



2014 Annual Report

A good performance enabling Sydbank to pay a historically high dividend

February 18, 2015

Highlights for 2014

Key points

Sydbank's plan to increase profitability is generating results – ROE of 9.8% p.a.

Profit

Profit of DKK 1,052m – the best result since 2007

Income

Core income of DKK 4,319m – 6% increase

Costs

4% increase in costs. Costs relating to DiBa resulted in increase of 8%

Impairment charges

Impairment charges DKK 707m – at the positive end of expectations

Loans and advances

DKK 1.9bn rise in bank loans and advances, equal to 2.9% in 2014

Capital

CET1 ratio of 13.9% – increase of 0.5% compared with Q4 2013

Dividend

Dividend of DKK 7.08 per share, equal to 50% of profit for the year – all-time high

Strengthening of income – at the same level as in Q3

Implemented measures – effect from Q1 2015

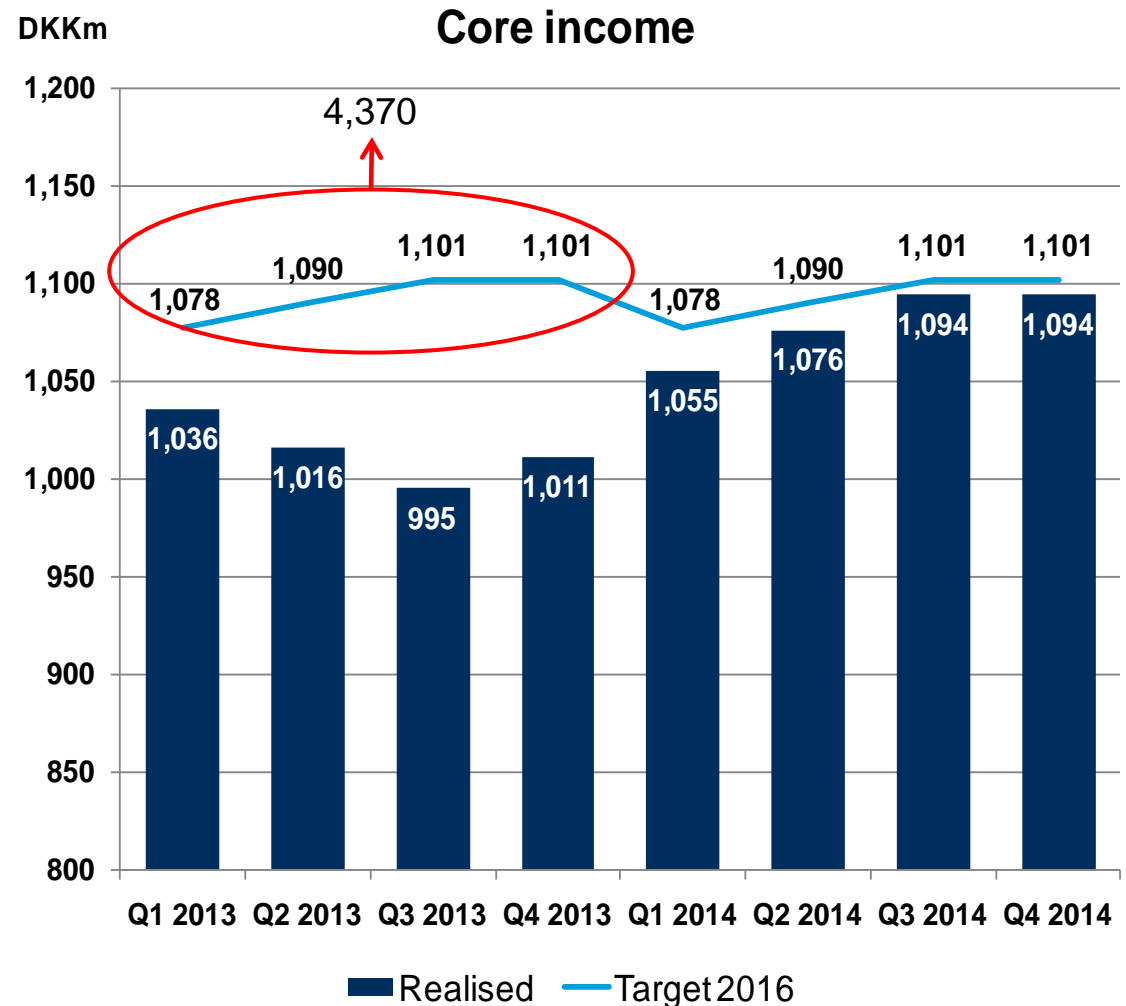
- Price adjustment from Totalkredit with effect from 1 January 2015 – projected annual effect of DKK 30m

Ongoing measures

- DKKm 3bn increased volume of mortgage loans – anticipated annual effect of DKK 40m (at 50% use).
- Increased business volume as a result of targeted advisory services.
- Possible price adjustments based on negative interest rate environment. Currently under analysis.

Difference between realised core income and target for 2016 quarterly

- Q1 2014 DKK 23m
- Q2 2014 DKK 14m
- Q3 2014 DKK 7m
- Q4 2014 DKK 7m



Core income – other core income makes up for decline in net interest

DKKm	12M 2014	12M 2013	Index	Q4 2014	Q3 2014	Index
Net interest etc	2,521	2,568	98	631	641	98
Mortgage credit*	359	264	136	96	90	107
Payment services	219	167	131	54	57	95
Remortgaging and loan fees	127	88	144	46	33	139
Commission and brokerage	351	320	110	98	82	120
Commission etc investment funds and pooled pension plans	339	322	105	80	92	87
Asset management	174	164	106	42	45	93
Custody account fees	80	79	101	19	19	100
Other income	149	86	173	28	35	80
Total	4,319	4,058	106	1,094	1,094	100
* Set-off of loss Totalkredit	34	28	121	10	9	111

Key points 2014 vs 2013

- Net interest etc down by 2%
- Mortgage credit up by 36%
- Payment services up by 31%
- Other items up by 15%

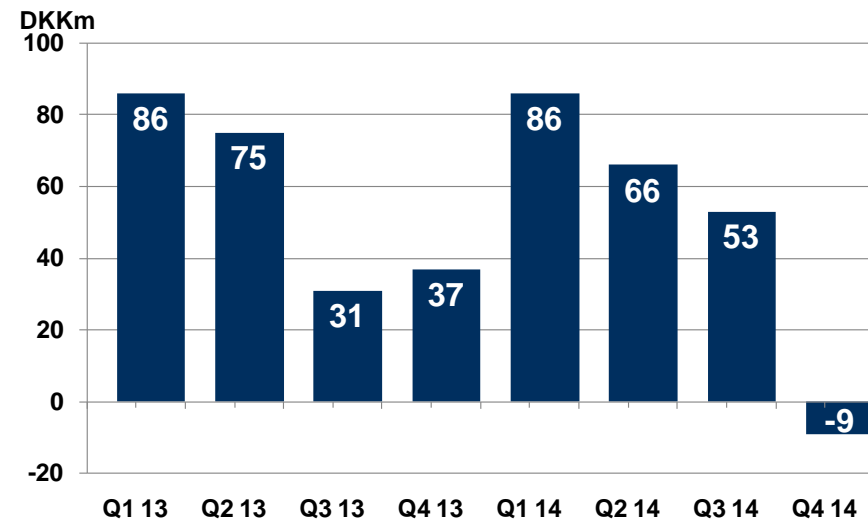
Key points Q4-14 vs Q3-14

- Net interest etc down by 2% despite rise in loans/advances
- Other items up by 3%

