

---

# 2018 Annual Report

Sydbank Group

Sydbank

---

## Preface

**Highest return on equity among  
SIFI banks in Denmark.  
All Blue growth objectives  
have been met**

Sydbank's 2018 financial statements show a profit before tax of DKK 1,420m compared with DKK 1,956m in 2017. The decrease of DKK 536m is primarily attributable to a decline in total income of DKK 311m and a drop in investment portfolio earnings of DKK 309m. Profit before tax equals a return of 12.5% p.a. on average equity.

Profit for the year after tax represents DKK 1,156m against DKK 1,531m in 2017, equal to a return on average equity of 10.2%. At the beginning of 2018 profit after tax was projected to be in the region of DKK 1,200-1,400m.

CEO Karen Frøsig comments on the year's result:

- The banking environment has become significantly more challenging. As a result of the negative interest rate environment combined with fierce competition in the sector, the Group's net interest income continues to be under pressure and banks' earnings power is being dragged down. Therefore it is positive that we are still able to generate a double-digit return on equity – the best among Danish SIFI banks in 2018. The result we have achieved is in no small part thanks to the efforts of Sydbank's many highly skilled employees.

At the same time it is highly satisfactory that the level of credit quality enables us to reverse impairment charges of more than a hundred million in 2018.

Karen Frøsig continues:

Based on the results achieved during the strategy period that has just ended where all the specified targets were met, I am looking forward to the strategy period that has just started where focus is on creating a stronger bank with the keywords "Customer first", "More Sydbank" and "What works".

Chairman of Sydbank's Board of Directors Torben Nielsen elaborates:

- We have generated a return on equity of more than 10% in a highly competitive and challenging market for banks with little growth in lending. Sydbank does not wish to dilute credit quality in order to create

growth in lending. The result achieved in 2018 ensures a high dividend per share as well as the possibility of launching a new share buyback programme of DKK 250m. After a total distribution of DKK 840m, the Bank will continue to be well capitalised.

#### 2018 highlights

- A 7% decrease in total income
- A 3% rise in costs (core earnings)
- A reversal of DKK 122m in impairment charges
- A drop in core earnings of DKK 325m to DKK 1,489m
- Negative investment portfolio earnings of DKK 127m
- Bank loans and advances of DKK 61.0bn
- Deposits of DKK 86.3bn
- A capital ratio of 22.4%, including a Common Equity Tier 1 capital ratio of 17.3%
- A proposed dividend of DKK 9.36 per share.

#### Outlook for 2019

Limited growth is projected for the Danish economy in 2019.

Total income is expected to be lower than the income generated in 2018.

Costs (core earnings) are projected to rise slightly in 2019.

Impairment charges for 2019 are forecast to be at a low level. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.

Non-recurring costs are expected to represent around DKK 75m.

Profit after tax is expected to be in the range of DKK 800-1,100m.

The outlook is subject to uncertainty and depends among other things on financial market developments and macroeconomic factors.





---

# Contents

## Financial Review

Highlights.....	8
Group Financial Highlights .....	10
Summary .....	11
Performance in 2018.....	14
Capital Management .....	24
Investor Relations.....	26
Mission Statement and Business Goals.....	27
Organisation and Corporate Governance.....	34
Social Responsibility – Corporate Citizenship .....	40

## Financial Statements

Financial Statements – contents.....	45
Income Statement.....	46
Statement of Comprehensive Income.....	46
Balance Sheet .....	47
Statement of Changes in Equity.....	48
Cash Flow Statement .....	50
Notes .....	51

## Statements and Reports

Management Statement.....	120
Auditors' Reports.....	122

## Management, Organisation etc

Notice Convening the Annual General Meeting.....	126
Board of Directors .....	128
Group Executive Management.....	134
Organisation .....	136

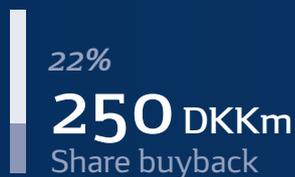
The 2018 Annual Report is available in Danish at [sydbank.dk/regnskab](http://sydbank.dk/regnskab) and in English at [sydbank.com](http://sydbank.com).  
In case of doubt the Danish version will apply.

---

Highest return on equity among SIFI banks in Denmark.  
All Blue growth objectives have been met

High dividend per share (DKK 9.36 per share)

---



Market shares

---



We build on relationships

---



Profit for the year

**1,156**  
DKKm

Return on equity

**10.2**  
%

Core income

**3,951**  
DKKm  
(-5%)

Costs (core earnings)

**2,722**  
DKKm  
(+3%)

Impairment charges for  
loans and advances

**(122)**  
DKKm

Customer satisfaction

**3<sup>rd</sup>** Corporate    **3<sup>rd</sup>** Retail  
(among the largest banks)

Dividend of DKK 9.36  
per share

**50**  
% of profit for the year

Bank loans and  
advances

**61.0**  
DKKbn

# Group Financial Highlights

	2018	2017*	Index 18/17	2016*	2015*	2014*
<b>Income statement (DKK m)</b>						
Core income	3,951	4,167	95	4,198	4,329	4,319
Trading income	138	233	59	237	215	196
<b>Total income</b>	<b>4,089</b>	<b>4,400</b>	<b>93</b>	<b>4,435</b>	<b>4,544</b>	<b>4,515</b>
Costs, core earnings	2,722	2,637	103	2,590	2,675	2,619
<b>Core earnings before impairment</b>	<b>1,367</b>	<b>1,763</b>	<b>78</b>	<b>1,845</b>	<b>1,869</b>	<b>1,896</b>
Impairment of loans and advances etc	(122)	(51)	-	87	316	707
<b>Core earnings</b>	<b>1,489</b>	<b>1,814</b>	<b>82</b>	<b>1,758</b>	<b>1,553</b>	<b>1,189</b>
Investment portfolio earnings	(127)	182	-	104	(80)	76
<b>Profit before non-recurring items</b>	<b>1,362</b>	<b>1,996</b>	<b>68</b>	<b>1,862</b>	<b>1,473</b>	<b>1,265</b>
Non-recurring items, net	58	(40)	-	7	0	64
<b>Profit before tax</b>	<b>1,420</b>	<b>1,956</b>	<b>73</b>	<b>1,869</b>	<b>1,473</b>	<b>1,329</b>
Tax	264	425	62	397	325	277
<b>Profit for the year</b>	<b>1,156</b>	<b>1,531</b>	<b>76</b>	<b>1,472</b>	<b>1,148</b>	<b>1,052</b>
<b>Balance sheet highlights (DKK bn)</b>						
Loans and advances at amortised cost	61.0	64.3	95	77.2	74.3	68.5
Loans and advances at fair value	6.5	5.2	125	6.1	10.2	6.9
Deposits and other debt	86.3	82.7	104	81.1	79.9	73.9
Bonds issued at amortised cost	3.7	3.7	100	3.7	3.7	3.7
Subordinated capital	1.9	1.9	100	2.1	2.1	1.4
Additional Tier 1 capital	0.8	-	-	-	-	-
Shareholders' equity	10.9	11.9	92	11.8	11.4	11.3
Total assets	140.5	138.5	101	146.7	142.7	152.3
<b>Financial ratios per share (DKK per share of DKK 10)</b>						
EPS	17.6	22.4		20.9	15.8	14.3
Share price at year-end	155.1	249.9		219.2	221.8	190.2
Book value	179.0	178.3		169.2	160.2	154.2
Share price/book value	0.87	1.40		1.30	1.38	1.23
Average number of shares outstanding (in millions)	64.8	68.4		70.4	72.5	73.3
Proposed dividend	9.36	11.31		10.46	11.12	7.08
<b>Other financial ratios and key figures</b>						
Common Equity Tier 1 capital ratio	17.3	17.3		16.1	14.5	13.9
Tier 1 capital ratio	19.0	17.7		17.4	15.9	15.5
Capital ratio	22.4	20.8		19.2	17.6	16.0
Pre-tax profit as % of average equity	12.5	16.8		16.6	13.3	12.4
Post-tax profit as % of average equity	10.2	13.1		13.1	10.2	9.6
Costs (core earnings) as % of total income	66.6	59.9		58.4	58.9	58.0
Return on assets (%)	0.83	1.07		1.02	0.78	0.70
Interest rate risk	1.3	0.8		1.6	2.8	0.0
Foreign exchange position	1.3	1.2		2.2	2.2	1.8
Foreign exchange risk	0.0	0.0		0.0	0.0	0.0
Liquidity, LCR (%)	184	176		166	144	-
Loans and advances relative to deposits	0.6	0.6		0.8	0.8	0.8
Loans and advances relative to equity	5.6	5.4		6.6	6.5	6.1
Growth in loans and advances for the year	(5.2)	(16.7)		3.9	8.5	2.8
Total large exposures	0.0	0.0		0.0	0.0	0.0
Accumulated impairment ratio	3.8	3.6		3.6	4.7	5.1
Impairment ratio for the year	(0.2)	(0.1)		0.1	0.4	0.8
Number of full-time staff at year-end	2,098	2,064	102	2,037	2,044	2,101

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

When calculating financial ratios AT1 capital is considered a liability regardless of the fact that it is accounted for as equity. Reference is made to financial ratio definitions on page 104.

# Summary

## Highest return on equity among SIFI banks in Denmark. All objectives have been met

Sydbank's 2018 financial statements show a profit before tax of DKK 1,420m compared with DKK 1,956m in 2017. The decrease of DKK 536m is primarily attributable to a decline in total income of DKK 311m and a drop in investment portfolio earnings of DKK 309m. Profit before tax equals a return of 12.5% p.a. on average equity.

Profit for the year after tax represents DKK 1,156m against DKK 1,531m in 2017, equal to a return on average equity of 10.2%. At the beginning of 2018 profit after tax was projected to be in the region of DKK 1,200-1,400m.

## Follow-up on the 3-year plan "Blue growth"

The plan for the 3-year period 2016-2018 "Blue growth" was to ensure that the positive development in the Group's profitability was sustained. The following targets were determined as part of the 3-year plan:

- Realise a return on equity of a minimum of 12% after tax or be in the top 3 of the 6 largest banks
- Achieve top 3 ranking among the 6 largest banks in terms of customer satisfaction.

### Status - targets

Target	Objective	Status at 31 December 2018	Comment
Return on equity after tax	Over 12%*	10.2% - 2nd	Met in 2018
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%	17.3%	Met from Q3 2013
Capital ratio	Around 18.0%	22.4%	Met from Q1 2015
Dividend	30-50% of profit for the year after tax	50% of profit after tax (proposed)	Met in 2018 (proposed dividend)

\* or top 3 ranking among the 6 largest banks    \*\* among the 6 largest banks    \*\*\* among the 5 largest banks

## A stronger bank - new 3-year plan

On the back of the satisfactory results achieved during the strategy periods from 2014 to end-2018, the Bank has taken steps to ensure that it continues to consolidate its position in the coming 3-year period. The strategy is named: "A stronger bank".

We will build a stronger bank focusing on 3 themes:

- Customer first
- More Sydbank
- What works.

**Customer first** ensures that we continue to focus on customer orientation. The direct link between highly satisfied customers and a positive trend in the top line is the driving force behind the priority of this theme.

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

**What works** is an investment in making even simpler and more efficient processes available to our employees enabling them to spend their 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.

---

# Summary

The new strategic goals represent the values from the underlying philosophy and the Bank's core story with its 3 promises – to its customers, to its employees and to its shareholders. The goals thus also reflect the values of the underlying philosophy under the heading "Excellence and relationships create value" as well as our basic belief that dedicated employees make for satisfied customers and that these 2 factors combined are a condition for achieving a satisfactory return for the Bank's shareholders.

The strategic goals cover these areas:

- Customer satisfaction
- Employee engagement
- Return on equity.

## Customer satisfaction

Sydbank builds on long-term customer relationships. We strive for a positive trend in customer satisfaction which we monitor closely through internal customer surveys across customers' touch points with the Bank.

## Employee engagement

Sydbank considers excellent and committed employees to be its most important asset and aims to retain the present high level. This is monitored closely through internal employee engagement surveys.

## Return on equity (ROE)

Top 3 ranking among the 6 largest banks.

## Results for 2018

As a result of the negative interest rate environment combined with fierce competition in the sector, the Group's net interest income remains under pressure. Net interest income has decreased by DKK 218m or 11% to DKK 1,775m. DKK 50m of the decline is attributable to the effects of the funding of mortgage-like loans.

Other core income has risen by DKK 2m compared to 2017.

Total core income has decreased by DKK 216m or 5% compared with 2017.

Trading income has dropped by DKK 95m or 41% compared with 2017.

Total income has declined by DKK 311m or 7% compared with 2017.

Costs (core earnings) have gone up by DKK 85m or 3% compared with 2017. The increase is a consequence of general pay rises for the financial sector and a payroll tax increase of 0.4 percentage points.

The Group's impairment charges for loans and advances constitute an income of DKK 122m in 2018.

Core earnings have decreased by DKK 325m to DKK 1,489m compared with DKK 1,814m in 2017. The decline is attributable to lower income combined with rising costs.

Together the Group's position-taking and liquidity handling recorded negative investment portfolio earnings of DKK 127m in 2018 compared with earnings of DKK 182m in 2017.

Profit before tax constitutes DKK 1,420m compared with DKK 1,956m in 2017. Tax has been calculated at DKK 264m. Profit for the year amounts to DKK 1,156m compared with DKK 1,531m in 2017.

Bank loans and advances decreased by DKK 3.3bn in 2018.

Return on equity before and after tax constitutes 12.5% and 10.2% respectively against 16.8% and 13.1% in 2017.

Earnings per share stands at DKK 17.6 compared with DKK 22.4 in 2017.

During the year shareholders' equity declined by DKK 1,004m to DKK 10,922m. Primarily as a result of dividend distribution concerning 2017 and the completion of a share buyback programme totalling DKK 1,175m.

Less the proposed dividend, the Common Equity Tier 1 capital ratio and the capital ratio stand at 17.3% and 22.4% respectively at year-end 2018 compared to 17.3% and 20.8% at year-end 2017.

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

### Total credit intermediation

In addition to traditional bank loans and advances the Group arranges for mortgage loans from Totalkredit and DLR Kredit. The Group's total credit intermediation comprises bank loans and advances, mortgage-like loans funded by Totalkredit as well as mortgage loans arranged through Totalkredit and DLR Kredit. At 31 December 2018 credit intermediation totalled DKK 142.2bn – a drop of DKK 1.8bn compared with year-end 2017.

### Total credit intermediation

Group – year-end (DKKbn)	2018	2017
Bank loans and advances	61.0	64.3
Funded mortgage-like loans	9.9	10.0
Arranged mortgage loans – Totalkredit	59.6	58.0
Arranged mortgage loans – DLR	11.7	11.7
<b>Total</b>	<b>142.2</b>	<b>144.0</b>

### SIFI

Sydbank is designated as a SIFI (systemically important financial institution) in Denmark. As a result the Bank is subject to an additional buffer requirement of 0.8% as regards Common Equity Tier 1 capital in 2018. The requirement will rise to 1.0% in 2019.

### Capital targets

The Group's capital targets are unchanged: a Common Equity Tier 1 capital ratio of around 14.0% and a capital ratio of around 18.0%.

### Proposed dividend for 2018

The Board of Directors proposes – in compliance with the Bank's dividend policy – that a dividend of DKK 9.36 per share, equal to 50% of the Group's profit after tax, be distributed and that DKK 12m be donated to the sponsorship fund Sydbank Fonden.

No dividend will be distributed as regards the shares acquired in connection with the share buyback programme completed in 2018.

### Share buyback in 2019

Following distribution of the proposed dividend, the capital ratios will remain above the capital targets. As a result the Board of Directors plans to implement a share buyback totalling DKK 250m in 2019.

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

### Outlook for 2019

Limited growth is projected for the Danish economy in 2019.

Total income is expected to be lower than the income generated in 2018.

Costs (core earnings) are projected to rise slightly in 2019.

Impairment charges for 2019 are forecast to be at a low level. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.

Non-recurring costs are expected to represent around DKK 75m.

Profit after tax is expected to be in the range of DKK 800-1,100m.

The outlook is subject to uncertainty and depends among other things on financial market developments and macroeconomic factors.

# Performance in 2018

The Sydbank Group has recorded a profit before tax of DKK 1,420m (2017: DKK 1,956m). Profit before tax equals a return of 12.5% p.a. on average equity.

Profit for the year represents DKK 1,156m against DKK 1,531m in 2017, equal to a return on average equity of 10.2% after tax. At the beginning of 2018 profit after tax was projected to be in the region of DKK 1,200-1,400m.

The financial statements are characterised by the following:

## 2018

- A 5% decrease in core income
- A 41% decrease in trading income
- A 3% rise in costs (core earnings)
- A reversal of DKK 122m in impairment charges
- A drop in core earnings of DKK 325m to DKK 1,489m
- Negative investment portfolio earnings of DKK 127m
- Bank loans and advances of DKK 61.0bn (2017: DKK 64.3bn)
- Deposits of DKK 86.3bn (2017: DKK 82.7bn)
- A capital ratio of 22.4%, including a Common Equity Tier 1 capital ratio of 17.3%
- An individual solvency need of 11.4%
- A proposed dividend of DKK 9.36 per share.

## Q4

- Impairment charges for loans and advances constitute an income of DKK 51m
- Profit for the period amounts to DKK 193m.

## Income statement

Group (DKKm)	2018	2017
Core income	3,951	4,167
Trading income	138	233
<b>Total income</b>	<b>4,089</b>	<b>4,400</b>
Costs, core earnings	2,722	2,637
<b>Core earnings before impairment</b>	<b>1,367</b>	<b>1,763</b>
Impairment of loans and advances etc	(122)	(51)
<b>Core earnings</b>	<b>1,489</b>	<b>1,814</b>
Investment portfolio earnings	(127)	182
<b>Profit before non-recurring items</b>	<b>1,362</b>	<b>1,996</b>
Non-recurring items, net	58	(40)
<b>Profit before tax</b>	<b>1,420</b>	<b>1,956</b>
Tax	264	425
<b>Profit for the year</b>	<b>1,156</b>	<b>1,531</b>

## Core income

Total core income has declined by DKK 216m to DKK 3,951m.

As a result of the negative interest rate environment combined with fierce competition in the sector, the Group's net interest income remains under pressure. Net interest income has decreased by DKK 218m or 11% to DKK 1,775m. DKK 50m of the decline is attributable to an increase in the extent of funded mortgage-like loans. In addition DKK 13m of the decline is attributable to the issue of non-preferred senior debt of EUR 500m with a maturity of 5 years. The issue, which was carried out on 18 September 2018, is part of the Bank's fulfilment of the minimum requirement for own funds and eligible liabilities (MREL). On 4 February 2019 the Group issued additional non-preferred senior debt of EUR 500m with a maturity of 3 years. With these 2 issues the Group meets the coming MREL requirement which enters into force on 1 July 2019.

Net income from the cooperation with Totalkredit represents DKK 464m (2017: DKK 420m) after a set-off of loss of DKK 21m (2017: DKK 27m). The cooperation with DLR Kredit has generated an income of DKK 116m (2017: DKK 152m). Compared to 2017 total mortgage credit income has gone up by DKK 8m to DKK 583m – an increase of 1%. Income from funded mortgage-like loans has grown by DKK 44m.

Commission and brokerage income has gone down by DKK 63m to DKK 302m – a drop of 17% compared with 2017.

Income from commission etc concerning investment funds and pooled pension plans etc has risen by DKK 37m to DKK 425m – an increase of 10% compared to 2017. The increase is attributable to the appreciation of the shares in BI Holding A/S of DKK 41m.

The remaining income components have risen by DKK 20m compared to 2017, equal to 2%.

### Core income

Group (DKKm)	2018	2017
Net interest etc	1,775	1,993
Mortgage credit	583	575
Payment services	196	202
Remortgaging and loan fees	130	133
Commission and brokerage	302	365
Commission etc investment funds and pooled pension plans	425	388
Asset management	270	264
Custody account fees	69	69
Other operating income	201	178
<b>Total</b>	<b>3,951</b>	<b>4,167</b>

### Trading income

Compared with 2017 trading income has decreased by DKK 95m to DKK 138m and is composed as follows in terms of business units:

#### Trading income

Group (DKKm)	2018	2017
Fixed Income	92	143
Equities	19	58
Money Market and Foreign Exchange	27	32
<b>Total</b>	<b>138</b>	<b>233</b>

Fixed Income has generated an income of DKK 92m, a decrease of DKK 51m compared with 2017. The level of activity in Fixed Income in 2018 was on a par with the level of activity in 2017.

Equities has recorded an income of DKK 19m, a drop of DKK 39m compared to 2017. The decline is attributable to lower activity combined with a negative market value adjustment of the trading portfolio in particular in Q4 2018.

Money Market and Foreign Exchange has generated an income of DKK 27m, a decrease of DKK 5m compared with 2017.

### Costs and depreciation

The Group's costs and depreciation total DKK 2,781m, equal to an increase of DKK 97m compared with 2017.

Costs (core earnings) represent DKK 2,722m compared with DKK 2,637m in 2017. The increase is a consequence of general pay rises for the financial sector and a payroll tax increase of 0.4 percentage points.

At year-end 2018 the Group's staff numbered 2,098 (full-time equivalent).

The number of branches totals 62 in Denmark and 3 in Germany at year-end 2018.

### Costs and depreciation

Group (DKKm)	2018	2017
Staff costs	1,638	1,561
Other administrative expenses	1,028	976
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	97	122
Other operating expenses	18	25
<b>Total</b>	<b>2,781</b>	<b>2,684</b>
Distributed as follows:		
Costs, core earnings	2,722	2,637
Costs, investment portfolio earnings	7	7
Non-recurring costs	52	40

### Core earnings before impairment of loans and advances

Core earnings before impairment charges for loans and advances represent DKK 1,367m – a decline of DKK 396m compared with 2017.

### Impairment of loans and advances etc

Impairment charges for loans and advances represent an income of DKK 122m. In 2017 the impairment charges constituted an income of DKK 51m.

Additional impairment charges for agricultural exposures represent DKK 100m at 31 December 2018 – an increase of DKK 25m compared with year-end 2017.

Reference is made to the separate publication Credit Risk 2018 for further elaboration.

### Impairment charges for the year by industry

Group (DKKm)	2018	2017
Agriculture etc	177	4
Trade	30	65
Real property	(87)	(53)
Other industries	(121)	133
<b>Total corporate</b>	<b>(1)</b>	<b>149</b>
Retail	(121)	(95)
<b>Total individual impairment charges</b>	<b>(122)</b>	<b>54</b>
Collective impairment charges	-	(105)
<b>Total</b>	<b>(122)</b>	<b>(51)</b>

At year-end 2018 the impairment ratio for the year represents minus 0.19% relative to bank loans and advances and minus 0.16% relative to bank loans and advances and guarantees. At 31 December 2018 accumulated impairment and provisions amount to DKK 2,924m (1 January 2018: DKK 3,307m).

# Performance in 2018

In 2018 reported losses amounted to DKK 452m (2017: DKK 660m). Of the reported losses DKK 287m 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 commitments and financial guarantees. Under the previous rules, IAS 39, impairment charges were recorded only when there was evidence of impairment.

Impairment charges for expected credit losses depend on whether the credit risk of a financial asset has increased significantly since initial recognition and follow a 3-stage model:

**Stage 1** – facilities with no significant increase in credit risk. The asset is written down by an amount equal to the expected credit loss as a result of the probability of default over the coming 12 months

**Stage 2** – facilities with a significant increase in credit risk. The asset is transferred to stage 2 and is written down by an amount equal to the expected credit loss over the life of the asset

**Stage 3** – facilities where the financial asset is in default or is otherwise credit impaired.

The Group's loans and advances and impairment charges at 31 December 2018 allocated to these 3 stages are shown below.

## Loans and advances and impairment charges

2018 (DKKm)	Stage 1	Stage 2	Stage 3	Total
Loans and advances before impairment charges	55,409	5,332	2,950	63,691
Impairment charges	94	1,030	1,584	2,708
<b>Loans and advances after impairment charges</b>	<b>55,315</b>	<b>4,302</b>	<b>1,366</b>	<b>60,983</b>

2018 (%)	Stage 1	Stage 2	Stage 3	Total
Impairment charges as % of bank loans and advances	0.2	19.3	53.7	4.3
Share of bank loans and advances before impairment charges	87.0	8.4	4.6	100.0
Share of bank loans and advances after impairment charges	90.7	7.1	2.2	100.0

Credit impaired bank loans and advances – stage 3 – represent 4.6% of total bank loans and advances before impairment charges and 2.2% of total bank loans and advances after impairment charges.

Impairment charges concerning credit impaired bank loans and advances as a percentage of credit impaired bank loans and advances at 31 December 2018 stand at 53.7%.

## Core earnings

Core earnings for 2018 represent DKK 1,489m – a decline of DKK 325m compared with 2017.

## Investment portfolio earnings

Together the Group's position-taking and liquidity handling generated negative earnings of DKK 127m in 2018 compared with positive earnings of DKK 182m in 2017.

## Investment portfolio earnings

Group (DKKm)	2018	2017
Position-taking	(107)	118
Liquidity generation and liquidity reserves	(18)	52
Strategic positions	5	19
Costs	(7)	(7)
<b>Total</b>	<b>(127)</b>	<b>182</b>

The unsatisfactory result for 2018 is mainly a consequence of a decline in risk-free rates as well as widening credit spreads on mortgage bonds.

The Group's position-taking in 2019 has been changed and investment portfolio earnings are virtually neutral in terms of interest rate changes.

Margin expenses as regards the Group's senior unsecured issues are included under liquidity generation and liquidity reserves and represent DKK 8m in 2018 compared to DKK 21m in 2017. The expense as regards the new type of debt – to meet the Group's MREL – in the form of non-preferred senior debt (NPS) is included under net interest etc.

## Non-recurring items

Non-recurring items etc total a net income of DKK 58m compared with an expense of DKK 40m in 2017. The item includes one-off income of DKK 110m in connection with the sale of the shares in ValuelInvest Asset Management S.A. as well as costs of DKK 52m relating to process digitization in connection with Blue growth and the establishment of a new mortgage platform. In 2017 process digitization costs in connection with Blue growth amounted to DKK 40m.

## Profit for the year

Profit before tax amounts to DKK 1,420m (2017: DKK 1,956m). Tax represents DKK 264m (2017: DKK 425m), equivalent to an effective tax rate of 18.5%. Profit for the year amounts to DKK 1,156m (2017: DKK 1,531m).

### Other comprehensive income

Effective from 1 January 2018 certain strategic shares are classified with value adjustment through other comprehensive income in accordance with IFRS 9. In 2018 value adjustment represented minus DKK 38m after tax.

### Return

Return on shareholders' equity before and after tax constitutes 12.5% and 10.2% against 16.8% and 13.1% in 2017. Earnings per share has fallen to DKK 17.6 from DKK 22.4 in 2017.

### Sydbank – the parent

The Bank's total income before costs and impairment charges for loans and advances represents DKK 3,966m (2017: DKK 4,510m). The income includes the consolidated profit on holdings in associates and subsidiaries of DKK 22m (2017: loss of DKK 26m).

Total costs including non-recurring costs of DKK 52m (2017: DKK 40m) constitute DKK 2,721m (2017: DKK 2,608m).

A reversal of impairment charges for bank loans and advances of DKK 122m (2017: DKK 51m) has been recorded.

Pre-tax profit amounts to DKK 1,359m (2017: DKK 1,947m).  
Post-tax profit amounts to DKK 1,118m (2017: DKK 1,531m).

### Subsidiaries

Profit after tax of the subsidiaries represents DKK 21m (2017: loss of DKK 12m).

### Group Q4 2018

The Group's profit before tax for the quarter stands at DKK 227m. Tax represents DKK 34m and profit for the period amounts to DKK 193m.

Compared with Q3 2018 profit before tax shows:

- a core income of DKK 948m (Q3: DKK 963m)
- a trading income of minus DKK 2m (Q3: DKK 40m)
- costs (core earnings) of DKK 686m (Q3: DKK 639m)
- impairment charges for loans and advances of minus DKK 51m (Q3: minus DKK 14m)
- investment portfolio earnings of minus DKK 59m (Q3: DKK 10m).

### Total assets

The Group's total assets made up DKK 140.5bn at year-end 2018 against DKK 138.5bn at year-end 2017.

### Quarterly results

Group (DKKm)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Core income	948	963	987	1,053	1,038
Trading income	(2)	40	45	55	36
<b>Total income</b>	<b>946</b>	<b>1,003</b>	<b>1,032</b>	<b>1,108</b>	<b>1,074</b>
Costs, core earnings	686	639	694	703	645
<b>Core earnings before impairment</b>	<b>260</b>	<b>364</b>	<b>338</b>	<b>405</b>	<b>429</b>
Impairment of loans and advances etc	(51)	(14)	(44)	(13)	(13)
<b>Core earnings</b>	<b>311</b>	<b>378</b>	<b>382</b>	<b>418</b>	<b>442</b>
Investment portfolio earnings	(59)	10	(66)	(12)	(13)
<b>Profit before non-recurring items</b>	<b>252</b>	<b>388</b>	<b>316</b>	<b>406</b>	<b>429</b>
Non-recurring items, net	(25)	(9)	(13)	105	(17)
<b>Profit before tax</b>	<b>227</b>	<b>379</b>	<b>303</b>	<b>511</b>	<b>412</b>
Tax	34	84	66	80	85
<b>Profit for the period</b>	<b>193</b>	<b>295</b>	<b>237</b>	<b>431</b>	<b>327</b>

# Performance in 2018

## Assets

Group – year-end (DKKbn)	2018	2017
Amounts owed by credit institutions etc	15.8	14.6
Loans and advances at fair value (reverse transactions)	6.5	5.2
Loans and advances at amortised cost (bank loans and advances)	61.0	64.3
Securities and holdings etc	32.0	28.1
Assets related to pooled plans	16.2	16.5
Other assets etc	9.0	9.8
<b>Total</b>	<b>140.5</b>	<b>138.5</b>

The Group's bank loans and advances total DKK 61.0bn. Compared to 2017 this constitutes a decline of DKK 3.3bn. Corporate lending has fallen by DKK 1.0bn and retail lending has dropped by DKK 2.3bn.

## Equity and liabilities

Group – year-end (DKKbn)	2018	2017
Amounts owed to credit institutions etc	5.3	6.0
Deposits and other debt	86.3	82.7
Deposits in pooled plans	16.2	16.5
Bonds issued	3.7	3.7
Other liabilities etc	14.9	15.4
Provisions	0.5	0.4
Subordinated capital	1.9	1.9
Equity	11.7	11.9
<b>Total</b>	<b>140.5</b>	<b>138.5</b>

The Group's deposits make up DKK 86.3bn. This is an increase of DKK 3.6bn compared to 2017. Deposits have gone up due to a rise in demand deposits of DKK 6.0bn, a decrease in time deposits of DKK 1.2bn, a decline in deposits at notice of DKK 0.9bn and a decrease of DKK 0.3bn regarding special categories of deposits.

