
2015 Annual Report

Improved credit quality enables a record dividend and a new share buyback programme
24 February 2016

Highlights for 2015

Key points

Improved credit quality enables a record dividend – ordinary 50% + additional 20% of the profit for the year

Profit

Profit of DKK 1.148m – ROE of 10.1% p.a. after tax

Core income

Core income of DKK 4,329m – unchanged compared with 2014

Income

Income of DKK 4,544m – 1% increase compared with 2014

Costs

Unchanged costs apart from the effect of the acquisition of Sydinvest Administration

Impairment charges

Impairment charges of DKK 316m – reduced by 55% compared with 2014

Bank loans

DKK 5.8bn rise in bank loans and advances, equal to 8.5% in 2015

Capital

CET1 ratio of 14.5% – increase of 0.6 percentage points compared with Q4 2014

Share buyback

New share buyback of DKK 350m in 2016

Core income – the negative interest rate environment had great impact in 2015

DKKm	12M 2015	12M 2014	Index	Q4 2015	Q3 2015	Index
Net interest income etc	2,404	2,521	95	592	608	97
Mortgage credit*	376	359	105	86	86	100
Payment services	207	219	95	54	51	106
Remortgaging and loan fees	159	127	125	29	31	94
Commission and brokerage	407	351	116	87	92	95
Commission etc investment funds and pooled pension plans	341	339	101	81	79	103
Asset management	183	174	105	48	43	112
Custody account fees	75	80	94	18	18	100
Other income	177	149	119	45	54	83
Total	4,329	4,319	100	1,040	1,062	98
* Set-off of loss Totalkredit	32	34	94	8	9	89

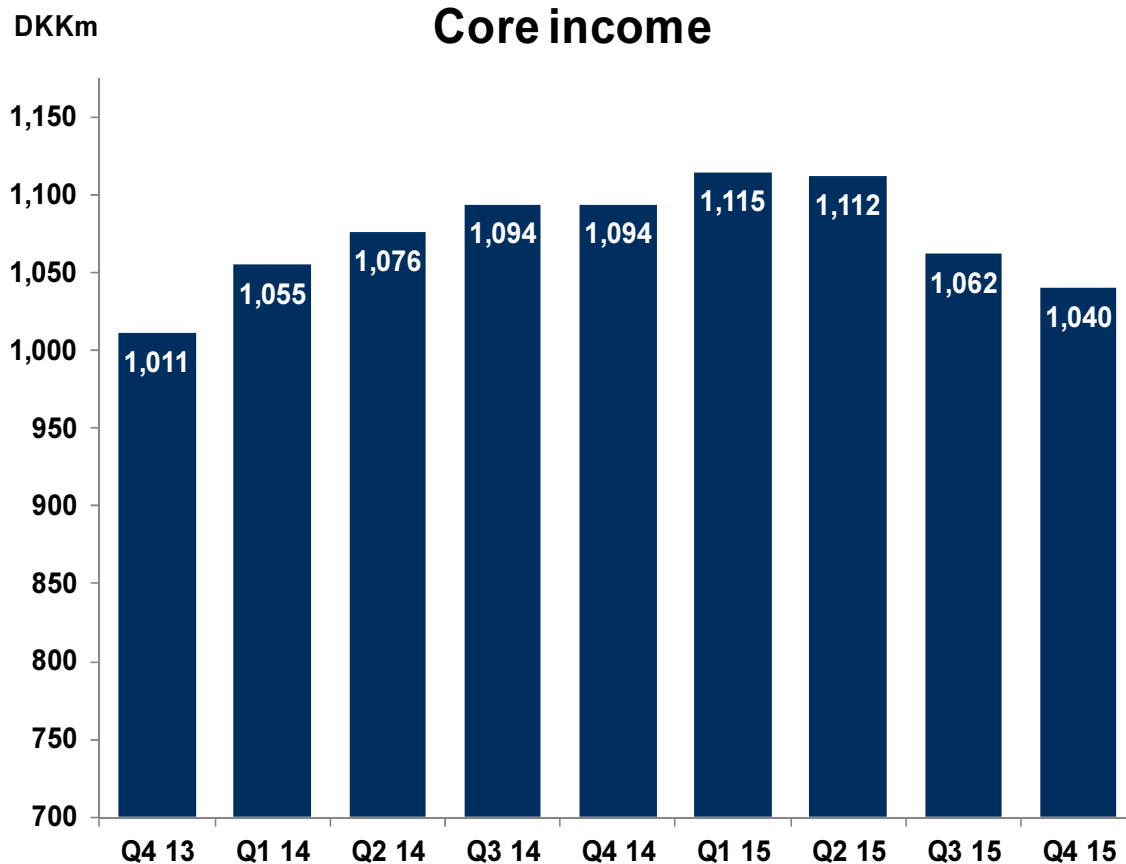
Key points 12M 15 vs 12M 14:

- Net interest income down by 5%
- Mortgage credit up by 5%
- Remortgaging and loan fees up by 25%
- Commission and brokerage up by 16%

Key points Q4 15 vs Q3 15:

- Net interest income down by 3%
- Commission and brokerage down by 5%
- Other items, overall unchanged

Strengthening of core income – positive developments stopped by negative interest rate environment

