# MOODY'S INVESTORS SERVICE

# **CREDIT OPINION**

15 July 2021

# Update

# Rate this Research

# RATINGS

Syddank A/S	
Domicile	Aabenraa, Denmark
Long Term CRR	A1
Туре	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	(P)A1
Туре	Senior Unsecured MTN - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	A1
Туре	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the <u>ratings section</u> at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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# Sydbank A/S

Update following rating action and publication of new Banks Methodology

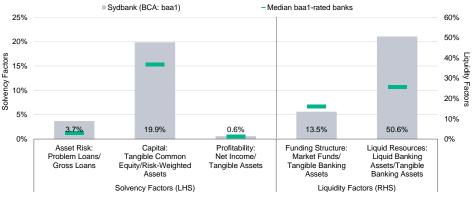
#### **Summary**

<u>Sydbank A/S</u>'s (Sydbank) A1 long-term deposit and (P)A1 senior unsecured ratings reflect (1) the bank's baa1 standalone Baseline Credit Assessment (BCA); and (2) three notches of rating uplift from our Advanced Loss Given Failure (LGF) analysis, which takes into account the risks faced by different liability classes should the bank enter into resolution.

The bank's junior senior ratings (assigned to senior non-preferred debt) were upgraded on 13 July following the update to the <u>Banks Methodology</u> on 9 July 2021. The junior senior ratings of A3 reflect one positive notch uplift above the BCA of baa1 due to LGF.

Sydbank's baa1 standalone BCA reflects the bank's (1) solid capitalisation with tangible common equity (TCE)/risk-weighted assets (RWAs) ratio of 19.9% as of March 2021; (2) sound funding structure and liquidity profile. The bank's revenue initiatives are mitigating pressures on profitability due to the prolonged low interest rate environment. At the same time, Sydbank's BCA also takes into account credit concentration and the bank's through-the-cycle asset quality performance. The bank's asset quality, which has been improving in recent years, will deteriorate moderately following last year's pandemic-induced economic downturn and once support measures to borrowers taper off.

#### Exhibit 1 Rating Scorecard - Key financial ratios



These are our Banks Methodology scorecard ratios. Asset risk and profitability reflect the weaker of either the three-year average and the latest figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.

Source: Moody's Investors Service

## **Credit strengths**

- » Solid capital ratios, which we expect will remain well above regulatory requirements
- » Recent asset quality has been strong
- » Stable funding structure and strong liquidity profile
- » Negative rates on deposits and fee initiatives will help offset pressures from low interest rate environment

## **Credit challenges**

- » Asset quality will deteriorate moderately in the coming quarters
- » Efficiency remains relatively weak
- » Some credit concentrations, both to borrowers and sectors

# **Rating outlook**

» The stable outlook on the bank's long-term deposit rating reflects our expectation that the bank's strong capital and loan loss reserves will provide a substantial buffer against potential asset quality deterioration while the bank's profitability pressures are easing following recent initiatives.

## Factors that could lead to an upgrade

- » Upward pressure on Sydbank's ratings could develop from (1) a reduction in credit concentrations and if the bank demonstrates significantly stronger asset quality through an economic cycle; (2) a sustained improvement in the bank's profitability without an increase in its risk profile; (3) materially strengthened capital leverage.
- » The senior and deposit ratings, as well as the Coutnerparty Risk Rating and Counterparty Risk Assessment already have the maximum potential uplift according to LGF.

# Factors that could lead to a downgrade

- » Downward pressure on Sydbank's ratings could emerge if we observe: (1) a material deterioration in asset quality beyond the bank's historical performance, or, if concentrations and exposures to more volatile asset classes rise; (2) a persistent weakening in bank's recurring earnings power and operating efficiency; (3) a substantial increase in market funding reliance beyond our current expectations; and/or (4) weaker capital ratios that are below the bank's current capital targets.
- » A substantial deterioration in Denmark's operating environment for banks, for example from a much longer and deeper economic recession than currently anticipated, may also put negative pressure on the bank's ratings.
- » Negative pressure on the bank's ratings would also arise if there is a shift in the bank's funding mix, such as lower non-preferred senior and subordinated instrument volumes or a material reduction in junior deposits amounts, which would result in lower rating uplift than currently assumed under our Advanced LGF framework.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

