



Interim Report – First Half 2014

Sydbank's plan to increase profitability is beginning to show results

Teleconference 20 August 2014

Sydbank

Agenda

- Interim financial statements for H1 2014
 - Income
 - Costs (core earnings)
 - Impairment charges
 - Investment portfolio earnings
 - Financial highlights
- Follow-up on plan to increase profitability
 - Strengthening of income
 - Reduction in costs
 - Lower impairment charges
- Outlook for 2014
- Q&A



Highlights for H1 2014

Key points

Plan to increase profitability is beginning to show results – ROE of 9.8% p.a.

Profit

Profit of DKK 514m – improvement of 34% compared with H1 2013

Income

Core income of DKK 2,131m – 4% increase in H1 2014 compared with H1 2013

Costs

6% reduction in costs in Q2 compared with Q1 2014

Impairment charges

Impairment charges at their lowest level since the start of the financial crisis

Loans and advances

DKK 1.1bn rise in bank loans and advances, equal to 1.6% in H1 2014

Capital

CET1 ratio of 14.1% – increase of 0.4% compared to Q4 2013

Expectations

Expectations for impairment charges changed from DKK 950-1,100m to DKK 700-800m

Core income – several positive trends

DKKm	H1 2014	H1 2013	Index	Q2 2014	Q1 2014	Index
Net interest etc	1,249	1,307	96	634	615	103
Mortgage credit*	172	130	132	94	78	121
Payment services	108	81	133	50	58	86
Remortgaging and loan fees	48	44	109	22	26	85
Commission and brokerage	171	168	102	79	92	86
Commission etc investment funds and pooled pension plans	167	165	101	82	85	96
Asset management	87	83	105	46	41	112
Custody account fees	42	40	105	22	20	110
Other income	87	34	256	47	40	118
Total	2,131	2,052	104	1,076	1,055	102
* Set-off of loss Totalkredit	15	11	136	6	9	67

Key points H1-14 vs H1-13

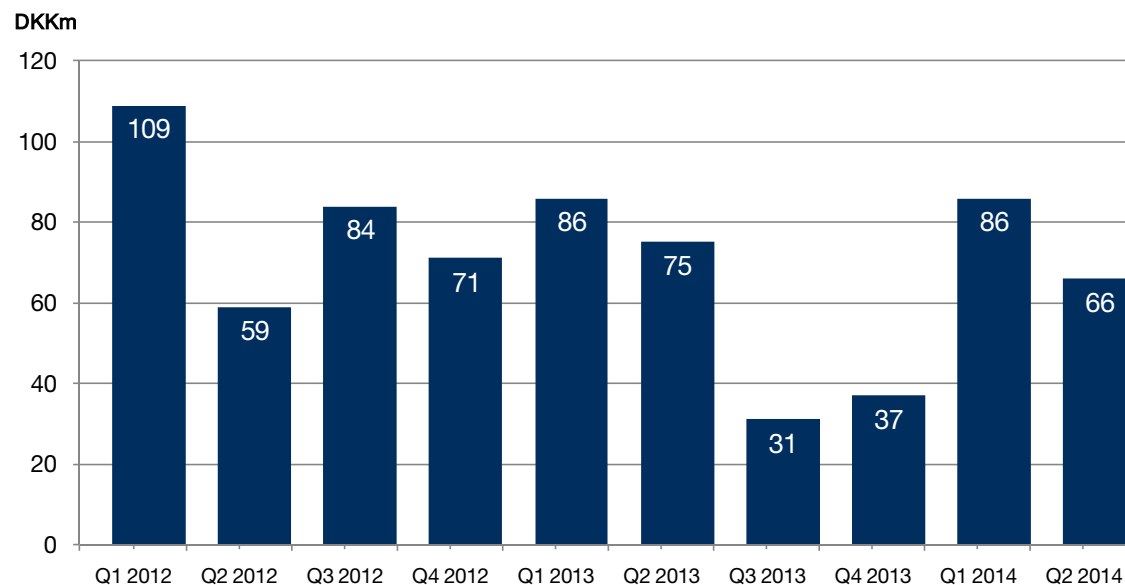
- Net interest etc down by 4%
- Mortgage credit up by 32%
- Payment services up by 33%
- Other items up by 13%

Key points Q2-14 vs Q1-14

- Net interest etc up by 3%; of which 1% due to extra day
- Mortgage credit up by 21%
- Other items down by 4%

Trading income – outlook for 2014 maintained

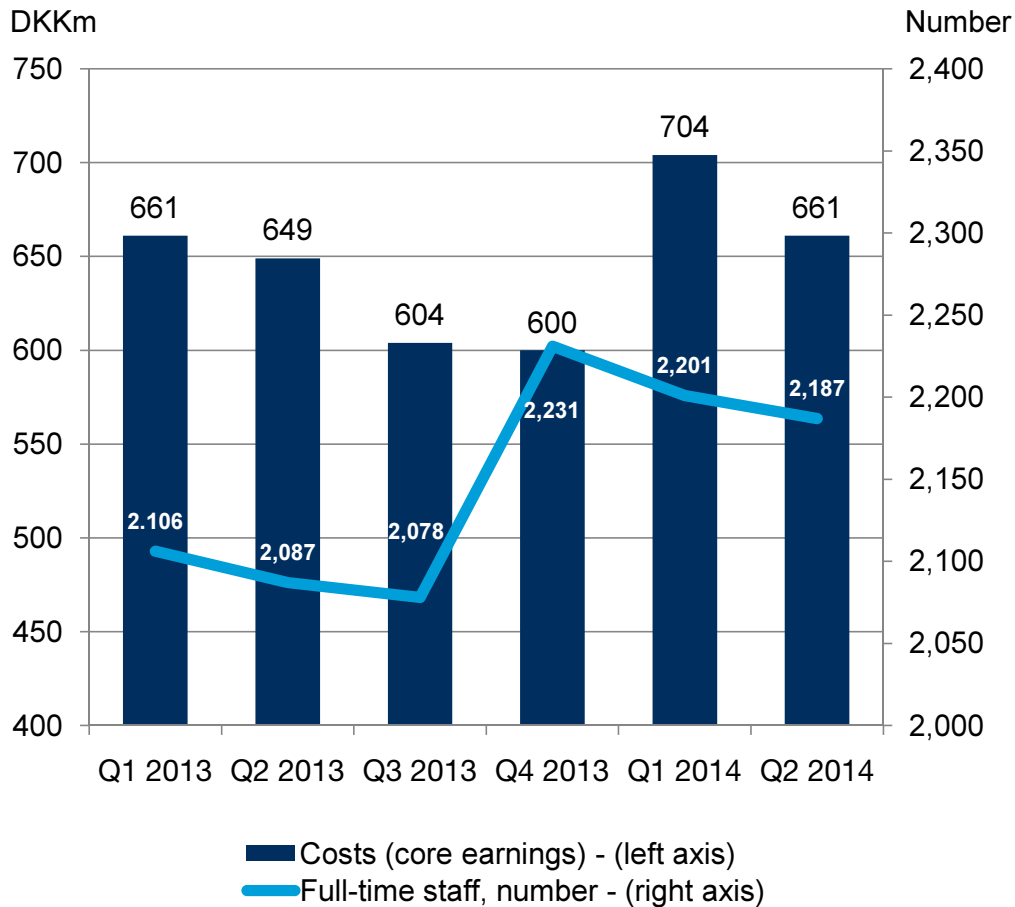
- Recorded DKK 152m in H1 2014 vs DKK 161m in H1 2013
- H2 2013 recorded DKK 68m – very low level
- Still expectations for higher trading income in 2014 than in 2013



