1,178m – a decrease of DKK 194m or 14% compared with the same period in 2017.

Investment portfolio earnings

Together the Group's position-taking and liquidity handling recorded negative investment portfolio earnings of DKK 68m in Q1-Q3 2018 compared with investment portfolio earnings of DKK 195m a year ago.

The negative investment portfolio earnings in Q1-Q3 2018 are a consequence of widening credit spreads on mortgage bonds as well as a drop in interest rates. The risk continues to be composed so that the Group will profit from an interest rate increase.

Investment portfolio earnings – Q1-Q3 (DKKm)	2018	2017
Position-taking	(42)	116
Liquidity generation and liquidity reserves	(9)	61
Strategic positions	(12)	23
Costs	(5)	(5)
Total	(68)	195

Margin expenses as regards the Group's non-callable senior issues are included under liquidity generation and liquidity reserves and represent DKK 8m in Q1-Q3 2018 compared with DKK 16m in Q1-Q3 2017.

Non-recurring items, net

Non-recurring items, net represent an income of DKK 83m compared with an expense of DKK 23m in Q1-Q3 2017. The item consists of costs of DKK 27m for process digitization related to Blue growth and the establishment of a new mortgage platform as well as an income of DKK 110m in connection with the sale of the shares in ValueInvest Asset Management S.A.

Profit for the period

Profit before tax amounts to DKK 1,193m (Q1-Q3 2017: DKK 1,544m). Tax represents DKK 230m, equal to an effective tax rate of 19.2%. The low level is due to the fact that the income of DKK 110m and DKK 41m concerning ValueInvest and BI Holding respectively is tax-exempt. Profit for the period amounts to DKK 963m compared with DKK 1,204m in 2017.

Return

Profit for the period equals a return on average shareholders' equity of 11.2% p.a. after tax against 13.9% p.a. in Q1-Q3 2017. Earnings per share stands at DKK 14.4 compared with DKK 17.5 in 2017.

Subsidiaries

Ejendomsselskabet has recorded a profit after tax of DKK 5m (Q1-Q3 2017: DKK 2m). Profit after tax in DiBa A/S and Syd Fund Management A/S represents DKK 6m (Q1-Q3 2017: DKK 0m) and DKK 15m (Q1-Q3 2017: DKK 11m) respectively.

Q3 2018 compared with Q2 2018

Profit before tax for the quarter represents DKK 379m. Compared with Q2 2018 profit before tax reflects:

- a decline in net interest etc of DKK 21m
- a decrease in core income of DKK 24m
- a drop in trading income of DKK 5m
- a decline in costs (core earnings) of DKK 55m
- an increase in impairment charges for bank loans and advances of DKK 30m
- a drop in core earnings of DKK 4m to DKK 378m
- investment portfolio earnings of DKK 10m (Q2 2018: minus DKK 66m).

Profit for the period (DKKm)	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Core income	963	987	1,053	1,038	1,036	1,040	1,053
Trading income	40	45	55	36	58	46	93
Total income	1,003	1,032	1,108	1,074	1,094	1,086	1,146
Costs, core earnings	639	694	703	645	623	678	691
Core earnings before impairment	364	338	405	429	471	408	455
Impairment of loans and advances etc	(14)	(44)	(13)	(13)	(29)	(20)	11
Core earnings	378	382	418	442	500	428	444
Investment portfolio earnings	10	(66)	(12)	(13)	8	51	136
Profit before non-recurring items	388	316	406	429	508	479	580
Non-recurring items, net	(9)	(13)	105	(17)	(11)	(6)	(6)
Profit before tax	379	303	511	412	497	473	574
Tax	84	66	80	85	109	104	127
Profit for the period	295	237	431	327	388	369	447

Total assets

The Group's total assets made up DKK 135.0bn at 30 September 2018 against DKK 138.5bn at year-end 2017.

Assets (DKKbn)	30 Sep 2018	31 Dec 2017
Amounts owed by credit institutions etc	13.0	14.6
Loans and advances at fair value (reverse transactions)	6.0	5.2
Loans and advances at amortised cost (bank loans and advances)	62.1	64.3
Securities and holdings etc	28.6	28.1
Assets related to pooled plans	16.9	16.5
Other assets etc	8.4	9.8
Total	135.0	138.5

The Group's bank loans and advances make up DKK 62.1bn at end-September 2018 compared with DKK 64.3bn at year-end 2017 and DKK 66.8bn at end-September 2017.

Shareholders' equity and liabilities (DKKbn)	30 Sep 2018	31 Dec 2017
Amounts owed to credit institutions etc	4.7	6.0
Deposits and other debt	82.7	82.7
Deposits in pooled plans	16.9	16.5
Bonds issued	3.7	3.7
Other liabilities etc	12.8	15.4
Provisions	0.4	0.4
Subordinated capital	1.9	1.9
Shareholders' equity – shareholders of Sydbank A/S	11.1	11.9
Holders of Additional Tier 1 capital	0.8	-
Total	135.0	138.5

The Group's deposits make up DKK 82.7bn, unchanged compared with year-end 2017.

Capital

At 30 September 2018 the equity of the shareholders constitutes DKK 11,147m – a decline of DKK 779m since year-end 2017. The change comprises an addition from profit for the period of DKK 950m less actual distribution of DKK 765m and net purchases of own shares etc of DKK 796m as well as the effect of DKK 168m after tax of the amended impairment principles regarding loans and advances etc as a consequence of IFRS 9 taking effect on 1 January 2018.

The Bank issued Additional Tier 1 capital worth EUR 100m on 30 May 2018. The capital is perpetual with optional redemption on 28 August 2025.

The Bank initiated a share buyback programme of DKK 500m on 21 February 2018. On 22 June 2018 the programme was increased by DKK 750m to DKK 1,250m. The total share buyback programme will be completed by 31 January 2019 at the latest. At end-September 3,765,000 shares worth DKK 812m, made up at the trade date, had been repurchased.

The issue of Additional Tier 1 capital as well as the share buyback are part of the capital adjustment to optimise the capital structure in accordance with the Group's capital policy published in the 2017 Annual Report.

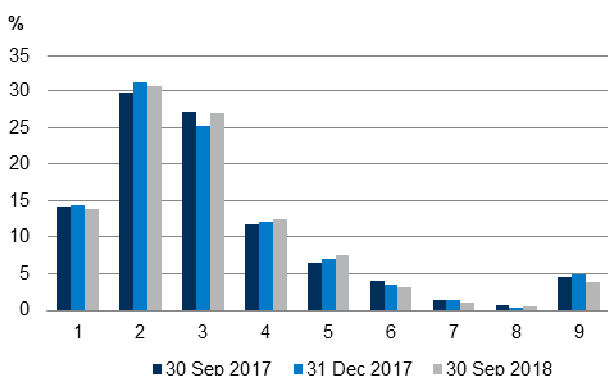
REA (DKKbn)	30 Sep 2018	31 Dec 2017
Credit risk	36.2	38.9
Market risk	6.0	6.3
Operational risk	8.0	8.0
Other exposures incl CVA	5.4	5.7
Total	55.6	58.9

The risk exposure amount represents DKK 55.6bn (year-end 2017: DKK 58.9bn). The change is mainly attributable to a decrease in market risk of DKK 0.3bn and a decline in credit risk of DKK 2.7bn.

The development in the gross exposure by rating category at 30 September 2017, 31 December 2017 and 30 September 2018 appears below.

Compared with 31 December 2017 the gross exposure by rating category shows an overall positive development with a larger share in the 4 best rating categories.

Gross exposure by rating category

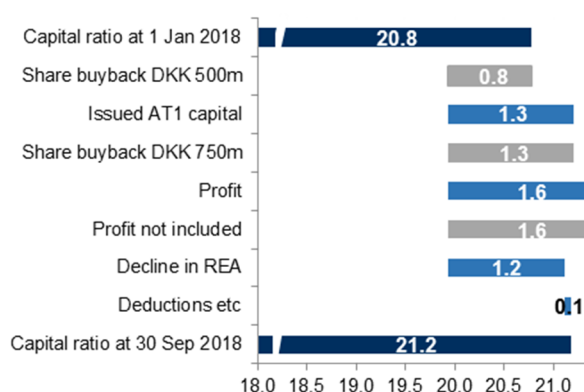


The gross exposure consists of loans and advances, undrawn credit lines, interest receivable, guarantees and counterparty risk on derivatives. The graph comprises exposures treated according to IRB. Exposures relating to clients in default are not included in the breakdown of rating categories. Impairment charges for exposures have not been deducted from the exposure.

