MOODY'S
INVESTORS SERVICE

Credit Opinion: Sydbank A/S

Global Credit Research - 01 Jun 2012

Aabenraa, Denmark

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa1/P-2
Bank Financial Strength	C-
Baseline Credit Assessment	(baa2)
Adjusted Baseline Credit Assessment	(baa2)
Senior Unsecured	Baa1
Subordinate MTN	(P)Ba1
Jr Subordinate	Ba1 (hyb)
Pref. Stock	Ba2 (hyb)
Other Short Term	(P)P-2

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Key Indicators

Sydbank A/S (Consolidated Financials)[1]

	[2]**3-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	[2]**12-08**	**Avg.**
Total Assets (DKK million)	**147,585.0**	**153,441.0**	**150,843.0**	**157,821.0**	**156,094.0**	[3]**-1.4**
Total Assets (EUR million)	**19,837.7**	**20,645.1**	**20,241.7**	**21,209.9**	**20,971.3**	[3]**-1.4**
Total Assets (USD million)	**26,417.9**	**26,800.3**	**27,155.2**	**30,430.7**	**29,151.1**	[3]**-2.4**
Tangible Common Equity (DKK million)	**10,608.0**	**10,365.2**	**10,309.2**	**9,316.0**	**7,306.2**	[3]**9.8**
Tangible Common Equity (EUR million)	**1,425.9**	**1,394.6**	**1,383.4**	**1,252.0**	**981.6**	[3]**9.8**
Tangible Common Equity (USD million)	**1,898.8**	**1,810.4**	**1,855.9**	**1,796.3**	**1,364.5**	[3]**8.6**
Net Interest Margin (%)	**2.1**	**2.2**	**2.1**	**2.2**	**1.9**	[4]**2.1**
PPI / Avg RWA (%)	**3.6**	**2.2**	**2.8**	**3.1**	**1.6**	[5]**2.6**
Net Income / Avg RWA (%)	**1.5**	**0.3**	**0.6**	**1.0**	**0.6**	[5]**0.8**
(Market Funds - Liquid Assets) / Total Assets (%)	**-1.3**	**-1.1**	**4.9**	**2.8**	**6.5**	[4]**2.4**
Core Deposits / Average Gross Loans (%)	**83.3**	**81.4**	**75.9**	**75.5**	**82.2**	[4]**79.7**
Tier 1 Ratio (%)	**15.2**	**15.2**	**14.3**	**13.1**	**9.7**	[5]**13.5**
Tangible Common Equity / RWA (%)	**14.7**	**14.7**	**14.0**	**12.0**	**8.8**	[5]**12.8**
Cost / Income Ratio (%)	**51.0**	**62.7**	**56.0**	**53.8**	**67.4**	[4]**58.2**
Problem Loans / Gross Loans (%)	**4.7**	**4.0**	**3.5**	**3.5**	**2.0**	[4]**3.6**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**28.0**	**25.5**	**24.8**	**27.9**	**22.7**	[4]**25.8**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II &

IFRS reporting periods have been used for average calculation

Opinion

RECENT CREDIT DEVELOPMENTS

On 30 May 2012, Moody's downgraded Sydbank's standalone rating to C- from C and its debt and deposit ratings to Baa1 from A2. The bank's Prime-1 short term ratings were downgraded to Prime-2. The bank's preferred stock ratings were downgraded to Ba2(hyb) from Baa3(hyb), reflecting the downgrade of the bank's standalone rating. Similarly, the junior subordinated debt ratings were downgraded to Ba1from Baa2.

This concludes the review initiated on 15 February 2012, and reflects our view that the challenges Sydbank faces have increased, notably regarding the operating environment and asset quality concerns.

The downgrade reflects the difficult operating environment for Danish banks, and more specifically Sydbank's relatively high exposure to agricultural and commercial real estate lending, as well as the bank's reliance on second and sequential lien mortgages in household and corporate lending. The latter factor is in line with other Danish banks and results from the stronger funding position of mortgage credit institutions that fund the first lien mortgage loans. However compared to the bank's international peers we view this position as credit negative, particularly in the current environment of weakening asset quality. Moody's positively notes that Sydbank maintains a relatively strong position in the Danish market with an estimated market share of approximately 6% for bank loans with a good national presence. Sydbank's reported asset quality is also better than Domestic peers, with problem loans/ gross loans at end 2011 of 4%, among the lowest of the rated Danish banks, Sydbank has also proven access to funding markets, albeit at higher interest rates, and has a sizeable liquidity portfolio, much of it consisting of other Danish institutions' highly rated covered bonds.