## The Sydbank share

Number	2018	2017
Average number of shares outstanding	64,810,883	68,364,550
Number of shares outstanding at year-end	61,008,893	66,900,704
Number of shares issued at year-end	67,670,954	70,361,174

## Share capital

As a result of a capital reduction in 2018 the share capital has declined from DKK 703,611,740 at year-end 2017 to DKK 676,709,540 at year-end 2018.

The number of shares outstanding has decreased from 66,900,704 (95.08%) at the end of 2017 to 61,008,893 (90.16%) at the end of 2018. The book value of the Sydbank share represents 179.0 (2017: 178.3). At year-end 2018 the closing price of the Sydbank share stood at 155.1 and the share price/book value at 0.87.

## Equity

At year-end 2018 shareholders' equity constitutes DKK 10,922m – a drop of DKK 1,004m since the beginning of the year. The change comprises an addition from profit for the year of DKK 1,133m, net purchases of own shares of DKK 1,170m, the transitional effect concerning IFRS 9 of DKK 168m, dividend distribution etc of DKK 765m as well as a reduction concerning other equity adjustments of DKK 34m.

## 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 was completed on 13 December 2018 as the authorisation of the Board of Directors to acquire 10% of the Bank's shares had been exhausted. 5,916,954 shares worth DKK 1,175m were 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.

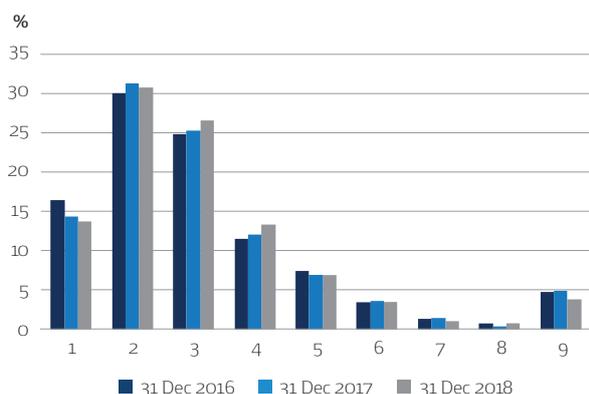
Since year-end 2017 the risk exposure amount (REA) has decreased by DKK 3.5bn to DKK 55.4bn. Credit risk has gone down by DKK 2.9bn predominantly as a result of a net decrease in bank loans and advances and guarantees of DKK 3.0bn since year-end 2017. Market risk has declined by DKK 0.3bn mainly as a result of lower interest rate risk. Other exposures have dropped by DKK 0.3bn.

## REA

Group – year-end (DKKbn)	2018	2017
Credit risk	36.0	38.9
Market risk	6.0	6.3
Operational risk	7.7	8.0
Other exposures incl CVA	5.7	5.7
<b>Total</b>	<b>55.4</b>	<b>58.9</b>

The development in the breakdown by rating category from 2016 to 2018 is shown below.

### Gross exposure by rating category



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

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

Reference is made to the note on credit risk on page 111 and the separate publication Credit Risk 2018.

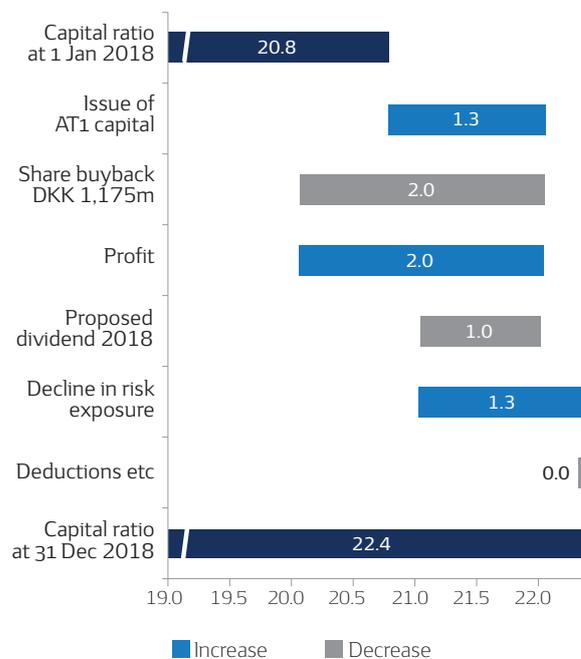
## Solvency

Group – year-end (DKKkm)	2018	2017
REA	55,402	58,889
Common Equity Tier 1 capital	9,579	10,167
Tier 1 capital	10,550	10,446
Total capital	12,390	12,240
Common Equity Tier 1 capital ratio	17.3	17.3
Tier 1 capital ratio	19.0	17.7
Capital ratio	22.4	20.8

At year-end 2018 the Common Equity Tier 1 capital ratio and the capital ratio stand at 17.3% and 22.4% respectively compared to 17.3% and 20.8% at year-end 2017.

In 2018 the capital ratio was positively affected by profit for the year (+2.0 percentage points), the issue of new Additional Tier 1 capital (+1.3 percentage points) and the decline in risk exposure (+1.3 percentage points) and negatively affected by the proposed dividend (-1.0 percentage point) and the completed share buyback programme (-2.0 percentage points).

### Capital ratio in 2018



# Performance in 2018

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

## Solvency of the parent

At year-end 2018 the Common Equity Tier 1 capital ratio and the capital ratio stand at 16.7% and 21.5% respectively.

## Advanced IRB – corporate exposures

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

Sydbank is working on a project with the purpose of gaining approval to apply the advanced IRB approach to calculate the capital requirement as regards corporate exposures. The objective is to gain approval in 2019/2020.

## Capital policy

The Group's capital policy consistently supports the Group's strategy and at the same time takes into account Sydbank's status as a SIFI as well as full implementation of capital regulations. The Group's capital targets are a Common Equity Tier 1 capital ratio of around 14.0% and a capital ratio of around 18.0%. The capital targets have been set to ensure that the Group complies with all capital requirements including buffer requirements, once these have been fully implemented.

Reference is made to Capital Management on page 24.

## Dividend policy

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

## MREL

Effective from 1 July 2019 SIFI banks in Denmark must meet a minimum requirement for own funds and eligible liabilities (MREL) which has been set at twice the total capital requirement including buffers. The MREL at 1 July 2019 based on the Group's risk exposure amount at 31 December 2018 is as follows:

## MREL

Group (%)	Capital requirement	MREL
Solvency need	11.4	22.8
SIFI buffer	1.0	2.0
Capital conservation buffer	2.5	5.0
Countercyclical capital buffer	0.5	1.0
Total requirement (%)	15.4	30.8
Total requirement (DKKm)	8,532	17,064

Following 2 issues of non-preferred senior debt of EUR 500m on 18 September 2018 and on 4 February 2019, the Group's eligible liabilities represent 116% of MREL. This equals an excess cover of DKK 2.7bn based on the risk exposure amount as at 31 December 2018.

## Excess cover – MREL

Group (DKKm)	
Total capital	12,390
Non-preferred senior debt, EUR 1,000m	7,408
Total eligible liabilities	19,798
MREL	17,064
Excess cover	2,734
Excess cover as % of MREL	16.0

## Interest rate risk etc

The Group's interest rate risk represents minus DKK 140m at 31 December 2018 (2017: minus DKK 86m). As a result the Group will profit from an interest rate increase.

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

## Funding and liquidity

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

The Group's LCR constituted 184% at 31 December 2018 (2017: 176%).

## LCR

Group - year-end (DKKbn)	2018	2017
Total liquidity buffer	35.9	29.4
Net cash outflows	19.5	16.7
LCR (%)	184	176

The Group met the LCR requirement of 100% throughout the year and, as can be seen, its excess cover is significant at 31 December 2018.

## Funding ratio

Group - year-end (DKKbn)	2018	2017
Equity and subordinated capital	13.5	13.8
Senior loans with maturities > 1 year	3.7	-
Stable deposits	77.3	72.2
Total stable funding	94.5	86.0
Loans and advances (excl reverse and funded mortgage-like loans)	61.0	64.3
Funding ratio (%)	155	134

The Group's stable funding exceeds the Group's loans and advances by DKK 33.5bn at 31 December 2018 (31 December 2017: DKK 21.7bn).

## Accounting estimates

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

## Rating

Moody's most recent rating of Sydbank:

Long-term deposit:	A2 – positive outlook
Baseline Credit Assessment:	Baa1
Senior unsecured:	A2
Short-term deposit:	P-1.

## Shareholders

In 2018 the Sydbank share yielded a return of minus 38% (2017: 14%) as a result of the decline in the share price during the year. Dividend distribution represented DKK 11.31 per share. Consequently the total return in 2018 represented minus 33% (2017: 19%).

The Board of Directors will propose to the AGM that 50% of the Group's profit after tax, equal to a dividend of DKK 9.36 per share, be distributed and that DKK 12m be donated to the sponsorship fund Sydbank Fonden.

## Supervisory Diamond

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

The calculations at year-end are shown below:

## Supervisory Diamond benchmarks

Group	2018	2017
Sum of 20 largest exposures < 175%	147	131
Lending growth < 20% annually	(5)	(17)
Commercial property exposure < 25%	8	8
Funding ratio < 1	0.63	0.72
Excess liquidity coverage > 100%	193	-

At 31 December 2018 the Group as well as the parent comply with all the benchmarks of the Supervisory Diamond.

## Leverage ratio

The CRR/CRD IV rules require credit institutions to calculate, report, monitor and disclose their leverage ratio, which is defined as 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 constituted 6.8% at 31 December 2018 (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 6.7% (2017: 6.7%).

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

## SIFI

Sydbank is designated as a SIFI in Denmark and in 2018 there is an additional buffer requirement of 0.8% as regards Common Equity Tier 1 capital. The requirement will rise to 1% in 2019. The intention is to bring Danish SIFI capital requirements on a par with the requirements in other comparable European countries.

---

# Performance in 2018

## 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 equity was 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.

## Bank Recovery and Resolution Directive

The directive, including the bail-in provisions, was implemented in Danish law on 1 June 2015. According to legislation each credit institution must meet a minimum requirement for own funds and eligible liabilities (MREL). In March 2018 the Danish FSA set the MREL for Sydbank.

The general resolution principle for SIFIs is that it should be possible to restructure them and send them back to the market with adequate capitalisation to ensure market confidence.

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

The Group's contribution to the resolution fund for 2018 represents DKK 17m.

## Basel IV

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

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

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

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

## Outlook for 2019

Limited growth is projected for the Danish economy in 2019.

Total income is expected to be lower than the income generated in 2018.

Costs (core earnings) are projected to rise slightly in 2019.

Impairment charges for 2019 are forecast to be at a low level. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.

Non-recurring costs are expected to represent around DKK 75m.

Profit after tax is expected to be in the range of DKK 800-1,100m.

The outlook is subject to uncertainty and depends among other things on financial market developments and macroeconomic factors.



# Capital Management

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

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

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

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

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

## Capital and solvency and capital requirements

% of REA	31 Dec 2018	Fully loaded*
<b>Capital and solvency</b>		
Common Equity Tier 1 capital ratio	17.3	17.3
Capital ratio	22.4	22.4
<b>Capital requirements (incl buffers)**</b>		
Total capital requirement	14.1	15.8
CET1 capital requirement	9.1	10.8
- of which countercyclical capital buffer	0.0	0.9
- of which capital conservation buffer	1.9	2.5
- of which SIFI buffer	0.8	1.0
<b>Excess capital</b>		
Common Equity Tier 1 capital	8.2	6.5
Total capital	8.3	6.6

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

\*\* The total capital requirement consists of an individual solvency need and a combined buffer requirement. The fully loaded countercyclical capital buffer is based on the adopted requirement as at 31 December 2018.

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

The capital requirement including buffers is based on the solvency need to which a combined buffer requirement is added. The combined buffer requirement for the Group constitutes 2.7% at 31 December 2018. When fully loaded the combined buffer requirement will represent 4.4%, bringing the fully loaded CET1 capital ratio requirement to 10.8%.

The committees in the Group's risk organisation report directly to the Group Executive Management. The committees identify, monitor and assess risks within the individual risk areas and ensure that models and principles are formulated to calculate risks. The committees ensure that the Bank's business units proactively carry out their operations and address identified risks. The Group's Chief Risk Officer is a member of all committees, see Risk Management on page 110.

A risk assessment is carried out annually to determine the Group's risk profile. The Board of Directors considers the assessment and determines the adequate total capital and the individual solvency need in continuation of this assessment.

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

The proposal is based on the capital adequacy rules (Pillar 1) with add-ons for any risks deemed not to be sufficiently covered under Pillar 1. At year-end 2018 add-ons were allocated in relation to credit risk, market risk and operational risk.

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

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

## Adequate total capital/solvency need

	DKKm	% of REA
Credit risk	4,207	7.6
Market risk	800	1.4
Operational risk	862	1.6
Other exposures	454	0.8
<b>Adequate total capital/solvency need</b>	<b>6,323</b>	<b>11.4</b>

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

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

Based on the adequate total capital the Group's capital structure can be specified as follows at 31 December 2018:

#### Capital structure

	DKKm	% of REA
Adequate total capital/solvency need	6,323	11.4
Combined buffer requirement	1,025	1.9
Capital requirement incl combined buffer requirement	7,348	13.3
Excess capital	5,042	9.1
<b>Total capital</b>	<b>12,390</b>	<b>22.4</b>

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

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

At 31 December 2018 the Group has based its stress test calculations on the following macroeconomic scenarios:

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

**Mild recession** which reflects deteriorating economic conditions compared with the base case scenario. Annualised GDP is expected to develop positively in the coming 3 years. Unemployment will remain at its current level during the entire period.

**Global crisis** which reflects that from mid-2019 the Danish economy will be hit by 2 blows: a domestic blow where confidence among Danish consumers and businesses will weaken significantly and a foreign blow where the international economy will be hit by a cyclical downturn. This scenario resembles a very deep recession and in terms of GDP it is on a par with the recession during the period 2008-2009. Unem-

ployment will increase substantially. GDP developments will be positive in 2019 and negative in both 2020 and 2021 and property prices will drop sharply during the same period.

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

**Interest rate increase** which reflects that all interest rates will go up by 400bp in Q1 2019 after which they will remain at this heightened level until end-2021. It is assumed that interest rates will rise significantly and quickly as a result of a faster than expected normalisation of monetary policy in USA and the euro area. The 400bp increase in the interest rate level has been determined so that after this increase Danish interest rates are as close to their pre-financial crisis level as possible. The rise in interest rates will impact private demand negatively. Overall this scenario will prompt a slight decline in GDP during the 3-year period. Unemployment will go up moderately and property prices will drop substantially.

**Debt crisis** which could reflect Greece abandoning the euro, prompting renewed uncertainty as regards other debt-ridden euro area countries. Another scenario could be the bank crisis or the political instability in Italy having a severe adverse impact on the Italian economy. Both scenarios involve a setback for Europe's economy and investors fleeing debt-ridden countries. During the 3-year period the overall GDP level will remain unchanged under the scenario. Unemployment will be higher than in the mild recession scenario. At the same time Denmark, via its status as a safe haven, will attract foreign capital, which will push interest rates lower than in the base case scenario.

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

Throughout 2018 the Group has fully complied with external as well as internal capital requirements.

# Investor Relations

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

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

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

In 2018 Sydbank held approximately 150 meetings with investors in Western Europe and USA.

## The Sydbank share

The Sydbank share is listed on Nasdaq Copenhagen and forms part of the OMXC25 index.

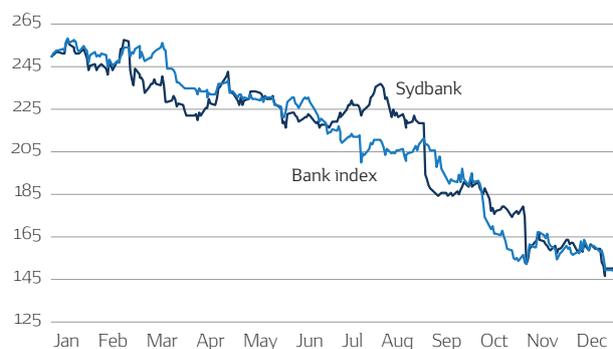
The Sydbank share dropped from 249.9 at year-end 2017 to 155.1 at year-end 2018, equal to a decrease of 37.9%. Adding dividend distributed in 2018 of DKK 11.31 per share, return to shareholders represented minus 33.4%. By comparison the bank index declined by 39.7%.

The Sydbank share	2018	2017
Share capital (DKKm)	677	704
Total market capitalisation at year-end (DKKm)	10,496	17,583
Share price at year-end	155.1	249.9
EPS (DKK)	17.56	22.40
Dividend per share (DKK)	9.36	11.31
Book value per share (DKK)	179.02	178.26
Share price/book value per share	0.87	1.40

At the end of 2018 8 analysts covered the Sydbank share.

The average daily turnover of the Sydbank share was DKK 49m in 2018 compared with DKK 46m in 2017. The share was the 24th most traded share on Nasdaq Copenhagen.

## Share price developments 2018



1 January 2018 = index 249.9, ie Sydbank's share price

## Dividend policy

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

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

In 2018 Sydbank distributed a dividend of 50%, cf the Bank's dividend policy, equal to DKK 11.31 per share.

In continuation of the dividend distribution in 2018 Sydbank has acquired 5,916,954 own shares totalling DKK 1,175m. The share buyback was conducted as part of the adjustment to the Group's capital targets.

The Group's targets are a Common Equity Tier 1 capital ratio of around 14.0% and a capital ratio of around 18.0%.

The Board of Directors will propose to the AGM that 50% of the Group's profit after tax, equal to a dividend of DKK 9.36 per share, be distributed and that DKK 12m be donated to the sponsorship fund Sydbank Fonden.

On the basis of a strong capital base it will be possible, in addition to the cash dividend, to launch a new share buyback programme of DKK 250m with an expected commencement in April 2019. Consequently a total of DKK 840m, equal to 73% of profit for the year after tax, will be distributed.

# Mission Statement and Business Goals

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

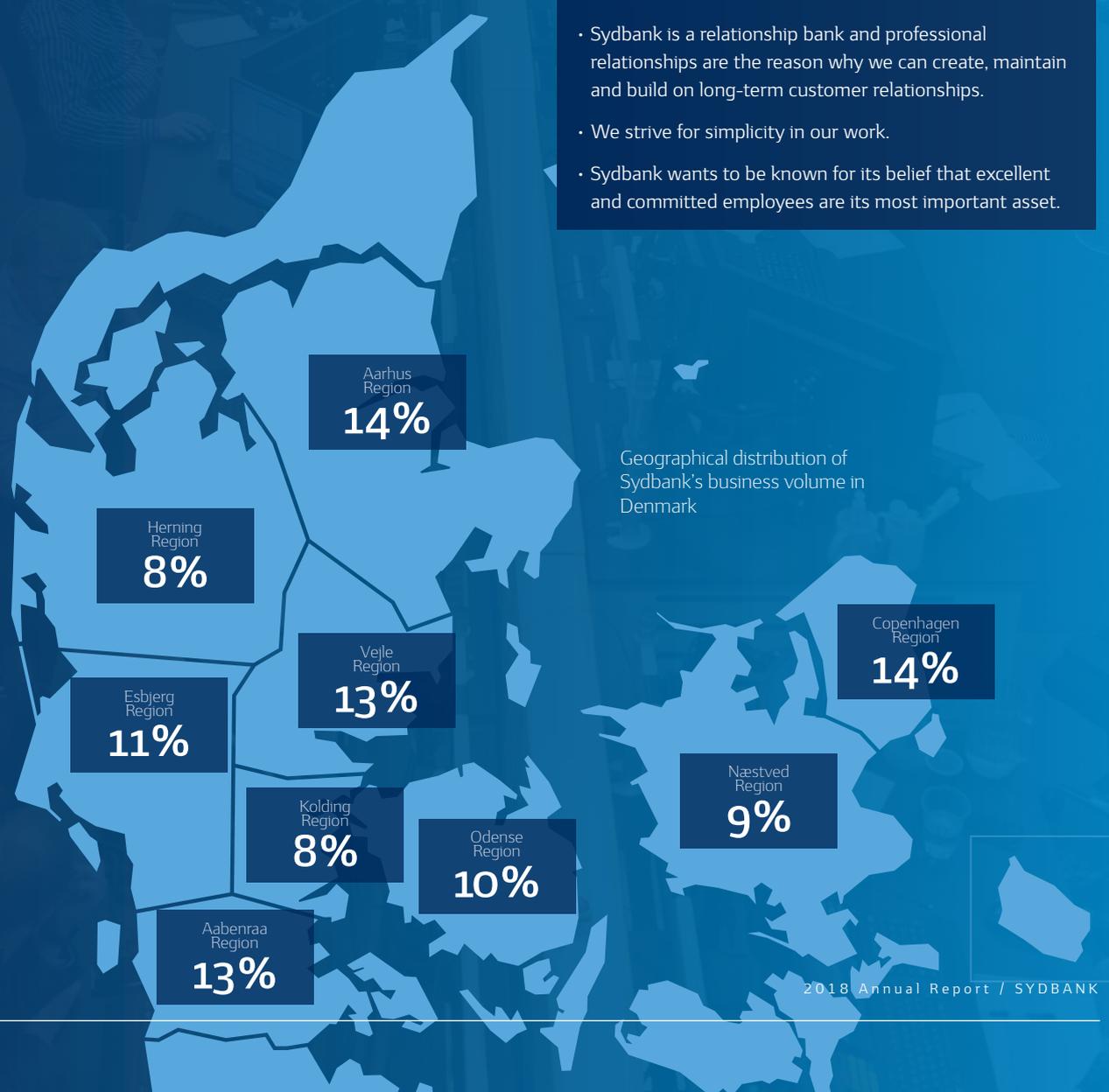
As an advisory and service undertaking Sydbank's primary objective is to meet the financial requirements of its customers. Sydbank achieves this objective by striving to be among the absolute top performers in Denmark in terms of operating a bank and providing advisory services to customers based on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

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

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

## Sydbank's business model

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



---

# Mission Statement and Business Goals

## Values and attitudes

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

## Our way of thinking

---

### Banking

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

Banking – pure and simple.

### Our bank

Rooted in Southern Jutland, Sydbank is a strong and independent nationwide bank operating on its own terms. For the backbone of the Danish corporate sector and for retail 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 is tailored to their individual needs. Backed by the best business partners our competitive strength is increased.

Our bank – excellence and relationships create value.

### Sydbank

Our bank makes 3 promises – to our customers, to our employees and to our shareholders. You will know us for the value we create for our customers. You will know us for our belief that excellent and committed employees are our most important asset. And you will know us for always having a level of profitability that will enable us to remain an independent and resourceful bank.

Sydbank – what can we do for you.

## Our way of working

---

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

### Efficient

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

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

### Online

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

For instance Sydbank offers MobilBank Corporate and Online Banking, both of which are fully integrated with the customer's ERP systems. Sydbank is also part of the MobilePay cooperation and the Bolighed property portal.

### Accessible

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

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

### Customer-oriented

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

Sydbank wants to be seen as a flexible bank putting itself in the customer's place. In its customer contact Sydbank wishes to be known as a bank that is close to its customers and through this closeness build long-term relationships and provide advisory services that create value for the customer and the Bank. Sydbank seeks to ensure high accessibility and gives customers the possibility of contacting the Bank whenever and however it is convenient for them.

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

### A stronger bank

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

## High and increasing customer satisfaction Ranking among the largest banks



Survey of Corporate by Aalund and Retail by EPSI.

 Strategy direction	<h2>A stronger bank</h2>		
 Market assumptions	<b>Macroeconomic outlook</b> Low demand for loans    Intensified competition    Upward pressure on costs		<b>Ramifications of the financial crisis</b> Tighter legislation and regulations    Higher qualification requirements
 Themes	<b>Customer first</b> A sharper customer focus	<b>More Sydbank</b> A stronger profile	<b>What works</b> A more powerful engine room
 Initiatives	<ul style="list-style-type: none"> <li>• Customer culture</li> <li>• Customer relations</li> <li>• Accessibility</li> <li>• Relevance</li> <li>• Speed and quality</li> </ul>	<ul style="list-style-type: none"> <li>• Profile</li> <li>• External awareness</li> <li>• Decency</li> <li>• Values</li> </ul>	<ul style="list-style-type: none"> <li>• Simplification</li> <li>• Digitization</li> <li>• Optimisation</li> <li>• Driving forces</li> <li>• Fintech</li> </ul>
 Strategic goals	<b>Customer satisfaction</b> Sydbank builds on long-term customer relationships.	<b>Employee engagement</b> Sydbank considers excellent and committed employees to be its most important asset.	<b>ROE</b> Top 3 ranking among the 6 largest banks.

# Mission Statement and Business Goals

## Corporate

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

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

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

As a rule corporate clients are served by one of the Bank's regional head offices or by special corporate branches. Sydbank wishes primarily to have medium-sized and large enterprises with growth potential as customers. The businesses must have a sound financial footing and use the main part of the Bank's palette of products and services.

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

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

## Private Banking

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

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

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

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

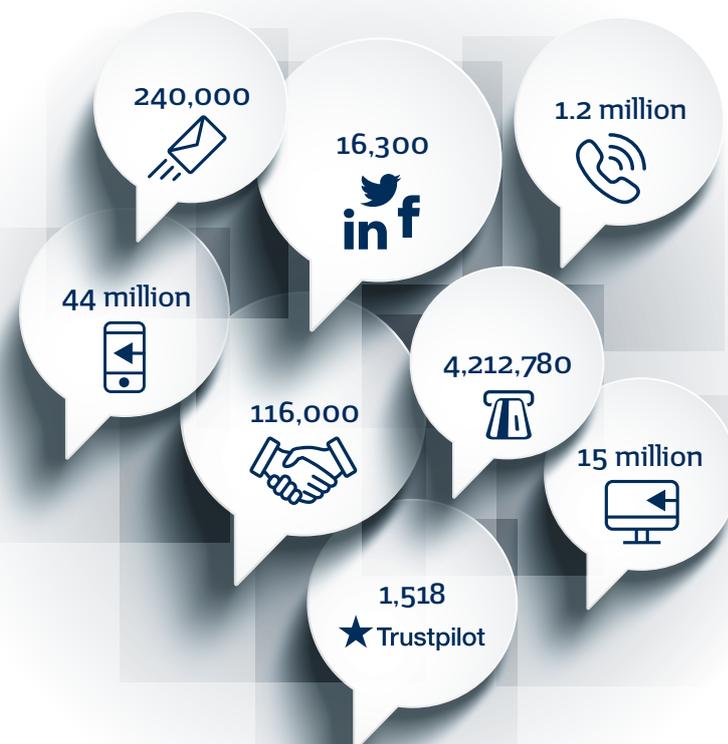
For many years Sydbank has targeted the investment area and primarily focused on providing personal and individual advisory services to its customers. The extent of investment advisory services depends in general on a customer's investment preferences.

## Retail

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

## Customer dialogue - channels

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



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

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

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

#### Asset Management

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

Moreover the Bank offers investment management products to its different customer segments. The Bank cooperates with a number of sub-suppliers in the investment fund area, eg Sydinvest, BankInvest, Sparinvest, ValueInvest and Maj Invest.

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

#### Asset management

DKKbn	2018	2017
Pooled pension plans	16	17
PengePlan®	5	7
PM mandates	13	13
Management agreements	4	4
Investment funds and hedge funds	49	56
<b>Total</b>	<b>87</b>	<b>97</b>

During 2018 assets under management declined from approx DKK 97bn at the beginning of the year to approx DKK 87bn at the end of the year. The decrease is mainly due to the negative developments in share and corporate bond markets as a result of which 2018 was the poorest investment year in a decade. Moreover as a result of the negative market developments some customer segments have reduced their demand for our investment products. In addition the MiFID II rules banning commission on investment products (effective 1 July 2017) further reduced customers' demand for Sydbank's investment

product PengePlan® in 2018 as for one thing the new fee to replace the commission is subject to VAT.

#### Custody account volume

DKKbn	2018	2017
Retail and corporate clients	122	113
Pooled pension plans	16	16
Financial institutions	6	6
Investment funds and hedge funds	49	54
<b>Total</b>	<b>193</b>	<b>189</b>

#### Custody account volume – retail and corporate clients

DKKbn	2018	2017
Danish bonds	28	11
Foreign bonds	3	3
Danish shares	35	39
Foreign shares	7	8
Investment funds and hedge funds	49	52
<b>Total</b>	<b>122</b>	<b>113</b>

Despite market headwinds Sydbank's total custody account volume rose from DKK 189bn at the beginning of 2018 to DKK 193bn at year-end. The increase is attributable to a rise in the custody account volume of Danish bonds held by retail and corporate clients. The introduction of negative interest rates in the Danish banking industry as regards corporate clients in general is the most significant explanation.

#### Sydbank Markets

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

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

#### Human Resources and staff

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

---

# Mission Statement and Business Goals

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

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

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

## IT

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

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

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

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

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

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

## IT operations and security

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

IT breakdowns and cybercrime pose considerable risks to banking operations, especially in light of increasing digitization.

These risks are minimised via Sydbank's policy in this area, which includes a description of the contingency plans in place according to the type of event that could occur and how it is tackled depending on the cause.

## DiBa Billån

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

## Sydbank Leasing

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

## Business partners

Sydbank cooperates with a number of sub-suppliers to ensure that its customers receive competitive quality products.

Sydbank's primary mortgage credit partners are Totalkredit and DLR Kredit and its life insurance partners are Letpension and PFA. Sydbank's non-life insurance partner is Topdanmark.

## National Banks in Denmark

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



---

# Organisation and Corporate Governance

Sydbank's management backs and actively addresses corporate governance.

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

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

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

The management of Sydbank is carried out by:

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

## Shareholders

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

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

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

## General meeting

Shareholders' voting rights are exercised at the general meeting. Sydbank complies with the recommendations of the

Committee on Corporate Governance regarding organising the Bank's general meeting and appointing proxies. Sydbank's Articles of Association contain information on convening the general meeting, the right to submit proposals as well as attendance and voting rights. The Bank's Articles of Association are available at [sydbank.com](http://sydbank.com).

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

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

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

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

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

The general meeting has authorised the Board of Directors to allow the Bank to acquire own shares within a total nominal value of 10% of the Bank's share capital. As at 14 December 2018 the Bank had acquired 9.85% of its share capital under the current authorisation, which will expire in 2022. The acquisition of own holdings was reached and the acquisition has been terminated.

## Shareholders' Committee

The Bank's Shareholders' Committee is elected by the general

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

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

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

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

#### **Board of Directors**

The Board of Directors consists of between 6 and 10 members elected by and from among the members of the Shareholders' Committee. Shareholder-elected board members are elected for a term of 3 years. Members are eligible for re-election. If the number of shareholder-elected board members is reduced to less than 6, the Shareholders' Committee will add to the number as soon as possible in order to increase the number to at least 6.

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

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

On the basis of Sydbank's business model the conclusion of the evaluation of the Board of Directors for 2018 is that the cooperation of the Board of Directors works in a satisfactory manner. Moreover it was expressed that the cooperation between the Board of Directors and the Group Executive Management is

good and that the relationship is driven by strong trust. The conclusion of the evaluation is that the Board of Directors has the competences required at the present time. To a great extent the competences of the Board of Directors cover management, economics, capital adequacy requirements, accounting, credit risks and IT risks.