Trading income – adversely impacted by mortgage bond market in Q4 2014

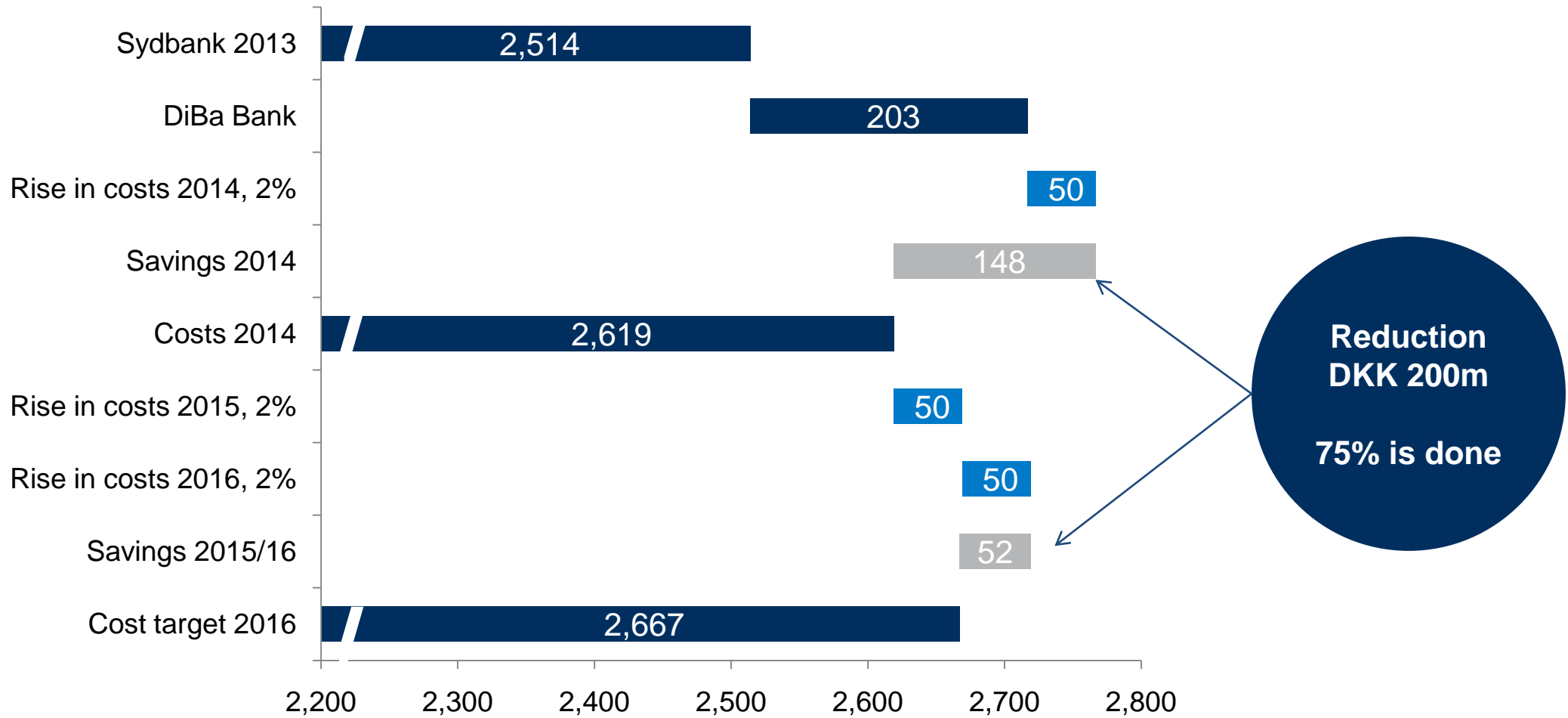
Key points:

- DKK 196m recorded in 2014 vs DKK 229m in 2013
- Loss of DKK 9m recorded in Q4 2014, mainly attributable to Fixed Income department where the loss was caused by:
 - large drawings on callable bonds
 - general re-pricing of ARMs and mortgage bonds
 - higher credit premium – corporate bonds
 - tight sector liquidity.

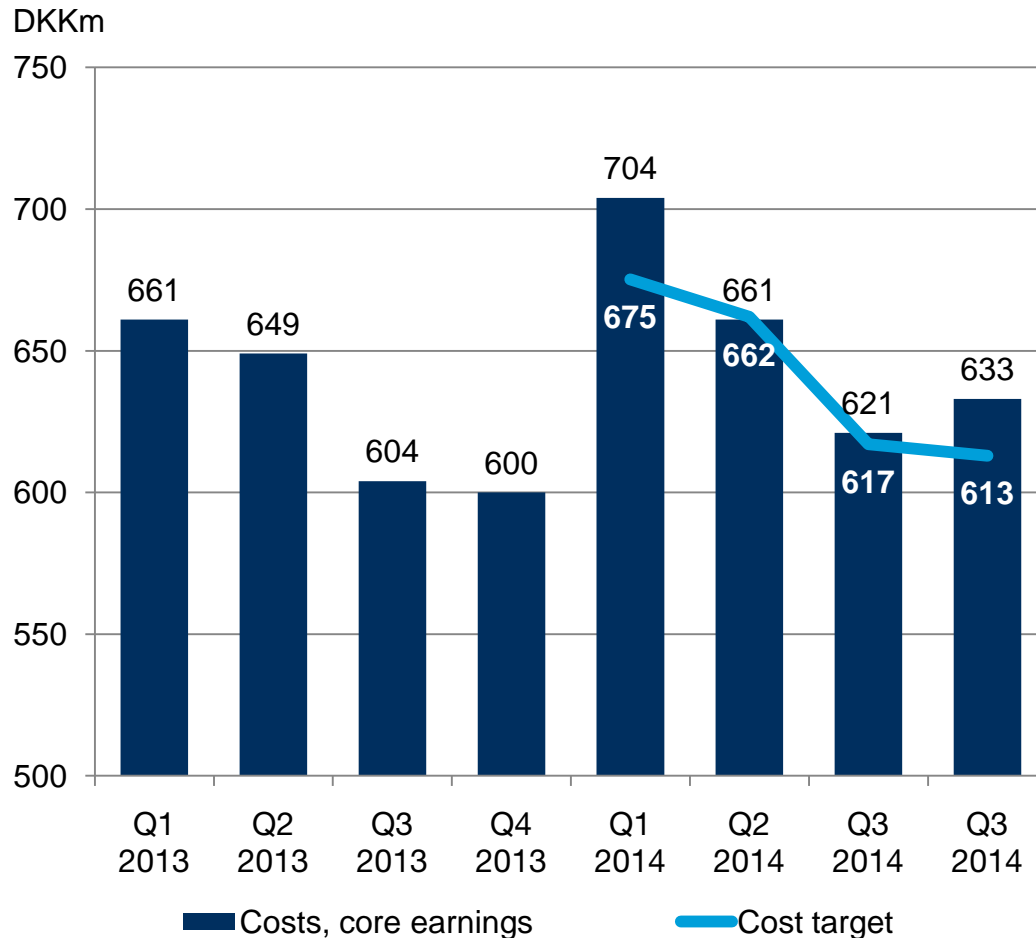


Trading income								
DKKm	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Fixed Income	61	43	7	18	36	32	19	-29
Equities	21	13	17	19	31	26	17	9
Money Market and Foreign Exchange	4	19	7	0	19	8	17	11
Total	86	75	31	37	86	66	53	-9

Reduction in costs – 75% of the savings have been achieved – continued focus on target – the remaining 25% is the most difficult

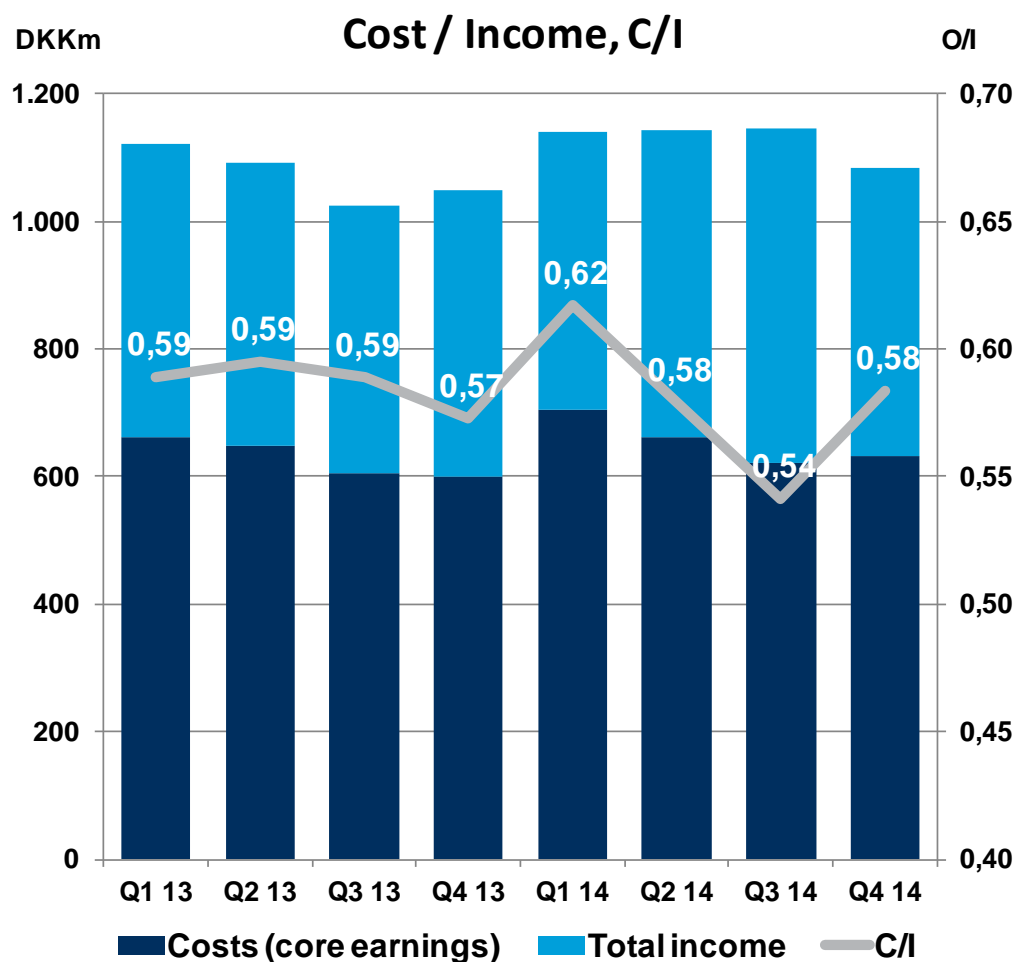


Costs (core earnings) – savings of DKK 200m – close to target



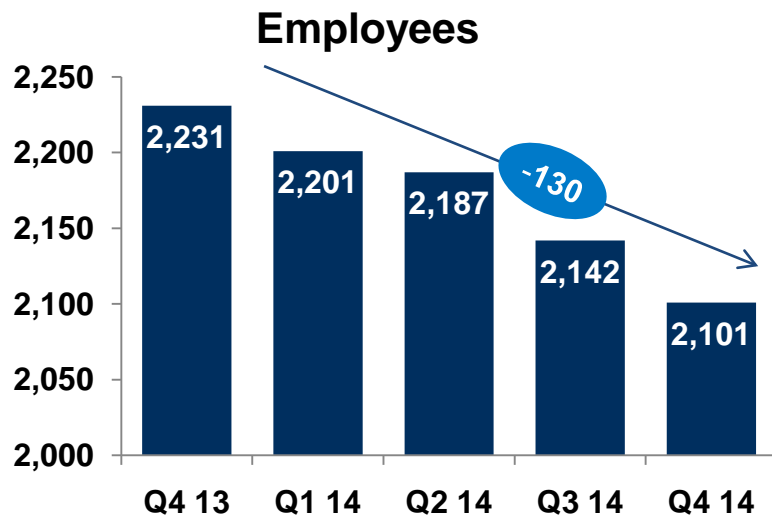
- Sydbank's costs totalled DKK 2,514m in 2013
- In addition the cost base from DiBa represented DKK 203m
- Savings plan of DKK 200m compensates for DiBa effect
- The plan has been completed when costs equal 2013, plus price increases
- Q4 2013 favourably impacted by accruals
- In 2014 costs are DKK 52m higher than the target for 2016 in 2014 prices
- Savings are to be considered over 12 months.

Implemented parts of the plan have improved C/I



- Focus on improved income combined with cost savings have improved profitability
- C/I is down from 0.59 in 2013 to 0.58 in 2014
- Q4 2014 is affected by negative trading income
- When the plan to increase profitability is fully implemented in 2016, C/I will decline further.