The rating action also captures Moody's view that exposures to more volatile sectors such as agriculture and commercial real estate may give rise to increased need for provisions. We also caution that low interest-rate levels have thus far supported borrowers' ability to repay their debts but loans with variable rates are vulnerable to interest-rate hikes.

SUMMARY RATING RATIONALE

Moody's rates Sydbank A/S Baa1/Prime-2/C-. The standalone C- bank financial strength rating (BFSR), which maps to baa2 on the long-term scale, reflects the Danish bank's strong regional franchise and satisfactory financial strength. However, the rating is constrained by Sydbank's high credit risk concentration. The bank's overall profitability has weakened significantly over the past years - and the economic outlook in Denmark remains challenging.

The Baa1 long-term senior debt and deposit ratings incorporate the bank's baa2 standalone credit assessment as well as a one notch uplift from systemic support.

Rating Drivers

- Strong local brand and solid retail franchise in southern and central Jutland

- Adequate earnings from core banking operations, but overall weakening trend for profitability

- Satisfactory liquidity profile but general funding outlook remains bleak

- Satisfactory capitalisation

- Deteriorating asset quality during the continued challenging economic environment

Rating Outlook

The outlook on all ratings is stable.

What Could Change the Rating - Up

Rating upgrades are unlikely in the near future, for the reasons described in "Recent Credit Development". A limited amount of upward rating momentum could develop if Sydbank demonstrates (i) continued good access to capital markets, (ii) stronger and more stable earnings generation without an increase in its risk profile and/or (iii) improved asset quality management especially in relation to more volatile segments such as agriculture and commercial real estate.

What Could Change the Rating - Down

While the current rating levels incorporate a degree of expected further deterioration, ratings may decline further if (i) Sydbank's financing conditions become more difficult, (ii) its asset quality deteriorates more than we anticipate and/or (iii) its risk profile increases, for example as a result of increased exposures to more volatile sectors or increased involvement in more risky operations such as capital market activities.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Sydbank's currently assigned ratings are as follows:

Bank Financial Strength Rating

Moody's assigns a C- standalone BFSR to Sydbank. The assigned rating is one notch lower than the outcome of Moody's bank financial strength scorecard for Sydbank. This primarily reflects Sydbank's exposures to more volatile industries such as agriculture and commercial real estate, which we deem more vulnerable to a less favourable operating environment and more likely to lead to larger provisioning needs if credit quality deteriorates.

Strong Brand in Central And Southern Jutland

Sydbank's franchise value is underpinned by its position as the fourth-largest banking group in Denmark, reportedly serving around 400,000 customers, including approximately 34,000 corporate clients. Its core business consists of corporate, investment and private banking, with a focus on private individuals and small and medium-sized enterprises (SMEs) through a network of 102 branches in Denmark. It also has three branches in northern Germany. While the bank has a national presence, its heartland is southern and central Jutland, Funen and the greater Copenhagen area, where most of its branch network is based.

Moody's views Sydbank's well-established regional presence as an important factor underpinning its ratings. The bank reports a market share of 6-9% depending on customer segment and type of business, with the majority of its customers being based in Jutland. Moody's estimates the bank's nationwide market share is approximately 4.5% of total deposits, making Sydbank the 4th largest bank in terms of deposits.

Internationally, the bank operates three branches in Northern Germany (Flensburg, Hamburg and Kiel). It also operates a wholly owned subsidiary Sydbank (Schweiz) AG in Switzerland, which is currently being wound up. As of 1 January 2012, Sydbank has also taken over two private banking branches from Griess & Heissel Bankiers AG in Berlin and Wiesbaden adding to the German branches.

The bank continues to subscribe to an open architecture model, providing its customers with alternatives across a full range of banking services and third party pension and life products. Co-operation agreements include the primary mortgage credit institutions Totalkredit and DLR Kredit.