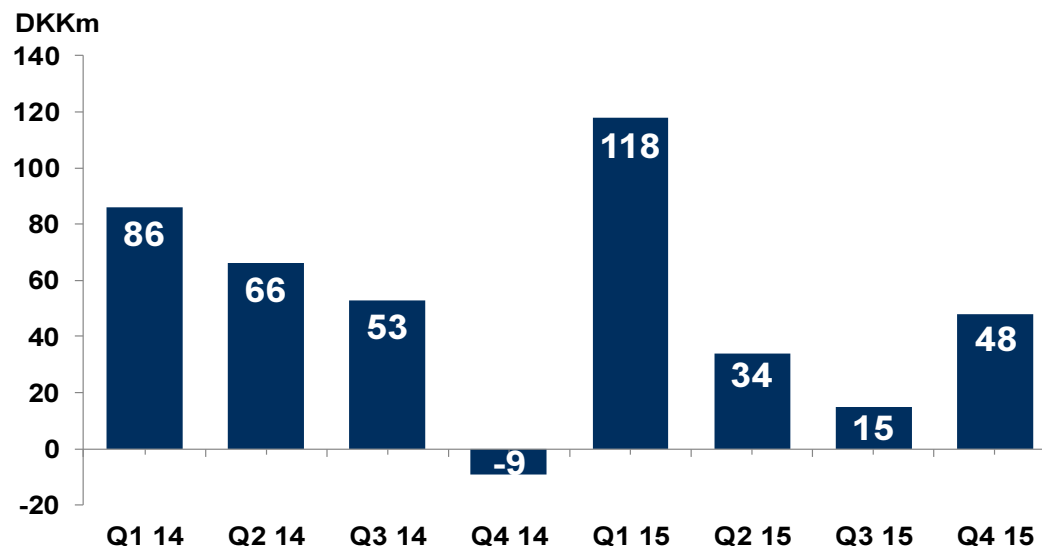


Achieving the target of improving core income by DKK 200m by the beginning of 2016 – according to the profitability plan – was hampered by the negative interest rate environment which was a consequence of the pressure on DKK in early 2015.

Trading income – continued market turbulence in Q4 2015

Key points:

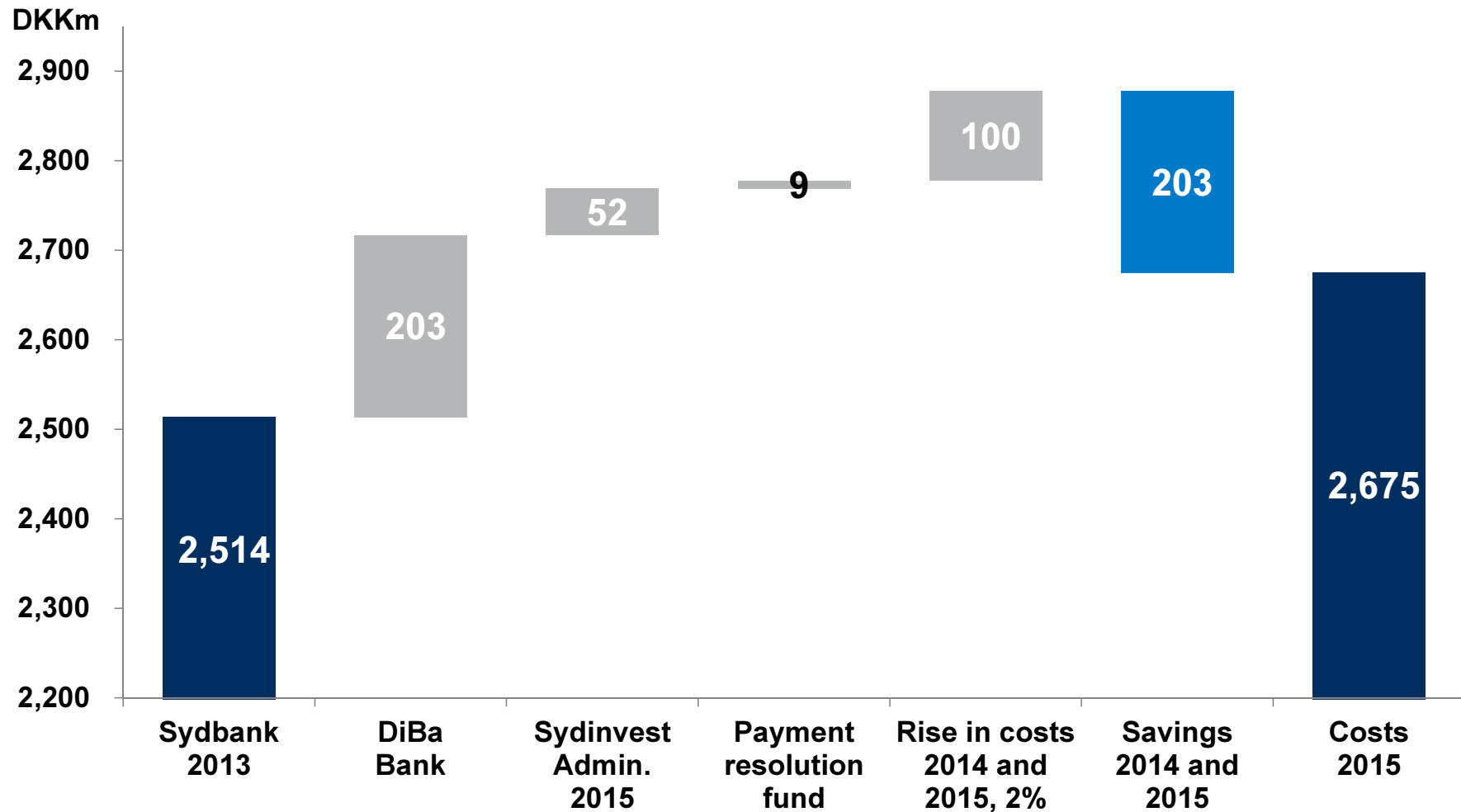
- DKK 215m recorded in 2015 vs DKK 196m in 2014
- In Q4 Fixed Income was adversely affected by continued turbulence in the market. Activity has been normal during the quarter.



