

Sparekassen Sjælland-Fyn

Financials
Denmark

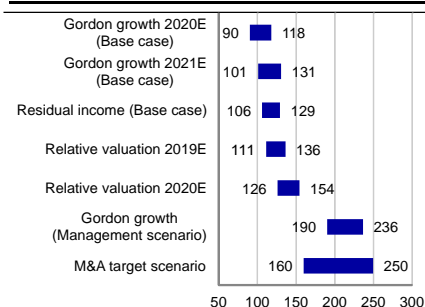
KEY DATA

Stock country	Denmark
Bloomberg	SPKSJF DC
Reuters	SPKSJF.CO
Share price (close)	DKK 99.80
Free Float	84%
Market cap. (bn)	EUR 0.23/DKK 1.73
Website	www.spks.dk/
Next report date	06 Nov 2018

PERFORMANCE



VALUATION APPROACH, DKK/SHARE



ESTIMATE CHANGES

Year	2018E	2019E	2020E
Total revenue	n.a.	n.a.	n.a.
Total costs	n.a.	n.a.	n.a.
Profit before loan losses	n.a.	n.a.	n.a.
PTP	n.a.	n.a.	n.a.
DPS (ord)	n.a.	n.a.	n.a.
EPS (adj)	n.a.	n.a.	n.a.

Source: Nordea estimates

Nordea Markets - Analysts

Jakob Brink
Senior Analyst, Sector Coordinator

Mathias Nielsen
Analyst

It's harvest time

In recent years Sparekassen Sjælland-Fyn has merged with Sparekassen Faaborg, and raised capital via an IPO in 2015 and a rights issue in 2018. The bank has also reduced its credit risk and expanded its branch network. All these projects have, in our view, reduced the prioritisation of cost control. We find potential for the bank to optimise costs as branch openings are set to stop. Moreover, we expect to see income support from the branch network over the coming years as recently opened branches mature. Both cost efficiency and profitability are also key parameters of the 'New Ways' strategy plan, launched in November 2017. We arrive at a base-case fair value range of DKK 90-131, depending on the applied cost of equity and level of normalised loan losses.

More to come from the branch network

Its 49 retail branches give Sparekassen Sjælland-Fyn the most extensive branch network of all the banks in its home market. In 13 towns, it is the only one physically represented, which we believe supports pricing power and customer retention rates. This aids future lending growth and income growth. Furthermore, we argue that the 11 branches opened since the start of 2015 have not yet reached optimal income levels, and so we expect to see further income support in the coming years. For 2019 we estimate ~2% total income growth purely generated from these 11 branches.

2017-21E CAGR in profit before loan losses of 9%

In our base case we estimate a 2017-21E CAGR in PBLL of 9%. This is achievable thanks to four factors, we believe. First, we expect to see more income support from recently opened branches as they mature. Second, we believe lending growth will be supported by higher customer retention rates thanks to the extensive branch network. Third, we see scope for price increases; and fourth, costs have not been a focus area before but will, in our view, be in the future. In addition, we also expect to see lower loan losses in the future, due to a larger share of household lending than historically.

Base-case scenario could prove too conservative

In a positive scenario, where the financial objectives set out in the 'New Ways' strategy plan are reached, we estimate that the fair value could increase to DKK 190-236. For now, we want to see management fulfilling the strategy before we potentially build in more optimistic profit growth expectations. If management does not improve profitability from here, we would consider Sparekassen Sjælland-Fyn a potential takeover candidate. In a takeover scenario, we could see a takeover offer range of DKK 160-250 per share.

SUMMARY TABLE - KEY FIGURES

DKKm	2014	2015	2016	2017	2018E	2019E	2020E
Total revenue	1,090	978	1,043	1,073	1,060	1,189	1,252
Total costs	660	694	710	769	818	828	847
LL-ratio	-2.36%	-1.50%	-1.10%	-0.32%	-0.21%	-0.36%	-0.37%
PTP	178	139	231	276	226	324	363
RoE	11.4%	8.1%	10.8%	12.0%	8.3%	10.4%	10.8%
RoTBV (adj)	12.9%	8.9%	5.9%	8.5%	4.1%	8.7%	9.0%
P/E (adj)	n.a.	n.a.	12.8	8.7	18.1	7.5	6.6
P/BV	n.a.	0.00	0.67	0.67	0.64	0.59	0.55
P/TBV	n.a.	0.00	0.73	0.71	0.68	0.62	0.57
BIS III CT1-ratio	8.3%	10.0%	9.9%	10.7%	12.4%	12.6%	13.3%
DPS (ord)	0.00	3.00	3.05	0.00	2.08	3.89	4.41
Dividend Yield (ord)	n.a.	3.08%	2.87%	0.00%	2.09%	3.90%	4.42%
Total payout ratio	0.00	0.00	0.09	0.00	0.15	0.23	0.23

Source: Company data and Nordea estimates

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Factors to consider when investing in SSF

Since the financial crisis, Sparekassen Sjælland-Fyn has had a bumpy ride. The bank struggled with a weak loan book with high commercial property exposures causing large loan losses in the financial crisis. In 2010, Lars Petersson became CEO and embarked on an eight-year journey to lower credit risks, build capital and expand the business through branch openings and M&A. This journey is now over and Sparekassen Sjælland-Fyn is now ready to profit from the initiatives taken over the past eight years. We see scope for the bank to improve profitability through higher revenue from recently opened branches, revenue optimising initiatives, cost-cutting, and reduced loan losses in the future, as the bank has de-risked its loan book. Based on our estimates, our different valuation approaches suggest a fair value per share in the range of DKK 90-131 in our base-case scenario depending on the cost of equity and normalised loan loss assumptions. We could also see a scenario where Sparekassen Sjælland-Fyn becomes an acquisition target. In this scenario, we would expect an offer price of up to DKK 160-250.

11 new branches since the beginning of 2015 will start to add to profits	<p>Income growth from recently opened branches</p> <p>Of the bank's 49 retail branches, 11 have been opened since 2015. As these 11 branches are not yet mature but are expected to mature within the next five years, we estimate that they will boost revenue by 6% in 2021 compared with the 2017 revenue level.</p>
Sparekassen Sjælland-Fyn is the only bank with branches in 13 towns	<p>Branch network: an advantage in a competitive market</p> <p>In recent years, Sparekassen Sjælland-Fyn has been the contrarian bank in its home market, as it has expanded its branch network, while other banks have scaled down their branch networks. As a result of this strategy, it is now the only bank with branches in 13 towns. We find it likely that its branch network will prove an advantage for the bank in the Danish market, which has seen intensifying competition in recent years. Not only do we expect to see additional support for income growth from recently opened branches, we also argue that Sparekassen Sjælland-Fyn is likely to enjoy higher customer retention rates than its rival Danish banks thanks to its local presence.</p>
Prices have been kept low due to the expansion strategy – we think this will change now	<p>Price increases to come</p> <p>Due to its expansion strategy, Sparekassen Sjælland-Fyn has kept prices low. We believe there is scope to raise prices and still be competitive in local markets; as the expansion strategy is finalised, we expect prices to be raised (on the bank's website, price increases on fee products have already been initiated). We see scope for more.</p>
Costs and profitability on the strategic agenda	<p>Cost-cutting potential</p> <p>Sparekassen Sjælland-Fyn's cost/income ratio was 75% in 2017, which was a whole 17 pp above the average of Danish banks in our coverage universe of 58%. The good news is that we see significant scope for cost cutting which is also part of the bank's new strategy and financial targets. Management seems very committed to reaching the financial targets, including improving the cost/income ratio.</p>
Commercial property exposure reduced	<p>The reshaped loan book has de-risked the bank</p> <p>Prior to the financial crisis, the majority of total lending was business lending, and commercial property lending represented more than 20% of total lending. In recent years, this has changed and lending to commercial property only accounted for ~12% at the end of 2017. Furthermore, the recent years' branch expansion strategy has lifted the share of household lending and at the end of 2017 it accounted for ~54%, up 17 pp since 2009. We hence argue that the loan book has been reshaped and de-risked, which should support lower loan losses in the future.</p>
Household lending now accounts for the majority of lending	
Attractive acquisition target	<p>M&A could happen if profitability does not improve</p> <p>If Sparekassen Sjælland-Fyn fails to improve profitability as targeted, we would not rule out a takeover scenario. We argue that Sparekassen Sjælland-Fyn could be an attractive asset for peer Danish banks and, in our view, Sydbank is the most likely buyer (it already owns 5-9.99% of the share capital), but Spar Nord and Jyske Bank are also likely buyers. We estimate potential cost synergies of DKK 170-200m and for Jyske revenue synergies could also be expected, as the DKK 26bn mortgage book in</p>
Synergies could justify a 100%-plus takeover premium	

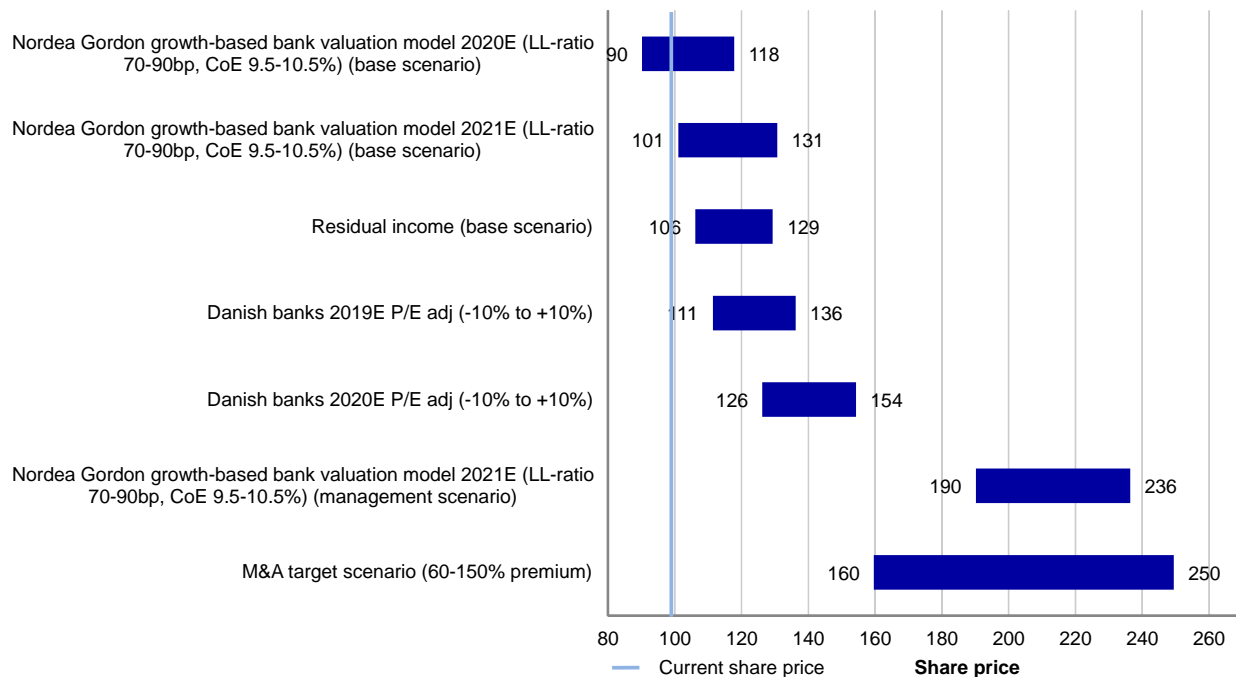
Totalkredit could be repatriated. At a 100% takeover premium to the current share price, we estimate ROI for Jyske, Spar Nord and Sydbank of around 14-18%. For comparison, Ringkjøbing's ROI on Nordjyske was estimated at ~12-13%.

Fair value range of DKK 90-131 in our base case

Base-case scenario could be too conservative if management reaches its financial objectives or in a M&A scenario

Applying different valuation approaches to our base-case scenario, we derive a fair value range of DKK 90-131 per share. However, if we factor Sparekassen Sjælland-Fyn reaching all its financial targets by 2021, as management is determined to do, our valuation approaches suggest a fair value range of DKK 190-236. Lastly, in an M&A target scenario, we believe that the takeover premium could come out 60-150% higher than the current valuation. This implies a share price of DKK 160-250.

VALUATION APPROACHES AND FAIR VALUE RANGES, DKK/SHARE



Source: Company data and Nordea estimates

Risk factors

There are several risk factors related to an investment in Sparekassen Sjælland-Fyn. We do not list all of them here but show those we consider the most relevant below. For a more exhaustive list, please see the Risk factors section later in this report.

Weaker net interest income due to intensifying competition would put income under pressure and hence deflate the case for support to profitability from higher income.

Weaker lending growth than expected. It is essential for the investment case that lending growth stays above the sector average in 2018-20 for the bank to reach its targets in the 'New Ways' strategy plan.

Higher costs than expected. A significant risk to the investment case concerns costs. Despite the fact that staff costs can be controlled to some extent, IT costs on the other hand are far more difficult to control from a management perspective. On top of this, the wave of regulatory changes has also triggered a significant investment need in recent years. If this continues, it might be challenging for the bank to realise the expected cost efficiencies and hence reach its own financial objectives in 2021.

Higher loan losses than expected. The above-sector average loan growth might lead to higher credit losses. Also, the recent FSA review highlighted some uncertainties in the loan book. We estimate a normalised loan loss ratio of 70-90 bp which is above the level of comparable banking peers of 50 bp.

A weak capital position compared with peers could mean lower loan growth capacity ahead and could force additional capital build.

Company overview

Sparekassen Sjælland-Fyn is a Danish regional bank with strong local presence in its home markets, Zealand and Funen. With 49 retail branches and four business banking branches, the bank has the most extensive branch network of all banks in its home markets. The bank has DKK ~12bn in lending and more than 156,000 clients. In November 2017, Sparekassen Sjælland-Fyn launched its new four-year strategy called "New Ways", which focuses on improving efficiency and profitability as well as building a robust capital position.

Regional savings bank with local footprint

Sparekassen Sjælland-Fyn was founded in 1825 in Holbæk, in the north-western part of Zealand, where it remains domiciled. Over the years the bank has expanded its business through organic growth, branch openings and M&A. Today the bank has 49 retail branches and four business banking branches. The bank had 634 employees at the end of Q2 2018.

Management

The executive management of Sparekassen Sjælland-Fyn consists of the CEO, Lars Petersson, and the Executive Officer, Bruno Riis-Nielsen. Together, they have headed the bank since 2016.

CEO: LARS PETERSSON



Source: Company data

Lars Petersson was born in 1967. He joined the bank in 1986, when he started his career as trainee. He earned a master's degree in management in 2008. In 2010, Mr. Petersson was appointed CEO of the bank, and he has been in charge of its turnaround after major loan losses following the financial crisis. In particular, he lowered the bank's exposure to commercial property lending – a major accomplishment.

Other positions:

- Chairman of Holbæk Kommunes talentråd
- Chairman of Museum Vestsjælland
- Deputy chairman of Nærpension A/S
- Board member of BI Holding A/S
- Board member of DLR Kredit A/S
- Board member of Tilskudsfonden for pensionister i DLR
- Board member of Copenhagen FinTech
- Board member of Sjælland Ejendomme A/S

Shareholding in the bank: 11,590 shares

EXECUTIVE OFFICER: BRUNO RIIS-NIELSEN



Source: Company data

Bruno Riis-Nielsen was born in 1953. He joined the bank in 2014 to head the business banking division. In 2016, Mr. Riis-Nielsen was appointed Executive Officer and joined the Executive Management group. Prior to joining Sparekassen Sjælland-Fyn, Bruno Riis-Nielsen held a position as Consultant at the Danish FSA. He has extensive experience in leading a bank, having been CEO at Totalbanken from 1993-2003 and CEO at Lokalbanken from 2003 until it was acquired by Svenska Handelsbanken in 2008.

Other positions:

- Board member of Leasing Fyn A/S
- Board member of Lokal Puljepension
- Board member of Finance Zealand

Shareholding in the bank: 8,024 shares

Remuneration policy

Sparekassen Sjælland-Fyn's remuneration policy includes only fixed salary and hence no variable remuneration. However, the board has the option to grant extraordinary compensation of up to DKK 100,000 per individual and no more than DKK 2.5m in total for the bank. In both 2016 and 2017 the CEO, Lars Petersson, was granted DKK 100,000 in extraordinary compensation. We note, however, that with almost 100% of the total remuneration being fixed salary, management has limited monetary upside even if it reaches the financial objectives in the 'New Ways' strategy. In 2017 Lars Petersson and Bruno Riis-Nielsen had total compensation of DKK ~5m, and DKK 3m, respectively.

History of the bank

Since its founding in 1825, Sparekassen Sjælland-Fyn has had many mergers and bolt-on acquisitions that expanded its reach. Over the last few decades, it has been through a challenging business environment including the financial crisis. This triggered a need for raising additional capital to strengthen its position, which was accomplished through the IPO in 2015 and the rights issue in 2018. In recent years, the bank has opened branches as a part of its expansion strategy.

KEY EVENTS FOR SPAREKASSEN SJÆLLAND-FYN

Year	Event
1825	The bank was founded in Mørkøv in the Northern western part of Zealand
1897	The bank opened its first branch in Holbæk, where the bank has its headquarters today
1984-1989	The bank merged with three other small savings banks, Sparekassen Trundholm, Grevinge Sparekasse og Kirke Helsing Sparekasse
2000	The bank had 15 branches and a balance sheet size of DKK 3.2bn
2007	The bank expanded its market presence and entered the capital region by opening
2008	The bank took over Haarslev Sparekasse
2010	At the end of 2010, the bank had 20 branches and balance sheet size of DKK 15.3bn
2011	The bank acquired the healthy parts of Max Bank, which went bankrupt. On the back of this acquisition the number of branches went up to 27
2012	The bank acquired a portfolio of customers from Finansiell Stabilitet (Government-owned entity that takes over failing banks and their assets)
2013	Sparekassen Sjælland acquired Sparekassen Faaborg, which then was renamed to Sparekassen Fyn
2015	The bank was listed at Nasdaq Copenhagen
2016	The final integration of Sparekassen Fyn was completed when it transferred to the Bankdata platform
2017	The new strategy plan, named "New Ways" was launched
2018	The bank completed a right issue in April to get capital ratios up to the desired level as a part of executing the "New Ways" strategy

Source: Company data and Nordea

Successful rights issue in April 2018

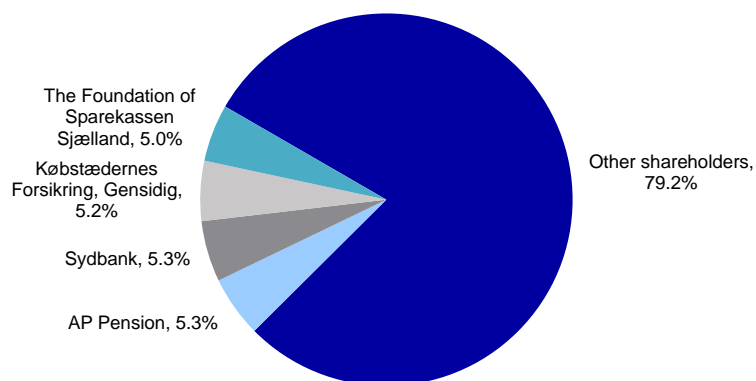
In April 2018, Sparekassen Sjælland-Fyn successfully raised DKK 437m in net proceeds from a rights issue at DKK 105 per share. In connection with this, the bank did not make use of the previously received guarantee from Sydbank to acquire non-exercised rights. This added 2.4 pp to capital ratios in Q2 2018.

Ownership structure

The bank has been listed at Nasdaq OMX Copenhagen since 2015. It has a broadly founded shareholder base with approximately 26,000 shareholders, only three of which hold more than 5%: Sydbank, AP Pension and Købstædernes Forsikring. The Foundation of Sparekassen Sjælland-Fyn holds just below 5%. The articles of association of the bank include an ownership cap such that a shareholder aiming to buy more than 10% of the shares needs preapproval from the Board of Directors. This could be an obstacle to a potential acquirer aiming to slowly build its position in the bank. Furthermore, if an interested party succeeds in building a larger position, the bank also has a voting rights cap of 7.5%, implying that no shareholder can represent votes of more than 7.5% of the capital.

Takeover defence mechanisms could lower acquisition interest

SHAREHOLDER STRUCTURE (ACCORDING TO MOST RECENTLY REPORTED CHANGES)



Source: Company data and Nordea

~25% in payout ratio

Dividend policy

The official dividend policy of the bank is currently 25%. This is in line with the capital distributions in 2015 and 2016, where the payout ratio was 27% and 25%, respectively. In 2017, the bank deviated from its dividend policy as it abandoned dividends due to the rights issue in April 2018, which was needed to bring the capital ratio up to desired levels.