Trading income

DKKm	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Fixed Income	69	31	56	41	61	43	7	18	36	32
Equities	19	15	10	12	21	13	17	19	31	26
Money Market and Foreign Exchange	21	13	18	18	4	19	7	0	19	8
Total	109	59	84	71	86	75	31	37	86	66

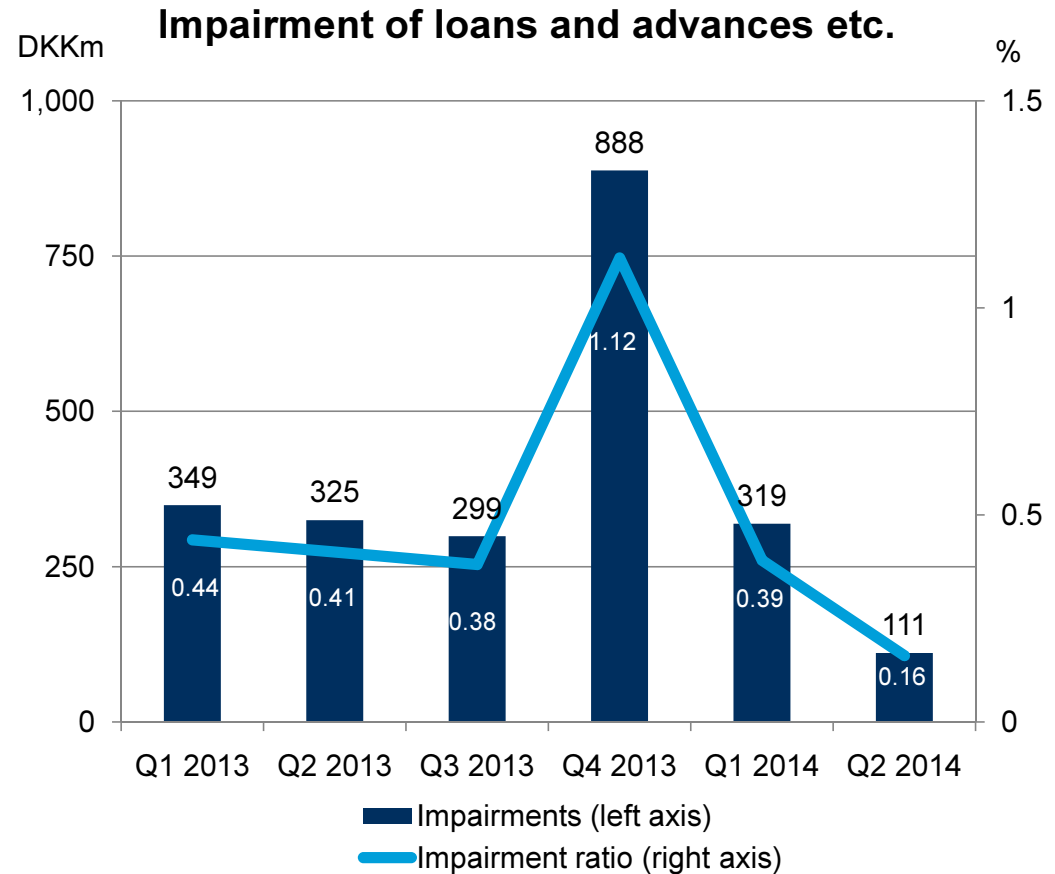
Costs (core earnings) – declined by 6% from Q1 2014



- Q2 2014 only 1.8% higher than Q2 2013 despite acquisition of DiBa Bank.
- Decline of DKK 43m from Q1 2014 to Q2 2014.
- Reduction in staff of 44 in H1 2014.

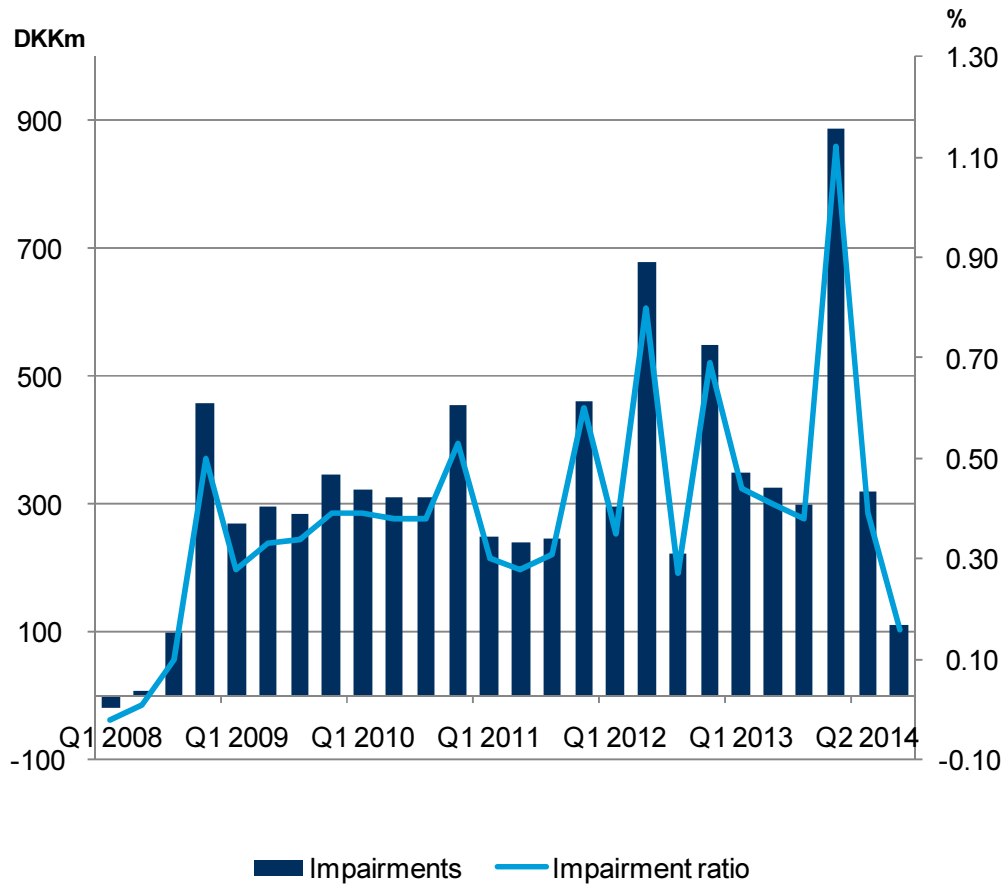
Impairment charges for loans and advances – expectations more positive for 2014