# **Key indicators**

#### Exhibit 2

Sydbank A/S (Consolidated Financials) [1]

	03-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	12-18 <sup>2</sup>	12-17 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (DKK Million)	160,486.3	158,756.0	141,782.0	134,423.0	131,755.0	6.3 <sup>4</sup>
Total Assets (USD Million)	25,361.5	26,096.2	21,298.2	20,591.9	21,249.4	5.6 <sup>4</sup>
Tangible Common Equity (DKK Million)	11,229.0	11,163.0	11,371.0	11,319.0	11,548.0	(0.9)4
Tangible Common Equity (USD Million)	1,774.5	1,835.0	1,708.1	1,733.9	1,862.5	(1.5)4
Problem Loans / Gross Loans (%)	3.2	3.6	3.5	4.6	6.5	4.35
Tangible Common Equity / Risk Weighted Assets (%)	19.9	20.7	20.6	20.4	19.6	20.26
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.2	16.8	16.3	21.0	30.4	20.0 <sup>5</sup>
Net Interest Margin (%)	1.2	1.1	1.2	1.4	1.5	1.3 <sup>5</sup>
PPI / Average RWA (%)	2.2	2.0	1.7	2.1	3.2	2.26
Net Income / Tangible Assets (%)	0.7	0.5	0.6	0.8	1.2	0.85
Cost / Income Ratio (%)	73.6	73.6	75.0	70.1	58.3	70.1 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	14.4	13.5	13.9	13.3	11.3	13.3 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	50.8	50.6	45.5	44.2	37.0	45.6 <sup>5</sup>
Gross Loans / Due to Customers (%)	70.7	67.4	77.4	79.4	83.8	75.7 <sup>5</sup>
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[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" Additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these instruments.

#### Profile

Sydbank is a full-service commercial bank in Denmark that provides retail, corporate, investment and private banking services, primarily to private individuals, and small and medium-sized enterprises. As of March 2021, the bank reported total assets of DKK164.8 billion (around €22.2 billion) and operated through a network of 55 branches in Denmark and three branches in Germany.

Sydbank was established in 1970 as a result of the merger of four local banks in Southern Jutland. In the 1980s the bank began expanding its domestic branch network outside Southern Jutland. Sydbank is listed on the NASDAQ Copenhagen Stock Exchange (Ticker: SYDB).

## **Recent developments**

#### Macroeconomic developments

Disparities in controlling the COVID-19 pandemic and in levels of policy support are resulting in an asynchronous global economic recovery. Although <u>we expect</u> significantly stronger global economic activity this year than last year, the recovery is multispeed and diverging across and within advanced and emerging market countries.

Following a contraction of 2.7% in GDP in 2020 in Denmark, a much milder decline than most European peers, we expect the economy to gradually recover in 2021, with a 2.5% growth in GDP, supported by base effects and continued expansionary fiscal policy. Problem loans will increase modestly for Danish banks once government support measures are gradually lifted. However, Danish banks have conservatively taken IFRS 9 provisions in 2020 to cover potential credit losses ahead of the expected deterioration. Although the government re-opened the economy sooner than planned following the restrictions in the first quarter of 2021, uncertainty remains high with the government support measures delaying the identification of unviable customers. Generally, however, low interest rates, combined with macroprudential measures, a preceding period of modest credit growth and a decline in overall indebtedness have made Danish businesses and households potentially more resilient to the current downturn compared to previous macroeconomic shocks.

#### Acquisition of Alm. Brand Bank

On 1 October, Sydbank announced that it entered into an agreement with Alm. Brand A/S, Denmark's fourth-largest insurance group, to acquire the group's banking operations, Alm. Brand Bank A/S. Acquisition was finalized on 30 November 2020.

