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## Interim Report – Q1 2015

Historically high income – good start to the year

29 April 2015

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## Highlights for Q1 2015

### Key points

Good start to the year – high activity is improving profitability

### Profit

Profit of DKK 304m – ROE of 10.9% p.a. after tax

### Income

Income of DKK 1,233m – 6% increase – historically high

### Costs

2% reduction in costs compared with Q1 2014

### Impairment charges

Impairment charges of DKK 116m – primarily agriculture and collective impairments

### Bank loans

DKK 2.1bn rise in bank loans and advances, equal to 3.2% in Q1 2015

### Capital

CET1 ratio of 14.6% – increase of 0.7% compared with Q4 2014

### New capital

Tier 2 capital worth EUR 100m issued on 5 March 2015

### Buy-back

Share buy-back of DKK 500m commenced on 13 April 2015

## Rising core income – other core income makes up for decline in net interest income

DKKm	Q1 2015	Q1 2014	Index	Q1 2015	Q4 2014	Index
Net interest income etc	595	615	97	595	631	94
Mortgage credit*	96	78	123	96	96	100
Payment services	53	58	91	53	54	98
Remortgaging and loan fees	52	26	200	52	46	113
Commission and brokerage	132	92	143	132	98	135
Commission etc investment funds and pooled pension plans	87	85	102	87	80	109
Asset management	47	41	115	47	42	112
Custody account fees	19	20	95	19	19	100
Other income	34	40	85	34	28	121
<b>Total</b>	<b>1,115</b>	<b>1,055</b>	<b>106</b>	<b>1,115</b>	<b>1,094</b>	<b>102</b>
* Set-off of loss Totalkredit	8	9	89	8	10	80

### Key points Q1 15 vs Q1 14:

- Net interest income down by 3%
- Mortgage credit up by 23%
- Doubling of remortgaging and loan fees
- Commission and brokerage up by 43%
- Asset management up by 15%.

### Key points Q1 15 vs Q4 14:

- Net interest income down by 6%. 2 percentage points due to two fewer interest days
- Commission and brokerage up by 35%
- Other items up by 6%.

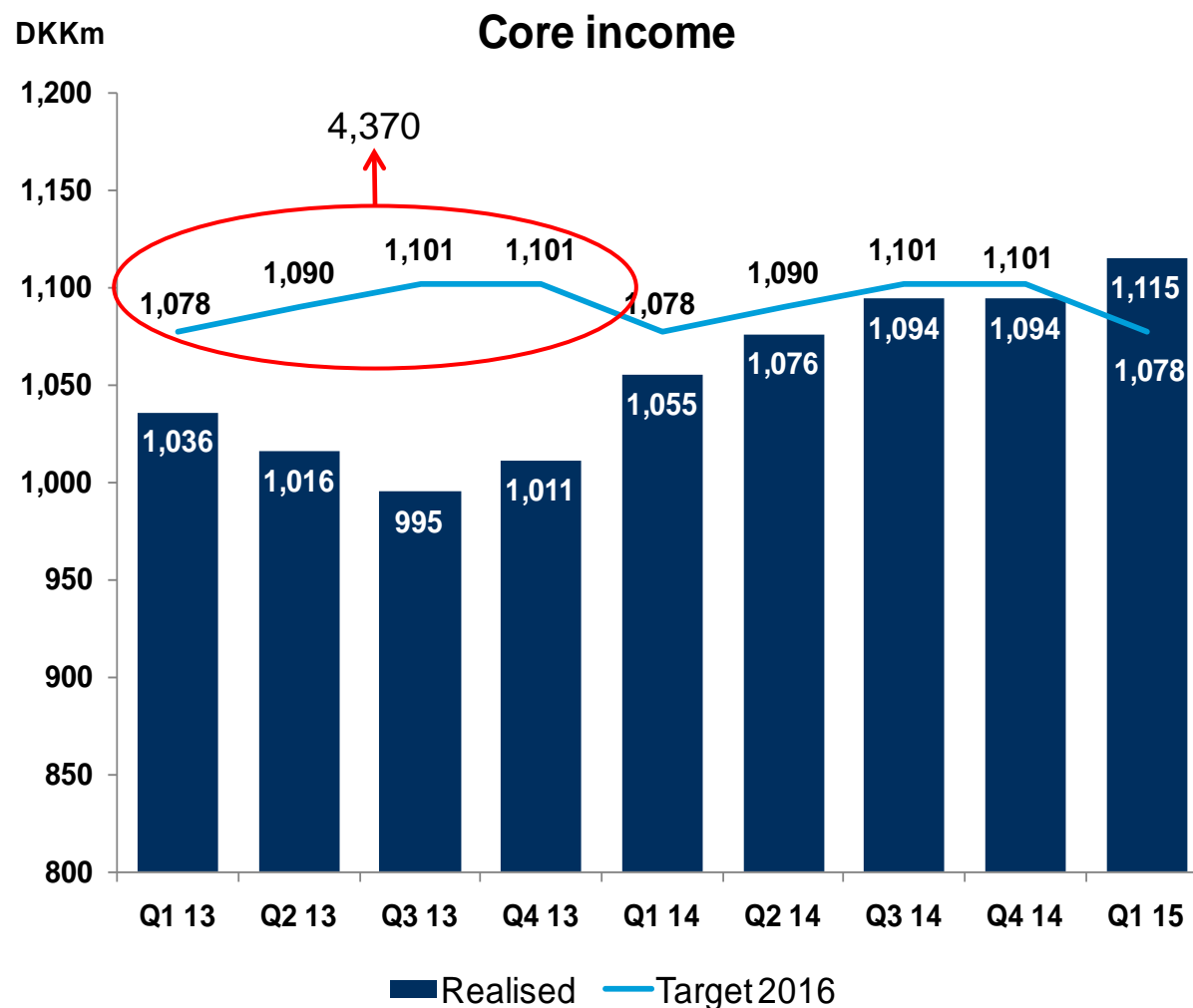
## Strengthening of core income – above the target for 2016

The target for Q1 2016 is DKK 1,078m. Realised in Q1 2015 with DKK 1,115m.

Above the target despite the significant blow to net interest as a result of declining market rates.