- Impairment charges of DKK 111m in Q2 2014
- Reported losses in H1 2014 of DKK 264m, of which DKK 239m had been written down
- Reversal of impairment charges of DKK 30m as regards retail clients; extraordinary review conducted in Q2 2014
- Higher prices of agricultural land reduce impairment charges by DKK 86m
- Lower valuation of agricultural sector’s other assets increases impairment charges by DKK 56m
- Impairment charges of around DKK 700-800m for 2014. Change of previously announced level of DKK 950-1,100m



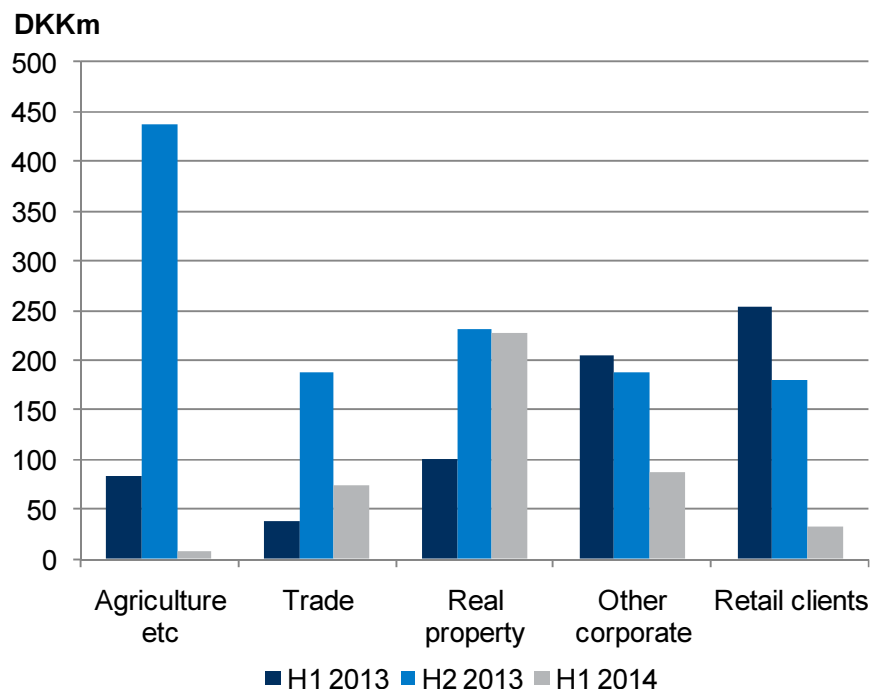
Impairment charges at lowest level since start of financial crisis

Impairments, Q1 2008 til Q2 2014



Lowest level since Q3 2008
• 16bp of loans and advances and guarantees in Q2 2014

Overall lower impairment charges



Key points:

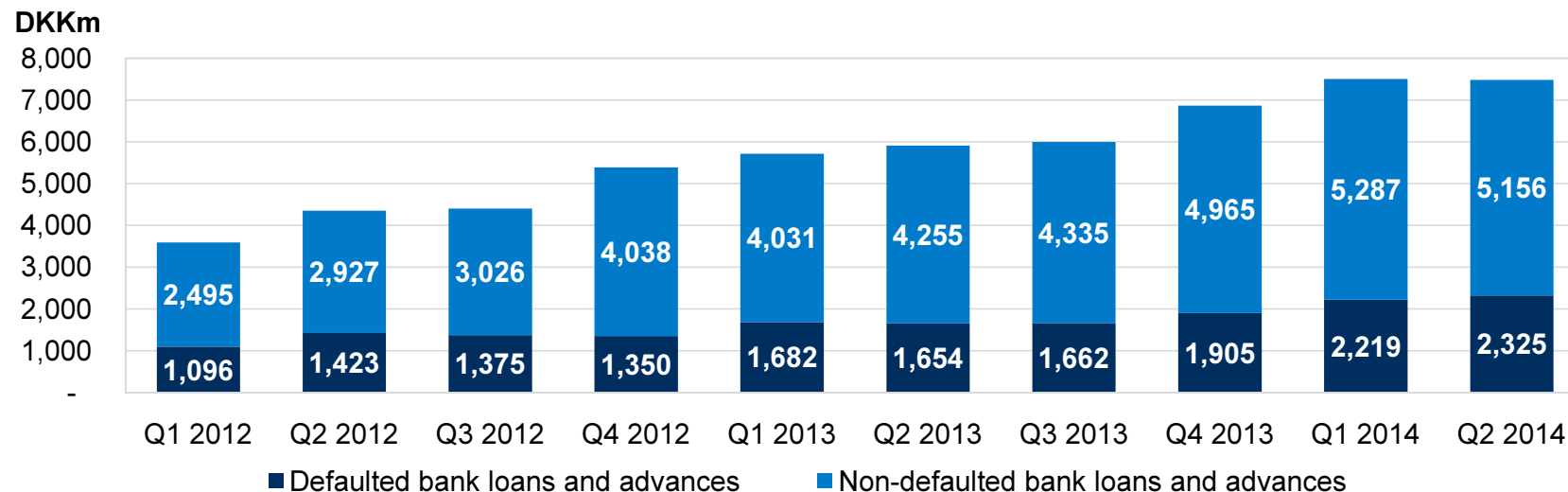
- Agriculture favourably helped by prices of agricultural land
- Real property shows modest decline
- Retail clients – review showed that overall level of impairment charges was too high

