
Interim Report – H1 2016

Continued tight rein on costs and credit quality ensures satisfactory development in performance
25 August 2016

Highlights for H1 2016

Key points

Continued tight rein on costs and credit quality ensures satisfactory development

Profit

Profit of DKK 643m – ROE of 11.4% p.a. after tax

Core income

Core income of DKK 2,101m – reduced by 6% compared with H1 2015

Income

Income of DKK 2,224m – reduced by 7% compared with H1 2015

Costs

Reduced costs despite the acquisition of Syd Fund Management on 1 April 2015

Impairment charges

Impairment charges of DKK 81m – reduced by 63% compared with H1 2015

Bank loans

DKK 4.5bn rise in bank loans and advances, equal to 6.1% in H1 2016

Capital

CET1 ratio of 14.8% – increase of 0.4 percentage points compared with Q1 2016

Share buyback

At end-June purchases of DKK 220m of current buyback totalling DKK 350m

Core income at stable level

DKKm	H1 2016	H1 2015	Index	Q2 2016	Q1 2016	Index
Net interest income etc	1,173	1,204	97	585	588	99
Mortgage credit*	193	204	95	105	88	119
Payment services	96	102	94	50	46	109
Remortgaging and loan fees	51	99	52	25	26	96
Commission and brokerage	180	228	79	85	95	89
Commission etc investment funds and pooled pension plans	187	181	103	92	95	97
Asset management	95	92	103	50	45	111
Custody fees	36	39	92	18	18	100
Other income	90	78	115	41	49	84
Total	2,101	2,227	94	1,051	1,050	100
* Set-off of loss Totalkredit	10	15	67	6	4	150

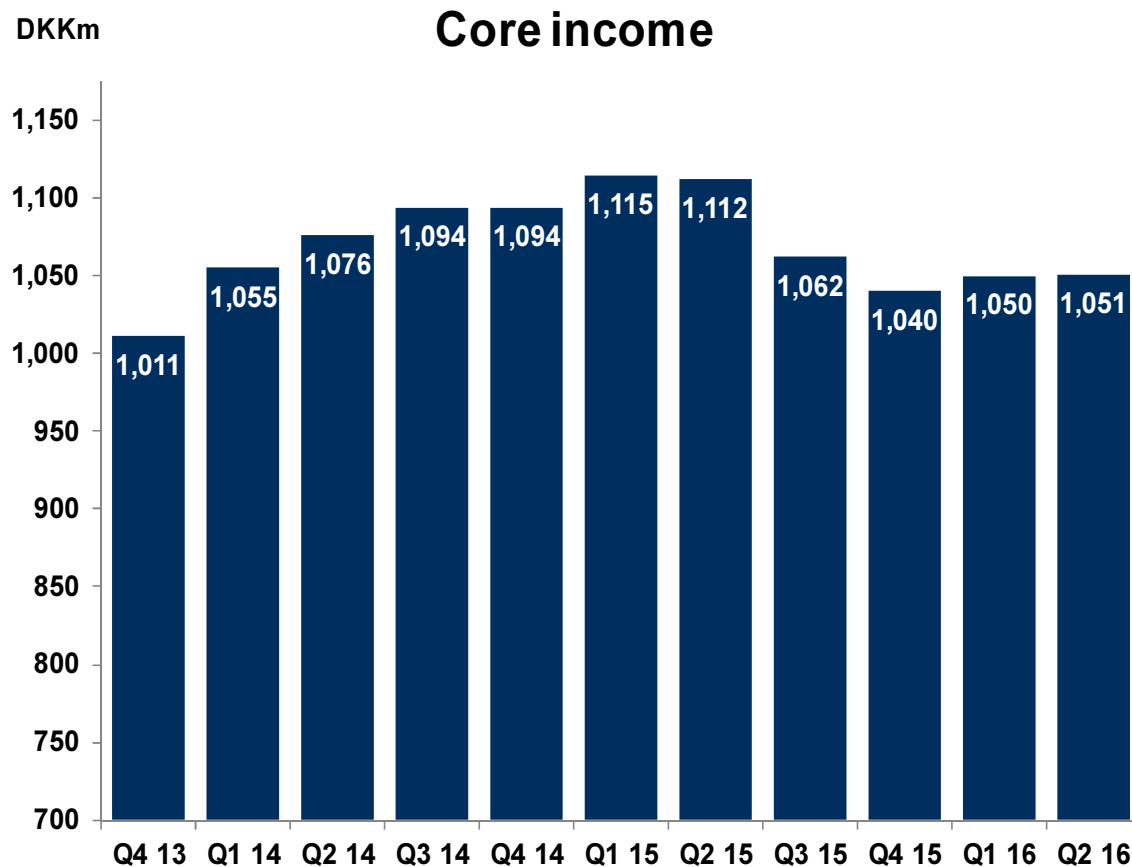
Key points H1 16 vs H1 15:

- Net interest income down by 3%
- Remortgaging and loan fees down by 48%
- Commission and brokerage down by 21%
- Other items overall unchanged.

Key points Q2 16 vs Q1 16:

- Net interest income down by 1%
- Commission and brokerage down by 11%
- Mortgage credit up by 19%. DKK 13m of the increase is attributable to an adjustment of the income for 2015
- Other items overall down by 1%.