Favourably influenced by:

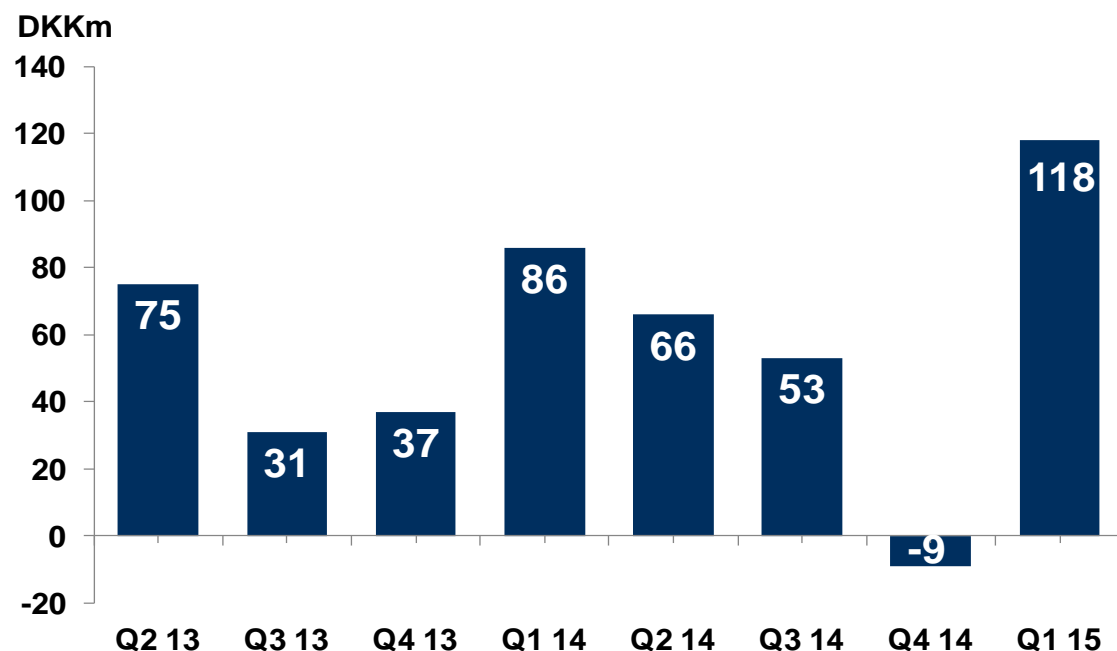
- Historically high remortgaging activity
- Large sale of wealth management products.



## Trading income – high activity in all markets – in particular the bond market

### Key points:

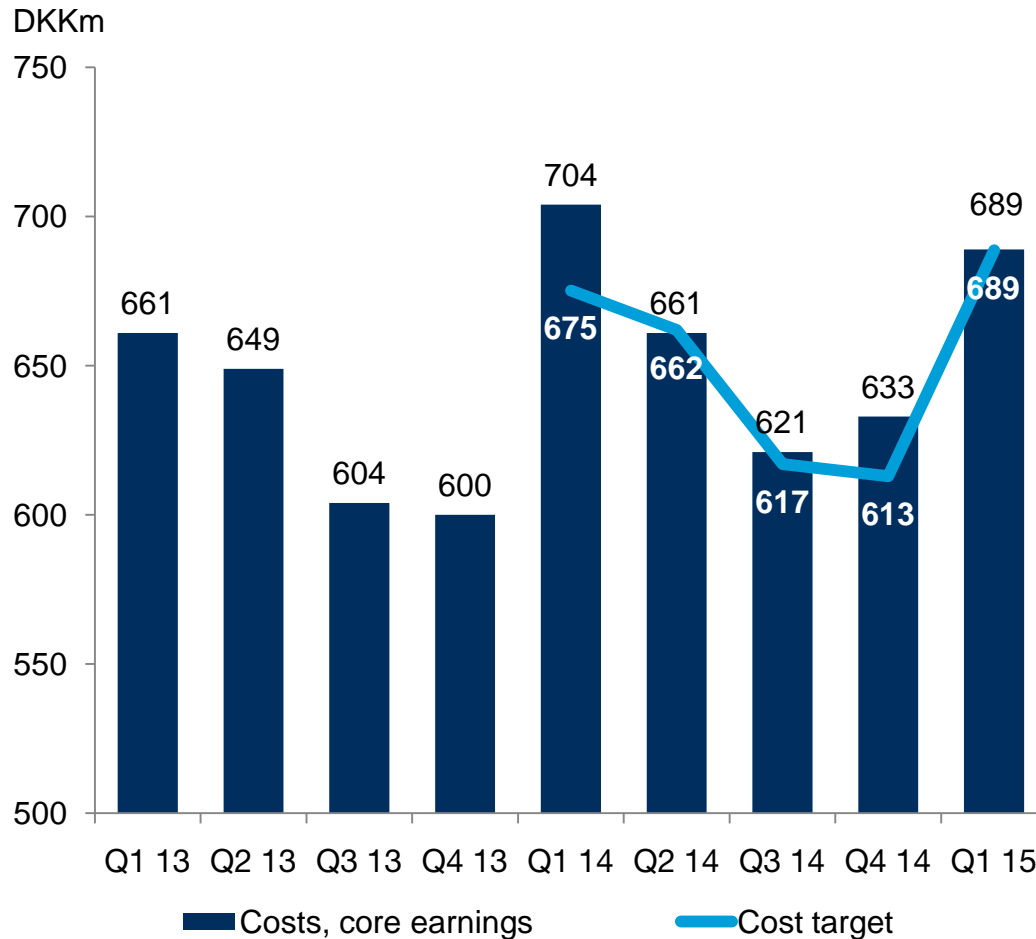
- DKK 118m recorded in Q1 2015 vs DKK 86m in Q1 2014
- Rising activity in Fixed Income as a result of historically high remortgaging activity
- Growing foreign exchange income as a result of higher focus on clients' foreign exchange risks
- Increasing equities income as a result of growing trading activity prompted by the positive market.



### Trading income

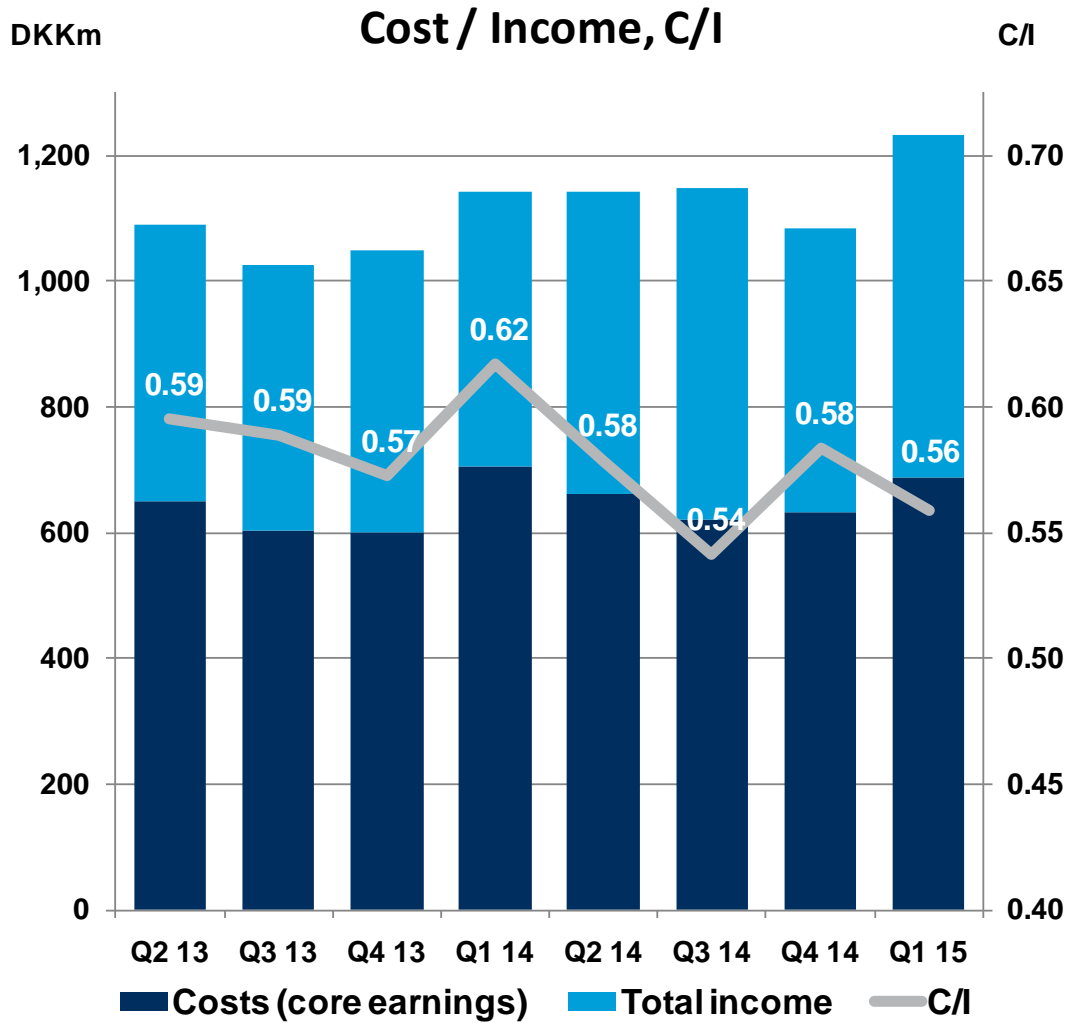
DKKm	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15
Fixed Income	43	7	18	36	32	19	-29	64
Equities	13	17	19	31	26	17	9	32
Money Market and Foreign Exchange	19	7	0	19	8	17	11	22
<b>Total</b>	<b>75</b>	<b>31</b>	<b>37</b>	<b>86</b>	<b>66</b>	<b>53</b>	<b>-9</b>	<b>118</b>

## Costs (core earnings) – Q1 2015 in line with the target for 2016



- Sydbank's costs amounted to DKK 2,514m in 2013
- In addition the cost base from DiBa represented DKK 203m
- Savings plan of DKK 200m compensates for DiBa effect
- The plan has been completed when costs equal 2013, plus price increases
- In Q1 2015 costs of DKK 689m are in line with the target for 2016 in terms of 2015 prices
- The reduction must be viewed on a full-year basis.

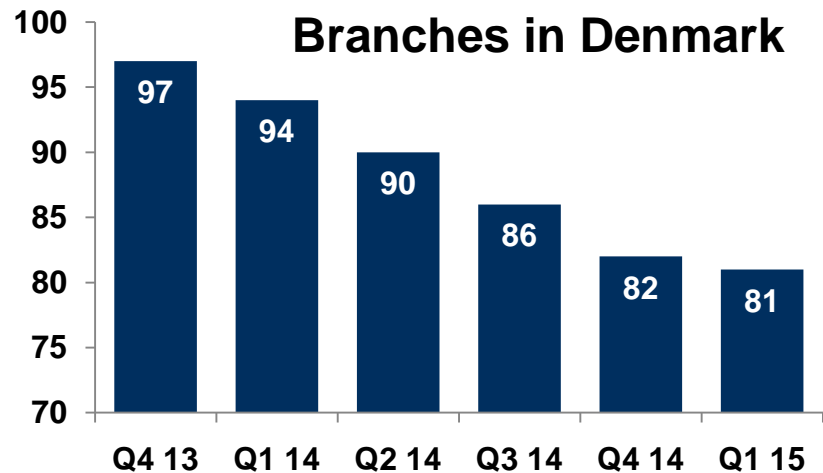
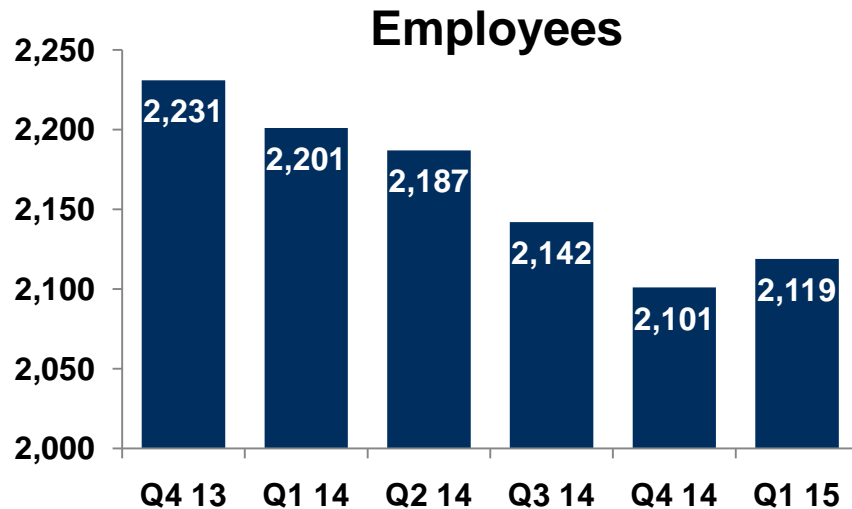
# C/I has improved considerably from Q1 2014 to Q1 2015



### Key Points:

- C/I has improved from 0.62 in Q1 2014 to 0.56 in Q1 2015
- Rising income combined with reduced costs have improved profitability.

## Reduction in costs (core earnings) – automation a necessity

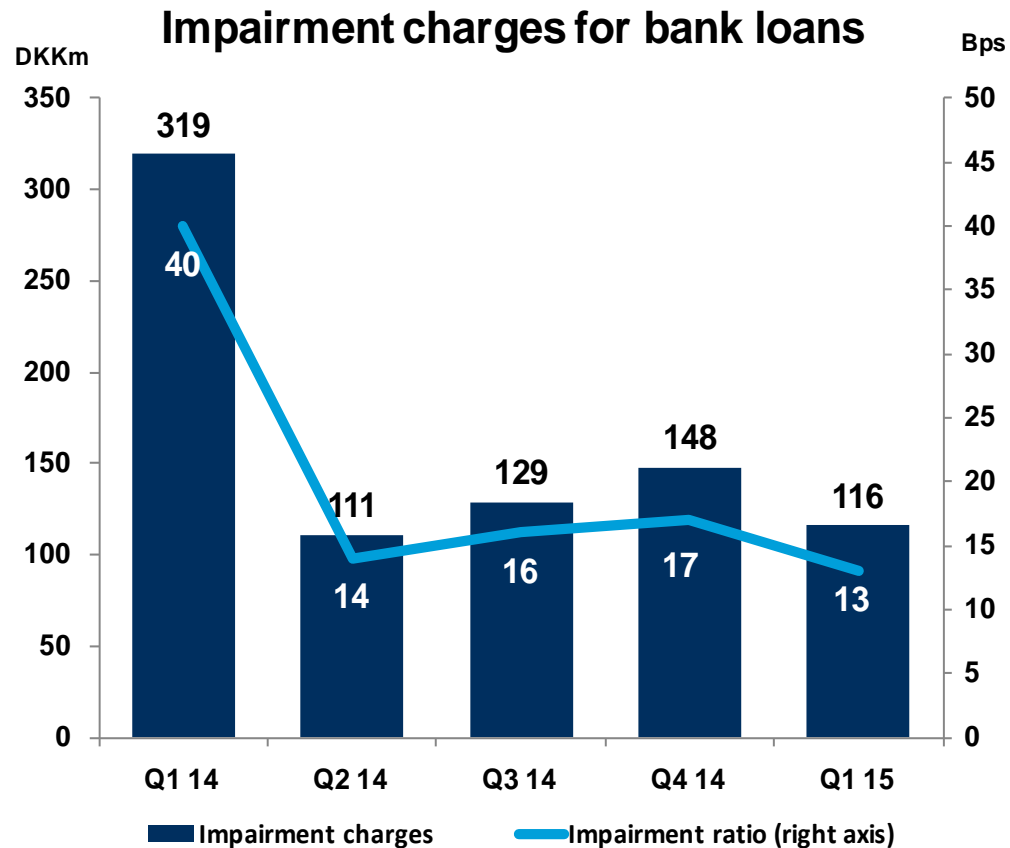


### Initiatives in 2015:

- Large increase in activities in areas in which systems support has not yet been optimised
- Temporary appointments in Q1 2015 as a result of lacking efficiency improvement and process automation
- Efficiency improvement and automation are necessary to reduce costs further
- Project work has intensified – significant improvements are expected at the end of Q2 2015
- Electronic document handling is an important element in the automation process.



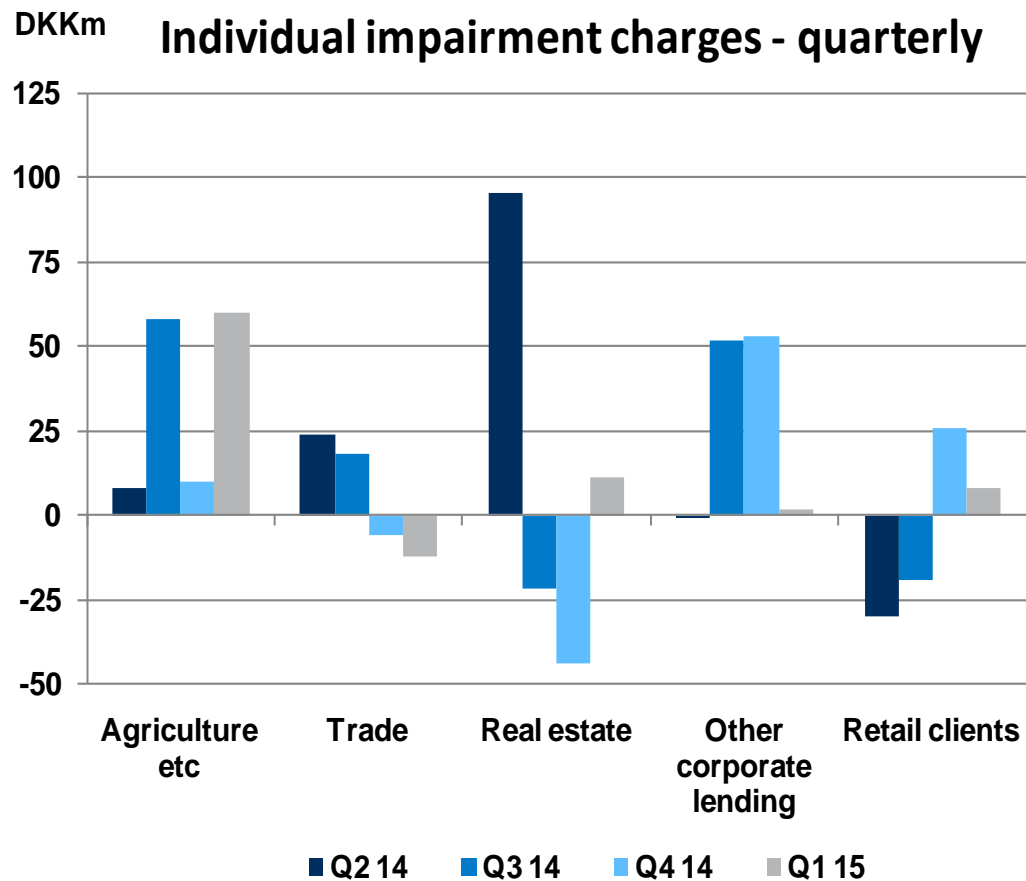
## Impairment charges represent DKK 116m – equal to 13 bps



Impairment charges represent:

- 13 bps in Q1 15, down from 40 bps in Q1 14
- 13 bps in Q1 15, down from 17 bps in Q4 14
- 13 bps is the lowest level since Q3 2008.

## Impairment charges in Q1 2015 – mainly agriculture and collective impairments



### Key points Q1 2015:

- DKK 107m, equal to 92% of impairment charges for the quarter, consists of collective impairment charges and agriculture.

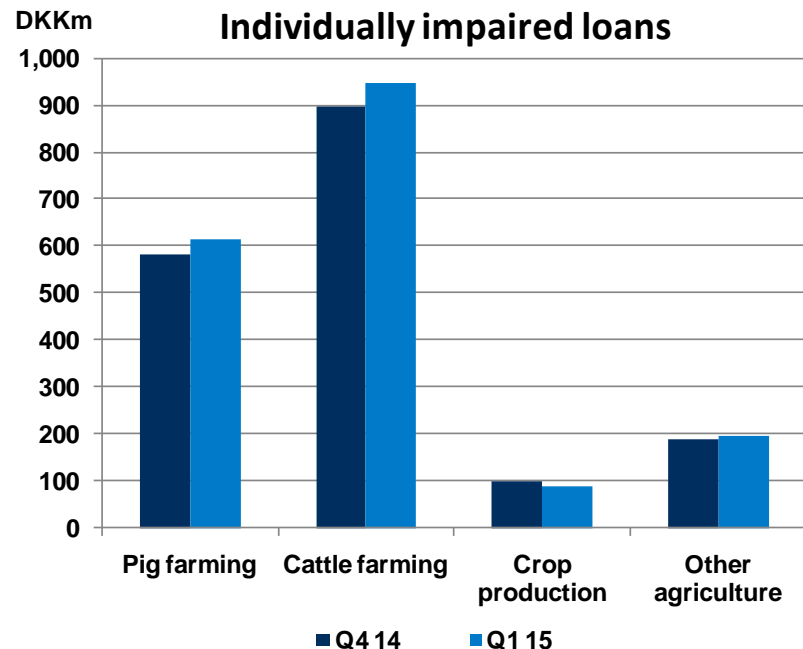
### Quarterly impairment charges

DKKm	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15
Agriculture etc	0	8	58	10	60
Trade	50	24	18	-6	-12
Real estate	132	95	-22	-44	11
Other corporate lending	82	0	52	53	2
Total corporate lending	264	127	106	13	61
Retail clients	56	-30	-19	26	8
Individual impairments	320	97	87	39	69
Collective provisions	-1	14	42	109	47
<b>Total impairments</b>	<b>319</b>	<b>111</b>	<b>129</b>	<b>148</b>	<b>116</b>

## Agriculture – impairment charges up by 1.7 percentage points in Q1 2015

### Key points:

- Bank loans are at the same level as at year-end 2014
- Impaired bank loans have increased by DKK 75m. Increase of 1.2 percentage points of bank loans
- 19.2% impairment charges of bank loans at the end of Q1 2015 vs 17.5% at year-end 2014.



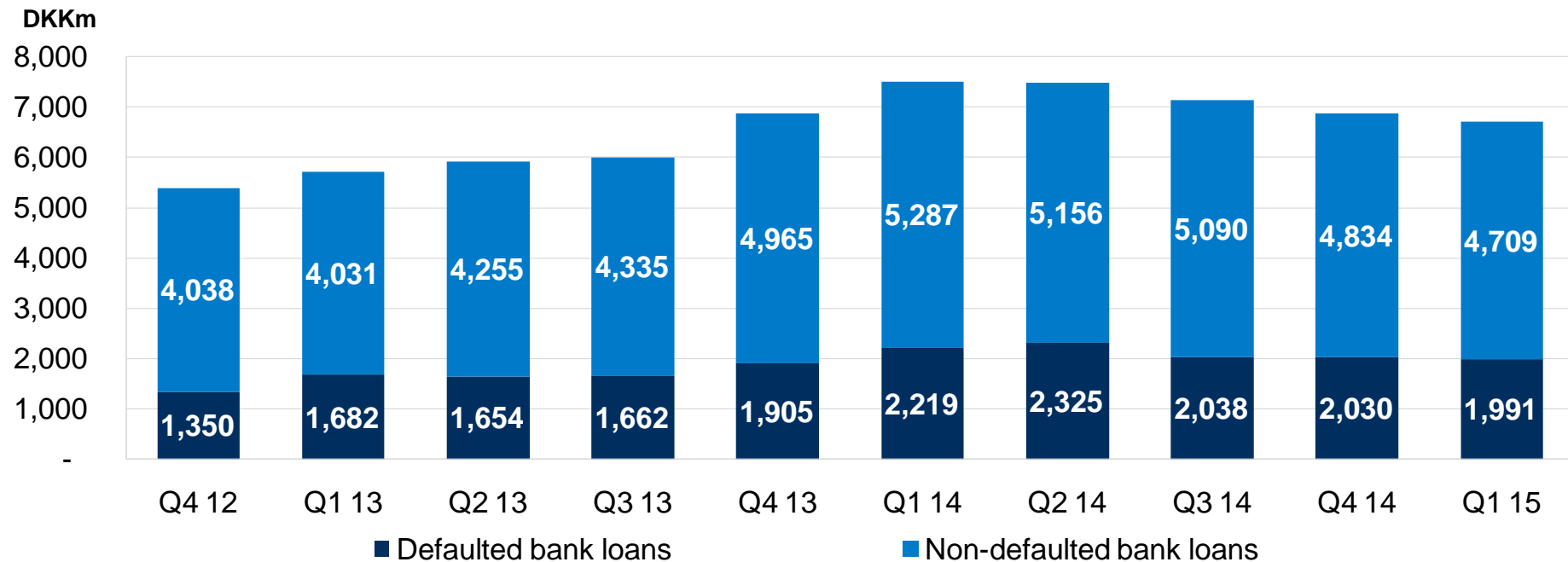
### 31 March 2015

DKKm	Pig farming	Cattle farming	Crop production	Other agriculture	Total
Bank loans	1,934	1,827	1,365	1,150	6,276
Individual impairment charges	330	590	45	115	1,080
Collective impairment charges	85	40			125
<b>Loans after impairment charges</b>	<b>1,519</b>	<b>1,197</b>	<b>1,320</b>	<b>1,035</b>	<b>5,071</b>
Impaired bank loans	582	897	100	188	1,767
Impaired as % of bank loans	30.1	49.1	7.3	16.3	28.2
Impairment as % impaired loans	56.7	65.8	45.0	61.2	61.1
Impairment as % bank loans	21.5	34.5	3.3	10.0	<b>19.2</b>

### 31 December 2014

DKKm	Pig farming	Cattle farming	Crop production	Other agriculture	Total
Bank loans	1,853	1,845	1,381	1,222	6,301
Individual impairment charges	288	540	42	106	976
Collective impairment charges	85	40			125
<b>Loans after impairment charges</b>	<b>1,480</b>	<b>1,265</b>	<b>1,339</b>	<b>1,116</b>	<b>5,200</b>
Impaired bank loans	582	897	100	188	1,767
Impaired as % of bank loans	31.4	48.6	7.2	15.4	28.0
Impairment as % impaired loans	49.5	60.2	42.0	56.4	55.2
Impairment as % bank loans	20.1	31.4	3.0	8.7	<b>17.5</b>

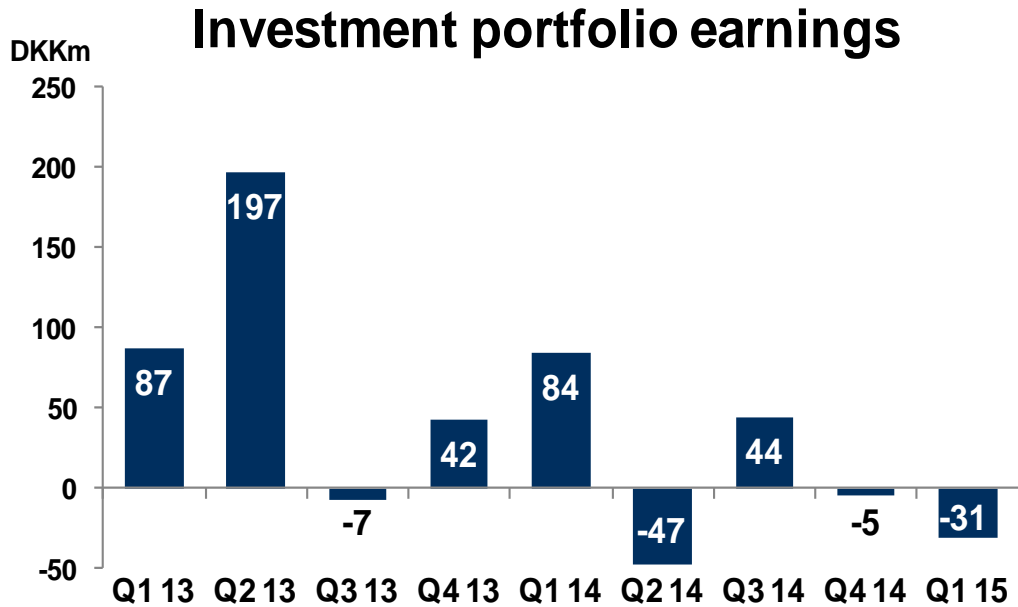
## Impaired bank loans – down for the fourth consecutive quarter – 2% in Q1



### Individually impaired bank loans

DKKm	31 Mar 2014	31 Dec 2014	31 Mar 2015
Non-defaulted bank loans	5,287	4,834	4,709
Defaulted bank loans	2,219	2,030	1,991
Impaired bank loans	7,506	6,864	6,700
Impairment charges for bank loans subject to individual impairment	4,288	3,996	3,905
Impaired bank loans after impairment charges	3,218	2,868	2,795
Impaired bank loans as % of bank loans before impairment charges	10.5	9.4	8.9
Impairment charges as % of bank loans before impairment charges	6.0	5.5	5.2
Impairment as % of impaired bank loans	57.1	58.2	58.3
Impairment as % of defaulted bank loans	193.2	196.8	196.1

# Investment portfolio earnings – drop in interest rates as well as value adjustment of mortgage credit portfolio

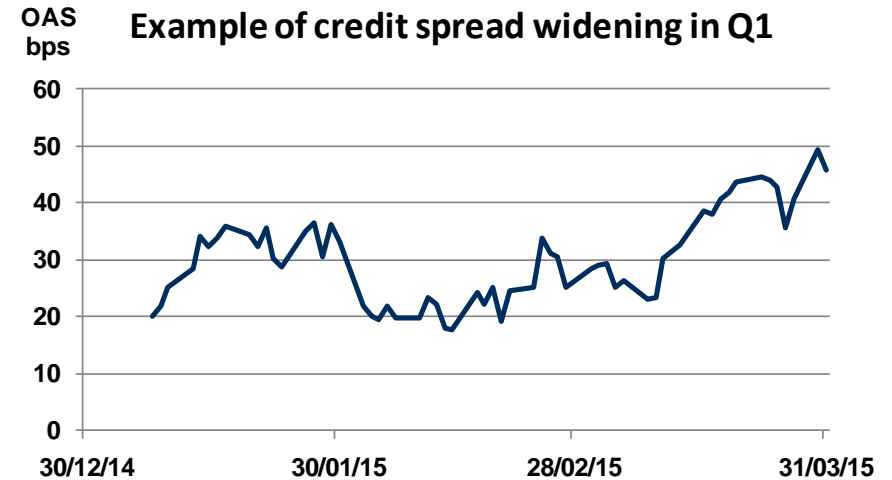


### Key points Q1 2015:

- Credit spread widening resulted in a negative value adjustment of the mortgage credit portfolio
- Negative interest rate risk produced a negative yield as a result of the drop in interest rates in Q1 2015.

### Investment portfolio earnings

DKKm	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15
Position-taking	62	-17	37	-7	-69
Liquidity generation and liquidity reserves	24	-1	6	-6	40
Strategic positions	0	-27	2	10	0
Costs	-2	-2	-1	-2	-2
<b>Total</b>	<b>84</b>	<b>-47</b>	<b>44</b>	<b>-5</b>	<b>-31</b>



## Income statement – total income – historically high

DKKm	Q1 2015	Q1 2014	Index	Q1 2015	Q4 2014	Index
Core income	1,115	1,055	106	1,115	1,094	102
Trading income	118	86	137	118	-9	-
<b>Total income</b>	<b>1,233</b>	<b>1,141</b>	<b>108</b>	<b>1,233</b>	<b>1,085</b>	<b>114</b>
Costs, core earnings	689	704	98	689	633	109
<b>Core earnings before impairment</b>	<b>544</b>	<b>437</b>	<b>124</b>	<b>544</b>	<b>452</b>	<b>120</b>
Impairment of loans and advances etc	116	319	36	116	148	78
<b>Core earnings</b>	<b>428</b>	<b>118</b>	<b>363</b>	<b>428</b>	<b>304</b>	<b>141</b>
Investment portfolio earnings	-31	84	-	-31	-5	620
<b>Profit before non-recurring items</b>	<b>397</b>	<b>202</b>	<b>197</b>	<b>397</b>	<b>299</b>	<b>133</b>
Non-recurring items, net	0	129	-	0	-20	-
<b>Profit before tax</b>	<b>397</b>	<b>331</b>	<b>120</b>	<b>397</b>	<b>279</b>	<b>142</b>
Tax	93	45	207	93	55	169
<b>Profit for the period</b>	<b>304</b>	<b>286</b>	<b>106</b>	<b>304</b>	<b>224</b>	<b>136</b>
Costs (core earnings) / total income, C/I	0.56	0.62		0.56	0.58	
Return on equity, ROE	2.7	2.7		2.7	2.0	
Earnings per share, EPS	4.1	3.9		4.1	3.0	

### Key points in general

- Trading income at a high level
- Total income – historically high
- Best core earnings result since Q2 2008

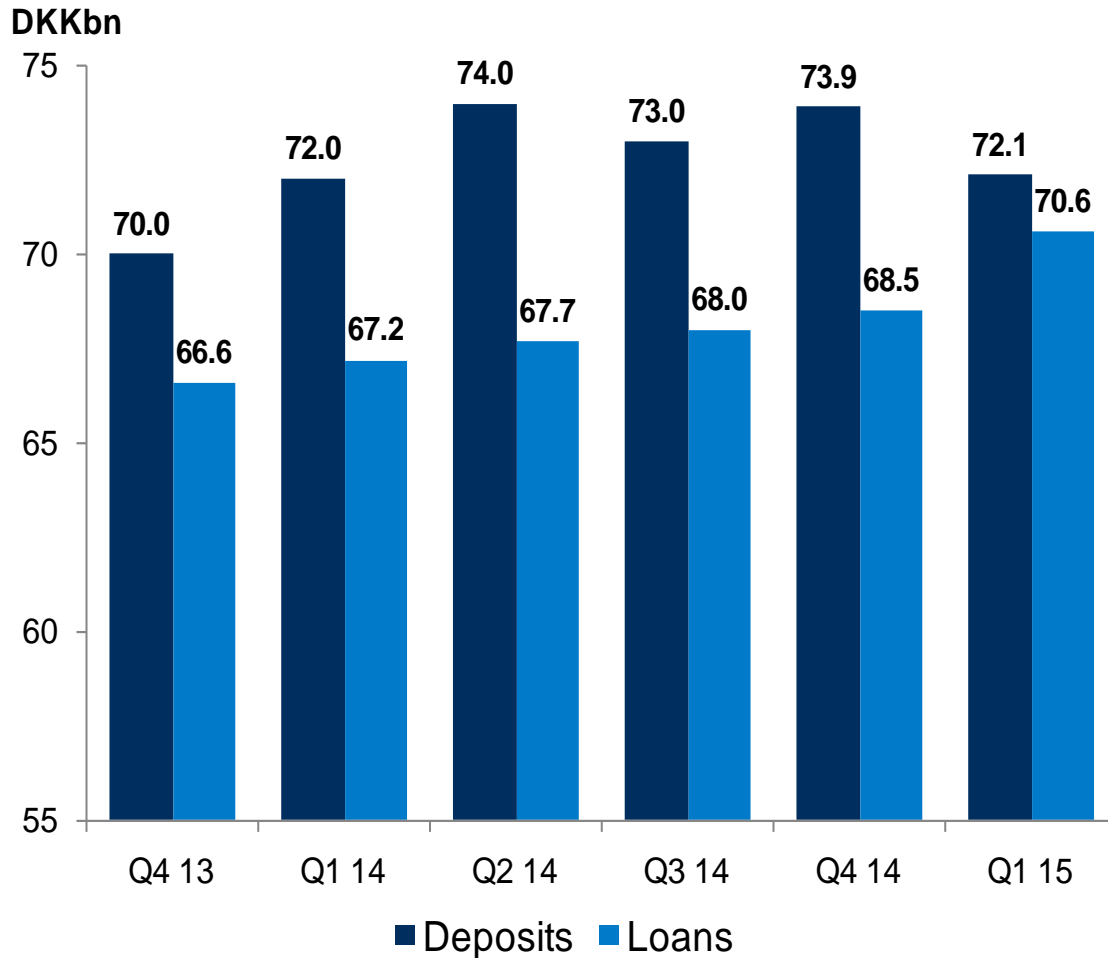
### Key points Q1 15 vs Q1 14

- Core income up by 6%
- Trading income up by 37%
- Costs (core earnings) down by 2%
- Impairment charges down by 64% from 40bp to 13bp

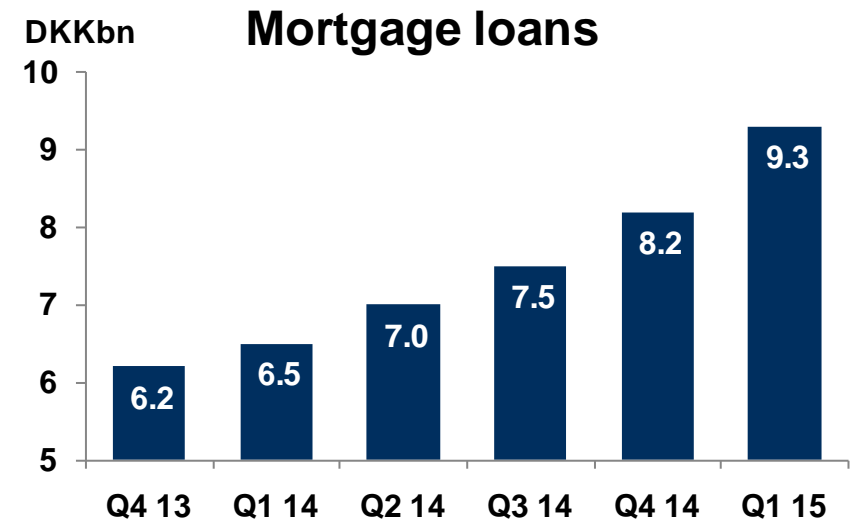
### Key points Q1 15 vs Q4 14

- Core income up by 2%
- Total income up by 14%
- Costs (core earnings) up by 9%
- Impairment charges down by 22% from 17bp to 13bp

# Bank loans up by 3.2% in Q1 2015



- Bank loans have risen for five consecutive quarters. The rise in Q1 2015 represents DKK 2.1bn, equal to 3.2%
- Rise in mortgage loans accounts for DKK 1.1bn
- Decline in time deposits represents DKK 3.4bn.



## Capital position has strengthened in Q1 2015 – mainly as a result of the issue of Tier 2 capital and a decline in RWA

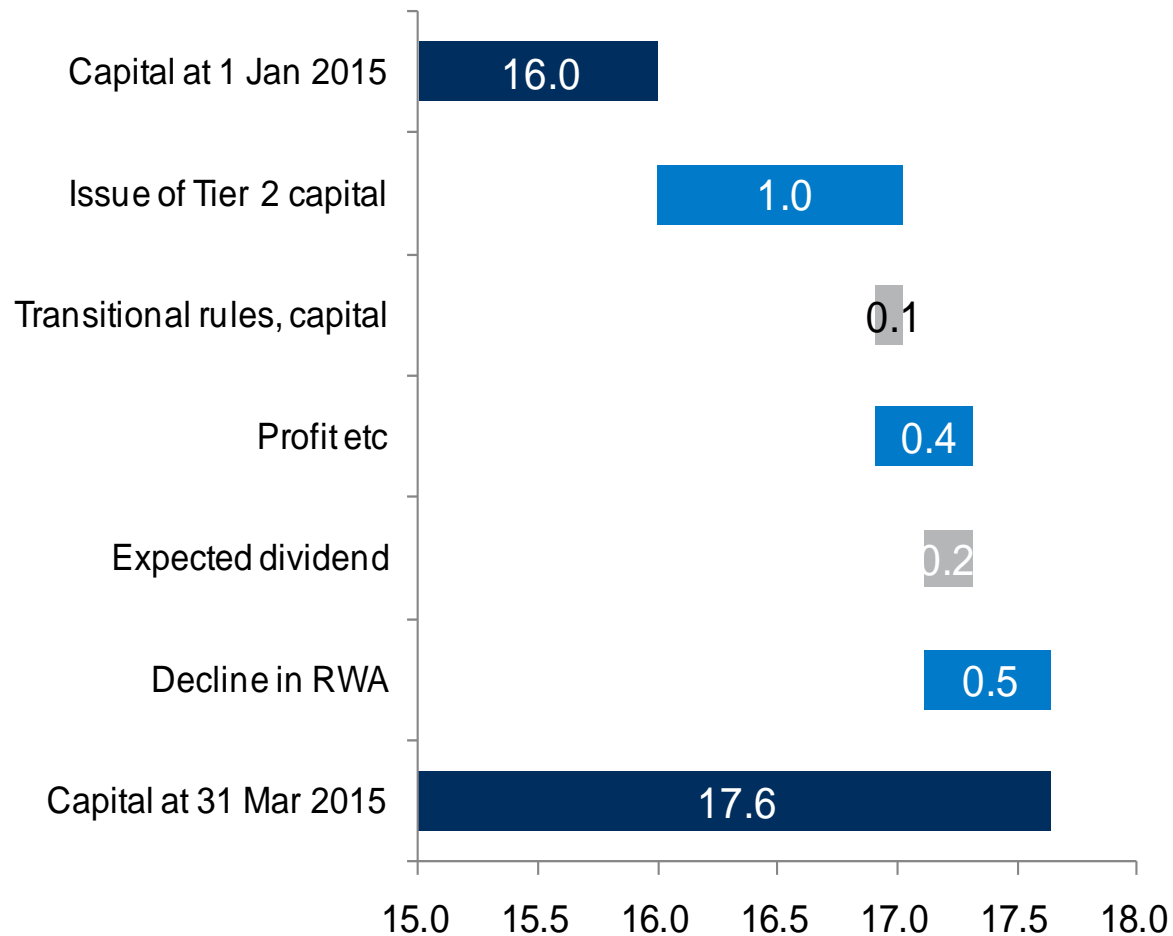
DKKm	CRD IV			
	2013	Q3 2014	Q4 2014	Q1 2015
Credit risk	47,616	47,191	49,417	49,111
Market risk	10,197	8,374	8,003	5,713
Operational risk	8,341	8,306	8,575	8,575
Other exposures incl. CVA	5,345	5,561	6,472	6,898
Risk-weighted assets	71,499	69,432	72,467	70,297
CET1	9,799	10,307	10,101	10,246
Tier 1	11,037	11,414	11,209	11,219
Total capital	11,586	11,787	11,596	12,399
CET1 ratio	13.7	14.8	13.9	14.6
Tier 1 ratio	15.4	16.4	15.5	16.0
Capital ratio	16.2	17.0	16.0	17.6
Individual solvency need	10.0	10.0	10.4	10.3

### Key points Q1 2015:

- CET1 ratio up by 0.7% in Q1 as a result of income as well as reduced market risk
- Additional strengthening of capital with the issue of Tier 2 capital worth EUR 100m
- Share buy-back of DKK 500m will reduce capital ratios by 0.7 percentage points in Q2 2015.



## Capital ratio development in Q1 2015



### Key points:

- The issue of EUR 100m worth of Tier 2 capital has increased the capital ratio by 1 percentage point
- The fall in risk exposure is attributable to market risk.

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## Outlook for 2015

- Core income is expected to rise slightly due in part to a slight increase in bank loans resulting from the measures implemented and despite continued fierce competition.
- Rising trading income but dependent on financial market developments.
- Unchanged costs (core earnings) despite general pay rises agreed for the financial sector of 1.75% and payroll tax increase of 0.80%.
- Lower impairment charges for loans and advances. Uncertainty surrounding price developments in the agricultural sector may however affect level of impairment charges.
- Projections for core income and costs (core earnings) are exclusive of the effect of the acquisition of Sydinvest Administration A/S as of 31 March 2015, which is expected to result in an increase in both items of approximately DKK 50m.

# Q & A

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Thank you

**Additional information:**

**Karen Frøsig, CEO**

tel +45 74 37 20 00, [direktionen@sydbank.dk](mailto:direktionen@sydbank.dk)

**Jørn Adam Møller, Chief Investor Relations Officer**

tel +45 74 37 24 56, [jam@sydbank.dk](mailto:jam@sydbank.dk)

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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.