Breakdown of impairments H1 2014

DKKm	Q1 2014	Q2 2014	H1 2014
Agriculture etc	-	8	8
Trade	50	24	74
Real property	132	95	227
Other corporate	82	0	82
Total corporate	264	127	391
Retail clients	56	-30	26
Individual impairments	320	97	417
Collective impairments	-1	14	13
Total impairments	319	111	430

Impaired bank loans and advances – first quarterly decline – in 3 years

Breakdown of impaired bank loans and advances

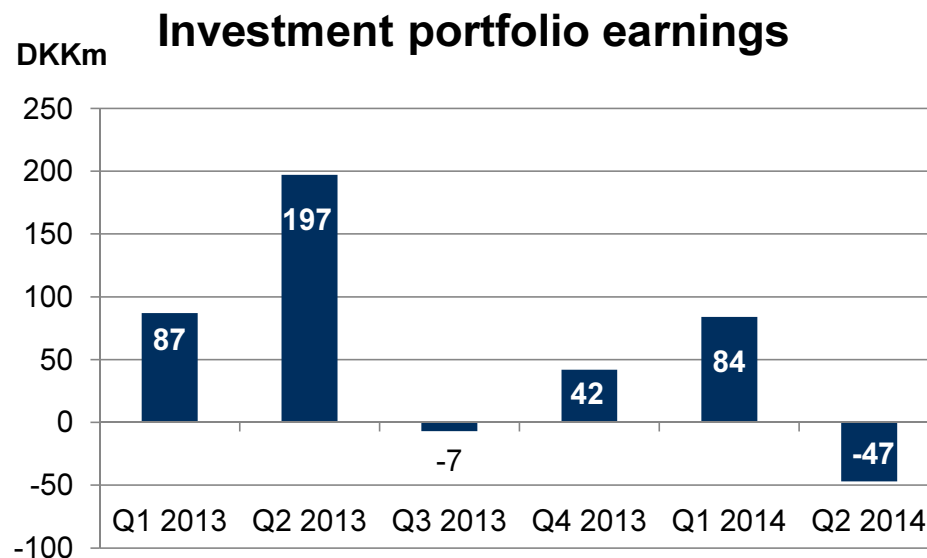


Individually impaired bank loans and advances

DKKm	30 June 2013	31 Dec 2013	30 June 2014
Non-defaulted bank loans and advances	4,255	4,965	5,156
Defaulted bank loans and advances	1,654	1,905	2,325
Impaired bank loans and advances	5,909	6,870	7,481
Impairment charges for bank loans and advances subject to individual impairment	3,090	4,058	4,346
Impaired bank loans and advances after impairment charges	2,819	2,812	3,135
Impaired bank loans and advances as % of bank loans and advances before impairment charges	8.3	9.7	10.4
Impairment charges as % of bank loans and advances before impairment charges	4.3	5.7	6.0
Impaired as % of impaired bank loans and advances	52.3	59.1	58.1
Impairment charges as % of defaulted bank loans and advances	186.8	213.0	187.0

Investment portfolio earnings – Additional Tier 1 capital written down and loss on sale of mortgage portfolio

- Write-down of Additional Tier 1 capital – DKK 14m in Q2 2014
- Reported loss on sale of mortgage portfolio – DKK 6m in Q2 2014
- Fixed income position in anticipation of interest rate increase. Interest rate decline in Q2 2014 as a consequence of geopolitical instability, lower inflation expectations as well as announcement from the ECB



Investment portfolio earnings

DKKm	Q1 2014	Q2 2014	H1 2014
Position-taking	62	-17	45
Liquidity generation and liquidity reserves	24	-1	23
Strategic positions	0	-27	-27
Costs	-2	-2	-4
Total	84	-47	37

Income statement – best quarterly core earnings result in 6 years

DKKm	H1 2014	H1 2013	Index	Q2 2014	Q1 2014	Index
Core income	2,131	2,052	104	1,076	1,055	102
Trading income	152	161	94	66	86	77
Total income	2,283	2,213	103	1,142	1,141	100
Costs, core earnings	1,365	1,310	104	661	704	94
Core earnings before impairment	918	903	102	481	437	110
Impairment of loans and advances etc	430	674	64	111	319	35
Core earnings	488	229	213	370	118	314
Investment portfolio earnings	37	284	13	-47	84	-56
Profit before non-recurring items and industry solutions	525	513	102	323	202	160
Non-recurring items, net	107	-11	-	-22	129	-
Profit before tax	632	502	126	301	331	91
Tax	118	118	100	73	45	162
Profit for the period	514	384	134	228	286	80