The Group's capital ratio stands at 21.2%, of which the Tier 1 capital ratio represents 17.9% compared with 20.8% and 17.7% respectively at year-end 2017. The Common Equity Tier 1 capital ratio stands at 16.1% (31 December 2017: 17.3%).

The development in the Group's capital ratio from 31 December 2017 to 30 September 2018 is illustrated below.

Capital ratio in Q1-Q3



Profit for the period is not included in the calculation of capital ratios at 30 September 2018. If 50% of profit for the period after tax had been recognised the capital ratios would have been 0.8 percentage points higher.

At 30 September 2018 the individual solvency need represents 11.4% (31 December 2017: 11.0%).

The parent's capital ratio stands at 20.4%, of which the Tier 1 capital ratio represents 17.2% compared with 20.1% and 17.2% respectively at year-end 2017. The Common Equity Tier 1 capital ratio stands at 15.5% (31 December 2017: 16.7%).

Capital requirements

The Group's capital management is anchored in the Internal Capital Adequacy Assessment Process (ICAAP), a review conducted to identify risks and determine the individual solvency need.

At end-September 2018 the individual solvency need represented 11.4%. The solvency need consists of a minimum capital requirement of 8% under Pillar I and a capital add-on under Pillar II. Approximately 56% of the need must be covered by Common Equity Tier 1 capital, equal to 6.4% of the risk exposure amount.

In addition to the solvency need the Group must meet a combined buffer requirement of 2.7% at 30 September 2018. When fully loaded the combined buffer requirement will represent 4.5% bringing the fully loaded CET1 capital ratio requirement to 10.9%.

Capital and solvency and capital requirements (% of REA)	30 Sep 2018	Fully loaded*
Capital and solvency		
Common Equity Tier 1 capital ratio	16.1	16.1
Capital ratio	21.2	21.2
Capital requirements (incl buffers) **		
Total capital requirement	14.1	15.9
CET1 capital requirement	9.1	10.9
-of which countercyclical capital buffer	0.0	1.0
-of which capital conservation buffer	1.9	2.5
-of which SIFI buffer	0.8	1.0
Excess capital		
Common Equity Tier 1 capital	7.0	5.2
Total capital	7.1	5.3

* Based on fully loaded CRR/CRD IV rules and requirements.

** The total capital requirement consists of an individual solvency need and a combined buffer requirement. The fully loaded countercyclical capital buffer is based on the adopted requirement as at 30 September 2018.

Market risk

At 30 September 2018 the Group's interest rate risk represents DKK 120m. The Group's exchange rate risk continues to be very low and its equity position modest.

Funding and liquidity

The guidelines for calculating the Liquidity Coverage Ratio – LCR – specify a run-off of exposures, while taking into account counterparties, funding size, hedging and duration. Consequently the most stable deposits are favoured relative to large deposits, in particular large deposits from business enterprises and financial counterparties.

The Group's LCR constituted 173% at 30 September 2018 (31 December 2017: 176%).

LCR (DKKbn)	30 Sep 2018	31 Dec 2017	30 Sep 2017
Total liquidity buffer	32.9	29.4	28.2
Net outflows	19.1	16.7	13.3
LCR (%)	173	176	212

The Group met the LCR requirement throughout the period and as can be seen, its excess cover is significant at 30 September 2018.

Funding ratio (DKKbn)	30 Sep 2018	31 Dec 2017	30 Sep 2017
Shareholders' equity and subordinated capital	13.8	13.8	13.1
Senior loans with maturities > 1 year	3.7	-	-
Stable deposits	73.6	72.2	75.6
Total stable funding	91.1	86.0	88.7
Loans and advances (excl reverse and mortgage-like loans funded via external counterparties)	62.1	64.3	66.8
Funding ratio (%)	147	134	133

As shown above the Group's stable funding exceeds the Group's loans and advances by DKK 29.0bn at 30 September 2018 (31 December 2017: DKK 21.7bn).

Rating

Moody's most recent rating of Sydbank:

- Outlook: Positive
- Long-term deposit: A2
- Baseline Credit Assessment: Baa1
- Senior unsecured: A2
- Short-term deposit: P-1.

Supervisory Diamond

The Supervisory Diamond sets up a number of benchmarks to indicate banking activities that initially should be regarded as involving a higher risk. Any breach of the Supervisory Diamond is subject to reactions by the Danish FSA. Sydbank A/S complies with all the benchmarks of the Supervisory Diamond.

Supervisory Diamond	30 Sep 2018	31 Dec 2017	30 Sep 2017
Sum of 20 largest exposures < 175%	151	131	143
Lending growth < 20% annually	(7)	(17)	(14)
Commercial property exposure < 25%	8	8	9
Funding ratio < 1	0.66	0.72	0.72
Excess liquidity coverage > 100%	187	-	-

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 eligible liabilities (MREL). In March 2018 the Danish FSA set the MREL for Sydbank at 12.4% of the Bank's total liabilities and total capital, equal to 27.3% of the risk exposure amount. The MREL must be met by 1 July 2019. This will result in changes in the Group's capital and funding structure.

The general resolution principle for SIFIs is that it should be possible to restructure them and send them back to the market with adequate capitalisation to ensure market confidence. In accordance with this principle the MREL for SIFIs has been set at twice the total capital requirement. The MREL must be met with convertible instruments ("contractual bail-in").

On 18 September 2018 Sydbank issued callable senior debt of EUR 500m with a maturity of 5 years as part of the Bank's fulfilment of the MREL. Before 1 July 2019 another issue of the same order is expected after which the MREL will have been met.

The establishment of a resolution fund has commenced. 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 2018 is expected to represent DKK 18m.

Leverage ratio

The CRR/CRD IV rules require credit institutions to calculate, report, monitor and disclose their leverage ratio, which is defined as Tier 1 capital as a percentage of total exposure. The European Commission's proposal for a revision of CRR includes a proposal to introduce a minimum leverage ratio requirement of 3%.

The Group's leverage ratio stood at 6.7% at 30 September 2018 (year-end 2017: 6.9%) taking into account the transitional rules.

Assuming fully loaded Tier 1 capital under CRR/CRD IV without any refinancing of non-eligible Additional Tier 1 capital, the leverage ratio would be 6.6% (year-end 2017: 6.7%).

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

IFRS 9 – transitional effect

As a result of IFRS 9 taking effect on 1 January 2018 the Group's allowance account was increased by DKK 216m. Following the tax effect of DKK 48m due to the increased allowance account, the Group's shareholders' equity has been reduced by DKK 168m at 1 January 2018.

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.

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 are also known as Basel IV. Among other things Basel IV proposes to constrain the use of internal models and introduce a permanent floor for the risk exposure amount.

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

The recommendations must be implemented in the EU before they will apply to Danish credit institutions. The Group is following developments closely. At present the extent of changes in relation

to the Basel Committee's recommendations to be implemented as EU regulation is unknown. The effective date is expected to be 1 January 2022 on which date the floor requirement is also expected to be implemented, starting at 50% and gradually increasing until finally reaching 72.5% on 1 January 2027.

Focus on agriculture

The present financial situation in the agricultural sector is impacted by large crop losses, high feed prices and low pig prices.

Compared with 2017, which was a good year for milk producers and pig producers, the situation has now changed considerably.

According to the current forecast for crops in Denmark the yield will be 38% lower than in 2017. In Western Europe the drought hit Denmark's grain harvest the hardest. The total grain production in the EU has dropped by 12%.

All branches of farming are affected by the crop losses which are estimated to total DKK 6.4bn.

According to the SEGES forecast from October 2018 agriculture will record a loss totalling DKK 7.4bn in 2018 compared with a total profit of DKK 4.8bn in 2017.

Milk producers have suffered great losses as a result of the drought in the growth period in 2018. The rain at the end of August however repaired some of the damage and the corn yield turned out considerably better than feared. The settlement price for milk currently constitutes DKK 2.77 per kg and is thus DKK 0.26 higher than budgeted for the year. According to the SEGES forecast overall milk producers will record a modest loss in 2018 due to the negative impact of the crop losses.

Pig producers had one of their best years ever in 2017 but the situation has changed. Crop losses, declining pig prices and increasing feed costs make for a very grave situation for the industry at present which will result in farms being closed.

SEGES expects that pig producers will incur an average loss of DKK 1.9m in 2018 and DKK 1.0m in 2019 against a profit of DKK 1.5m in 2017.

In light of the current settlement prices and the forecast for 2019 we anticipate that we will see many unsustainable budgets and consequently a number of pig producers, in particular pork producers with limited equity, will be forced to close their farms.