The acquisition included bank loans and advances of DKK4.2 billion, with Sydbank's loan book increasing to DKK63.5 billion. The acquired loan portfolio is predominantly made of loans to private customers. Sydbank expects to phase out loans to weak corporate clients that will reduce the portfolio to between DKK3.5 billion and DKK4.0 billion over time. The acquisition also includes arranged Totalkredit mortgage loans of DKK16.9 billion, making Sydbank the largest distributor of Totalkredit mortgage loans.

The purchase was in cash for a provisional consideration price that was finalised on the date of the acquisition, of DKK1.9 billion, equivalent to 0.96x of the book value of equity. Following the acquisition, Sydbank took over Alm. Brand Bank's employees and around 55,000 NemKonto customers, who hold primary bank accounts. The acquisition reduced Sydbank's capital ratios by around 1.6 percentage point due to the increase in risk-weighted assets.

The agreement also involves the establishment of strategic partnership, whereby Sydbank will distribute Alm. Brand's insurance products and Alm. Brand customers will have access to Sydbank's banking products. Sydbank expects this partnership to contribute DKK20 million in 2021 (DKK150 million excluding non-recurring costs related to acquisition). Sydbank estimates that in 2022 profit from acquired Alm. Brand activities will be around DKK200 million.

## **Detailed credit considerations**

#### Asset risk will remain strong

Sydbank's asset risk will remain strong over the coming quarters with only moderate increases in problem loans as a result of last year's pandemic-induced economic downturn and following the lifting of government support measures to businesses and households. Ahead of an expected deterioration the bank maintains management-estimated impairments against the impact from the downturn on its loan portfolio. Our assigned Asset Risk score of baa3 reflects these drivers. In addition, our assessment takes into account the bank's historical, through-the-cycle, asset risk performance, and risks from credit concentrations.

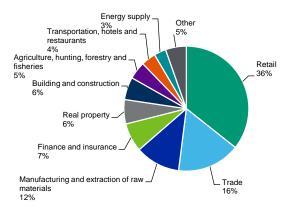
Sydbank's problem loans (defined as IFRS 9 stage 3 loans) were 3.2% of gross loans as of March 2021 (end-2020: 3.6%), and were adequately provisioned at 45% (stage 3 expected credit losses). Stage 2 loans accounted for a further 5.5% of loans and advances. In terms of past through-the-cycle asset quality performance, credit costs averaged 1.2% during 2008-2017, and reached a high 1.7% during the 2009-2014 period. Impairment charges came down significantly in recent years, and the bank recorded provisioning charge-backs since 2017 until provisions rose in 2020 to 0.1% in light of deteriorating credit conditions. In the first three months of 2021, the bank recorded provisioning reversals of around DKK80 million, equivalent to around 0.5% of average gross loans on an annualised basis, mainly from the bank's agricultural exposures (including DKK49 million from its exposure to the mink industry).

Most of Sydbank's lending exposure was related to business entities, at 64% as of March 2021, and only 36% to retail customers. Unlike other systemic Danish banks, Sydbank does not own and consolidate a mortgage credit institution (MCI). Under a number of funding agreements, Sydbank transfers mortgage loans to Totalkredit and DLR Kredit and provides a guarantee for a portion of the loan; Sydbank carries no credit risk for the transferred loan to Totalkredit in the loan-to-value (LTV) range of 0%-60%, for example. Therefore its asset quality metrics, against on-balance sheet loans appear weaker, compared to what they would have been if it were to consolidate these predominantly first-lien and lower risk mortgages. As of March 2021, Sydbank had on-balance sheet loans and advances of DKK63.5 billion and had transferred mortgages and mortgage-like loans of DKK106.6 billion to MCIs on which it earns a fee. Conversely, its profitability and market funding ratios are stronger for this same reason compared to Danish banks that consolidate an MCI.

Following last year's economic downturn, we see risks in the bank's exposure to transportation, hotels and restaurants that made up 4% of loans and guarantees as of March 2021 (see Exhibit 3). Overall trade exposure, of which part may be negatively affected by sharp shifts in supply and demand, made up an additional 16%. According to the bank's own assessment, its exposures most-affected by the coronavirus-induced downturn are limited. Sydbank's total exposure to severely impacted industries (where the bank includes sea and air transport, specialised retailers excluding cars, and hotels, restaurants and entertainment) accounted for 2.9% of net loans as of March 2021. Already weak but not credit impaired corporate exposures (excluding agriculture) amounted to 1.3% of total loans, while a further 1.9% of total net loans were to the smallest businesses (with a balance sheet of less than DKK5 million) that are most vulnerable in the economic downturn.