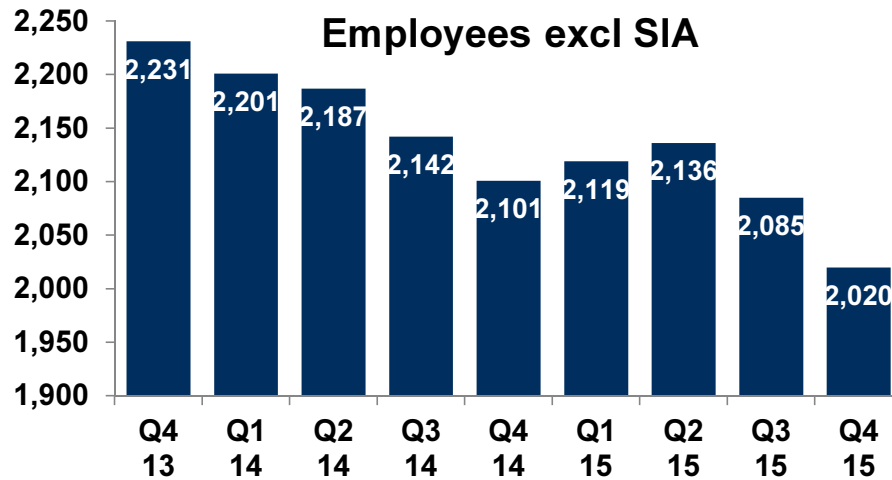
Trading income

DKKm	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
Fixed Income	36	32	19	-29	64	1	-4	13
Equities	31	26	17	9	32	18	8	25
Money Market and Foreign Exchange	19	8	17	11	22	15	11	10
Total	86	66	53	-9	118	34	15	48

Costs (core earnings) – recorded savings of DKK 203m

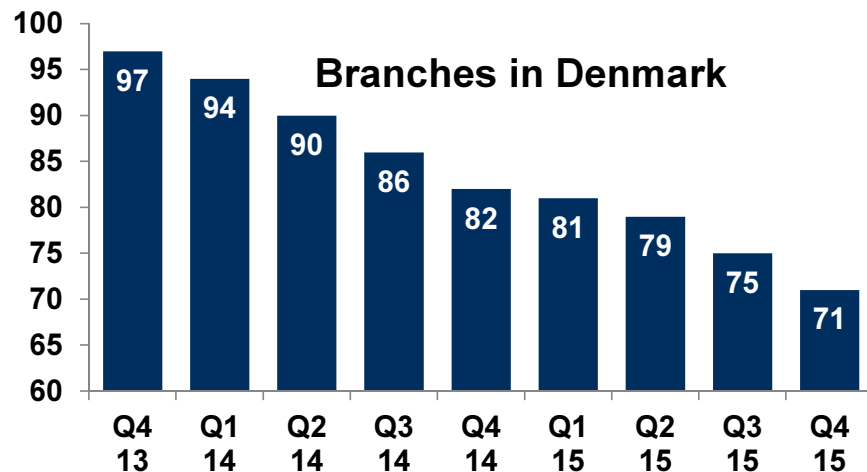


Reduction in costs (core earnings) – automation a necessity



Initiatives in 2014 and 2015:

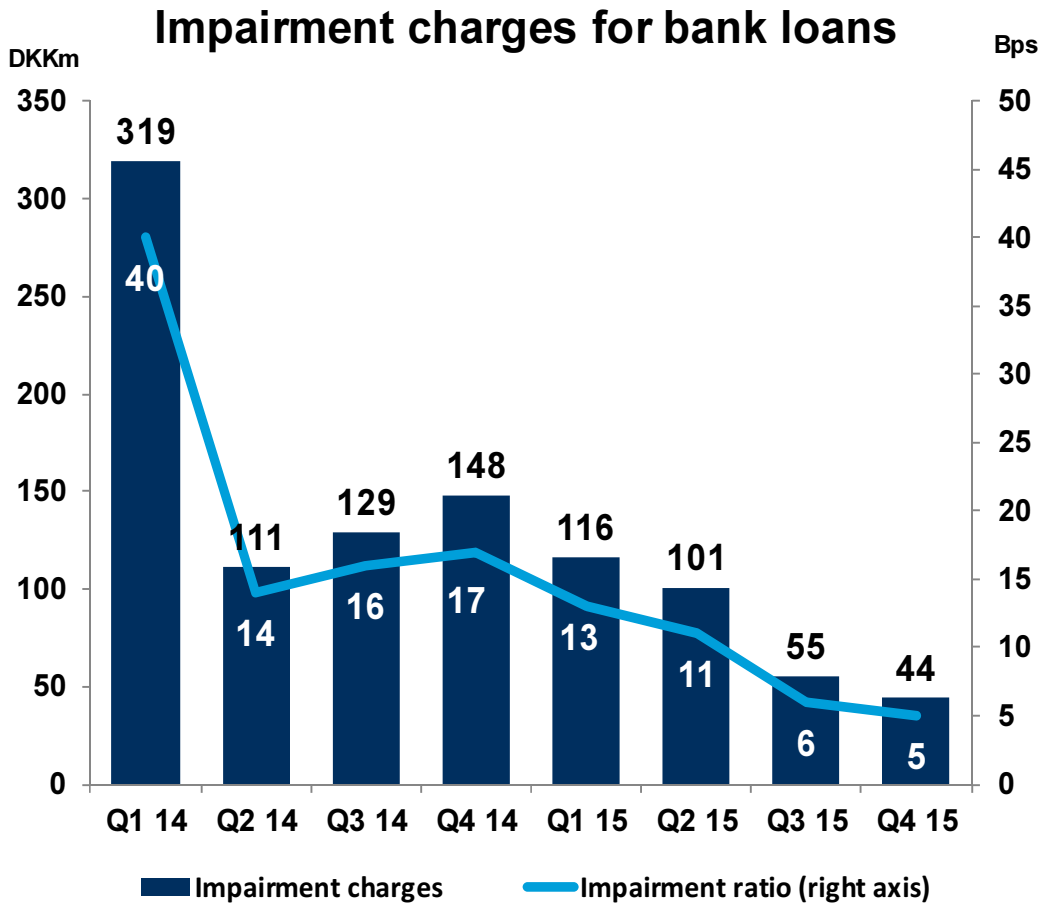
- Staff reduced by 211 from 2,231 to 2,020
- Branches in Denmark reduced by 26 from 97 to 71
- Introduction of new cash handling concept in H2 2015.



Blue growth 2016 – 2018:

- Electronic document handling is an important element in the automation process
- Efficiency improvement and automation are necessary to reduce costs further

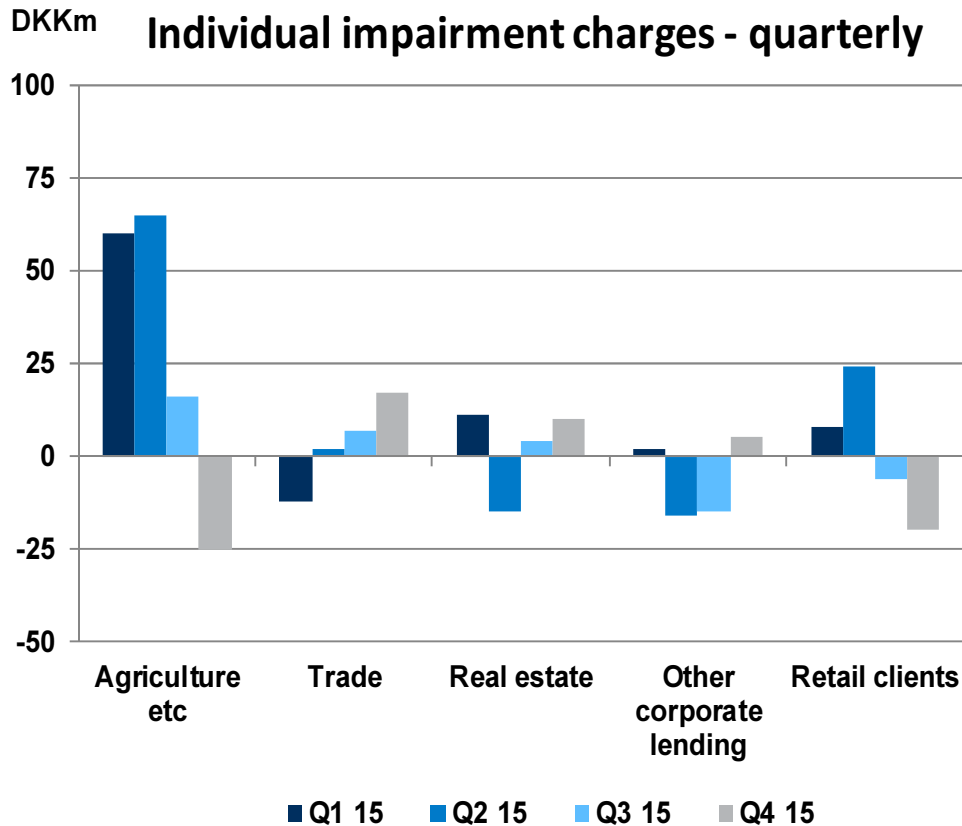
Impairment charges in Q4 2015 represent DKK 44m – equal to 5bps



Impairment charges represent:

- 36bps in 2015, down from 82bps in 2014
- 5bps in Q4 15, down from 6bps in Q3 15
- 5bps is the lowest level since Q3 2008.

Impairment charges in Q4 2015 are collective impairments related to agriculture



Key points Q4 2015:

- DKK 50m of impairment charges for the quarter, consists of collective impairment charges related to agriculture.

Key points 12M 2015:

- Impairment charges for agriculture and collective impairment charges total DKK 310m. Impairment charges total DKK 316m.