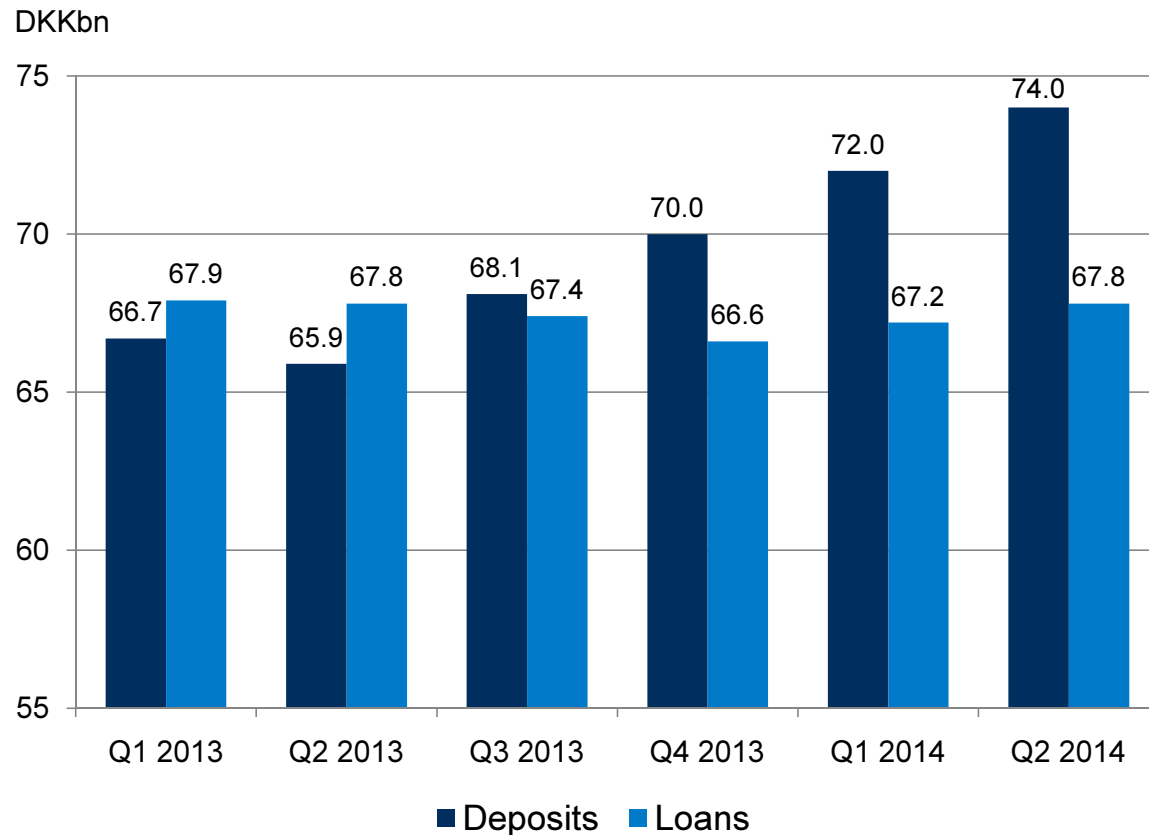
Key points H1 14 vs H1 13

- Core income up by 4%
- Costs (core earnings) up by 4%
- Impairment charges down by 36% from 85bp to 54bp
- Non-recurring items, primarily Nets and integration of DiBa

Key points Q2 14 vs Q1 14

- Core income up by 2%
- Costs (core earnings) down by 6%
- Impairment charges down by 65% from 39bp to 16bp
- Core earnings in Q2 2014 – the best in 6 years
- Investment portfolio earnings affected by strategic positions as well as interest rate developments

Rise in loans and advances and significant rise in deposits



- Loans and advances rose in Q1 as well as in Q2 2014. Total rise of 1.6% in H1 2014
- Deposits increased by DKK 8.1bn since H1 2013, equal to 12.3%

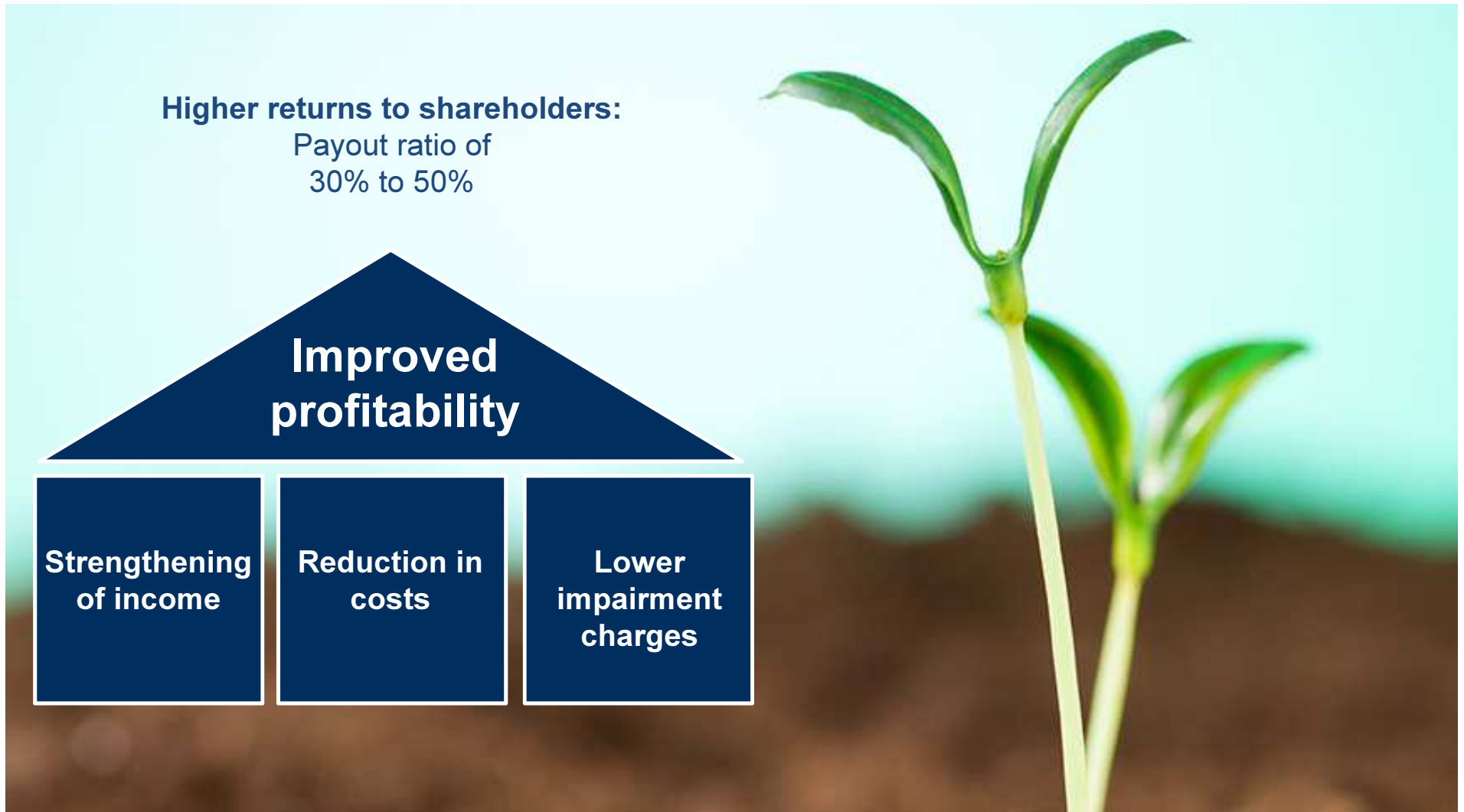
Strengthened capital resources despite redemption of capital

DKKm	CRD IV		
	2013	Q1 2014	Q2 2014
Risk-weighted assets	71,499	72,205	71,310
Common Equity Tier 1	9,799	9,930	10,063
Tier 1	11,037	11,037	11,171
Total Capital	11,586	11,416	11,545
CET 1 ratio	13.7	13.8	14.1
Tier 1 ratio	15.4	15.3	15.7
Total Capital ratio	16.2	15.8	16.2
Individual Solvency need	10.0	10.0	10.1

Key points

- Redemption of capital from DiBa
 - DKK 161m additional Tier 1 capital
 - DKK 250m Tier 2 capital
- Total capital ratio unchanged from Q4 2013
- CET 1 ratio up by 0.4 percentage points in H1 2014

Follow-up on plan to improve Sydbank's profitability



Strengthening of income – off to a good start

The ambitious plan has been worked on since Q4 2013.