'New Ways' for the bank

In November 2017, Sparekassen Sjælland-Fyn introduced its new strategy towards 2021, 'New Ways'. The strategy plan includes four financial objectives concerning cost efficiency, profitability and capitalisation. We find the financial targets to be relatively ambitious but management seems fully committed to reaching them and to cutting costs significantly if needed. Our section on estimates later in the report will include a further a discussion on how the bank could reach its targets. We find the new strategy positive as it will keep management and employees in Sparekassen Sjælland-Fyn on their toes for the next three years. We think it is worth mentioning that the new strategy has been well received by employees.

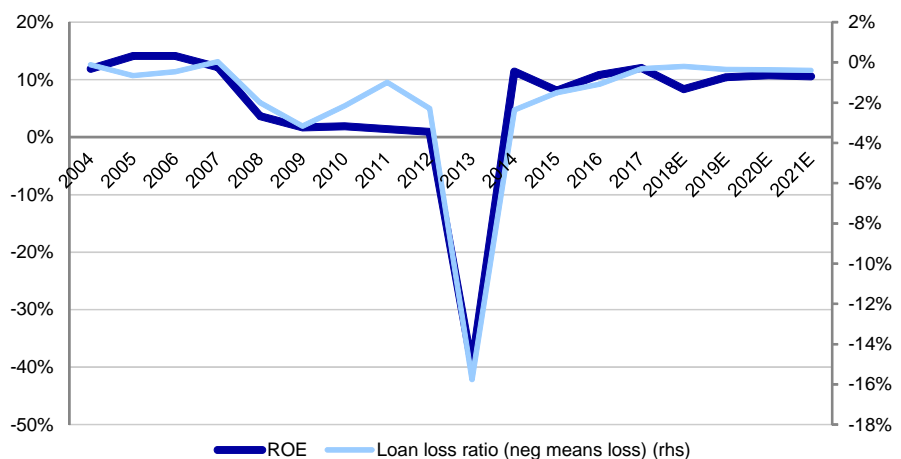
Low risk ROE needed

Better loan book mix and focus on profitability and costs should support future performance

Sparekassen Sjælland-Fyn has historically struggled with weak profitability, except for the years prior to the financial crisis. However, the high profitability prior to the financial crisis was founded in risky business lending and especially commercial property lending. After the financial crisis, the effect was an elevated level of loan losses that culminated in 2013 with a loan loss ratio of ~16%. In recent years, Sparekassen Sjælland-Fyn has been building the foundation for changing into a lower risk bank with higher ROE. The bank has set out four financial objectives: efficiency, profitability, high income to costs and a solid capital position.

Loan losses have historically been the main driver of profitability

RETURN ON EQUITY AND LOAN LOSS RATIOS



Source: Company data and Nordea estimates

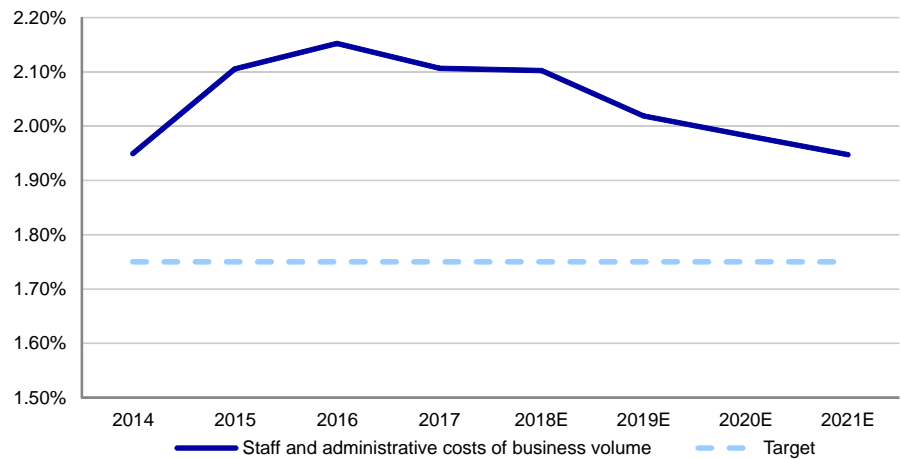
Financial objective 1: Increased efficiency

Staff and administrative costs are to be a maximum 1.75% of business volume

The first financial objective of the 'New Ways' strategy plan is to reduce staff and administrative costs to 1.75% of average business volume. Sparekassen Sjælland-Fyn defines business volume as the sum of lending, guarantees, deposits and deposits in pooled schemes. From 2016 to 2017, the bank lowered the ratio from 2.15% to 2.11%. This has mainly been driven by ~10% growth in business volume, while costs have grown ~8% in 2017.

Costs will also develop adversely in 2018E due to branch openings and high IT costs

STAFF AND ADMINISTRATIVE COSTS OF BUSINESS VOLUME



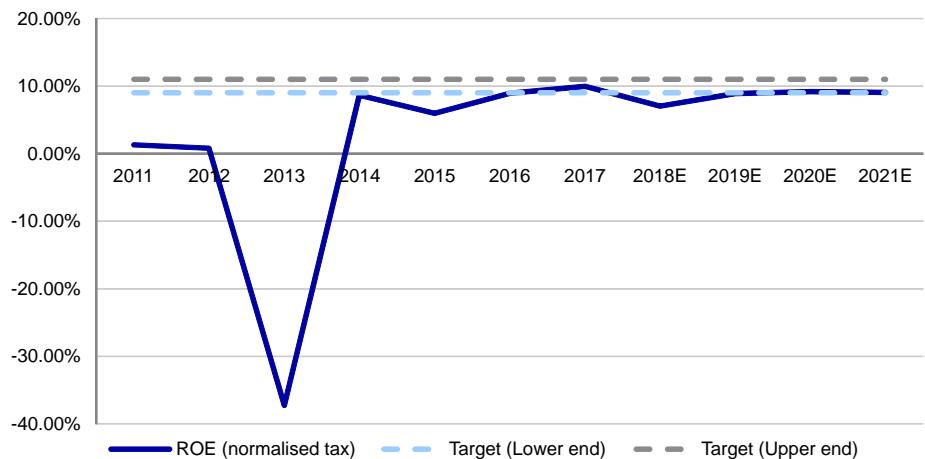
Source: Company data and Nordea estimates

Return on equity after normalised tax target of 9-11%.

Financial objective 2: Solid profitability

The second financial objective concerns the profitability of the bank, with a targeted return on equity after normalised tax of 9-11%. Driven by the large loan losses, the bank posted a large loss in 2013, which under Danish rules are tax deductible in later years. The current reported return on equity is hence inflated by the tax shield and is not sustainable. The 9-11% ROE target is after normal tax of 22%. Between 2014 and 2017, Sparekassen Sjælland-Fyn's return on equity after normalised tax has been ~8.5-10%, except for 2015 where it was ~6% due to adverse impact from market value adjustments. The improvement of ~1 pp from 2016 to 2017 was mainly driven by lower loan losses.

RETURN ON EQUITY AFTER NORMALISED TAX



Source: Company data and Nordea estimates

Low loan losses in forecast period likely to support ROE

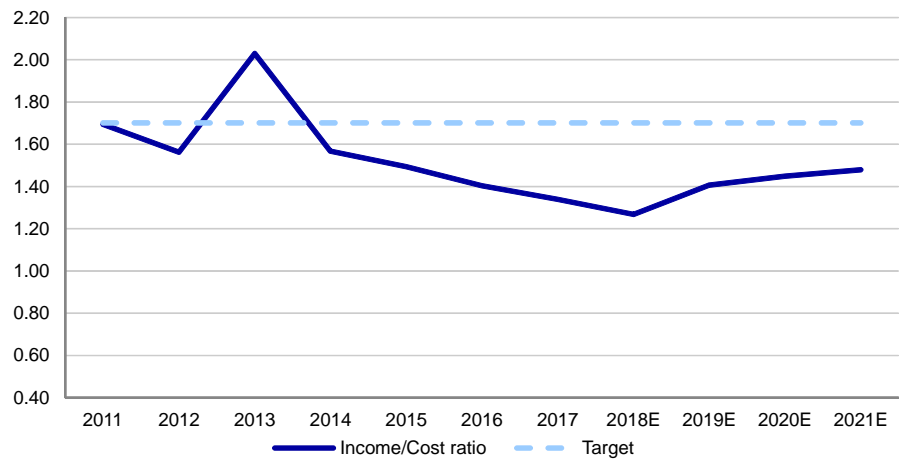
Income/cost ratio above 1.7

Financial objective 3: High income/cost ratio

The third financial objective concerns the income to costs ratio, which should be above 1.7. For this ratio, Sparekassen Sjælland-Fyn includes net interest and fee income and other operating income as income. Costs are defined as staff and administrative costs, amortisation and depreciation, and other operating expenses. The 2017 income/cost ratio ended at 1.34x, down 0.06 (5%) since 2016. We have the impression that management hopes to see most of this improvement to the income/cost ratio coming from top-line growth. However, cost optimisation initiatives will also be taken.

INCOME/COST RATIO

Income/cost ratio inflation by low loan losses



Source: Company data and Nordea estimates

Financial objective 4: A robust foundation

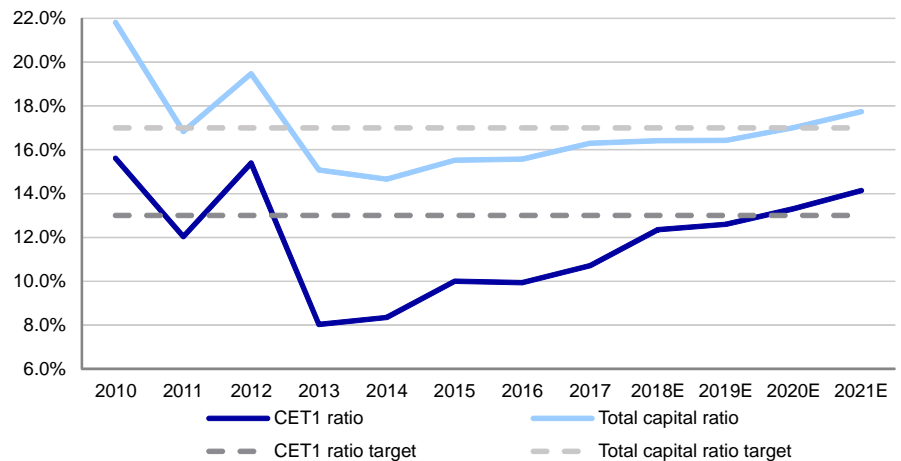
CET1 ratio of at least 13%

Total capital ratio of at least 17%

The fourth and last financial objective in the 'New Ways' strategy concerns the capital position of the bank. The CET1 ratio should be at least 13%, while the total capital ratio should be at least 17%. However, we have the impression that management would see these levels as minimum levels and we hence expect management to target a CET1 ratio of 15% and total capital ratio of 20%.

CAPITAL RATIOS

Capital ratios have suffered from large losses in 2013 and lending growth since then



Source: Company data and Nordea estimates

The branch network

Since 2015, Sparekassen Sjælland-Fyn has opened 11 branches as a part of its branch expansion strategy. As they mature in the coming years, these 11 branches will continue to support income growth. The number of retail branches is now 49, which gives Sparekassen Sjælland-Fyn the most extensive branch network of any bank in its markets: Zealand and Funen. In 13 towns, Sparekassen Sjælland-Fyn is the only bank with a branch. The bank is hence well positioned to gain market share.

More to come from recently opened branches

Sparekassen Sjælland-Fyn has opened 11 branches since 2015. In the build-up phase, it is our understanding that the bank has been attracting customers partly by keeping prices low. In addition, there are startup costs associated with opening branches, meaning that profitability is currently low in these branches. However, the startup costs have been booked and we estimate profitability in these branches to improve from here. Assuming that the income/cost ratio at these locations would gradually improve to the same level as the rest of the branch network over a five-year period, we estimate that income from the 11 new branches will improve to DKK 79m by 2021 up from 18m in 2017. We estimate that the 11 branches posted a combined loss of DKK 16m in 2017 which will be turned into a profit in 2021 of DKK 34m.

Recently opened branches do not yet have optimal business volumes

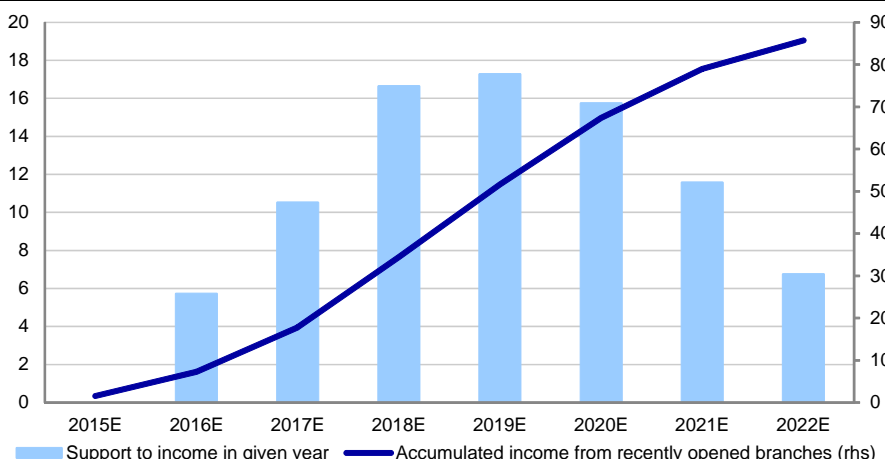
7% support to 2017 income over the coming years solely from recently opened branches

INCOME FROM RECENTLY OPENED BRANCHES, DKKm: BASE CASE SCENARIO

Year	Branch	Employees	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
2018	Helsingø	6	0.00	0.00	0.00	1.38	3.30	5.22	7.14	9.06
2018	Greve	6	0.00	0.00	0.00	1.82	3.74	5.66	7.58	9.50
2017	Frederiksværk	5	0.00	0.00	0.65	2.25	3.85	5.45	7.05	7.99
2017	Helsingør	5	0.00	0.00	0.97	2.57	4.17	5.77	7.37	7.99
2017	Islands Brygge (Copenhagen)	5	0.00	0.00	0.25	1.85	3.45	5.05	6.65	7.99
2016	Nyborg	4	0.00	0.37	1.65	2.93	4.21	5.49	6.39	6.39
2016	Vanløse	5	0.00	0.16	1.76	3.36	4.96	6.56	7.99	7.99
2016	Hundested	2	0.00	0.04	0.68	1.32	1.95	2.60	3.20	3.20
2015	Valby	6	1.28	3.20	5.12	7.04	8.96	9.59	9.59	9.59
2015	Dragør	5	0.13	1.73	3.33	4.93	6.53	7.99	7.99	7.99
2015	Langeskov	5	0.13	1.73	3.33	4.93	6.53	7.99	7.99	7.99
Total		54	1.54	7.25	17.75	34.38	51.64	67.37	78.93	85.67

Source: Company data, Google, Google Maps and Nordea estimates

INCOME SUPPORT FROM RECENTLY OPENED BRANCHES, DKKm: BASE CASE SCENARIO



Source: Company data, Google, Google Maps and Nordea estimates

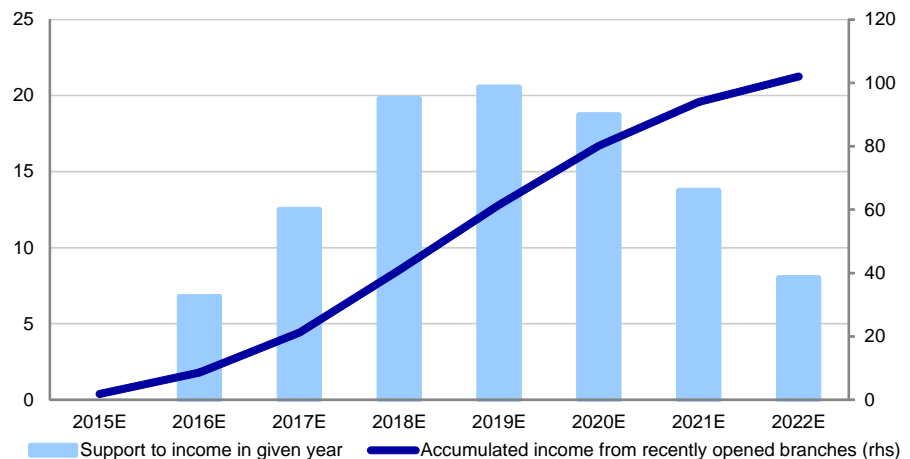
We estimate that the largest support from branch openings will come in 2019E

1.6% total group income growth in 2019E solely due to recently opened branches in our base case

INCOME FROM RECENTLY OPENED BRANCHES, DKKm: MANAGEMENT SCENARIO

Year	Branch	Employees	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
2018	Helsingø	6	0.00	0.00	0.00	1.64	3.93	6.21	8.50	10.78
2018	Greve	6	0.00	0.00	0.00	2.17	4.45	6.74	9.02	11.30
2017	Frederiksværk	5	0.00	0.00	0.78	2.68	4.58	6.49	8.39	9.51
2017	Helsingør	5	0.00	0.00	1.16	3.06	4.96	6.87	8.77	9.51
2017	Islands Brygge (Copenhagen)	5	0.00	0.00	0.30	2.20	4.11	6.01	7.91	9.51
2016	Nyborg	4	0.00	0.45	1.97	3.49	5.01	6.54	7.61	7.61
2016	Vanløse	5	0.00	0.19	2.09	4.00	5.90	7.80	9.51	9.51
2016	Hundested	2	0.00	0.04	0.80	1.57	2.33	3.09	3.80	3.80
2015	Valby	6	1.53	3.81	6.10	8.38	10.66	11.41	11.41	11.41
2015	Dragør	5	0.16	2.06	3.97	5.87	7.77	9.51	9.51	9.51
2015	Langeskov	5	0.16	2.06	3.97	5.87	7.77	9.51	9.51	9.51
	Total	54	1.84	8.62	21.13	40.92	61.46	80.18	93.94	101.96

Source: Company data, Google, Google Maps, and Nordea estimates

INCOME SUPPORT FROM RECENTLY OPENED BRANCHES DKKm: MANAGEMENT SCENARIO

Source: Company data, Google, Google Maps and Nordea estimates

1.9% total income growth solely due to recently opened branches in 2019E in our management scenario

The most extensive branch network in its home market

Growth and retention could be a result of high branch presence

No competitors in ten out of 15 branches with the largest population per branch available in town

Extensive branch network – a competitive advantage

Sparekassen Sjælland-Fyn has 49 retail branches, which gives it the most extensive branch network in its home markets, Zealand and Funen. This network is the result of the branch expansion strategy, which has taken place at a time when other banks have scaled down their branch networks. In 13 towns, Sparekassen Sjælland-Fyn is the only bank with a physical presence. In two other towns, the bank has only one competitor. We also find it interesting that ten of the 13 branches where the bank is the only one with physical representation are within the top 15 branches in terms of population per branch. This supports growth and also means higher customer retention.

TOP 15 BRANCHES BASED ON LARGEST POPULATION PER BANK BRANCH IN TOWN

Branch	Number of competing branches	Population	Population per branch*
Haslev	0	11,748	11,748
Hundested	0	8,588	8,588
Greve	4	42,701	8,540
Skælskør	0	6,491	6,491
Helsingør	7	47,123	5,890
Næstved	7	43,234	5,404
Langeskov	0	4,507	4,507
Jyderup	0	4,323	4,323
Høng	0	4,257	4,257
Roskilde	11	50,393	4,199
Dragør	2	12,132	4,044
Dianalund	0	4,017	4,017
Faxe	0	4,017	4,017
Årslev	0	3,823	3,823
Tølløse	0	3,759	3,759

Source: Company data and Nordea estimates

* Population in surrounding area is not included

The widespread branch structure comes at a price

Significant investments

Opening a branch is costly. It requires upfront investments to find the right location, equip it and hire skilled banking staff. The bank has previously communicated that the marginal costs of having a branch amounts to DKK 50-100,000 each month plus staff related costs. Also, the widespread branch network makes efficiency improvements difficult as it may not be possible to distribute changes evenly across 49 retail banking branches, which may make it difficult to realise the full potential of cost initiatives. We understand that Sparekassen Sjælland-Fyn has plans to solve this.