Quarterly impairment charges

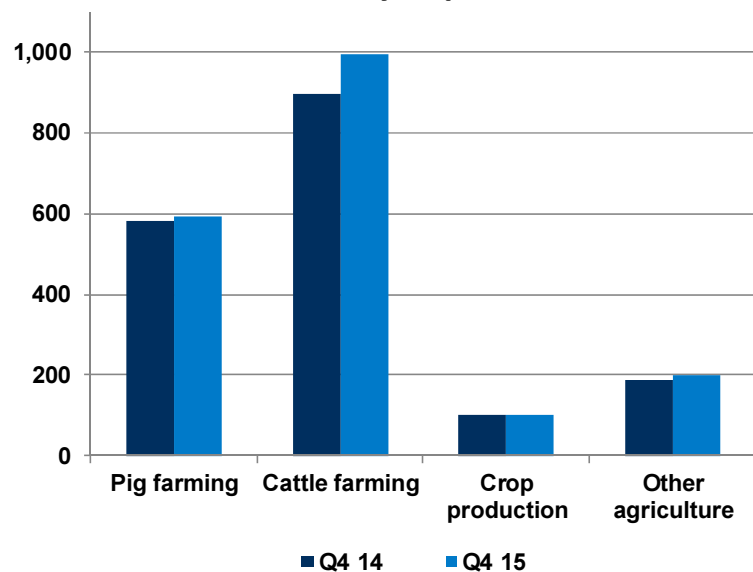
DKKm	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
Agriculture etc	58	10	60	65	16	-25
Trade	18	-6	-12	2	7	17
Real estate	-22	-44	11	-15	4	10
Other corporate lending	52	53	2	-16	-15	5
Total corporate lending	106	13	61	36	12	7
Retail clients	-19	26	8	24	-6	-20
Individual impairments	87	39	69	60	6	-13
Collective provisions	42	109	47	41	49	57
Total impairments	129	148	116	101	55	44

Agriculture – impairment charges up by 3.7 percentage points in 2015

Key points:

- Bank loans dropped by DKK 389m in 2015, equal to a decline of 6.2%
- Impaired bank loans have increased by DKK 124m. Increase of 2.1 percentage points of bank loans
- 21.2% impairment charges of bank loans at the end of 2015 vs 20,0% at the end of Q3 2015 and 17.5% at year-end 2014.

DKKm **Individually impaired loans**



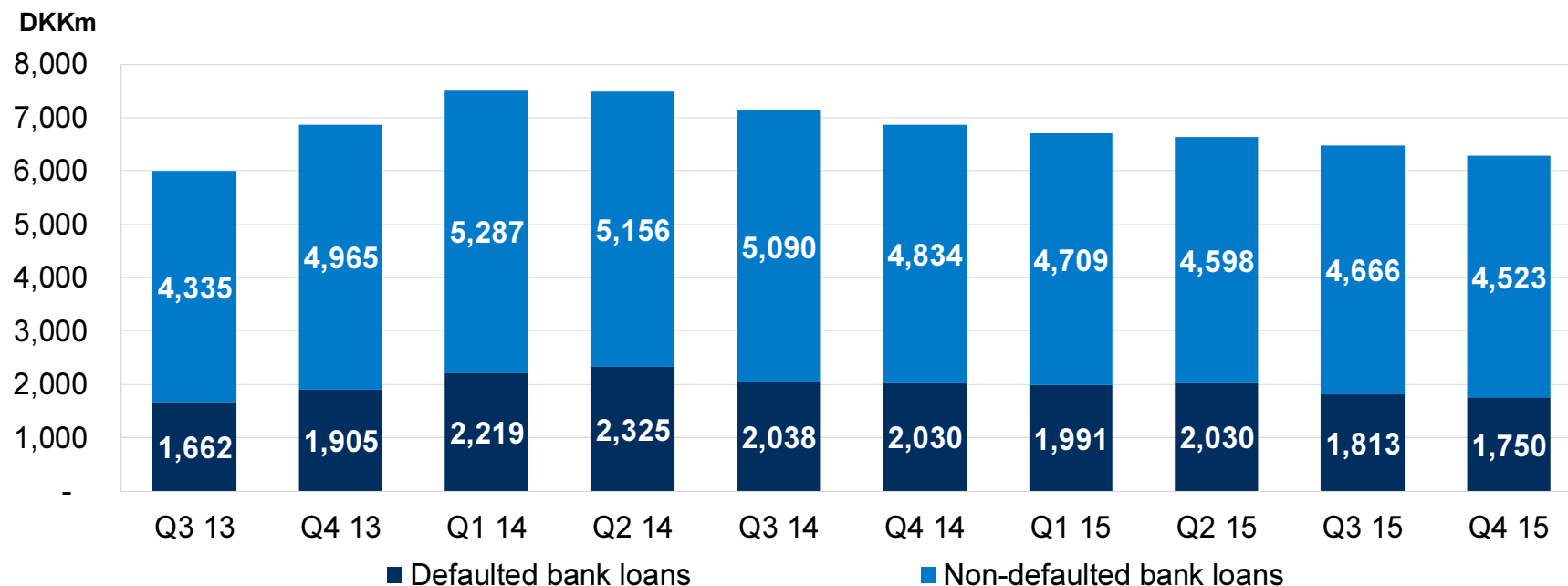
31 December 2015

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	582	897	100	188	1,767
Impaired as % of bank loans	34.2	52.4	7.9	15.3	29.9
Impairment as % impaired loans	48.3	66.8	50.0	51.6	58.1
Impairment as % bank loans	22.4	42.3	3.9	7.9	21.2