#### Exhibit 3

Sydbank has some concentrations in specific sectors Loan portfolio and guarantees breakdown by sector as of March 2021



#### Sources: Moody's Investors Service, company reports

As of March 2021 the bank's balance of impairments included a management estimate of DKK325 million to cover its current assessment of the consequences from the coronavirus outbreak, equivalent to 0.5% of gross loans. Following the build-up of this buffer in 2020, the bank expects a low level of impairment charges in 2021, which will also be supported by potential additional provisioning reversals from the bank's exposure to the mink industry (DKK150 million, with around a third booked in the first three months of 2021).

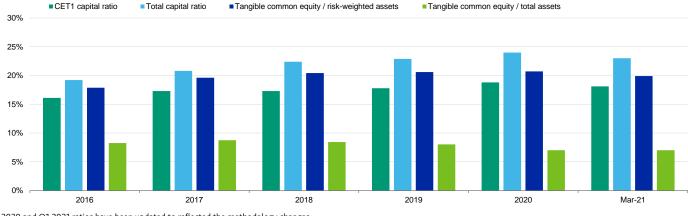
We continue to consider the bank's credit concentrations as material. As of March 2021, Sydbank's 20 largest exposures were equivalent to 151% of common equity tier 1 (CET1) capital (end-2020: 149%). Additionally, loans to the real estate, and building and construction sectors were 12% of total. The bank was also indirectly exposed to the real estate sector because real property collateral accounted for 20% of total collateral against facilities (excluding mortgage guarantees) as of end-2020.

#### Solid capital ratios, which we expect will remain well above regulatory requirements

Our assigned aa3 Capital score reflects Sydbank's solid capital position, a relative strength in our assessment of the bank's standalone profile. We also expect capital ratios to remain well above regulatory requirements, despite a potential increase in risk exposures due to the weakened credit conditions. The bank's capital buffers remained intact despite the recent acquisition and the economic downturn, which allowed the bank to resume dividend distributions.

Our preferred capital metric, TCE/RWAs, was a robust 19.9% as of March 2021, slightly down from 20.7% at the end of 2020 (see Exhibit 4), mainly because of an increase in RWAs due to the implementation of the new definition of default effective 1 January 2021. Sydbank's TCE/total assets was 7.0% as of March 2021, which compares well with other Nordic and international banks, which typically have such ratios in the range 4%-10%. Sydbank's reported CET1 capital ratio was 18.1% as of March 2021 and its total capital ratio reached 23.0%, which do not include current period profits. These metrics were well above a 9.9% regulatory requirement for the CET1 ratio and 14.8% for the total capital ratio for that period and that included both the Danish FSA's pillar 1 and pillar 2 components, a systemically important financial institution buffer of 1%, a 2.5% capital conservation buffer and a 0% countercyclical buffer<sup>1</sup>. Further, the bank's fully loaded Basel III leverage ratio was 6.0%.

Exhibit 4



Sydbank's capitalisation is solid and well above regulatory requirements

2020 and Q1 2021 ratios have been updated to reflected the methodology changes Sources: Company reports, Moody's Investors Service

The bank's capital buffers remained intact despite the acquisition and the pandemic, supported by earnings retention in 2020 and some positive impact from regulatory changes<sup>2</sup>. This allowed Sydbank to resume capital distribution (30% of 2020 profits)<sup>3</sup>, in line with its dividend policy of 30%-50%. The recent increase in RWAs due to the new definition of default is likely to be partly absorbed as the bank updates its retail and corporate internal risk models. Overall, we expect Sydbank to maintain its robust capital buffers, despite an expected increase in risk-weighted assets as the impact on borrowers becomes clearer.