Credit quality has improved

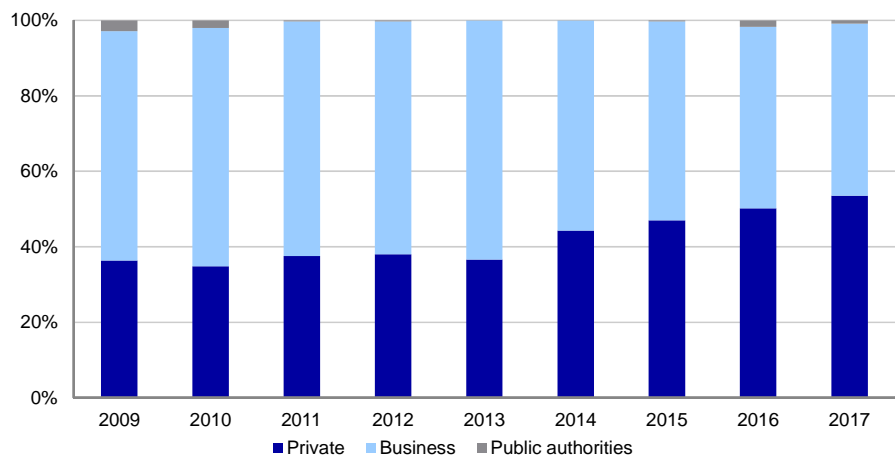
Since 2009, Sparekassen Sjælland-Fyn has increased its loan book exposure to households by 17 pp to ~54%. At the same time, the exposure to commercial property has been lowered from 21% to 12%. Loan losses peaked in 2013 at DKK 1.5bn while net reversals were booked in Q2 2018. All of this calls for improved credit quality, in our view. However, the 6 July FSA review of Sparekassen Sjælland-Fyn suggests that its credit risks are still elevated. We believe normalised loan losses in Sparekassen Sjælland-Fyn are larger than in peer banks in our coverage universe but we see no black clouds on the horizon in the short term.

Household lending makes up ~54% – up 17 pp since 2009

The share of household lending has increased from 36.4% in 2009 to 53.5% in 2017, equalling a 17 pp increase. The shift towards more household lending has continued in 2018, where ~70% of the new lending in the first six month came from household lending. This should mean lower credit risks ahead. The bank targets a maximum 50% business lending exposure. We expect the loan book split to remain fairly stable or even move further towards household lending given the high current household lending growth.

Household lending has risen 17 pp since 2009

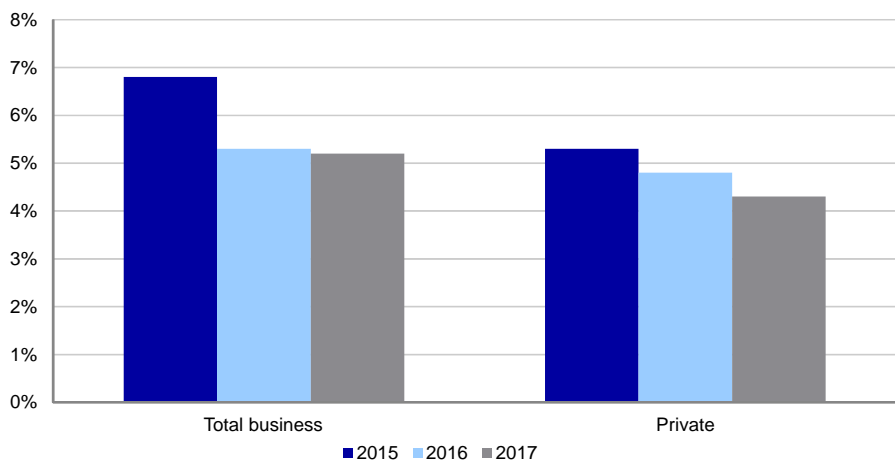
LOAN BOOK SPLIT



Source: Company data and Nordea

DANISH BANKS: NON-PERFORMING LOANS TO LENDING

Private household lending has historically been less risky than business lending



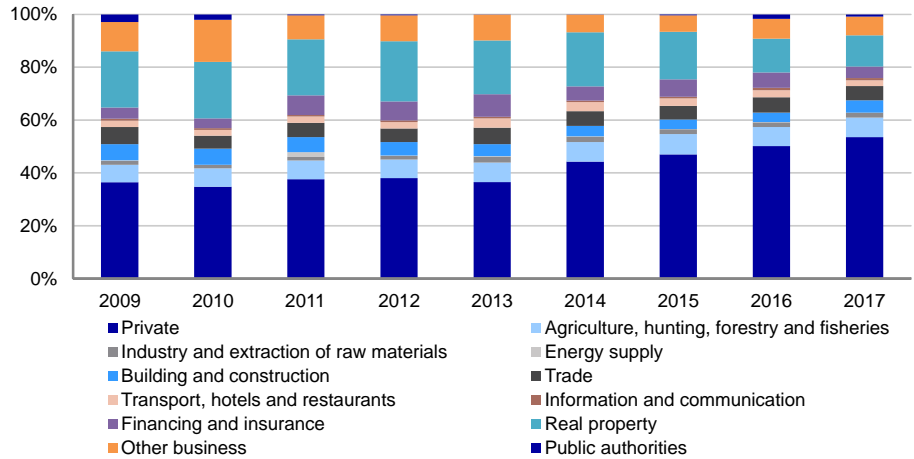
Source: Finanstilsynet and Nordea

The exposure to commercial property lending has declined ~9 pp from 2009 to 2017 and now makes up ~12%

Well-balanced sector mix in business banking loan book

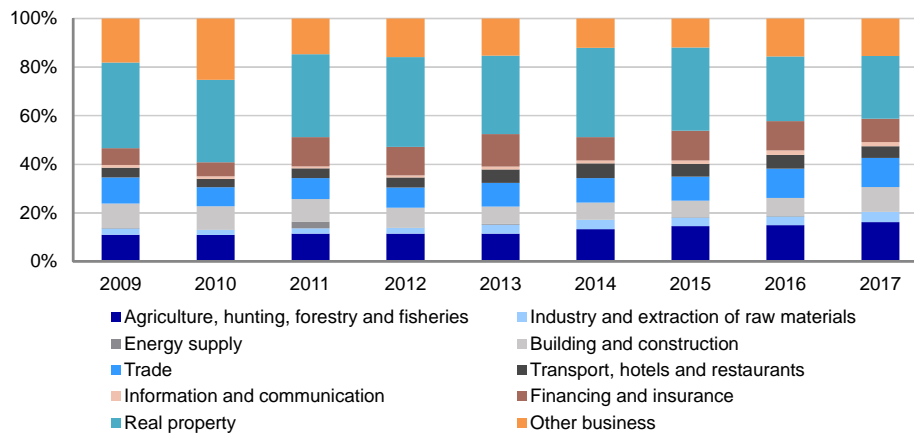
Before the global financial crisis of 2008-09, commercial property loans represented more than one-third of all business lending for Sparekassen Sjælland-Fyn. This portfolio incurred considerable losses during the financial crisis and in the years that followed, peaking at DKK 1.5bn in 2013. From 2009 to 2017, Sparekassen Sjælland-Fyn lowered the share of lending to the commercial property industry to 11.8% from 21.4% and is therefore well within the FSA's defined maximum exposure of 25%. Sparekassen Sjælland-Fyn is targeting a maximum 15% exposure to commercial real estate.

TOTAL LOAN BOOK SPLIT



Source: Company data and Nordea

BUSINESS LOAN BOOK SPLIT

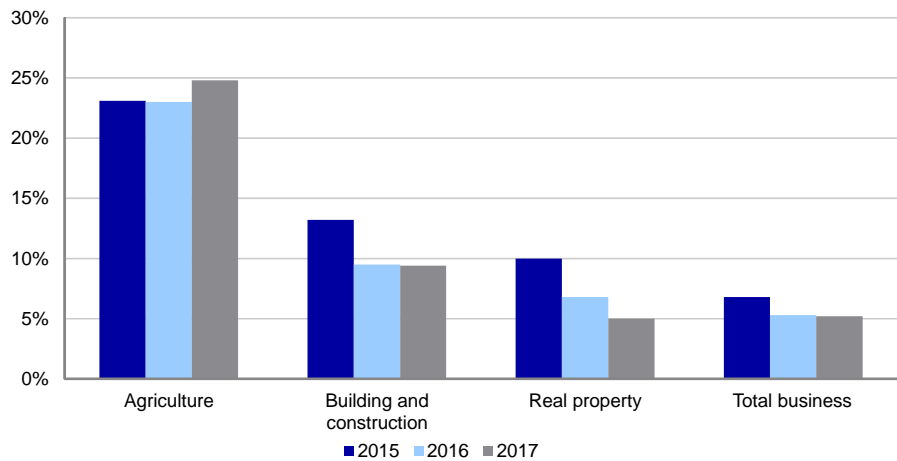


Source: Company data and Nordea

DANISH BANKS: NON-PERFORMING LOANS TO LENDING

Recently the agriculture and the building and construction industries have accounted for most of the non-performing loans

Sparekassen Sjælland-Fyn's exposure to agriculture is low, at ~7%



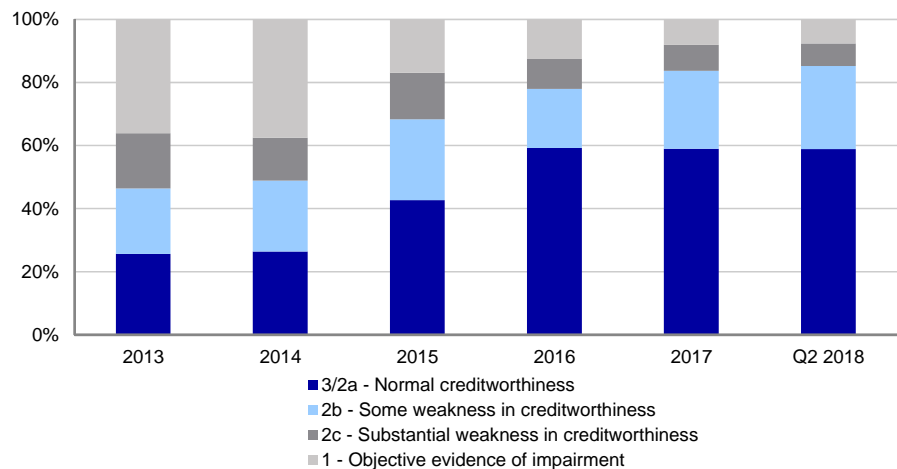
Source: Finanstilsynet and Nordea

Improving loan book quality

The Danish FSA categorises loans in five brackets. A score of 3/2a denotes normal credit worthiness and 1 denotes an impaired loan. In Sparekassen Sjælland-Fyn, the proportion of problematic loans has improved from 54% to 15% of total lending from 2013 to Q2 2018. Similarly, the proportion of normal creditworthiness has increased by 33 pp in the same period. Below we explain the FSA's five credit quality categories in more detail.

CREDITWORTHINESS OF LENDING AND GUARANTEES – DANISH FSA SCALE

In 2013 just above a third of the bank's lending had normal creditworthiness, now it is ~60%



Source: Company data and Nordea

Introduction to the Danish FSA creditworthiness scale

Sparekassen Sjælland-Fyn targets customers with a 2b rating or better

3 – Excellent creditworthiness: Customers with undisputedly strong creditworthiness. Completely unlikely that these loans will default.

2a - Normal creditworthiness: Customers with normal creditworthiness. It is unlikely that those clients will not fulfil their debt obligations. As a rule-of-thumb, retail clients will need to fulfil the following requirements: 1) disposable income of DKK 5,000 as single, DKK 8,500 as couple and DKK 2,500 per child in the household. 2) lending to gross household income may not exceed 3.5 for households in owner-occupied dwellings and 2.0 for household in cooperative dwellings, for retirees the ratio may not exceed 2.0 for homeowners in owner-occupied dwellings and 1.0 for households in cooperative dwellings.

2b - Some weaknesses in creditworthiness: Customers with signs of weakness, most often customers who simply fail to fulfil the criteria in 2a. Students and young people often ends in this category, as they typically have low income and low savings but, on the other hand, do not regularly have overdrafts or fail to meet obligations. Business banking clients with this grade are typically characterised by one or more of the

following characteristics: 1) low profitability or even loss making in some years. 2) low solvency (rule of thumb: below 20%) or poor working capital management leading to a high amount of tied-up capital. 3) uncertainty, whether the business can continue to be profitable and financial sound going forward. 4) complex financing structure that complicates efficient credit management.

2c - Substantial weaknesses in creditworthiness: Customers with substantial weaknesses in creditworthiness but no objective evidence of value impairment. Retail clients in this category are typically characterised by one or more of the following characteristics: 1) low disposable income due to change of job, unemployment or illness. 2) Too high fixed costs due to expensive housing costs, etc. 3) overspending on credit cards, etc. 4) change in current job status or civil status, which has not affected the creditworthiness yet but could lead to substantial difficulties in fulfilling future obligations. Business banking clients in this category are often characterised by one or more of the following characteristics: 1) very low or negative results or liquidity. 2) solvency rate of 5-15%. 3) ability to fulfil debt obligations in near future but elevated uncertainties about the ability to fulfil long-term debt obligations.

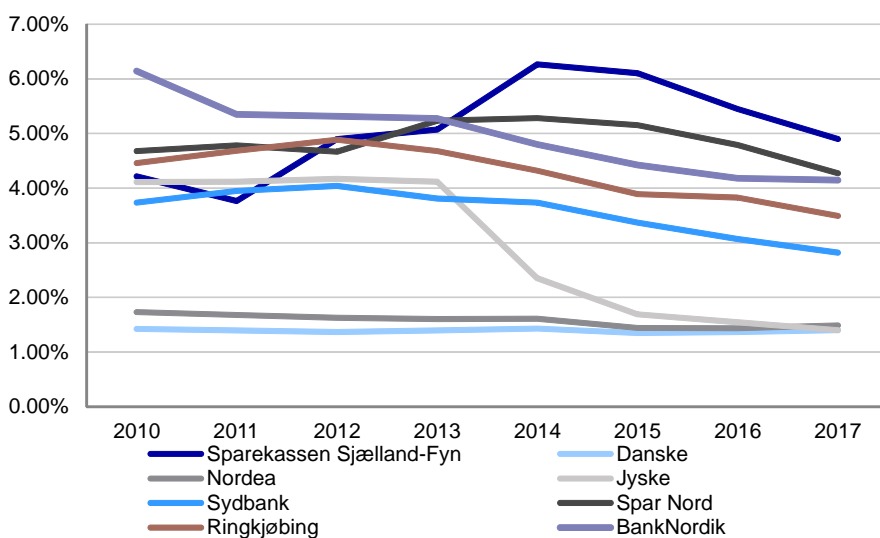
1 - Objective evidence of impairment (OIV): Customers who are in financial distress, where it seems likely that the client will not be able to fulfil debt obligations.

What did the FSA actually write in its loan book review

In July 2018, the Danish FSA published an inspection report of Sparekassen Sjælland-Fyn's credit quality. Based on a sample of 96 loans equalling 25% of the total loan book, the FSA concluded that: 1) loan growth is almost double that of peers, 2) only around a third of new lending customers has normal credit worthiness, and 3) commercial property makes up around 50% of the sample of inspected large loans (loans above 2% of the capital base) and the bank is deviating from its credit policies. Based on the limited information given in the review, it is difficult for us to conclude exactly how much credit risk the bank is taking. However, Sparekassen Sjælland-Fyn's loan growth has been higher than peers and its net interest margin to customers exceeds peers' by a gap that could also suggest higher risks but it could also be a result of the branch expansion strategy. This is because Sparekassen Sjælland-Fyn has better bargaining power than its peers thanks to its extensive branch network. To us, it is clear that Sparekassen Sjælland-Fyn's have reduced its risks in recent years. Furthermore, the Danish FSA also approved the repayment of DKK 638m in AT1 and Tier 2 debt in August 2018, one month after its review, which, in our view, would be unlikely if the Danish FSA did not find the bank robust in the near term.

NET INTEREST MARGINS, ANNUAL

Higher net interest margin could be due to higher risk-taking than peers, but it could also be due to better bargaining power than peers due the extensive branch network



Source: Company data and Nordea estimates

Loan losses above peers historically

Loan losses have been higher than peers' in recent years. We estimate an average loan loss ratio since 2011 of 3.48% – or 1.43% if excluding the markedly high losses in 2013. In 2017 the loss ratio was 32 bp, and in Q2 2018 Sparekassen Sjælland-Fyn booked loan loss reversals.

Over the past three years, the bank's loan loss ratio has on average been 75 bp weaker than its Danish peers

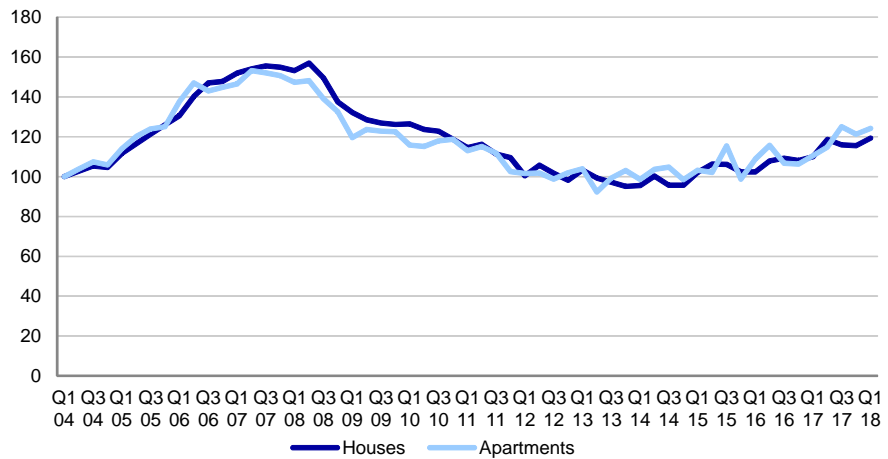
LOAN LOSS RATIO, ANNUAL

	2010	2011	2012	2013	2014	2015	2016	2017
Sparekassen Sjælland-Fyn	-	0.99%	2.30%	15.77%	2.36%	1.50%	1.10%	0.32%
Danske	0.83%	0.78%	0.45%	0.26%	0.18%	0.00%	0.00%	-0.05%
Nordea	0.31%	0.23%	0.27%	0.21%	0.16%	0.14%	0.15%	0.12%
Jyske	1.52%	1.40%	1.70%	0.90%	1.76%	0.10%	-0.04%	-0.12%
Sydbank	1.88%	1.64%	2.54%	2.73%	1.06%	0.46%	0.12%	-0.07%
Spar Nord	1.18%	1.33%	1.90%	1.16%	1.46%	0.92%	0.74%	-0.11%
Ringkjøbing	1.06%	0.98%	1.23%	0.97%	0.63%	0.39%	0.28%	0.06%
BankNordik	2.89%	0.99%	0.97%	1.32%	0.82%	0.19%	-0.12%	-0.66%
Average	1.38%	1.04%	1.42%	2.91%	1.05%	0.46%	0.28%	-0.06%

Source: Company data and Nordea

HOUSING PRICES PER SQUARE METRE, WEST - SOUTH ZEALAND (Q1 04=INDEX 100)

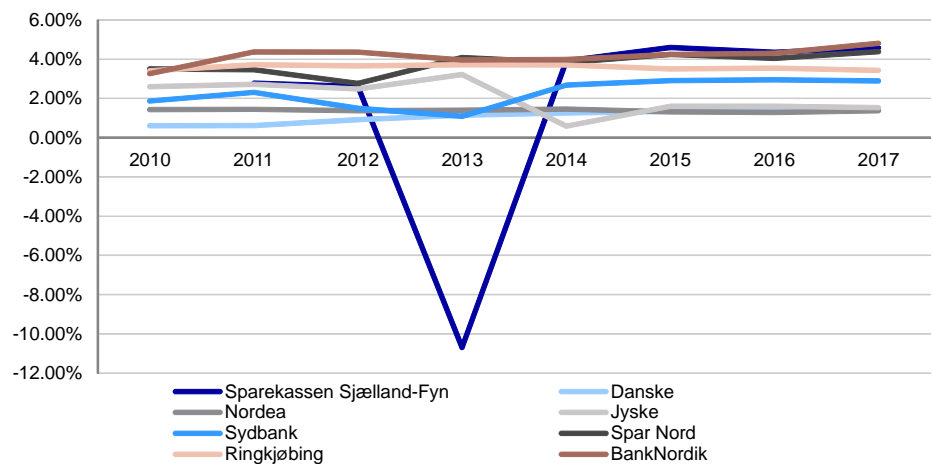
Housing prices dropped by ~40% on average in the bank's home markets



Source: Statistics Denmark and Nordea

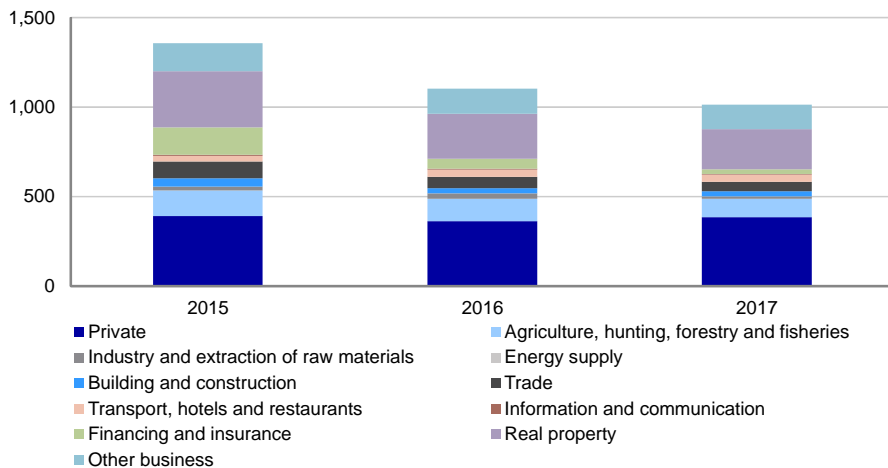
NET INTEREST MARGIN MINUS LOAN LOSS RATIO

Except for the massive loan losses in 2013, the bank's net interest margin minus its loan loss ratio has been in line with or above Danish peers



Source: Company data and Nordea estimates

ACCUMULATED LOAN IMPAIRMENT CHARGES BY SECTOR, DKKm



Source: Company data and Nordea estimates

A potential M&A target

The strong market presence on Zealand and Funen could make the bank stand out as a compelling M&A target to competitors, in our view. Sparekassen Sjælland-Fyn is one of a few local banks left on Zealand and in 13 towns it is the only bank present. A hostile takeover bid has been unlikely in the Danish banking sector in recent years. However, Jyske Bank's bid on Nordjyske this spring might have changed this. Even though the probabilities of a hostile takeover offer are low, we could see a merger scenario where synergies could trigger a 100%-plus premium to the current share price. We see M&A as an option if management is unsuccessful in improving profitability.