Other directorships held by the Board of Directors can be seen on pp 128-133.

#### **Board committees**

Sydbank's Board of Directors has set up 4 committees that supervise special areas or prepare matters for subsequent consideration by the full Board of Directors.

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

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

#### **Audit Committee**

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

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

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

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

The Audit Committee convened 8 times in 2018.

The Board of Directors has appointed John Lesbo, State Authorised Public Accountant, as the board member who possesses special qualifications within accounting and auditing. Until his appointment to the Bank's Board of Directors John

---

# Organisation and Corporate Governance

Lesbo was a partner in KPMG and Ernst & Young. During his many years as an accountant John Lesbo has participated in national and international training programmes, which has placed him in a position to audit and advise large companies with international activities. John Lesbo was on the board of the auditing firm for many years and is a former member of the Expert Opinion Committee of FSR (Danish Auditors).

The committee consists of John Lesbo (Chairman), State Authorised Public Accountant; Torben Nielsen, former Central Bank Governor; Jacob Chr. Nielsen, CEO; and Lars Mikkjelgaard-Jensen, Managing Director.

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

## Risk Committee

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

The Risk Committee must provide the Board of Directors with an overview of the Group's current risk scenario and prepare the determination of the Group's overall risk profile and risk strategy including the risks associated with the Group's business model.

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

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

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

The Risk Committee convened 5 times in 2018.

The committee consists of Torben Nielsen (Chairman), former Central Bank Governor; Frank Møller Nielsen, Attorney; and John Lesbo, State Authorised Public Accountant.

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

## Remuneration Committee

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

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

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

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

The Remuneration Committee convened 3 times in 2018.

The committee consists of Torben Nielsen (Chairman), former Central Bank Governor; Janne Moltke-Leth, CEO; and Jars Oxlund, Chairman of Sydbank Kreds.

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

## Nomination Committee

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

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

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

The Nomination Committee convened 8 times in 2018.

The committee consists of Torben Nielsen (Chairman), former Central Bank Governor; Janne Moltke-Leth, CEO; Frank Møller Nielsen, Attorney; and John Lesbo, State Authorised Public Accountant.

## Sydbank's Board of Directors

2018	Board meetings	Audit Committee meetings	Risk Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
Torben Nielsen (Chairman)	12/12	3/3	5/5	3/3	8/8
John Lesbo (Vice-Chairman)	12/12	8/8	4/4	-	6/6
Carsten Andersen*	10/10	-	-	-	-
Peder Damgaard**	2/2	-	1/1	1/1	2/2
Alex Slot Hansen**	2/2	-	-	1/1	-
Kim Holmer*	9/10	-	-	-	-
Lars Mikkilgaard-Jensen	10/12	6/8	-	-	-
Janne Moltke-Leth	11/12	-	-	2/3	6/6
Frank Møller Nielsen	12/12	-	4/4	-	8/8
Jacob Chr. Nielsen	11/12	8/8	-	-	2/2
Jarl Oxlund	12/12	-	1/1	2/2	-
Susanne Schou*	10/10	-	-	-	-
Jørn Krogh Sørensen*	10/10	-	-	-	-
Margrethe Weber**	2/2	-	-	-	-

\* Member as of 14 March 2018    \*\* Resigned as of 14 March 2018    (attendance / number of meetings)

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

### Policy and targets for the under-represented gender

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

The aim of the Board of Directors is that women will represent at least 25% of the shareholder-elected board members in 2019. Following the general meeting in 2018 Sydbank's Board of Directors consisted of 7 shareholder-elected board members including 2 female board members. The defined target has been met.

Reference is made to Sydbank's Corporate Citizenship Report for 2018 (pp 9 and 30), which is published together with the annual report on Sydbank's website, [sydbank.com](http://sydbank.com).

### Group Executive Management

Sydbank's Group Executive Management consists of 3 members. The Group Executive Management is appointed by the Board of Directors and consists of Karen Frøsig, CEO; Jan Svarre, Deputy Group Chief Executive; and Bjarne Larsen, Deputy Group Chief Executive.

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

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

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

### Management's remuneration

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

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

---

# Organisation and Corporate Governance

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

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

The remuneration of the Group Executive Management is reviewed once a year. The remuneration is determined on the basis of a wish to attract and retain the right profiles in the Group Executive Management so that the Bank's Group Executive Management has the right composition at all times. In connection with the annual review of the remuneration of the Group Executive Management an assessment of the market level is made. In addition the remuneration of the Group Executive Management is adjusted according to the adjustment in the collective agreement concluded by the Danish Employers' Association for the Financial Sector (FA) and the Financial Services Union Denmark (Finansforbundet). No bonus schemes have been agreed as regards the Group Executive Management.

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

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

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

## Significant internal controls and risk management systems

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

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

The Group Executive Management is responsible for maintaining effective internal controls and a risk management system in connection with financial reporting. The Group Executive Management has designed and implemented controls considered necessary and effective to counter the identified risks relating to financial reporting. The Group's internal controls and

risk management systems are updated on an ongoing basis and are designed with a view to identifying and eliminating errors and omissions in the financial statements.

## Risk assessment

The Board of Directors and the Group Executive Management regularly assess the risks relating to the Group, including those affecting financial reporting. A description of the most significant identified risks is given in the annual report under "Accounting estimates and judgements" (note 2).

Procedures have been put into place to ensure that Sydbank at all times complies with relevant legislation and other regulations in connection with financial reporting. The Audit Committee is regularly informed of significant changes in legislation.

## Monitoring

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

## Risk organisation

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

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

## Compliance

Compliance is an independent division reporting directly to the Bank's Group Executive Management. The division also comprises the functions Anti-Money Laundering and Data Protection Officer, which are described in further detail in the following.

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

The work is organised so that all the Bank's activities are assessed using a risk-based approach. For each control and

assessment carried out by Compliance the conclusion is reported to the relevant business unit managers who are responsible for correcting any errors or omissions identified, including adjusting inadequate systems and procedures. Compliance follows up on the implementation of appropriate measures. Moreover Compliance follows up on the controls and assessments carried out. The time horizon for this work depends on the risk identified.

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

The Bank has established a Compliance Committee. The chairman is the Bank's Risk Executive (Group Executive Management member). The committee also consists of the relevant Group Executive Vice Presidents or their representatives as well as the Bank's Data Protection Officer. The committee meets at least once every quarter to discuss current compliance risks.

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

### **Anti-money laundering**

Compliance with anti-money laundering legislation is an important factor in terms of successfully managing the task of preventing money laundering and terrorist financing. To strengthen these efforts and respond to tougher regulation in this area, Sydbank has appointed an AML Executive (member of the Group Executive Management) and has established an AML function within Compliance. In cooperation with the AML function, the AML Executive must ensure that Sydbank complies with all legislation and rules to prevent money laundering and terrorist financing. The AML function works closely with the relevant customer-facing areas within the Bank and contributes to ensuring that all relevant employees receive training in anti-money laundering rules.

To strengthen the ongoing efforts in terms of combating money laundering and terrorist financing a quality assurance department was established at the end of 2018 to ensure ongoing implementation of all necessary measures in this respect among all the Bank's employees.

The current Danish Anti-Money Laundering Act places great emphasis on the financial sector having a risk-based approach to combat money laundering and terrorist financing. As part of this risk-based approach the Board of Directors has adopted an anti-money laundering policy that sets out the overall frame-

work for procedures, routines, job descriptions and controls to minimise the Bank's risk of being used for money laundering or terrorist financing.

The Bank has established an AML Committee. The chairman is the Bank's AML Executive (member of the Group Executive Management). The committee also consists of the relevant Group Executive Vice Presidents or their representatives. The committee meets at least once every quarter to discuss current risks in this area.

In its efforts to prevent the Bank from being used for money laundering or terrorist financing, Sydbank takes appropriate steps to monitor transactions and files the necessary reports with the relevant authorities.

### **Data Protection Officer**

The new General Data Protection Regulation took effect in May 2018. The General Data Protection Regulation replaced previous data protection legislation and imposed stricter requirements regarding the manner in which businesses store and process personal data.

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

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

### **Internal Audit**

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

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

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

# Social Responsibility – Corporate Citizenship

Companies' responsibility as 'citizens' is discussed under various names such as CSR, corporate accountability, corporate ethics, ESG and sustainability. At Sydbank we have chosen 'corporate citizenship' as the collective term for our activities in this area. As we see it Sydbank is a citizen in a community that carries obligations but that is also evolving dynamically.

The overall goal regarding corporate citizenship is that Sydbank wishes to be an open and active participant in everyday society with the responsibility, obligations and rights that it entails.

## Corporate citizenship structure

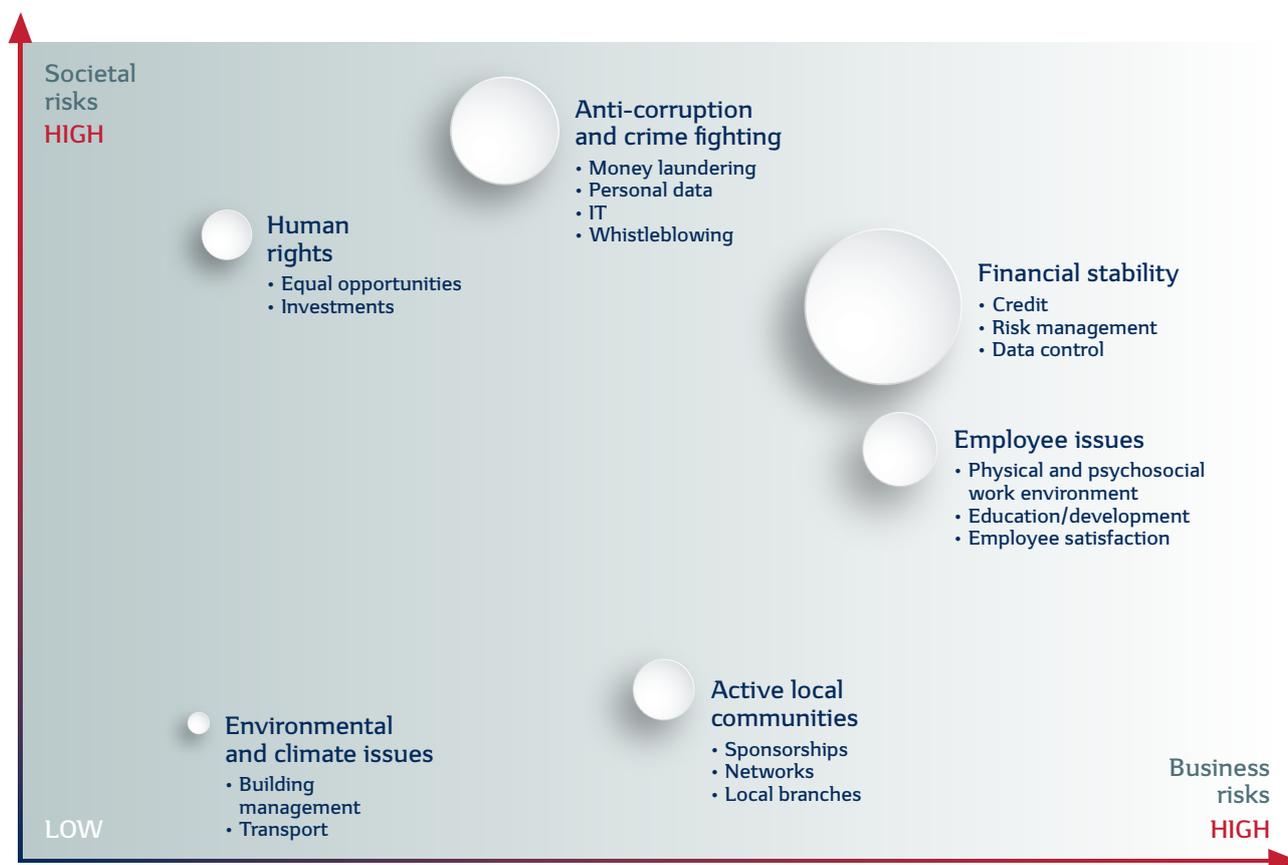
Sydbank's corporate citizenship initiatives cover the 5 mandatory reporting areas pursuant to the Danish Financial Statements Act: social issues, environmental and climate issues, human rights and anti-corruption measures. However given banks' special responsibility with regard to the economy we have chosen 'financial stability' as a primary focus of Sydbank's

corporate citizenship. In addition Sydbank's profile as a nationwide relationship bank means that we attach special importance to our responsibility to local communities, which is why 'active local communities' is included as a separate reporting area.

Consequently Sydbank's corporate citizenship reporting follows this fixed thematic structure:

1. Financial stability
2. Employee issues
3. Environmental and climate issues
4. Human rights
5. Anti-corruption and crime fighting
6. Active local communities.

The individual goals for the 6 themes are defined on the basis of a risk assessment including business risks and societal risks, see the figure below.



Sydbank's most important corporate citizenship themes in a matrix of societal and business risks. The size of the circles indicates Sydbank's possibility of contributing to solutions at a societal level.

The efforts made to achieve the defined objectives of each of the 6 themes can be divided into a number of subthemes that can be assessed separately in terms of risk. These subthemes are described in Sydbank's Corporate Citizenship Report, which is available on Sydbank's website, sydbank.com.

### Corporate citizenship organisation

In organisational terms corporate citizenship reporting is the responsibility of the Group Executive Management Secretariat & Communications.

In its work to expand the Bank's efforts, Sydbank has established an internal CSR forum, which meets twice a year. The purpose of this forum is to align the targets of the organisation's concrete CSR contributions.

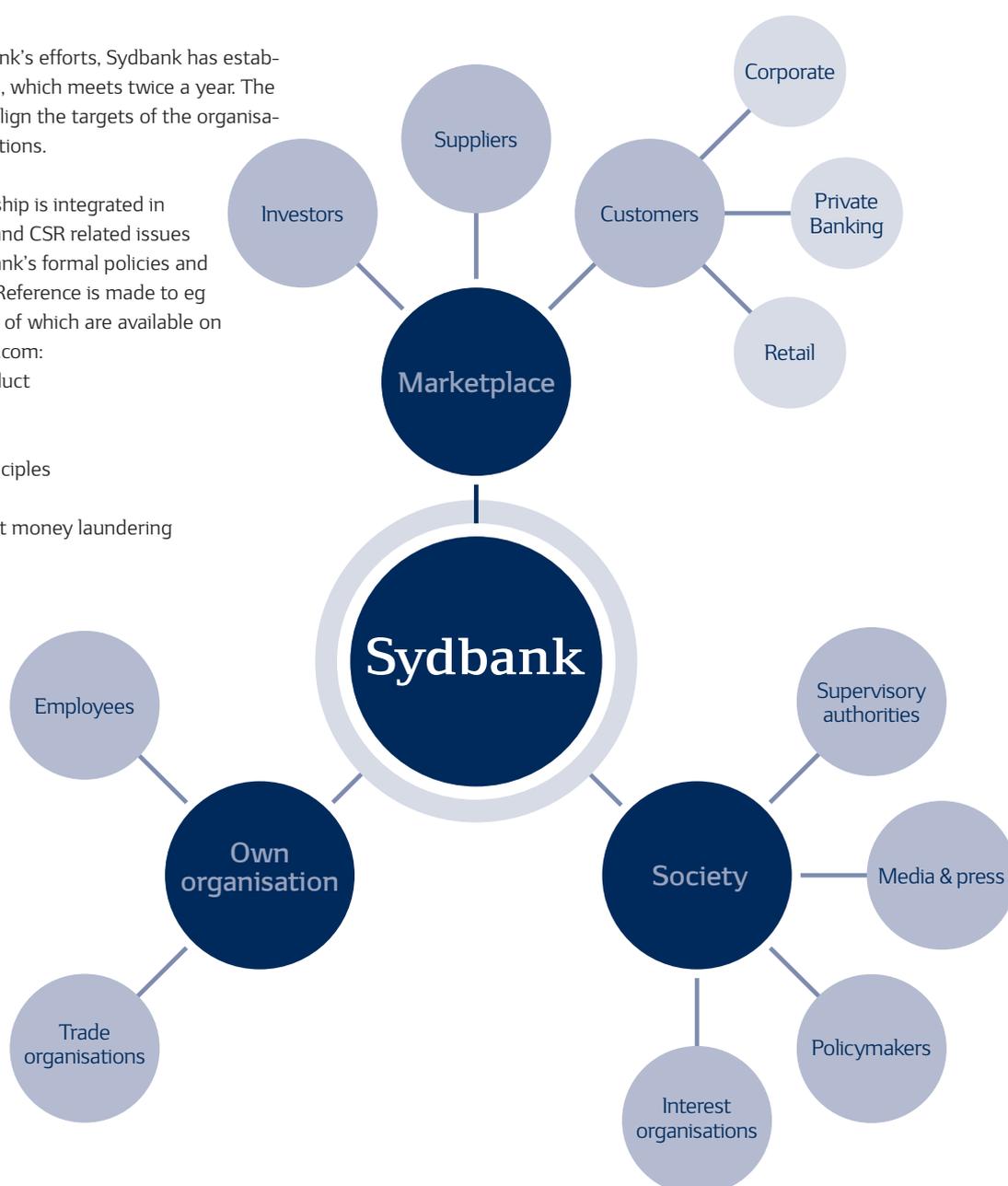
In practice corporate citizenship is integrated in Sydbank's daily operations and CSR related issues form a natural part of the Bank's formal policies and descriptions of procedures. Reference is made to eg the following documents, all of which are available on Sydbank's website, sydbank.com:

- Management code of conduct
- Code of conduct
- Business model
- Corporate governance principles
- Conflicts of interest policy
- Policy for measures against money laundering and terrorist financing
- Sydbank's tax policy.

### Sydbank's stakeholders

Sydbank's growth and existence depend on a dynamic dialogue and interaction with a number of other stakeholders in:

- our own organisation
- the marketplace
- society at large.



# Social Responsibility – Corporate Citizenship

The dialogue with authorities and policymakers is especially important these days given heightened regulation in the sector as a result of the financial crisis in 2008 and globalisation in general. Sydbank recognises the need for common regulation ensuring security, transparency and stability in bank transactions and financial markets in general.

At the same time Sydbank finds it important that regulation is not introduced without the knowledge of the industry's players but in a close dialogue between the authorities, legislators and the sector so as to ensure that rules and regulations can be implemented and handled effectively in practice.

## Sydbank and global issues

Sydbank acknowledges and complies with the UN Global Compact's 10 principles and has signed the UN Principles for Responsible Investment (UN PRI) thereby committing the Bank to incorporate environment, social and corporate governance (ESG) issues when selecting equities and corporate bonds in which Sydbank invests.

Out of the UN's 17 sustainable development goals, Sydbank has identified 11 goals as especially relevant in terms of Sydbank's corporate citizenship efforts.

## Financial stability

The number of statutory regulations in the financial sector has grown tremendously during the last decade. Not just in Denmark and the EU but also in the rest of the world. This adds to complexity and by extension the requirements as to banks' processes and internal guidelines.

At Sydbank we are aware that it is necessary to allocate substantial resources on not only staying abreast of the stricter statutory requirements but also staying ahead of them. In 2018 Compliance was established as a separate division reporting directly to the Group Executive Management. Furthermore a quality assurance department has been set up to ensure the implementation of new processes in day-to-day operations brought on by new legislation.

Also in 2018 Sydbank held training courses for all employees on processing of personal and confidential information.

## Employee issues

Sydbank measures employees' engagement and job satisfaction systematically. The survey is carried out by an independent external service provider to ensure complete anonymity of responses. In 2018 Sydbank chose a new service provider, Ennova, which is able to benchmark Sydbank's results with an

average score of the other businesses that have entered into an agreement with Ennova – at sector level and at national level within all sectors.

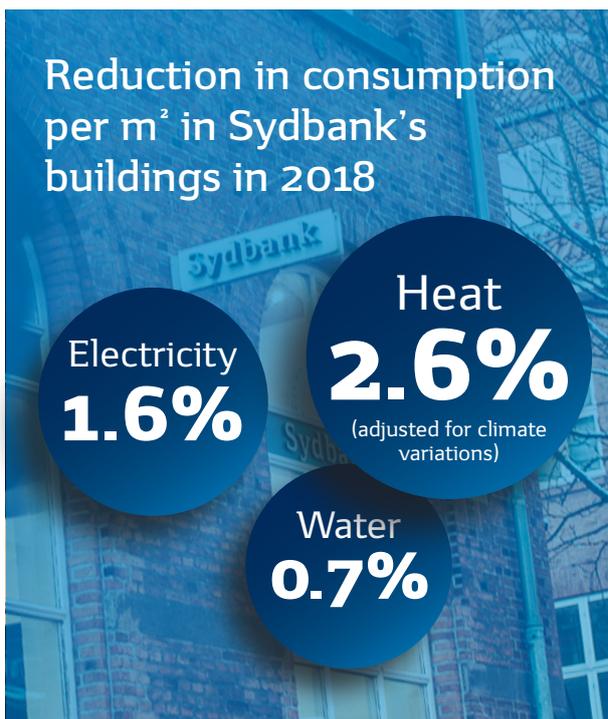
The results from the first survey, which was conducted in autumn 2018, show that Sydbank's overall score is excellent compared with the average score for the financial sector and compared with the average score for all businesses surveyed in Denmark.

10 work-related injuries were reported at Sydbank in 2018 – the same number as the year before. Sydbank's goal continues to be zero.

## Environmental and climate issues

When it comes to environmental and climate issues Sydbank's primary focus is to maximise the efficiency of its heating and electricity consumption while ensuring a comfortable indoor climate in its buildings for the benefit of customers as well as employees. This is an ongoing process as it is always possible to improve efficiency further. Our fundamental position is that stagnation is not an option when it comes to optimising our use of resources.

And the results are clearly visible. Over the past 5 years we have reduced electricity consumption per square metre by 14%, water consumption by 9% and heat consumption by 9%.



This is in no small part thanks to a state-of-the-art energy management system that monitors energy consumption on an hourly basis and sends a warning to the Bank's technicians if there are any sudden unusual variations in energy readings.

### Human rights

Sydbank acknowledges the principles of the UN Global Compact initiative and as a natural consequence the Bank respects and observes international human rights and combats discrimination in all its forms.

In recent years one of Sydbank's objectives was for women to represent 25% of the shareholder-elected board members in 2019. This goal was achieved after the general meeting in 2018 as the female members represent 28.6% of Sydbank's shareholder-elected board of directors.

In 2018 Sydbank continued its collaboration with GES Investment Services (GES) to monitor investment markets to ensure that investments made by Sydbank live up to the principles for responsible investment.

At the end of the year 40 companies were on Sydbank's exclusion list because they were in violation of widely accepted conventions and norms. GES has ongoing engagement cases on behalf of Sydbank involving more than 127 businesses in emerging markets where an active dialogue has been established to remedy criticisable conditions.

### Anti-corruption and crime fighting

As cash is becoming increasingly less common in everyday life – and by extension also in bank branches – the nature of crimes that banks are the target of is also changing. For the third consecutive year there were no attempted robberies at Sydbank's branches in 2018.

Unfortunately this does not mean that crime is no longer a drain on resources for banks. On the contrary – for crime in the digital payment universe is more complex and requires heightened attention and greater efforts.

It has always been possible for an employee or a person from outside the Bank to act as a whistleblower – ie to contact Sydbank and submit tips and information about possible wrongdoings or other suspicious behaviour in and around the Bank. Sydbank treats such disclosures confidentially and seriously. Sydbank has now upgraded this type of dialogue via a formalised whistleblower scheme. For one thing this means that in future all whistleblowing will be with the Legal Adviser to the Danish Government as the intermediary. Consequently there is no reason for anyone to doubt the anonymity and

impartiality concerning how disclosures are treated. Access to the upgraded whistleblower scheme is via Sydbank's website.

### Active local communities

Sydbank's approach to sponsorships is influenced by its commitment to local relationships and dialogue. Our primary focus is on contributing locally and supporting projects that help create local value and local relationships. Sydbank helps to support and develop local association activities and sports activities in particular via its sponsorships, most of which are given locally via Sydbank's 10 regions, including Germany.

Based on this philosophy Sydbank gave a total of DKK 11.7m in local sponsorships in 2018. This was DKK 1.9m more than in 2017, equal to an increase of over 19%. These local sponsorships are given priority and nurtured by Sydbank's local management teams, thereby ensuring that they support local development and activities.

In addition Sydbank has a number of nationwide sponsorships. But also here Sydbank looks for sponsorships that can be activated locally in close collaboration with the Bank's local branches and customers. Sydbank gave DKK 3.9m in nationwide sponsorships in 2018 – an increase of 77% compared to the year before. This increase is due in particular to Sydbank's decision in 2018 to be a name sponsor for the Danish Cup held by the Danish Football Association, which is called the Sydbank Cup for the duration of the sponsorship.



# Financial Statements

Income Statement.....	46
Statement of Comprehensive Income.....	46
Balance Sheet.....	47
Statement of Changes in Equity.....	48
Cash Flow Statement.....	50

## Notes

1 Accounting policies.....	51	29 Deposits and other debt.....	89
2 Accounting estimates and judgements.....	61	30 Bonds issued at amortised cost.....	89
3 Solvency.....	63	31 Other liabilities .....	89
4 Leverage ratio.....	64	32 Provisions.....	89
5 Segment reporting.....	64	33 Subordinated capital.....	90
6 Correlation between the Group's performance measures and the income statement according to IFRS.....	66	34 Own holdings.....	91
7 Interest income.....	67	35 Contingent liabilities and other obligating agreements.....	92
8 Interest expense.....	67	36 Fair value hedging of interest rate risks (macro hedge).....	93
9 Dividends on shares.....	67	37 Collateral.....	94
10 Fee and commission income.....	68	38 Related parties.....	95
11 Market value adjustments.....	68	39 Fair value disclosure.....	97
12 Other operating income.....	68	40 Financial liabilities – contractual maturities.....	100
13 Staff costs and administrative expenses .....	69	41 Activity per country.....	100
14 Impairment of loans and advances etc.....	73	42 Financial highlights.....	101
15 Profit/(Loss) on holdings in associates and subsidiaries .....	74	43 Reporting events occurring after the balance sheet date.....	103
16 Tax.....	74	44 Group holdings and enterprises.....	103
17 Amounts owed by credit institutions and central banks.....	75	45 Large shareholders.....	103
18 Loans and advances.....	76	46 Correlation between the Group's profit for the year according to IFRS and FSA accounting rules .....	103
19 Bonds at fair value.....	84	Definitions – Group Financial Ratios & Performance Measures ...	104
20 Shares etc .....	84	Derivatives.....	106
21 Holdings in associates etc.....	84	Risk Management.....	110
22 Holdings in subsidiaries.....	85	Credit risk .....	111
23 Assets related to pooled plans.....	85	Market risk .....	114
24 Intangible assets.....	86	Liquidity risk .....	116
25 Owner-occupied property.....	87	Operational risk .....	118
26 Other property, plant and equipment.....	88	IT security .....	118
27 Other assets.....	88	Total capital .....	119
28 Amounts owed to credit institutions and central banks.....	88		

# Income Statement

DKKm	Note	Sydbank Group		Sydbank A/S	
		2018	2017	2018	2017
Interest income calculated using the effective interest method		1,917	2,161	1,921	2,165
Other interest income		67	13	67	12
<b>Interest income</b>	7	<b>1,984</b>	<b>2,174</b>	<b>1,988</b>	<b>2,177</b>
Interest expense	8	116	179	121	174
<b>Net interest income</b>		<b>1,868</b>	<b>1,995</b>	<b>1,867</b>	<b>2,003</b>
Dividends on shares	9	27	36	27	36
Fee and commission income	10	2,140	2,112	1,987	1,983
Fee and commission expense	10	310	287	242	233
<b>Net interest and fee income</b>		<b>3,725</b>	<b>3,856</b>	<b>3,639</b>	<b>3,789</b>
Market value adjustments	11	335	727	286	727
Other operating income	12	19	19	19	20
Staff costs and administrative expenses	13	2,666	2,537	2,611	2,482
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment		97	122	93	101
Other operating expenses		18	25	17	25
Impairment of loans and advances etc	14	(114)	(45)	(114)	(45)
Profit/(Loss) on holdings in associates and subsidiaries	15	8	(7)	22	(26)
<b>Profit before tax</b>		<b>1,420</b>	<b>1,956</b>	<b>1,359</b>	<b>1,947</b>
Tax	16	264	425	241	416
<b>Profit for the year</b>		<b>1,156</b>	<b>1,531</b>	<b>1,118</b>	<b>1,531</b>
<b>Distribution of profit for the year</b>					
Shareholders of Sydbank A/S				1,095	1,531
Holders of Additional Tier 1 capital				23	-
<b>Total amount to be allocated</b>				<b>1,118</b>	<b>1,531</b>
Proposed dividend for shareholders of Sydbank A/S				578	766
Dividend for holders of Additional Tier 1 capital				23	-
Proposal for allocation for other purposes				12	10
Transfer to equity				505	755
<b>Total amount allocated</b>				<b>1,118</b>	<b>1,531</b>
EPS Basic (DKK)*		17.6	22.4	17.0	22.4
EPS Diluted (DKK)*		17.6	22.4	17.0	22.4
Proposed dividend per share (DKK)		9.36	11.31	9.36	11.31

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

## Statement of Comprehensive Income

<b>Profit for the year</b>	<b>1,156</b>	<b>1,531</b>	<b>1,118</b>	<b>1,531</b>
<b>Other comprehensive income</b>				
<i>Items that may be reclassified to the income statement:</i>				
Translation of foreign entities	10	(20)	10	(20)
Hedge of net investment in foreign entities	(10)	20	(10)	20
Property revaluation	7	15	7	15
<i>Items that may not be reclassified to the income statement:</i>				
Value adjustment of certain strategic shares	(38)	-	-	-
<b>Other comprehensive income after tax</b>	<b>(31)</b>	<b>15</b>	<b>7</b>	<b>15</b>
<b>Comprehensive income for the year</b>	<b>1,125</b>	<b>1,546</b>	<b>1,125</b>	<b>1,546</b>

# Balance Sheet

DKKm	Note	Sydbank Group		Sydbank A/S	
		2018	2017	2018	2017
<b>Assets</b>					
Cash and balances on demand at central banks		2,073	2,115	2,073	2,114
Amounts owed by credit institutions and central banks	17	13,696	12,479	13,694	12,476
Loans and advances at fair value	18	6,510	5,248	6,510	5,248
Loans and advances at amortised cost	18	60,983	64,312	61,184	64,513
Bonds at fair value	19	29,668	25,860	29,668	25,860
Shares etc	20	2,196	2,118	2,196	2,118
Holdings in associates etc	21	152	157	152	157
Holdings in subsidiaries	22	-	-	2,408	2,329
Assets related to pooled plans	23	16,220	16,541	16,220	16,541
Intangible assets	24	259	281	259	280
Owner-occupied property	25	1,080	1,075	856	857
Other property, plant and equipment	26	75	71	75	71
Current tax assets		211	29	216	31
Deferred tax assets	16	39	46	12	12
Assets in temporary possession		1	1	1	1
Other assets	27	7,278	8,099	7,273	8,095
Prepayments		73	62	72	60
<b>Total assets</b>		<b>140,514</b>	<b>138,494</b>	<b>142,869</b>	<b>140,763</b>
<b>Equity and liabilities</b>					
Amounts owed to credit institutions and central banks	28	5,339	5,960	5,574	6,184
Deposits and other debt	29	86,277	82,690	88,410	84,754
Deposits in pooled plans		16,220	16,541	16,220	16,541
Bonds issued at amortised cost	30	3,706	3,722	3,706	3,722
Current tax liabilities		-	-	-	1
Other liabilities	31	14,938	15,363	14,927	15,345
Deferred income		2	4	2	4
<b>Total liabilities</b>		<b>126,482</b>	<b>124,280</b>	<b>128,839</b>	<b>126,551</b>
Provisions	32	489	434	487	432
Subordinated capital	33	1,861	1,854	1,861	1,854
<b>Equity:</b>					
Share capital		677	704	677	704
Revaluation reserves		104	97	104	97
Other reserves:					
Reserves according to articles of association		425	425	425	425
Reserve for net revaluation according to equity method		4	2	4	2
Retained earnings		9,122	9,922	9,122	9,922
Proposed dividend etc		590	776	590	776
Shareholders of Sydbank A/S		10,922	11,926	10,922	11,926
Holders of Additional Tier 1 capital		760	-	760	-
<b>Total equity</b>		<b>11,682</b>	<b>11,926</b>	<b>11,682</b>	<b>11,926</b>
<b>Total equity and liabilities</b>		<b>140,514</b>	<b>138,494</b>	<b>142,869</b>	<b>140,763</b>

# Statement of Changes in Equity

Sydbank Group

DKKm	Share capital	Revaluation reserves	Reserves acc. to articles of association *	Reserve for net revaluation acc. to equity method	Retained earnings	Proposed dividend etc	Shareholders of Sydbank A/S	AT1 capital**	Total equity
Equity at 31 Dec 2017	704	97	425	2	9,922	776	11,926		11,926
New accounting policies, IFRS 9					(216)		(216)		(216)
Tax effect, IFRS 9					48		48		48
Equity at 1 Jan 2018	704	97	425	2	9,754	776	11,758	-	11,758
Profit for the period				2	541	590	1,133	23	1,156
Other comprehensive income	-	7	-	-	(38)	-	(31)	-	(31)
<b>Comprehensive income for the year</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>2</b>	<b>503</b>	<b>590</b>	<b>1,102</b>	<b>23</b>	<b>1,125</b>
<b>Transactions with owners</b>									
Issue of Additional Tier 1 capital							-	745	745
Transaction costs					(8)		(8)		(8)
Interest paid on Additional Tier 1 capital							-	(10)	(10)
Exchange rate adjustment					(2)		(2)	2	0
Tax					7		7		7
Purchase of own shares					(2,508)		(2,508)		(2,508)
Sale of own shares					1,338		1,338		1,338
Reduction of share capital	(27)				27		-		-
Dividend etc paid						(776)	(776)		(776)
Dividend, own shares					11		11		11
Total transactions with owners	(27)	-	-	-	(1,135)	(776)	(1,938)	737	(1,201)
<b>Equity at 31 Dec 2018</b>	<b>677</b>	<b>104</b>	<b>425</b>	<b>4</b>	<b>9,122</b>	<b>590</b>	<b>10,922</b>	<b>760</b>	<b>11,682</b>
Equity at 1 Jan 2017	722	82	425	13	9,769	746	11,757		11,757
Profit for the period				(11)	766	776	1,531		1,531
Other comprehensive income	-	15	-	-	0	-	15	-	15
<b>Comprehensive income for the year</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>(11)</b>	<b>766</b>	<b>776</b>	<b>1,546</b>	<b>-</b>	<b>1,546</b>
<b>Transactions with owners</b>									
Purchase of own shares					(2,197)		(2,197)		(2,197)
Sale of own shares					1,555		1,555		1,555
Reduction of share capital	(18)				18		-		-
Dividend etc paid						(746)	(746)		(746)
Dividend, own shares					11		11		11
Total transactions with owners	(18)	-	-	-	(613)	(746)	(1,377)	-	(1,377)
<b>Equity at 31 Dec 2017</b>	<b>704</b>	<b>97</b>	<b>425</b>	<b>2</b>	<b>9,922</b>	<b>776</b>	<b>11,926</b>	<b>-</b>	<b>11,926</b>

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

\*\* 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 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%.