The bank also maintained its CET1 ratio target of 14.5% and total capital ratio target of 18.5%, well above regulatory requirements. Sydbank's risk density, measured as risk-weighted assets (RWAs) compared with total assets, was 35% as of March 2021, rendering the bank relatively less sensitive to potential amendments in regulatory methods for calculating RWAs compared with Danish MCIs. The bank expects, based on its current assessment, a limited impact from the Basel recommendations (commonly referred to as 'Basel IV'), that seek to introduce output floors in the use of internal models.

### Negative deposit rates help offset margin pressures on bank lending

We expect Sydbank's profitability to recover following the pandemic-induced economic downturn, supported by Denmark's gradual reopening of the economy. We also expect Sydbank's efforts to impose negative deposit rates will help mitigate the pressure on lending margins due to prolonged period of extremely low interest rates. Over the medium-term, profitability will also be supported by cost efficiency measures and the recent acquisition, once the integration process progresses and cost synergies are fully realised. This view is reflected in our assigned Profitability score of baa3.

The bank's profitability recovered strongly in the first three months of 2021, accounting for 0.7% of tangible assets<sup>4</sup>, supported by revenue growth and provisioning reversals. This follows a period of declining profitability, with net income accounting for 0.5% of tangible assets in 2020 (2019: 0.6%; 2018: 0.8%; 2017: 1.2%). Net interest margins increased slightly in the first three months of 2021 to 1.2% compared to 1.1% in 2020, indicating a possible trend shift of decreasing margins in recent years. The bank's cost base remains relatively high, with operating expenses averaging 2.0% of total assets during the period 2017-2019, before declining to 1.8% in 2020.

The bank has strived to offset profitability pressures by expanding the scope of negative interest rates on deposit balances and by ongoing efforts to reduce costs, including through increased process automation and a reduction in the number of branches and employees, and revenue initiatives such a higher fees. The bank now charges negative rates to retail clients' deposits for amounts exceeding DKK100,000 (around €13,500) in addition to corporate clients, in line with other Danish banks. Although total costs were higher in the first three months of 2021 due to the acquisition, the bank has also been successful in realizing cost synergies of DKK48 million. We expect the bank will maintain a continued tight cost control in 2021 and 2022.

In July, the bank raised its profit after tax expectation for 2021 to DKK1,150-1,350 million, compared to the DKK799 million profit recorded in 2020. This reflects high customer activity, tight cost control and positive trends in customers' financial circumstances, which the bank expects will lead to a net reversal of around DKK250 million.

#### Stable funding structure and adequate liquidity profile

Our a3 combined Liquidity score reflects Sydbank's relatively solid funding and liquidity profiles. Sydbank's customer deposits (excluding deposits from repo transactions) accounted for the bulk 55% of total assets as of March 2021 (end-2020: 56%).

Furthermore, the bank's reliance on confidence-sensitive market funding, including the bank's non-preferred senior debt issuances, remained a relatively modest 14.4% of tangible banking assets as of March 2021. Reliance on short-term interbank liabilities, which had decreased significantly between 2014 and 2017 and reflected a change in the funding agreement with Totalkredit, only accounted for 4.1% of assets as of March 2021. Nevertheless, relatively concentrated issuances of non-preferred senior debt create some refinancing risk notwithstanding a substantial excess coverage of its minimum requirement for own funds and eligible liabilities (MREL) as of March 2021.<sup>5</sup>

As of March 2021, Sydbank's liquid banking assets accounted for 51% of tangible banking assets. Our assigned a2 Liquidity score takes into account some asset encumbrance, which results from the bank's market-making activities in covered bonds. The bank also reported a liquidity coverage ratio of 211% as of March 2021 (March 2020: 196%). Sydbank's liquidity coverage ratio is well above the 100% minimum requirement, set by the Danish FSA.

#### Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank specific figures originate from banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document <u>Financial Statement Adjustments in the Analysis of Financial Institutions</u>, published on 9 August 2018.

#### **ESG considerations**

In line with our general view for the banking sector, Sydbank has a low exposure to Environmental risks, see our Environmental risks heatmap for further information.