Most crop producers have incurred substantial yield losses as a result of the drought but very low drying costs and rising grain prices have made up for some of the losses. SEGES estimates that an average crop

producer will record a loss of approximately DKK 0.6m in 2018.

A breakdown by industry of bank loans and advances to the agricultural sector is shown below.

Credit impaired bank loans and advances to agriculture represent DKK 484m at 30 September 2018, equal to 11.3% of total loans and advances to agriculture.

Of total loans and advances to agriculture an impairment charge of 15.5% was recorded at 30 September 2018 against 11.1% at year-end 2017.

Neither the satisfactory earnings for 2017 nor the expected unsatisfactory earnings for 2018 change the fact that the agricultural sector overall has too large debts and is consequently very vulnerable to developments in settlement prices and interest rates.

In Q1-Q3 2018 individual impairment charges of DKK 114m were recorded on agricultural exposures. In addition management estimates were increased by DKK 50m to DKK 125m at the end of Q2 2018. Total impairment charges as regards agriculture constitute DKK 164m in Q1-Q3 2018.

30 Sep 2018 (DKKm)	Pig farming	Cattle farming	Crop production	Other agriculture	Total loans and advances
Loans and advances – stage 1	725	627	732	641	2,725
Loans and advances – stage 2	197	298	245	328	1,068
Loans and advances – stage 3 – credit impaired	161	145	67	111	484
Bank loans and advances before impairment charges	1,083	1,070	1,044	1,080	4,277
Impairment charges for loans and advances – stage 1	3	4	2	2	11
Impairment charges for loans and advances – stage 2	53	73	64	55	245
Impairment charges for loans and advances – stage 3	105	88	31	57	281
Management estimates	100	25	-	-	125
Total impairment charges for bank loans and advances	261	190	97	114	662
Bank loans and advances after impairment charges	822	880	947	966	3,615
Credit impaired as % of bank loans and advances	14.9	13.6	6.4	10.3	11.3
Impairment as % of credit impaired bank loans and advances	65.2	60.7	46.3	51.4	58.1
Impairment as % of bank loans and advances	24.1	17.8	9.3	10.6	15.5

31 Dec 2017 (DKKm)	Pig farming	Cattle farming	Crop production	Other agriculture	Total loans and advances
Bank loans and advances before impairment charges	1,216	1,061	1,110	1,010	4,352
Individual impairment charges	125	128	56	99	408
Management estimates	50	25	-	-	75
Bank loans and advances after impairment charges	1,041	863	1,054	911	3,869
Impaired bank loans and advances	256	300	167	177	900
Impaired as % of bank loans and advances	21.1	29.5	15.0	17.5	20.7
Impairment as % of impaired bank loans and advances	48.8	42.7	33.5	55.9	45.3
Impairment as % of bank loans and advances	14.4	15.1	5.0	9.8	11.1

Income Statement

DKKm	Note	Q1-Q3 2018	Q1-Q3 2017	Q3 2018	Q3 2017
Interest income	2	1,490	1,655	491	526
Interest expense	3	73	144	30	46
Net interest income		1,417	1,511	461	480
Dividends on shares		27	31	1	4
Fee and commission income	4	1,608	1,516	520	521
Fee and commission expense		232	175	78	59
Net interest and fee income		2,820	2,883	904	946
Market value adjustments	5	361	629	114	139
Other operating income		16	15	6	5
Staff costs and administrative expenses	6	1,984	1,928	620	607
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment		72	72	25	24
Other operating expenses	8	13	20	5	5
Impairment of loans and advances etc	9	(59)	(33)	(4)	(41)
Profit/(Loss) on holdings in associates and subsidiaries	10	6	4	1	2
Profit before tax		1,193	1,544	379	497
Tax	11	230	340	84	109
Profit for the period		963	1,204	295	388
Distributed as follows					
Shareholders of Sydbank A/S		950	1,204	285	388
Holders of Additional Tier 1 (AT1) capital		13	-	10	-
Total		963	1,204	295	388
EPS Basic (DKK) *		14.4	17.5	4.4	5.7
EPS Diluted (DKK) *		14.4	17.5	4.4	5.7
Dividend per share (DKK)		-	-	-	-
* Calculated on the basis of average number of shares outstanding, see page 19.					

Statement of Comprehensive Income

Profit for the period	963	1,204	295	388
Other comprehensive income				
Items that may be reclassified to the income statement:				
Translation of foreign entities	8	(16)	5	(12)
Hedge of net investment in foreign entities	(8)	16	(5)	12
Property revaluation	-	(3)	-	-
Other comprehensive income after tax	0	(3)	0	0
Comprehensive income for the period	963	1,201	295	388

Balance Sheet

DKKm	Note	30 Sep 2018	31 Dec 2017	30 Sep 2017
Assets				
Cash and balances on demand at central banks		1,988	2,115	2,085
Amounts owed by credit institutions and central banks	12	11,073	12,479	5,635
Loans and advances at fair value		5,955	5,248	5,929
Loans and advances at amortised cost		62,062	64,312	66,807
Bonds at fair value		26,251	25,860	22,162
Shares etc		2,219	2,118	2,104
Holdings in associates etc		150	157	167
Assets related to pooled plans		16,870	16,541	16,033
Intangible assets		265	281	286
Land and buildings – owner-occupied property		1,075	1,075	1,046
Other property, plant and equipment		78	71	64
Current tax assets		30	29	19
Deferred tax assets		46	46	56
Assets in temporary possession		1	1	1
Other assets	13	6,844	8,099	9,396
Prepayments		70	62	66
Total assets		134,977	138,494	131,856
Shareholders' equity and liabilities				
Amounts owed to credit institutions and central banks	14	4,744	5,960	3,213
Deposits and other debt	15	82,662	82,690	80,758
Deposits in pooled plans		16,870	16,541	16,040
Bonds issued at amortised cost		3,701	3,722	3,720
Current tax liabilities		22	-	137
Other liabilities	16	12,821	15,363	14,518
Deferred income		4	4	6
Total liabilities		120,824	124,280	118,392
Provisions	17	399	434	397
Subordinated capital	18	1,858	1,854	1,298
Shareholders' equity:				
Share capital		677	704	704
Revaluation reserves		97	97	79
Other reserves:				
Reserves according to articles of association		425	425	425
Other reserves		2	2	13
Retained earnings		9,946	9,922	10,548
Proposed dividend etc		-	776	-
Shareholders of Sydbank A/S		11,147	11,926	11,769
Holders of Additional Tier 1 (AT1) capital		749	-	-
Total shareholders' equity		11,896	11,926	11,769
Total shareholders' equity and liabilities		134,977	138,494	131,856