- Catalogue of a number items where income will improve.
- Catalogue represents more than DKK 200m to counter an expected price pressure.

Implemented measures

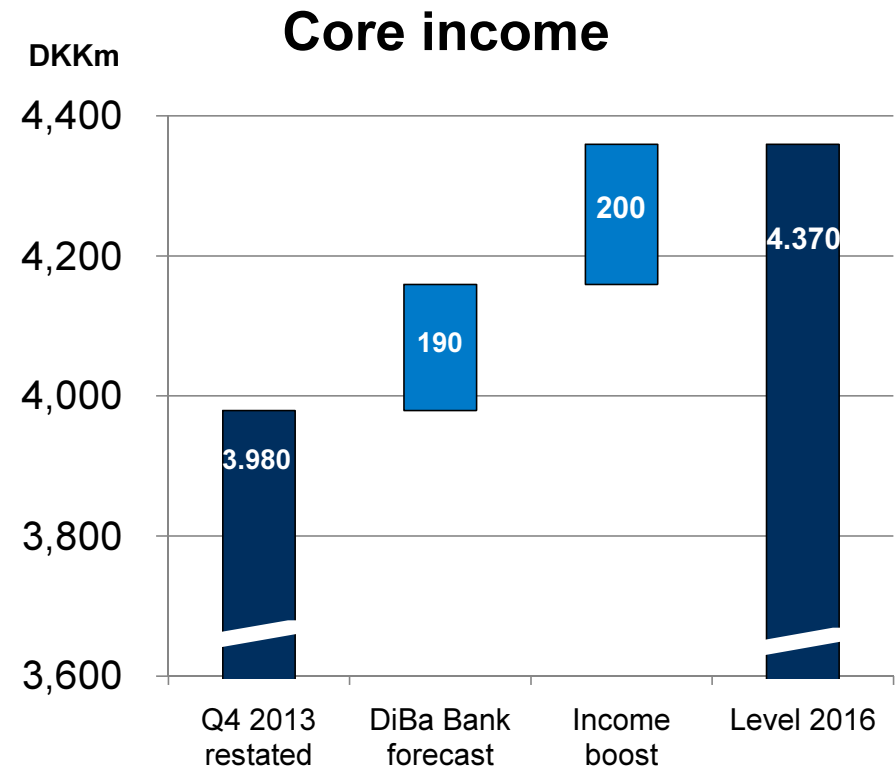
- Interest rate changes – May 2014 – anticipated annual effect of approx DKK 50m.
- Adjustment of different fees – anticipated annual effect of approx DKK 40m.
- Higher meeting frequency with clients.

Ongoing measures

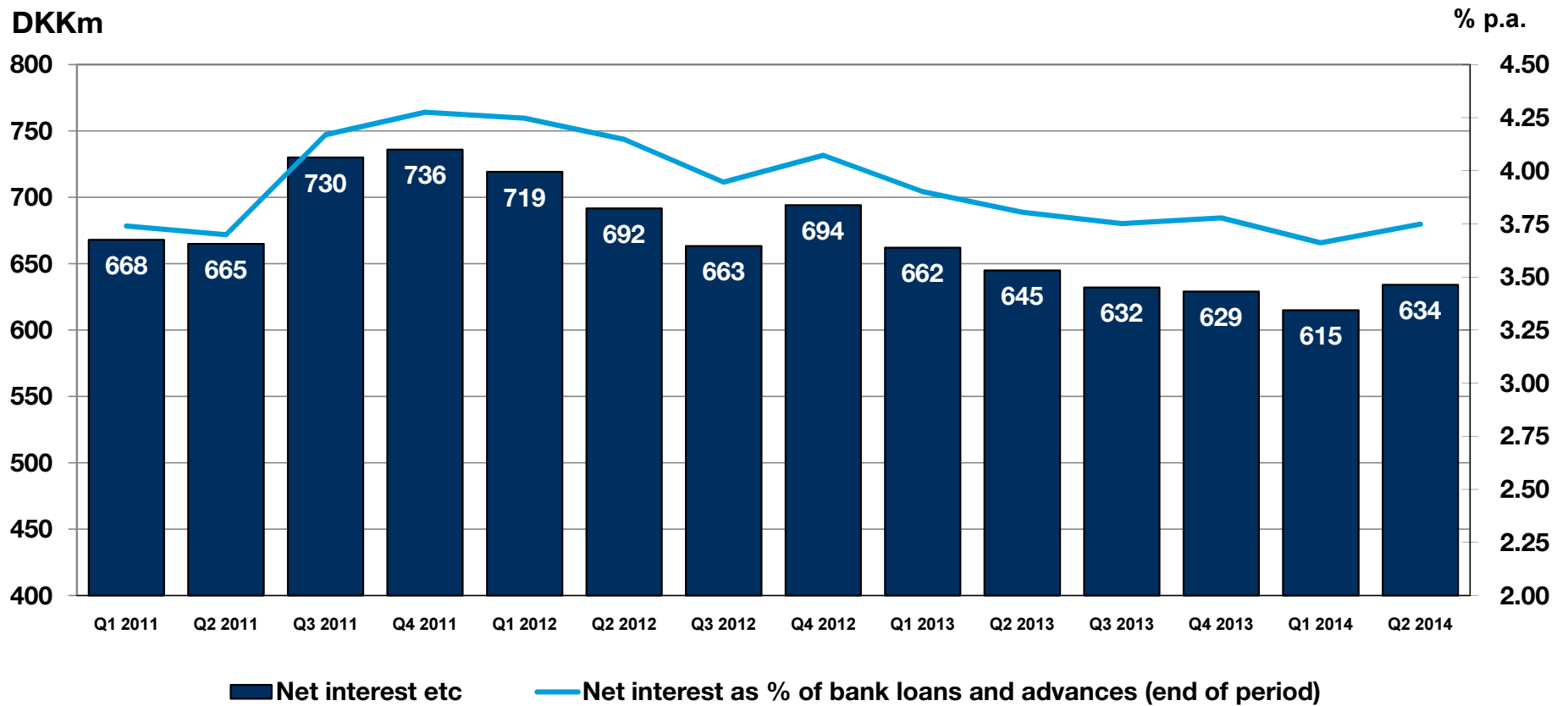
- DKKm 3bn increased volume of mortgage loans – anticipated annual effect of DKK 40m (at 50% use).
- Take out of loans – anticipated annual effect of DKK 5m.