Costs (core earnings) – savings of DKK 200m – different initiatives



Initiatives in 2014:

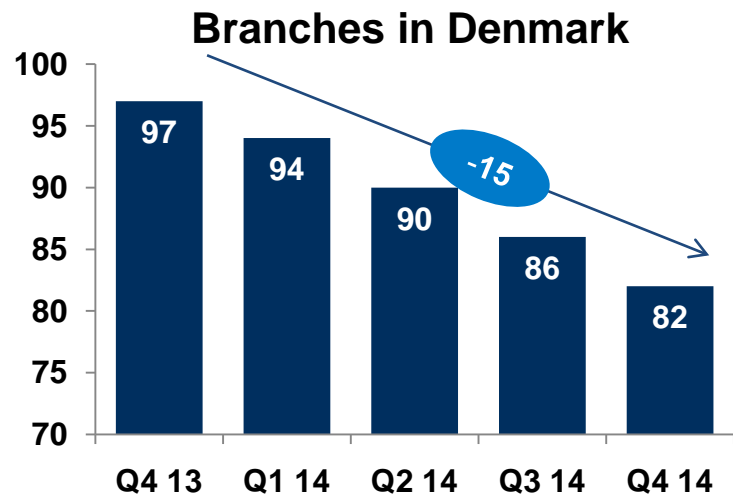
- Reduction in staff – 130 full-time employees
- 15 branches amalgamated in Denmark
- 2 branches closed in Germany
- Increased focus on greater efficiency
- Increased focus on costs.

Initiatives in 2015:

- Efficiency improvements and automation of processes – necessary to cut costs further. Project work has been intensified.
- Electronic document management is an important element in the automation process.

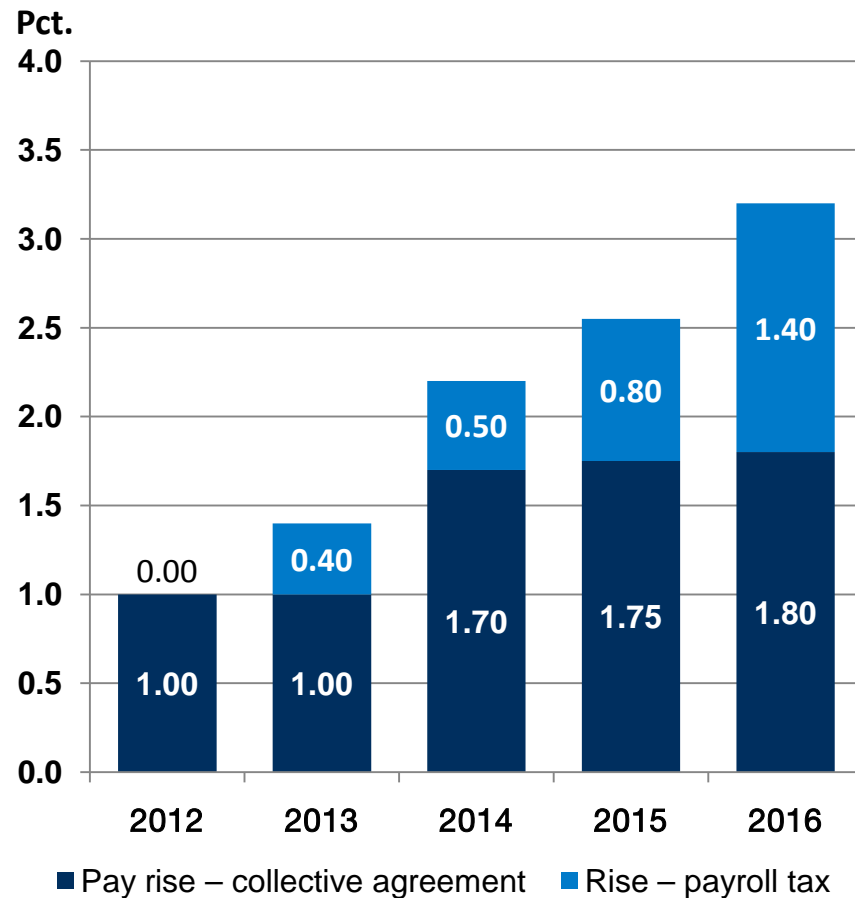
Customer behaviour:

- Customers' behaviour is changing – eg online banking, mobile banking, SWIPP, electronic archives, ATM deposits, etc.



Annual rise in staff costs – effect of collective agreement and payroll tax

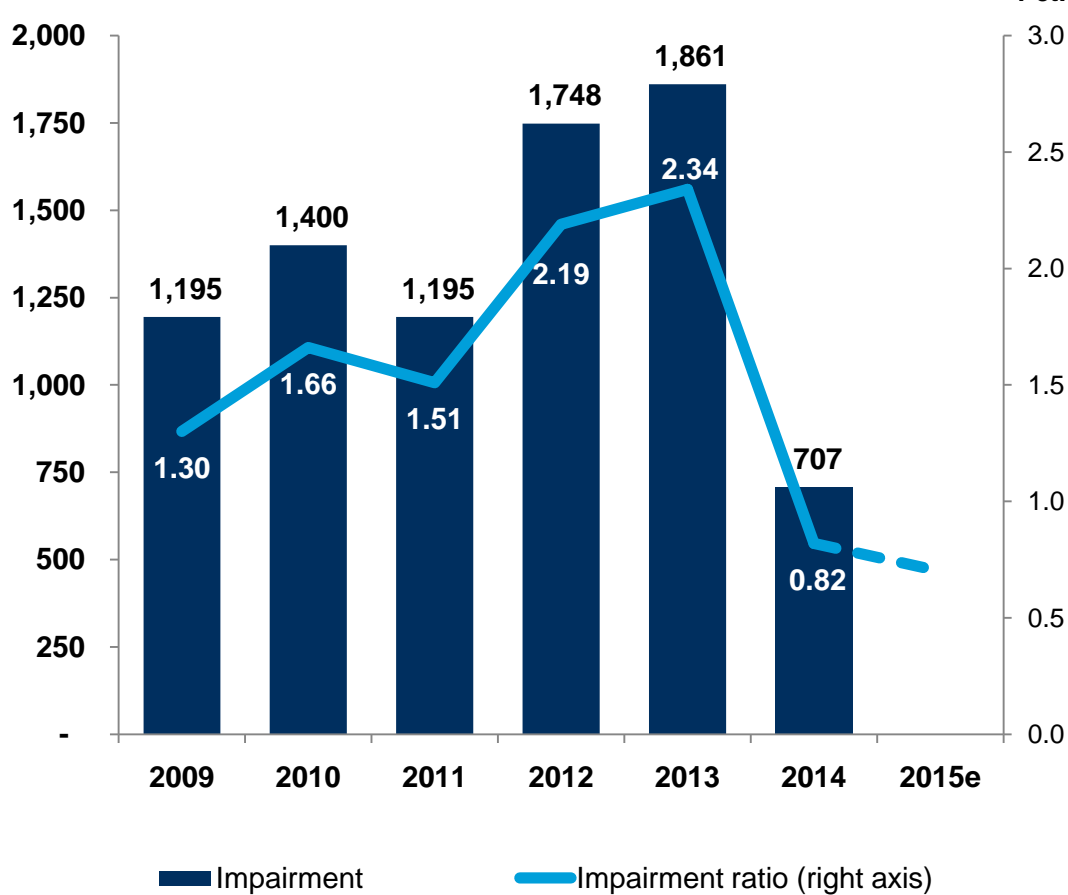
Main causes of rise in costs in 2015 and 2016



- Total rise in staff costs, excl individual adjustments:
 - 2015 = 2.55%
 - 2016 = 3.20%

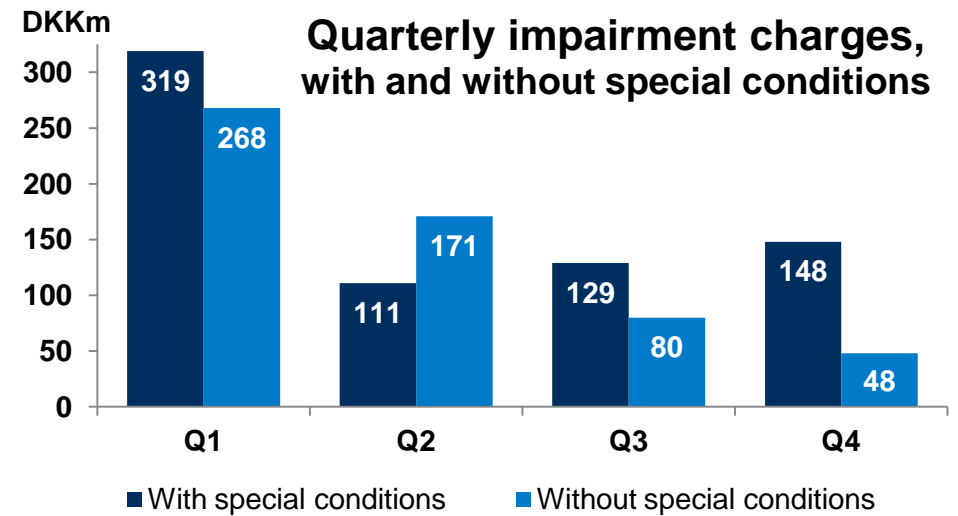
Impairment charges decline to DKK 707m – at the positive end of expectations – despite AQR and agriculture

DKKm Impairment of loans and advances etc

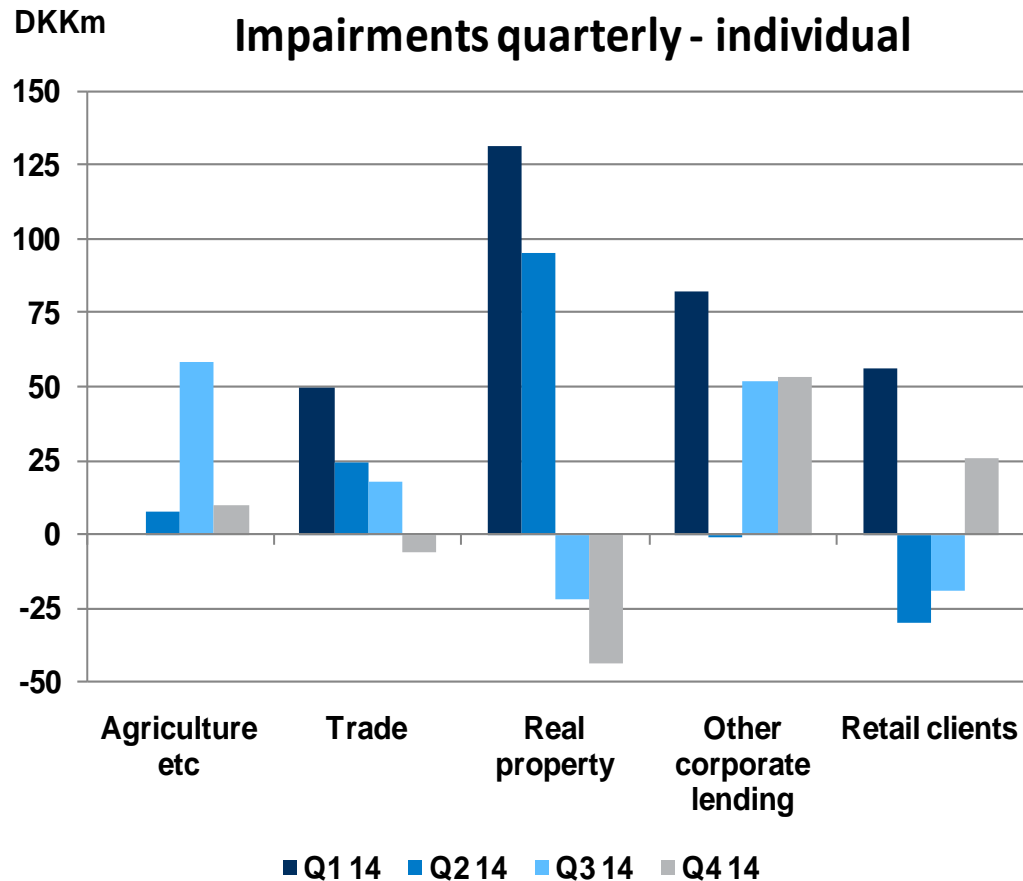


Special conditions in 2014:

- Q1: Individual impairment charges due to AQR, DKK 51m
- Q2: Review of retail clients and higher agricultural land prices, total positive effect of DKK 60m
- Q3: Collective impairment charges related to agriculture and adjustment of collective impairment charges due to AQR, in total DKK 49m
- Q4: Collective impairment charges related to agriculture, DKK 100m



Most significant impairments in Q4 2014: collective related to agriculture



Key points Q4 2014:

- DKK 100m, equal to 68% of impairments for the quarter, represent collective impairments related to agriculture.

Key points 2014:

- DKK 201m, equal to 28% of total impairments, are attributable to agriculture
- DKK 161m, equal to 23% of total impairments, are attributable to real property.