Financial Highlights – Quarterly

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Income statement (DKKbn)							
Core income	963	987	1,053	1,038	1,036	1,040	1,053
Trading income	40	45	55	36	58	46	93
Total income	1,003	1,032	1,108	1,074	1,094	1,086	1,146
Costs, core earnings	639	694	703	645	623	678	691
Core earnings before impairment	364	338	405	429	471	408	455
Impairment of loans and advances etc	(14)	(44)	(13)	(13)	(29)	(20)	11
Core earnings	378	382	418	442	500	428	444
Investment portfolio earnings	10	(66)	(12)	(13)	8	51	136
Profit before non-recurring items	388	316	406	429	508	479	580
Non-recurring items, net	(9)	(13)	105	(17)	(11)	(6)	(6)
Profit before tax	379	303	511	412	497	473	574
Tax	84	66	80	85	109	104	127
Profit for the period	295	237	431	327	388	369	447
Balance sheet highlights (DKKbn)							
Loans and advances at amortised cost	62.1	62.5	63.5	64.3	66.8	70.6	71.9
Loans and advances at fair value	6.0	6.1	4.4	5.2	5.9	7.4	7.1
Deposits and other debt	82.7	84.1	81.5	82.7	80.8	84.7	80.9
Bonds issued at amortised cost	3.7	-	3.7	3.7	3.7	3.7	3.7
Subordinated capital	1.9	1.9	1.9	1.9	1.3	1.3	2.1
Holders of Additional Tier 1 (AT1) capital	0.8	0.8	-	-	-	-	-
Shareholders' equity	11.1	11.3	11.3	11.9	11.8	11.5	11.4
Total assets	135.0	136.1	134.3	138.5	131.9	140.1	137.6
Financial ratios per share (DKK per share of DKK 10)							
EPS Basic *	4.4	3.5	6.5	4.9	5.7	5.4	6.4
EPS Diluted *	4.4	3.5	6.5	4.9	5.7	5.4	6.4
Share price at end of period	189.0	219.4	222.2	249.9	261.3	245.4	241.7
Book value *	179.5	173.1	170.5	178.3	174.0	169.0	164.7
Share price/book value *	1.05	1.27	1.30	1.40	1.50	1.45	1.47
Average number of shares outstanding (in millions)	64.4	66.2	66.8	67.2	68.0	68.8	69.5
Dividend per share	-	-	-	11.31	-	-	-
Other financial ratios and key figures							
Common Equity Tier 1 capital ratio	16.1	15.5	16.6	17.3	15.5	15.6	15.6
Tier 1 capital ratio	17.9	17.2	17.0	17.7	16.0	16.1	16.0
Capital ratio	21.2	20.4	20.2	20.8	18.1	18.1	18.1
Pre-tax profit as % p.a. of average shareholders' equity *	13.1	10.6	17.6	13.9	17.1	16.5	19.8
Post-tax profit as % p.a. of average shareholders' equity *	10.2	8.2	14.8	11.1	13.3	12.8	15.5
Costs (core earnings) as % of total income	63.7	67.2	63.4	60.1	56.9	62.4	60.3
Return on assets (%)	0.2	0.2	0.3	1.1	0.3	0.3	0.3
Interest rate risk	1.2	1.6	0.9	0.8	1.6	0.7	0.7
Foreign exchange position	1.8	3.6	1.6	1.2	2.4	3.9	4.1
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Loans and advances relative to deposits **	0.7	0.6	0.6	0.6	0.7	0.7	0.8
Loans and advances relative to shareholders' equity **	5.5	5.5	5.6	5.4	5.7	6.1	6.3
Growth in loans and advances for the period **	(0.7)	(1.6)	(1.2)	(3.7)	(5.3)	(1.8)	(6.9)
Excess cover relative to statutory liquidity requirements	280.3	237.7	226.7	232.1	223.9	242.0	213.2
Total large exposures	0.0	0.0	30.3	0.0	11.2	20.7	10.3
Accumulated impairment ratio	3.8	3.9	4.0	3.6	3.4	3.6	3.7
Impairment ratio for the period	(0.01)	(0.06)	(0.02)	(0.02)	(0.03)	(0.02)	0.01
Number of full-time staff at end of period	2,123	2,102	2,088	2,064	2,069	2,092	2,062

* Financial ratios are calculated as if Additional Tier 1 capital is accounted for as a liability.

** Financial ratios are calculated on the basis of loans and advances at amortised cost.

Financial Highlights – Q1-Q3

	Q1-Q3 2018	Q1-Q3 2017	Q1-Q3 2016	Q1-Q3 2015	Q1-Q3 2014
Income statement (DKK m)					
Core income	3,003	3,129	3,131	3,289	3,225
Trading income	140	197	188	167	205
Total income	3,143	3,326	3,319	3,456	3,430
Costs, core earnings	2,036	1,992	1,958	2,009	1,986
Core earnings before impairment	1,107	1,334	1,361	1,447	1,444
Impairment of loans and advances etc	(71)	(38)	114	272	559
Core earnings	1,178	1,372	1,247	1,175	885
Investment portfolio earnings	(68)	195	41	(87)	81
Profit before non-recurring items	1,110	1,567	1,288	1,088	966
Non-recurring items, net	83	(23)	21	0	84
Profit before tax	1,193	1,544	1,309	1,088	1,050
Tax	230	340	281	256	222
Profit for the period	963	1,204	1,028	832	828
Balance sheet highlights (DKK bn)					
Loans and advances at amortised cost	62.1	66.8	78.1	72.4	68.0
Loans and advances at fair value	6.0	5.9	6.9	6.6	5.1
Deposits and other debt	82.7	80.8	78.6	76.9	73.0
Bonds issued at amortised cost	3.7	3.7	7.1	3.7	3.7
Subordinated capital	1.9	1.3	2.1	2.1	1.4
Holders of Additional Tier 1 (AT1) capital	0.8	-	-	-	-
Shareholders' equity	11.1	11.8	11.4	11.2	11.1
Total assets	135.0	131.9	146.2	140.9	148.2
Financial ratios per share (DKK per share of DKK 10)					
EPS Basic *	14.4	17.5	14.6	11.4	11.3
EPS Diluted *	14.4	17.5	14.6	11.4	11.3
Share price at end of period	189.0	261.3	201.4	253.9	179.6
Book value *	179.5	174.0	163.0	156.3	151.0
Share price/book value *	1.05	1.50	1.24	1.62	1.19
Average number of shares outstanding (in millions)	65.8	68.7	70.6	72.8	73.3
Dividend per share	-	-	-	-	-
Other financial ratios and key figures					
Common Equity Tier 1 capital ratio	16.1	15.5	14.9	14.4	14.8
Tier 1 capital ratio	17.9	16.0	16.2	15.9	16.4
Capital ratio	21.2	18.1	18.0	17.6	17.0
Pre-tax profit as % p.a. of average shareholders' equity *	13.9	17.8	15.7	13.0	13.0
Post-tax profit as % p.a. of average shareholders' equity *	11.2	13.9	12.3	10.0	10.2
Costs (core earnings) as % of total income	64.8	59.9	59.0	58.1	57.9
Return on assets (%)	0.7	0.9	0.7	0.6	0.6
Interest rate risk	1.2	1.6	0.6	2.0	0.5
Foreign exchange position	1.8	2.4	1.4	1.3	4.5
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0
Loans and advances relative to deposits **	0.7	0.7	0.8	0.8	0.8
Loans and advances relative to shareholders' equity **	5.5	5.7	6.9	6.5	6.1
Growth in loans and advances for the period **	(3.5)	(13.5)	5.1	5.8	2.1
Excess cover relative to statutory liquidity requirements	280.3	223.9	209.5	186.2	177.3
Total large exposures	0.0	11.2	35.2	10.2	37.9
Accumulated impairment ratio	3.8	3.4	4.2	4.9	5.4
Impairment ratio for the period	(0.09)	(0.05)	0.12	0.31	0.68
Number of full-time staff at end of period	2,123	2,069	2,048	2,113	2,142

* Financial ratios are calculated as if Additional Tier 1 capital is accounted for as a liability.

** Financial ratios are calculated on the basis of loans and advances at amortised cost.

Capital

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 shareholders' equity
Shareholders' equity at 1 Jan 2018	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
Adjusted shareholders' equity, 1 Jan 2018	704	97	425	2	9,754	776	11,758	-	11,758
Profit for the period	-	-	-	-	950	-	950	13	963
Other comprehensive income									
Translation of foreign entities	-	-	-	-	8	-	8	-	8
Hedge of net investment in foreign entities	-	-	-	-	(8)	-	(8)	-	(8)
Property revaluation	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-	-	-
Comprehensive income for the period	-	-	-	-	950	-	950	13	963
Transactions with owners									
Issue of Additional Tier 1 capital	-	-	-	-	-	-	-	745	745
Transaction costs	-	-	-	-	(7)	-	(7)	-	(7)
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	(10)	(10)
Exchange rate adjustment	-	-	-	-	(1)	-	(1)	1	-
Tax	-	-	-	-	5	-	5	-	5
Purchase of own shares	-	-	-	-	(1,322)	-	(1,322)	-	(1,322)
Sale of own shares	-	-	-	-	1,201	-	1,201	-	1,201
Reduction of share capital	(27)	-	-	-	(645)	-	(672)	-	(672)
Dividend etc paid	-	-	-	-	-	(776)	(776)	-	(776)
Dividend, own shares	-	-	-	-	11	-	11	-	11
Total transactions with owners	(27)	-	-	-	(758)	(776)	(1,561)	736	(825)
Shareholders' equity at 30 Sep 2018	677	97	425	2	9,946	-	11,147	749	11,896
Shareholders' equity at 1 Jan 2017	722	82	425	13	9,769	746	11,757	-	11,757
Profit for the period	-	-	-	-	1,204	-	1,204	-	1,204
Other comprehensive income									
Translation of foreign entities	-	-	-	-	(16)	-	(16)	-	(16)
Hedge of net investment in foreign entities	-	-	-	-	16	-	16	-	16
Property revaluation	-	(3)	-	-	-	-	(3)	-	(3)
Total other comprehensive income	-	(3)	-	-	-	-	(3)	-	(3)
Comprehensive income for the period	-	(3)	-	-	1,204	-	1,201	-	1,201
Transactions with owners									
Purchase of own shares	-	-	-	-	(1,345)	-	(1,345)	-	(1,345)
Sale of own shares	-	-	-	-	1,303	-	1,303	-	1,303
Reduction of share capital	(18)	-	-	-	(394)	-	(412)	-	(412)
Dividend etc paid	-	-	-	-	-	(746)	(746)	-	(746)
Dividend, own shares	-	-	-	-	11	-	11	-	11
Total transactions with owners	(18)	-	-	-	(425)	(746)	(1,189)	-	(1,189)
Shareholders' equity at 30 Sep 2017	704	79	425	13	10,548	-	11,769	-	11,769

* Additional Tier 1 capital has no maturity date. Payment of interest and repayment of principal are voluntary. Therefore Additional Tier 1 capital is accounted for as shareholders' equity. In May 2018 Sydbank issued EUR 100m with optional redemption on 28 August 2025. The issue carries interest at the Mid-Swap Rate + a margin of 4.62%, a total of 5.25%. Under the issue the loan will be written down if the Common Equity Tier 1 capital ratio of Sydbank A/S or the Sydbank Group drops below 7%.