DKKm	Share capital	Revaluation reserves	Reserves acc. to articles of association *	Reserve for net revaluation acc. to equity method	Retained earnings	Proposed dividend etc	Shareholders of Sydbank A/S	AT1 capital**	Total equity
Equity at 31 Dec 2017	704	97	425	2	9,922	776	11,926		11,926
New accounting policies, IFRS 9					(216)		(216)		(216)
Tax effect, IFRS 9					48		48		48
Equity at 1 Jan 2018	704	97	425	2	9,754	776	11,758	-	11,758
Profit for the period				2	503	590	1,095	23	1,118
Other comprehensive income	-	7	-	-	0	-	7	-	7
<b>Comprehensive income for the year</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>2</b>	<b>503</b>	<b>590</b>	<b>1,102</b>	<b>23</b>	<b>1,125</b>
<b>Transactions with owners</b>									
Issue of Additional Tier 1 capital							-	745	745
Transaction costs					(8)		(8)		(8)
Interest paid on Additional Tier 1 capital							-	(10)	(10)
Exchange rate adjustment					(2)		(2)	2	0
Tax					7		7		7
Purchase of own shares					(2,508)		(2,508)		(2,508)
Sale of own shares					1,338		1,338		1,338
Reduction of share capital	(27)				27		-		-
Dividend etc paid						(776)	(776)		(776)
Dividend, own shares					11		11		11
Total transactions with owners	(27)	-	-	-	(1,135)	(776)	(1,938)	737	(1,201)
<b>Equity at 31 Dec 2018</b>	<b>677</b>	<b>104</b>	<b>425</b>	<b>4</b>	<b>9,122</b>	<b>590</b>	<b>10,922</b>	<b>760</b>	<b>11,682</b>
Equity at 1 Jan 2017	722	82	425	13	9,769	746	11,757		11,757
Profit for the period				(11)	766	776	1,531		1,531
Other comprehensive income	-	15	-	-	0	-	15	-	15
<b>Comprehensive income for the year</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>(11)</b>	<b>766</b>	<b>776</b>	<b>1,546</b>	<b>-</b>	<b>1,546</b>
<b>Transactions with owners</b>									
Purchase of own shares					(2,197)		(2,197)		(2,197)
Sale of own shares					1,555		1,555		1,555
Reduction of share capital	(18)				18		-		-
Dividend etc paid						(746)	(746)		(746)
Dividend, own shares					11		11		11
Total transactions with owners	(18)	-	-	-	(613)	(746)	(1,377)	-	(1,377)
<b>Equity at 31 Dec 2017</b>	<b>704</b>	<b>97</b>	<b>425</b>	<b>2</b>	<b>9,922</b>	<b>776</b>	<b>11,926</b>	<b>-</b>	<b>11,926</b>

The share capital comprises 67,670,954 shares at a nominal value of DKK 10 or a total of DKK 676.7m.

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

# Cash Flow Statement

Sydbank Group

DKKm	2018	2017
<b>Operating activities</b>		
Pre-tax profit for the year	1,420	1,956
Taxes paid	(323)	(431)
<u>Adjustment for non-cash operating items:</u>		
Profit/(Loss) on holdings in associates	(3)	12
Amortisation and depreciation of intangible assets and property, plant and equipment	97	122
Impairment of loans and advances/guarantees	(114)	(45)
Other non-cash operating items	61	74
	1,138	1,688
<u>Changes in working capital:</u>		
Credit institutions and central banks	(1,906)	(15,754)
Trading portfolio	(3,885)	191
Other financial instruments at fair value	176	(234)
Loans and advances	2,013	13,768
Deposits	3,587	1,581
Other assets/liabilities	64	2,016
Cash flows from operating activities	1,187	3,256
<b>Investing activities</b>		
Purchase of holdings in associates	0	(6)
Sale of holdings in associates	8	0
Purchase of property, plant and equipment	(105)	(213)
Sale of property, plant and equipment	21	19
Cash flows from investing activities	(76)	(200)
<b>Financing activities</b>		
Purchase and sale of own holdings	(1,171)	(642)
Dividends etc	(765)	(735)
Issue of Additional Tier 1 capital etc	737	-
Raising of subordinated capital	-	558
Redemption of subordinated capital	-	(830)
Issue of bonds	3,702	-
Redemption of bonds	(3,724)	-
Cash flows from financing activities	(1,221)	(1,649)
<b>Cash flows for the year</b>	<b>(110)</b>	<b>1,407</b>
Cash and cash equivalents at 1 Jan	8,968	7,561
Cash flows for the year (changes during the year)	(110)	1,407
<b>Cash and cash equivalents at 31 Dec</b>	<b>8,858</b>	<b>8,968</b>
<b>Cash and cash equivalents at 31 Dec</b>		
Cash and balances on demand at central banks	2,073	2,115
Fully secured cash and cash equivalent balances on demand with credit institutions and insurance companies	904	1,641
Unencumbered certificates of deposit	5,881	5,212
<b>Cash and cash equivalents at 31 Dec</b>	<b>8,858</b>	<b>8,968</b>

# Notes

## Note 1 Accounting policies

### Basis of preparation

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

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

On 27 February 2019 the Board of Directors and the Group Executive Management reviewed and approved the 2018 Annual Report of Sydbank A/S. The Annual Report will be submitted for adoption by the AGM on 21 March 2019.

### New accounting policies

The following new or amended IFRS standards have been implemented effective as from 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to different standards pursuant to "Annual Improvements to IFRSs".

Apart from IFRS 9 the above has not had any effect on recognition and measurement in the consolidated financial statements and the financial statements and consequently it has had no impact on EPS Basic.

IFRS 15 introduces a new and more stringent model for the recognition and measurement of revenue with customers. The standard concerns among other things the recognition and measurement of fee and commission income which the Bank charges for services provided. The standard has not resulted in changes in the Group's recognition and measurement of revenue.

The effect of the change in accounting policies as a result of the implementation of IFRS 9 as from 1 January 2018 is described below. In compliance with the transitional rules comparative figures for 2017 and previous years have not been restated.

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

### Effect of implementation of IFRS 9

IFRS 9 Financial Instruments, which has replaced IAS 39, has

changed the classification principles and the resulting measurement of financial assets and liabilities.

IFRS 9 has introduced 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) as well as the treatment of certain strategic shareholdings.

According to the new impairment model, 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 recorded 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 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
Balance sheet	Previous practice	Effect of change	New practice
<b>Assets</b>			
Loans and advances at amortised cost	64,312	(174)	64,138
<b>Equity and liabilities</b>			
Provisions for undrawn credit commitments	34	29	63
Provisions for guarantees	172	13	185
Provisions for deferred tax	203	(48)	155
Equity	11,926	(168)	11,758

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

---

# Notes

## Note 1 Accounting policies – continued

---

Changes as a result of the implementation of IFRS 9 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).

Except for certain strategic shareholdings which are measured at fair value through other comprehensive income, the Group only has financial assets which are measured at amortised cost and fair value through profit or loss.

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

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

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

### *Assessment of business model*

The Group 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 include Banking, which has a "hold to collect" business model. Financial assets primarily consist of loans and advances.

The business model of Sydbank Markets is 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 asset consist solely of payments of principal and interest on the amount outstanding. The principal reflects the fair value at initial recognition and subsequent changes, eg as a result of repayment. Interest payments should only reflect consideration for the time value of money, for the credit risk and for other basic lending risks as well as a margin consistent with basic lending arrangement.

### *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 undrawn loan commitments and financial guarantees. As regards financial assets recognised at amortised cost, impairment charges for expected credit losses are recognised in the income statement and deducted from the value of the asset in the balance sheet. Provisions for undrawn loan commitments and financial guarantees are recognised as a liability.

## Note 1 Accounting policies – continued

Impairment charges for expected credit losses depend on whether the credit risk of a financial asset (facility) has increased significantly since initial recognition and follow a 3-stage model:

- **Stage 1** – facilities with no significant increase in credit risk. The asset is written down by an amount equal to the expected credit loss as a result of the probability of default over the coming 12 months
- **Stage 2** – facilities with a significant increase in credit risk. The asset is transferred to stage 2 and is written down by an amount equal to the expected credit loss over the life of the asset
- **Stage 3** – facilities where the financial asset is in default or is otherwise credit impaired. As opposed to stages 1 and 2 interest income is recognised solely on the basis of the impaired value of the asset.

The staging assessment and the calculation of expected credit loss is based on the Group's 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 used to measure expected credit losses and assess whether an asset must be transferred to another stage corresponds to the definition applied for internal risk management purposes and is adapted to the Capital Requirements Regulation (CRR). Consequently exposures which for regulatory purposes are considered to be in default are always classified as stage 3 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 regulatory rules.

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.

### *Phase-in of IFRS 9 impact on regulatory capital*

The increase in the Group's impairment charges will reduce equity and will generally have a corresponding negative impact on regulatory capital. The Group has decided to phase in the impact on regulatory capital over a 5-year period.

---

# Notes

## Note 1 Accounting policies – continued

---

### Recognition and measurement

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

On initial recognition assets and liabilities are measured at fair value. Subsequent measurement of assets and liabilities is as described for each item below.

Recognition and measurement take into account gains, losses and risks arising before the presentation of the financial statements and which confirm or invalidate circumstances existing at the balance sheet date.

Income is recognised in the income statement as earned. Costs incurred to earn the year's income are recognised in the income statement. Value adjustments of financial assets, financial liabilities and derivatives are recognised in the income statement apart from value adjustments of derivatives used to provide foreign currency hedge of net investments in foreign subsidiaries and associates. The latter value adjustments are recognised in the statement of comprehensive income. Purchase and sale of financial instruments are recognised on the settlement date.

### Significant recognition and measurement principles

#### Consolidated financial statements

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

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

Entities acquired are included from the acquisition date.

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

Where the cost of acquisition exceeds the fair value of the net assets of the entity acquired, the difference is recognised as goodwill. Goodwill is recognised in the functional currency of the entity acquired at the exchange rate on the date of transaction. Costs in connection with acquisition are recognised in the income statement when incurred.

Entities disposed of are included until the transfer date.

#### Foreign currency translation

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

#### Offsetting

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

#### Income criteria

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

#### Guarantee scheme

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

#### Repo and reverse transactions

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

## Note 1 Accounting policies – continued

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

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

### Transfer of loans

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

### Amounts owed and loans and advances

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

Subsequent measurement of amounts owed by credit institutions etc and loans and advances that are not reverse transactions is at amortised cost less impairment charges for expected losses. Impairment charges and any reversals are recognised in the income statement and adjust the value of amounts owed and loans and advances in the balance sheet.

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

Impairment charges for expected credit losses depend on whether the credit risk of a financial asset (facility) has increased significantly since initial recognition and follow a 3-stage model:

- **Stage 1** – facilities with no significant increase in credit risk. The asset is written down by an amount equal to the expected credit loss as a result of the probability of default over the coming 12 months

- **Stage 2** – facilities with a significant increase in credit risk. The asset is transferred to stage 2 and is written down by an amount equal to the expected credit loss over the life of the asset
- **Stage 3** – facilities where the financial asset is in default or is otherwise credit impaired. As opposed to stages 1 and 2 interest income is recognised solely on the basis of the impaired value of the asset.

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

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

---

# Notes

## Note 1 Accounting policies – continued

---

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 definition of default used to measure expected credit losses and assess 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, both as regards the number of days past due (90 days) and the assessment of factors which will probably lead to non-payment and hence default according to the regulatory rules.

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

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

### Leasing

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

### Bonds and shares etc

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

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

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

### Holdings in associates

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

### Derivatives and hedge accounting

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

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

### Pooled plans

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

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

## Note 1 Accounting policies – continued

---

### Intangible assets

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

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

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

Impairment charges for goodwill are not reversed.

### Owner-occupied property

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

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

Any decrease in the carrying amount as a result of the revaluation of owner-occupied property is charged to the income statement except where the decrease reverses previously recognised increases. Any increase as a result of the revaluation of owner-occupied property is recognised in other comprehensive income and transferred to revaluation reserves under equity except where an increase reverses previously recognised impairment charges as regards the property in question.

Owner-occupied property is depreciated on a straight-line basis over the expected useful life of 50 years taking into account the expected residual value at the expiry of the useful life.

As regards ongoing measurement of land and buildings, the value of the individual property is measured on the basis of the return method.

The underlying assumptions, return and rate of return are assessed by external valuers. Depreciation and impairment charges are recognised in the income statement under "Depreciation and impairment of property, plant and equipment".

### Other property, plant and equipment

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

### Other assets

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

### Dividend

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

### Additional Tier 1 capital

Additional Tier 1 capital which has no maturity and with voluntary payment of interest and voluntary repayment of principal is recognised in equity. Similarly the interest expense related to the issue is recognised as dividend. Interest is deducted from equity at the time of payment.

### Own shares

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

### Other liabilities

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

---

# Notes

## Note 1 Accounting policies – continued

---

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

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

### Employee shares

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

### Provisions

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

A provision for a guarantee or an onerous contract is recognised if claims for payment under the guarantee or contract are probable and the size of the liability can be measured reliably. Provisions are based on management's best estimates of the size of the liabilities. Measurement of provisions includes discounting when significant.

### Financial liabilities

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

Subsequent measurement of deposits, bonds issued, subordinated capital and amounts owed to credit institutions etc that are not repo transactions is at amortised cost using the effec-

tive interest rate method whereby the difference between net proceeds and nominal value is recognised in the income statement under "Interest expense" over the loan period.

Other liabilities are measured at net realisable value.

### Assets in temporary possession

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

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

### Tax

Danish consolidated entities are subject to compulsory joint taxation. The Group has not opted for international joint taxation. Sydbank A/S has been appointed the management company of the joint taxation entity. Corporation tax on income subject to joint taxation is fully distributed on payment of joint taxation contributions between the Danish consolidated entities. Tax for the year includes tax on taxable income for the year, adjustment of deferred tax as well as adjustment of prior year tax charges. Tax for the year is recognised in the income statement as regards the elements attributable to profit for the year, in other comprehensive income as regards the elements attributable thereto and directly in equity as regards the elements attributable to items recognised directly in equity.

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

Provisions for deferred tax are based on the balance sheet liability method and include temporary differences between the carrying amounts and the tax base of the balance sheets of each consolidated entity as well as tax loss carryforwards that are expected to be used. Deferred tax is measured on the basis of

---

the tax rules and tax rates that, according to the rules in force at the balance sheet date, are applicable at the time the deferred tax is expected to crystallise as current tax.

Changes in deferred tax due to changes in tax rates are recognised in the income statement.

#### **Fair value measurement**

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

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

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

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

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

#### **Cash flow statement**

The cash flow statement presents the cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year. The cash flow statement is presented using the indirect method based on profit before tax.

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

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

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

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

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

#### **Segment reporting**

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

Segment reporting as regards the business units complies with the Group's accounting policies as regards recognition and measurement. Inter-segment transactions are settled on an arm's length basis. Centrally incurred costs are allocated to the business units in accordance with their estimated proportionate share of overall activities.

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

#### **Core income**

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

#### **Trading income**

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

---

# Notes

## Note 1 Accounting policies – continued

---

### Core earnings before impairment

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

### Impairment of loans and advances etc

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

### Core earnings

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

### Investment portfolio earnings

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

### Forthcoming standards and interpretations

The International Accounting Standards Board (IASB) has issued the following new International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) which are not mandatory for the Group in connection with the preparation of the 2018 financial statements. These include IFRS 16 and 17 as well as amendments to IFRS 9, IAS 19 and 28. IFRS 16 and amendments to IFRS 9 have been adopted by the EU whereas none of the other forthcoming standards, amended standards or interpretations have been adopted by the EU.

The Group does not plan to implement the new standards and interpretations until they become mandatory. The expected impact of the implementation of IFRS 16 is described below. The other new/amended standards and interpretations are not expected to have any significant impact on the Group's financial reporting.

**IFRS 16** Leases, which will replace IAS 17 and related interpretations, will change the accounting treatment of the Group's operating leases. The current distinction between finance leases and operating leases will be eliminated as regards lessees and consequently all leases will be treated according to the same principles. The Group leases a number of properties which are used in the branch network. IFRS 16 changes the accounting treatment of the leases whereby the capitalised value of the

right-of-use asset and the lease liability during the contract period is recognised as property, plant and equipment and a financial liability respectively. Depreciation of the asset and interest costs of the financial liability are recognised in the income statement.

The Group will use the option to implement the standard only with prospective effect from 1 January 2019.

At 1 January 2019 the implementation of IFRS 16 is expected to increase the Group's total assets by DKK 81m and the Group's total liabilities by DKK 81m.

Based on the expected implementation of similar rules in the Danish FSA's executive order on financial reporting of credit institutions it is expected that the financial statements of the parent will be affected correspondingly.

### Accounting policies of the parent

The financial statements of the parent are prepared according to the same accounting policies as the consolidated financial statements apart from certain strategic shareholdings with value adjustment through profit or loss in the financial statements of the parent and through other comprehensive income in the consolidated financial statements. This difference is due to incompatibility between the Danish FSA's executive order on financial reporting of credit institutions and IFRS in this regard. The balance sheet and equity are not affected. For the impact on profit for the year, reference is made to note 46.

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

## Note 2 Accounting estimates and judgements

---

Management's estimates and judgements are based on assumptions considered reasonable by management but which by their nature are uncertain and unpredictable. These assumptions may be incomplete or inaccurate and unexpected future events or circumstances may occur. Consequently it is by nature difficult to make estimates and judgements and since they also involve customer relationships and other counterparties they will be subject to uncertainty. It may be necessary to change previous estimates as a result of changes in the basis of previous estimates or because of new knowledge or subsequent events.

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

- Measurement of loans and advances and guarantees
- Fair value of financial instruments
- Fair value of owner-occupied property.

### Measurement of loans and advances and guarantees

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

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

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

Reference is made to the notes on risk management for a more detailed description of impairment charges for loans and advances. Loans and advances constitute 48.0% of the Group's assets at the end of 2018.

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

### Fair value of financial instruments

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

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

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

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

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

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

Reference is made to "Accounting policies" (note 1) and to "Fair value disclosure" (note 39) for a more detailed description. Financial instruments measured on the basis of unobservable inputs represent DKK 1,800m, equivalent to 1.3% of the Group's assets at the end of 2018.

---

# Notes

## Note 2 Accounting estimates and judgements – continued

---

### Fair value of owner-occupied property

The return method is used to measure owner-occupied property at fair value.

Future cash flows are based on the Group's best estimate of the future income or loss from ordinary activities and required rate of return as regards each property taking into account factors such as location and condition. An external assessment supporting this estimate is obtained. A number of these assumptions and estimates have a significant impact on calculations and include parameters such as inflation, developments in rent, costs and required rates of return.

Changes in these parameters as a result of changed market conditions affect the expected returns and consequently the fair value of owner-occupied property.

Reference is made to "Owner-occupied property" (note 25).

### Note 3 Solvency

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

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

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

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

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

The Group has concluded netting agreements with all significant counterparties.

DKKmn	Sydbank Group	
	2018	2017
Common Equity Tier 1 capital ratio	17.3	17.3
Tier 1 capital ratio	19.0	17.7
Capital ratio	22.4	20.8
<b>Total capital</b>		
Shareholders' equity	10,922	11,926
Prudent valuation	(59)	(59)
Proposed dividend	(588)	(776)
Intangible assets and capitalised deferred tax assets	(244)	(271)
Significant investments in financial sector	(612)	(653)
Transitional arrangement IFRS 9	160	-
<b>Common Equity Tier 1 capital</b>	<b>9,579</b>	<b>10,167</b>
Additional Tier 1 capital – equity	747	-
Additional Tier 1 capital – debt	224	279
<b>Tier 1 capital</b>	<b>10,550</b>	<b>10,446</b>
Tier 2 capital	1,636	1,575
Difference between expected losses and impairment for accounting purposes	204	219
<b>Total capital</b>	<b>12,390</b>	<b>12,240</b>

# Notes

## Note 3 Solvency – continued

DKKm	Sydbank Group	
	2018	2017
Credit risk	36,032	38,933
Market risk	6,036	6,239
Operational risk	7,654	8,023
Other exposures incl credit valuation adjustment	5,680	5,694
<b>REA</b>	<b>55,402</b>	<b>58,889</b>
<b>Pillar 1 capital requirement (8%)</b>	<b>4,432</b>	<b>4,711</b>

## Note 4 Leverage ratio

DKKm	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
<b>Exposure for computation of leverage ratio</b>				
Total assets	140,514	138,494	142,869	140,763
Of which pooled assets	(16,220)	(16,541)	(16,220)	(16,541)
Correction derivatives etc	6,663	5,531	6,663	5,531
Guarantees etc	13,881	13,562	13,881	13,562
Undrawn credit commitments etc	10,704	11,235	10,714	11,283
Other adjustments	(625)	(887)	(607)	(899)
<b>Total</b>	<b>154,917</b>	<b>151,394</b>	<b>157,300</b>	<b>153,699</b>
Tier 1 capital – current (transitional rules)	10,550	10,446	10,574	10,470
Tier 1 capital – fully loaded	10,326	10,167	10,350	10,191
Leverage ratio (%) – current (transitional rules)	6.8	6.9	6.7	6.8
Leverage ratio (%) – fully loaded	6.7	6.7	6.6	6.6

## Note 5 Segment reporting

### Operating segments

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

**Banking** serves all types of retail and corporate clients.

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

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

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

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

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

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

Note 5 Segment reporting – continued

Sydbank Group

DKKm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
<b>Operating segments 2018</b>						
Core income	3,600	270	81	-	-	3,951
Trading income	-	-	138	-	-	138
<b>Total income</b>	<b>3,600</b>	<b>270</b>	<b>219</b>	<b>-</b>	<b>-</b>	<b>4,089</b>
Costs, core earnings	2,407	98	154	-	63	2,722
Impairment of loans and advances etc	(122)	-	-	-	-	(122)
<b>Core earnings</b>	<b>1,315</b>	<b>172</b>	<b>65</b>	<b>-</b>	<b>(63)</b>	<b>1,489</b>
Investment portfolio earnings	5	-	-	(132)	-	(127)
<b>Profit before non-recurring items</b>	<b>1,320</b>	<b>172</b>	<b>65</b>	<b>(132)</b>	<b>(63)</b>	<b>1,362</b>
Non-recurring items, net	58	-	-	-	-	58
<b>Profit before tax</b>	<b>1,378</b>	<b>172</b>	<b>65</b>	<b>(132)</b>	<b>(63)</b>	<b>1,420</b>
Depreciation and impairment of property, plant and equipment	89	2	5	-	1	97
Full-time staff at 31 Dec	1,916	45	109	4	24	2,098
<b>Operating segments 2017</b>						
Core income	3,805	265	97	-	-	4,167
Trading income	-	-	233	-	-	233
<b>Total income</b>	<b>3,805</b>	<b>265</b>	<b>330</b>	<b>-</b>	<b>-</b>	<b>4,400</b>
Costs, core earnings	2,399	78	99	-	61	2,637
Impairment of loans and advances etc	(51)	-	-	-	-	(51)
<b>Core earnings</b>	<b>1,457</b>	<b>187</b>	<b>231</b>	<b>-</b>	<b>(61)</b>	<b>1,814</b>
Investment portfolio earnings	7	-	-	175	-	182
<b>Profit before non-recurring items</b>	<b>1,464</b>	<b>187</b>	<b>231</b>	<b>175</b>	<b>(61)</b>	<b>1,996</b>
Non-recurring items, net	(40)	-	-	-	-	(40)
<b>Profit before tax</b>	<b>1,424</b>	<b>187</b>	<b>231</b>	<b>175</b>	<b>(61)</b>	<b>1,956</b>
Depreciation and impairment of property, plant and equipment	113	3	5	-	1	122
Full-time staff at 31 Dec	1,906	46	84	4	24	2,064

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

# Notes

## Note 5 Segment reporting – continued

Sydbank Group

DKKmn	2018		2017	
	Total income	Assets	Total income	Assets
<b>Geographical segments</b>				
Denmark	3,894	1,514	4,196	1,531
Abroad	195	52	204	53
<b>Total</b>	<b>4,089</b>	<b>1,566</b>	<b>4,400</b>	<b>1,584</b>

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

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

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

DKKmn	Core income	Trading income	Costs, core earnings	Impairment of loans/advances etc	2018			Profit before tax
					Core earnings	Investment portfolio earnings	Non-recurring items, net	
<b>2018</b>								
Net interest and fee income	3,563	220			3,783	(58)		3,725
Market value adjustments	361	(82)		8	287	(62)	110	335
Other operating income	19				19			19
<b>Income</b>	<b>3,943</b>	<b>138</b>	<b>-</b>	<b>8</b>	<b>4,089</b>	<b>(120)</b>	<b>110</b>	<b>4,079</b>
Staff costs and administrative expenses			(2,607)		(2,607)	(7)	(52)	(2,666)
Amortisation and depreciation and impairment of intangible assets and property, plant and equipment			(97)		(97)			(97)
Other operating expenses			(18)		(18)			(18)
Impairment of loans and advances etc				114	114			114
Profit/(Loss) on holdings in associates and subsidiaries	8				8			8
<b>Profit before tax</b>	<b>3,951</b>	<b>138</b>	<b>(2,722)</b>	<b>122</b>	<b>1,489</b>	<b>(127)</b>	<b>58</b>	<b>1,420</b>
<b>2017</b>								
Net interest and fee income	3,804	35			3,839	17		3,856
Market value adjustments	351	198		20	569	158		727
Other operating income	19				19			19
<b>Income</b>	<b>4,174</b>	<b>233</b>	<b>-</b>	<b>20</b>	<b>4,427</b>	<b>175</b>	<b>-</b>	<b>4,602</b>
Staff costs and administrative expenses			(2,490)		(2,490)	(7)	(40)	(2,537)
Amortisation and depreciation and impairment of intangible assets and property, plant and equipment			(122)		(122)			(122)
Other operating expenses			(25)		(25)			(25)
Impairment of loans and advances etc				31	31	14		45
Profit/(Loss) on holdings in associates and subsidiaries	(7)				(7)			(7)
<b>Profit before tax</b>	<b>4,167</b>	<b>233</b>	<b>(2,637)</b>	<b>51</b>	<b>1,814</b>	<b>182</b>	<b>(40)</b>	<b>1,956</b>

Note 7 Interest income	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
DKKm				
Reverse transactions with credit institutions and central banks	(28)	(10)	(28)	(10)
Amounts owed by credit institutions and central banks	(33)	(28)	(33)	(28)
Reverse loans and advances	(22)	(30)	(22)	(30)
Loans and advances and other amounts owed	1,949	2,188	1,953	2,192
Bonds	130	147	130	146
Total derivatives	(13)	(94)	(13)	(94)
comprising:				
Foreign exchange contracts	30	60	30	60
Interest rate contracts	(43)	(154)	(43)	(154)
Other contracts	0	0	0	0
Other interest income	1	1	1	1
<b>Total</b>	<b>1,984</b>	<b>2,174</b>	<b>1,988</b>	<b>2,177</b>
Fair value, designated at initial recognition	(50)	(40)	(50)	(40)
Fair value, held for trading	117	53	117	52
Assets recognised at amortised cost	1,917	2,161	1,921	2,165
<b>Total</b>	<b>1,984</b>	<b>2,174</b>	<b>1,988</b>	<b>2,177</b>

The Group's cash resources are primarily placed in Danish mortgage bonds. The interest rate risk concerning these positions has been reduced via derivatives. As a result the Group's external income statement is affected in terms of interest income and the market value adjustment of bonds and derivatives. The same applies to the Group's position-taking as regards bonds as well as shares. The break-down by income statement item does not disclose income independently and consequently these items must be regarded as one as they are in "Segment reporting" (note 5) as well as in the Group's financial review, which also takes funding of the positions into account.