A ~60% takeover premium was enough for Nordjyske Bank's shareholders

The Danish M&A market for banks is open – or is it?

A hostile takeover bid has been unlikely in Danish banking sector in recent years. However, this changed when Jyske Bank made a hostile takeover bid for Nordjyske Bank. Jyske Bank was unsuccessful in its bid, and Nordjyske Bank was instead bought by Ringkjøbing Landbobank, who bought the bank at a ~60% premium to the share price on the day before Jyske Bank's initial takeover bid. However, the likelihood of a hostile takeover bid is fairly low, as Danish banks tend to be reluctant to make such offers, due to the large reputational risks of attempting a hostile takeover, we believe. The vast majority of recent M&A transactions in the Danish banking sector have occurred with one party inviting the other party to make an offer, and most often the inviting party has been suffering from weak performance and a distressed capital position. In the case of Sparekassen Sjælland-Fyn, we see M&A as an option if management fails to sufficiently improve profitability.

Sparekassen Sjælland-Fyn could be an acquisition target, in our view

The strategic perspective of M&A

From a longer-term perspective, we do not rule out the possibility that Sparekassen Sjælland-Fyn might target smaller banks on Zealand and Funen owing to the bank's proven track record of acquiring other banks. However, in our view the likelihood is reduced for the near term as the bank has just raised capital through a rights issue in April 2018 to get its capital ratios closer to target levels. That said, we could also see a scenario in which one of the larger banks from Jutland were interested in boosting its market share on Zealand and Funen. For Jyske Bank, Spar Nord, and Sydbank, the branch overlap outside Odense and Copenhagen is only 10-17 branches. This means that one of these banks could add 21-28 branches to its market presence, a loan book of DKK ~12bn, Totalkredit's mortgage loans of DKK 26.4bn, and DLR mortgage loans of DKK 8bn. At the same time, the 10-17 overlapping branches outside the larger cities could be closed and the 11 Sparekassen Sjælland-Fyn branches in the larger cities could also be closed, as the acquirer most likely already has branches in these cities.

BRANCH OVERLAP

Sparekassen Sjælland-Fyn	Jyske Bank	Spar Nord	Sydbank
Amagerbrogade (Copenhagen)	n.m.	n.m.	n.m.
Asnæs	X	X	X
Assens	X	X	X
Dalum (Odense)	n.m.	n.m.	n.m.
Dianalund	X	X	X
Dragør	X	X	✓
Faaborg	✓	X	✓
Faxe	X	X	X
Frederiksberg	n.m.	n.m.	n.m.
Frederikssund	✓	X	X
Frederiksværk	✓	X	X
Greve	✓	X	X
Haarby	X	X	X
Haslev	X	X	X
Helsingø	X	X	X
Helsingør	✓	✓	X
Hillerød	✓	✓	✓
Hjallese (Odense)	n.m.	n.m.	n.m.
Holbæk	✓	✓	✓
Hundested	X	X	X
Høng	X	X	X
Islands Brygge (Copenhagen)	n.m.	n.m.	n.m.
Jyderup	X	X	X
Kalundborg	✓	X	X
Kerteminde	X	X	X
Kongelundsvej (Kastrup)	n.m.	n.m.	n.m.
Køge	✓	✓	✓
Langeskov	X	X	X
Middelfart	✓	✓	X
Nyborg	✓	✓	X
Nykøbing	X	X	X
Næstved	✓	✓	✓
Odense City	n.m.	n.m.	n.m.
Odense Nord	n.m.	n.m.	n.m.
Ringe	X	X	X
Ringsted	✓	X	✓
Roskilde	✓	✓	✓
Skælskør	X	X	X
Slagelse	✓	✓	✓
Sorø	X	X	✓
Svendborg	✓	✓	✓
Tølløse	X	X	X
Valby	n.m.	n.m.	n.m.
Vanløse	n.m.	n.m.	n.m.
Vester Skerninge	X	X	X
Vig	X	X	X
Vordingborg	✓	X	X
Østerbro (Copenhagen)	n.m.	n.m.	n.m.
Årslev	X	X	X
Total overlap	17	10	11

Source: Source: Company data, Google, Google Maps and Nordea

Cost synergies likely to be north of DKK 170m

As the number of overlapping branches including all Sparekassen Sjælland-Fyn's branches in Copenhagen and Odense ranges between 21 and 28 for Jyske, Spar Nord, and Sydbank, we argue that there is room for cost savings. Sparekassen Sjælland-Fyn has previously stated that the marginal monthly costs of operating a branch ranges from DKK 50,000-100,000, which cover rents on offices, utilities, etc. With the branches in Copenhagen and Odense likely being in the upper end of this range, we estimate an average annual marginal cost of DKK 1m per branch. Furthermore, we find it likely that a merger between two branches would also trigger a cut in the number of employees in the branches. In this scenario, we estimate that 2.5 FTE per closed/merged branch could be cut. This equals around 40-50% of the current FTEs per branch. Lastly, we expect that DKK 100m could be taken out in headquarter- or back-office costs due to overlapping job roles. Summing up, we estimate cost synergies in a merger scenario of DKK 173.5-198m for Jyske, Spar Nord, and Sydbank.

COST SYNERGIES

	Jyske	Spar Nord	Sydbank
Number of town with overlapping branches	17	10	11
Sparekassen Sjælland-Fyn branches in Copenhagen and Odense	11	11	11
Number of branches overlapping	28	21	22
Cost savings on fixed costs of branches (DKKm)	28	21	22
Costs savings on variable costs of branches (DKKm)	70	53	55
Costs savings on HQ/back office costs (DKKm)	100	100	100
Potential cost savings (DKKm)	198	174	177

Source: Company data and Nordea estimates

Over DKK 170m in cost synergies seems realistic

A takeover premium of over 100% could be feasible

Needless to say, it is difficult to guess which takeover premium would be enough to convince Sparekassen Sjælland-Fyn's board of directors and shareholders that a merger would be a great idea. Despite the recent case of Nordjyske Bank, where the shareholders accepted the merger at a premium of ~60%, we find it likely that this might not be enough in Sparekassen Sjælland-Fyn's case. Instead, we turn the case around and try to estimate what the return on investment could look like for an acquirer in a scenario of a 100% takeover premium. In this scenario, we stick to the cost synergies calculated above and we include a negative post-tax revenue synergy of DKK 30m for all banks, which corresponds to a cut in total income growth of 2% in 2019E, as we argue that income growth will likely suffer in the year of a merger. For Jyske Bank, we do also include DKK 80m in revenue synergies from transferring Totalkredit's loans to Jyske Realkredit. Furthermore, we adjust the risk exposure amount to what we estimate it would be in the merged bank. Under these assumptions, we estimate an ROI of 14.2%-17.9% for an acquisition of Sparekassen Sjælland-Fyn if assuming a 100% bid premium.

ROI CALCULATIONS ON ACQUISITION OF SPAREKASSEN SJÆLLAND-FYN, DKKm

	Jyske	Spar Nord	Sydbank
CET1, Q2 18	30,319	7,379	8,820
Sparekassen Sjælland-Fyn goodwill	131	131	131
Acquisition goodwill	1,040	1,040	1,040
Exit fee data central	0	326	0
CET1, Q2 18 pro-forma	29,148	5,882	7,649
REA, Q2 18	187,804	51,941	56,961
Sparekassen Sjælland-Fyn Q2 18 REA	18,009	18,009	18,009
REA model adjustments	-7,119	-7,119	-7,119
REA, Q2 18 pro-forma	198,694	62,831	67,850
CET1 ratio, Q2 18	16.1%	14.2%	15.5%
CET1 ratio, pro-forma	14.7%	9.4%	11.3%
Capital consumption	2,929	3,044	2,858
Net profit contribution from Sparekassen Sjælland-Fyn, 2020E	263	263	263
Synergies:			
- Tax deductability sector shares	6	14	7
- Cost synergies	198	174	177
- Revenue synergies	50	-30	-30
- Tier 2 interest savings	6	6	6
Adj. Net profit contribution, 2020E	524	428	424
ROI	17.9%	14.0%	14.8%

Source: Company data and Nordea estimates

At a 100% takeover premium, we estimate a potential acquirer to have return on investment of ~14-18%

In the below tables, we now turn our focus to how much an acquirer could pay for Sparekassen Sjælland-Fyn per share with sensitivities to cost synergies and required return on investment. Even with no cost synergies at all and 18% in required return on equity, which is twice the cost of the equity we would normally use in Jyske, the bank could still offer DKK 140 per share. We believe Jyske Bank could offer such high takeover premiums based on our assumption regarding capital optimisation and revenue synergies. As of Q2, Jyske Bank had an REA to lending ratio of ~43% compared with Sparekassen Sjælland-Fyn at ~150%. We therefore argue that Jyske is likely to benefit from using the advanced internal ratings-based approach instead of Sparekassen Sjælland-Fyn's standardised rating approach. Furthermore, as argued above, we expect Jyske Bank to benefit from transferring the Totalkredit loans to Jyske

Realkredit. We estimate revenue synergies of DKK 80m from transferring these loans alone.

JYSKE BANK: OFFER PRICE – ACQUISITION OF SPAREKASSEN SJÆLLAND-FYN

		Required ROI										
		20%	19%	18%	17%	16%	15%	14%	13%	12%	11%	10%
Cost synergies	0	129	134	140	146	153	160	169	180	192	206	223
	50	144	149	156	163	171	180	190	202	216	232	252
	100	158	164	172	180	189	199	210	224	240	258	280
	150	172	180	188	196	207	218	231	246	264	284	309
	200	187	195	204	213	225	237	252	268	288	311	338
	250	201	210	220	230	243	256	272	290	312	337	367
	300	215	225	235	247	261	276	293	312	336	363	396

Source: Company data and Nordea estimates

SPAR NORD: OFFER PRICE - ACQUISITION OF SPAREKASSEN SJÆLLAND-FYN

		Required ROI										
		20%	19%	18%	17%	16%	15%	14%	13%	12%	11%	10%
Cost synergies	0	102	106	110	115	120	126	133	141	151	162	175
	50	116	121	126	132	138	146	154	163	175	188	204
	100	131	136	142	149	156	165	174	186	199	214	233
	150	145	151	158	166	174	184	195	208	223	240	261
	200	159	166	174	183	192	203	216	230	247	266	290
	250	174	182	190	199	210	222	236	252	271	293	319
	300	188	197	206	216	228	241	257	274	295	319	348

Source: Company data and Nordea estimates

SYDBANK: OFFER PRICE – ACQUISITION OF SPAREKASSEN SJÆLLAND-FYN

		Required ROI										
		20%	19%	18%	17%	16%	15%	14%	13%	12%	11%	10%
Cost synergies	0	111	114	118	123	128	134	141	149	158	169	182
	50	125	129	134	140	146	153	162	171	182	195	210
	100	139	145	150	157	164	173	182	193	206	221	239
	150	154	160	166	174	182	192	203	215	230	247	268
	200	168	175	182	191	200	211	223	237	254	273	297
	250	183	190	198	208	218	230	244	260	278	300	326
	300	197	205	214	225	236	249	264	282	302	326	354

Source: Company data and Nordea estimates

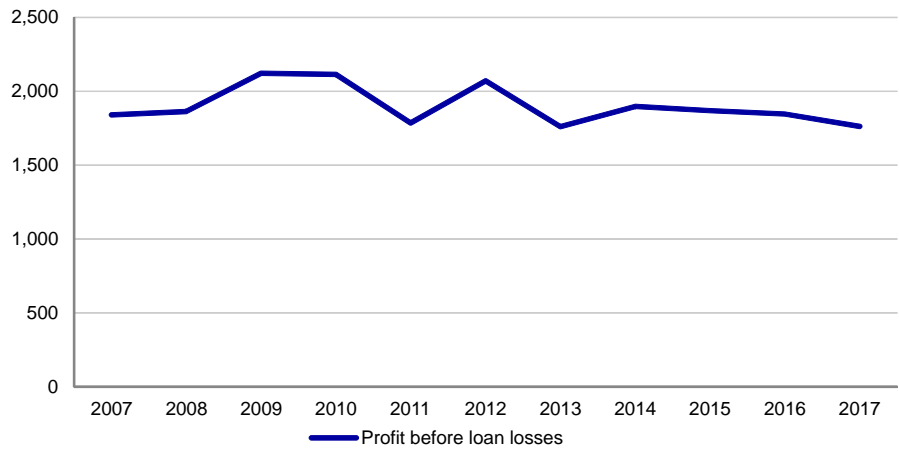
Sydbank remains the most likely buyer

From a strategic and financial perspective, we find Sydbank the most likely acquirer of Sparekassen Sjælland-Fyn. From 2007 to 2017, Sydbank had a decline in profit before loan losses of ~4%, with only small ups and downs over the same period. Based on this, we suggest that the bank would be interested in anything that could support growth. Sparekassen Sjælland-Fyn and Sydbank both operate on the Bankdata IT platform, which reduces the integration risks. Furthermore, Sydbank already has a 5-9.99% stake in Sparekassen Sjælland-Fyn. In addition, Sydbank also has a good relationship with Sparekassen Sjælland-Fyn, which was confirmed in connection with the right issue in April 2018, where Sydbank offered a guarantee to buy the outstanding rights if they were not fully subscribed. The good relationship increases the likelihood that Sydbank would be invited to make an offer, if that ever comes on the agenda for Sparekassen Sjælland-Fyn. On the other hand, it significantly reduces the likelihood that we would see a hostile takeover offer. Sparekassen Sjælland-Fyn's articles of association do include a hostile takeover defence, which requires a shareholder that aims to buy more than 10% of the share capital to have pre-approval from the board of directors. Furthermore, voting rights are capped at 7.5% of the share capital, and so it is difficult to gain significant control of the bank without making a takeover offer.

A hostile takeover offer is more unlikely due to the good relationship between the two banks

SYDBANK: PROFIT BEFORE LOAN LOSSES

Slightly negative growth in profit before loan losses over the past 11 years could trigger an acquisition



Source: Company data and Nordea

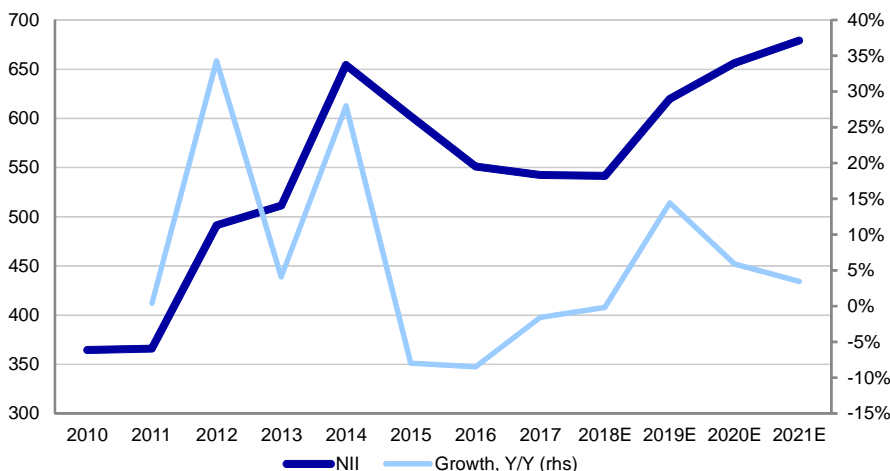
Estimates

We estimate a CAGR in 2017-21 profit before loan losses of ~9%. This is mainly driven by strong growth in both net interest income and net commission income, as we expect the bank to benefit from the recent years' branch expansion strategy and announced revenue-optimising initiatives. This leads to a 2017E-21E total income CAGR of ~5%. For costs, we expect to see management optimise internal processes and utilise its employees more efficiently in the future. These initiatives result in a 2017E-21E cost CAGR of 2.7%, with 2018 costs growing 8% owing to higher IT-related costs and an increase in the number of employees following the opening of an additional two branches.

Net interest income

We estimate a 2017-21 net interest income CAGR of 6%. This is mainly driven by 2019E NII growth of ~14%. The branch expansion that the bank has been undertaking in recent years is likely to continue to support lending growth. We estimate a 2017-21 lending CAGR of ~5%, with the highest growth rates in the first couple of years and then falling back to around 3% at the end of the forecast period. Furthermore, the bank will benefit from lower interest expenses on its Tier 2 debt, as new issues have ~3-4 pp lower coupon rates than outgoing issues.

NET INTEREST INCOME, DKKm, AND GROWTH, Y/Y



Net interest income is expected to accelerate from 2019 onwards

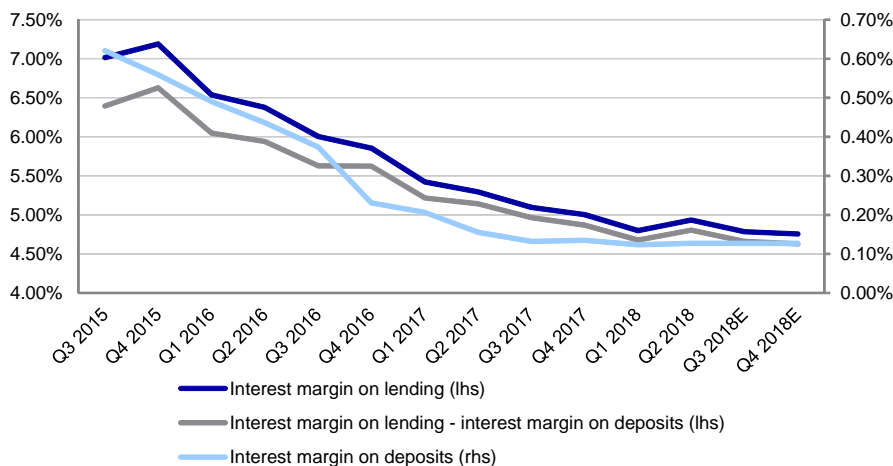
Source: Company data and Nordea estimates

Margin pressure is abating

For quite a while now, Sparekassen Sjælland-Fyn has seen significant pressure on lending margins. This has partly been due to lower interest rates and competitive pressure. We estimate that the interest margin on lending has dropped by ~2 pp since the start of 2016. In the same period, the three-month Cibor has only come down ~22 bp. We estimate a continuous small decline in the interest margin on lending, as we expect new loans to have lower interest rates than the back book on average. Furthermore, we also find it likely that for new customers in recently opened branches, interest rates could be slightly discounted in order to support lending growth. In Q2 2018, the underlying interest margin on lending was flat q/q for the first time since Q4 2015, if we adjust for a small positive one-off.

INTEREST MARGINS ON LENDING AND DEPOSITS, QUARTERLY

For the first quarter since Q4 2015, underlying interest margins on lending were flat q/q in Q2 2018, adjusting for a positive one-off

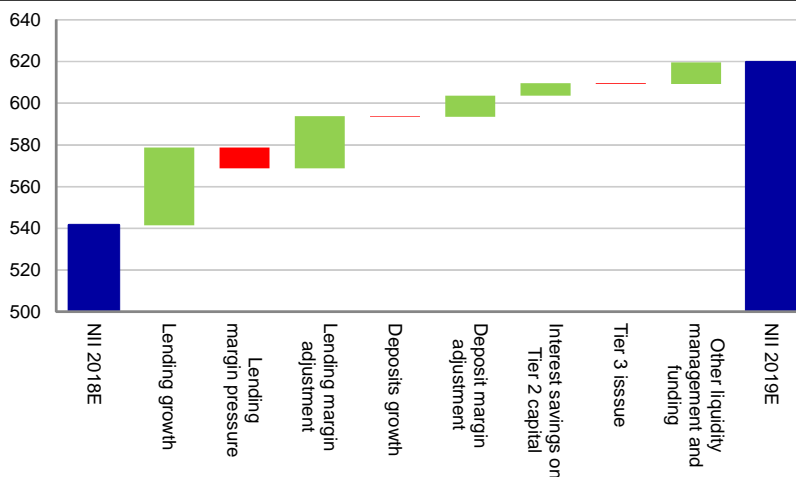


Source: Company data and Nordea estimates

Net interest income set to shift upwards to a new level in 2019E

We estimate that net interest income will grow to 14.4% in 2019, with lending growth accounting for ~50% of this increase. Furthermore, we find it likely that the bank could raise interest rates for customers for whom rates have been discounted due to financial distress. We estimate only minor headwind from deposit growth, as we see room for deposit rates to be lowered, given that the bank still pays interest on some of the retail deposit accounts. On top of this, we find it likely that the bank will implement negative deposit interest rates for its business customers. Due to the replacement of an old Tier 2 issue in 2018 and another Tier 2 issue in 2019, we estimate DKK 6m less in interest expenses in 2019 compared with 2018. We also assume a Tier 3 issue of DKK 75m from mid-2019. Lastly, we include a gain on other liquidity management and funding, mainly driven by an optimisation of the amount of deposits placed at the central bank. Summing up, we argue that in particular lending growth, deposit margin adjustments, and liquidity management optimisation will support net interest income in 2019E.

NII BRIDGE, 2019E



Source: Company data and Nordea estimates

High lending growth will support NII growth

Many good reasons why net interest income growth should exceed Danish peers'

Following the recent years' branch expansion strategy, we expect to see lending growth well above the average of Danish peers. We see two reasons for this. Firstly, lending growth in the recently opened branches will be above normal as these branches mature. Secondly, we find it likely that the extensive branch network will increase customer retention, as customers in 13 branches would have to travel to another town if they wished to switch bank (please see 'The branch network' section for more details). In both 2016 and 2017, the bank witnessed very strong lending growth of 7.3% and 11.5%, respectively. We estimate that lending growth will gradually fade to a more normal level of 3% in 2021.

Net interest income growth, however, has been under pressure in recent years due to lower interest margins on new lending compared to the back book, as the creditworthiness among customers has improved with the general economic upturn. In 2015 and 2016, Sparekassen Sjælland-Fyn also underperformed Danish peers on NII growth owing to the substitution of riskier loans, eg for commercial property, for which interest rates often are higher, with household lending, which has lower credit risk but also lower interest margins. Sparekassen Sjælland-Fyn has also seen headwind on NII due to the issuance of Tier 2 debt at higher coupon rates than peers that have also issued Tier 2 debt. We expect to see lower interest expenses on new Tier 2 issues, which will support net interest income growth in the coming years. For 2019, we estimate ~1% NII growth purely from lower interest expenses on Tier 2 debt.

Following branch openings starting from 2015, lending growth outperformed peers by ~6-8 pp in 2016 and 2017

LENDING GROWTH, Y/Y

	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Sparekassen Sjælland-Fyn	24.8%	-14.2%	17.8%	-8.5%	-2.2%	7.3%	11.5%	7.0%	7.0%	4.0%	3.0%
Danske	1.1%	-3.4%	-5.4%	0.7%	2.9%	4.4%	2.6%	-	-	-	-
Nordea	7.3%	2.7%	-1.1%	1.6%	-2.1%	-6.8%	-2.4%	-	-	-	-
Jyske	2.7%	-2.4%	4.9%	207.4%	3.8%	9.6%	8.2%	-	-	-	-
Sydbank	-5.7%	-1.0%	-2.3%	2.8%	8.5%	3.9%	-16.7%	-	-	-	-
Spar Nord	2.6%	11.9%	-3.3%	1.7%	-5.0%	7.5%	6.2%	-	-	-	-
Ringkjøbing	-3.1%	-2.5%	11.5%	12.0%	11.6%	1.1%	10.7%	-	-	-	-
BankNordik	35.7%	-4.0%	-7.5%	0.3%	1.7%	-14.4%	4.3%	-	-	-	-
Average, Danish peers	8.2%	-1.6%	1.8%	27.3%	2.4%	1.6%	3.1%	3.2%	3.7%	3.2%	n.a.

Source: Company data and Nordea estimates

Note: See research.nordea.com for detailed estimates on peers

Net interest income growth has underperformed peers' since 2015, but we expect this to change with a pickup in lending growth

NET INTEREST INCOME GROWTH, Y/Y

	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Sparekassen Sjælland-Fyn	0.4%	34.3%	4.1%	28.0%	-8.0%	-8.5%	-1.6%	-0.2%	14.4%	5.9%	3.5%
Danske	-1.3%	-3.2%	-2.3%	0.3%	-4.1%	5.1%	5.8%	-	-	-	-
Nordea	5.9%	1.8%	-0.7%	0.6%	-10.7%	-4.8%	-1.3%	-	-	-	-
Jyske	2.2%	1.4%	-0.1%	19.0%	10.7%	-2.3%	-1.3%	-	-	-	-
Sydbank	1.5%	-1.1%	-7.2%	-1.8%	-4.7%	-3.4%	-14.2%	-	-	-	-
Spar Nord	-8.5%	4.8%	16.6%	0.1%	-4.1%	-6.1%	-4.6%	-	-	-	-
Ringkjøbing	3.9%	1.3%	0.0%	3.2%	0.6%	4.3%	-3.4%	-	-	-	-
BankNordik	14.1%	12.1%	-6.4%	-12.4%	-6.9%	-11.5%	-6.5%	-	-	-	-
Average, Danish peers	2.3%	6.4%	0.5%	4.6%	-3.4%	-3.4%	-3.4%	-2.3%	4.1%	3.2%	n.a.

Source: Company data and Nordea estimates

Note: See research.nordea.com for detailed estimates on peers

From Q4 2018, Sparekassen Sjælland-Fyn will benefit from lower interest expenses on its Tier 2 capital

NET INTEREST INCOME GROWTH, Q/Q

	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
Sparekassen Sjælland-Fyn	-	0.8%	-3.4%	2.5%	-5.7%	4.6%	0.7%	1.1%	-7.0%	5.7%	-0.1%	2.6%
Danske	1.3%	4.8%	0.2%	5.5%	-1.0%	-1.4%	4.6%	1.0%	-2.7%	-1.1%	-	-
Nordea	-2.9%	0.3%	0.5%	2.6%	-1.0%	-1.8%	0.9%	-6.4%	-5.0%	1.9%	-	-
Jyske	-7.5%	-0.1%	-3.8%	4.6%	-6.0%	1.2%	-0.4%	11.3%	-8.5%	2.3%	-	-
Sydbank	-0.6%	-0.5%	-1.7%	-0.3%	-9.6%	-1.5%	-4.1%	-3.5%	-2.7%	-0.2%	-	-
Spar Nord	-4.9%	5.6%	-1.0%	-4.2%	-0.7%	0.1%	-1.4%	-3.8%	4.3%	-1.3%	-	-
Ringkjøbing	1.7%	-0.7%	2.8%	-2.6%	-2.3%	-1.5%	-0.6%	4.4%	1.4%	69.9%	-	-
BankNordik	1.8%	-13.3%	5.1%	-2.9%	-2.1%	-0.9%	0.2%	-2.2%	-1.2%	-1.1%	-	-
Average, Danish peers	-1.6%	-0.4%	-0.2%	0.7%	-3.6%	-0.2%	0.0%	0.2%	-2.7%	0.9%	1.2%	0.8%

Source: Company data and Nordea estimates

Note: See research.nordea.com for detailed estimates on peers

Sensitivity to net interest income

We expect lending growth and the net interest margin to be the two main drivers of net interest income. Both have been under pressure across the Danish banking sector in recent years, with the low interest rates causing negative deposit rates in the Danish central bank in particular negatively influencing the margin. In this report, we undertake a sensitivity analysis of the impact on Sparekassen Sjælland-Fyn of changes in lending growth and changes in Danish short rates.

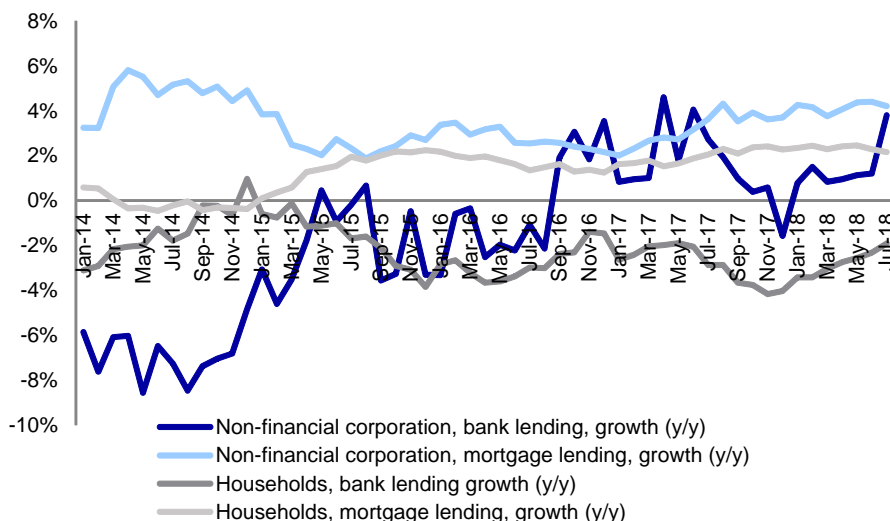
1 pp higher 2019E lending growth would lift 2019E EPS by ~1%

Recent data points from Statistics Denmark show an upturn in lending growth for the sector as a whole. If this continues into 2019, this will support the bank's lending growth next year. We estimate that 1 pp higher lending growth would lift 2019E NII by 0.6% and 2019E PTP by 1.2%.

DENMARK: LENDING GROWTH

Corporate bank lending has only grown marginally in recent years

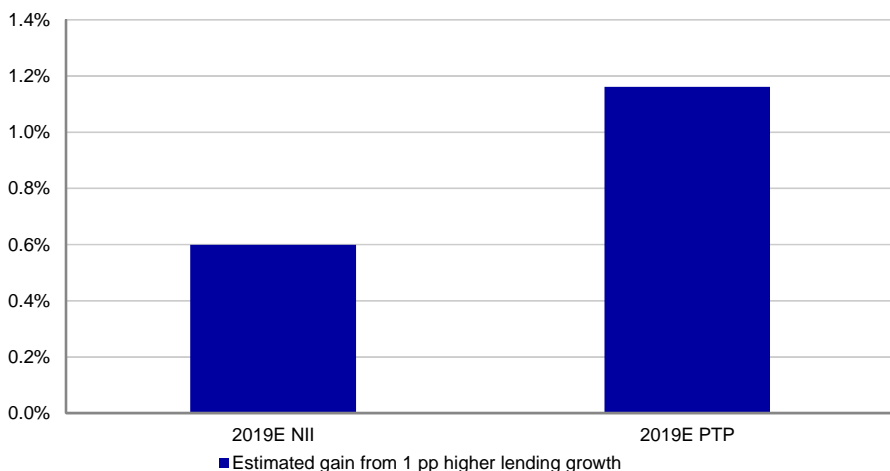
Household bank lending has been under pressure, but recent statistics indicate lower negative growth rates



Source: Company data and Nordea estimates

SENSITIVITY TO 1 PP HIGHER LENDING GROWTH

1 pp higher lending growth would lift 2019E NII by 0.6% and 2019E PTP by 1.2%



Source: Company data and Nordea estimates

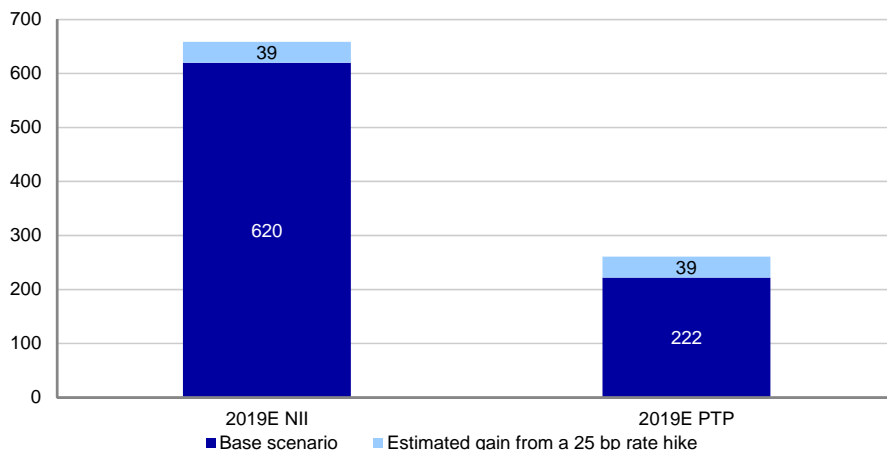
25 bp hike to Danish short rates could boost 2019E EPS by ~17%

Close to 100% benefit from a 25 bp rate hike

As usual, we do not factor changes in interest rates into our base scenario. Instead, we prefer to state the sensitivity to our estimates should rates increase. On lending, we believe that Sparekassen Sjælland-Fyn would have to give up one-fifth of a rate hike for competitive reasons. Assets placed at the central bank, other credit institutions or in bond portfolios should all benefit almost fully from a rate hike. On the liability side, we expect interest rates on saving accounts to increase by approximately 50% of the rate hike due to competition. For regular deposits, we do not see any change to the current 0% interest rates. This leads us to conclude that a 25 bp hike in Danish short rates could boost 2019E NII by up to ~6%, which corresponds to ~17% of 2019E pre-tax profit. We also estimate that a 25 bp hike in rates would add 0.04 to the 2019E income/cost ratio of 1.41.

SENSITIVITY TO A 25 BP HIKE IN DANISH SHORT RATES

A 25 bp hike in Danish short rates could boost 2019E net interest income by up to ~6%, which corresponds to ~17% of 2019E pre-tax profit



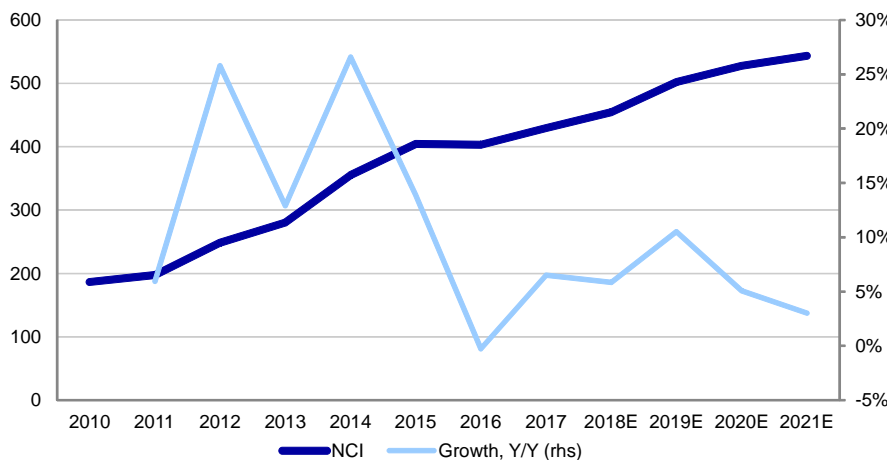
Source: Company data and Nordea estimates

Net commission income

We estimate a 2017-21 net commission income CAGR of ~6%. Similar to net interest income, we expect growth to be higher in 2018-19 due to an expected increase in the number of customers in recently opened branches. Owing to the low interest rate environment, commission income has become increasingly important for banks in recent years. The same holds true for Sparekassen Sjælland-Fyn, as we expect net commission income to account for 42-44% of total income in the period 2017-21.

NET COMMISSION INCOME, DKKm, AND GROWTH, Y/Y

We expect net commission income to continue its upward trend



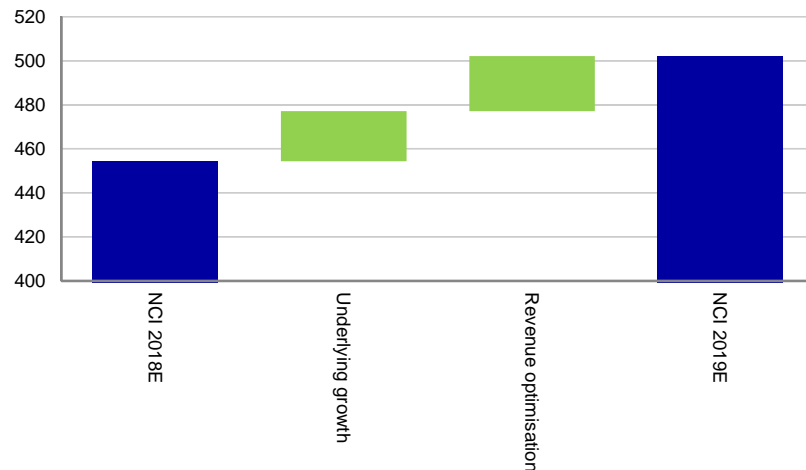
Source: Company data and Nordea estimates

2019E net commission income will benefit from announced price hikes

For 2019, we estimate underlying growth in net commission income of 5%. We expect the strong underlying growth to be driven by growth in the number of customers and lending due to the branch expansion. On top of this, we estimate another DKK 25m in revenue-optimising initiatives, mainly the price adjustments introduced in September 2018. We hence factor in the full-year effect from 2019E.

NCI BRIDGE, 2019E

Strong underlying growth of 5% and announced price hikes will support 2019E net commission income



Source: Company data and Nordea estimates

Branch expansion strategy will support NCI

2018E-20E net commission income growth to exceed peers' by ~1-6 pp for each year

We estimate that Sparekassen Sjælland-Fyn will see higher growth in commission income than Danish peers in 2018-20, partly due to the initiatives described above. Furthermore, we argue that any bank with a growth strategy would likely offer discounts on fees to attract customers initially, but would require normal fees when these customers need to refinance their mortgages a second time. Hence, the positive NCI impact tends to lag lending growth.

NET COMMISSION INCOME GROWTH, Y/Y

	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Sparekassen Sjælland-Fyn	8.1%	22.9%	15.1%	26.6%	14.6%	0.8%	8.4%	4.6%	10.1%	5.0%	3.0%
Danske	-4.6%	6.8%	7.4%	17.1%	34.6%	-3.7%	8.3%	-	-	-	-
Nordea	8.7%	5.3%	7.1%	7.6%	13.7%	0.2%	4.0%	-	-	-	-
Jyske	-0.9%	26.1%	4.8%	1.7%	4.1%	-16.5%	27.9%	-	-	-	-
Sydbank	134.2%	14.1%	2.0%	20.7%	7.1%	-2.6%	15.9%	-	-	-	-
Spar Nord	-5.7%	16.8%	29.5%	19.7%	19.3%	2.2%	6.0%	-	-	-	-
Ringkjøbing	-7.1%	39.2%	6.5%	15.4%	13.1%	-1.7%	9.9%	-	-	-	-
BankNordik	22.1%	46.1%	-3.5%	1.4%	18.1%	-14.9%	-3.1%	-	-	-	-
Average, Danish peers	19.3%	18.7%	8.6%	13.8%	15.6%	-4.5%	9.7%	-0.6%	4.0%	3.6%	n.a.