The Sydbank share	30 Sep 2018	31 Dec 2017	30 Sep 2017
Share capital (DKK)	676,709,540	703,611,740	703,611,740
Shares issued (number)	67,670,954	70,361,174	70,361,174
Shares outstanding at end of period (number)	63,229,572	66,900,704	67,656,886
Average number of shares outstanding (number)	65,787,926	68,364,550	68,745,068

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

Capital

DKK ^m	30 Sep 2018	31 Dec 2017	30 Sep 2017
Solvency			
Common Equity Tier 1 capital ratio	16.1	17.3	15.5
Tier 1 capital ratio	17.9	17.7	16.0
Capital ratio	21.2	20.8	18.1
Total capital			
Shareholders' equity	11,147	11,926	11,769
Expected maximum dividend based on dividend policy	(963)	-	(1,204)
Prudent valuation	(54)	(59)	(50)
Actual or contingent obligations to purchase own shares	(451)	-	(196)
Proposed dividend	-	(776)	-
Intangible assets and capitalised deferred tax assets	(256)	(271)	(284)
Significant investments in financial sector	(645)	(653)	(706)
Transitional arrangement IFRS 9	181	-	-
Common Equity Tier 1 capital	8,959	10,167	9,329
Additional Tier 1 capital	969	279	279
Tier 1 capital	9,928	10,446	9,608
Tier 2 capital	1,635	1,575	1,019
Difference between expected losses and impairment for accounting purposes	205	219	225
Total capital	11,768	12,240	10,852
Credit risk *	36,168	38,933	40,195
Market risk	6,001	6,239	6,403
Operational risk	8,023	8,023	8,025
Other exposures incl credit valuation adjustment	5,395	5,694	5,470
Risk exposure amount	55,587	58,889	60,093
Pillar 1 capital requirement	4,447	4,711	4,807
* Credit risk			
Corporate clients, IRB	26,547	28,131	29,148
Retail clients, IRB	7,638	8,271	8,410
Corporate clients, STD	316	413	484
Retail clients, STD	823	731	725
Credit institutions etc	844	1,387	1,428
Total	36,168	38,933	40,195

Cash Flow Statement

DKKm	Q1-Q3 2018	Full year 2017	Q1-Q3 2017
Operating activities			
Pre-tax profit for the period	1,193	1,956	1,544
Taxes paid	(203)	(431)	(251)
Adjustment for non-cash operating items	(25)	163	67
Cash flows from working capital	1,734	1,568	(799)
Cash flows from operating activities	2,699	3,256	561
Investing activities			
Purchase and sale of holdings in associates	8	(6)	(9)
Purchase and sale of intangible assets and property, plant and equipment	(63)	(194)	(110)
Cash flows from investing activities	(55)	(200)	(119)
Financing activities			
Purchase and sale of own holdings	(793)	(642)	(454)
Dividends etc	(765)	(735)	(735)
Issue of Additional Tier 1 capital etc	737	-	-
Raising of subordinated capital	-	558	-
Redemption of subordinated capital	-	(830)	(826)
Issue of bonds	3,701	-	-
Redemption of bonds issued	(3,727)	-	6
Cash flows from financing activities	(847)	(1,649)	(2,009)
Cash flows for the period	1,797	1,407	(1,567)
Cash and cash equivalents at 1 Jan	8,968	7,561	7,561
Cash flows for the period	1,797	1,407	(1,567)
Cash and cash equivalents at end of period	10,765	8,968	5,994

Segment Reporting etc

DKKm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
Operating segments						
Q1-Q3 2018						
Core income	2,745	200	58	-	-	3,003
Trading income	-	-	140	-	-	140
Total income	2,745	200	198	-	-	3,143
Costs, core earnings	1,795	74	119	-	48	2,036
Impairment of loans and advances etc	(71)	-	-	-	-	(71)
Core earnings	1,021	126	79	-	(48)	1,178
Investment portfolio earnings	(12)	-	-	(56)	-	(68)
Profit before non-recurring items	1,009	126	79	(56)	(48)	1,110
Non-recurring items, net	83	-	-	-	-	83
Profit before tax	1,092	126	79	(56)	(48)	1,193

DKKm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
Operating segments						
Q1-Q3 2017						
Core income	2,870	188	71	-	-	3,129
Trading income	-	-	197	-	-	197
Total income	2,870	188	268	-	-	3,326
Costs, core earnings	1,817	60	69	-	46	1,992
Impairment of loans and advances etc	(38)	-	-	-	-	(38)
Core earnings	1,091	128	199	-	(46)	1,372
Investment portfolio earnings	23	-	-	172	-	195
Profit before non-recurring items	1,114	128	199	172	(46)	1,567
Non-recurring items, net	(23)	-	-	-	-	(23)
Profit before tax	1,091	128	199	172	(46)	1,544

Segment Reporting etc

DKKm	Core income	Trading income	Costs (core earnings)	Impairment of loans and advances etc	Core earnings	Investment portfolio earnings	Non-recurring items, net	Profit before tax
Correlation between performance measures and the income statement according to IFRS								
Q1-Q3 2018								
Net interest and fee income	2,701	189		12	2,890	(70)		2,820
Market value adjustments	280	(49)			243	8	110	361
Other operating income	16				16			16
Income	2,997	140	-	12	3,149	(62)	110	3,197
Staff costs and administrative expenses			(1,951)		(1,951)	(5)	(27)	(1,984)
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment			(72)		(72)			(72)
Other operating expenses			(13)		(13)			(13)
Impairment of loans and advances etc				59	59			59
Profit on holdings in associates and subsidiaries	6				6			6
Profit before tax	3,003	140	(2,036)	71	1,178	(68)	83	1,193
Q1-Q3 2017								
Net interest and fee income	2,833	26			2,859	24		2,883
Market value adjustments	277	171		5	453	176		629
Other operating income	15				15			15
Income	3,125	197	-	5	3,327	200	-	3,527
Staff costs and administrative expenses			(1,900)		(1,900)	(5)	(23)	(1,928)
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment			(72)		(72)			(72)
Other operating expenses			(20)		(20)			(20)
Impairment of loans and advances etc				33	33			33
Profit on holdings in associates and subsidiaries	4				4			4
Profit before tax	3,129	197	(1,992)	38	1,372	195	(23)	1,544

Notes

Note 1

Accounting policies

The Interim Report is prepared in compliance with IAS 34 “Interim Financial Reporting” as adopted by the EU and in compliance with additional Danish disclosure requirements for interim reports. As a result of the use of IAS 34, the presentation is less complete compared with the presentation of an annual report and the recognition and measurement principles are in compliance with IFRS.

With the exception of the below the accounting policies are consistent with those adopted in the 2017 Annual Report, to which reference is made.

The 2017 Annual Report provides a comprehensive description of the accounting policies applied.

New accounting policies

The following amendments to IFRS have been implemented effective as from 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers.

Of the above only IFRS 9 has influenced recognition and measurement in the Interim Report. The effect in connection with the transition at 1 January 2018 is shown below.

Effect of IFRS 9

IFRS 9 Financial Instruments, which replaces IAS 39, changes the classification principles and the resulting measurement of financial assets and financial liabilities.

IFRS 9 introduces a new approach for the classification of financial assets based on the entity’s business model and the underlying cash flows of the asset.

Given the Group’s business model and types of financial assets and liabilities, the implementation of IFRS 9 has only had an impact on the Group’s impairment charges for financial assets which are measured at amortised cost (loans and advances and guarantees).

According to the new impairment model which is introduced with IFRS 9 impairment charges must be recorded for all exposures on the basis of expected credit losses based on statistical or specific loss expectations. Under the previous rules impairment charges were recognised only when there was objective evidence of impairment.

Under IFRS 9 exposures are divided into 3 groups for calculating impairment and classified into different stages (1, 2 or 3), depending on the risk of credit loss.