Future measures

- Increased business volume as a result of targeted advisory services.
- Planned price adjustments primarily in 2015.

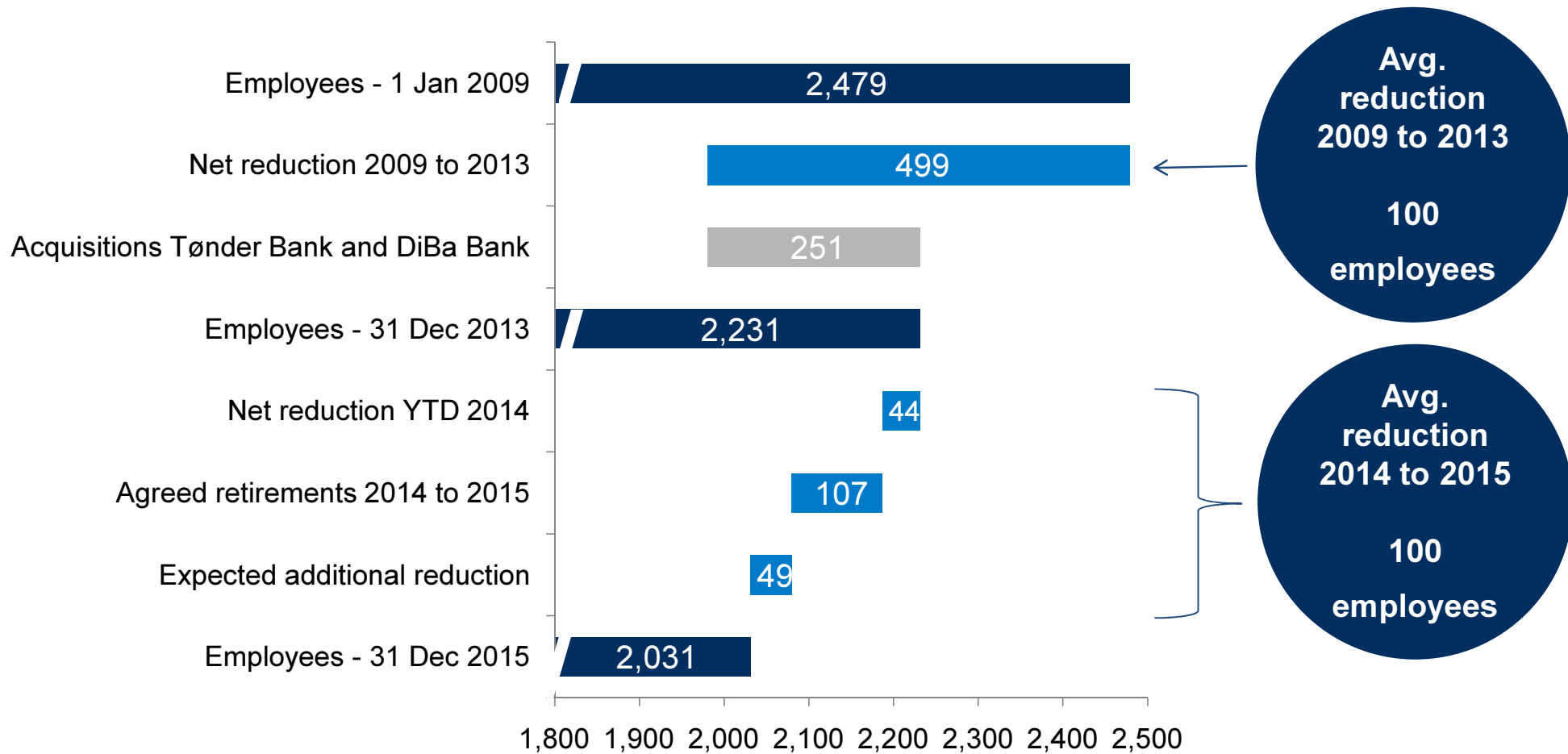


Net interest – interest rate increase implemented in May 2014

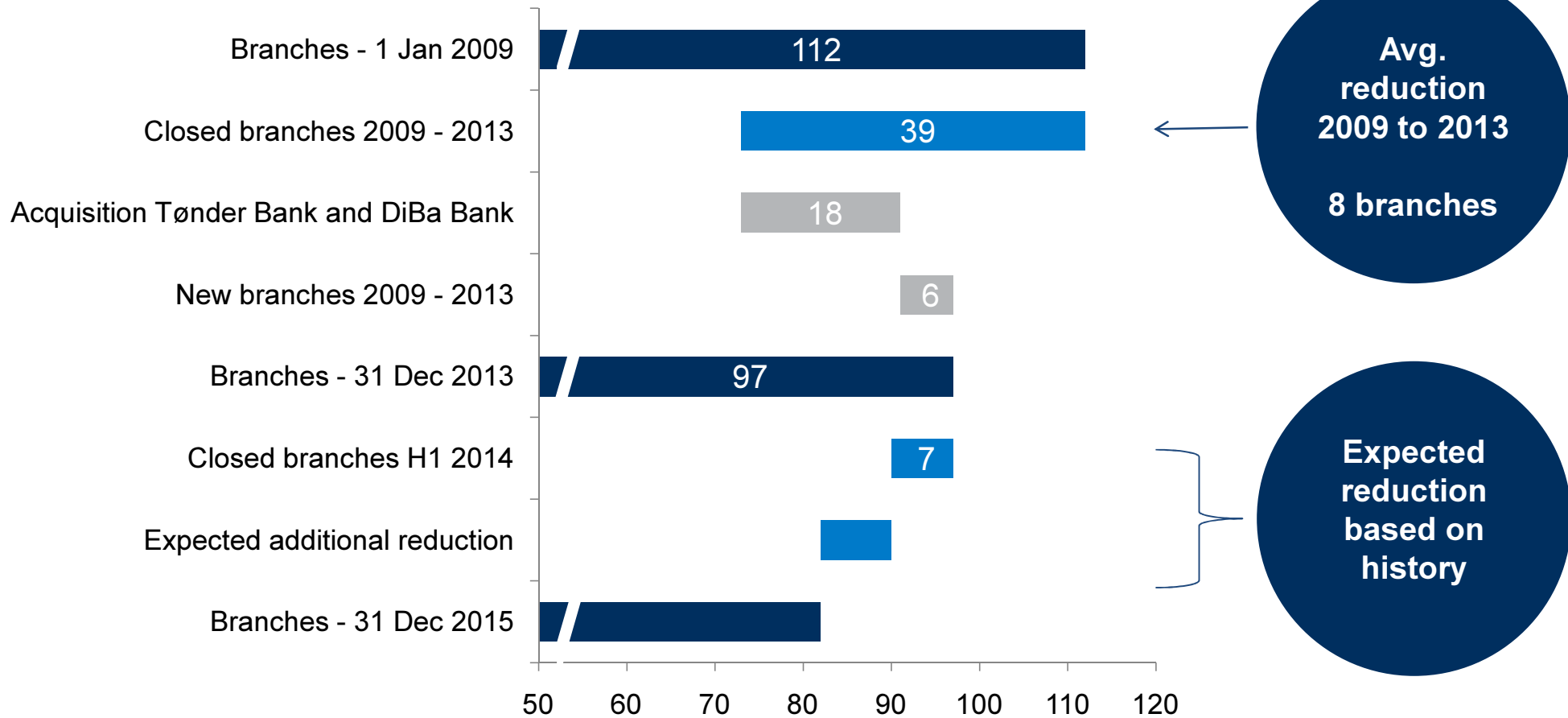


25bp interest rate increase will lift net interest by approx DKK 25m.

Reduction in costs – reduction in staff – familiar exercise for Sydbank



Reduction in costs – reduction in number of branches in Denmark – another familiar exercise



Clients will choose other service forms. This will reduce the need for branches.

Lower impairment charges – extraordinary review of portfolios

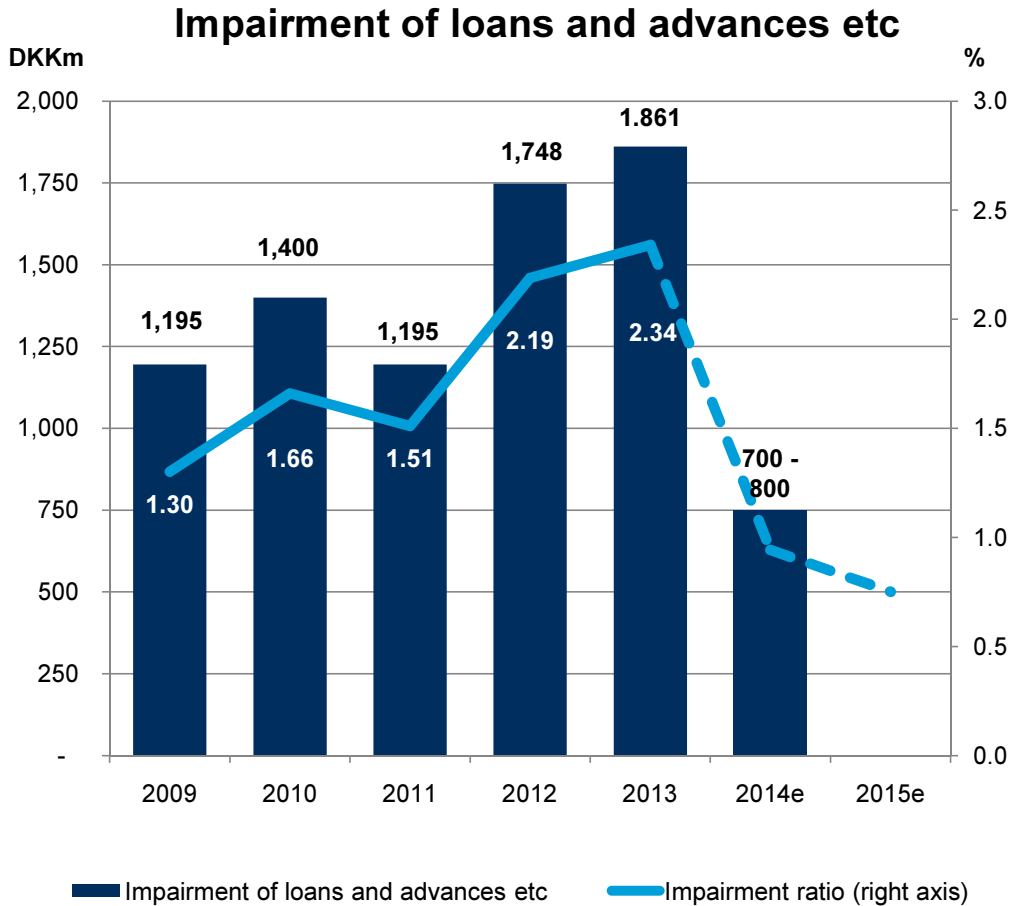
Q4 2013: Corporate exposures > DKK 10m

Q1 2014: Corporate exposures < DKK 10m as well as real property

Q2 2014: Retail clients

Q3 2014: Corporate exposures a new review

Continued strengthening of systems, processes, data quality and error control.



Outlook for 2014

- Rise in core income as a result of the acquisition of DiBa Bank and implemented measures
- Increase in trading income due in part to the acquisition of DiBa Bank, however highly dependent on financial market developments
- Rise in costs (core earnings) as a result of the acquisition of DiBa Bank
- Lower impairment charges for loans and advances of around DKK 700-800m
- Integration and restructuring costs of around DKK 75m

Q&A

Thank you

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Such statements are by their nature uncertain and associated with risks as many factors – of which some may be beyond Sydbank's control – may cause the actual developments to deviate materially from management's expectations as expressed in this presentation.