The most relevant Social risks for banks arise from the way they interact with their customers, see our <u>Social</u> risks heatmap for further information. Social risks are particularly high in the area of data security and customer privacy which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage due to product misselling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, increasing information technology cost, aging population concerns in several countries, including Denmark, impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base. We also regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Overall, we consider banks, including Sydbank, to face moderate social risks.

Governance is highly relevant for Sydbank, as it is to all players in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Although we currently do not have material corporate governance concerns for Sydbank, corporate governance remains a key credit consideration and requires ongoing monitoring.

### Support and structural considerations

#### Loss Given Failure (LGF) analysis

Sydbank operates in Denmark and is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. In accordance with our methodology, we therefore apply our Advanced LGF analysis to Sydbank's liabilities, considering the risks faced by different debt and deposit classes across the liability structure should the bank enter resolution.

Following the revisions to Moody's Advanced LGF framework, the ratings reflect the revised notching guidance table thresholds at lower levels of subordination and volume in the liability structure, as well as the consideration of all Additional Tier 1 (AT1) securities, which we now include in our LGF waterfall.

In our Advanced LGF analysis, we use our standard assumptions and assume residual tangible common equity of 3% and losses postfailure of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits, and a 5% runoff in preferred deposits. We assign a 25% probability to deposits being preferred to senior unsecured debt. For Sydbank, however, we assume that 10% of deposits can be considered as junior deposits to reflect the bank's more retail-based deposit structure.

For Sydbank's A1 deposit and (P)A1 senior unsecured debt ratings our Advanced LGF analysis indicates an extremely low loss-givenfailure, leading to three notches of rating uplift from the bank's baa1 Adjusted BCA. This is predominantly driven by the substantial subordination afforded to these senior classes by the amounts of junior senior debt and low-trigger hybrid instruments on Sydbank's balance sheet.

For the bank's junior senior ratings the Advanced LGF analysis indicates low loss severity, leading to a position of one notch above the bank's Adjusted BCA. This now captures the risk characteristics of this class of debt following our revised view around the distribution of losses post failure, including the bank's high trigger Additional Tier 1 instruments.

#### **Government support considerations**

We do not incorporate any government support uplift on Sydbank's ratings because we consider the probability of government support, in case of need, to be low. Our government support assumptions are driven by the implementation of the EU's BRRD in Denmark.

#### **Counterparty Risk Rating**

#### Sydbank's CRR is A1/Prime-1

The CRR is positioned three notches above the Adjusted BCA of baa1, reflecting the extremely low loss-given failure from the high volume of instruments that are subordinated to CRR liabilities.

#### Counterparty Risk (CR) Assessment

#### Sydbank's CR Assessment is A1(cr)/Prime-1(cr)

For Sydbank, the CR Assessment is positioned three notches above the bank's baa1 Adjusted BCA based on the substantial buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, including junior deposits and junior senior debt. To determine the CR Assessment, we focus purely on subordination, taking no account of the volume of the instrument class.

#### Methodology and scorecard

#### About Moody's bank scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity

# Rating methodology and scorecard factors

# Exhibit 5

# Sydbank A/S

Macro Factors	1000/					
Weighted Macro Profile Strong +	- 100%					
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.7%	a3	$\leftrightarrow$	baa3	Sector concentration	Long-run loss performance
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	19.9%	aa2	$\leftrightarrow$	aa3	Expected trend	Nominal leverage
Profitability						
Net Income / Tangible Assets	0.6%	baa2	$\leftrightarrow$	baa3	Return on assets	Expected trend
Combined Solvency Score		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	13.5%	a2	$\leftrightarrow$	a3	Market funding quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	50.6%	aa2	$\leftrightarrow$	a2	Asset encumbrance	
Combined Liquidity Score		a1		a3		
Financial Profile				baa1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		
Balance Sheet			scope Million)	% in-scope	at-failure (DKK Million)	% at-failure
Other liabilities		33	3,472	24.0%	39,760	28.5%
Depesite		00	025	C 4 20/	02 527	EO 00/