In compliance with the transitional provisions of IFRS 9 the Group has not implemented the new impairment model retroactively. Consequently the accumulated effect of the amendment has been recognised in shareholders’ equity at 1 January 2018 and comparative figures for 2017 have not been restated. The accounting impact is shown in the table below.

DKKm	31 Dec 2017		1 Jan 2018
	Previous practice	Effect of amendment	New practice
Balance sheet			
Assets			
Loans and advances at amortised cost	64,312	(174)	64,138
Shareholders’ equity and liabilities			
Provisions for undrawn credit lines	34	29	63
Provisions for guarantees	172	13	185
Provisions for deferred tax	203	(48)	155
Shareholders’ equity	11,926	(168)	11,758

As shown the total impact at 1 January 2018 after the tax effect represents a reduction in shareholders’ equity of DKK 168m.

Changes as a result of the implementation of IFRS 9, including the new accounting policies, are described below.

IFRS 9 – general provisions concerning recognition and measurement

According to IFRS 9 financial assets must be classified on the basis of the Group's business model for managing these assets and the contractual cash flow characteristics of the individual financial assets. With this as a basis measurement must be made according to one of the following principles:

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

The Group only has financial assets which are measured at amortised cost (AMC) and fair value through profit or loss (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.

The Group's other financial assets are measured at FVPL, including financial 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. IFRS 9, just as IAS 39, contains an option to measure financial assets at fair value through profit or loss provided that such measurement eliminates or significantly reduces any measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising related losses and gains on different bases.

Assessment of business model

The Group has assessed the business model for each business unit that forms part of the Group's operating segments subject to the reporting obligation. The Group's operating segments comprise Banking, which has a "hold to collect" business model. Financial assets primarily consist of loans and advances.

The business models of Asset Management and Sydbank Markets are neither based on "hold to collect" nor "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 assets 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 instalments. Interest payments should only reflect compensation for the time value of money, for the credit risk and for other basic lending risks as well as a margin consistent with basic lending terms.

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. Amounts owed by credit institutions etc and loans and advances at amortised cost are all assessed to determine whether objective 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 in the value of the asset in the balance sheet. Provisions for loan commitments and financial guarantees are recognised as a liability.

Impairment charges for expected credit losses depend on whether the credit risk of a financial asset (facility) has increased significantly since initial recognition and are divided into 3 stages:

- 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 loss is based on the Group's existing rating models and credit management. Since 2015 the models have been expanded with calculations specifically for IFRS 9 purposes.

The assessment of whether the 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 (probability of default) 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.

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).

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, 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 through a "back test" 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 forward-looking part of the calculation reflects the top management's current expectations which are determined on an objective basis. Macroeconomic scenarios are prepared: base case, upside and downside, including an assessment of the likelihood of each scenario. Management's approval of the scenarios may imply that changes are made to the scenarios or the probability weighting or that additional management impairment charges/provisions are made to take into account particularly risky portfolios that are not covered by the Group's macroeconomic scenarios. The approved scenarios are used to calculate the level of impairment charges.

The definition of default applied in measuring expected credit losses and assessing whether an asset must be transferred to another stage is equivalent 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 according to IFRS 9, 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 rules of the regulation.

All impairment charges are considered to be individual impairment charges and under IFRS 9 the Group will cease to recognise collective impairment charges. Existing collective impairment charges providing for particularly risky areas are included as forward-looking information.

Rule concerning phase-in of IFRS 9 – impact on regulatory capital

The increase in the Group's impairment charges will reduce shareholders' equity and will generally have a corresponding negative impact on regulatory capital. To counter the impact on regulatory capital and hence banks' possibilities of supporting lending the impact on regulatory capital will be phased in over the next 5 years.

Effect of IFRS 15

IFRS 15 Revenue from Contracts with Customers will replace the current revenue standards (IAS 11 and 18) and related interpretations. IFRS 15 introduces a new model for the recognition and measurement of revenue concerning sales contracts with customers. The new model is based on a 5-step process to be followed as regards all sales contracts with customers to determine when and how revenue is to be recognised in the income statement. The standard does not change the recognition and measurement of the Sydbank Group's sales contracts with customers and therefore has no impact on the Group.

Accounting estimates and uncertainty

The measurement of certain assets and liabilities requires management estimates as to how future events will affect the value of such assets and liabilities. The significant estimates made by management in the use of the Group's accounting policies and the inherent considerable uncertainty of such estimates used in the preparation of the condensed interim report are identical to those used in the preparation of the annual report as at 31 December 2017 with the exception of the above-mentioned changes.

The Group's significant risks and the external elements which may affect the Group are described in greater detail in the 2017 Annual Report.

Notes

DKKm	Q1-Q3 2018	Q1-Q3 2017	Q3 2018	Q3 2017
Note 2				
Interest income				
Reverse transactions with credit institutions and central banks	(22)	(7)	(6)	(2)
Amounts owed by credit institutions and central banks	(29)	(21)	(10)	(9)
Reverse loans and advances	(16)	(22)	(6)	(7)
Loans and advances and other amounts owed	1,478	1,662	483	534
Bonds	87	123	33	33
Derivatives	(8)	(81)	(3)	(23)
comprising:				
Foreign exchange contracts	27	51	10	15
Interest rate contracts	(35)	(132)	(13)	(38)
Other interest income	0	1	0	0
Total	1,490	1,655	491	526

Note 3

Interest expense				
Repo transactions with credit institutions and central banks	(9)	(9)	(2)	(1)
Credit institutions and central banks	9	17	5	3
Repo deposits	(3)	(9)	(1)	(2)
Deposits and other debt	46	115	18	38
Bonds issued	6	8	2	3
Subordinated capital	24	20	8	5
Other interest expense	0	2	0	0
Total	73	144	30	46

Note 4

Fee and commission income				
Securities trading and custody accounts	786	755	247	241
Payment services	233	228	81	81
Loan fees	107	109	33	41
Guarantee commission	94	106	31	37
Income concerning funded mortgage-like loans	119	73	39	33
Other fees and commission	269	245	89	88
Total	1,608	1,516	520	521
Total fee and commission expense	232	175	78	59
Net fee and commission income	1,376	1,341	442	462

Notes

DKKm	Q1-Q3 2018	Q1-Q3 2017	Q3 2018	Q3 2017
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Note 5

Market value adjustments

Other loans and advances and amounts owed at fair value	1	1	0	0
Bonds	(33)	196	(117)	85
Shares etc	243	150	41	52
Foreign exchange	132	129	45	43
Total derivatives	18	155	145	(40)
Assets related to pooled plans	(104)	451	114	219
Deposits in pooled plans	104	(453)	(114)	(220)
Other assets/liabilities	0	0	0	0
Total	361	629	114	139

Note 6

Staff costs and administrative expenses

Salaries and remuneration:				
Group Executive Management	12	12	4	4
Board of Directors	4	4	1	1
Shareholders' Committee	3	3	1	1
Total	19	19	6	6
Staff costs:				
Wages and salaries	952	903	288	274
Pensions	93	93	31	31
Social security contributions	11	11	4	3
Payroll tax etc	125	121	43	39
Total	1,181	1,128	366	347
Other administrative expenses:				
IT	478	437	155	148
Rent etc	87	83	27	28
Marketing and entertainment expenses	64	52	20	13
Other costs	155	209	46	65
Total	784	781	248	254
Total	1,984	1,928	620	607

Note 7

Staff

Average number of staff (full-time equivalent)	2,125	2,106	2,139	2,106
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Notes

DKKm	Q1-Q3 2018	Q1-Q3 2017	Q3 2018	Q3 2017
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Note 8

Other operating expenses

Contribution to the Resolution Fund	12	14	4	5
Other expenses	1	6	1	0
Total	13	20	5	5

Note 9

Impairment of loans and advances recognised in the income statement

Impairment and provisions	(92)	(23)	(10)	(48)
Write-offs	107	84	38	44
Recovered from debt previously written off	74	94	32	37
Impairment of loans and advances etc	(59)	(33)	(4)	(41)

Impairment and provisions at end of period (allowance account)

	IFRS 9	IAS 39	IFRS 9	IAS 39
Stage 1	119	-	119	-
IFRS 9: Stage 2/IAS 39: Collective	1,142	209	1,142	209
IFRS 9: Stage 3/IAS 39: Individual	1,651	2,619	1,651	2,619
Management estimates	125	150	125	150
Impairment and provisions at end of period	3,037	2,978	3,037	2,978