#### Note 8 Interest expense

Repo transactions with credit institutions and central banks	(12)	(11)	(12)	(11)
Credit institutions and central banks	14	20	14	20
Repo deposits	(3)	(11)	(3)	(11)
Deposits and other debt	64	140	69	135
Bonds issued	20	11	20	11
Subordinated capital	32	28	32	28
Other interest expense	1	2	1	2
<b>Total</b>	<b>116</b>	<b>179</b>	<b>121</b>	<b>174</b>
Fair value, designated at initial recognition	(15)	(22)	(15)	(22)
Liabilities recognised at amortised cost	131	201	136	196
<b>Total</b>	<b>116</b>	<b>179</b>	<b>121</b>	<b>174</b>

#### Note 9 Dividends on shares

Fair value, designated at initial recognition (FVPL)	26	35	26	35
Fair value, held for trading	1	1	1	1
<b>Total</b>	<b>27</b>	<b>36</b>	<b>27</b>	<b>36</b>

# Notes

Note 10 Fee and commission income	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
DKKm				
Securities trading and custody accounts	1,043	1,070	890	941
Payment services	310	306	310	306
Loan fees	142	142	142	142
Guarantee commission	126	141	126	141
Income concerning funded mortgage-like loans	157	113	157	113
Other fees and commission	362	340	362	340
<b>Total fee and commission income</b>	<b>2,140</b>	<b>2,112</b>	<b>1,987</b>	<b>1,983</b>
<b>Total fee and commission expense</b>	<b>310</b>	<b>287</b>	<b>242</b>	<b>233</b>
<b>Net fee and commission income</b>	<b>1,830</b>	<b>1,825</b>	<b>1,745</b>	<b>1,750</b>

Except for guarantee commission recognised according to IFRS 9, fee and commission income is recognised according to IFRS 15. The set-off of loss concerning arranged mortgage loans represents DKK 21m (2017: DKK 27m) and has been deducted from commission received which is included under other fee and commission.

## Note 11 Market value adjustments

Other loans and advances and amounts owed at fair value	1	0	1	0
Bonds	(91)	188	(91)	188
Shares etc	281	189	232	189
Foreign exchange	174	175	174	175
Derivatives	(31)	175	(31)	175
Assets related to pooled plans	(1,031)	582	(1,031)	582
Deposits in pooled plans	1,031	(583)	1,031	(583)
Other assets/liabilities	1	1	1	1
<b>Total</b>	<b>335</b>	<b>727</b>	<b>286</b>	<b>727</b>
Fair value, held for trading, trading portfolio	180	586	180	586
Fair value, designated at initial recognition, equity investments (FVPL)	155	141	106	141
<b>Total</b>	<b>335</b>	<b>727</b>	<b>286</b>	<b>727</b>

The Group's cash resources are primarily placed in Danish mortgage bonds. The interest rate risk concerning these positions has been reduced via derivatives. As a result the Group's external income statement is affected in terms of interest income and the market value adjustment of bonds and derivatives. The same applies to the Group's position-taking as regards bonds as well as shares. The break-down by income statement item does not disclose income independently and consequently these items must be regarded as one as they are in "Segment reporting" (note 5) as well as in the Group's financial review, which also takes funding of the positions into account.

## Note 12 Other operating income

Rental income – real property	13	11	13	12
Other operating income	6	8	6	8
<b>Total</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>20</b>

Note 13 Staff costs and administrative expenses

DKKm	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
<b>Salaries and remuneration</b>				
Group Executive Management	16	16	16	16
Board of Directors	6	6	6	6
Shareholders' Committee	4	3	4	3
<b>Total</b>	<b>26</b>	<b>25</b>	<b>26</b>	<b>25</b>
<b>Staff costs</b>				
Wages and salaries	1,305	1,240	1,290	1,226
Pensions	125	124	124	123
Social security contributions	14	14	14	14
Payroll tax	168	158	166	156
<b>Total</b>	<b>1,612</b>	<b>1,536</b>	<b>1,594</b>	<b>1,519</b>
<b>Other administrative expenses</b>				
IT	674	633	662	615
Rent etc	127	114	139	125
Marketing and entertainment expenses	87	71	75	67
Other costs	140	158	115	131
<b>Total</b>	<b>1,028</b>	<b>976</b>	<b>991</b>	<b>938</b>
<b>Total</b>	<b>2,666</b>	<b>2,537</b>	<b>2,611</b>	<b>2,482</b>
<b>Audit fees</b>				
Statutory audit	2	2	2	2
Assurance engagements	0	0	0	0
Tax consultancy	0	0	0	0
Fees for other services	1	0	1	0
<b>Total</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>2</b>
<p>In addition to the statutory audit, services provided by the Bank's independent auditor have comprised statutory and other reports, audit services in connection with bond issues, accounting advice as well as an assessment of the Bank's compliance function and its measures to combat money laundering.</p> <p>In addition to fees paid to the independent auditor, operating expenses have been incurred as regards the Group's Internal Audit.</p>				
<b>Staff</b>				
Average number of staff (full-time equivalent)	2,130	2,104	2,111	2,085

# Notes

## Note 13 Staff costs and administrative expenses – continued

Sydbank Group

DKK thousand	Directors' remuneration	Committee fees	2018 Total	2017 Total
<b>Directors' remuneration</b>				
Torben Nielsen (Chairman)	1,021	323	1,344	1,368
John Lesbo (Vice-Chairman – member as of 23 March 2017)	532	272	804	349
Carsten Andersen (member as of 14 March 2018)	256	-	256	-
Svend Erik Busk (resigned as of 23 March 2017)	-	-	-	115
Peder Damgaard (resigned as of 14 March 2018)	148	59	207	820
Alex Slot Hansen (resigned as of 14 March 2018)	84	14	98	388
Kim Holmer (member as of 14 March 2018)	256	0	256	-
Lars Mikkellaard-Jensen	340	100	440	432
Janne Moltke-Leth	341	119	460	388
Frank Møller Nielsen	341	160	501	418
Jacob Chr. Nielsen	340	121	461	515
Jarl Oxlund	341	66	407	431
Bo Normann Rasmussen (resigned as of 19 July 2017)	-	-	-	251
Susanne Schou (member as of 14 March 2018)	256	-	256	-
Jørn Krogh Sørensen (member as of 14 March 2018)	256	-	256	-
Margrethe Weber (resigned as of 14 March 2018)	84	-	84	334
<b>Total</b>	<b>4,596</b>	<b>1,234</b>	<b>5,830</b>	<b>5,809</b>
<b>Of which committee fees</b>				
Audit Committee (reduced to 3 members as of 14 March 2018; increased to 4 members again as of 30 October 2018) – of which fee to the chairman of DKK 132,000			381	423
Risk Committee (3 members) – of which fee to the chairman of DKK 133,000			332	382
Remuneration Committee (reduced to 3 members as of 14 March 2018) – of which fee to the chairman of DKK 55,000			180	217
Nomination Committee (4 members) – of which fee to the chairman of DKK 85,000			341	335

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

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

Note 13 Staff costs and administrative expenses - continued

Sydbank Group

DKKm	Sydbank Group		
	Karen Frøsig	Bjarne Larsen	Jan Svarre
<b>Remuneration of the Group Executive Management</b>			
<b>2018</b>			
Fixed remuneration	6.8	5.0	5.0
Benefits by way of company car etc	0.3	0.3	0.3
Of which fees received in connection with directorships	(0.3)	(0.1)	(0.2)
<b>Group costs</b>	<b>6.8</b>	<b>5.2</b>	<b>5.1</b>
<b>2017</b>			
Fixed remuneration	6.4	4.9	4.9
Benefits by way of company car etc	0.3	0.3	0.3
Of which fees received in connection with directorships	(0.3)	-	(0.1)
<b>Group costs</b>	<b>6.4</b>	<b>5.2</b>	<b>5.1</b>

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

**Group Executive Management - severance terms**

**Karen Frøsig, Bjarne Larsen and Jan Svarre**

The notice of termination is 6 and 12 months for the Group Executive Management member and the Bank respectively. In respect of dismissal by the Bank, the Group Executive Management member is entitled to receive severance pay equal to 12 months' salary.

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

DKKm	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
Remuneration to material risk takers and control functions				
Fixed remuneration	44.5	42.3	42.5	40.4
Variable remuneration	0.2	0.3	0.2	0.3
<b>Total</b>	<b>44.7</b>	<b>42.6</b>	<b>42.7</b>	<b>40.7</b>
Number of full-time staff (average)	31.7	31.8	30.7	30.8

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

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



# Notes

Note 14 Impairment of loans and advances etc DKKm	Sydbank Group		Sydbank A/S	
	2018	2017*	2018	2017*
<b>Impairment of loans and advances recognised in the income statement</b>				
Impairment and provisions	(173)	(58)	(173)	(58)
Write-offs	165	148	165	148
Recovered from debt previously written off	106	135	106	135
<b>Impairment of loans and advances etc</b>	<b>(114)</b>	<b>(45)</b>	<b>(114)</b>	<b>(45)</b>
<b>Impairment and provisions at 31 Dec (allowance account)</b>				
Stage 1	IFRS 9	IAS 39	IFRS 9	IAS 39
IFRS 9: Stage 2/IAS 39: Collective	117	-	117	-
IFRS 9: Stage 3/IAS 39: Individual	1,104	300	1,104	300
<b>Impairment and provisions at 31 Dec</b>	<b>2,924</b>	<b>2,887</b>	<b>2,924</b>	<b>2,887</b>
<b>Impairment and provisions</b>				
Impairment and provisions at 31 Dec 2017, cf IAS 39	2,887		2,887	
Fair value adjustments concerning acquisitions	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	(96)	110	(96)	110
Impairment charges previously recorded, now finally written off	287	512	287	512
<b>Impairment and provisions at 31 Dec</b>	<b>2,924</b>	<b>2,887</b>	<b>2,924</b>	<b>2,887</b>
Impairment of loans and advances	2,708	2,681	2,708	2,681
Provisions for undrawn credit commitments	44	34	44	34
Provisions for guarantees	172	172	172	172
<b>Impairment and provisions at 31 Dec</b>	<b>2,924</b>	<b>2,887</b>	<b>2,924</b>	<b>2,887</b>

\* Comparative figures have been restated in accordance with the accounting principles applicable in 2017 (IAS 39).

Write-offs for the year where a legal claim has been maintained represent DKK 246m at year-end 2018.

# Notes

Note 15 Profit/(Loss) on holdings in associates and subsidiaries	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
DKKm				
Profit/(Loss) on holdings in associates etc	8	(7)	8	(7)
Profit/(Loss) on holdings in subsidiaries	-	-	14	(19)
<b>Total</b>	<b>8</b>	<b>(7)</b>	<b>22</b>	<b>(26)</b>

## Note 16 Tax

Tax calculated on income for the year	143	377	127	375
Deferred tax	123	49	116	42
Adjustment of prior year tax charges	(2)	(1)	(2)	(1)
<b>Total</b>	<b>264</b>	<b>425</b>	<b>241</b>	<b>416</b>

### Effective tax rate

Current tax rate of Sydbank	22.0	22.0	22.0	22.0
Permanent differences (tax-free capital gain etc)	(3.8)	(0.3)	(4.0)	(0.6)
Adjustment of prior year tax charges	0.3	0.0	(0.1)	0.0
<b>Effective tax rate</b>	<b>18.5</b>	<b>21.7</b>	<b>17.9</b>	<b>21.4</b>

### Deferred tax

Deferred tax at 31 Dec preceding year	157	108	189	147
New accounting policies, cf IFRS 9	(48)	-	(48)	-
Deferred tax at 1 Jan	109	108	141	147
Deferred tax for the year recognised in profit for the year	123	49	116	42
Deferred tax for the year recognised directly in equity	(2)	-	(2)	-
<b>Deferred tax at 31 Dec, net</b>	<b>230</b>	<b>157</b>	<b>255</b>	<b>189</b>
Deferred tax assets	39	46	12	12
Deferred tax liabilities	269	203	267	201
<b>Deferred tax at 31 Dec, net</b>	<b>230</b>	<b>157</b>	<b>255</b>	<b>189</b>

Note 16 Tax – continued

Sydbank Group

DKKm	2018			2017			
	1 Jan	Recognised in profit for the year	Recognised directly in equity	31 Dec	1 Jan	Recognised in profit for the year	31 Dec
<b>Breakdown of deferred tax</b>							
Loans and advances at amortised cost (incl IFRS 9 adjustment)	153	78	-	231	170	31	201
Shares	-	4	-	4	-	-	-
Land and buildings	2	1	-	3	2	0	2
Property, plant and equipment	(20)	(1)	-	(21)	(18)	(2)	(20)
Intangible assets	20	14	-	34	4	16	20
Other assets	8	22	-	30	9	(1)	8
Provisions	(1)	0	-	(1)	(2)	1	(1)
Other liabilities	(31)	5	-	(26)	(35)	4	(31)
Capitalised losses, jointly taxed income	(22)	-	-	(22)	(22)	-	(22)
Additional Tier 1 capital	-	-	(2)	(2)	-	-	-
<b>Deferred tax at 31 Dec, net</b>	<b>109</b>	<b>123</b>	<b>(2)</b>	<b>230</b>	<b>108</b>	<b>49</b>	<b>157</b>

Note 17 Amounts owed by credit institutions and central banks

Sydbank Group

Sydbank A/S

DKKm	2018		2017	
Amounts owed at notice by central banks	8,493	5,211	8,493	5,211
Amounts owed by credit institutions	5,203	7,268	5,201	7,265
<b>Total</b>	<b>13,696</b>	<b>12,479</b>	<b>13,694</b>	<b>12,476</b>
On demand	911	1,650	909	1,647
3 months or less	12,785	10,829	12,785	10,829
<b>Total</b>	<b>13,696</b>	<b>12,479</b>	<b>13,694</b>	<b>12,476</b>
Of which reverse transactions	2,922	4,892	2,922	4,892

# Notes

Note 18 Loans and advances	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
<b>DKKm</b>				
On demand	14,371	13,820	14,572	14,021
3 months or less	7,825	6,501	7,825	6,501
Over 3 months not exceeding 1 year	22,983	23,454	22,983	23,454
Over 1 year not exceeding 5 years	12,946	15,031	12,946	15,031
Over 5 years	9,368	10,754	9,368	10,754
<b>Total</b>	<b>67,493</b>	<b>69,560</b>	<b>67,694</b>	<b>69,761</b>
Loans and advances at fair value – reverse transactions	6,510	5,248	6,510	5,248
Loans and advances at amortised cost - bank loans and advances	60,983	64,312	61,184	64,513
<b>Total</b>	<b>67,493</b>	<b>69,560</b>	<b>67,694</b>	<b>69,761</b>
<b>Loans and advances and guarantee debtors by sector and industry (%)</b>				
Agriculture, hunting, forestry and fisheries	5.0	5.5	5.0	5.5
Manufacturing and extraction of raw materials	11.5	10.8	11.5	10.7
Energy supply etc	3.5	3.2	3.5	3.1
Building and construction	4.5	5.1	4.5	5.1
Trade	15.4	14.7	15.4	14.7
Transportation, hotels and restaurants	4.2	4.0	4.2	3.9
Information and communication	0.4	0.6	0.4	0.6
Finance and insurance	15.1	12.9	15.3	12.9
Real property	6.0	6.9	5.9	7.1
Other industries	4.1	4.0	4.1	4.2
Total corporate	69.7	67.7	69.8	67.8
Public authorities	0.4	0.4	0.4	0.4
Retail	29.9	31.9	29.8	31.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Collateral received and types of collateral</b>				
Loans and advances at fair value	6,510	5,248	6,510	5,248
Loans and advances at amortised cost	60,983	64,312	61,184	64,513
Guarantees	13,881	13,562	13,881	13,562
Credit exposure for accounting purposes	81,374	83,122	81,575	83,323
Collateral value	45,342	44,161	45,342	44,161
<b>Total unsecured</b>	<b>36,032</b>	<b>38,961</b>	<b>36,233</b>	<b>39,162</b>
<b>Types of collateral</b>				
Real property	10,065	12,187	10,065	12,187
Financial collateral	12,536	10,803	12,536	10,803
Leased assets, mortgages etc	6,519	5,428	6,519	5,428
Floating charges, operating equipment etc	6,546	6,227	6,546	6,227
Guarantees	1,245	1,188	1,245	1,188
Other items of collateral	229	262	229	262
Total collateral used	37,140	36,095	37,140	36,095
Particularly secured transactions (mortgage guarantees)	8,202	8,066	8,202	8,066
<b>Total</b>	<b>45,342</b>	<b>44,161</b>	<b>45,342</b>	<b>44,161</b>

In the event that the Group uses collateral that is not immediately convertible into liquid holdings, it is the Group's policy to dispose of such assets as quickly as possible. Real property is handed over to an estate agent. Repossessed leased equipment is sold as quickly as possible. In 2018 repossessed equipment as well as real property taken over in connection with non-performing exposures amounted to DKK 12m (2017: DKK 13m). Leased assets are assessed and depreciated on an ongoing basis. As a result the calculated collateral as regards the Group's leasing activities will decline during periods of lower leased asset prices.

Note 18 Loans and advances - continued

Sydbank Group

DKKm	Loans/ advances	Guaran- tees	Collateral value	2018 Unse- cured	Loans/ advances	Guaran- tees	Collateral value	2017 Unse- cured
Collateral by rating category								
Rating category								
1	6,410	4,131	8,223	2,318	8,003	3,841	9,364	2,480
2	18,520	3,464	12,412	9,572	20,037	3,504	13,220	10,321
3	18,042	2,624	11,327	9,339	16,847	2,654	8,631	10,870
4	10,362	1,097	5,221	6,238	9,367	1,079	4,642	5,804
5	5,363	842	2,851	3,354	5,677	809	2,924	3,562
6	2,901	364	1,591	1,674	3,004	365	1,574	1,795
7	788	124	357	555	1,292	88	414	966
8	564	76	234	406	380	48	142	286
9	3,750	486	1,988	2,248	4,889	467	2,172	3,184
Default	2,020	148	634	1,534	1,355	179	639	895
NR/STD	1,481	525	504	1,502	1,390	528	439	1,479
<b>Total</b>	<b>70,201</b>	<b>13,881</b>	<b>45,342</b>	<b>38,740</b>	<b>72,241</b>	<b>13,562</b>	<b>44,161</b>	<b>41,642</b>
Impairment of loans and advances	2,708			2,708	2,681			2,681*
<b>Total</b>	<b>67,493</b>	<b>13,881</b>	<b>45,342</b>	<b>36,032</b>	<b>69,560</b>	<b>13,562</b>	<b>44,161</b>	<b>38,961</b>
Stage 1	61,825	13,043	41,625	33,243				
Stage 2	4,302	613	2,726	2,189				
Stage 3	1,366	225	991	600				
<b>Total</b>	<b>67,493</b>	<b>13,881</b>	<b>45,342</b>	<b>36,032</b>				

Sydbank Group

DKKm			2018 Total	2017* Total
Past due amounts but not credit impaired**				
0-30 days		Retail	Corporate	91
		41	75	116
31-60 days		1	2	3
61-90 days		-	-	-
<b>Total</b>		<b>42</b>	<b>77</b>	<b>119</b>
Rating category				
1		9	1	10
2		7	10	17
3		7	14	21
4		2	21	23
5		1	15	16
6		1	6	7
7		0	2	2
8		2	2	4
9		0	6	6
NR/STD		13	0	13
<b>Total</b>		<b>42</b>	<b>77</b>	<b>119</b>
		<b>53</b>	<b>45</b>	<b>98</b>

\* Comparative figures have been restated in accordance with the accounting principles applicable in 2017 (IAS 39).

\*\* Past due amounts concerning loans and advances etc classified in stage 1 or 2. Loans and advances and amounts owed payable beyond 90 days are treated as credit impaired.

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

# Notes

## Note 18 Loans and advances – continued

Sydbank Group

DKKm					2018
	Stage 1	Stage 2	Stage 3	Total	
<b>Loans and advances, guarantees and allowance account by stage</b>					
Loans and advances before impairment charges	55,409	5,332	2,950	63,691	
Guarantees	13,043	613	225	13,881	
<b>Total loans and advances and guarantees</b>	<b>68,452</b>	<b>5,945</b>	<b>3,175</b>	<b>77,572</b>	
%	88.2	7.7	4.1	100.0	
Impairment of loans and advances	94	1,030	1,584	2,708	
Provisions for undrawn credit commitments	16	21	7	44	
Provisions for guarantees	7	53	112	172	
<b>Total allowance account</b>	<b>117</b>	<b>1,104</b>	<b>1,703</b>	<b>2,924</b>	
Allowance account at 1 Jan	145	1,547	1,615	3,307	
New impairment charges and provisions during the period, net	(28)	(443)	375	(96)	
Impairment charges previously recorded, now finally written off	-	-	287	287	
<b>Total allowance account at 31 Dec</b>	<b>117</b>	<b>1,104</b>	<b>1,703</b>	<b>2,924</b>	
Impairment charges as % of loans and advances	0.2	19.3	53.7	4.3	
Provisions as % of guarantees	0.1	8.6	49.8	1.2	
<b>Allowance account as % of loans and advances and guarantees</b>	<b>0.2</b>	<b>18.6</b>	<b>53.6</b>	<b>3.8</b>	
Loans and advances before impairment charges	55,409	5,332	2,950	63,691	
Impairment of loans and advances	94	1,030	1,584	2,708	
<b>Loans and advances after impairment charges</b>	<b>55,315</b>	<b>4,302</b>	<b>1,366</b>	<b>60,983</b>	
%	90.7	7.1	2.2	100.0	

The principles for classification of exposures were not changed in 2018.

During 2018 a few minor adjustments were made to the calculation methods concerning the calculation of expected losses. The adjustments form an integral part of ongoing model improvement as a result of growing experience in adopting them.

In addition to individually calculated impairment charges collective charges of DKK 225m have been recorded at year-end 2018 (1 Jan 2018: DKK 310m). Management estimates concerning agriculture constitute DKK 100m. Collective impairment charges at year-end 2018 concern stage 2.

Note 18 Loans and advances – continued

Sydbank Group

DKKm	Allowance account		Impairment of loans and advances etc	
	2018	2017*	2018	2017*
Industry breakdown of the Group's allowance account and impairment of loans and advances etc recognised in the income statement				
<b>Industry</b>				
Agriculture, hunting, forestry and fisheries	729	467	177	4
Manufacturing and extraction of raw materials	275	229	22	27
Energy supply etc	14	24	(14)	9
Building and construction	130	116	(11)	38
Trade	479	325	30	65
Transportation, hotels and restaurants	80	148	(70)	10
Information and communication	7	13	(5)	(1)
Finance and insurance	113	169	(25)	22
Real property	310	302	(75)	(53)
Other industries	149	162	(22)	14
Total corporate	2,286	1,955	7	135
Public authorities	2	-	0	-
Retail	636	632	(121)	(95)
Collective impairment charges		300		(85)
<b>Total</b>	<b>2,924</b>	<b>2,887</b>	<b>(114)</b>	<b>(45)</b>

\* Comparative figures have been restated in accordance with the accounting principles applicable in 2017 (IAS 39).

# Notes

## Note 18 Loans and advances – continued

Sydbank Group

DKKmn				2018	2017*
	Stage 1	Stage 2	Stage 3	Total	Total
<b>Loans and advances before impairment charges</b>					
<b>Rating category</b>					
1	6,000	-	-	6,000	6,700
2	16,207	18	-	16,225	17,039
3	14,773	4	-	14,777	15,900
4	9,794	28	-	9,822	9,367
5	4,915	448	-	5,363	5,677
6	2,061	840	-	2,901	3,004
7	215	573	-	788	1,292
8	-	564	-	564	380
9	-	2,825	925	3,750	4,889
Default	-	-	2,020	2,020	1,355
NR/STD	1,444	32	5	1,481	1,390
Collective impairment charges	-	-	-	-	-
<b>Total</b>	<b>55,409</b>	<b>5,332</b>	<b>2,950</b>	<b>63,691</b>	<b>66,993</b>
<b>Impairment of loans and advances</b>					
<b>Rating category</b>					
1	0	-	-	0	-
2	14	-	-	14	-
3	9	-	-	9	-
4	24	-	-	24	-
5	18	6	-	24	-
6	14	20	-	34	4
7	3	30	-	33	9
8	-	31	-	31	7
9	-	704	438	1,142	1,711
Default	-	-	1,145	1,145	727
NR/STD	12	14	1	17	13
Collective impairment charges	-	225	-	225	210
<b>Total</b>	<b>94</b>	<b>1,030</b>	<b>1,584</b>	<b>2,708</b>	<b>2,681</b>
<b>Loans and advances after impairment charges</b>					
<b>Rating category</b>					
1	6,000	-	-	6,000	6,700
2	16,193	18	-	16,211	17,039
3	14,764	4	-	14,768	15,900
4	9,770	28	-	9,798	9,367
5	4,897	442	-	5,339	5,677
6	2,047	820	-	2,867	3,000
7	212	543	-	755	1,283
8	-	533	-	533	373
9	-	2,121	487	2,608	3,178
Default	-	-	875	875	628
NR/STD	1,432	18	4	1,454	1,377
Collective impairment charges	-	(225)	-	(225)	(210)
<b>Total</b>	<b>55,315</b>	<b>4,302</b>	<b>1,366</b>	<b>60,983</b>	<b>64,312</b>

\* Comparative figures have been restated in accordance with the accounting principles applicable in 2017 (IAS 39).

Note 18 Loans and advances – continued

Sydbank Group

DKKm	Stage 1	Stage 2	Stage 3	Total
<b>Loans and advances before impairment charges</b>				
<b>1 Jan 2018</b>	<b>58,277</b>	<b>5,909</b>	<b>3,011</b>	<b>67,197</b>
<b>Transfers between stages</b>				
Transferred to stage 1	1,378	(1,367)	(11)	-
Transferred to stage 2	(2,258)	2,383	(125)	-
Transferred to stage 3	(482)	(296)	778	-
New exposures	12,391	352	146	12,889
Redeemed exposures	(12,670)	(1,352)	(300)	(14,322)
Changes in balances	(1,227)	(288)	(106)	(1,621)
Write-offs	-	(9)	(443)	(452)
<b>31 Dec 2018</b>	<b>55,409</b>	<b>5,332</b>	<b>2,950</b>	<b>63,691</b>
<b>Impairment of loans and advances</b>				
<b>1 Jan 2018</b>	<b>121</b>	<b>1,446</b>	<b>1,492</b>	<b>3,059</b>
<b>Transfers between stages</b>				
Transferred to stage 1	157	(153)	(4)	-
Transferred to stage 2	(9)	32	(23)	-
Transferred to stage 3	(2)	(186)	188	-
New exposures	18	31	23	72
Redeemed exposures	(17)	(251)	(153)	(421)
Changes in impairment charges	(174)	111	348	285
Write-offs	-	-	(287)	(287)
<b>31 Dec 2018</b>	<b>94</b>	<b>1,030</b>	<b>1,584</b>	<b>2,708</b>
<b>Loans and advances after impairment charges</b>				
<b>1 Jan 2018</b>	<b>58,156</b>	<b>4,463</b>	<b>1,519</b>	<b>64,138</b>
<b>Transfers between stages</b>				
Transferred to stage 1	1,221	(1,214)	(7)	-
Transferred to stage 2	(2,249)	2,351	(102)	-
Transferred to stage 3	(480)	(110)	590	-
New exposures	12,373	321	123	12,817
Redeemed exposures	(12,653)	(1,101)	(147)	(13,901)
Changes in balances	(1,053)	(399)	(454)	(1,906)
Write-offs	-	(9)	(156)	(165)
<b>31 Dec 2018</b>	<b>55,315</b>	<b>4,302</b>	<b>1,366</b>	<b>60,983</b>

# Notes

## Note 18 Loans and advances – continued

Sydbank Group

DKKm	2018				2017*			
	Loans/advances	Loans/advances with evidence of credit impairment	Past due loans/advances	Loans/advances neither with evidence of credit impairment nor past due by rating category	Loans/advances	Impaired loans/advances	Past due loans/advances	Loans/advances neither impaired nor past due by rating category
1	6,410		10	6,400	8,003		16	7,987
2	18,520		17	18,503	20,037		16	20,021
3	18,042		21	18,021	16,847		16	16,831
4	10,362		23	10,339	9,367		14	9,353
5	5,363		16	5,347	5,677		17	5,660
6	2,901		7	2,894	3,004		4	3,000
7	788		2	786	1,292		1	1,291
8	564		4	560	380		1	379
9	3,750	3,676	6	68	4,889	3,468	9	1,412
Default	2,020	2,020	0	0	1,355	923	0	432
NR/STD	1,481	31	13	1,437	1,390		4	1,386
	70,201	5,727	119	64,355	72,241	4,391	98	67,752
Impairment charges	2,708	2,267		441	2,681	2,381		300
<b>Total</b>	<b>67,493</b>	<b>3,460</b>	<b>119</b>	<b>63,914</b>	<b>69,560</b>	<b>2,010</b>	<b>98</b>	<b>67,452</b>

\* Comparative figures have been restated in accordance with the accounting principles applicable in 2017 (IAS 39).

Sydbank Group

DKKm	2018			2017		
	Gross investments	Unearned interest	Net investments	Gross investments	Unearned interest	Net investments
<b>Lease payment receivables – finance leases</b>						
1 year or less	1,771	92	1,679	1,647	85	1,562
Over 1 year not exceeding 5 years	4,098	157	3,941	3,859	156	3,703
Over 5 years	446	12	434	404	10	394
<b>Total</b>	<b>6,315</b>	<b>261</b>	<b>6,054</b>	<b>5,910</b>	<b>251</b>	<b>5,659</b>

Lease payment receivables comprise receivables on leasing of various operating equipment under non-cancellable leases. The leases are fixed-rate and floating-rate leases in foreign and Danish currencies.

Loans and advances at amortised cost include finance lease payment receivables of DKK 6,054m at year-end 2018 (2017: DKK 5,659m).

Impairment charges for uncollectible lease payment receivables represent DKK 0m for 2018 (2017: DKK 0m).

Note 18 Loans and advances – continued

Sydbank Group

DKKm	2018			2017*		
	Loans/advances and guarantees before impairment charges	Impairment charges	Book value	Loans/advances and guarantees before impairment charges	Impairment charges	Book value
<b>Forborne loans and advances and guarantees</b>						
Stage 2	44	13	31			
Stage 3	660	358	302			
<b>Total</b>	<b>704</b>	<b>371</b>	<b>333</b>	<b>916</b>	<b>184</b>	<b>732</b>
Credit impaired non-defaulted loans and advances and guarantees	149	71	78	148	52	96
Credit impaired defaulted loans and advances and guarantees	555	300	255	768	132	636
<b>Total</b>	<b>704</b>	<b>371</b>	<b>333</b>	<b>916</b>	<b>184</b>	<b>732</b>
<b>Due to financial difficulties:</b>						
- Interest rates have been reduced	530	277	253	338	107	231
- Interest-only terms have been granted	88	51	37	74	35	39
- The debt cannot be refinanced on usual terms	24	12	12	428	26	402
- Other special terms have been granted	62	31	31	76	16	60
<b>Total</b>	<b>704</b>	<b>371</b>	<b>333</b>	<b>916</b>	<b>184</b>	<b>732</b>

\* Comparative figures have been restated in accordance with the accounting principles applicable in 20177 (IAS 39).

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

- there has been a change in loan terms that would not have been granted if the borrower had not been experiencing financial difficulties
- there has been a complete or partial refinancing of a loan contract that would not have been carried out if the borrower had not been experiencing financial difficulties.

Sydbank Group

DKKm	2018				
	Credit impaired loans and advances	Impairment charges	Carrying amount	Value of collateral	Unsecured part of carrying amount
<b>Credit impaired loans and advances</b>					
Corporate	2,620	1,348	1,272	941	331
Retail	330	236	94	63	31
<b>Total</b>	<b>2,950</b>	<b>1,584</b>	<b>1,366</b>	<b>1,004</b>	<b>362</b>

# Notes

Note 19 Bonds at fair value DKKm	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
Government bonds etc	849	58	849	58
Mortgage bonds	28,666	25,525	28,666	25,525
Other bonds	153	277	153	277
<b>Total</b>	<b>29,668</b>	<b>25,860</b>	<b>29,668</b>	<b>25,860</b>

Government bonds - by country				
Denmark	849	58	849	58
<b>Total</b>	<b>849</b>	<b>58</b>	<b>849</b>	<b>58</b>

Note 20 Shares etc				
Listed on Nasdaq Copenhagen A/S	337	245	337	245
Listed on other exchanges	2	1	2	1
Unlisted shares recognised at fair value	1,857	1,872	1,857	1,872
<b>Total</b>	<b>2,196</b>	<b>2,118</b>	<b>2,196</b>	<b>2,118</b>

Trading portfolio	229	182	229	182
Portfolio of equity investments, FVPL	1,837	1,936	1,967	1,936
Portfolio of equity investments, FVOCI	130	-	-	-
<b>Total</b>	<b>2,196</b>	<b>2,118</b>	<b>2,196</b>	<b>2,118</b>

Note 21 Holdings in associates etc				
Carrying amount at 1 Jan	157	162	157	162
of which credit institutions	-	-	-	-
Cost at 1 Jan	156	150	156	150
Exchange rate adjustment	0	0	0	0
Additions	0	6	0	6
Disposals	8	-	8	-
Cost at 31 Dec	148	156	148	156
Revaluations and impairment charges at 1 Jan	1	12	1	12
Dividend	(4)	(5)	(4)	(5)
Share of profit	7	(6)	7	(6)
Reversal of revaluations and impairment charges	-	-	-	-
Revaluations and impairment charges at 31 Dec	4	1	4	1
<b>Carrying amount at 31 Dec</b>	<b>152</b>	<b>157</b>	<b>152</b>	<b>157</b>

**Note 22 Holdings in subsidiaries**
**Sydbank A/S**

DKKm	2018	2017
Carrying amount at 1 Jan	2,329	2,351
Cost at 1 Jan	2,705	2,713
Exchange rate adjustment	17	(33)
Additions	60	25
Disposals	-	-
Cost at 31 Dec	2,782	2,705
Revaluations and impairment charges at 1 Jan	(376)	(362)
Exchange rate adjustment	(7)	14
Profit/(Loss)	14	(19)
Dividend	(7)	(6)
Other capital movements	2	(3)
Revaluations and impairment charges at 31 Dec	(374)	(376)
Carrying amount at 31 Dec	2,408	2,329

**Note 23 Assets related to pooled plans**
**Sydbank Group**
**Sydbank A/S**

DKKm	2018	2017	2018	2017
Cash deposits	979	696	979	696
Indexed bonds	422	733	422	733
Other bonds	9,247	8,978	9,247	8,978
Shares etc	5,608	6,132	5,608	6,132
Other items	(36)	2	(36)	2
<b>Total</b>	<b>16,220</b>	<b>16,541</b>	<b>16,220</b>	<b>16,541</b>

---

# Notes

## Note 24 Intangible assets

---

### Intangible assets

The Group's intangible assets comprise the value of customer relationships as well as goodwill acquired in connection with acquisitions. Activities acquired are allocated to the operating segments Banking, Asset Management and Sydbank Markets. Goodwill represents DKK 170m at year-end 2018 (2017: DKK 170m) and primarily concerns Banking. Goodwill is tested for impairment annually. The impairment test carried out in 2018 did not result in impairment of goodwill.

The value of customer relationships represents DKK 89m at year-end 2018 (2017: DKK 110m). Customer relationships are amortised on a straight-line basis over the expected useful life of 5-15 years.

### Impairment test

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

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

Future cash flows are determined on the basis of approved strategies and earnings estimates for the budget period. Earnings for the budget period are based on the budget for 2018 as approved by management which involves a steady positive development in the Bank's profit. Earnings at the end of the budget period are subsequently projected on the basis of expected long-term growth. Annualised growth in the terminal period is assumed to represent 1.5%.

Expected future cash flows are discounted at the Group's risk-adjusted required rates of return which constitute 11.5% before tax and 9.0% after tax at year-end 2018 (2017: 11.5% before tax and 9.0% after tax). The required rate of return and consequently the discount rate are based on current market data and external benchmarks.

The impairment test conducted does not indicate any impairment at 31 December 2018.

An increase in the Group's risk-adjusted required rate of return from 11.5% to for instance 12.5% would not result in a goodwill impairment. Correspondingly a decline in estimated growth in the terminal period of 1 percentage point would not result in impairment. In addition a decrease in earnings of 15% for the terminal period would not result in impairment.

Note 24 Intangible assets - continued

DKKm	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
Carrying amount at 1 Jan	281	303	280	300
Cost at 1 Jan	389	389	384	384
Additions	-	-	-	-
Disposals	-	-	-	-
Cost at 31 Dec	389	389	384	384
Amortisation and impairment charges at 1 Jan	108	86	104	84
Amortisation and impairment charges for the year	22	22	21	20
Amortisation and impairment charges at 31 Dec	130	108	125	104
<b>Carrying amount at 31 Dec</b>	<b>259</b>	<b>281</b>	<b>259</b>	<b>280</b>

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

Note 25 Owner-occupied property

Carrying amount at 1 Jan	1,075	986	857	816
Exchange rate adjustment	0	0	0	0
Additions, including improvements	22	120	2	48
Disposals	20	18	6	18
Depreciation for the year	7	7	6	5
Value adjustment recognised directly in equity	7	15	5	18
Value adjustment recognised in the income statement	3	(21)	4	(2)
<b>Carrying amount at 31 Dec</b>	<b>1,080</b>	<b>1,075</b>	<b>856</b>	<b>857</b>
Required rate of return applied to calculate fair value (%)	4.5-12.0	4.5-11.0	4.5-12.0	4.5-11.0

Sensitivity analysis: Other things being equal an increase of 0.5 percentage points in the required rate of return will reduce fair value by DKK 75m (2017: DKK 69m).

# Notes

Note 26 Other property, plant and equipment DKKm	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
Carrying amount at 1 Jan	71	69	71	69
Cost at 1 Jan	519	470	519	470
Exchange rate adjustment	0	0	0	0
Additions	78	76	77	76
Disposals	41	27	41	27
Cost at 31 Dec	556	519	555	519
Depreciation and impairment charges at 1 Jan	448	401	448	401
Exchange rate adjustment	0	0	0	0
Depreciation for the year	72	73	71	73
Reversal of depreciation and impairment charges	39	26	39	26
Depreciation and impairment charges at 31 Dec	481	448	480	448
<b>Carrying amount at 31 Dec</b>	<b>75</b>	<b>71</b>	<b>75</b>	<b>71</b>

## Note 27 Other assets

Positive market value of derivatives etc	4,374	5,275	4,374	5,275
Sundry debtors	701	432	696	428
Interest and commission receivable	178	159	178	159
Cash collateral provided, CSA agreements	2,025	2,230	2,025	2,230
Other assets	0	3	0	3
<b>Total</b>	<b>7,278</b>	<b>8,099</b>	<b>7,273</b>	<b>8,095</b>

## Note 28 Amounts owed to credit institutions and central banks

Amounts owed to central banks	13	47	13	47
Amounts owed to credit institutions	5,326	5,913	5,561	6,137
<b>Total</b>	<b>5,339</b>	<b>5,960</b>	<b>5,574</b>	<b>6,184</b>
On demand	1,024	1,476	1,259	1,700
3 months or less	4,241	4,474	4,241	4,474
Over 3 months not exceeding 1 year	74	10	74	10
<b>Total</b>	<b>5,339</b>	<b>5,960</b>	<b>5,574</b>	<b>6,184</b>
Of which repo transactions	2,190	2,538	2,190	2,538

**Note 29 Deposits and other debt**

DKKm	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
On demand	73,833	67,803	75,966	69,867
At notice	1,598	2,518	1,598	2,518
Time deposits	6,450	7,617	6,450	7,617
Special categories of deposits	4,396	4,752	4,396	4,752
<b>Total</b>	<b>86,277</b>	<b>82,690</b>	<b>88,410</b>	<b>84,754</b>
On demand	74,170	68,207	76,303	70,271
3 months or less	6,314	8,436	6,314	8,436
Over 3 months not exceeding 1 year	2,160	2,248	2,160	2,248
Over 1 year not exceeding 5 years	284	486	284	486
Over 5 years	3,349	3,313	3,349	3,313
<b>Total</b>	<b>86,277</b>	<b>82,690</b>	<b>88,410</b>	<b>84,754</b>
Of which repo transactions	1,052	2,460	1,052	2,460
Of which secured lending	5,000	4,000	5,000	4,000

**Note 30 Bonds issued at amortised cost**

Over 3 months not exceeding 1 year	-	3,722	-	3,722
Over 1 year not exceeding 5 years	3,706	-	3,706	-
<b>Total</b>	<b>3,706</b>	<b>3,722</b>	<b>3,706</b>	<b>3,722</b>

**Note 31 Other liabilities**

Negative market value of derivatives etc	4,600	5,342	4,600	5,342
Sundry creditors	3,661	3,940	3,650	3,927
Negative portfolio, reverse transactions	5,770	5,295	5,770	5,295
Interest and commission etc	47	35	47	30
Cash collateral received, CSA agreements	860	751	860	751
<b>Total</b>	<b>14,938</b>	<b>15,363</b>	<b>14,927</b>	<b>15,345</b>

**Note 32 Provisions**

Provisions for pensions and similar obligations	3	3	3	3
Provisions for deferred tax	269	203	267	201
Provisions for guarantees	172	172	172	172
Other provisions	45	56	45	56
<b>Total</b>	<b>489</b>	<b>434</b>	<b>487</b>	<b>432</b>

# Notes

## Note 32 Provisions – continued

Sydbank Group

DKKm	Provisions for pensions and similar obligations	Provisions for deferred tax	Provisions for guarantees	Other provisions	2018 Total provisions
Provisions at 31 Dec 2017	3	203	172	56	434
New accounting policies, IFRS 9	-	-	13	-	13
Provisions at 1 Jan 2018	3	203	185	56	447
Additions	0	66	109	10	185
Disposals	0	0	122	21	143
<b>Carrying amount at 31 Dec</b>	<b>3</b>	<b>269</b>	<b>172</b>	<b>45</b>	<b>489</b>

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

## Note 33 Subordinated capital

Sydbank Group

Sydbank A/S

Interest rate	Note	Nominal (m)	Maturity	DKKm 2018	DKKm 2017	DKKm 2018	DKKm 2017
2.13 (fixed)	1	Bond loan	EUR 100	11 Mar 2027	743	740	743
1.52 (floating)	2	Bond loan	EUR 75	2 Nov 2029	558	556	558
1.11 (floating)	3	Bond loan	EUR 75	Perpetual	560	558	558
Total Tier 2 capital				1,861	1,854	1,861	1,854
<b>Total subordinated capital</b>				<b>1,861</b>	<b>1,854</b>	<b>1,861</b>	<b>1,854</b>

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 a 10Y Mid-Swap plus a margin of 0.2%.

Over 1 year not exceeding 5 years	743	740	743	740
Over 5 years	1,118	1,114	1,118	1,114
<b>Total</b>	<b>1,861</b>	<b>1,854</b>	<b>1,861</b>	<b>1,854</b>

Costs relating to the raising and redemption of subordinated capital	0	0	0	0
--	---	---	---	---

## Correlation between subordinated capital and financing activities in cash flow statement

DKKm	Cash flows			Non-cash changes		31 Dec
	1 Jan	Raising	Redemption	Exchange rate	Other	
Subordinated capital – 2018	1,854	0	0	5	2	1,861
Subordinated capital – 2017	2,124	558	(830)	4	(2)	1,854

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

Note 34 Own holdings	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
<b>DKKm</b>				
Nominal portfolio of own holdings	67	35	67	35
Nominal portfolio of own holdings as % of share capital	9.8	4.9	9.8	4.9
Shares outstanding (number)	61,008,893	66,900,704	61,008,893	66,900,704
Holding of own shares (number)	6,662,061	3,460,470	6,662,061	3,460,470
<b>Total share capital (number)</b>	<b>67,670,954</b>	<b>70,361,174</b>	<b>67,670,954</b>	<b>70,361,174</b>
<b>Own holdings purchased during the year</b>				
Number of shares	9,103,494	7,248,347	9,103,494	7,248,347
Nominal value	91	72	91	72
Consideration paid	1,836	1,785	1,836	1,785
Number of shares as % of share capital	13.5	10.3	13.5	10.3
<b>Own holdings sold during the year</b>				
Number of shares	5,901,903	6,526,624	5,901,903	6,526,624
Nominal value	59	65	59	65
Consideration received	1,338	1,555	1,338	1,555
Number of shares as % of share capital	8.7	9.3	8.7	9.3

Within the share buyback programme 5,916,954 shares totalling DKK 1,175m were purchased during the period from 21 February to 13 December 2018. In addition the Bank has purchased and sold own holdings as part of the ordinary banking transactions of Sydbank A/S.

# Notes

Note 35 Contingent liabilities and other obligating agreements DKKm	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
<b>Contingent liabilities</b>				
Financial guarantees	3,933	3,793	3,933	3,793
Mortgage finance guarantees	3,140	2,904	3,140	2,904
Funded mortgage-like loan guarantees	1,810	1,745	1,810	1,745
Registration and remortgaging guarantees	3,252	3,417	3,252	3,417
Other contingent liabilities	1,746	1,703	1,746	1,703
<b>Total</b>	<b>13,881</b>	<b>13,562</b>	<b>13,881</b>	<b>13,562</b>
<b>Other obligating agreements</b>				
Irrevocable credit commitments	1,303	1,285	1,303	1,285
Other liabilities*	104	40	184	88
<b>Total</b>	<b>1,407</b>	<b>1,325</b>	<b>1,487</b>	<b>1,373</b>
* Including intra-group liabilities in relation to rented premises	-	-	80	48

DKKm	Sydbank Group			
	Stage 1	Stage 2	Stage 3	Total
<b>Guarantees</b>				
<b>1 Jan 2018</b>	<b>12,749</b>	<b>603</b>	<b>210</b>	<b>13,562</b>
<b>Transfers between stages</b>				
Transferred to stage 1	110	(107)	(3)	-
Transferred to stage 2	(191)	200	(9)	-
Transferred to stage 3	(18)	(56)	74	-
New exposures	8,539	258	80	8,877
Redeemed exposures	(7,884)	(265)	(120)	(8,269)
Changes in balances	(262)	(20)	(7)	(289)
<b>31 Dec 2018</b>	<b>13,043</b>	<b>613</b>	<b>225</b>	<b>13,881</b>
<b>Provisions for guarantees</b>				
<b>1 Jan 2018</b>	<b>7</b>	<b>89</b>	<b>89</b>	<b>185</b>
<b>Transfers between stages</b>				
Transferred to stage 1	3	(3)	-	-
Transferred to stage 2	-	29	(29)	-
Transferred to stage 3	-	(11)	11	-
New exposures	4	8	-	12
Redeemed exposures	(3)	(6)	(39)	(48)
Changes in provisions	(4)	(53)	80	23
<b>31 Dec 2018</b>	<b>7</b>	<b>53</b>	<b>112</b>	<b>172</b>

### Note 35 Contingent liabilities and other obligating agreements – continued

---

Totalkredit loans arranged for by Sydbank are comprised by an agreed right of set-off against future current commission which Totalkredit may invoke in the event of losses on the loans arranged.

Sydbank does not expect that this set-off will have a significant 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.

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

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

### Note 36 Fair value hedging of interest rate risks (macro hedge)

---

Sydbank adopts a cash flow model for managing interest rate risk on all positions other than Danish callable mortgage bonds. The model is updated daily with all the Bank's positions. These are allocated to portfolios according to responsibility and product.

One of these portfolios consists of the Bank's positions in fixed-rate loans and advances, including leasing, fixed-rate deposits and related hedging transactions. To ensure interest rate risk management of this portfolio, the model generates a synthetic cash flow to describe the Bank's risk position at selected interest rate points.

The Bank's basis for concluding hedging transactions – primarily interest rate swaps – is thus a synthetic net cash flow based on the actual cash flow of loans and advances, deposits and previously concluded hedging transactions in the relevant portfolio. The aim is to keep the interest rate risk in this portfolio at a minimum as the Bank wishes to place its interest rate risk in other portfolios containing bonds and other cash equivalent positions.

The Group applies the rules on macro hedge which aim to ensure symmetry between income and expense in the financial statements. Symmetry is achieved by making a hedge adjustment corresponding to the part of the market value adjustment of derivatives which concerns future periods. This hedge adjustment is recorded under "Other liabilities" and represents DKK 8m at 31 December 2018 (2017: DKK 32m under "Other assets").

During the year a net gain on hedging transactions of DKK 27m has been recorded (2017: net loss of DKK 7m); the gain eliminates a corresponding net loss on hedged items.

# Notes

Note 36 Fair value hedging of interest rate risks (macro hedge) – continued	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
<b>DKKm</b>				
<b>Fixed-rate loans and advances</b>				
Carrying amount	2,338	2,351	2,338	2,351
<b>Swaps</b>				
Principal	4,673	4,944	4,673	4,944
Fair value	(38)	(35)	(38)	(35)
<b>Fixed-rate subordinated capital/ bonds issued/AT1 capital</b>				
Carrying amount	5,789	1,316	5,789	1,316
<b>Swaps</b>				
Principal	5,777	1,303	5,777	1,303
Fair value	134	84	134	84

## Note 37 Collateral

At the end of 2018 the Group had deposited as collateral securities at a market value of DKK 5,562m 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 2,025m.

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".

DKKm	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
<b>Assets sold as part of repo transactions</b>				
Bonds at fair value	3,224	4,982	3,224	4,982
<b>Assets purchased as part of reverse transactions</b>				
Bonds at fair value	9,390	10,082	9,390	10,082

### Note 38 Related parties

DKKm	2018			2017		
	Associates	Board of Directors	Group Executive Management	Associates	Board of Directors	Group Executive Management
Loans and advances and loan commitments	3	9	0	249	8	0
Deposits and other debt	309	18	9	1	16	5
Guarantees issued	0	0	0	0	0	2
Collateral received	0	2	0	0	2	0
Interest income	5	0	0	2	0	0
Interest expense	0	0	0	0	0	0
Fee and commission income	0	0	0	0	0	0
Other expenses	679	0	0	463	0	0

#### Interest rates 2018:

Group Executive Management: No loans and advances

Board of Directors: 0.50-7.65% p.a.\*

\* Interest rates concern loans in different currencies.

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

Other expenses include primarily IT costs to Bankdata.

Transactions with related parties are settled on an arm's length basis and are subject to the terms and conditions in force. No unusual transactions took place with related parties in 2018.

DKKm	Sydbank Group		Sydbank A/S	
	2018	2017	2018	2017
<b>Amounts owed by and to subsidiaries etc</b>				
Amounts owed by credit institutions and central banks	-	-	-	-
Loans and advances at amortised cost	-	-	201	201
<b>Total asset items</b>	-	-	<b>201</b>	<b>201</b>
Amounts owed to credit institutions	-	-	235	224
Deposits and other debt	-	-	2,133	2,064
<b>Total liability items</b>	-	-	<b>2,368</b>	<b>2,288</b>

# Notes

## Note 38 Related parties – continued

Sydbank Group

Number	1 Jan	On	Additions	Disposals	31 Dec
	2018	appointment/ resignation			2018
<b>Sydbank A/S shares held by</b>					
<b>Board of Directors (personal holdings)</b>					
Torben Nielsen (Chairman)	5,500		1,500		7,000
John Lesbo (Vice-Chairman)	208		849		1,057
Carsten Andersen	0	242	333		575
Peder Damgaard	966	(966)			0
Alex Slot Hansen	57	(57)			0
Kim Holmer	0	1,526	16		1,542
Lars Mikkilgaard-Jensen	2,000				2,000
Janne Moltke-Leth	93				93
Frank Møller Nielsen	1,736		252		1,988
Jacob Chr. Nielsen	77				77
Jarl Oxlund	1,200		16		1,216
Susanne Schou	0	110			110
Jørn Krogh Sørensen	0	2,521	16		2,537
Margrethe Weber	2,106	(2,106)			0
<b>Total</b>	<b>13,943</b>	<b>1,270</b>	<b>2,982</b>	<b>-</b>	<b>18,195</b>
<b>Board of Directors (own holdings and holdings of dependants)</b>					
Torben Nielsen (Chairman)	5,500		1,500		7,000
John Lesbo (Vice-Chairman)	208		849		1,057
Carsten Andersen	0	242	333		575
Peder Damgaard	1,016	(1,016)			0
Alex Slot Hansen	57	(57)			0
Kim Holmer	0	1,626	16		1,642
Lars Mikkilgaard-Jensen	2,000				2,000
Janne Moltke-Leth	93				93
Frank Møller Nielsen	1,736		252		1,988
Jacob Chr. Nielsen	77				77
Jarl Oxlund	1,200		16		1,216
Susanne Schou	0	420			420
Jørn Krogh Sørensen	0	2,621	16		2,637
Margrethe Weber	2,106	(2,106)			0
<b>Total</b>	<b>13,993</b>	<b>1,730</b>	<b>2,982</b>	<b>-</b>	<b>18,705</b>
<b>Group Executive Management (own holdings and holdings of dependants)</b>					
Karen Frøsig	3,766				3,766
Bjarne Larsen	1,967				1,967
Jan Svarre	2,300				2,300
<b>Total</b>	<b>8,033</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,033</b>
<b>Total</b>	<b>22,026</b>	<b>1,730</b>	<b>2,982</b>	<b>-</b>	<b>26,738</b>

### Note 39 Fair value disclosure

Financial instruments are included in the balance sheet either at fair value or at amortised cost. The table below breaks down financial instruments by valuation technique.

DKKm	Sydbank Group			
	Fair value	2018 Amortised cost	Fair value	2017 Amortised cost
<b>Financial assets</b>				
Cash and balances on demand at central banks	-	2,073	-	2,115
Amounts owed by credit institutions and central banks	2,922	10,774	4,892	7,587
Loans and advances at fair value	6,510	-	5,248	-
Loans and advances at amortised cost	-	60,983	-	64,312
Bonds at fair value	29,668	-	25,860	-
Shares etc	2,196	-	2,118	-
Assets related to pooled plans	16,220	-	16,541	-
Other assets	4,479	2,799	5,352	2,747
<b>Total</b>	<b>61,995</b>	<b>76,629</b>	<b>60,011</b>	<b>76,761</b>
Undrawn credit commitments	-	41,877	-	43,569
<b>Maximum credit risk, collateral not considered</b>	<b>61,995</b>	<b>118,506</b>	<b>60,011</b>	<b>120,330</b>
<b>Financial liabilities</b>				
Amounts owed to credit institutions and central banks	2,190	3,149	2,538	3,422
Deposits and other debt	1,052	85,225	2,460	80,230
Deposits in pooled plans	16,220	-	16,541	-
Bonds issued at amortised cost	-	3,706	-	3,722
Other liabilities	10,372	4,566	10,638	4,725
Subordinated capital	-	1,861	-	1,854
<b>Total</b>	<b>29,834</b>	<b>98,507</b>	<b>32,177</b>	<b>93,953</b>

#### 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 180m.

# Notes

## Note 39 Fair value disclosure - continued

Sydbank Group

DKKm	Quoted prices	Observable inputs	Unobserva- ble inputs	Total fair value
<b>2018</b>				
<b>Financial assets</b>				
Amounts owed by credit institutions and central banks	-	2,922	-	2,922
Loans and advances at fair value	-	6,510	-	6,510
Bonds at fair value	-	29,668	-	29,668
Shares etc	339	57	1,800	2,196
Assets related to pooled plans	5,608	10,612	-	16,220
Other assets	15	4,464	-	4,479
<b>Total</b>	<b>5,962</b>	<b>54,233</b>	<b>1,800</b>	<b>61,995</b>
<b>Financial liabilities</b>				
Amounts owed to credit institutions and central banks	-	2,190	-	2,190
Deposits and other debt	-	1,052	-	1,052
Deposits in pooled plans	-	16,220	-	16,220
Other liabilities	20	10,352	-	10,372
<b>Total</b>	<b>20</b>	<b>29,814</b>	<b>-</b>	<b>29,834</b>
<b>2017</b>				
<b>Financial assets</b>				
Amounts owed by credit institutions and central banks	-	4,892	-	4,892
Loans and advances at fair value	-	5,248	-	5,248
Bonds at fair value	-	25,860	-	25,860
Shares etc	246	50	1,822	2,118
Assets related to pooled plans	6,132	10,409	-	16,541
Other assets	30	5,322	-	5,352
<b>Total</b>	<b>6,408</b>	<b>51,781</b>	<b>1,822</b>	<b>60,011</b>
<b>Financial liabilities</b>				
Amounts owed to credit institutions and central banks	-	2,538	-	2,538
Deposits and other debt	-	2,460	-	2,460
Deposits in pooled plans	-	16,541	-	16,541
Other liabilities	36	10,602	-	10,638
<b>Total</b>	<b>36</b>	<b>32,141</b>	<b>-</b>	<b>32,177</b>

Note 39 Fair value disclosure – continued

Sydbank Group

DKKm	2018	2017
<b>Assets measured on the basis of unobservable inputs</b>		
Carrying amount at 1 Jan	1,822	1,557
Additions	0	160
Disposals	308	33
Market value adjustment	286	138
<b>Value at 31 Dec</b>	<b>1,800</b>	<b>1,822</b>
<b>Recognised in profit for the year</b>		
Interest income	-	-
Dividend	21	28
Market value adjustment	286	138
<b>Total</b>	<b>307</b>	<b>166</b>

To take into account changes in credit risk concerning derivatives with positive fair value, an adjustment is made – CVA. CVA is a function of the risk of counterparty default (PD), the expected positive exposure and the loss ratio in the event of default. PD is determined on the basis of the Group's credit models – default probability in 12 months. PD beyond 12 months is adjusted on the basis of market data of exposures with a similar PD level. At year-end 2018 CVA constitutes DKK 25m compared to DKK 37m at year-end 2017.

Client margins recognised in connection with derivatives are amortised over the life of the transaction. At year-end 2018 client margins presently not recognised as income total DKK 29m compared to DKK 34m at year-end 2017.

**Financial instruments recognised at amortised cost**

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

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

Based on the above it is the overall assessment that the fair value of loans and advances and deposits corresponds to the carrying amount at 31 December 2018 in all material respects.

DKKm	Sydbank Group			
	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds issued at amortised cost	3,706	3,641	3,722	3,726
Subordinated capital	1,861	1,596	1,854	1,833

# Notes

## Note 40 Financial liabilities – contractual maturities

Sydbank Group

DKKm	Sydbank Group				
	On demand	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years
<b>2018</b>					
Amounts owed to credit institutions and central banks	1,024	4,241	74	-	-
Deposits and other debt	74,170	6,314	2,160	284	3,349
Bonds issued at amortised cost	-	-	-	3,706	-
Subordinated capital	-	-	-	743	1,118
<b>Total</b>	<b>75,194</b>	<b>10,555</b>	<b>2,234</b>	<b>4,733</b>	<b>4,467</b>
Contingent liabilities (guarantees)	8,926	3,637	704	418	196
<b>2017</b>					
Amounts owed to credit institutions and central banks	1,476	4,474	10	-	-
Deposits and other debt	68,207	8,436	2,248	486	3,313
Bonds issued at amortised cost	-	-	3,722	-	-
Subordinated capital	-	-	-	740	1,114
<b>Total</b>	<b>69,683</b>	<b>12,910</b>	<b>5,980</b>	<b>1,226</b>	<b>4,427</b>
Contingent liabilities (guarantees)	8,237	3,724	980	394	227

Amounts are exclusive of interest.