Source: Company data and Nordea estimates

Note: See research.nordea.com for detailed estimates on peers

NET COMMISSION INCOME GROWTH, Y/Y, QUARTERLY

	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
Sparekassen Sjælland-Fyn	-	-	-	-	16.1%	6.8%	21.1%	-8.3%	0.6%	11.9%	-2.9%	10.1%
Danske	-6.9%	-10.1%	0.6%	1.8%	13.9%	11.5%	2.6%	5.6%	-4.2%	-0.9%	-	-
Nordea	-4.6%	-3.5%	3.7%	5.6%	12.2%	5.7%	2.4%	-3.2%	-11.1%	-5.9%	-	-
Jyske	-47.5%	-2.4%	-2.3%	1.5%	38.2%	22.6%	20.1%	30.5%	13.2%	-5.0%	-	-
Sydbank	-11.2%	-7.4%	0.0%	10.0%	15.6%	13.5%	20.3%	14.6%	11.0%	-0.2%	-	-
Spar Nord	-19.7%	4.2%	17.0%	14.8%	17.6%	4.0%	1.6%	1.6%	-1.5%	-2.1%	-	-
Ringkjøbing	-9.1%	-14.1%	-3.3%	20.5%	16.2%	28.8%	22.4%	-18.0%	22.0%	96.1%	-	-
BankNordik	-17.4%	-25.4%	-11.5%	-1.9%	13.3%	6.0%	-23.9%	-7.7%	-13.7%	-18.9%	-	-
Average, Danish peers	-16.6%	-8.4%	0.6%	7.5%	17.9%	12.4%	8.3%	1.9%	2.0%	-3.0%	4.2%	-0.5%

Source: Company data and Nordea estimates

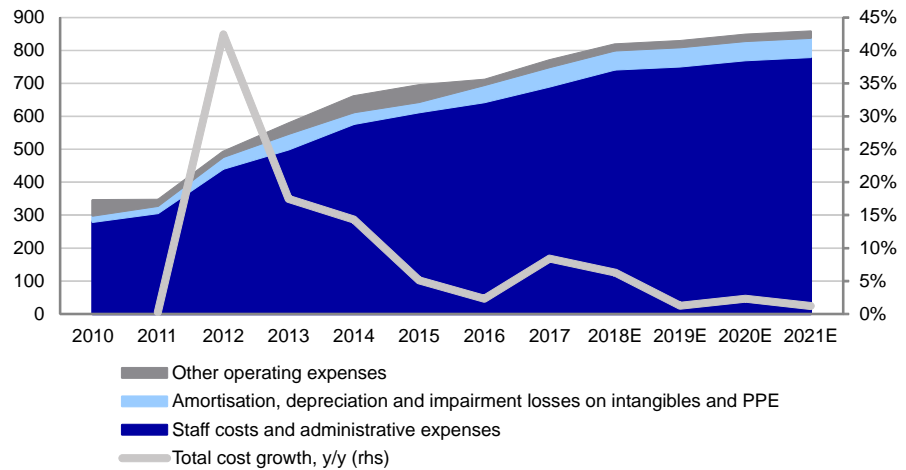
Note: See research.nordea.com for detailed estimates on peers

Costs

We estimate a 2017-21 total cost CAGR of 2.7%. Staff and administrative costs account for ~91% of total costs, and hence costs have been increasing in recent years as staff have been employed in new branches. Furthermore, the Danish banking industry as a whole has been under pressure from higher costs due to large regulatory changes such as AML, MiFID II and IFRS 9, which have required additional investments in IT solutions. We therefore find it likely that cost inflation will be lower going forward.

COSTS, DKKm, AND GROWTH, Y/Y

2017 and 2018 costs have been inflated by higher IT costs and costs related to regulatory changes - On top of this, more staff have been employed as a consequence of the branch expansion strategy



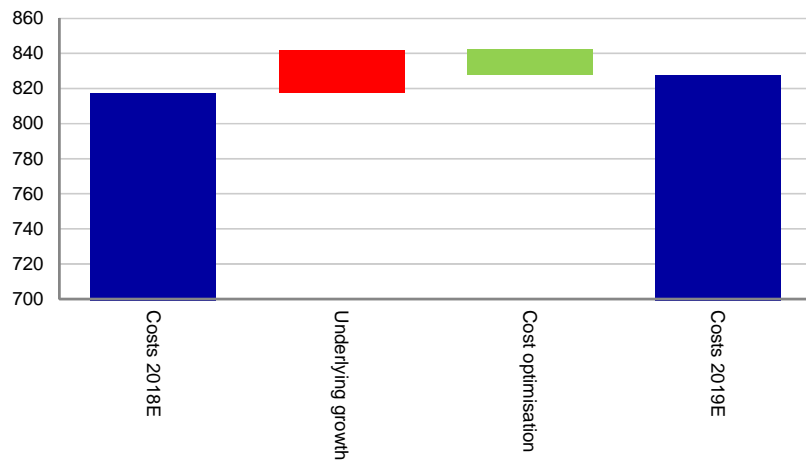
Source: Company data and Nordea estimates

It is about time to harvest the low-hanging fruits

While management has been kept busy with mergers, the bank's IPO and recapitalisation of the bank, as well as adding scale to the business, there has been limited focus on cost optimisation. As management has now expanded the branch network and finalised the rights issue in April 2018, we argue it is time to trim costs. We estimate 3% underlying growth in costs for 2019, although we believe this will be offset by a handful of smaller cost initiatives, leaving total 2019E cost growth at 1.8%.

COST BRIDGE, 2019E

We estimate around 2% cost growth for 2019



Source: Company data and Nordea estimates

Plenty of room for cost optimisation

Currently, Sparekassen Sjælland-Fyn has the weakest cost/income efficiency of the Danish banks, we cover. With an adjusted cost/income ratio of ~75% in 2017 and ~85% in 2018E, which is 12-23 pp above the average of Danish peers, we find plenty of room for cost optimisation. However, we hesitate to include any major cost cutting in our estimates, as we understand that management would prefer it if cost efficiency improvements were derived from higher income on a cost base only growing marginally from current levels. It is also our impression, however, that management will cut costs if necessary, ie if financial targets are not reached through income growth.

We expect 2019 and 2020 adjusted cost/income to be ~12 pp above Danish peers' on average

COST/INCOME, ADJUSTED, ANNUAL

	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Sparekassen Sjælland-Fyn	74.3%	64.5%	50.6%	60.6%	71.0%	74.8%	75.3%	85.0%	70.9%	68.8%	67.4%
Danske	56.8%	53.5%	54.3%	54.0%	51.2%	50.5%	48.2%	-	-	-	-
Nordea	53.4%	50.7%	50.7%	49.0%	47.1%	50.0%	52.3%	-	-	-	-
Jyske	69.2%	63.8%	61.0%	63.4%	64.5%	61.3%	63.9%	-	-	-	-
Sydbank	58.0%	54.5%	58.9%	58.0%	58.9%	58.4%	59.9%	-	-	-	-
Spar Nord	67.7%	61.7%	59.2%	60.0%	55.4%	57.8%	60.9%	-	-	-	-
Ringkjøbing	32.4%	32.2%	32.4%	32.9%	32.1%	32.3%	32.8%	-	-	-	-
BankNordik	73.5%	67.3%	68.9%	70.0%	70.9%	71.9%	71.3%	-	-	-	-
Average, Danish peers	60.7%	56.0%	54.5%	56.0%	56.4%	57.1%	58.1%	62.0%	58.6%	57.0%	n.a.

Source: Company data and Nordea estimates

Note: See research.nordea.com for detailed estimates on peers

COST/INCOME, ADJUSTED, QUARTERLY

	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
Sparekassen Sjælland-Fyn	65.0%	80.5%	69.2%	86.6%	70.3%	73.2%	74.6%	83.8%	81.2%	91.3%	84.8%	83.4%
Danske	52.2%	49.9%	48.3%	51.6%	46.2%	50.2%	48.5%	48.1%	50.1%	54.4%	-	-
Nordea	51.3%	50.1%	48.0%	47.6%	50.6%	53.6%	50.7%	55.1%	55.3%	52.6%	-	-
Jyske	61.9%	60.0%	63.3%	60.3%	57.8%	64.0%	68.1%	66.7%	66.8%	67.2%	-	-
Sydbank	61.7%	59.4%	55.9%	56.6%	60.3%	62.4%	56.9%	60.1%	65.9%	67.4%	-	-
Spar Nord	62.8%	59.3%	48.0%	61.9%	54.3%	61.7%	63.0%	65.7%	64.8%	69.0%	-	-
Ringkjøbing	29.7%	31.6%	31.9%	35.8%	29.9%	31.2%	30.9%	39.2%	30.3%	43.4%	-	-
BankNordik	70.5%	71.1%	70.2%	77.1%	71.4%	72.3%	73.6%	67.8%	71.0%	73.9%	-	-
Average, Danish peers	56.9%	57.7%	54.4%	59.7%	55.1%	58.6%	58.3%	60.8%	60.7%	64.9%	60.4%	61.4%

Source: Company data and Nordea estimates

Note: See research.nordea.com for detailed estimates on peers

COST GROWTH, Y/Y

	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Sparekassen Sjælland-Fyn	0%	42%	17%	14%	5%	4%	5%	8%	1%	2%	1%
Danske	4%	-5%	-6%	2%	5%	-1%	0%	-	-	-	-
Nordea	5%	0%	-1%	-3%	-4%	4%	1%	-	-	-	-
Jyske	12%	-1%	4%	13%	7%	-4%	1%	-	-	-	-
Sydbank	-1%	1%	2%	4%	2%	-3%	2%	-	-	-	-
Spar Nord	-7%	3%	13%	14%	-4%	-1%	5%	-	-	-	-
Ringkjøbing	4%	6%	3%	9%	3%	4%	5%	-	-	-	-
BankNordik	7%	11%	-2%	-9%	-1%	-11%	0%	-	-	-	-
Average, Danish peers	3%	7%	4%	5%	2%	-1%	2%	1%	2%	0%	n.a.

Source: Company data and Nordea estimates

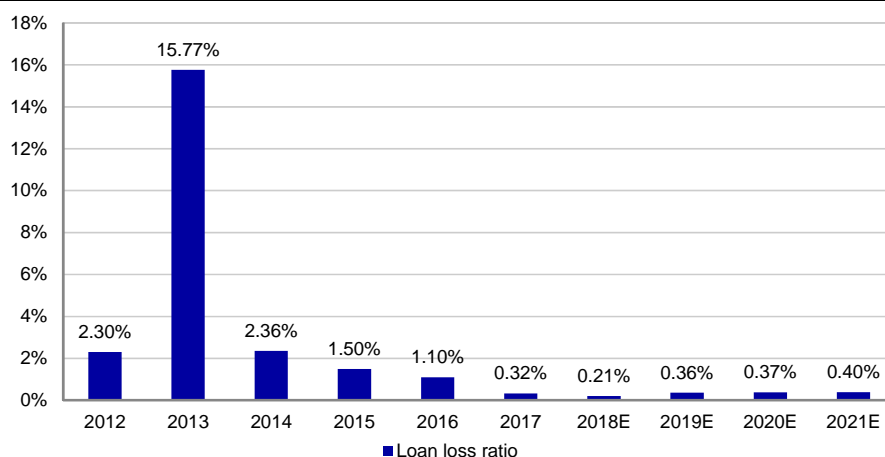
Note: See research.nordea.com for detailed estimates on peers

We expect costs to increase slightly less than for peers in 2019, and slightly more than for peers in 2020

Loan losses

We estimate 2019-21 loan loss ratios of 36-40 bp, slightly higher than in 2017 and 2018E, which have benefited from loan loss reversals due to a strong macroeconomic trend including significant house price increases.

LOAN LOSS RATIO



Source: Company data and Nordea estimates

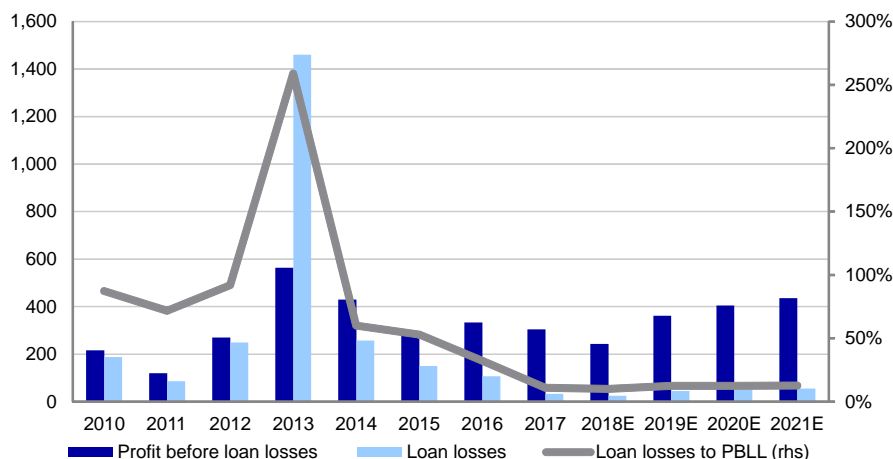
A stronger loan book brought loan losses down to 32 bp in 2017

Loan losses have historically eaten a significant share of PBLL

Sparekassen Sjælland-Fyn has historically struggled with large loan losses, and from 2010 to 2017 total loan losses exceeded all of the bank's profit before loan losses in the same period by DKK 11m. We argue, as discussed above, that the loan book looks much stronger now and we hence expect to see loan losses at a lower level in the future.

LOAN LOSSES AND PROFIT BEFORE LOAN LOSSES

We expect steady growth in PBILL, while loan losses should remain roughly flat in the coming years



Source: Company data and Nordea estimates

LOAN LOSS RATIO, ANNUAL

2018E-20E loan loss ratios
25-28 bp above peers'

	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Sparekassen Sjælland-Fyn	0.99%	2.30%	15.77%	2.36%	1.50%	1.10%	0.32%	0.21%	0.36%	0.37%	0.40%
Danske	0.78%	0.45%	0.26%	0.18%	0.00%	0.00%	-0.05%	-	-	-	-
Nordea	0.23%	0.27%	0.21%	0.16%	0.14%	0.15%	0.12%	-	-	-	-
Jyske	1.40%	1.70%	0.90%	1.76%	0.10%	-0.04%	-0.12%	-	-	-	-
Sydbank	1.64%	2.54%	2.73%	1.06%	0.46%	0.12%	-0.07%	-	-	-	-
Spar Nord	1.33%	1.90%	1.16%	1.46%	0.92%	0.74%	-0.11%	-	-	-	-
Ringkjøbing	0.98%	1.23%	0.97%	0.63%	0.39%	0.28%	0.06%	-	-	-	-
BankNordik	0.99%	0.97%	1.32%	0.82%	0.19%	-0.12%	-0.66%	-	-	-	-
Average, Danish peers	1.04%	1.42%	2.91%	1.05%	0.46%	0.28%	-0.06%	-0.04%	0.08%	0.11%	n.a.

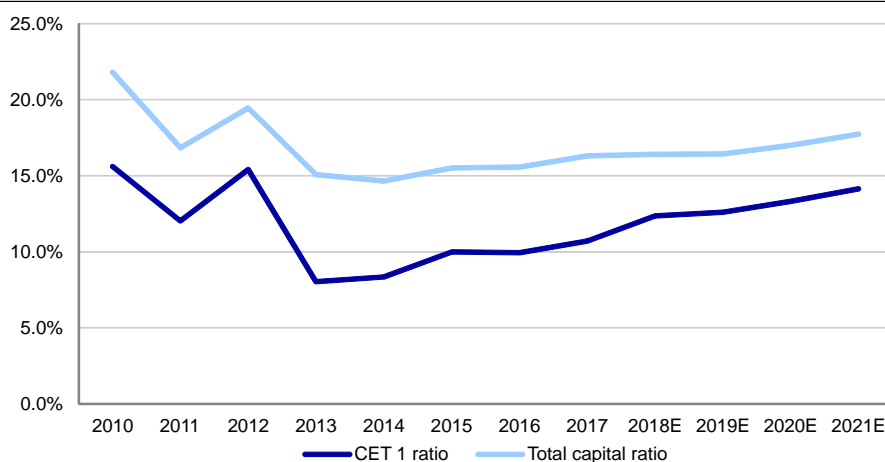
Source: Company data and Nordea estimates

Note: See research.nordea.com for detailed estimates on peers

Capital

Capital still on the low side but
on track to improve

We estimate a 2021 CET1 ratio of 14.1%, up 2 pp from Q2 2018. Since 2013, when Sparekassen Sjælland-Fyn had massive loan losses, the bank has struggled with being somewhat undercapitalised. This triggered an IPO of the bank in December 2015 to bring in new capital, and in April 2018 it completed a rights issue to boost capital ratios. In its current strategy plan, 'New Ways', the bank targets a minimum CET1 ratio of 13% and a minimum total capital ratio of 17%. We expect both targets to be met in 2020. However, we also have the impression that these targets should really be considered minimum levels, and we believe management targets 15% and 20%, respectively.

CAPITAL RATIOS

Source: Company data and Nordea estimates

Sparekassen Sjælland-Fyn is less capitalised than Danish peers

When comparing Sparekassen Sjælland-Fyn with its Danish peers, it is clear that the bank is less capitalised than its peers. The CET1 ratio was 12.1% as of Q2 2018, 4.1 pp

above the minimum requirement but 90 bp below the bank's own minimum target according to its 'New Ways' strategy, and also ~4 pp below the average of its peers.

DANISH BANKS - BIS III/BRD IV MINIMUM REQUIREMENT

Q2 2018	Danske	Nordea	Jyske	Sydbank	Spar Nord	Ringkjøbing	BankNordik	Sparekassen Sjælland-Fyn
Pillar I								
Minimum CET 1	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital conservation buffer	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Systemic risk buffer (P1)	3.0%	3.0%	1.5%	1.0%	0.0%	0.0%	3.8%	0.0%
Counter cyclical buffer	0.8%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Minimum Pillar I CET 1	10.8%	10.6%	8.5%	8.0%	7.0%	7.0%	10.8%	7.0%
Pillar II								
Minimum CET 1 incl. Pillar 2	1.8%	6.8%	1.2%	1.8%	0.7%	0.7%	0.8%	1.0%
Minimum CET 1 incl. Pillar 2	12.6%	17.4%	9.7%	9.8%	7.7%	7.7%	11.6%	8.0%
Management buffer								
Other	1.9%	1.0%	5.3%	4.2%	5.8%	5.8%	5.4%	5.0%
Total minimum CET 1	14.5%	18.4%	15.0%	14.0%	13.5%	13.5%	17.0%	13.0%
Current CET 1 ratio	15.9%	19.9%	16.7%	15.5%	14.4%	15.1%	16.3%	12.1%
Excess/shortfall	1.4%	1.5%	1.7%	1.5%	0.9%	1.6%	-0.7%	-0.9%

Source: Company data and Nordea estimates

DANISH BANKS: BIS III/CRD IV CALCULATIONS

Local currency (m), Q2 2018	Danske	Nordea	Jyske	Sydbank	Spar Nord	Ringkjøbing	BankNordik	Sparekassen Sjælland-Fyn
BIS III/CRD IV								
T1	143,745	27,233	33,988	9,923	8,235	5,092	1,667	3,031
- Hybrids etc	23,524	2,819	3,027	968	839	0	0	855
CET 1	120,221	24,414	30,961	8,955	7,396	5,092	1,667	2,176
REA	753,986	122,568	184,963	57,729	51,493	33,784	10,219	18,009
Equity CET 1 ratio (BIS III)	15.9%	19.9%	16.7%	15.5%	14.4%	15.1%	16.3%	12.1%
REA/Net lending	43.4%	39.4%	42.9%	92.3%	134.3%	105.7%	104.9%	149.8%

Source: Company data and Nordea estimates

High REA to lending is partly to blame for weak capital

As of Q2 2018, Sparekassen Sjælland-Fyn had 150% REA to lending

The relatively high REA (risk exposure amount) to lending ratio compared with peers also explains some of the difference in capital ratios, as it was ~15 pp higher than Spar Nord's in Q2 2018 (in the quarter, Spar Nord had the second-highest REA to lending ratio of the Danish banks we cover). We believe management will focus mainly on the cost/income efficiencies under the current strategy plan, but we would not be surprised if it also looks at capital optimisation at a later stage. If Sparekassen Sjælland-Fyn were to reduce the REA to lending ratio to the same level as Spar Nord in 2020E, this would lift the CET1 ratio by 1.1 pp.

REA TO LENDING

	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E
Sparekassen Sjælland-Fyn	142%	137%	130%	145%	151%	151%	145%	148%	147%	146%	146%
Danske	53%	56%	57%	55%	52%	49%	44%	-	-	-	-
Nordea	83%	77%	76%	42%	42%	42%	41%	-	-	-	-
Jyske	100%	102%	100%	52%	50%	47%	45%	-	-	-	-
Sydbank	103%	104%	107%	106%	91%	82%	92%	-	-	-	-
Spar Nord	135%	133%	126%	143%	143%	135%	133%	-	-	-	-
Ringkjøbing	103%	107%	107%	103%	101%	105%	102%	-	-	-	-
BankNordik	105%	105%	110%	114%	107%	107%	104%	-	-	-	-
Average, Danish peers	103%	103%	102%	95%	92%	90%	88%	89%	88%	87%	n.a.

Source: Company data and Nordea estimates

Note: See research.nordea.com for detailed estimates on peers

In 2018E-20E, REA to lending is ~60% higher than for Danish peers on average

Our estimates versus 'New Ways' financial objectives

We consider management's financial targets ambitious and our estimates are less aggressive than the targets. For example, even though we pencil in a 2017-21 total income CAGR of ~5%, this is not enough to bring the income/cost ratio up to the targeted level. On the cost side, we argue that IT costs are to some extent out of management's hands due to the Bankdata and Totalkredit collaboration, and hence we do not anticipate any significant cost cuts.