Impairment and provisions

Impairment and provisions at 31 Dec 2017, cf IAS 39	2,887		2,887	
Previous fair value adjustments	204		204	
Effect of transition to IFRS 9	216		216	
Impairment and provisions at 1 Jan	3,307	3,289	3,307	3,289
New impairment charges and provisions during the period, net	(38)	111	(38)	111
Impairment charges previously recorded, now finally written off	232	422	232	422
Impairment and provisions at end of period	3,037	2,978	3,037	2,978

Impairment of loans and advances	2,808	2,774	2,808	2,774
Provisions for undrawn credit lines	36	48	36	48
Provisions for guarantees	193	156	193	156
Impairment and provisions at end of period	3,037	2,978	3,037	2,978

Notes

Industry	Loans/advances and guarantees		Impairment charges and provisions		Impairment of loans and advances etc for the period		Loss for the period	
	30 Sep	1 Jan	30 Sep	1 Jan	Q1-Q3	Q1-Q3	Q1-Q3	Q1-Q3
DKKmn	2018	2018	2018	2018	2018	2017	2018	2017
Note 9 – continued								
Loans and advances and guarantees as well as impairment charges for loans and advances etc by industry								
Agriculture, hunting, forestry and fisheries	4,826	5,064	717	625	164	17	109	174
<i>Pig farming</i>	1,222	1,430	274	199	124	2	45	56
<i>Cattle farming</i>	1,241	1,268	215	234	4	(9)	44	86
<i>Crop production</i>	1,171	1,255	103	74	25	4	6	12
<i>Other agriculture</i>	1,192	1,111	125	118	11	20	14	20
Manufacturing and extraction of raw materials	9,092	9,186	294	276	28	21	14	46
Energy supply etc	2,675	2,648	19	30	(9)	3	2	4
Building and construction	3,840	4,311	145	134	14	27	7	17
Trade	13,409	12,554	491	455	35	10	75	112
Transportation, hotels and restaurants	3,676	3,454	93	176	(62)	(11)	19	12
Information and communication	842	543	10	14	(4)	(2)	0	2
Finance and insurance	5,604	5,585	124	192	(27)	(13)	14	10
Real property	5,291	6,127	324	420	(68)	(28)	22	40
<i>Leasing of commercial property</i>	2,343	2,780	170	235	(33)	(10)	20	8
<i>Leasing of residential property</i>	956	1,166	61	93	(24)	(4)	1	26
<i>Housing associations and cooperative housing associations</i>	1,119	1,358	2	2	(1)	0	0	0
<i>Purchase, development and sale on own account</i>	592	609	69	64	12	(9)	0	2
<i>Other related to real property</i>	281	214	22	26	(22)	(5)	1	4
Other industries	3,642	3,680	148	186	(27)	14	10	26
Total corporate lending	52,897	53,152	2,365	2,508	44	38	272	443
Public authorities	237	353	1	3	1	-	-	-
Retail clients	25,270	27,254	671	796	(104)	(45)	67	63
Collective impairment charges					-	(26)		
Total	78,404	80,759	3,037	3,307	(59)	(33)	339	506

Notes

30 Sep 2018 DKKm	Stage 1	Stage 2	Stage 3	Total
Note 9 – continued				
Loans and advances, guarantees and allowance account by stage				
Loans and advances before impairment charges	56,528	5,686	2,656	64,870
Guarantees	12,815	564	155	13,534
Total loans and advances and guarantees	69,343	6,250	2,811	78,404
%	88.4	8.0	3.6	100.0
Impairment of loans and advances	97	1,186	1,525	2,808
Provisions for undrawn credit lines	15	16	5	36
Provisions for guarantees	7	60	126	193
Total allowance account	119	1,262	1,656	3,037
Allowance account at 1 Jan	165	1,779	1,363	3,307
New impairment charges and provisions during the period, net	(35)	(517)	514	(38)
Impairment charges previously recorded, now finally written off	11	-	221	232
Total allowance account at 30 Sep	119	1,262	1,656	3,037
Impairment charges as % of loans and advances	0.2	20.9	57.4	4.3
Provisions as % of guarantees	0.1	10.6	81.3	1.4
Allowance account as % of loans and advances and guarantees	0.2	20.2	58.9	3.9
Loans and advances before impairment charges	56,528	5,686	2,656	64,870
Impairment of loans and advances	97	1,186	1,525	2,808
Loans and advances after impairment charges	56,431	4,500	1,131	62,062
%	90.9	7.3	1.8	100.0

Notes

DKKm	Q1-Q3 2018	Q1-Q3 2017	Q3 2018	Q3 2017
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Note 10

Profit/(Loss) on holdings in associates and subsidiaries

Profit/(Loss) on holdings in associates etc	6	4	1	2
Total	6	4	1	2

Note 11

Effective tax rate

Current tax rate of Sydbank	22.0	22.0	22.0	22.0
Permanent differences *	(2.8)	-	-	-
Effective tax rate	19.2	22.0	22.0	22.0

* Permanent differences predominantly consist of a capital gain of DKK 110m concerning the sale of shares in ValueInvest Asset Management S.A. as well as a revaluation of the shares in BI Holding A/S of DKK 41m.

DKKm	30 Sep 2018	31 Dec 2017	30 Sep 2017
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Note 12

Amounts owed by credit institutions and central banks

Amounts owed at notice by central banks	7,124	5,211	1,960
Amounts owed by credit institutions	3,949	7,268	3,675
Total	11,073	12,479	5,635
Of which reverse transactions	2,093	4,892	1,719

Note 13

Other assets

Positive market value of derivatives etc	4,390	5,275	5,780
Sundry debtors	456	432	968
Interest and commission receivable	185	159	133
Cash collateral provided, CSA agreements	1,813	2,230	2,512
Other assets	0	3	3
Total	6,844	8,099	9,396

Notes

DKKm	30 Sep 2018	31 Dec 2017	30 Sep 2017
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Note 14

Amounts owed to credit institutions and central banks

Amounts owed to central banks	34	47	50
Amounts owed to credit institutions	4,710	5,913	3,163
Total	4,744	5,960	3,213
Of which repo transactions	993	2,538	735

Note 15

Deposits and other debt

On demand	68,187	67,803	68,620
At notice	3,806	2,518	3,879
Time deposits	6,266	7,617	3,430
Special categories of deposits	4,403	4,752	4,829
Total	82,662	82,690	80,758
Of which repo transactions	826	2,460	1,133
Of which secured lending	5,000	4,000	-

Note 16

Other liabilities

Negative market value of derivatives etc	4,462	5,342	6,052
Sundry creditors	3,800	3,940	3,538
Negative portfolio, reverse transactions	3,755	5,295	4,012
Interest and commission etc	31	35	26
Cash collateral received, CSA agreements	773	751	890
Total	12,821	15,363	14,518

Note 17

Provisions

Provisions for pensions and similar obligations	3	3	3
Provisions for deferred tax	156	203	165
Provisions for guarantees	193	172	156
Provisions for undrawn credit lines	36	34	48
Other provisions *	11	22	25
Total	399	434	397

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

Notes

DKKm	30 Sep 2018	31 Dec 2017	30 Sep 2017
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Note 18

Subordinated capital

Interest rate	Note		Nominal (m)	Maturity			
2.13 (fixed)	1	Bond loan	EUR 100	11 Mar 2027	742	740	740
1.53 (floating)	2	Bond loan	EUR 75	2 Nov 2029	557	556	-
1.24 (floating)	3	Bond loan	EUR 75	Perpetual	559	558	558
Total Tier 2 capital					1,858	1,854	1,298
Total subordinated capital					1,858	1,854	1,298

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 premium of 0.2%.

Costs relating to the raising and redemption of subordinated capital	0	0	0
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Note 19

Contingent liabilities and other obligating agreements

Contingent liabilities

Financial guarantees	3,896	3,793	3,809
Mortgage finance guarantees	3,186	2,904	2,622
Mortgage-like loan guarantees	1,852	1,745	1,567
Registration and remortgaging guarantees	2,864	3,417	2,782
Other contingent liabilities	1,736	1,703	1,720
Total	13,534	13,562	12,500

Other obligating agreements

Irrevocable credit commitments	689	1,285	1,236
Other liabilities	97	40	23
Total	786	1,325	1,259

Totalkredit loans arranged 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 impact 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 has paid an annual contribution of 2.5% of covered net deposits until the Banking Department's capital exceeds 1% of total covered net deposits, which was reached at year-end 2015. The Banking Department will cover the direct losses in connection with the winding-up of distressed financial institutions under Bank Package III and Bank Package IV which are attributable to covered net deposits. Any losses as a result of the final winding-up will be covered by the Guarantee Fund via the Winding-up and Restructuring Department as regards which Sydbank is currently liable for 6.7% of any losses.