Adequate Core Earnings But Overall Weakening Trend For Profitability

In 2011, Sydbank reported audited pre-tax profits of DKK 301 million, down 46% from DKK 558 million year-on-year as a result of negative market value adjustments of DKK 26 million, down from a positive DKK 420 million in 2010. Risk-weighted recurring earnings power (pre-provision income in relation to risk-weighted assets) decreased to 2.23%, down from 2.87% in 2010 and 3.0% in 2009.

Net interest income is the most important component of earnings, representing around two-thirds of operating income. Net interest income decreased 3% year-on-year to DKK 3.1 billion, as a result of a 27% increase in interest expense despite an increase of 4% in interest income. The higher interest expense was largely attributed to a growth in deposits compared with 2010. Fee and commission income decreased by 2% adversely affected by lack of investment appetite in 2011 compared to the year before, as well as high volatility in the markets in general.

Moody's positively notes that operating costs remained stable as a result of tight cost control and a decline in staff.

In addition, loan loss provisions were down by 23% compared to year-end 2010, although at the same time the bank recorded additional impairment charges within the agriculture portfolio as a result of tightened policies on impairment measurements within the bank. We assign a weakening trend to the bank's profitability score to reflect our expectations of continued subdued lending growth, increased funding costs, and the expectation of increased competition, although these negative effects will be somewhat mitigated by the expiry of costs associated with Banking Package I (costing the bank DKK 102 million in 2011, down from DKK 384 million in 2010).

At end-March 2012 the bank reported a net income of DKK 255 million, up notably from DKK 131 million the year before. The increase represents partly a rise in core income of DKK 64 million, as well as DKK 18 million in trading income. Moody's positively note that impairment charges are down by 35% compared with Q4 2011 but slightly higher compared to the same period last year. Net interest income increased by DKK 41 million year-on-year despite a decline in total lending, attributed mainly to the interest margin increases implemented during 2011.

Satisfactory Liquidity Profile But General Funding Outlook Remains Bleak

The bank's reliance on interbank funding has decreased significantly over the last years (having reduced from 34% of total funding at year-end 2009 to approximately 14% at year-end 2011), and it has a decent size of securities portfolio, with liquid assets amounting to 41% of total assets as of year-end 2011. The bank's deposit base represents about 50% of funding. We positively note that the bank did not use government guaranteed funding, but expect increased pressure on the bank's funding profile following the implementation of Bank Packages III and IV. Still, we positively note that Sydbank was able to issue EUR 500 million FRN notes in February 2012, albeit with significantly higher interest levels than seen in previous years.

In common with other regional and local banks, Sydbank funds its retail and commercial mortgage loans through Totalkredit/Nykredit and DLR.

In addition, Sydbank announced in February 2012 a new funding tool allowing the bank to fund part of its new origination of private client bank loans through covered bonds issued by BRFKredit (unrated). This provides Sydbank with a flexible long-term funding alternative at a time when access to unsecured markets remains relatively restricted for Danish banks. The amounts to be issued through this vehicle will only represent a smaller part of the bank's total funding need, and it remains to be seen how exactly this will impact the overall funding situation of the bank.

Asset Quality Deterioration Reflects Challenging Operating Environment

At year-end 2011, Sydbank's problem loans (measured as gross loans subject to individual impairments) represented 4% of its gross loans, an increase from 3.5% in 2010. Moody's notes that, although Sydbank's problem loan ratio is higher than many of its international peers, it remains among the lowest of the rated Danish banks. At end-December 2011 approximately 15% of problems loans were related to agriculture, hunting, forestry and fisheries, an increase from nearly 5% in 2010.

Around 32% of Sydbank's loan portfolio is to retail customers (mortgage loans financed by Totalkredit/Nykredit or DLR Kredit do not appear on Sydbank's balance sheet). Sydbank provides a guarantee on losses on loans transferred to DLR Kredit, whereas losses on loans transferred to Totalkredit/Nykredit are deducted from the fees paid by these mortgage credit institutions.

Danish mortgage loans tend to be originated by banks, but then transferred to specialist mortgage institutions - such as Nykredit Realkredit and DLR Kredit - in return for a periodic fee. This practice primarily reflects the funding advantage of mortgage credit institutions, due to their use of covered bond funding. As a result, mortgage institutions hold most lower-risk first-lien loans, whilst the banks, including Sydbank, tend to hold either second or sequential-lien loans.