Core income stable at current level



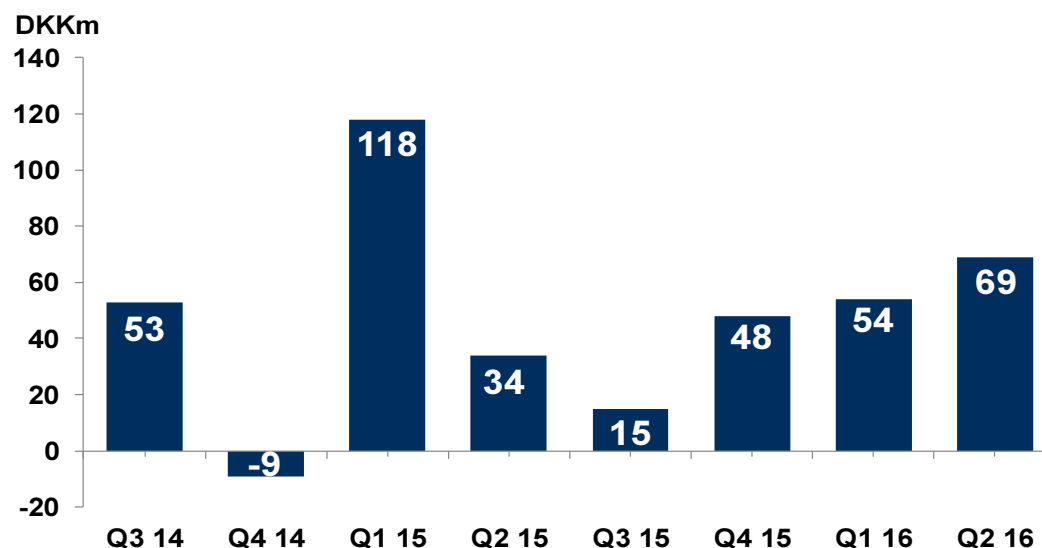
The core income level decreased as a result of the negative interest rate environment which was a consequence of the pressure on DKK in early 2015.

Remortgaging activity in Q1 and Q2 2015 caused short-lived improvement in core income.

Trading income – satisfactory in Q2 2016

Key points:

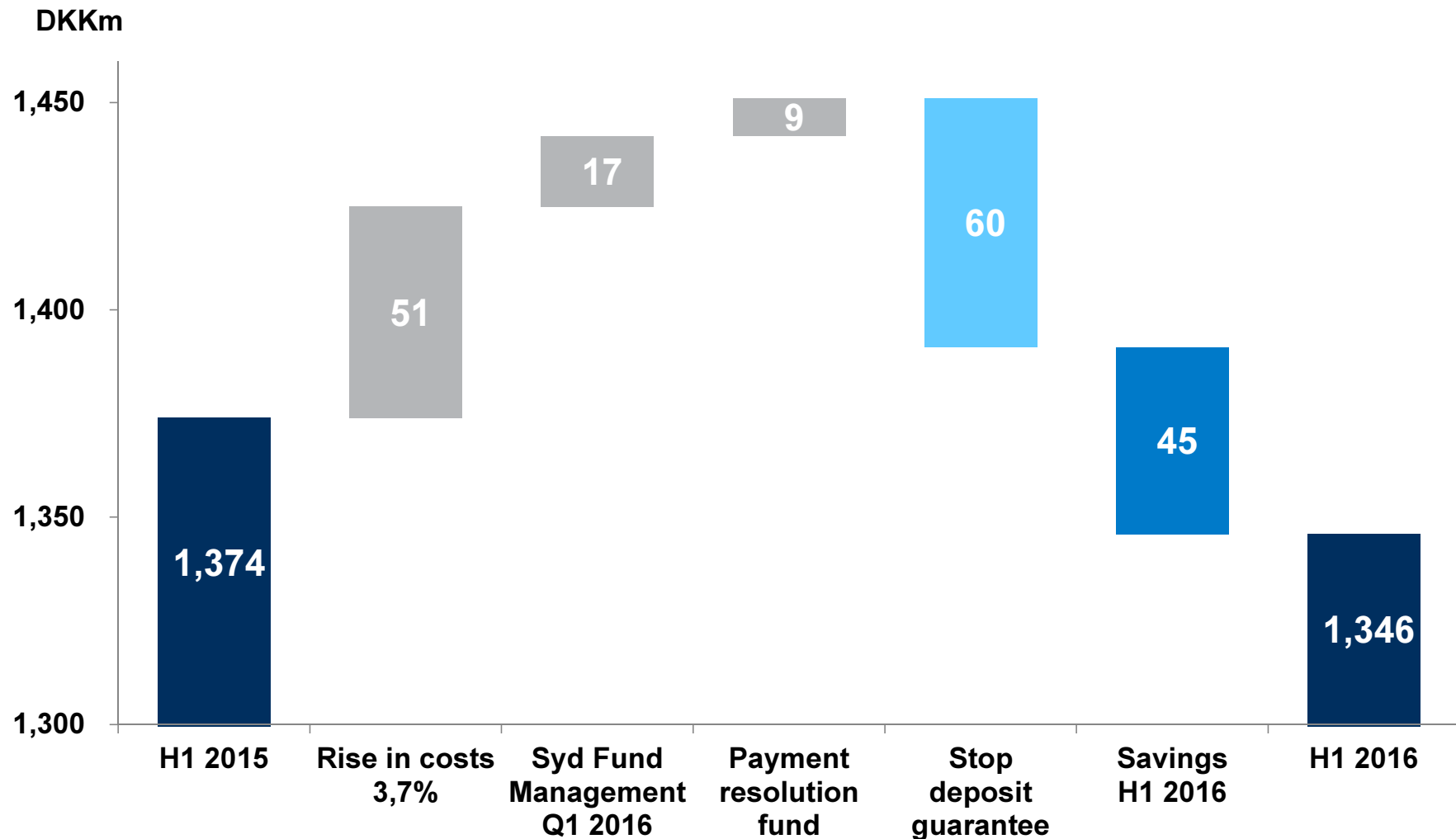
- DKK 69m recorded in Q2 2016 vs DKK 54m in Q1 2016
- Activity at a normal level in Q2 2016.