FINANCIAL OBJECTIVES OVERVIEW

		2021 targets	Current (Q2 18)	2021 Nordea estimate
Increased efficiency	Staff and administrative costs of 1.75% our business volume		2.13%	1.95%
Solid profitability	ROE after tax* of 9-11%		6.17%	9.03%
High income/cost ratio DKK	Income/cost ratio of at least 1.7		1.29	1.48
A robust foundation (part 1)	CET1 ratio of at least 13%		12.4%	14.1%
A robust foundation (part 2)	Total capital ratio of at least 17%		16.4%	17.7%

Source: Company data and Nordea estimates

What is needed to reach the targets?

For all management's targets to be reached by 2021 at the latest, the following estimate changes would be necessary:

1) We would need to lift lending growth to 10% for every year in the period 2018E-21E, from 9%, 7%, 4% and 3%, respectively. In a positive scenario, this could happen if the branch network turns out to be an even larger competitive advantage than we expect.

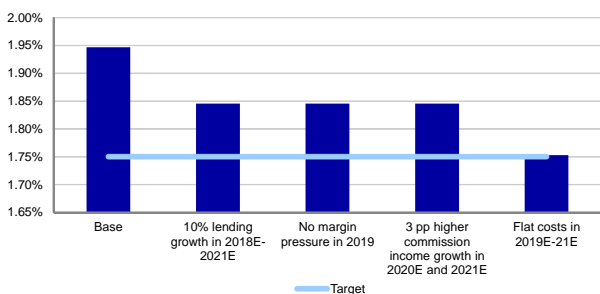
2) We would need to remove all interest margin pressure in 2019E. In our base case, we argue that there continues to be underlying pressure on margins due to competition and lower interest rates on new lending compared with the back book. However, in a positive scenario, competition might ease for Sparekassen Sjælland-Fyn as the maturing branch network enables it to implement higher prices.

3) We would need to lift 2020E and 2021E commission income growth by 3 pp to 8% and 6%, respectively. Higher customer inflow in the newly opened branches plus a larger positive impact from price increases could trigger higher growth.

4) We would have to assume costs staying flat in 2019E-21E at DKK 743m instead of increasing to DKK 752m, DKK 771m, and , DKK 783m respectively. Sparekassen Sjælland-Fyn's cost efficiency is significantly weaker than peers' and a greater focus on keeping costs down could bring costs down further than our current estimate.

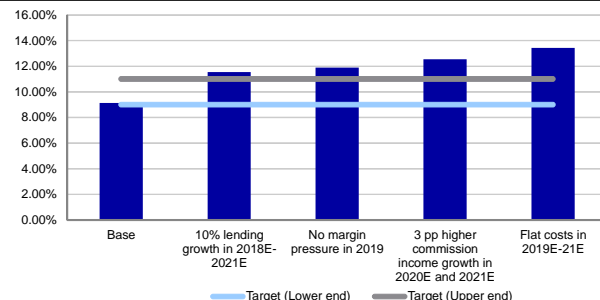
By making these adjustments, all four financial objectives would be met by 2021.

STAFF AND ADM. COSTS OF 1.75% OF BUSINESS VOLUME



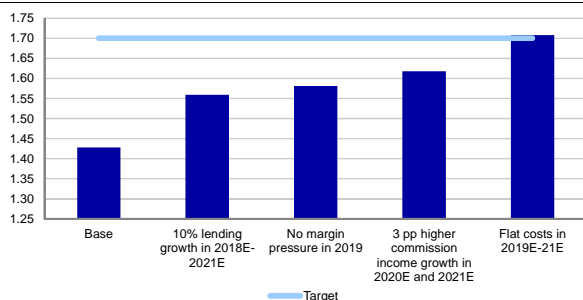
Source: Company data and Nordea estimates

ROE AFTER NORMALISED TAX OF 9-11%



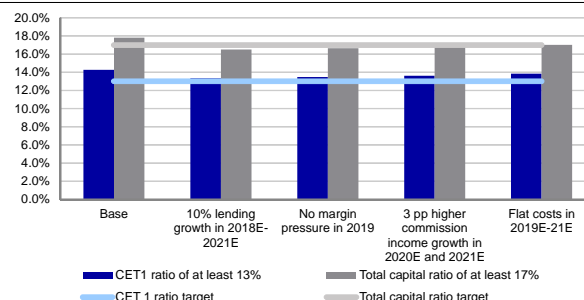
Source: Company data and Nordea estimates

INCOME/COST RATIO OF AT LEAST 1.7



Source: Company data and Nordea estimates

CAPITAL RATIOS OF 13% AND 17%



Source: Company data and Nordea estimates

MANAGEMENT SCENARIO: FINANCIAL TARGETS

		2021 targets	Current (Q2 18)	2021 estimate
Increased efficiency	Staff and administrative costs of 1.75% our business volume		2.13%	1.75%
Solid profitability		ROE after tax* of 9-11%	6.17%	13.30%
High income/cost ratio DKK		Income/cost ratio of at least 1.7	1.29	1.77
A robust foundation (part 1)		CET1 ratio of at least 13%	12.1%	13.6%
A robust foundation (part 2)		Total capital ratio of at least 17%	16.1%	16.8%

Source: Company data and Nordea estimates

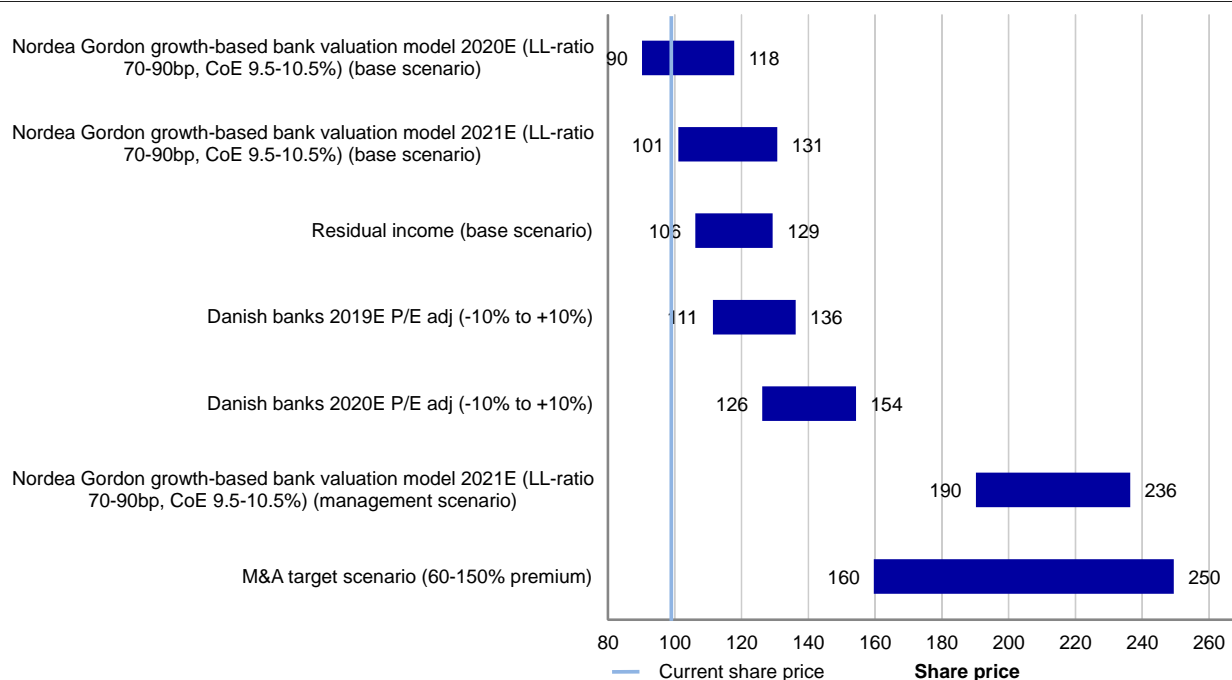
Valuation

Sparekassen Sjælland-Fyn trades at a 2019E adjusted P/E of 7.5x, 19% below Danish peers. In our base-case scenario, we arrive at a fair value range of DKK 90-131. In a scenario in which Sparekassen Sjælland-Fyn achieves all of its financial targets, we estimate a fair value range of 190-236. Furthermore, we argue that we could see an offer price of DKK 160-250 per share in an M&A scenario, as described in the section "A potential M&A target".

Fair value range of DKK 90-131 in base-case scenario

Applying different valuation approaches, including our own Nordea Gordon growth-based bank valuation model, to our base-case scenario estimates, we derive a fair value range of DKK 90-131 per share. If the bank were to trade at +/- 10% of the average 2019E and 2020E adjusted P/E multiples of the Danish banks under our independent equity coverage, we calculate that the fair value range would be DKK 111-154 per share. If Sparekassen Sjælland-Fyn reaches all of its financial targets, our Gordon growth-based bank valuation model implies that a fair value range would be DKK 191-238. Lastly, we believe the bank could be a potential acquisition target owing to its geographic presence (please see the 'A potential M&A target' section for more details). In an acquisition scenario, we would expect a takeover premium between 60% and 150%, which corresponds to an offer price of DKK 160-250.

VALUATION APPROACHES AND FAIR VALUE RANGES



Source: Company data and Nordea estimates

Nordea Gordon growth-based bank valuation model

Our preferred valuation model is the Nordea Gordon growth-based bank valuation model. The model is built on calculating the warranted P/CET1 capital given the adjusted return on CET1 capital. The profit is adjusted for one-off items and the interest expense on AT1 capital, and we normalise both the tax rate and the loan loss ratio. For the Danish banks under our independent equity coverage, we base the model on our 2020 estimates. A similar approach on Sparekassen Sjælland-Fyn produces a fair value range of DKK 90-118 per share assuming a cost of equity of 9.5-10.5% and a normalised loan loss ratio of 70-90 bp. However, we note that basing valuation on 2020 estimates might not mirror the underlying value properly, as 2021 is the last year of Sparekassen Sjælland-Fyn's strategic plan. Accordingly, we choose to include a similar model based on our 2021 estimates. This model produces a fair value range of DKK 101-131 per share; as we would expect, this is DKK 11-13 (~11%) above the valuation based on 2020 estimates, as we now include profitability-enhancing initiatives in 2021.

GORDON GROWTH MODEL – BASE CASE 2020E (COE=10%, NORMALISED LL-RATIO=80 bp)

DKKm	Sparekassen Sjælland-Fyn
Q2 18	
CET1 capital	2,176
Reversal of dividend deduction	101
Adjusted CET1 capital	2,276
Number of shares	17
Adjusted CET1 capital per share	131
Current share price	99.8
Adj. P/CET1	0.76
Valuation assumptions:	
Adjusted profit calculations:	
Loss ratio 2020E	0.37%
Norm loss ratio	0.80%
Lending 2019E	13,373
Adj. net profit 2020	219
Average CET1 capital 2020	2,585
Gordon growth model assumptions	
Adj. return on CET1 2020	8.5%
Long-term growth	2.5%
Cost of equity	10.00%
Warranted P/CET1 2020	0.80
Fair value, now excl capital distribution	1,644
Discounted value, capital distribution	80
Fair value of tax asset	65
Total fair value today	1,789
Total fair value today, per share	103
Upside/downside	3%
Published fair value, per share	
Justified P/TBV	0.54
- RoTBV 2020	7.1%
Justified P/BV	0.54
- RoE 2020	7.1%

Source: Company data and Nordea estimates

GORDON GROWTH MODEL SENSITIVITY – BASE-CASE SCENARIO 2020E

		Normalised loan loss ratio						
		-0.50%	-0.60%	-0.70%	-0.80%	-0.90%	-1.00%	-1.10%
COE	8.50%	155	147	139	131	122	114	106
	9.00%	143	135	128	120	112	105	97
	9.50%	132	125	118	111	104	97	90
	10.00%	122	116	109	103	97	90	84
	10.50%	114	108	102	96	90	84	78
	11.00%	107	101	96	90	84	79	73
	11.50%	100	95	90	85	79	74	69

Source: Company data and Nordea estimates

GORDON GROWTH MODEL – BASE CASE 2021E (COE=10%, NORMALISED LL-RATIO=80 bp)

DKKm	Sparekassen Sjælland-Fyn
Q2 18	
CET1 capital	2,176
Reversal of dividend deduction	101
Adjusted CET1 capital	2,276
Number of shares	17
Adjusted CET1 capital per share	131
Current share price	99.8
Adj. P/CET1	0.76
Valuation assumptions:	
Adjusted profit calculations:	
Loss ratio 2021E	0.40%
Norm loss ratio	0.80%
Lending 2020E	13,908
Adj. net profit 2021	239
Average CET1 capital 2021	2,825
Gordon growth model assumptions	
Adj. return on CET1 2021	8.5%
Long-term growth	2.5%
Cost of equity	10.00%
Warranted P/CET1 2021	0.79
Fair value, now excl capital distribution	1,796
Discounted value, capital distribution	135
Fair value of tax asset	65
Total fair value today	1,995
Total fair value today, per share	115
Upside/downside	15%
Published fair value, per share	
Justified P/TBV	0.61
- RoTBV 2020	7.1%
Justified P/BV	0.61
- RoE 2020	7.1%

Source: Company data and Nordea estimates

GORDON GROWTH MODEL SENSITIVITY - BASE-CASE SCENARIO 2021E

		Normalised loan loss ratio						
		-0.50%	-0.60%	-0.70%	-0.80%	-0.90%	-1.00%	-1.10%
COE	8.50%	171	162	154	145	137	128	119
	9.00%	157	149	141	134	126	118	110
	9.50%	145	138	131	124	116	109	102
	10.00%	135	128	122	115	108	102	95
	10.50%	126	120	113	107	101	95	89
	11.00%	118	112	106	101	95	89	83
	11.50%	111	105	100	95	89	84	79

Source: Company data and Nordea estimates

Residual income model

Another commonly used valuation approach for banks is the residual income model. The starting point of the residual income model is the current CET1 capital adjusted for the capital deduction on YTD profits. We then deduct the cost of the capital employed, ie cost of equity multiplied with CET1 at the start of the year, from future profits for shareholders, and lastly we discount it by the cost of equity to derive the present value. Using the residual income model for our base-case scenario, we derive a fair value range of DKK 106-129 per share.

RESIDUAL INCOME ASSUMPTIONS – BASE CASE

CoE	10%
Long-term growth	2.5%
2022E-25E Medium-term growth	3.5%
Payout ratio from 2022E	40%
Normalised LL-ratio from 2022E	0.80%
Effective tax rate 2022E-24E	9.0%
Effective tax rate 2025E	9.4%

Source: Company data and Nordea estimates

RESIDUAL INCOME MODEL – BASE CASE

DKKm	Q3-Q4 2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Adjusted net income	59	270	306	329	309	320	331	341	301
Adjusted CET1 (Start of year)	2,276	2,285	2,469	2,701	2,950	3,135	3,327	3,526	3,730
Cost of equity	10%	10%	10%	10%	10%	10%	10%	10%	10%
Cost of the capital employed	-114	-228	-247	-270	-295	-314	-333	-353	-373
Residual Income (RI)	-55	42	60	59	14	6	-2	-11	-72
PV (RI)	-53	37	48	43	9	4	-1	-6	
Terminal value									-719
PV (Terminal value)									-325
Q2 Adjusted CET1	2,276								
PV (RI)	82								
PV (Terminal value)	-325								
Equity value	2,033								
Number of shares (m)	17.37								
Fair value per share (DKK)	117								

Source: Company data and Nordea estimates

RESIDUAL INCOME MODEL SENSITIVITY

		Normalised loan loss ratio						
		0.50%	0.60%	0.70%	0.80%	0.90%	1.00%	1.10%
COE	8.50%	159	154	149	144	138	133	128
	9.00%	148	143	139	134	129	124	119
	9.50%	138	134	129	125	120	116	112
	10.00%	129	125	121	117	113	109	105
	10.50%	121	118	114	110	106	102	98
	11.00%	114	111	107	104	100	96	93
	11.50%	108	105	101	98	95	91	88

Source: Company data and Nordea estimates

Fair value of DKK 190-236 if financial targets are met

If we apply our Nordea Gordon growth-based bank valuation model to a scenario where Sparekassen Sjælland-Fyn achieves its ambitious financial targets in 2021, we arrive at a fair value range of DKK 190-236 per share.

GORDON GROWTH MODEL – MANAGEMENT SCENARIO 2021E (COE=10%, NORMALISED LL-RATIO=80 bp)

DKKm	Sparekassen Sjælland-Fyn
Q2 18	
CET1 capital	2,176
Reversal of dividend deduction	101
Adjusted CET1 capital	2,276
Number of shares	17
Adjusted CET1 capital per share	131
Current share price	99.8
Adj. P/CET1	0.76
Valuation assumptions:	
Adjusted profit calculations:	
Loss ratio 2021E	0.35%
Norm loss ratio	0.80%
Lending 2020E	15,547
Adj. net profit 2021	401
Average CET1 capital 2021	3,014
Gordon growth model assumptions	
Adj. return on CET1 2021	13.3%
Long-term growth	2.5%
Cost of equity	10.00%
Warranted P/CET1 2021	1.44
Fair value, now excl capital distribution	3,472
Discounted value, capital distribution	165
Fair value of tax asset	40
Total fair value today	3,678
Total fair value today, per share	212
Upside/downside	112%
Published fair value, per share	
Justified P/TBV	1.12
- RoTBV 2020	7.1%
Justified P/BV	1.12
- RoE 2020	7.1%

Source: Company data and Nordea estimates

GORDON GROWTH MODEL SENSITIVITY - MANAGEMENT SCENARIO 2021E

		Normalised loan loss ratio						
		-0.50%	-0.60%	-0.70%	-0.80%	-0.90%	-1.00%	-1.10%
COE	8.50%	299	289	280	270	261	251	241
	9.00%	274	265	256	248	239	230	221
	9.50%	253	245	236	228	220	212	204
	10.00%	234	227	219	212	204	197	189
	10.50%	218	211	204	197	190	183	176
	11.00%	204	197	191	184	178	171	165
	11.50%	191	185	179	173	167	161	155

Source: Company data and Nordea estimates

Relative valuation

Sparekassen Sjælland-Fyn currently trades at a 2019E adjusted P/E of 7.5x, ~19% below Danish peers; on our 2020 estimates, the bank trades at a 23% discount to peers on adjusted P/E. The current share price implies a 2019E P/BV of 0.59x, ~37% below peers. The 2019E dividend yield of 3.6% is 25% below peers, owing to a lower payout ratio as capital is currently below management's target.

DANISH BANKS: RELATIVE VALUATION

30/08/2018	Mcap			Price			Daily			Absolute Performance			Consensus 2018E EPS rev.		
	(EURm)	Local ccy	vol EURm	FV	Potential	Rating	-1M	-3M	-12M	-3M	-6M	-12M			
Sparekassen Sjælland-Fyn	234	99.8	0.04	-	-	No rating	0.0%	-6.5%	-20.6%	-	-	-			
Danske	23,128	192.0	52.0	-	-	-	2.2%	-7.2%	-21.2%	-7.9%	-10.4%	8.9%			
Nordea	37,113	9.3	45.9	-	-	-	1.6%	11.5%	-17.4%	1.9%	-3.1%	-1.1%			
Jyske Bank	3,961	326.6	11.2	-	-	-	-9.3%	-5.6%	-12.7%	4.4%	8.1%	-11.4%			
Sydbank	1,974	189.5	5.6	-	-	-	-20.0%	-13.5%	-21.7%	-11.6%	-3.2%	10.9%			
Spar Nord	1,034	62.6	0.7	-	-	-	-9.1%	-10.4%	-21.9%	0.3%	0.8%	-4.5%			
Ringkjøbing	1,429	338.0	1.6	-	-	-	-6.6%	-8.4%	3.7%	1.6%	1.5%	-0.5%			
BankNordik	151	111.0	0.05	-	-	-	-1.3%	0.0%	-8.3%	-	-	-			
Average, Danish peers	8,628		15				-5.3%	-5.0%	-15.0%	-1.9%	-1.0%	0.4%			

	P/PPP			P/E adj.			P/E			P/E, consensus		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Sparekassen Sjælland-Fyn	5.4x	4.2x	4.3x	18.1x	7.5x	6.6x	12.0x	6.4x	5.7x	-	-	-
Average, Danish peers	7.2x	6.8x	6.3x	10.9x	9.3x	8.6x	9.4x	9.0x	8.3x	9.8x	9.7x	8.9x

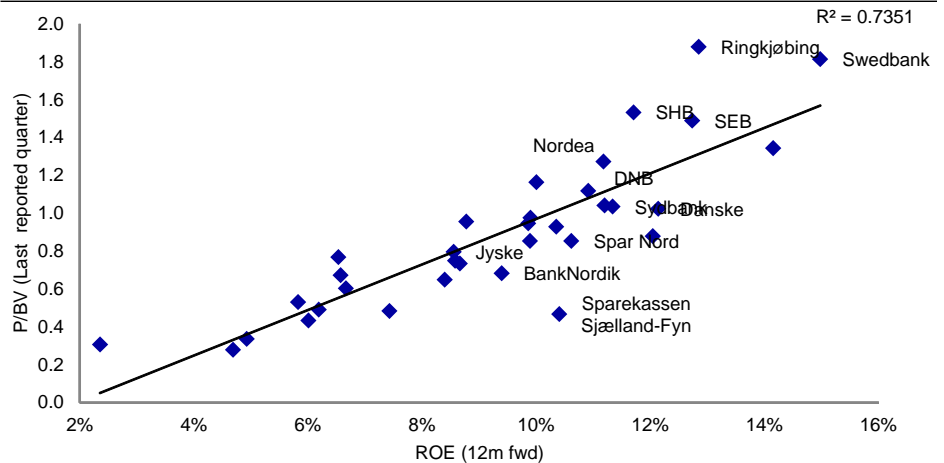
	ROE			ROTBV			P/BV			P/TBV		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Sparekassen Sjælland-Fyn	8.3%	10.4%	10.8%	8.8%	10.9%	11.3%	0.64x	0.59x	0.55x	0.68x	0.62x	0.57x
Average, Danish peers	11.0%	10.3%	10.6%	10.6%	10.6%	10.9%	0.95x	0.90x	0.86x	1.02x	0.97x	0.93x

	Dividend yield			Buyback yield			Dividend payout ratio			CT1 BIS III		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Sparekassen Sjælland-Fyn	2.1%	3.6%	3.9%	0.0%	0.0%	0.0%	15%	23%	23%	12.4%	12.6%	13.3%
Average, Danish peers	4.5%	4.9%	5.3%	2.6%	2.5%	2.6%	40.3%	46.5%	47.3%	16.3%	16.5%	16.6%

	Adj. EPS growth			Lending growth			Adj. C/I			Loan loss-ratio		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Sparekassen Sjælland-Fyn	-46%	87%	13%	7.0%	7.0%	4.0%	85%	71%	69%	-0.20%	-0.34%	-0.36%
Average, Danish peers	-3.2%	13.5%	7.6%	11.0%	3.7%	3.2%	62%	59%	57%	-0.09%	-0.01%	0.02%

Source: Company data, Thomson Reuters and Nordea estimates

EUROPEAN BANKS: P/BV AND ROE



Source: Company data, Thomson Reuters and Nordea

Note that the 12-month forward ROE is inflated by the lower effective tax rate owing to the tax shield for Sparekassen Sjælland-Fyn

Risk factors

Below we discuss the risk factors that we believe could influence the performance of the bank, and could lead to performance deviating substantially from our estimates. The following is not an exhaustive list of risk factors that investors should consider, but is rather intended to highlight those risks that we believe are most relevant.

- Sparekassen Sjælland-Fyn is exposed to the general economic trends and conditions in the areas where it operates. If the economy suffers a material and adverse downturn for a prolonged period of time, that could increase the unemployment rate and lower the companies' performance; this could have a negative impact on both asset quality and the bank's growth.
- Sparekassen Sjælland-Fyn operates on the Bankdata platform, which leaves it vulnerable to cost inflation for IT systems.
- The bank depends on its IT systems for managing and handling client accounts, and for facilitating payments. Failure of essential IT systems could adversely affect its operations.
- Sparekassen Sjælland-Fyn operates in a competitive market, which presents the risk of margin pressure arising from attracting and keeping clients.
- The bank depends on having high-performing employees on its front line, which could add pressure to staff costs if competition among banks intensifies.
- Sparekassen Sjælland-Fyn has a large branch network, which makes the bank vulnerable to emerging competitive technologies that replace the need for a physical branch.
- New regulation could have adverse impacts on costs, if it would require additional administrative work.
- New regulation for capital requirements could put the bank at risk owing to its current capital position being below those of peers.

Reported numbers and forecasts

QUARTERLY KEY DATA

SHARE DATA

DKKm	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
EPS	4.66	3.69	4.12	2.94	5.02	1.17	1.53	1.86
EPS adj	4.05	3.53	3.58	1.84	1.97	1.28	1.26	1.51
BVPS	161.6	162.3	166.4	170.9	167.6	151.7	153.2	155.1
TVBS	150.3	151.1	155.5	160.4	157.3	144.1	145.7	147.5
DPS								
Dividend pay-out ratio								
Share repurchases (per share)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total pay-out ratio	0%	0%	0%	0%	0%	0%	0%	0%
Share price (period end)	128.60	125.13	125.62	113.70	107.25	102.50	99.80	99.80
Market cap. (m)	1,676	1,631	1,637	1,482	1,398	1,781	1,734	1,734
Dil. number of shares period end (m)	13	13	13	13	13	17	17	17

VALUATION

(x)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
P/E	6.9	8.5	7.6	9.7	5.3	21.9	16.3	13.4
P/E (adj.)	7.9	8.8	8.8	15.5	13.6	20.1	19.8	16.5
P/BV	0.80	0.77	0.76	0.67	0.64	0.68	0.65	0.64
P/TBV	0.86	0.83	0.81	0.71	0.68	0.71	0.69	0.68
Dividend yield								
Total yield								

CAPITAL RATIOS

%	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
BIS II Trans. CET1-ratio	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
BIS II Trans. T1-ratio	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
BIS II Trans. T2-ratio	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
BIS III CET1-ratio	9.5%	10.1%	9.7%	10.7%	10.2%	12.1%	11.9%	12.4%
BIS III T1-ratio	12.6%	13.2%	12.6%	14.0%	13.7%	16.8%	16.6%	14.2%
BIS III T2-ratio	14.7%	15.3%	14.6%	16.3%	16.1%	19.8%	19.5%	16.4%
Tang. Equity/Assets	9.9%	9.5%	9.7%	9.7%	9.4%	10.7%	10.7%	10.8%
Tang. Equity/Lending	18.3%	17.7%	17.8%	17.9%	17.6%	20.8%	20.6%	20.5%
Leverage ratio	7.8%	7.9%	7.8%	8.5%	7.8%	9.3%	9.2%	9.6%

CREDIT QUALITY

DKKm	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
Impaired loans	0	0	0	0	0	0	0	0
Loan loss reserves	1,338	1,197	975	1,143	1,341	1,137	1,132	1,126
Coverage ratio	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Loan loss reserves / Total loans	12.64%	10.97%	8.67%	9.91%	11.50%	9.61%	9.30%	9.08%
Impaired loans / Total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Collective/total provisions	0%	0%	0%	0%	0%	0%	0%	0%
Perf. Impaired loans/Impaired loans	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Loan loss ratio	-0.41%	-0.35%	-0.09%	-0.38%	-0.41%	0.26%	-0.33%	-0.32%
Growth loan loss reserves (y/y)	-22%	-18%	-12%	-16%	0%	-5%	16%	-1%
Growth impaired loans (y/y)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

PROFITABILITY

Adjusted for non-rec. Items	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
RoE	10.1%	8.7%	8.7%	4.4%	4.7%	3.7%	3.3%	3.9%
RoTBV	10.9%	9.4%	9.3%	4.7%	5.0%	3.9%	3.5%	4.1%
C/I	-70.3%	-73.2%	-74.6%	-83.8%	-81.2%	-91.3%	-84.8%	-83.4%
Nil-margin	4.40%	4.48%	4.37%	4.32%	3.92%	3.96%	3.83%	4.18%

REVENUE DISTRIBUTION

Adjusted for non-rec. Items	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
Net Interest Income	45%	48%	49%	52%	49%	52%	48%	51%
Net Commission Income	47%	44%	47%	44%	52%	56%	47%	45%
Net result from financial transactions	0%	0%	0%	0%	0%	0%	0%	0%
Net insurance income	0%	0%	0%	0%	0%	0%	0%	0%
Other Income	2%	3%	1%	1%	2%	2%	2%	2%

Source: Company data and Nordea estimates

QUARTERLY INCOME STATEMENT AND BALANCE SHEET
INCOME STATEMENT

DKKm	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
Net Interest Income	130	136	137	139	129	136	136	140
Net Commission Income	122	112	118	104	123	126	114	114
Net result from financial transactions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net insurance income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other income	4	8	4	16	4	4	5	5
Total revenues	275	269	265	264	285	245	263	267
Staff costs	161	173	171	187	176	186	186	194
Other operating costs	5	5	5	4	5	4	4	4
Depreciation	17	12	12	17	11	16	16	16
Total Expenses	183	191	187	208	191	206	206	214
Profit before loan losses	91	78	78	56	94	39	57	53
Loan losses	11	9	3	11	12	-8	10	10
Write-downs on assets	1	0	-1	3	1	1	1	1
Operating profit	81	69	74	49	83	48	48	44
Taxes	7	7	6	-4	2	12	1	1
Discontinued operations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Minority interest	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net profit to equity	75	62	68	53	80	36	46	43

BALANCE SHEET

DKKm	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
Cash / Interbank	377	362	347	357	360	360	360	360
Loans to credit institutions	1,336	1,400	1,381	1,831	2,489	2,270	2,270	2,270
Loans to the public	10,695	11,121	11,371	11,681	11,642	12,022	12,309	12,498
Goodwill and other intangibles	148	145	141	138	135	131	131	131
Total assets	19,814	20,776	20,954	21,487	21,704	23,362	23,649	23,838
Interbank/owed to credit institutions	349	429	370	439	337	377	377	377
Deposits	15,542	16,287	16,370	16,589	16,846	17,503	17,699	17,419
Subordinated loans	368	353	353	403	403	531	533	415
Minority interest	0	0	0	0	0	0	0	0
Shareholders equity	2,106	2,114	2,168	2,228	2,184	2,636	2,663	2,695
Total equity and liabilities	19,814	20,776	20,954	21,487	21,704	23,362	23,649	23,838
Loans to deposits	69%	68%	69%	70%	69%	69%	70%	72%
Non-mortg. loans to deposits	69%	68%	69%	70%	69%	69%	70%	72%
LCR	0%	0%	0%	0%	0%	0%	0%	0%
NSFR	0%	0%	0%	0%	0%	0%	0%	0%

GROWTH (Y/Y)

Adjusted for non rec.items	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18E	Q4 18E
Net interest income	-6%	-3%	2%	0%	-2%	-4%	-5%	4%
Net commission income	16%	7%	21%	-8%	1%	12%	-3%	10%
Total Revenues	2%	17%	-4%	4%	-10%	-11%	-3%	8%
Staff costs	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Total expenses	10%	6%	4%	1%	4%	11%	10%	7%
Profit before loan losses	-14%	60%	-21%	25%	-43%	-71%	-42%	11%
Operating profit	31%	228%	8%	128%	-51%	-52%	-53%	10%
Net profit to equity	31%	228%	8%	128%	-51%	-52%	-53%	10%
Loans to the public (rep)	10%	13%	13%	12%	9%	8%	8%	7%
Deposits	7%	5%	6%	6%	8%	7%	8%	5%
Assets	6%	5%	7%	8%	10%	12%	13%	11%
REA growth (BIS Trans)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
REA growth (BIS III)	12%	5%	11%	7%	3%	11%	9%	9%

Source: Company data and Nordea estimates

ANNUAL KEY DATA**SHARE DATA**

DKKm	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
EPS	0.00	0.00	0.00	0.00	0.00	12.23	15.41	8.34	15.57	17.64
EPS adj	n.a.	n.a.	n.a.	n.a.	n.a.	8.29	13.00	5.53	13.38	15.15
BVPS	n.m.	n.m.	n.m.	n.m.	n.m.	157.9	170.9	155.1	168.2	183.1
TVBS	n.m.	n.m.	n.m.	n.m.	n.m.	146.4	160.4	147.5	160.6	175.5
DPS (tot.)	0.00	0.00	0.00	0.00	3.00	3.05	0.00	2.08	3.89	4.41
Dividend pay-out ratio	n.m.	n.m.	n.m.	n.m.	n.m.	25%	0%	25%	25%	25%
Share repurchases (per share)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	0.00	0.00	0.00	0.00
Total pay-out ratio	0%	0%	0%	0%	0%	9%	0%	15%	23%	23%
Share price (period end)	n.a.	n.a.	n.a.	n.a.	97	106	114	100	100	100
Market cap. (m)	n.a.	n.a.	n.a.	n.a.	0	1,385	1,482	1,734	1,734	1,734
Dil. number of shares	0	0	0	0	0	13	13	17	17	17

VALUATION

(x)	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
P/E	n.a.	n.a.	n.a.	n.a.	n.m.	8.7	7.4	12.0	6.4	5.7
P/E (adj.)	n.a.	n.a.	n.a.	n.a.	n.a.	12.8	8.7	18.1	7.5	6.6
P/BV	n.a.	n.a.	n.a.	n.a.	0.00	0.67	0.67	0.64	0.59	0.55
P/TBV	n.a.	n.a.	n.a.	n.a.	0.00	0.73	0.71	0.68	0.62	0.57
Dividend yield (tot.)	n.a.	n.a.	n.a.	n.a.	3.1%	2.9%	0.0%	2.1%	3.9%	4.4%
Total yield	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	0.0%	2.1%	3.9%	4.4%

CAPITAL RATIOS

%	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
BIS II Trans. CET1-ratio	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
BIS II Trans. Capital ratio	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
BIS III CET	0	1,960	1,141	1,207	1,472	1,576	1,818	2,285	2,469	2,701
BIS III REA	0	12,728	14,203	14,459	14,721	15,858	16,973	18,485	19,601	20,289
BIS III CET1-ratio	n.m.	15.4%	8.0%	8.3%	10.0%	9.9%	10.7%	12.4%	12.6%	13.3%
BIS III T1-ratio	n.m.	17.4%	12.7%	11.6%	13.0%	12.9%	14.0%	14.2%	14.3%	15.0%
BIS III Capital ratio	n.m.	19.5%	15.1%	14.7%	15.5%	15.6%	16.3%	16.4%	16.4%	17.0%
Tang. Equity/Assets	10.2%	11.8%	6.7%	7.5%	9.5%	9.6%	9.7%	10.8%	11.3%	12.1%
Tang. Equity/Lending	17.2%	21.6%	12.3%	14.6%	18.2%	18.2%	17.9%	20.5%	20.9%	21.9%
Leverage ratio	10.1%	11.5%	5.7%	6.2%	7.9%	7.9%	8.5%	9.6%	10.0%	10.7%

CREDIT QUALITY

DKKm	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Impaired loans	0	0	0	0	0	0	0	0	0	0
Loan loss reserves	0	967	3,116	2,755	1,908	1,361	1,143	1,126	1,103	1,081
Coverage ratio	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Loan loss reserves / Total loans	0.00%	9.65%	30.90%	26.38%	19.33%	13.45%	10.32%	9.31%	8.53%	7.93%
Impaired loans / Total loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Collective/total provisions	n.m.	0%	0%	0%	0%	0%	0%	0%	0%	0%
Perf. Impaired loans/Impaired loans	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Loan loss ratio	-0.99%	-2.30%	-15.77%	-2.36%	-1.50%	-1.10%	-0.32%	-0.21%	-0.36%	-0.37%
Growth loan loss reserves (y/y)	n.a.	n.m.	222%	-12%	-31%	-29%	-16%	-1%	-2%	-2%
Growth impaired loans (y/y)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

PROFITABILITY

Adjusted for non-rec. Items	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
RoE	1.4%	0.9%	-39.7%	11.4%	8.1%	5.4%	7.9%	3.9%	8.3%	8.6%
RoTBV	1.5%	1.0%	-44.4%	12.9%	8.9%	5.9%	8.5%	4.1%	8.7%	9.0%
C/I	-74.3%	-64.5%	-50.6%	-60.6%	-71.0%	-74.8%	-75.3%	-85.0%	-70.9%	-68.8%
NII-margin	3.77%	4.90%	5.07%	6.27%	6.10%	4.89%	4.39%	3.95%	4.62%	4.65%

REVENUE DISTRIBUTION

Adjusted for non-rec. Items	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net Interest Income	79%	64%	45%	60%	62%	51%	48%	50%	51%	52%
Net Commission Income	44%	33%	25%	33%	43%	44%	45%	50%	45%	45%
Net result from financial transactions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net insurance income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Income	3%	3%	33%	1%	2%	0%	2%	2%	2%	1%

Source: Company data and Nordea estimates

ANNUAL INCOME STATEMENT AND BALANCE SHEET**INCOME STATEMENT**

DKKm	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net Interest Income	366	491	511	654	602	551	542	541	620	656
Net Commission Income	204	250	288	365	418	421	457	478	526	552
Net result from financial transactions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net insurance income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other income	15	26	373	15	15	24	31	18	18	18
Total revenues	465	762	1,141	1,090	978	1,043	1,073	1,060	1,189	1,252
Staff costs	307	441	500	577	613	644	691	743	752	771
Other operating costs	17	14	30	47	50	14	19	17	17	18
Depreciation	22	36	48	36	31	52	59	58	58	58
Total Expenses	345	492	578	660	694	710	769	818	828	847
Profit before loan losses	119	270	564	429	284	333	304	243	361	405
Loan losses	85	249	1,460	257	150	107	33	24	45	50
Write-downs on assets	0	0	1	3	3	2	3	4	4	4
Operating profit	34	22	-895	175	136	228	273	222	320	359
Taxes	6	2	-152	-4	-8	12	16	17	27	31
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0	0	0
Net profit to equity	28	20	-743	180	144	216	257	205	292	328

BALANCE SHEET

DKKm	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Cash / Interbank	94	104	328	572	623	384	357	360	360	360
Loans to credit institutions	784	351	561	905	376	1,364	1,831	2,270	2,270	2,270
Loans to the public	10,790	9,259	10,906	9,981	9,763	10,474	11,681	12,498	13,373	13,908
Goodwill and other intangibles	233	213	186	174	162	150	138	131	131	131
Total assets	18,259	16,983	20,099	19,322	18,730	19,859	21,487	23,838	24,713	25,248
Interbank/owed to credit institutions	316	1,258	370	308	319	429	439	377	377	377
Deposits	12,166	11,713	15,723	15,315	14,633	15,647	16,589	17,419	18,290	18,838
Subordinated loans	823	636	1,282	596	465	466	403	415	415	415
Minority interest	0	0	0	0	0	0	0	0	0	0
Shareholders equity	2,093	2,216	1,529	1,631	1,939	2,058	2,228	2,695	2,923	3,181
Total equity and liabilities	18,259	16,983	20,099	19,322	18,730	19,859	21,487	23,838	24,713	25,248
Loans to deposits	89%	79%	69%	65%	67%	67%	70%	72%	73%	74%
Non-mortg. loans to deposits	89%	79%	69%	65%	67%	67%	70%	72%	73%	74%
LCR	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
NSFR	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

GROWTH (Y/Y)

Adjusted for non rec.items	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net interest income	0%	34%	4%	28%	-8%	-18%	-2%	-2%	25%	6%
Net commission income	8%	23%	15%	27%	15%	1%	8%	5%	10%	5%
Total Revenues	-17%	64%	50%	-5%	-10%	-1%	4%	-4%	21%	5%
Staff costs	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Total expenses	0%	42%	17%	14%	5%	4%	5%	8%	1%	2%
Profit before loan losses	-45%	126%	109%	-24%	-34%	-14%	2%	-42%	136%	13%
Operating profit	23%	-36%	-4,233%	120%	-22%	2%	57%	-43%	142%	13%
Net profit to equity	58%	-30%	-3,852%	124%	-20%	-25%	57%	-43%	142%	13%
Loans to the public (rep)	25%	-14%	18%	-8%	-2%	7%	12%	7%	7%	4%
Deposits	42%	-4%	34%	-3%	-4%	7%	6%	5%	5%	3%
Assets	19%	-7%	18%	-4%	-3%	6%	8%	11%	4%	2%
REA growth (BIS Trans)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
REA growth (BIS III)	n.a.	n.a.	12%	2%	2%	8%	7%	9%	6%	4%

Source: Company data and Nordea estimates

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Nordea Markets Division, Equities	Nordea Markets Division, Equities	Nordea Markets Division, Equities	Nordea Markets Division, Equities
Visiting address: Smålandsgatan 15 SE-105 71 Stockholm Sweden	Visiting address: Grønjørdsvej 10 2300 Copenhagen S Denmark	Visiting address: Aleksis Kiven katu 7, Helsinki FI-00020 Nordea Finland	Visiting address: Essendropsgate 7 N-0107 Oslo Norway
Tel: +46 8 614 7000 Fax: +46 8 534 911 60	Tel: +45 3333 3333 Fax: +45 3333 1520	Tel: +358 9 1651 Fax: +358 9 165 59710	Tel: +47 2248 5000 Fax: +47 2256 8650
Reg.no. 516406-0120 Smålandsgatan 17 Stockholm			