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
Loans after impairment charges	1,480	1,265	1,339	1,116	5,200
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	17.5

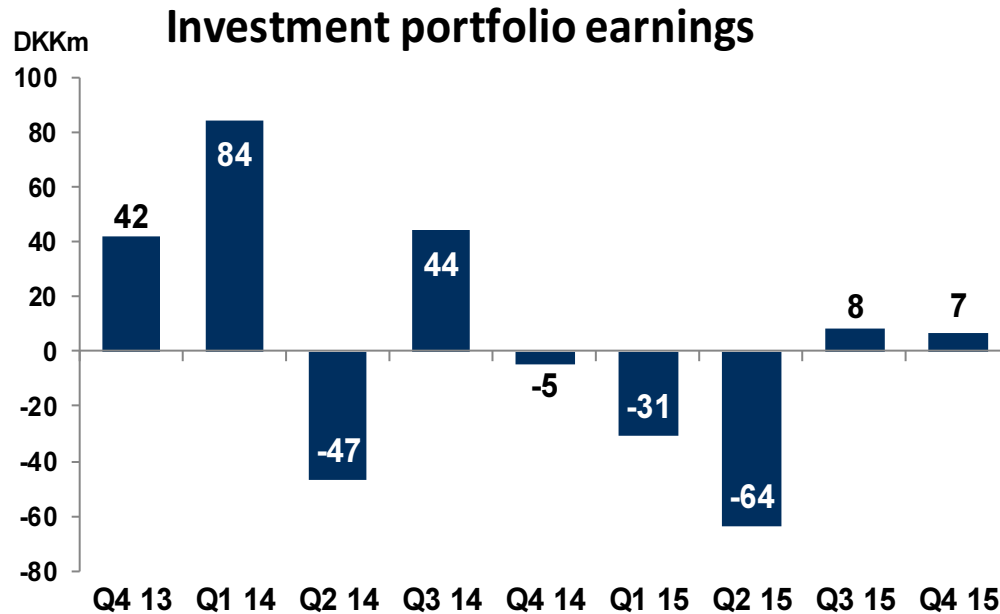
Impaired bank loans – down for seventh consecutive quarter – 3% in Q4



Individually impaired bank loans

DKKm	31 Dec 2013	31 Dec 2014	31 Dec 2015
Non-defaulted bank loans	4,965	4,834	4,523
Defaulted bank loans	1,905	2,030	1,750
Impaired bank loans	6,870	6,864	6,273
Impairment charges for bank loans subject to individual impairment	4,058	3,996	3,569
Impaired bank loans after impairment charges	2,812	2,868	2,704
Impaired bank loans as % of bank loans before impairment charges	9.7	9.4	8.0
Impairment charges as % of bank loans before impairment charges	5.7	5.5	4.6
Impairment as % of impaired bank loans	59.1	58.2	56.9
Impairment as % of defaulted bank loans	213.0	196.8	203.9

Investment portfolio earnings – moderately positive result in Q4 2015



Key points Q3 2015:

- The negative investment portfolio earnings in 2015 is a consequence of the turmoil in fixed income markets as well as the adjustment to the new LCR regulations.
- The high volatility has resulted in widening credit spreads on mortgage bonds. The loss results from mortgage bond yields having risen more than the interest rates of hedging transactions.

Investment portfolio earnings

DKKm	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
Position-taking	37	-7	-69	-69	5	17
Liquidity generation and reserves	6	-6	40	7	2	-8
Strategic positions	2	10	0	0	2	0
Costs	-1	-2	-2	-2	-1	-2
Total	44	-5	-31	-64	8	7

Income statement – significant decline in impairment charges causes rise in core earnings of 31% in 2015

DKKm	12M 2015	12M 2014	Index	Q4 2015	Q3 2015	Index
Core income	4,329	4,319	100	1,040	1,062	98
Trading income	215	196	110	48	15	320
Total income	4,544	4,515	101	1,088	1,077	101
Costs, core earnings	2,675	2,619	102	666	635	105
Core earnings before impairment	1,869	1,896	99	422	442	95
Impairment of loans and advances etc	316	707	45	44	55	80
Core earnings	1,553	1,189	131	378	387	98
Investment portfolio earnings	-80	76	-	7	8	-
Profit before non-recurring items	1,473	1,265	116	385	395	97
Non-recurring items, net	-	64	-	-	-	-
Profit before tax	1,473	1,329	111	385	395	97
Tax	325	277	117	69	93	74
Profit for the period	1,148	1,052	109	316	302	105
Costs (core earnings) / total income, C/I	0.59	0.58		0.61	0.59	
Return on equity, ROE	10.1	9.8		2.8	2.7	
Earnings per share, EPS	15.8	14.3		4.3	4.2	