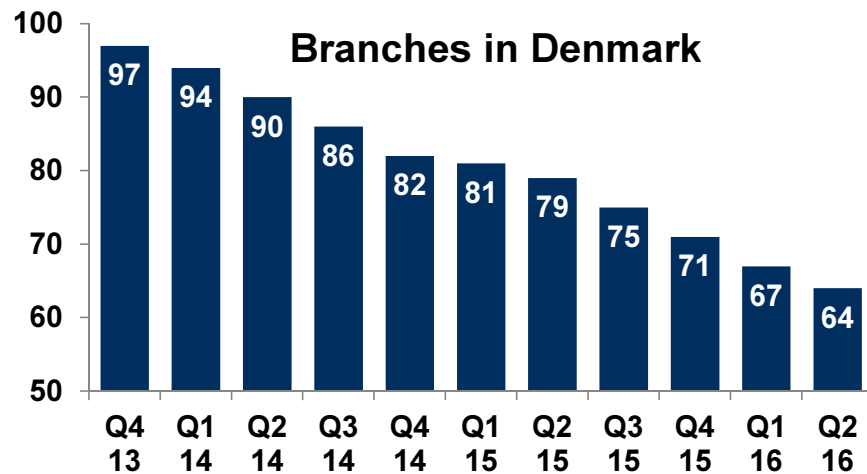
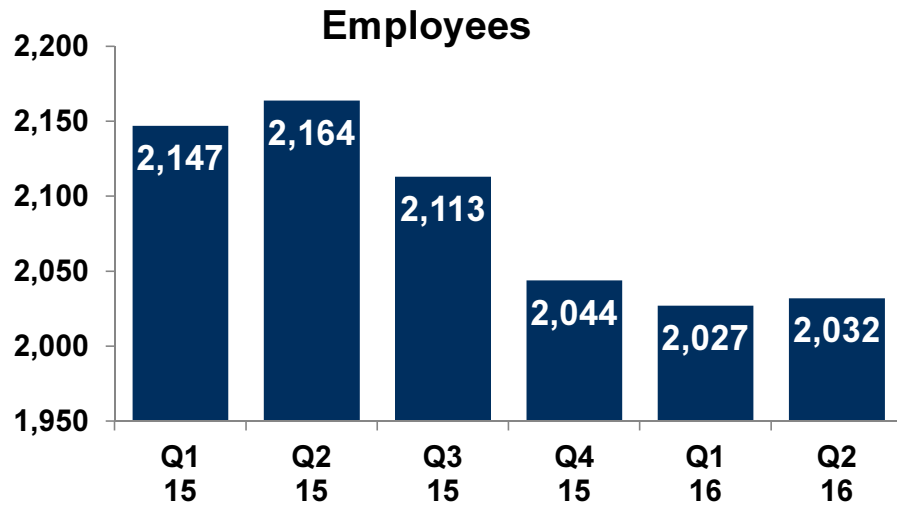
Trading income

DKKm	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16
Fixed Income	19	-29	64	1	-4	13	26	39
Equities	17	9	32	18	8	25	20	19
Money Market and Foreign Exchange	17	11	22	15	11	10	8	11
Total	53	-9	118	34	15	48	54	69

Costs (core earnings) – recorded savings of DKK 45m vs H1 2015



Reduction in costs (core earnings) – processes are being optimised



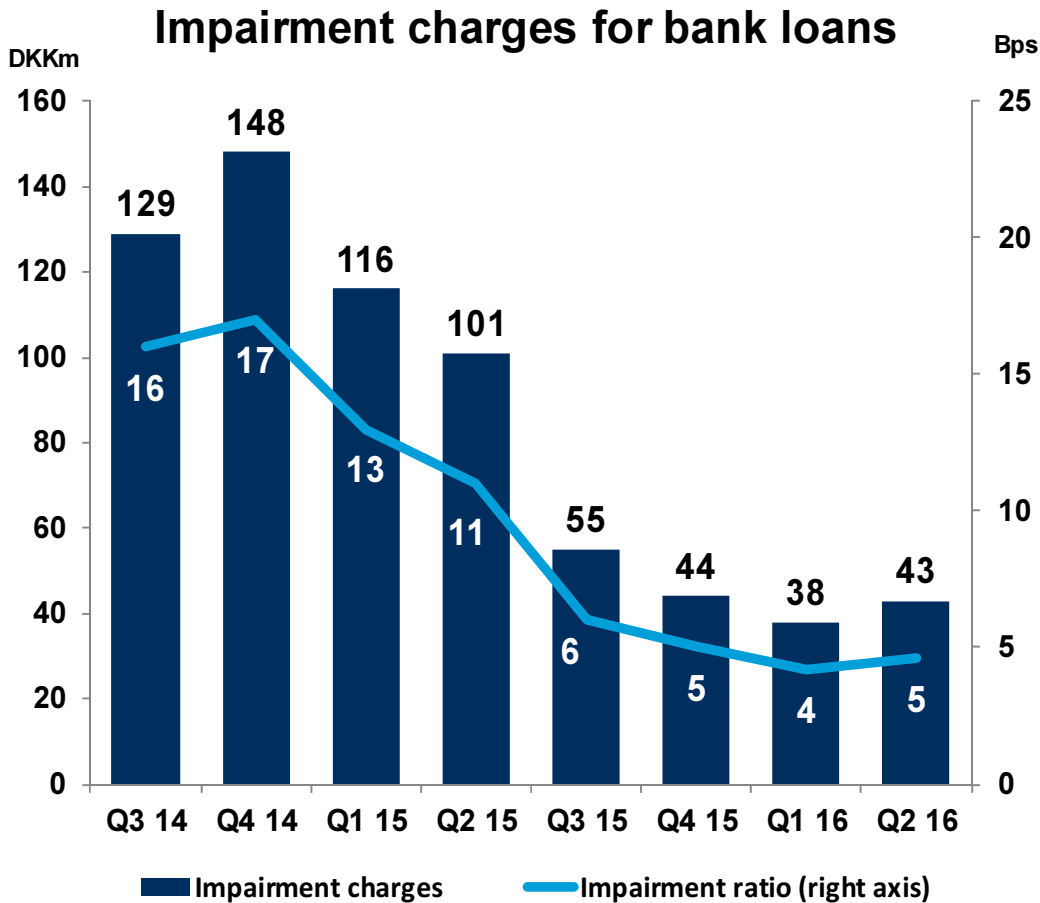
Initiatives in 2016:

- Staff – no significant reduction in 2016
- Branches in Denmark reduced by 7 from 71 to 64.

Blue growth 2016-2018 – implemented projects:

- Optimisation of housing loan processes
- Integration of credit processes into existing CRM solution
- Clients and employees alike will experience considerable improvements as a result of both projects. Clients in the form of shorter response times and case processing times. Employees in the form of smoother procedures and qualitative improvements
- The projects will lead to savings in 2017 and onwards.