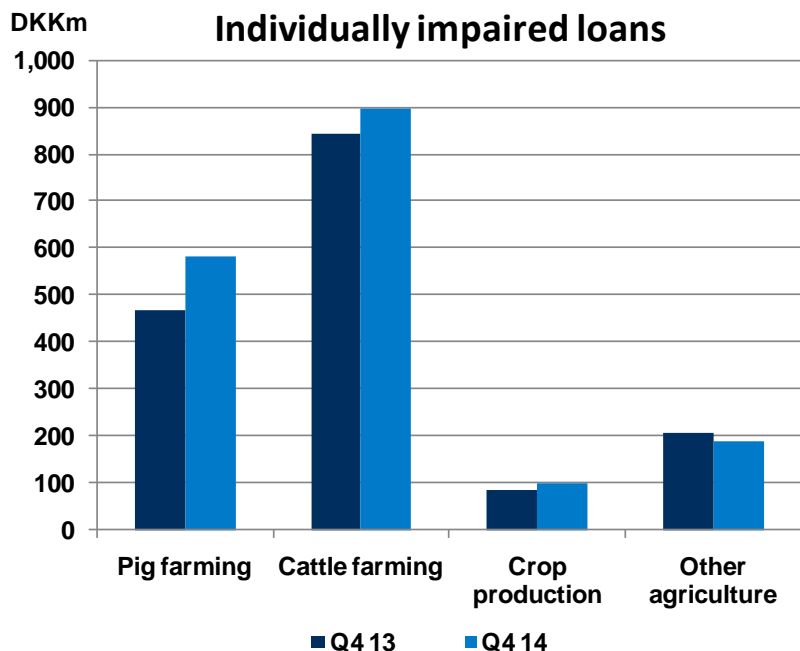
Breakdown of impairments 2014

DKKm	Q1	Q2	Q3	Q4	2014
Agriculture etc	0	8	58	10	76
Trade	50	24	18	-6	86
Real property	132	95	-22	-44	161
Other corporate lending	82	0	52	53	187
Total corporate	264	127	106	13	510
Retail clients	56	-30	-19	26	33
Individual impairments	320	97	87	39	543
Collective impairments	-1	14	42	109	164
Total impairments	319	111	129	148	707

Focus on agriculture – collective impairments DKK 125m in 2014

Key points

- Loans are down by DKK 346m, equal to 5% of loans and advances
- Impaired loans for agriculture is up with DKK 169m, equal to 4% of loans and advances
- Impairment of 17.5% of loans and advances at year-end 2014 compared to 14.8% at year-end 2013



31st December 2014

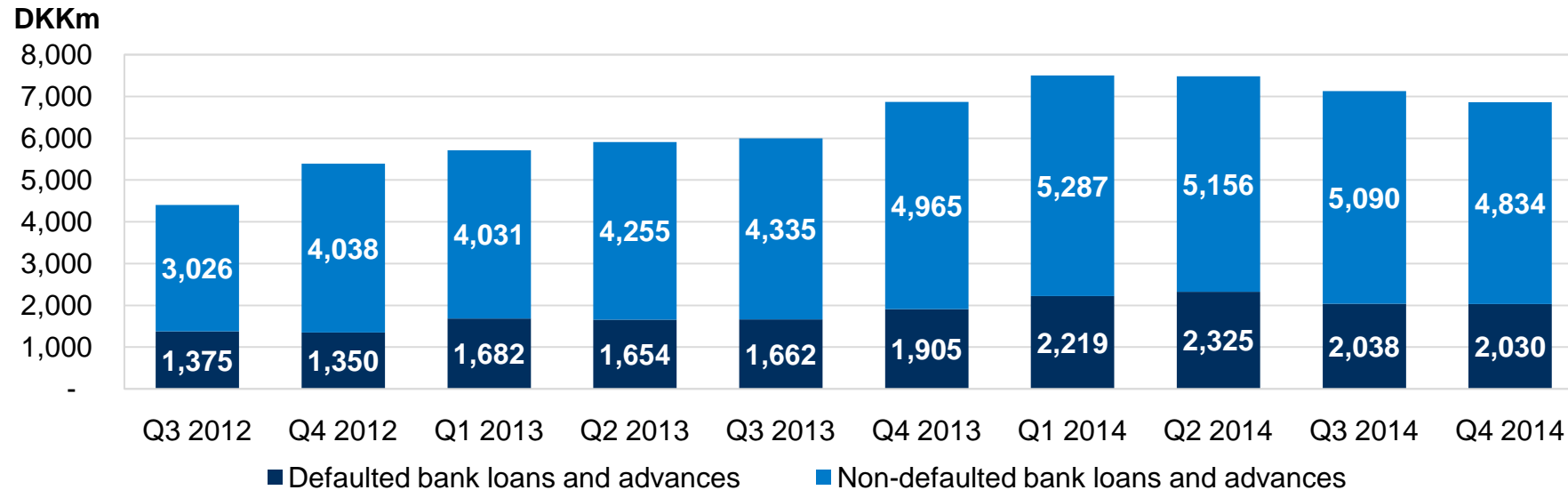
DKKm	Pig farming	Cattle farming	Crop production	Other agriculture	Total
Loans and advances	1,853	1,845	1,381	1,222	6,301
Individual impairments	288	540	42	106	976
Collective impairments	85	40			125
Loans after impairments	1,480	1,265	1,339	1,116	5,200
Impaired loans	582	897	100	188	1,767
Impaired loans as % of 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 % loans	20.1	31.4	3.0	8.7	17.5

31st December 2013

DKKm	Pig farming	Cattle farming	Crop production	Other agriculture	Total
Loans and advances	2,018	2,005	1,354	1,270	6,647
Individual impairments	245	581	40	115	981
Loans after impairments	1,773	1,424	1,314	1,155	5,666
Impaired loans	466	842	84	206	1,598
Impaired loans as % of loans	23.1	42.0	6.2	16.2	24.0
Impairment as % impaired loans	52.6	69.0	47.6	55.8	61.4
Impairment as % loans	12.1	29.0	3.0	9.1	14.8

Impaired bank loans and advances – 4% down in Q4 2014

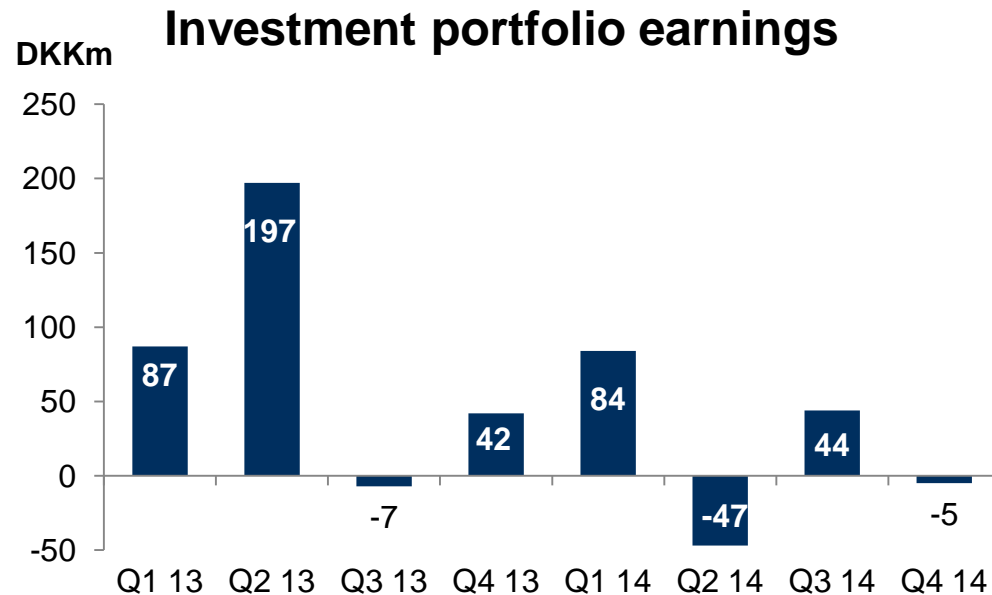
Breakdown of impaired bank loans and advances