Notes

DKKm	30 Sep 2018	31 Dec 2017	30 Sep 2017
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Note 19 – continued

As a result of the statutory participation in the resolution financing arrangement (the Resolution Fund), credit institutions will pay an annual contribution over a 10-year period to reach a target funding level totalling 1% of covered deposits. Credit institutions must make contributions to the fund according to their relative size and risk in Denmark. Sydbank expects that contributions will total approximately DKK 200m over a 10-year period.

The Group is party to legal actions. These legal actions are under continuous review and the necessary provisions made are based on an assessment of the risk of loss. Pending legal actions are not expected to have any significant impact on the financial position of the Group.

Note 20

Collateral

At 30 September 2018 the Group had deposited as collateral securities at a market value of DKK 5,557m 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 1,813m.

In connection with repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet and consideration received is recognised as a debt. Repo transaction securities are treated as assets provided as collateral for liabilities. Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

In connection with reverse transactions, which involve purchasing securities to be resold at a later date, the Group is entitled to sell the securities or deposit them as collateral for other loans. The securities are not recognised in the balance sheet and consideration paid is recognised as a receivable.

Assets received as collateral in connection with reverse transactions may be sold to a third party. In such cases a negative portfolio may arise as a result of the accounting rules. This is recognised under "Other liabilities".

Assets sold as part of repo transactions

Bonds at fair value	1,813	4,982	1,859
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Assets purchased as part of reverse transactions

Bonds at fair value	8,021	10,082	7,621
Shares etc	-	-	4

Notes

DKK m	Q1-Q3 2018	Q1-Q3 2017	Index 18/17	Full year 2017
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Note 21

Related parties

Sydbank is the bank of a number of related parties. Transactions with related parties are settled on an arm's length basis.

No unusual transactions took place with related parties in Q1-Q3 2018. Reference is made to the Group's 2017 Annual Report for a detailed description of related party transactions.

Note 22

Reporting events occurring after the balance sheet date

After the expiry of Q3 no matters of significant impact on the financial position of the Sydbank Group have occurred.

Note 23

Large shareholders

On 28 September 2018 Norges Bank, Norway informed Sydbank that it owns 5.016% via shares and 0.273% via other financial instruments totalling 5.271% of the share capital. On 18 September 2018 Silchester International Investors LLP informed Sydbank that it owns more than 5.03% of the share capital. On 21 August 2018 Sydbank announced that it owns more than 5% of the share capital. The Bank's holdings of own shares are predominantly attributable to the Bank's share buyback programme totalling DKK 1,250m.

Note 24

Core income

Net interest etc	1,358	1,520	89	1,993
Mortgage credit *	438	427	103	575
Payment services	149	149	100	202
Remortgaging and loan fees	98	104	94	133
Commission and brokerage	228	273	84	365
Commission etc investment funds and pooled pension plans	330	291	113	388
Asset management	200	188	106	264
Custody account fees	52	53	98	69
Other operating income	150	124	121	178
Total	3,003	3,129	96	4,167

* Mortgage credit

Totalkredit cooperation	364	334	109	447
Totalkredit, set-off of loss	15	22	68	27
Totalkredit cooperation, net	349	312	112	420
DLR Kredit	87	113	77	152
Other mortgage credit income	2	2	100	3
Total	438	427	103	575

Notes

DKKm

Note 25

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 177m.

Notes

30 Sep 2018					
DKKkm	Quoted prices	Observable inputs	Unobservable inputs	Total fair value	Carrying amount

Note 25 – continued

Financial assets

Amounts owed by credit institutions and central banks	-	2,093	-	2,093	2,093
Loans and advances at fair value	-	5,955	-	5,955	5,955
Bonds at fair value	-	26,251	-	26,251	26,251
Shares etc	379	73	1,767	2,219	2,219
Assets related to pooled plans	6,023	10,847	-	16,870	16,870
Other assets	134	4,373	-	4,507	4,507
Total	6,536	49,592	1,767	57,895	57,895

Financial liabilities

Amounts owed to credit institutions and central banks	-	993	-	993	993
Deposits and other debt	-	826	-	826	826
Deposits in pooled plans	-	16,870	-	16,870	16,870
Other liabilities	110	10,423	-	10,533	10,533
Total	110	29,112	-	29,222	29,222

DKKkm	30 Sep 2018	31 Dec 2017	30 Sep 2017
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Assets measured on the basis of unobservable inputs

Carrying amount at 1 Jan	1,822	1,557	1,557
Additions	1	160	160
Disposals	309	33	34
Market value adjustment	253	138	106
Carrying amount at 30 Sep	1,767	1,822	1,789

Recognised in profit for the period

Dividend	21	28	28
Market value adjustment	253	138	106
Total	274	166	134

Notes

DKK m	30 Sep 2018	31 Dec 2017	30 Sep 2017
Note 26			
Leverage ratio			
Exposure for computation of leverage ratio			
Total assets	134,977	138,494	131,856
Pooled assets excluded	(16,870)	(16,541)	(16,033)
Correction derivatives etc	5,454	5,531	5,830
Guarantees etc	13,534	13,562	12,500
Undrawn credit lines etc	10,863	11,235	11,226
Other adjustments	(596)	(887)	(1,674)
Total	147,362	151,394	143,705
Tier 1 capital – current (transitional rules)	9,928	10,446	9,608
Tier 1 capital – fully loaded	9,705	10,167	9,329
Leverage ratio (%) – current (transitional rules)	6.7	6.9	6.7
Leverage ratio (%) – fully loaded	6.6	6.7	6.5

30 Sep 2018						
DKK m	Activity	Share capital (m)	Shareholders' equity (DKK m)	Profit/(Loss) (DKK m)	Ownership share (%)	
Note 27						
Group holdings and enterprises						
Sydbank A/S		DKK	677			
Consolidated subsidiaries						
DiBa A/S, Aabenraa	Investment	DKK	300	2,032	(4)	100
Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa	Real property	DKK	11	11	(14)	100
Syd Fund Management A/S, Aabenraa	Administration	DKK	40	48	8	100
Sydbank (Schweiz) AG, in Liquidation, St. Gallen, Switzerland *	-	CHF	40	226	(2)	100
Holdings in associates						
Foreningen Bankdata, Fredericia	IT	DKK	503	503	(7)	30
Komplementarselskabet Core Property Management A/S, Copenhagen	Real property	DKK	1	51	48	20
Core Property Management P/S, Copenhagen	Real property	DKK	5	24	14	20

Financial information according to the companies' most recently published annual reports (2017).

* With no activity at 30 September 2018.

Management Statement

We have considered and approved the Interim Report – Q1-Q3 2018 of Sydbank A/S.

The consolidated interim financial statements are prepared in accordance with IAS 34 “Interim Financial Reporting” as approved by the EU. Furthermore the interim financial statements (of the parent company) are prepared in compliance with Danish disclosure requirements for interim reports of listed financial companies.

The Interim Report has not been audited or reviewed.

In our opinion the interim financial statements give a true and fair view of the Group’s and the parent company’s assets, shareholders’ equity and liabilities and financial position at 30 September 2018 and of the results of the Group’s and the parent company’s operations and consolidated cash flows for the period 1 January – 30 September 2018. Moreover it is our opinion that the management’s review includes a fair review of the developments in the Group’s and the parent company’s operations and financial position as well as a description of the most significant risks and elements of uncertainty which may affect the Group and the parent company.

Aabenraa, 31 October 2018

Group Executive Management

Karen Frøsig
CEO

Bjarne Larsen

Jan Svarre

Board of Directors

Torben Nielsen
Chairman

John Lesbo
Vice-Chairman

Carsten Andersen

Kim Holmer

Lars Mikkellaard-Jensen

Janne Moltke-Leth

Frank Møller Nielsen

Jacob Christian Nielsen

Jarl Oxlund

Susanne Schou

Jørn Krogh Sørensen

Supplementary Information

Financial calendar

In 2019 the Group's preliminary announcement of financial statements will be released as follows:

– Announcement of the 2018 Financial Statements
27 February 2019

– Annual General Meeting 2019 *
21 March 2019

– Interim Report – Q1 2019
1 May 2019

– Interim Report – First Half 2019
28 August 2019

– Interim Report – Q1-Q3 2019
30 October 2019

* Motions submitted by shareholders to be discussed at the Annual General Meeting on 21 March 2019 must be received by the Bank no later than 7 February 2019.

Sydbank contacts

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Relevant links

sydbank.dk
sydbank.com

For further information reference is made to Sydbank's 2017 Annual Report at sydbank.com.