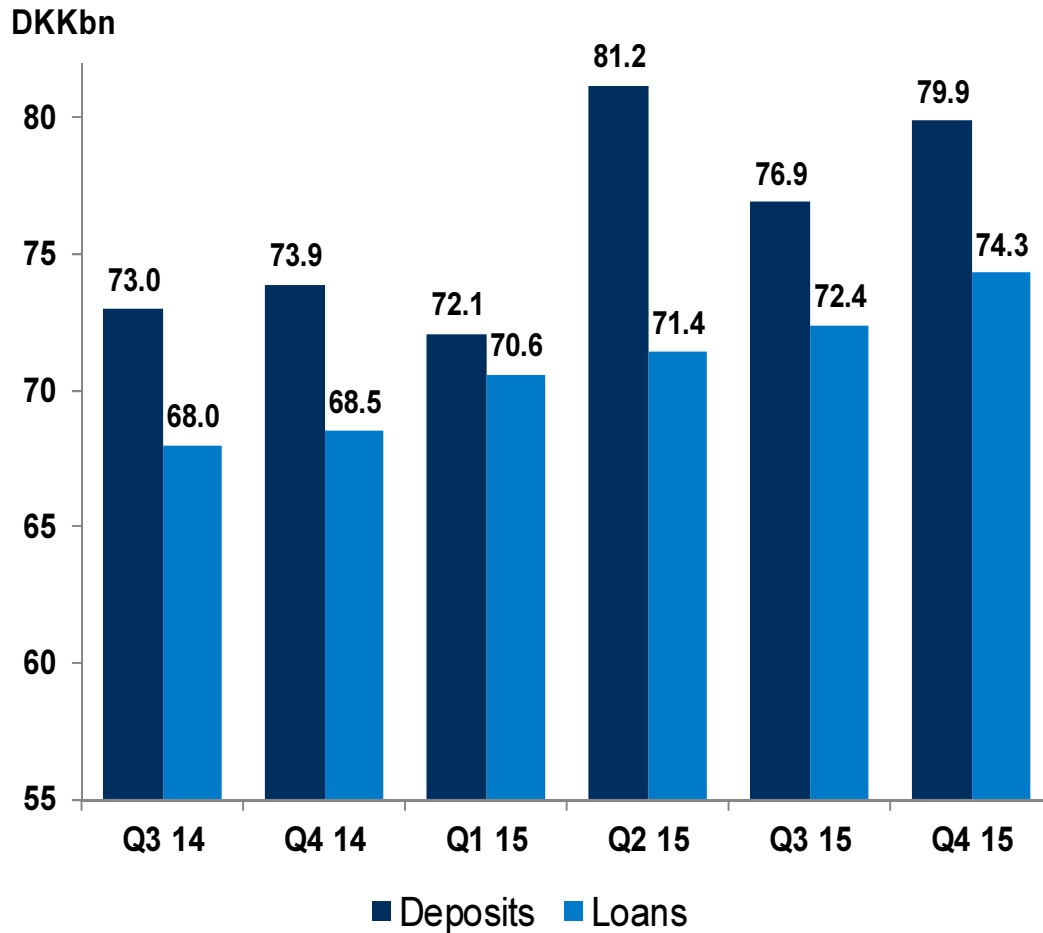
Key points 12M 15 vs 12M 14

- Core income all-time high
- Costs (core earnings) up by 2% due to purchase of SIA
- Impairment charges down by 55% from 82bps to 36bps
- Core earnings up by 31%

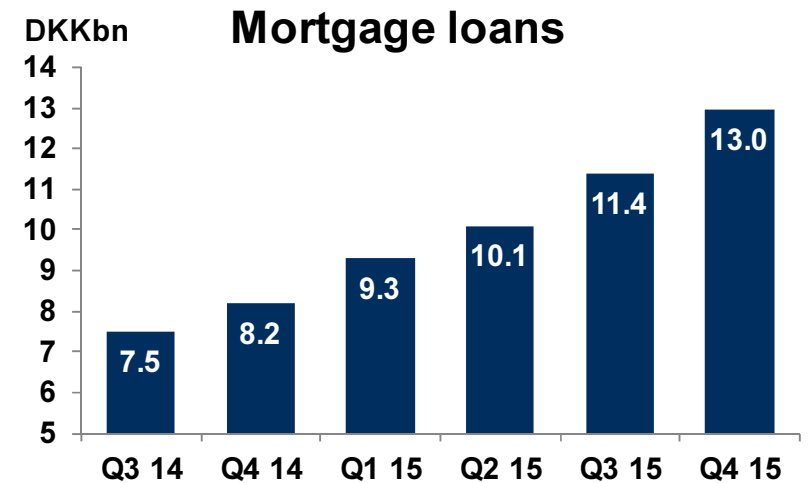
Key points Q4 15 vs Q3 15

- Core income down by 2%
- Total income up by 1%
- Costs (core earnings) up by 5%
- Impairment charges down by 20% from 6bps to 5bps

Bank loans up by 8.5% in 2015 – deposits up by 8.1% in 2015



- Bank loans have risen for eight consecutive quarters. The rise in Q4 2015 represents DKK 1.9bn, equal to 2.7%
- Rise in mortgage loans accounts for DKK 1.6bn in Q4 2015
- Rise in deposits represents DKK 3.0bn in Q4 2015.