in-scope	70 III-SCOPE	at-iaituie	/o al-iailui e
(DKK Million)		(DKK Million)	
33,472	24.0%	39,760	28.5%
89,825	64.3%	83,537	59.8%
80,843	57.9%	76,800	55.0%
8,983	6.4%	6,737	4.8%
9,614	6.9%	9,614	6.9%
1,302	0.9%	1,302	0.9%
1,302	0.9%	1,302	0.9%
4,191	3.0%	4,191	3.0%
139,705	100.0%	139,705	100.0%
	(DKK Million) 33,472 89,825 80,843 8,983 9,614 1,302 1,302 4,191	(DKK Million)   33,472 24.0%   89,825 64.3%   80,843 57.9%   8,983 6.4%   9,614 6.9%   1,302 0.9%   1,302 0.9%   4,191 3.0%	(DKK Million)(DKK Million)33,47224.0%39,76089,82564.3%83,53780,84357.9%76,8008,9836.4%6,7379,6146.9%9,6141,3020.9%1,3021,3020.9%1,3024,1913.0%4,191

Debt Class	De Jure w	aterfall	De Facto v	vaterfall	Not	ching	LGF	Assigned	Additiona	l Preliminary
	Instrument volume + o subordinatior		Instrument on volume + o subordinatior	rdination	De Jure	De Facto	Notching Guidance vs. Adjusted BCA	LGF notching	Notching	Rating Assessment
Counterparty Risk Rating	16.6%	16.6%	16.6%	16.6%	3	3	3	3	0	a1
Counterparty Risk Assessment	16.6%	16.6%	16.6%	16.6%	3	3	3	3	0	a1 (cr)
Deposits	16.6%	11.7%	16.6%	11.7%	3	3	3	3	0	al
Senior unsecured bank debt	16.6%	11.7%	11.7%	11.7%	3	2	3	3	0	al
Junior senior unsecured bank debt	11.7%	4.9%	11.7%	4.9%	1	1	1	1	0	a3
Dated subordinated bank debt	4.9%	3.9%	4.9%	3.9%	-1	-1	-1	-1	0	baa2
Non-cumulative bank preference share	s 3.9%	3.0%	3.9%	3.0%	-1	-1	-1	-1	-2	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	3	0	al	0	A1	A1
Senior unsecured bank debt	3	0	al	0		(P)A1
Junior senior unsecured bank debt	1	0	a3	0	A3	A3
Dated subordinated bank debt	-1	0	baa2	0		Baa2
Non-cumulative bank preference shares	-1	-2	ba1	0		Ba1 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information. Source: Moody's Investors Service

# Ratings

Exhibit 6

Category	Moody's Rating
SYDBANK A/S	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured MTN	(P)A1
Junior Senior Unsecured	A3
Junior Senior Unsecured MTN	(P)A3
Subordinate	Baa2
Pref. Stock Non-cumulative	Ba1 (hyb)
Other Short Term	(P)P-1
Source: Maadu's Investors Service	

Source: Moody's Investors Service

## Endnotes

- 1 In March 2020 the Danish government decided to release the countercyclical capital buffer, which was set at 1% applicable as of 30 September 2019 and due to increase to 2% with effect as of 30 December 2020, and cancel the planned future increases in order to support the provision of credit to the real economy. The Systemic Risk Council expects to recommend an increase in the buffer in mid-21, which may take 12 months for the decision to become effective.
- 2 Namely, the application of the European Union's revised Capital Requirement Regulation (known as the CRR2 "quick fix"), which includes a lower riskweighting for small and medium enterprises exposures (the permanent change in the SME discount factor) and the flexibility to initially neutralize and spread over years the effect of stage 1 and stage 2 provisions on CET1 capital that were booked since 1 January 2020 due to the crisis.
- 3 In March 2020, Sydbank terminated its share buyback programme and resolved to not recommend a dividend distribution for 2019 profits, in line with the authorities' recommendation for banks to retain profits
- 4 Adjusted for non-recurring items
- 5 Sydbank has five outstanding non-preferred senior debt issuances amounting to DKK9.6 billion (€1.3 billion), with EUR500 million maturing in 2022.

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