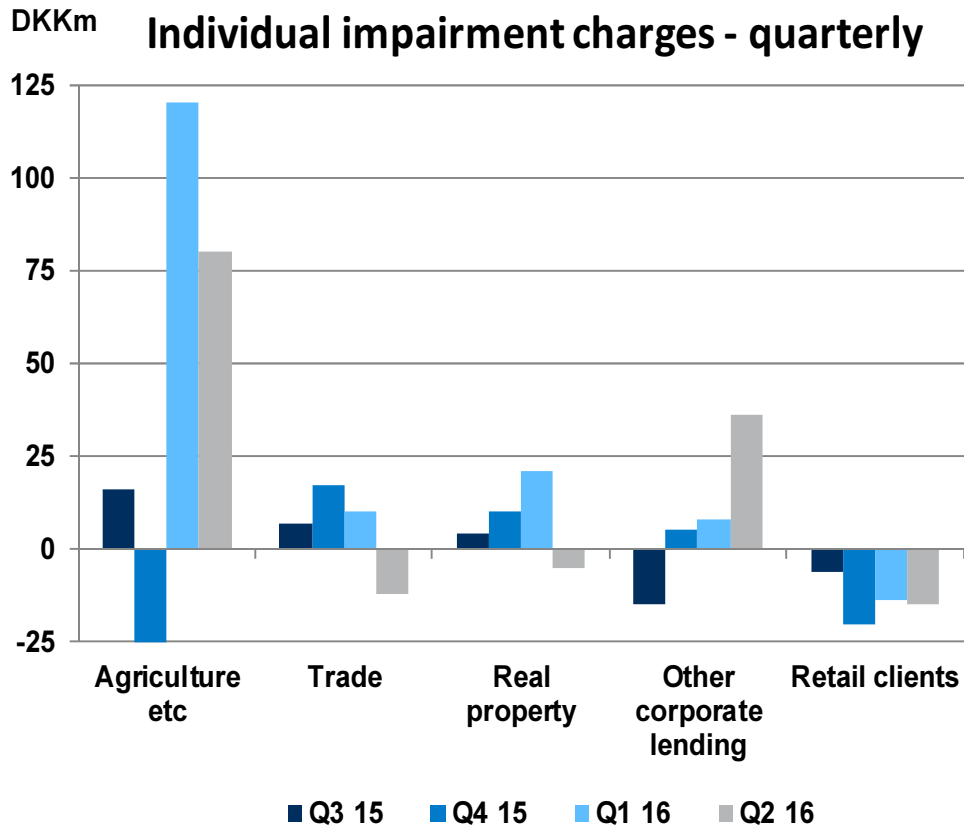
Impairment charges in Q2 2016 represent DKK 43m – equal to 5bps



Impairment charges represent:

- 9bps in H1 16, down from 24bps in H1 15
- 5bps in Q2 16, in line with the most recent quarters
- 4bps in Q1 2016 is the lowest level since Q3 2008.

Impairment charges in Q2 2016 – continued focus on agriculture



Key points Q2 2016:

- Individual impairment charges for agricultural exposures represent DKK 80m
- Collective impairment charges regarding agricultural exposures continue to represent DKK 150m.

Key points H1 2016:

- Total impairment charges as regards agriculture constitute DKK 125m compared with total impairment charges of DKK 81m.

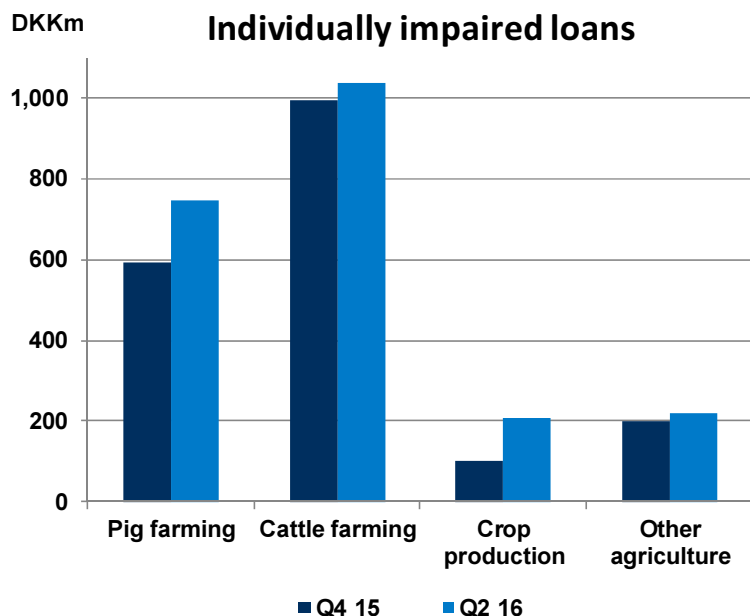
Quarterly impairment charges

DKKm	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16
Agriculture etc	60	65	16	-25	120	80
Trade	-12	2	7	17	10	-12
Real property	11	-15	4	10	21	-5
Other corporate lending	2	-16	-15	5	8	36
Total corporate lending	61	36	12	7	159	99
Retail clients	8	24	-6	-20	-14	-15
Individual impairments	69	60	6	-13	145	84
Collective impairments	47	41	49	57	-107	-41
Total impairments	116	101	55	44	38	43

Agriculture – impairment ratio of 21.7% at the end of Q2 2016

Key points:

- Loans in Q2 2016 at same level as at end-2015
- Impaired bank loans have increased by DKK 319m, equal to 5.4 percentage points of bank loans
- 21.7% impairment of bank loans at the end of Q2 2016 vs 21.2% at the year-end 2015.