## Note 41 Activity per country

Sydbank Group

DKKm	Sydbank Group				
	Turnover	Number of employees	Profit before tax	Tax	Public subsidies received
<b>2018</b>					
Denmark, banking and leasing	3,974	2,032	1,398	257	-
Germany, banking	168	67	22	7	-
Switzerland, in liquidation	-	-	-	0	-
<b>Total</b>	<b>4,142</b>	<b>2,098</b>	<b>1,420</b>	<b>264</b>	<b>-</b>
<b>2017</b>					
Denmark, banking and leasing	4,070	1,998	1,908	408	-
Germany, banking	185	66	50	17	-
Switzerland, in liquidation	-	-	(2)	0	-
<b>Total</b>	<b>4,255</b>	<b>2,064</b>	<b>1,956</b>	<b>425</b>	<b>-</b>

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

**Note 42 Financial highlights**
**Sydbank Group**

	2018	2017*	2016*	2015*	2014*
<b>Income statement highlights (DKK m)</b>					
Net interest and fee income	3,725	3,856	4,002	4,170	4,297
Market value adjustments	335	727	553	251	391
Staff costs and administrative expenses	2,666	2,537	2,487	2,455	2,497
Impairment of loans and advances etc	(114)	(45)	98	311	692
Profit/(Loss) on holdings in associates etc	8	(7)	2	5	9
Profit for the year	1,156	1,531	1,472	1,148	1,052
<b>Balance sheet highlights (DKK bn)</b>					
Loans and advances	67.5	69.6	83.3	84.4	75.3
Equity	11.7	11.9	11.8	11.4	11.3
Total assets	140.5	138.5	146.7	142.7	152.3
<b>Financial ratios per share (DKK per share of DKK 10)</b>					
EPS	17.8	22.5	20.9	15.5	14.2
Book value	179.0	178.3	169.2	160.2	154.2
Dividend	9.36	11.31	10.46	11.12	7.08
Share price/EPS	8.7	11.1	10.5	14.3	13.4
Share price/book value	0.87	1.40	1.30	1.38	1.23
<b>Other financial ratios and key figures</b>					
Capital ratio	22.4	20.8	19.2	17.6	16.0
Tier 1 capital ratio	19.0	17.7	17.4	15.9	15.5
Pre-tax profit as % of average equity	11.7	16.5	16.1	13.0	12.3
Post-tax profit as % of average equity	9.6	12.9	12.7	10.1	9.8
Income/cost ratio (DKK)	1.51	1.74	1.69	1.49	1.39
Interest rate risk	1.3	0.8	1.6	2.8	0.0
Foreign exchange position	1.3	1.2	2.2	2.2	1.8
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	1.0	0.8
Loans and advances relative to equity	5.8	5.8	6.6	7.4	6.7
Growth in loans and advances for the year	(5.2)	(16.7)	3.9	8.5	2.8
Excess cover relative to statutory liquidity requirements (section 152 of the Financial Business Act)	-	232.1	186.5	166.8	142.2
Total large exposures	0.0	0.0	0.0	0.0	0.0
Impairment ratio for the year	(0.1)	(0.1)	0.1	0.3	0.7
Return on assets (%)	0.80	1.07	1.02	0.78	0.70

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

Financial highlights and financial ratios are specified in the Danish FSA's executive order on financial reporting of credit institutions etc.

# Notes

## Note 42 Financial highlights – continued

Sydbank A/S

	2018	2017*	2016*	2015*	2014*
<b>Income statement highlights (DKK m)</b>					
Net interest and fee income	3,639	3,789	3,835	4,116	4,302
Market value adjustments	286	727	553	252	391
Staff costs and administrative expenses	2,611	2,482	2,431	2,413	2,505
Impairment of loans and advances etc	(114)	(45)	98	311	692
Profit/(Loss) on holdings in associates etc	22	(26)	71	(23)	7
Profit for the year	1,118	1,531	1,472	1,148	1,052
<b>Balance sheet highlights (DKK bn)</b>					
Loans and advances	67.7	69.8	83.5	84.6	75.5
Equity	11.7	11.9	11.8	11.4	11.3
Total assets	142.9	140.8	148.9	144.9	152.8
<b>Financial ratios per share (DKK per share of DKK 10)</b>					
EPS	17.2	22.5	20.9	15.5	14.2
Book value	179.0	178.3	169.2	160.2	154.2
Dividend	9.36	11.31	10.46	11.12	7.08
Share price/EPS	9.0	11.1	10.5	14.3	13.4
Share price/book value	0.87	1.40	1.30	1.38	1.23
<b>Other financial ratios and key figures</b>					
Capital ratio	21.5	20.1	18.7	17.2	16.0
Tier 1 capital ratio	18.4	17.2	16.8	15.5	15.4
Pre-tax profit as % of average equity	11.7	16.4	15.9	12.8	12.2
Post-tax profit as % of average equity	9.6	12.9	12.7	10.1	9.8
Income/cost ratio (DKK)	1.52	1.76	1.69	1.50	1.39
Interest rate risk	1.3	0.8	1.6	2.8	0.0
Foreign exchange position	1.3	1.2	2.2	2.2	1.8
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0
Loans and advances relative to deposits	0.7	0.7	0.9	0.9	0.9
Loans and advances relative to equity	5.8	5.8	7.1	7.4	6.7
Growth in loans and advances for the year	(5.2)	(16.6)	3.9	8.5	6.5
Excess cover relative to statutory liquidity requirements (section 152 of the Financial Business Act)	-	226.8	182.0	162.8	141.4
Total large exposures	0.0	0.0	0.0	0.0	0.0
Impairment ratio for the year	(0.1)	(0.1)	0.1	0.3	0.7
Return on assets (%)	0.79	1.06	1.00	0.77	0.71

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

Financial highlights and financial ratios are specified in the Danish FSA's executive order on financial reporting of credit institutions etc.

#### Note 43 Reporting events occurring after the balance sheet date

No matters of significant impact on the financial position of the Group have occurred after the expiry of the financial year.

#### Note 44 Group holdings and enterprises

Sydbank Group

31 December 2018	Activity	Share capital (m)	Equity (DKKm)	Profit/(Loss) (DKKm)	Ownership share (%)
Sydbank A/S		DKK 677			
<b>Consolidated subsidiaries</b>					
DiBa A/S, Aabenraa	Investment	DKK 300	2,037	5	100
Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa	Real property	DKK 11	18	5	100
Syd Fund Management A/S, Aabenraa	Administration	DKK 100	112	11	100
Sydbank (Schweiz) AG in Liquidation, St. Gallen, Switzerland*	-	CHF 40	236	0	100
<b>Holdings in associates</b>					
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

\* With no significant activity at 31 December 2018.

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

#### Note 45 Large shareholders

Silchester International Investors LLP, London, and Sydbank A/S own more than 5% of Sydbank's share capital.

#### Note 46 Correlation between Group profit and equity according to IFRS and the Danish FSA's executive order

The Group's financial statements are prepared according to IFRS. The Group's accounting policies correspond to the provisions of the Danish FSA's rules excepting that the Danish FSA's executive order does not allow the use of value adjustment through other comprehensive income as regards shareholdings. In the Group's reporting to the Danish FSA all shareholdings are measured at fair value through profit or loss.

DKKm	Profit for the year		Equity	
	2018	2017	2018	2017
The Group's profit and equity according to IFRS	1,156	1,531	11,682	11,926
Value adjustment of certain strategic shares	(49)	-	-	-
Tax on value adjustment of certain strategic shares	11	-	-	-
<b>The Group's profit and equity according to the Danish FSA accounting rules</b>	<b>1,118</b>	<b>1,531</b>	<b>11,682</b>	<b>11,926</b>

## Definitions – Group Financial Ratios & Performance Measures

Financial ratio/performance measure	Definition
EPS Basic (DKK)*	Profit for the year divided by average number of shares outstanding.
EPS Diluted (DKK)*	Profit for the year divided by average number of shares outstanding, including dilutive effect of share options and restricted shares.
Share price at year-end	Closing price of the Sydbank share at year-end.
Book value per share (DKK)	Equity at year-end divided by number of shares outstanding at year-end.
Common Equity Tier 1 capital ratio	Common Equity Tier 1 capital divided by risk exposure amount.
Tier 1 capital ratio	Tier 1 capital including Additional Tier 1 capital divided by risk exposure amount.
Capital ratio	Total capital divided by risk exposure amount.
Pre-tax profit as % of average equity*	Pre-tax profit divided by quarterly average equity calculated as an average of equity of the year's 4 quarters at year-end.
Post-tax profit as % of average equity*	Post-tax profit divided by quarterly average equity calculated as an average of equity of the year's 4 quarters at year-end.
Return on assets (%)	Profit for the year divided by total average assets.
Loans and advances relative to deposits	Loans and advances at amortised cost divided by deposits (deposits and other debt and deposits in pooled plans).
Loans and advances relative to equity	Loans and advances at amortised cost divided by equity.
Growth in loans and advances for the year	Calculated on the basis of loans and advances at amortised cost.
Accumulated impairment ratio	Impairment charges and provisions at year-end (allowance account) divided by loans and advances at amortised cost and guarantees before impairment charges and provisions.
Impairment ratio for the year	Impairment charges for loans and advances etc divided by loans and advances at amortised cost and guarantees before impairment charges and provisions.
Number of full-time staff at year-end	Number of full-time equivalent staff (part-time staff translated into full-time staff) at year-end.

Reference is made to "Accounting policies" (note 1) for a definition of core income and investment portfolio earnings.

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



## Notes – Derivatives

### Distribution by maturity

DKKm	3 months or less	Over 3 months not exceed- ing 1 year	Over 1 year not exceed- ing 5 years	Over 5 years	Total 2018	Total 2017
<b>Nominal values</b>						
Foreign exchange contracts:						
Spot, bought	1,641	-	-	-	1,641	2,303
Spot, sold	1,575	-	-	-	1,575	3,963
Forwards/futures, bought	11,696	1,546	610	0	13,852	21,858
Forwards/futures, sold	15,679	1,856	1,029	0	18,564	20,897
Swaps	0	63	153	625	841	850
Options, acquired	917	307	0	0	1,224	2,365
Options, written	746	144	0	0	890	1,900
Interest rate contracts:						
Spot, bought	3,701	-	-	-	3,701	4,541
Spot, sold	4,565	-	-	-	4,565	3,261
Forwards/futures, bought	4,670	2,723	163	0	7,556	7,874
Forwards/futures, sold	5,813	1,557	1,304	0	8,674	7,337
Forward Rate Agreements, bought	0	0	0	0	0	0
Forward Rate Agreements, sold	0	0	0	0	0	0
Swaps	5,987	11,818	48,597	39,275	105,677	125,146
Options, acquired	634	3,061	1,186	560	5,441	8,853
Options, written	896	5,591	1,241	810	8,538	11,602
Equity contracts:						
Spot, bought	187	-	-	-	187	264
Spot, sold	234	-	-	-	234	304
Forwards/futures, bought	0	0	0	0	0	2
Forwards/futures, sold	0	0	0	0	0	2
Options, acquired	1	0	0	0	1	422
Options, written	1	1	0	0	2	422
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit Default Swaps	0	0	0	0	0	0

## Distribution by maturity

DKKm	3 months or less	Over 3 months not exceed- ing 1 year	Over 1 year not exceed- ing 5 years	Over 5 years	Total 2018	Total 2017
<b>Net market values</b>						
Foreign exchange contracts:						
Spot, bought	(1)	-	-	-	(1)	(3)
Spot, sold	(4)	-	-	-	(4)	(3)
Forwards/futures, bought	285	18	5	0	308	121
Forwards/futures, sold	(175)	(18)	3	0	(190)	116
Swaps	0	(1)	(1)	21	19	34
Options, acquired	6	4	0	0	10	66
Options, written	(8)	(2)	0	0	(10)	(31)
Interest rate contracts:						
Spot, bought	6	-	-	-	6	(1)
Spot, sold	(6)	-	-	-	(6)	0
Forwards/futures, bought	8	1	0	0	9	0
Forwards/futures, sold	(4)	0	0	0	(4)	4
Forward Rate Agreements, bought	0	0	0	0	0	0
Forward Rate Agreements, sold	0	0	0	0	0	0
Swaps	(13)	(48)	(303)	(44)	(408)	(401)
Options, acquired	12	86	151	2	251	228
Options, written	1	(141)	(64)	(1)	(205)	(197)
Equity contracts:						
Spot, bought	1	-	-	-	1	0
Spot, sold	(1)	-	-	-	(1)	0
Forwards/futures, bought	3	0	0	0	3	(1)
Forwards/futures, sold	(3)	0	0	0	(3)	2
Options, acquired	3	1	2	0	6	15
Options, written	(3)	(1)	(2)	0	(6)	(15)
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit Default Swaps	0	0	0	0	0	0
<b>Total net market values</b>					<b>(226)</b>	<b>(67)</b>

## Notes – Derivatives

DKKm	Total contracts 2018*			Total contracts 2017*		
	Positive	Negative	Net	Positive	Negative	Net
<b>Market values</b>						
Foreign exchange contracts:						
Spot, bought	2	(3)	(1)	2	(5)	(3)
Spot, sold	2	(6)	(4)	7	(11)	(3)
Forwards/futures, bought	371	(63)	308	254	(133)	121
Forwards/futures, sold	117	(307)	(190)	199	(83)	116
Swaps	29	(11)	18	38	(4)	34
Options, acquired	11	0	11	66	0	66
Options, written	0	(10)	(10)	0	(31)	(31)
Interest rate contracts:						
Spot, bought	7	(1)	6	3	(4)	(1)
Spot, sold	1	(7)	(6)	2	(2)	0
Forwards/futures, bought	11	(2)	9	7	(7)	0
Forwards/futures, sold	2	(6)	(4)	7	(3)	4
Forward Rate Agreements, bought	0	0	0	0	0	0
Forward Rate Agreements, sold	0	0	0	0	0	0
Swaps	3,556	(3,965)	(409)	4,436	(4,837)	(401)
Options, acquired	251	0	251	229	(1)	228
Options, written	3	(207)	(204)	4	(202)	(197)
Equity contracts:						
Spot, bought	2	(1)	1	2	(2)	0
Spot, sold	1	(2)	(1)	2	(2)	0
Forwards/futures, bought	3	0	3	0	(1)	(1)
Forwards/futures, sold	0	(3)	(3)	2	0	2
Options, acquired	6	0	6	15	0	15
Options, written	0	(6)	(6)	0	(15)	(15)
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit Default Swaps	0	0	0	0	0	0
<b>Total market values</b>	<b>4,374</b>	<b>(4,600)</b>	<b>(226)</b>	<b>5,275</b>	<b>(5,342)</b>	<b>(67)</b>

\* All contracts are non-guaranteed.

DKKm	Total contracts 2018			Total contracts 2017		
	Positive	Negative	Net	Positive	Negative	Net
<b>Average market values</b>						
Foreign exchange contracts:						
Spot, bought	8	(7)	1	10	(9)	1
Spot, sold	9	(20)	(11)	8	(13)	(5)
Forwards/futures, bought	384	(144)	240	311	(185)	126
Forwards/futures, sold	201	(211)	(10)	258	(247)	10
Swaps	302	(307)	(5)	71	(16)	55
Options, acquired	33	0	33	58	0	58
Options, written	0	(19)	(19)	0	(32)	(32)
Interest rate contracts:						
Spot, bought	5	(2)	3	4	(7)	(3)
Spot, sold	2	(4)	(2)	7	(2)	5
Forwards/futures, bought	16	(7)	9	10	(5)	5
Forwards/futures, sold	7	(18)	(11)	5	(4)	1
Forward Rate Agreements, bought	0	0	0	0	0	0
Forward Rate Agreements, sold	0	0	0	0	0	0
Swaps	3,563	(3,901)	(338)	5,183	(5,686)	(503)
Options, acquired	227	0	227	267	(1)	267
Options, written	3	(201)	(198)	4	(236)	(232)
Equity contracts:						
Spot, bought	3	(2)	1	5	(5)	(1)
Spot, sold	3	(3)	0	5	(4)	1
Forwards/futures, bought	1	(1)	0	0	0	0
Forwards/futures, sold	1	(1)	0	0	0	0
Options, acquired	5	0	5	5	0	5
Options, written	0	(5)	(5)	0	(5)	(5)
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit Default Swaps	0	0	0	0	0	0
<b>Total average market values</b>	<b>4,773</b>	<b>(4,853)</b>	<b>(80)</b>	<b>6,213</b>	<b>(6,458)</b>	<b>(245)</b>

Average market value calculations are based on monthly statements.

DKKm	Market values		Collateral		Exposure by counterparty	
	Positive	Negative	Received	Provided	Amount due	Amount owed
<b>2018</b>						
<b>Exposure</b>						
Counterparties with CSA agreements	3,206	4,345	860	2,025	110	83
Counterparties without CSA agreements	1,168	255	-	-	1,032	119
<b>Total</b>	<b>4,374</b>	<b>4,600</b>	<b>860</b>	<b>2,025</b>	<b>1,142</b>	<b>202</b>
<b>2017</b>						
<b>Exposure</b>						
Counterparties with CSA agreements	3,758	5,042	751	2,230	271	76
Counterparties without CSA agreements	1,517	300	-	-	1,452	235
<b>Total</b>	<b>5,275</b>	<b>5,342</b>	<b>751</b>	<b>2,230</b>	<b>1,723</b>	<b>311</b>

# Notes – Risk Management

On the basis of the strategic objectives for the Group, the Board of Directors has issued guidelines for the Group Executive Management and has adopted policies as regards credit risk, liquidity risk, market risk, operational risk, insurance and IT security.

The Board of Directors has set up a Risk Committee to address risk management in greater detail. The chairman of the Board of Directors is the chairman of the Risk Committee, which also consists of the vice-chairman of the Board of Directors, 2 ordinary board members, the Bank's CEO, the Bank's Risk Executive (Group Executive Management member) as well as the Group's Chief Risk Officer (CRO). The committee convenes as a minimum every quarter where ongoing reporting to the Board of Directors is reviewed and current issues are discussed. At subsequent board meetings the contents and conclusions of the Risk Committee meetings are presented to the full Board of Directors.

Credits is responsible for the day-to-day handling of credit risk whereas Sydbank Markets is responsible for the day-to-day handling of liquidity and market risks. The individual business units are each responsible for the day-to-day handling of operational risk. Finance is responsible for handling the Group's insurances and IT Service & Security is responsible for the Group's IT security.

Overall risk management, including ongoing reporting to the Group Executive Management and the Board of Directors, is performed by Risk. The Group Executive Vice President of Risk is the CRO of the Sydbank Group.

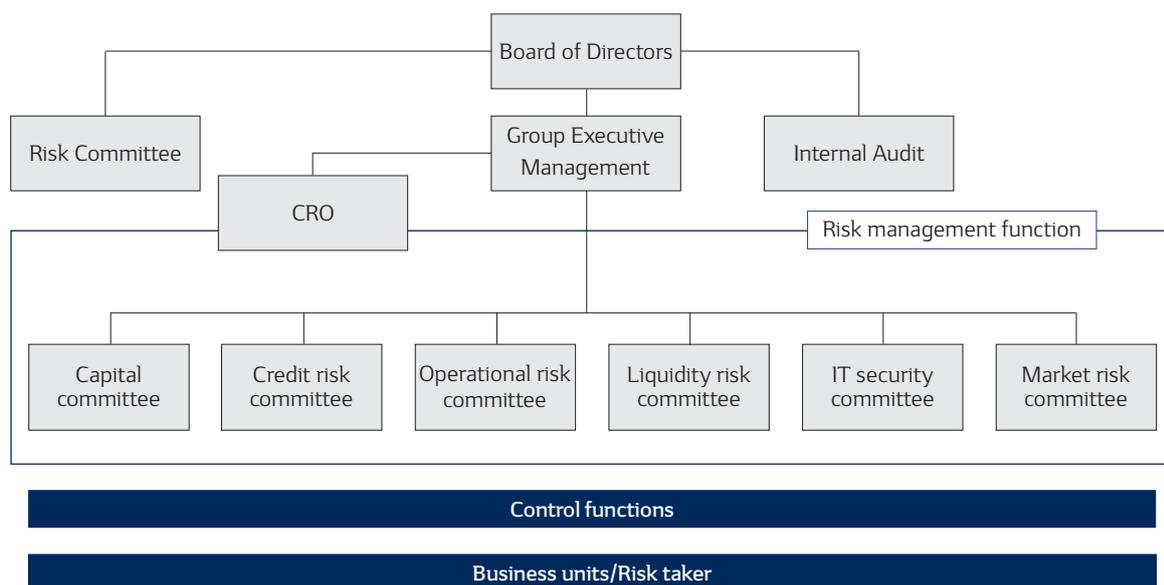
Risk management is supported by the Group's risk organisation, see the chart below.

The relevant business units are represented in the committees, each headed by a Group Executive Management member. The CRO is a member of all committees.

It is the responsibility of the committees, within their respective risk areas, to identify, assess and follow up on the Group's risks including principles to determine risk, models applied, and to assess whether exposures and risks comply with the Group's intended profile and policy.

The committees convene as a minimum every quarter and prepare as a minimum once a year a risk analysis which is included as an important element in the annual risk assessment of the Group.

The risk assessment at 31 December 2018 together with the Group's 2018 financial statements, Credit Risk 2018, the Group's Internal Liquidity Adequacy Assessment Process (ILAAP) at 31 December 2018 and the Group's Internal Capital Adequacy Assessment Process (ICAAP) at 31 December 2018 constitute the main elements of Risk Committee and Audit Committee meetings as well as board meetings at the beginning of 2019. On the basis of the discussions at these meetings the Board of Directors will subsequently update the Group's policies and guidelines.



## Credit risk

### Credit and client policy

The Group's overall credit risk is managed according to policies and limits determined and adopted by the Board of Directors.

The Board of Directors lays down the general framework for credit granting and the largest exposures are submitted on a regular basis to the Board of Directors for approval or information.

Employees with a written lending authority may grant approvals. Such authority is adjusted to the employee's client portfolio and the individual client's rating. In connection with new clients employees have limited lending authority.

### Retail clients

Credit granting to retail clients is based on the client's disposable amount, wealth and leverage (defined as total household debt divided by household personal income) as well as knowledge of the client.

The objective is that the majority of retail client exposures are approved by the client's branch and that the remaining client exposures are approved by specially appointed heads of credit. Consequently exposures where the client has negative assets of more than DKK 100,000 are approved by heads of credit. Major exposures and exposures with an increased risk are approved centrally by Credits.

### Corporate clients

As a rule corporate clients are served by the regional head office or by special corporate departments. The Group's largest and most complex exposures are handled by Corporate & Institutional Banking. The objective is that all small corporate exposures with satisfactory credit quality are approved at regional level. Medium-size and major exposures are approved centrally by Credits, the Group Executive Management or the Board of Directors.

The Group's credit-related decisions are based on a systematic and structured review of the client's circumstances and industry affiliation. The review is based on all accessible information, including industry analyses and financial statements, and also comprises an assessment of the client's forward-looking business plan and its feasibility.

### Credit activities

Credit activities are conducted partly in the retail and corporate departments and partly centrally in Credits. As described below,

the Group has developed rating models to assess risks to retail clients, corporate clients and investment clients.

The Group's credit activities are an active element in the Group's efforts to increase its earnings by:

- maintaining and increasing the portfolio of profitable and promising retail, corporate and investment clients
- maintaining and increasing clients' business volume with the Group through a balanced composition of:
  - loans and advances and guarantees
  - deposits
  - payment services transactions
  - trading in securities etc
  - financial instruments.
- avoiding/reducing risk of loss by implementing action plans for weak exposures. These action plans involve reducing the Group's exposure as well as hedging risks by securing additional collateral.

Risks in connection with lending must be precalculated on an informed and well-founded basis.

The Group's credit exposure is in particular to clients in Denmark and Northern Germany.

Particular focus is given to weak exposures. The objective is to ensure that the Group's action plans for these exposures are evaluated and adjusted on an ongoing basis to reduce the risk of loss.

In 2018 credit control activities were strengthened with the establishment of a new department, Credit Control. The department is tasked with ensuring that procedures and lending authorities are complied with as well as checking the Bank's systems and business procedures in this area.

Moreover Credits has a department which is assigned to exposures with a significant risk of loss. These exposures are closely monitored and Credits is actively involved in preparing solutions to mitigate the Group's credit risk.

### Risk Follow-up

Risk Follow-up is part of the division Risk.

By means of analyses, random sampling and inspections at branches and departments and centrally, Risk Follow-up monitors the credit quality of exposures, registrations, impairment charge calculations as well as the compliance with policies and business procedures in general.

## Notes – Risk Management

This process involves research and analyses using information from the Group's database of all exposures.

Moreover Risk Follow-up conducts regular credit quality analyses of the Group's new exposures as well as regular random sampling of the retail and corporate client portfolios.

Finally Risk Follow-up evaluates on the basis of a credit expert assessment whether the Group's rating models rank clients correctly.

### Collateral

The Group aims to mitigate the risk on individual exposures by way of charges on assets, netting agreements and guarantees.

The most frequent types of charges include mortgages and charges on financial assets (shares, bonds and units).

The Group receives different kinds of guarantees for exposures. Many of these are provided by companies or individuals who have a group relationship with the debtor.

The Group assesses on an ongoing basis the value of collateral provided. The value is determined as the expected net proceeds on realisation.

The 2 tables below illustrate the breakdown of collateral by type and rating category respectively.

### Collateral received and types of collateral

DKKm	2018	2017
Loans and advances at fair value	6,510	5,248
Loans and advances at amortised cost	60,983	64,312
Guarantees	13,881	13,562
Credit exposure for accounting purposes	81,374	83,122
Collateral value	45,342	44,161
<b>Total unsecured</b>	<b>36,032</b>	<b>38,961</b>
<b>Types of collateral</b>		
Real property	10,065	12,187
Financial collateral	12,536	10,803
Leased assets, mortgages etc	6,519	5,428
Floating charges, operating equipment etc	6,546	6,227
Guarantees	1,245	1,188
Other items of collateral	229	262
Total collateral used	37,140	36,095
Particularly secured transactions (mortgage guarantees)	8,202	8,066
<b>Total</b>	<b>45,342</b>	<b>44,161</b>

In the event that the Group uses collateral that is not immediately convertible into liquid holdings, it is the Group's policy to dispose of such assets as quickly as possible. In 2018 repossessed equipment as well as real property taken over in connection with non-performing exposures amounted to DKK 12m (2017: DKK 13m). Leased assets are assessed and depreciated on an ongoing basis. As a result the calculated collateral as regards the Group's leasing activities will decline during periods of lower leased asset prices.

Mortgages on real property have fallen by DKK 2,122m from DKK 12,187m in 2017 to DKK 10,065m in 2018. The decrease is primarily attributable to the decline in mortgage-like loans to retail clients.

Financial collateral has risen by DKK 1,733m from DKK 10,803m in 2017 to DKK 12,536m in 2018, which is primarily attributable to the increase in loans and advances at fair value which have gone up by DKK 1,262m. Loans and advances at fair value are repo loans and advances with financial collateral.

The table below shows the size of loans and advances, guarantees as well as collateral according to rating category. The value of collateral is assessed relative to loans and advances and guarantees. Excess collateral is not included in the calculation

of collateral. 55.7% (2017: 53.1%) of the Group's loans and advances and guarantees after impairment charges is covered via collateral.

#### Collateral by rating category

DKKm				2018
Rating category	Loans/advances	Guarantees	Collateral value	Unsecured
1	6,410	4,131	8,223	2,318
2	18,520	3,464	12,412	9,572
3	18,042	2,624	11,327	9,339
4	10,362	1,097	5,221	6,238
5	5,363	842	2,851	3,354
6	2,901	364	1,591	1,674
7	788	124	357	555
8	564	76	234	406
9	3,750	486	1,988	2,248
Default	2,020	148	634	1,534
NR/STD	1,481	525	504	1,502
<b>Total</b>	<b>70,201</b>	<b>13,881</b>	<b>45,342</b>	<b>38,740</b>
Impairment of loans and advances	2,708			2,708
<b>Total</b>	<b>67,493</b>	<b>13,881</b>	<b>45,342</b>	<b>36,032</b>

#### Financial counterparties

Trading in securities, currencies and derivatives as well as payment services etc involve exposure to financial counterparties in the form of delivery risk or credit risk.

Delivery risk is the risk that the Group does not receive payments or securities in connection with the settlement of securities or currency transactions equalling the securities or payments delivered by the Group.

Management grants delivery risk lines and credit risk lines to financial counterparties based on the risk profile of the individual counterparty which is assessed in terms of rating, earnings, capital position as well as the size of the financial counterparty. Risks and lines to financial counterparties are monitored continuously.

The Group participates in an international foreign exchange settlement system, CLS<sup>®</sup>, which aims to reduce delivery risk. In CLS<sup>®</sup> payment is made on the net position for each currency, and only one amount for each currency is paid or received. In addition this net exposure is only to one counterparty, who is the Group's partner in the system.

The Group aims to mitigate credit risk to financial counterparties in many ways, eg by concluding netting agreements (ISDA agreements). Moreover the Group has entered into agreements (CSA agreements) with all significant counterparties to ensure credit risk mitigation of derivatives. Exposures are calculated on a daily basis after which the parties settle collateral. Consequently exposures are reset in all material respects on a daily basis. The agreements are managed by Securities & International Transactions.

# Notes – Risk Management

## Market risk

Market risk is the risk that the market value of the Group's assets and liabilities will be affected as a result of changes in market prices.

Assuming market risk is considered a natural and integral part of all-round banking. Assuming risk must be on a conscious and well-documented basis. To the extent possible, risk should be assumed in products which offer a possibility of eliminating or mitigating risk at short notice.

Interest rate and foreign exchange risks deriving from deposits by and loans and advances to the Group's clients are hedged on an ongoing basis and are consequently not used for position-taking.

The Group operates with the following types of market risk:

- Interest rate risk
- Credit spread risk
- Equity risk
- Foreign exchange risk
- Other market risks.

For security and control reasons, the Board of Directors emphasises that the Group's market risk is subject to central decision-making and management. Consequently the Group's most significant interest rate, foreign exchange and equity risks must be assumed by the parent.

The Board of Directors has determined the Group's risk tolerance as follows: medium as regards interest rate risk and low as regards the other types of market risk.

Market risk is managed by Sydbank Markets according to policies and limits determined and adopted by the Bank's Board of Directors. The Group Executive Management has passed on the overall limits from the Board of Directors to Sydbank Markets and Treasury. Sydbank Markets manages trading and market-making as regards the Group's clients and financial counterparties. Treasury manages the Group's long-term interest rate positions and hedging, including the Group's primary liquidity positions as well as liquidity generation. The Group's returns in Sydbank Markets and Treasury appear from "Segment reporting" (note 5). Treasury has primarily interest rate risks and credit spread risks.

Middle Office in Securities & International Transactions as well as Risk continuously monitor the individual risk areas and provide management with extensive reporting on a regular basis.

## Interest rate risk

Interest rate risk comprises the Group's total risk of loss resulting from interest rate changes in financial markets.

The Group uses a cash flow model to determine the interest rate risk of fixed-rate positions. A duration model is used to calculate the interest rate risk of Danish callable mortgage bonds. Interest rate risk makes up the bulk of the Group's overall market risk.

In accordance with the Danish FSA's method of calculation, interest rate risk is calculated as the change in market values at a parallel shift in the interest rate level of plus 1 percentage point in all currencies and at 31 December 2018 it represents minus DKK 140m or 1.5% of the Group's Common Equity Tier 1 capital.

### Interest rate risk by duration and currency

DKKm	0-1 yr	1-2 yrs	2-3 yrs	> 3 yrs	Total 2018	Total 2017
DKK	45	6	(1)	(14)	36	64
EUR	2	(3)	7	(179)	(173)	(149)
EUR/DKK	47	3	6	(193)	(137)	(85)
Other	0	(4)	1	0	(3)	(1)
<b>Total 2018</b>	<b>47</b>	<b>(1)</b>	<b>7</b>	<b>(193)</b>	<b>(140)</b>	
<b>Total 2017</b>	<b>34</b>	<b>6</b>	<b>54</b>	<b>(180)</b>		<b>(86)</b>

The bulk of the Group's interest rate risk is attributable to positions with a duration exceeding 3 years. The Group has no significant interest rate risk apart from EUR/DKK.

The Group's interest rate risk is negative, ie the Group's profit will be favourably affected by an interest rate increase, in this case particularly in the event of a rise in long-term interest rates (> 3 years).

The Danish FSA's method of calculation allows full set-off between different currencies, maturities and yield curves. The Group is aware of the risk of these assumptions and monitors these risks separately on an ongoing basis.