Individually impaired bank loans and advances

DKKm	31 Dec 2012	31 Dec 2013	31 Dec 2014
Non-defaulted bank loans and advances	4,038	4,965	4,834
Defaulted bank loans and advances	1,350	1,905	2,030
Impaired bank loans and advances	5,388	6,870	6,864
Impairment charges for bank loans and advances subject to individual impairment	2,769	4,058	3,996
Impaired bank loans and advances after impairment charges	2,619	2,812	2,868
Impaired bank loans and advances as % of bank loans and advances before impairment charges	7.6	9.7	9.4
Impairment charges as % of bank loans and advances before impairment charges	3.9	5.7	5.5
Impaired as % of impaired bank loans and advances	51.4	59.1	58.2
Impairment charges as % of defaulted bank loans and advances	205.1	213.0	196.8

Investment portfolio earnings – value adjustment of mortgage credit portfolio in Q4 2014



- Increased remortgaging activity in Q4 2014 and tight sector liquidity resulted in negative value adjustment of mortgage credit portfolio.

Investment portfolio earnings

DKKm	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014
Position-taking	62	-17	37	-7	75
Liquidity generation and liquidity reserves	24	-1	6	-6	23
Strategic positions	0	-27	2	10	-15
Costs	-2	-2	-1	-2	-7
Total	84	-47	44	-5	76

Income statement – the best annual result since 2007

DKKm	12M 2014	12M 2013	Index	Q4 2014	Q3 2014	Index
Core income	4.319	4.058	106	1.094	1.094	100
Trading income	196	229	86	-9	53	-
Total income	4.515	4.287	105	1.085	1.147	95
Costs, core earnings	2.619	2.514	104	633	621	102
Core earnings before impairment	1.896	1.773	107	452	526	86
Impairment of loans and advances etc	707	1.861	38	148	129	115
Core earnings	1.189	-88	-	304	397	77
Investment portfolio earnings	76	319	24	-5	44	-11
Profit before non-recurring items	1.265	231	548	299	441	68
Non-recurring items, net	64	-60	-	-20	-23	-
Profit before tax	1.329	171	777	279	418	67
Tax	277	-16	-	55	104	53
Profit for the period	1.052	187	563	224	314	71
Core costs / total income, C/I	0,58	0,59		0,58	0,54	
Return on equity, ROE	9,8	1,8		2,0	2,9	
Earnings per share, EPS	14,3	2,5		3,1	4,3	

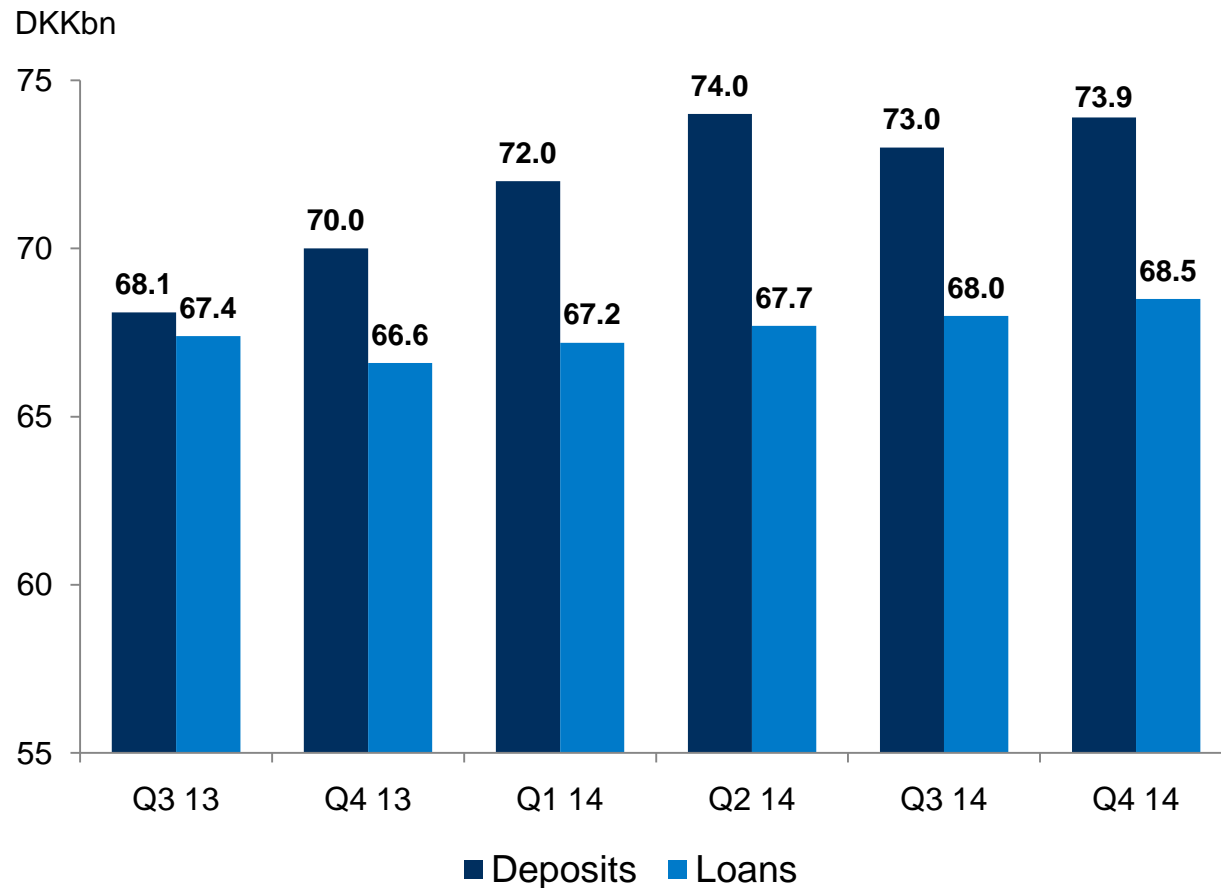
Key points 12M 14 vs 12M 13

- Core income up by 6%
- Costs (core earnings) up by 4%
- Impairment charges down by 62% from 234bp to 82bp
- Non-recurring items, primarily Nets and integration of DiBa
- The best result since 2017

Key points Q3 14 vs Q2 14

- Core income at the same level
- Costs (core earnings) up by 2%
- Impairment charges up by 15% from 16bp to 17bp

Rise in loans and deposits in Q4 2014



- Loans and advances rose every quarter in 2014; by a total of 2.9% in 2014
- Deposits up by DKK 0.9bn in Q4 2014. Up by DKK 3.9bn for 2014, equal to 5.6%.