30 June 2016

DKKm	Pig farming	Cattle farming	Crop production	Other agriculture	Total
Bank loans	1,784	1,734	1,288	1,116	5,922
Individual impairment charges	369	602	64	101	1,136
Collective impairment charges	30	120			150
Loans after impairment charges	1,385	1,012	1,224	1,015	4,636
Impaired bank loans	747	1,037	207	219	2,210
Impaired as % of bank loans	41.9	59.8	16.1	19.6	37.3
Impairment as % impaired loans	49.4	58.1	30.9	46.1	51.4
Impairment as % bank loans	22.4	41.6	5.0	9.1	21.7

31 December 2015

DKKm	Pig farming	Cattle farming	Crop production	Other agriculture	Total
Bank loans	1,702	1,712	1,270	1,228	5,912
Individual impairment charges	281	599	50	97	1,027
Collective impairment charges	100	125			225
Loans after impairment charges	1,321	988	1,220	1,131	4,660
Impaired bank loans	592	996	103	200	1,891
Impaired as % of bank loans	34.8	58.2	8.1	16.3	32.0
Impairment as % impaired loans	47.5	60.1	48.5	48.5	54.3
Impairment as % bank loans	22.4	42.3	3.9	7.9	21.2

Agriculture – debt conversion in H2 2016

During H2 2016 selected agricultural clients will receive an offer to convert part of their debt to the Bank to subordinated loan capital.

The purpose of the conversion is to create better prospects and encourage these farmers to continue to work towards increasing earnings.

The amount converted will be written off.

Sydbank will continue to have a potential claim in the form of subordinated loan capital which may be redeemed by the farmer subject to conditions at a price to be agreed after a number of years. The subordinated loan will be free of interest during this period.

The selected farms are characterised by for instance:

- negative equity
- high efficiency.



Agriculture – debt conversion in H2 2016 (continued)

After the conversion, OEI will cease to exist for the agricultural exposures concerned.

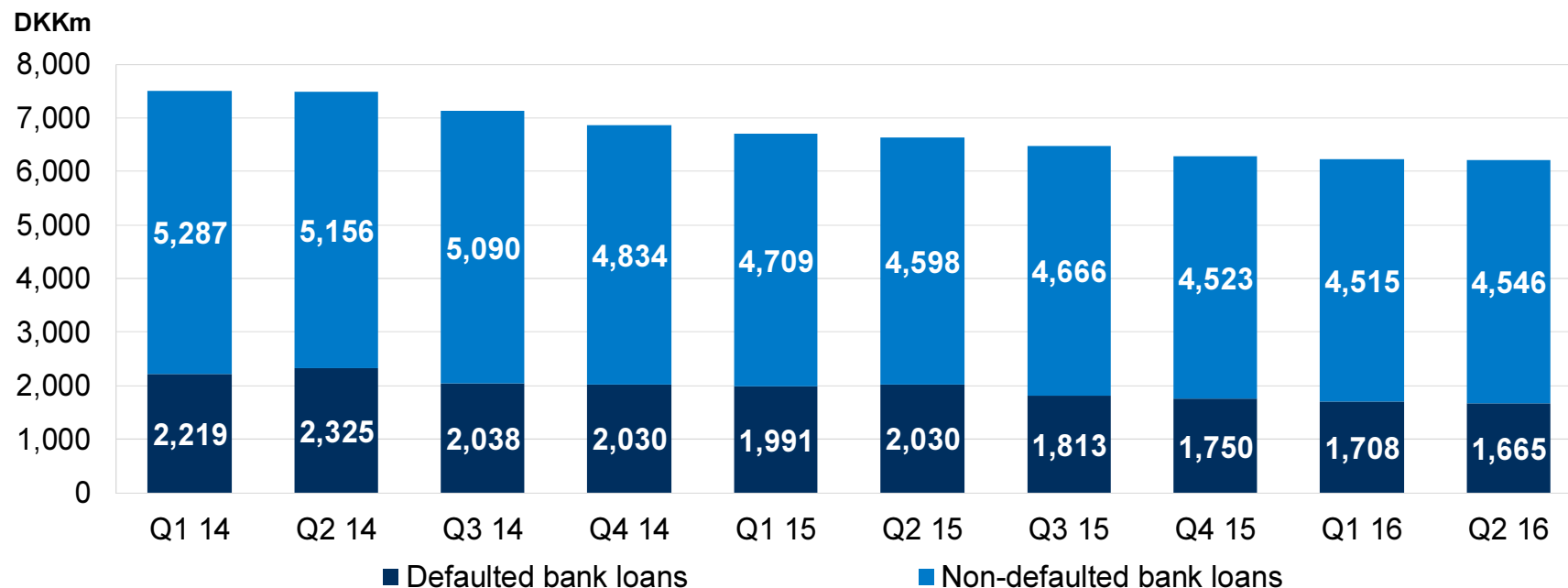
If all selected farmers accept the conversion the Group's impaired loans will be reduced by approximately DKK 1.0bn. Bank loans and advances amounting to DKK 0.5bn are expected to be written off. The amount has already been written down.

The cancellation of OEI is projected to result in the reversal of impairment charges of about DKK 100m. However, given the situation in the agricultural sector, these reversals are expected to be used for additional impairment charges for agriculture during H2 2016 due to the continued very low milk prices etc.

It is believed to be highly likely that the farmers will accept the offer.