The bulk of the Group's interest rate risk at 31 December 2018 is attributable to the Group's positions in Treasury.

#### Interest rate risk – Sydbank Markets and Treasury

DKKm	2018			2017		
	Sydbank Markets	Treasury	Total	Sydbank Markets	Treasury	Total
DKK	83	(47)	36	83	(19)	64
EUR	(30)	(143)	(173)	(26)	(123)	(149)
EUR/DKK	53	(190)	(137)	57	(142)	(85)
Other	(4)	1	(3)	(2)	1	(1)
<b>Total</b>	<b>49</b>	<b>(189)</b>	<b>(140)</b>	<b>55</b>	<b>(141)</b>	<b>(86)</b>

#### Credit spread risk

Credit spread risk is the risk that the credit spreads of the bonds in the bond portfolio change to the detriment of the Group.

The Group determines its credit spread risk on the basis of the following credit spread changes:

- Government bonds 25bp
- Mortgage bonds 50bp
- Other high-yield bonds 100bp.

The Group's credit spread risk makes up DKK 280m at 31 December 2018 and is included when determining the solvency need.

#### Equity risk

The Group's portfolio of shares and holdings in associates represents DKK 2,348m at 31 December 2018 (2017: DKK 2,275m), including equity investments totalling DKK 2,119m (2017: DKK 2,093m).

In the event of a 10% change in share prices, profit before tax will be affected by DKK 222m (2017: DKK 228m) as well as other comprehensive income by DKK 13m (2017: DKK 0m). Equity investments represent DKK 212m (2017: DKK 209m).

#### Foreign exchange risk

As in previous years the Group's foreign exchange risk was insignificant in 2018 and consequently a 10% change in foreign exchange rates against DKK at 31 December 2018 will not affect profit before tax significantly.

#### Other market risks

The Group does not have any other significant market risks at 31 December 2018.

# Notes – Risk Management

## Liquidity risk

Liquidity risk is the risk that the Group cannot meet its payment obligations as they mature or is only able to do so via disproportionately large funding costs.

The Bank's Board of Directors has adopted a liquidity risk policy which sets out the framework for the Group's liquidity management, including operational targets for the Group's risk tolerance as well as requirements for the funding structure, liquidity buffer calculations and stress tests. Moreover the liquidity risk policy sets out requirements for employee competences, contingency plans and reporting as well as determines the framework for asset encumbrance and allocation of the Group's liquidity costs.

Targets and policies:

- Consistently strong and stable deposit base which ensures stability in the long-term funding of the Group's lending activities.
- Prudent funding of long-term loans and advances.
- Maintenance of high ratings.
- Active participation in international money markets as well as access to international capital markets through the application of loan programmes. Coupled with a high rating this ensures that the Group has uninterrupted access to a diversified and competitive funding basis.
- Maintenance of a liquidity buffer which together with prudent management of the run-off profile of funding ensures that the Group's operating activities do not depend on capital market funding. In other words the liquidity buffer may counterbalance the effects of an adverse liquidity situation in the short and medium term.

The Bank's Board of Directors determines the Group's risk tolerance as regards liquidity risk. Operational targets for the Group's risk tolerance comprise:

- A minimum share of stable funding by way of deposits from non-financial counterparties and equity.
- A funding ratio (stable funding incl senior issues with maturities in excess of 1 year relative to loans and advances).
- Liquidity Coverage Ratio (LCR).
- A 3-month stress scenario (LCR3) calculated according to the excess liquidity coverage benchmark of the Supervisory Diamond.
- 6-month and 12-month stress scenarios (LCR6 and LCR12).
- Liquidity Coverage Ratio euro (LCR EUR).
- Requirements regarding funding of long-term loans and advances.

The LCR, LCR3, LCR6 and LCR12 are based on a regulatory cautiously determined liquidity buffer involving specific requirements as regards Danish mortgage bonds and the share thereof. The buffer must be sufficient to survive a 30-day stress scenario (LCR) according to regulatory guidance, the 3-month stress scenario (LCR3) calculated according to the excess liquidity coverage benchmark as well as a 6-month and a 12-month stress scenario according to the Group's guidance (LCR6 and LCR12).

The LCR's 30-day horizon specifies a run-off of the Group's exposures while taking into account counterparties, funding size, hedging and duration. Consequently the most stable deposits (small deposits covered by a guarantee scheme) are favoured relative to large deposits, in particular large deposits from businesses and financial counterparties.

LCR (DKKbn)	2018	2017
Total liquidity buffer	35.9	29.4
Net cash outflows	19.5	16.7
LCR (%)	184	176

The Group has met the regulatory LCR requirement of 100% throughout the year and its excess cover is significant at 31 December 2018.

Funding ratio (DKKbn)	2018	2017
Equity and subordinated capital	13.5	13.8
NPS loans with maturities over 1 year	3.7	-
Stable deposits	77.3	72.2
Total stable funding	94.5	86.0
Loans and advances (excl reverse and mortgage-like loans funded via external counterparties)	61.0	64.3
Funding ratio (%)	155	134

As shown above the Group's stable funding exceeds the Group's loans and advances by DKK 33.5bn at 31 December 2018 (2017: DKK 21.7bn).

The maturity profiles of the Group's debt exposures appear from note 40.

The Board of Directors' requirements regarding the funding structure are based on the following:

- The Group's funding must be diversified so as to minimise to the greatest extent possible reliance on individual sources.
- Compliance with the LCR and the funding ratio target ensures a prudent funding profile and an adequate level of stable non-

market-based funding and longer-term market-based funding.

- The LCR and the funding ratio ensure that the higher the level of stable deposits, the lower the necessary level of long-term senior funding. In contrast a falling level of stable deposits will increase the need for long-term senior funding.
- Short-term market funding and funding from financial counterparties must predominantly be used to fund short-term placements and investments in securities which can be realised or which are eligible as collateral with Danmarks Nationalbank or the repo market.

The Group's risk policy states that:

- asset encumbrance may only occur as part of ordinary banking operations and includes securities provided as collateral with the central bank and in the repo market, collateral for clearing transactions as well as collateral under CSA agreements
- asset encumbrance may be by way of deposits with credit institutions or securities
- moreover asset encumbrance may be by way of funding of mortgage-like loans via external counterparties.

The asset encumbrance appears from note 37.

On 18 September 2018 the Group issued non-preferred senior loans of EUR 500m (DKK 3.7bn) with a maturity of 5 years and on 4 February 2019 a further EUR 500m (DKK 3.7bn) with a maturity of 3 years was issued.

With these 2 issues the Group complies with the coming MREL requirement which will enter into force on 1 July 2019.

---

# Notes – Risk Management

## Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

The Group collects data on all operational events and classifies them in 4 main groups:

- Operational events without loss
- Operational events, IT
- Operational events, internal
- Operational events, compensation.

Management receives reporting on the basis of these data. Furthermore they form the basis for analyses and research for the purpose of identifying systematics as well as improving on an ongoing basis internal controls, business procedures and routines to minimise the number of errors and the risk of loss.

Moreover the system for collecting data on operational events ensures compliance with the Group's business procedures for approval, information, accounting and payment, if any.

The Group reviews all business units annually with the aim of identifying, describing and analysing the largest individual risks where the Group may incur significant losses as well as the relevant business procedures and routines for the purpose of minimising such risks.

A risk analysis was conducted in September 2018 as regards operational risks, which shows that the Group has a number of scenarios in which the risk of loss exceeds DKK 5m. At the same time it must be expected that such scenarios – despite risk mitigation by way of for instance business procedures and control environment, requirements as regards access and authorisation as well as insurance cover – will occur within a foreseeable time horizon.

The Group's management has reviewed the extent of such loss scenarios and related risks.

The Group applies the Standardised Approach to calculate the capital requirement in accordance with Basel III.

## IT security

IT supports a large part of the systems and tools used by the Bank's customers and advisers. This function is strengthened by the increased digitization in Sydbank which customers experience by way of increased self-service and improved online services.

Consequently IT security is a significant aspect of the Bank's operational risk.

The Group regularly reviews this area – on a strategic level, on an operational level and on a system level if the system is business-critical. As a result requirements have been specified as regards confidentiality, accessibility and integrity of the individual elements of IT security. These requirements are adjusted on an ongoing basis to new statutory requirements and regulations. Currently there is considerable focus on the additional requirements resulting from the entry into force of the General Data Protection Regulation in May 2018.

The Board of Directors specifies and formulates requirements as regards IT risk management in the IT security policy and IT contingency policy and these policies form the basis of the IT security efforts. As part of the IT security efforts a risk analysis is prepared annually in which the objectives regarding the confidentiality, accessibility and integrity of each system are assessed in terms of probability, maturity of preventive and corrective administrative and technical measures as well as implications. As a result of this assessment a risk score is assigned to each system. The Board of Directors reviews, updates and approves the 2 policies on the basis of the risk analysis.

In the policies the Board of Directors assesses the current risk scenario and against this background specifies the requirements for eg accessibility and reliability in terms of the different elements of IT supply, including systems and data. As a result of these requirements, a significant part of the Group's use of IT has been mirrored to minimise the risk of operational disruptions.

The IT security policy as well as the IT contingency policy apply to all aspects of the Bank's IT use and consequently also where IT or parts of it has been outsourced. As a result Sydbank's collaboration with Bankdata, including JN Data, which is responsible for the day-to-day operations, is also comprised by this IT security process.

Contingency exercises are performed on a regular basis to ensure that the Bank is able to tackle any events that may arise.

In accordance with current anti-terrorism and anti-money laundering rules the Bank must ensure that proof of identity of its customers exists. Moreover the Bank performs routine testing of transactions submitted through its systems. Suspicious transactions are reported.

---

## Notes – Total capital

The Bank is a licensed financial services provider and must therefore comply with the capital requirements determined by the EU.

The capital adequacy rules require a minimum capital level of 8.0% of the risk exposure amount plus any additional individual capital needed. Detailed rules regulate the calculation of capital as well as the risk exposure amount.

Total capital is made up of Tier 1 capital and Tier 2 capital. Tier 1 capital comprises equity and Additional Tier 1 capital.

The difference between shareholders' equity and total capital is shown in note 3.

The Group's subordinated capital, Additional Tier 1 capital and Tier 2 capital may, subject to certain conditions, be included in total capital. The conditions are specified in CRR. The Group's subordinated capital is shown in note 33.

The Group has determined capital targets and considers a Common Equity Tier 1 capital ratio of 14.0% as well as a capital ratio of 18.0% as being satisfactory for the years ahead.

The international rating agency Moody's regularly assesses the Group's ability to honour its payment obligations. The rating targets are an essential part of the Group's capital targets because good ratings give the Group access to the capital markets.

In 2018 the Group met regulatory capital requirements as well as internal capital targets.

---

# Management Statement

We have reviewed and approved the 2018 Annual Report of Sydbank A/S.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the parent company financial statements are prepared in accordance with the Danish Financial Business Act. Furthermore the annual report is prepared in compliance with Danish disclosure requirements for listed financial companies.

In our opinion the consolidated financial statements and the financial statements give a true and fair view of the Group's and

the company's assets, equity and liabilities and financial position at 31 December 2018 and of the results of the Group's and the company's operations and consolidated cash flows for the financial year 1 January – 31 December 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.

We propose that the Annual Report be submitted for adoption by the AGM.

Aabenraa, 27 February 2019

## 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 Mikkjelgaard-Jensen

Janne Moltke-Leth

Frank Møller Nielsen

Jacob Chr. Nielsen

Jarl Oxlund

Susanne Schou

Jørn Krogh Sørensen



---

# Auditors' Reports

## Internal Audit

### To the shareholders of Sydbank A/S

#### Opinion

We have audited the consolidated financial statements and the parent company financial statements of Sydbank A/S for the financial year 1 January – 31 December 2018, which comprise an income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group and the Company, as well as a cash flow statement for the Group. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions and the parent company financial statements have been prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Group's and the Company's operations and the Group's cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed financial institutions in respect of the consolidated financial statements and in accordance with the Danish Financial Business Act in respect of the parent company financial statements.

#### Basis for opinion

We conducted our audit in accordance with the Danish Financial Supervisory Authority's Executive Order on Auditing Financial Undertakings etc. as well as Financial Groups and in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark.

We planned and performed our audit to issue an auditor's report that includes a reasonable assurance conclusion about whether the consolidated financial statements and the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error. We have participated in the audit of all material and risky areas.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Statement on the Management's review

Our opinion on the consolidated financial statements and the parent company financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent company financial statements we have read the Management's review and, when doing so, considered whether the Management's review is materially inconsistent with the consolidated financial statements or the parent company financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Based on the work we have performed, we concluded that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements in the Danish Financial Business Act. We did not identify any material misstatements of the Management's review.

Aabenraa, 27 February 2019

**Ole Kirkbak**  
Head of Internal Audit

## To the shareholders of Sydbank A/S

### Opinion

We have audited the consolidated financial statements and the parent company financial statements of Sydbank A/S for the financial year 1 January – 31 December 2018, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company, and a consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of listed financial companies, and the parent company financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2018 and of the results of the Group's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of listed financial companies.

Further, in our opinion the parent company financial statements give a true and fair view of the financial position of the Parent Company at 31 December 2018 and of the results of the Parent Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report.

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of

Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

### Appointment of auditor

We were initially appointed as auditor of Sydbank A/S on 10 May 1990 for the financial year 1990. We have been reappointed annually by resolution of the general meeting for a total consecutive period of 29 years up until and including the financial year 2018.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2018. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

### Measurement of loans and guarantees

- **Risk:** A substantial amount of the company's assets consist of loans to customers (43% of the consolidated assets) which are subject to impairment risks due to the customer's lack of ability to pay. In addition, the company offers guarantees and other financial products that also imply risk of losses.

Our audit focused on impairment charges of loans and guarantees since this implies significant amounts and a high level of judgement applied by Management. This concerns especially staging assessment and the assessment of impairment events identification, collateral valuation and the

# Auditors' Reports

## Independent Auditors' Report

customer's ability to pay in case of default on loans.

Large loans are evaluated individually while impairment of smaller loans for private customers is based on models and portfolio level considerations. The applied assumptions and parameters used for estimation of expected credit loss is subject to judgements made by Management.

- **Audit approach:** Our audit comprises processes for staging assessment, impairment events identification and monitoring of loans. We have performed analyses and risk-based test of loans and by review of the company's procedures verified, that estimation of expected credit losses are recognized in accordance with the accounting policies.

The review has comprised the largest and most risky loans. For impairments based on models we have evaluated the assumptions and methodology applied, including the judgements applied by Management in addition to the individual impairments and impairments based on models, including additions to impairments on loans to agriculture.

Also we have reviewed and tested that the disclosures on loans, impairment charges and credit risk meet the relevant accounting rules (note 14 and 18).

### Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not

identify any material misstatement of the Management's review.

### Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of listed financial companies and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Business Act.

Moreover, Management is responsible for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the

## Independent Auditors' Report

financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and

whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Aabenraa, 27 February 2019

**Ernst & Young**

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28

**Lars Rhod Søndergaard**  
State Authorised Public Accountant  
MNE no. 28632

**Klaus Skovsen**  
State Authorised Public Accountant  
MNE no. 30204

---

# Notice Convening the Annual General Meeting

## Notice Convening the Annual General Meeting of Sydbank A/S

**Sydbank's Annual General Meeting will be held on Thursday 21 March 2019 at 3:00pm in Sønderjyllandshallen, H.P. Hanssensgade 7, 6200 Aabenraa, Denmark.**

Agenda according to Article 8 of the Articles of Association:

1. Report of the Board of Directors on the Bank's activities in 2018.
2. Submission of the audited annual report including the auditors' report for adoption.
3. Motion for the allocation of profit or cover of loss according to the adopted annual report.
4. Election of members to the Shareholders' Committee.
5. Appointment of auditors.  
The Board of Directors proposes the reappointment of Ernst & Young, Godkendt Revisionspartnerselskab in accordance with the recommendation of the Audit Committee. The Audit Committee has in no way been influenced by third parties or been subjected to any agreement with a third party which would limit the general meeting's appointment of certain auditors or audit firms.
6. Motions submitted by the Board of Directors or shareholders:
  - a. The Board of Directors proposes that the Bank's share capital be reduced by DKK 59,169,540 to DKK 617,540,000. The capital reduction will be effected as a payment to shareholders and will be implemented by cancelling 5,916,954 shares of DKK 10 each purchased during the Bank's share buyback programme in 2018. Payment will be at a premium of 198.54 corresponding to the average repurchase price during the share buyback programme. A resolution will imply the following amendment to Article 2 (1) of the Articles of Association:  
*"The share capital of the Bank is DKK 617,540,000 divided into shares in denominations of DKK 10. The share capital is fully paid up."*
  - b. The Board of Directors proposes that the term of office as regards members of the Board of Directors in Article 16 (3) of the Articles of Association be changed from 3 years to 1 year.

7. Sydbank's Board of Directors is authorised to allow the Bank to acquire own shares at a total value of up to 10% of the Bank's share capital. The price paid for shares may not differ by more than 10% from the price quoted on Nasdaq Copenhagen at the time of purchase. The authorisation is effective until the next Annual General Meeting.

8. Any other business.

The agenda, complete proposals and audited annual report including the auditors' report will be available for inspection by the shareholders at [sydbank.dk/generalforsamling](http://sydbank.dk/generalforsamling) and [sydbank.com/generalmeeeting](http://sydbank.com/generalmeeeting) and at Sydbank's branches no later than three weeks before the General Meeting.

The Bank's share capital totals DKK 676,709,540. As regards shareholders' voting rights, reference is made to Article 10 of the Bank's Articles of Association.

Shareholders are entitled to attend and to raise questions at the General Meeting and to vote according to the number of shares held by a shareholder on the date of registration, which is 14 March 2019.

Admission cards for the General Meeting can be ordered at any of Sydbank's branches or at [sydbank.dk/generalforsamling](http://sydbank.dk/generalforsamling) and [sydbank.com/generalmeeeting](http://sydbank.com/generalmeeeting) no later than Friday 15 March 2019.

If a shareholder wishes to vote by postal vote or to issue an instrument of proxy to the Board of Directors or others, the necessary documents are available at the Bank's websites. Instruments of proxy must have been received by the Bank no later than 15 March 2019 and postal votes must have been received by the Bank no later than 19 March 2019 at 4:00pm.

Aabenraa, 20 February 2019

The Board of Directors of Sydbank A/S  
Torben Nielsen  
Chairman



---

## Board of Directors



### Chairman

**Torben Nielsen**

**Former Central Bank Governor**

**Born:** 2 November 1947

**Education:** Banking, Graduate Diploma in Organisation, Industrial Sociology, Credits and Finance. Adjunct professor at CBS

**Elected to Board of Directors:** 2013

**Expiry of current term of office:** 2019

**Independent:** Yes

-----  
**Committee memberships:** Chairman of Remuneration Committee, Nomination Committee and Risk Committee; member of Audit Committee.

### Directorships and other offices:

Tryg A/S, Vice-Chairman

Tryg Forsikring A/S, Vice-Chairman

Investeringsforeningen Sparinvest, Chairman

Sampension Livsforsikring A/S, Board member

Sampension Administrationselskab A/S, Board member

Museum Sydøstdanmark, Chairman

Vordingborg Borg Fond, Chairman

Sømandsstiftelsen Bombebøssen, Board member

Ny Holmegaard Fonden, Chairman

Kapitalforeningen Tryg Invest Funds, Chairman.

**Specific competences:** Management, macroeconomics, monetary policy, financial regulation, credit risks and general banking sector conditions.

**Number of Sydbank shares at year-end:** 7,000



### Vice-Chairman

**John Lesbo**

**State Authorised Public Accountant**

**Born:** 15 January 1954

**Education:** State Authorised Public Accountant

**Elected to Board of Directors:** 2017

**Expiry of current term of office:** 2020

**Independent:** No

-----  
**Committee memberships:** Chairman of Audit Committee; member of Risk Committee and Nomination Committee.

### Directorships and other offices:

Good Food Group A/S, Board member

Emballagegruppen A/S, Board member

MIE5 Datterholding 6 ApS, Board member

MIE5 Datterholding 5 ApS, Board member.

**Specific competences:** Management, accounting, auditing, risk management and strategy.

**Number of Sydbank shares at year-end:** 1,057



**Board member**

**Lars Mikkjelgaard-Jensen**

**Managing Director**

**Born:** 5 August 1954

**Education:** MSc (Economics)

**Elected to Board of Directors:** 2015

**Expiry of current term of office:** 2021

**Independent:** Yes

-----  
**Committee memberships:** Member of Audit Committee.

**Directorships and other offices:**

IBM Danmark ApS, Managing Director, Chairman

M.J. Grønbech & Sønner Holding A/S, Board member

Industripension Holding A/S, Board member

Industriens Pensionsforsikring A/S, Board member.

**Specific competences:** IT/Digital, robotics, management, strategy and business development, and macroeconomics.

**Number of Sydbank shares at year-end:** 2,000



**Board member**

**Janne Moltke-Leth**

**CEO**

**Born:** 4 August 1966

**Education:** MSc in Business, Language and Culture; Graduate Diploma – strategic management

**Elected to Board of Directors:** 2016

**Expiry of current term of office:** 2019

**Independent:** Yes

-----  
**Committee memberships:** Member of Remuneration Committee and Nomination Committee.

**Directorships and other offices:**

Kolpin Hotels ApS, Board member

Kolpin Hotels ApS, CEO

Greengate Europe A/S, Board member

Krebs Skole, Board member.

**Specific competences:** Management, strategy, business development, innovation, change management and optimisation.

**Number of Sydbank shares at year-end:** 93

---

## Board of Directors



**Board member**

**Frank Møller Nielsen**

**Danish High Court Attorney**

**Born:** 23 October 1956

**Education:** LL.M.

**Elected to Board of Directors:** 2015

**Expiry of current term of office:** 2021

**Independent:** No

---

**Committee memberships:** Member of Nomination Committee and Risk Committee.

**Directorships and other offices:**

ROPOX Holding A/S, Chairman

ROPOX A/S, Chairman

H. Nielsen & Søn A/S, Chairman.

**Specific competences:** Strategy, compliance/law, management and banking system.

**Number of Sydbank shares at year-end:** 1,988



**Board member**

**Jacob Chr. Nielsen**

**CEO**

**Born:** 7 June 1973

**Education:** Graduate Diploma in Business Administration, MBA

**Elected to Board of Directors:** 2014

**Expiry of current term of office:** 2020

**Independent:** Yes

---

**Committee memberships:** Member of Audit Committee.

**Directorships and other offices:**

E 3-Gruppen A/S, Chairman

Proflex Kemi A/S, Chairman

E 3 Spedition-Transport A/S, Chairman.

**Specific competences:** Management, accounting, insurance, industry, finance and auditing.

**Number of Sydbank shares at year-end:** 77



**Board member**

**Susanne Schou**

**Deputy Chief Executive**

**Born:** 24 April 1964

**Education:** -

**Elected to Board of Directors:** 2018

**Expiry of current term of office:** 2021

**Independent:** Yes

---

**Committee memberships:** -

**Directorships and other offices:**

Sydbank Fonden, Board member

Swienty A/S, Board member.

**Specific competences:** Business development, change management and strategy development.

**Number of Sydbank shares at year-end:** 110

---

## Board of Directors



**Board member**

**Carsten Andersen**

**Account Manager, Corporate Clients**

**Born:** 3 September 1984

**Education:** Academy Profession (AP) Degree in Financial Advice - banking, trained estate agent, Graduate Diploma in Business Administration

**Elected to Board of Directors:** 2018

**Expiry of current term of office:** 2022

**Independent:** No

**Elected by the employees**

---

**Committee memberships:** -

**Directorships and other offices:**

Sundeved Venstrevælgerforening, Board member  
Kommuneforeningen for Venstre i Sønderborg, Board member.

**Specific competences:** Credit granting, finance, economics and accounting.

**Number of Sydbank shares at year-end:** 575



**Board member**

**Kim Holmer**

**Vice-Chairman of Sydbank Kreds**

**Born:** 15 February 1964

**Education:** Banking, Graduate Diploma in Business Administration, certified administrative officer

**Elected to Board of Directors:** 2018

**Expiry of current term of office:** 2022

**Independent:** No

**Elected by the employees**

---

**Committee memberships:** -

**Directorships and other offices:**

FTF-a, member of executive council  
Financial Services Union, sector committee on digitization and working life, member  
Financial Services Union/FA, collective agreement committee on sustainable working life, member  
Sydbank, committees on negotiation, collaboration and employee satisfaction, member.

**Specific competences:** Finance and valuation, banking system, political leadership & strategy development, negotiation of workplace agreements.

**Number of Sydbank shares at year-end:** 1,542



**Board member**

**Jarl Oxlund**

**Chairman of Sydbank Kreds**

**Born:** 29 April 1967

**Education:** Banking, Graduate Diploma in Business Administration, MSc (Organisational Psychology)

**Elected to Board of Directors:** 2014

**Expiry of current term of office:** 2022

**Independent:** No

**Elected by the employees**

---

**Committee memberships:** Member of Remuneration Committee.

**Directorships and other offices:**

Financial Services Union Denmark, member of executive council Sydbank Kreds/Financial Services Union Denmark, Chairman Sydbank Kreds.

**Specific competences:** Accounting, banking products, credit risks and organisation.

**Number of Sydbank shares at year-end:** 1,216



**Board member**

**Jørn Krogh Sørensen**

**Senior Vice President, Corporate Department**

**Born:** 16 October 1965

**Education:** Banking, Graduate Diploma in Business Administration, Master of Leadership

**Elected to Board of Directors:** 2018

**Expiry of current term of office:** 2022

**Independent:** No

**Elected by the employees**

---

**Committee memberships:** -

**Directorships and other offices:** -

**Specific competences:** Credits, finance, risk management, accounting and management.

**Number of Sydbank shares at year-end:** 2,537

---

## Group Executive Management



**CEO**

**Karen Frøsig**

**Born:** 23 September 1958

**Group Executive Management member since:** 2008

**CEO since:** 2010

---

**Directorships:**

Ejendomsselskabet af 1. juni 1986 A/S, Chairman

DiBa A/S, Chairman

Sydbank Fonden, Board member

National Banks in Denmark, Vice-Chairman

Foreningen Bankdata, Chairman

Finance Denmark, Board member

PRAS A/S, Board member

BI Holding A/S, Board member

Musikhuset Esbjerg, Fond, Board member

FR I af 16. september 2015 A/S, Board member

Totalkredit A/S, Board member

Committee on Corporate Governance, member

Museum Sønderjylland, Board member.



**Deputy Group Chief Executive**

**Jan Svarre**

**Born:** 6 January 1963

**Group Executive Management member since:** 2013

---

**Directorships:**

Ejendomsselskabet af 1. juni 1986 A/S, Board member

DiBa A/S, Board member

BOKIS A/S, Chairman

Letpension A/S, Board member

e-nettet A/S, Vice-Chairman.



**Deputy Group Chief Executive**

**Bjarne Larsen**

**Born:** 5 November 1963

**Group Executive Management member since:** 2013

---

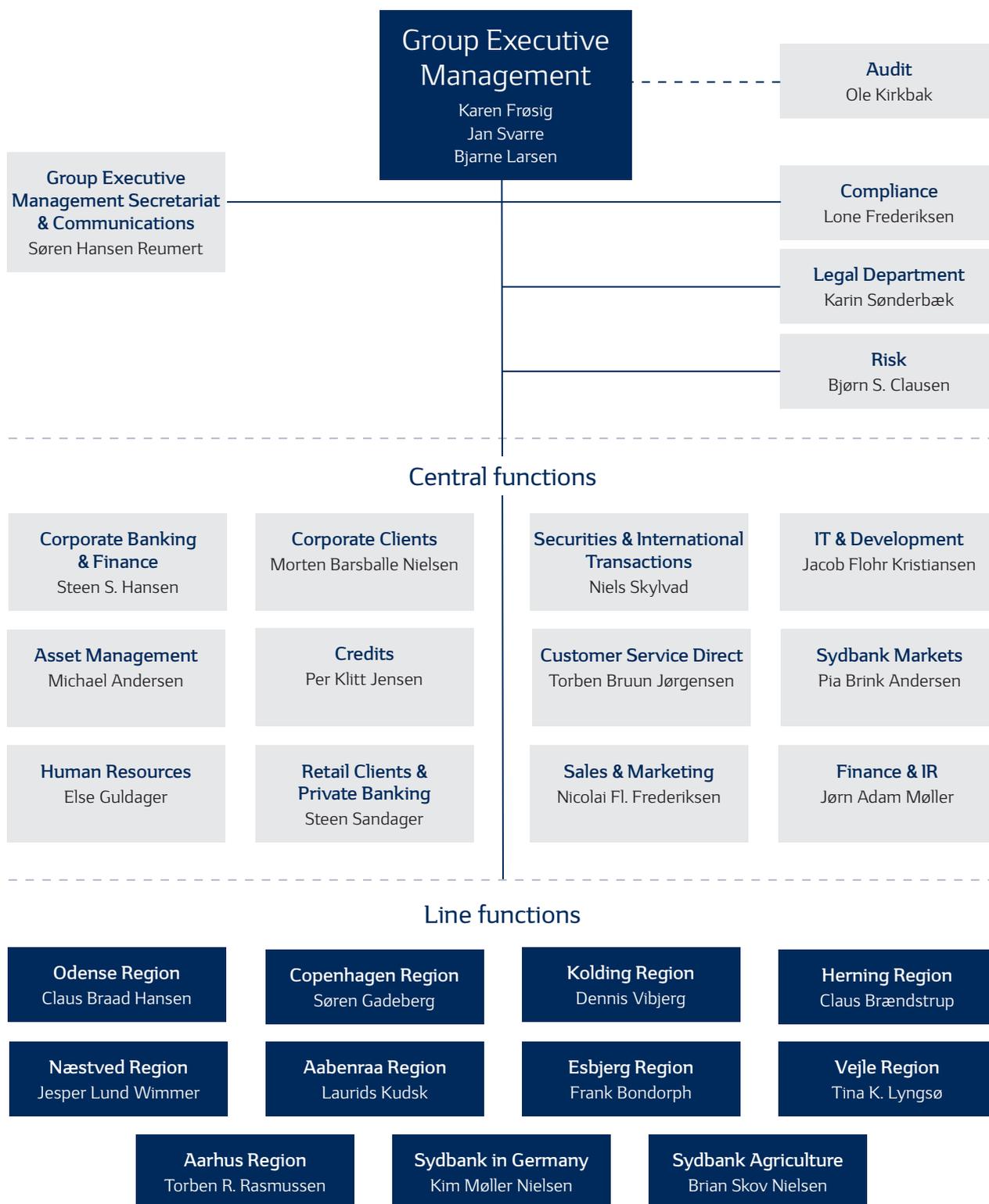
**Directorships:**

Ejendomsselskabet af 1. juni 1986 A/S, Board member

DiBa A/S, Vice-Chairman

DLR Kredit A/S, Board member.

# Organisation





Sydbank A/S  
Peberlyk 4  
6200 Aabenraa  
Denmark

Tel +45 74 37 37 37  
sydbank.com  
info@sydbank.dk

CVR No DK 12626509

**Sydbank**