Capital ratios have improved in Q4 2015 due to income and a decline in risk exposures

DKKm	CRD IV			
	2013	Q4 2014	Q3 2015	Q4 2015
Credit risk	47,616	49,417	46,189	44,931
Market risk	10,197	8,003	7,961	8,876
Operational risk	8,341	8,575	8,575	8,173
Other exposures incl. CVA	5,345	6,472	6,172	5,975
Risk-weighted assets	71,499	72,467	68,897	67,955
CET1	9,799	10,101	9,954	9,852
Tier 1	11,037	11,209	10,926	10,825
Total capital	11,586	11,596	12,095	11,984
CET1 ratio	13.7	13.9	14.4	14.5
Tier 1 ratio	15.4	15.5	15.9	15.9
Capital ratio	16.2	16.0	17.6	17.6
Individual solvency need	10.0	10.4	10.3	9.7

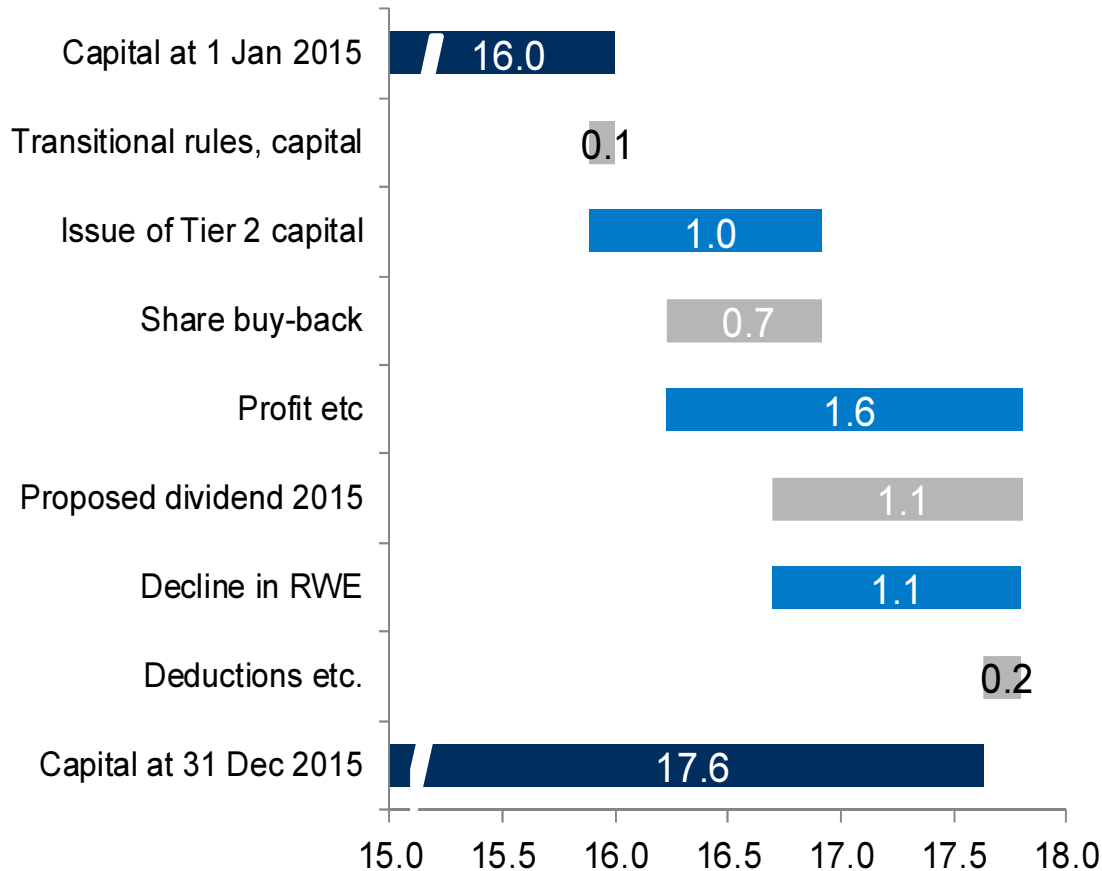
Key points Q4 2015:

- CET1 up by 0.1 percentage points in Q4 despite an increase in dividend from 50% to 70%.

Key points 2015:

- CET1 ratio down by 0.5 percentage points in Q2. Of which 0.7 percentage points as a result of the share buyback program.
- Strengthening of capital with the issue of Tier 2 capital worth EUR 100m

Capital ratio development in 2015



Key points:

- The proposed dividend of 70% has reduced the capital ratio by 1.1 percentage points
- The share buyback programme of DKK 500m has reduced the capital ratio by 0.7 percentage 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 credit risk.

A record dividend of DKK 803m and a new share buyback programme of DKK 350m – total distribution of 100% of profit for the year after tax

Record dividend to the Bank's shareholders



Sydbank will distribute a dividend of 70% (DKK 11.12 per share) of profit for the year after tax.

Status - targets

Target	Objective	Status at 31 Dec 2015	Comment
Return on shareholders' equity after tax	Over 12%*	10.1%	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%	14.5%	Met from Q3 2015
Capital ratio	Around 17.0%	17.6%	Met from Q1 2015
Dividend	30-50% of profit for the year after tax	50 + 20% of profit for the year after tax (proposed)	Met in 2015 (proposed dividend)

* or top 3 ranking among the 6 largest banks

** among the 6 largest banks

Outlook for 2016

- Based on the level of interest rates at the beginning of 2016: core income is expected to remain unchanged as a result of the measures implemented and despite continued fierce competition.
- 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. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.

Questions

Forward-looking statements

- This presentation contains statements concerning expectations of future developments, including future income as well as expected business events.

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.

Thank you

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