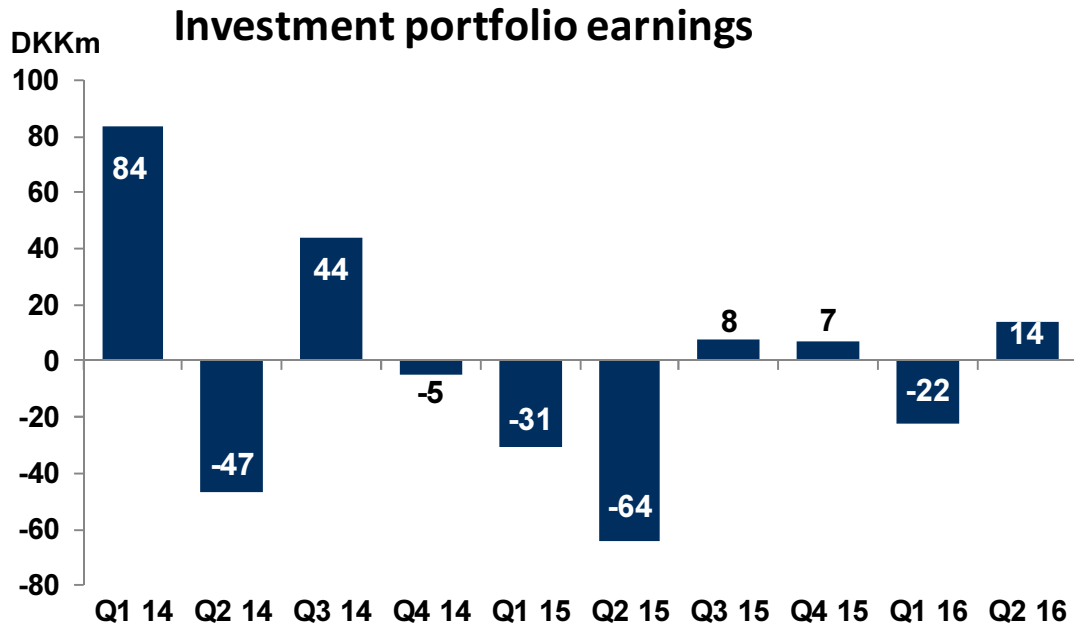
Impaired bank loans – down for ninth consecutive quarter



Individually impaired bank loans

DKKm	30 Jun 2015	31 Dec 2015	30 Jun 2016
Non-defaulted bank loans	4,598	4,523	4,546
Defaulted bank loans	2,030	1,750	1,665
Impaired bank loans	6,628	6,273	6,211
Impairment charges for bank loans subject to individual impairment	3,807	3,569	3,496
Impaired bank loans after impairment charges	2,821	2,704	2,715
Impaired bank loans as % of bank loans before impairment charges	8.8	8.0	7.5
Impairment charges as % of bank loans before impairment charges	5.0	4.6	4.2
Impairment as % of impaired bank loans	57.4	56.9	56.3
Impairment as % of defaulted bank loans	187.5	203.9	210.0

Modest but positive investment portfolio earnings for the quarter



Key points H1 2016:

- Without Brexit investment portfolio earnings for H1 2016 would have been positive. Brexit prompted a fall in market rates.
- The resulting loss on hedging transactions – German Bund and Danish interest rate swaps – exceeded the resulting increase in value of the portfolio of Danish mortgage bonds.

Investment portfolio earnings

DKK m	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16
Position-taking	-69	-69	5	17	-26	-5
Liquidity generation and reserves	40	7	2	-8	11	18
Strategic positions	0	0	2	0	-5	3
Costs	-2	-2	-1	-2	-2	-2
Total	-31	-64	8	7	-22	14

Income statement – costs and impairment charges still under control

DKKm	H1 2016	H1 2015	Index	Q2 2016	Q1 2016	Index
Core income	2,101	2,227	94	1,051	1,050	100
Trading income	123	152	81	69	54	128
Total income	2,224	2,379	93	1,120	1,104	101
Costs, core earnings	1,346	1,374	98	665	681	98
Core earnings before impairment	878	1,005	87	455	423	108
Impairment of loans and advances etc	81	217	37	43	38	113
Core earnings	797	788	101	412	385	107
Investment portfolio earnings	-8	-95	-	14	-22	-
Profit before non-recurring items	789	693	114	426	363	117
Non-recurring items, net	26	-	-	26	-	-
Profit before tax	815	693	118	452	363	125
Tax	172	163	106	92	80	115
Profit for the period	643	530	121	360	283	127
Costs (core earnings) / total income, C/I	0.61	0.58		0.59	0.62	
Return on equity, ROE	5.7	4.7		3.3	2.5	
Earnings per share, EPS	9.1	7.2		5.1	4.0	

Key points H1 16 vs H1 15:

- Core income down by 6%
- Costs (core earnings) down by 2% despite purchase of SFM
- Impairment charges down by 63% from 24bps to 9bps
- Core earnings up by 1%.

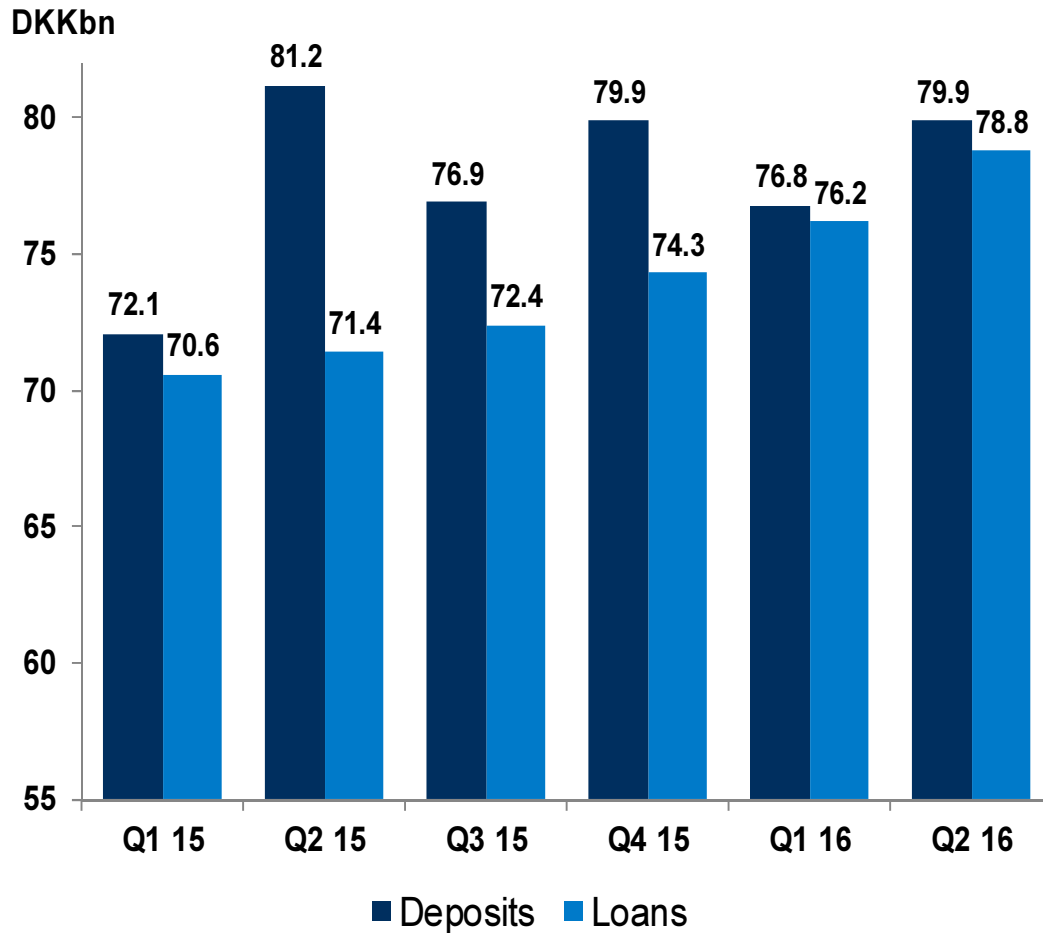
Key points Q2 16 vs Q1 16:

- Core income unchanged
- Total income up by 1%
- Costs (core earnings) down by 2%
- Impairment charges up by 13%, remaining at a low level.

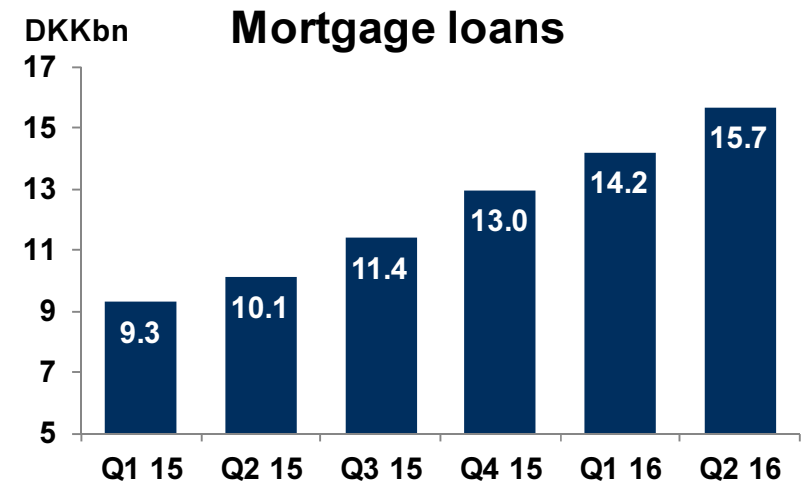
Non-recurring items:

- Adjustment of DKK 31m concerning the purchase sum from the sale of shares in Nets
- Costs of DKK 5m related to "Blue growth" projects.

Q2 2016: Bank loans up by 2.6bn – deposits up by DKK 3.1bn



- Bank loans have risen for 10 consecutive quarters. The rise in Q2 2016 represents DKK 2.6bn, equal to 3.5%
- Rise in mortgage loans accounts for DKK 1.5bn in Q2 2016
- Increase in deposits represents DKK 3.1bn in Q2 2016.



Capital ratios have improved significantly in Q2 2016 – as a result of income as well as a decline in risk-weighted assets

DKKm	Q4 2014	Q4 2015	Q1 2016	Q2 2016
Credit risk	49,417	44,931	43,895	44,208
Market risk	8,003	8,876	8,455	7,447
Operational risk	8,575	8,173	8,173	8,173
Other exposures incl CVA	6,472	5,975	5,778	5,890
Risk exposure amount	72,467	67,955	66,301	65,718
CET1	10,101	9,852	9,552	9,755
Tier 1	11,209	10,825	10,385	10,586
Total capital	11,596	11,984	11,596	11,799
CET1 ratio	13.9	14.5	14.4	14.8
Tier 1 ratio	15.5	15.9	15.7	16.1
Capital ratio	16.0	17.6	17.5	18.0
Individual solvency need	10.4	9.7	9.7	10.0

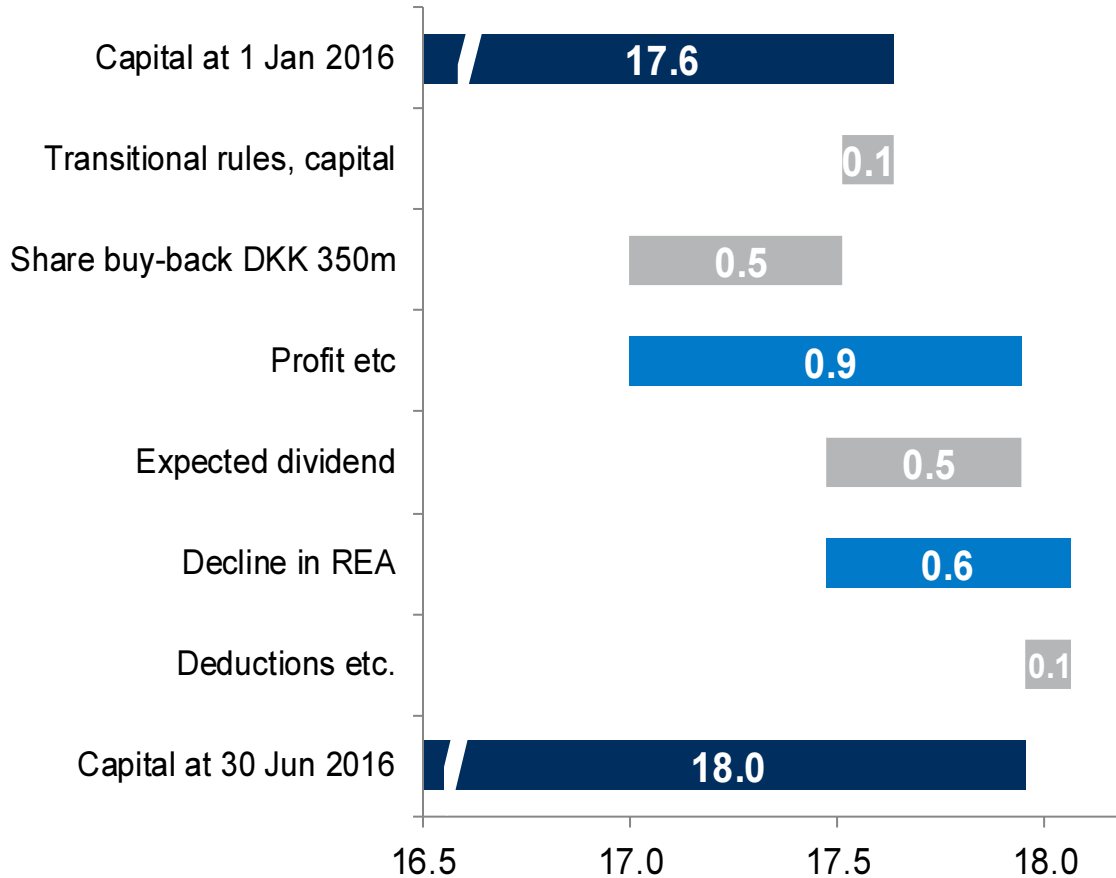
Key points Q2 2016:

- The fall in risk exposure is primarily attributable to market risk
- CET1 ratio is up by 0.4 in Q2 2016.

Key points Q1 2016:

- The implemented share buyback programme of DKK 350m has reduced capital ratios by 0.5 in Q1 2016
- Decline in risk-weighted assets – predominantly credit risk.

Capital ratio development in H1 2016

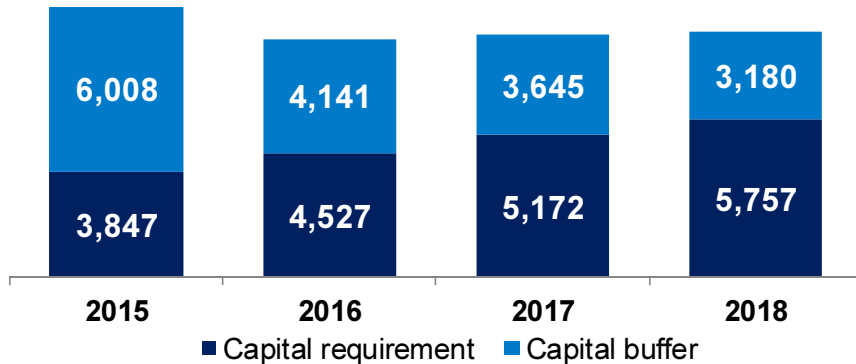


Key points:

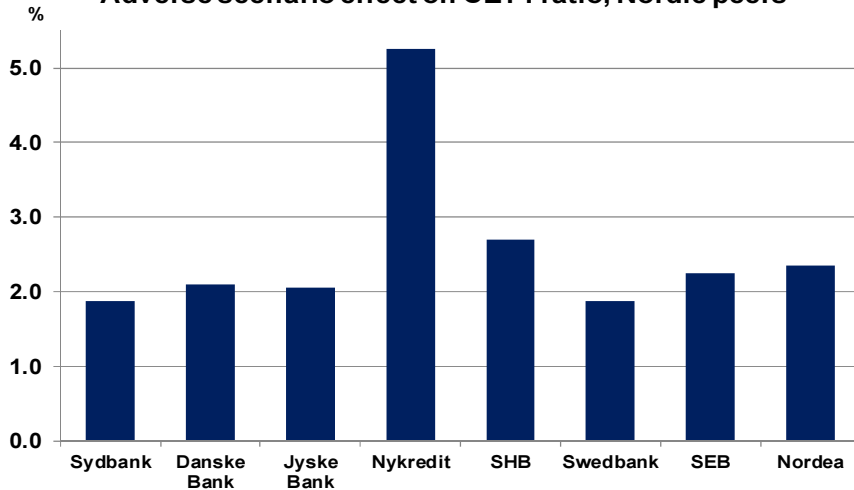
- The share buyback programme of DKK 350m has reduced the capital ratio by 0.5 percentage points
- The fall in risk exposure is attributable to market risk and credit risk.

EU-wide stress test 2016 – Sydbank shows great resilience

CET1 capital, adverse scenario (DKKm)



Adverse scenario effect on CET1 ratio, Nordic peers



Key points:

- Together with the Danish FSA Sydbank has conducted a stress test equivalent to the EU-wide stress test
- Sydbank shows great resilience in the stress test conducted, including a solid CET1 capital buffer under the adverse scenario
- The effect of the adverse scenario on Sydbank’s CET1 capital ratio is minus 1.9 percentage points – among the best in the EU
- The average EU effect of the adverse scenario on the CET1 capital ratio is minus 3.8 percentage points
- The capital requirement increases as a result of the phase-in of a capital buffer and a SIFI buffer as well as a rise in RWA
- The capital requirement is calculated as the minimum requirement + 56% of the Pillar II add-on + capital conservation buffer + SIFI buffer.

Status – targets

Target	Objective	Status at 30 June 2016	Comment
Return on shareholders' equity after tax	Over 12%*	11.4%	Progressing as planned
Customer satisfaction - Corporate	Top 3 **	3rd - Aalund	Met in 2015
Customer satisfaction - Retail	Top 3 **	2nd - EPSI	Met in 2015
Common Equity Tier 1 capital ratio	Around 13.5%	14.8%	Met from Q3 2015
Capital ratio	Around 17.0%	18.0%	Met from Q1 2015
Dividend	30-50% of profit for the year after tax	50 + 20% of profit for the year after tax	Met in 2015

* or top 3 ranking among the 6 largest banks

** among the 6 largest banks

Outlook for 2016

- Core income is expected to decline slightly relative to income in 2015.
- Trading income is projected to remain unchanged relative to income in 2015 but is dependent on financial market developments.
- In spite of the general pay rises agreed for the financial sector of 1.80% and a payroll tax increase of 1.40%, costs (core earnings) are expected to decrease as a result of the measures implemented and the discontinuation of payments to the deposit guarantee scheme.
- Lower impairment charges are forecast for 2016.

Questions

Thank you

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Forward-looking statements

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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.