Capital ratios have strengthened in 2014 – mainly as a result of the profit

DKKm	CRD IV			
	2013	2013	Q3 2014	Q4 2014
Credit risk	51.160	47.616	47.191	49.417
Market risk	10.197	10.197	8.374	8.003
Operational risk	8.341	8.341	8.306	8.575
Other exposures incl. CVA	3.051	5.345	5.561	6.472
Risk-weighted assets	72.749	71.499	69.432	72.467
CET1	9.722	9.799	10.307	10.101
Tier 1	11.108	11.037	11.414	11.209
Total capital	11.430	11.586	11.787	11.596
CET1 ratio	13,4	13,7	14,8	13,9
Tier 1 ratio	15,3	15,4	16,4	15,5
Capital ratio	15,7	16,2	17,0	16,0
Individual solvency need	10,0	10,0	10,0	10,4

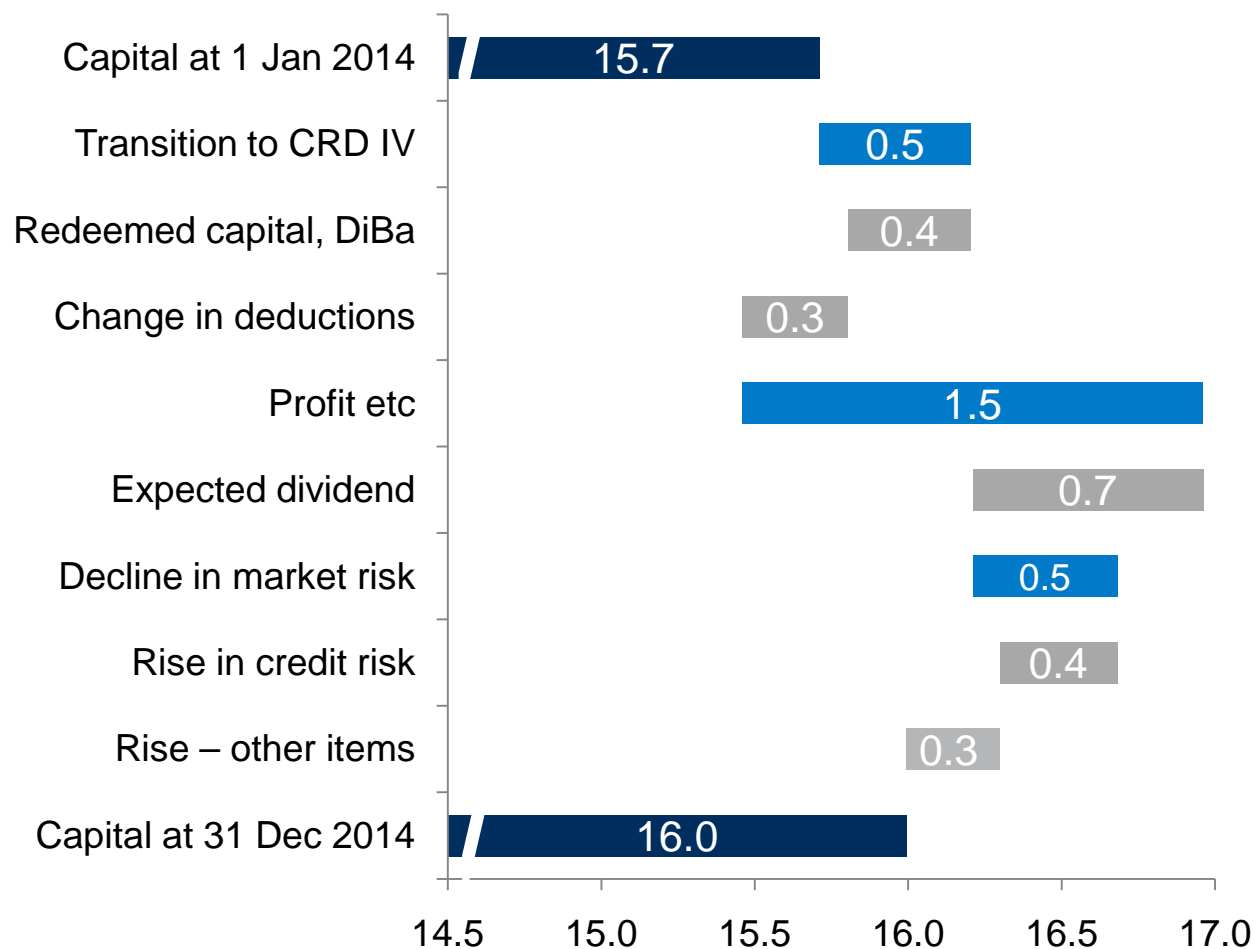
Key points 2014:

- Capital structure further strengthened despite dividend distribution of DKK 536m

Key points Q4 2014:

- CET1 ratio down by 0.9 in Q4 due to investments in DLR shares and temporary rise in credit risk

Development in capital ratio in 2014



Key points:

- Change in deductions and most important change in other items attributable to purchase of DLR shares. Total effect on capital ratio of around 0.5 percentage points.
- Rise in credit risk attributable to temporary exposure due to remortgaging guarantees to DLR. Effect of around 0.5 percentage points.

Updated capital policy due to strong liquidity and capital

- Given the Group's good liquidity and capital, the capital policy has been updated so that it provides constant support to the Group's strategy and at the same time take into account Sydbank's status as a SIFI as well as full implementation of capital regulations.
- The Group's targets:
 - CET1 ratio of around 13.5%
 - Capital ratio of around 17.0%
- The Group will move closer to meeting the capital targets in the coming years. Adjustment of the Group's capital structure to the capital targets will require subordinated capital to be issued after which share buybacks are believed to be an option.
- In 1H 2015 the Board of Directors will commence work on the first phase of the capital adjustment in which the possibility of issuing Tier 2 capital of approx DKK 750m will be reviewed.

Outlook for 2015

- Based on the level of interest rates at the beginning of 2015, core income is expected to rise slightly due in part to a slight increase in bank loans and advances resulting from the measures implemented and despite continued fierce competition. The longer the current upward pressure on DKK and by extension the negative interest rate environment last, the greater the uncertainty of the projection.
- Unchanged or slightly rising trading income but very 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.

Q & A

Thank you

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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.