Typical for Nordic, and in particular regional banks, Sydbank displays high credit risk concentration. To assess borrower concentration Moody's compares the sum of the top 20 largest exposures to the Tier 1 capital or pre-provision income - whichever provides the highest ratio. There is also some industry concentration in the loan book - property-related exposures account for 11% of loans and credit, and finance & insurance exposures for 14%%. The exposure to agriculture accounts for 10% of loans and guarantees. Overall, corporate lending accounts for around 66% of the loan portfolio.

The overall macroeconomic situation in Denmark remains weak, putting pressure on the corporate and retail sectors.

This situation supports our expectation of a weakening trend for Sydbank's asset quality in the near/medium term. In particular, we are worried about the continuing structural problems within the agricultural sector, as well as the corporate real estate market that has been severely affected by the falling housing prices since 2007.At year-end 2011, the Tier 1 and total capital ratios were 15.2% and 16.10%, respectively, up from 14.3% and 15.4% as of year-end 2010. The increase is attributable to the reduction of risk-weighted assets as a result of a reduction in the loan book. The individual solvency requirement for the bank is 9.4%, which as of year-end 2011 meant the bank had a capital cushion exceeding its individual requirement of DKK 3.26 billion (equivalent to 4.3% of total loans and advances).The bank has a stated internal capital target of 14.0%.

At Q1 2012 Sydbank reported Tier 1 and total capital ratios of 15.2% and 15.40% respectively. Total risk weighted assets were down 2.6% year-on-year reflecting a decline in total lending. Moody's notes that the bank repaid subordinated debt of EUR 100 million in April 2012 leaving a total of DKK 1.4 billion in hybrid tier 1 capital.

The bank applies the advanced IRB approach for credit risk in the retail portfolio and applies the foundation IRB approach for the corporate portfolio. Basel II has had a positive impact on the capital ratios, but we do not expect the bank to release capital, as there are some concentrations in its loan book.

Considering Sydbank's risk profile and internal capital-generation capability, we continue to view its economic capital as satisfactory. We expect the weaker macro-economic environment in Denmark to keep pressure on the bank's profitability and ultimately on capital adequacy. Given the continued challenges in Sydbank's operating environment it remains crucial for the bank to sustain a high capital buffer to mitigate any future asset deterioration.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a GLC deposit rating of Baa1 to Sydbank. The rating receives a one-notch uplift from the baa2 BCA, based on Moody's assessment of a moderate probability of systemic support in the event of a stress situation and the Aaa local currency deposit ceiling of Denmark.

Notching Considerations

The ratings for the bank's hybrid obligations are notched off the BCA according to "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt" published on 17 November 2009.

Foreign Currency Deposit Rating

Sydbank's Baa2 foreign currency deposit rating is unconstrained given that Denmark has a country ceiling of Aaa.

Foreign Currency Debt Rating

Sydbank's Baa2 foreign currency debt rating) is unconstrained given that Denmark has a country ceiling of Aaa.

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Sydbank A/S

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C**	
Factor: Franchise Value						**D**	**Neutral**
Market Share and Sustainability				**x**			
Geographical Diversification				**x**			
Earnings Stability				**x**			
Earnings Diversification [2]							

Factor: Risk Positioning						**C**	**Neutral**
Corporate Governance [2]							
- Ownership and Organizational Complexity	--	--	--	--	--		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management		**x**					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency		**x**					
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information			x				
Credit Risk Concentration				**x**			
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management			**x**				
Market Risk Appetite	**x**						
Factor: Operating Environment						**B**	**Neutral**
Economic Stability				**x**			
Integrity and Corruption	**x**						
Legal System	**x**						
Financial Factors (50%)						**C+**	
Factor: Profitability						**C**	**Weakening**
PPI / Average RWA - Basel II		2.67%					
Net Income / Average RWA - Basel II				0.63%			
Factor: Liquidity						**C**	**Weakening**
(Mkt funds-Liquid Assets) / Total Assets			2.21%				
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio - Basel II	14.20%						
Tangible Common Equity / RWA - Basel II	13.54%						
Factor: Efficiency						**C**	**Neutral**
Cost / Income Ratio			57.50%				
Factor: Asset Quality						**C**	**Weakening**
Problem Loans / Gross Loans			3.68%				
Problem Loans / (Equity + LLR)			26.05%				
Lowest Combined Score (15%)						**C**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**C**	
Assigned BFSR						**C-**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS