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## Interim Report – H1 2015

All-time high core income and growth in lending for sixth consecutive quarter

19 August 2015

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## Highlights for H1 2015

### Key points

All-time high core income and growth in lending for sixth consecutive quarter

### Profit

Profit of DKK 530m – ROE of 9.4% p.a. after tax

### Core income

Core income of DKK 2,227m – 5% increase – all-time high

### Income

Income of DKK 2,379m – 4% increase compared with H1 2014

### Costs

Costs of DKK 1,374m – 1% rise compared with H1 2014

### Impairment charges

Impairment charges of DKK 217m – primarily agriculture and collective impairments

### Bank loans

DKK 2.9bn rise in bank loans and advances, equal to 4.2% in H1 2015

### Capital

CET1 ratio of 14.1% – increase of 0.2% compared with Q4 2014

### Share buy-back

At end-Q2 purchases of DKK 209m of current buy-back totalling DKK 500m

## Core income – all-time high half-year income

DKKm	H1 2015	H1 2014	Index	Q2 2015	Q1 2015	Index
Net interest income etc	1,204	1,249	96	609	595	102
Mortgage credit*	204	172	119	108	96	113
Payment services	102	108	94	49	53	92
Remortgaging and loan fees	99	48	206	47	52	90
Commission and brokerage	228	171	133	96	132	73
Commission etc investment funds and pooled pension plans	181	167	108	94	87	108
Asset management	92	87	106	45	47	96
Custody account fees	39	42	93	20	19	105
Other income	78	87	90	44	34	129
<b>Total</b>	<b>2,227</b>	<b>2,131</b>	<b>105</b>	<b>1,112</b>	<b>1,115</b>	<b>100</b>
* Set-off of loss Totalcredit	15	15	100	7	8	88

### Key points H1 15 vs H1 14:

- Net interest income down by 4%
- Mortgage credit up by 19%
- Doubling of remortgaging and loan fees
- Commission and brokerage up by 33%

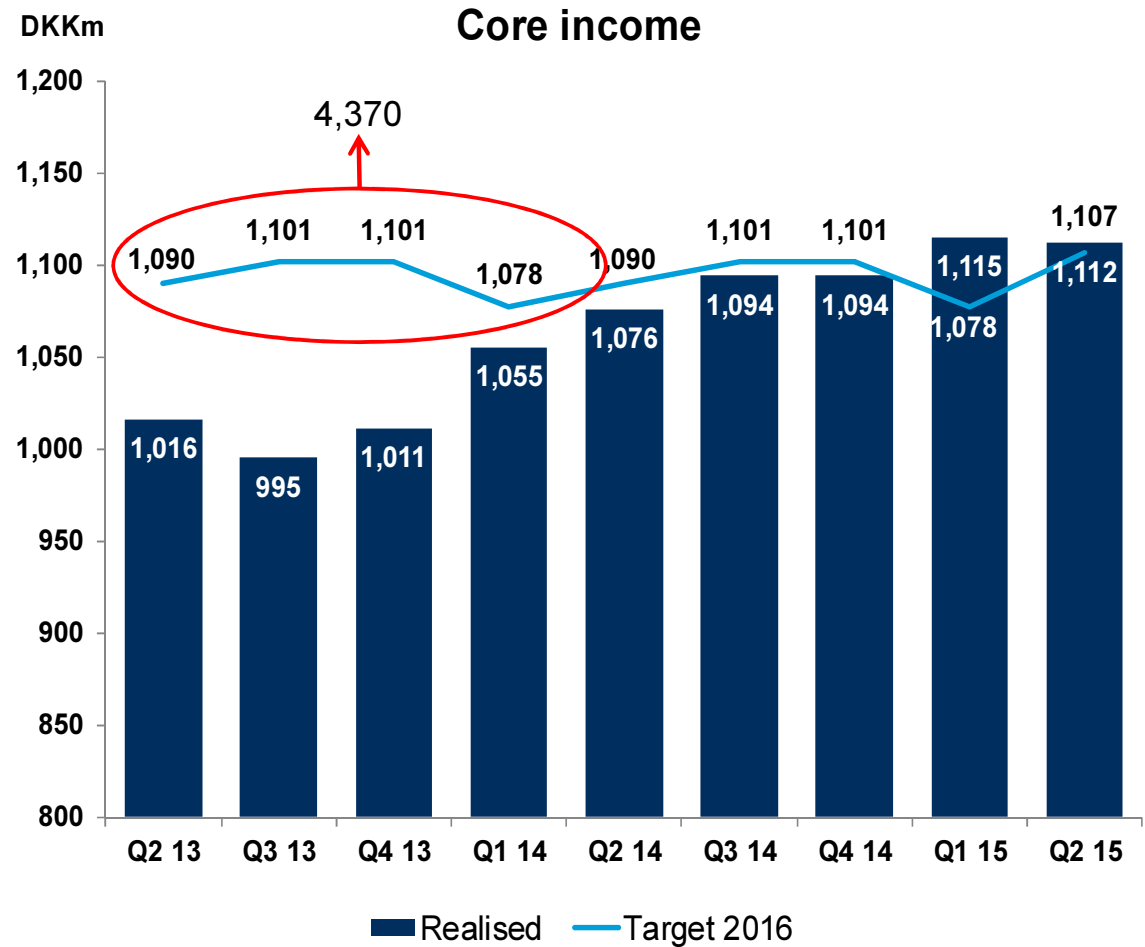
### Key points Q2 15 vs Q1 15:

- Net interest income up by 2%. 1 percentage point due to an extra interest day
- Mortgage credit up by 13%
- Commission and brokerage down by 27%
- Other items up by 2%.

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

The target for Q2 2016 has been raised by DKK 17m to DKK 1,107m due to the acquisition of Sydinvest Administration. Realised in Q2 2015 with DKK 1,112m.

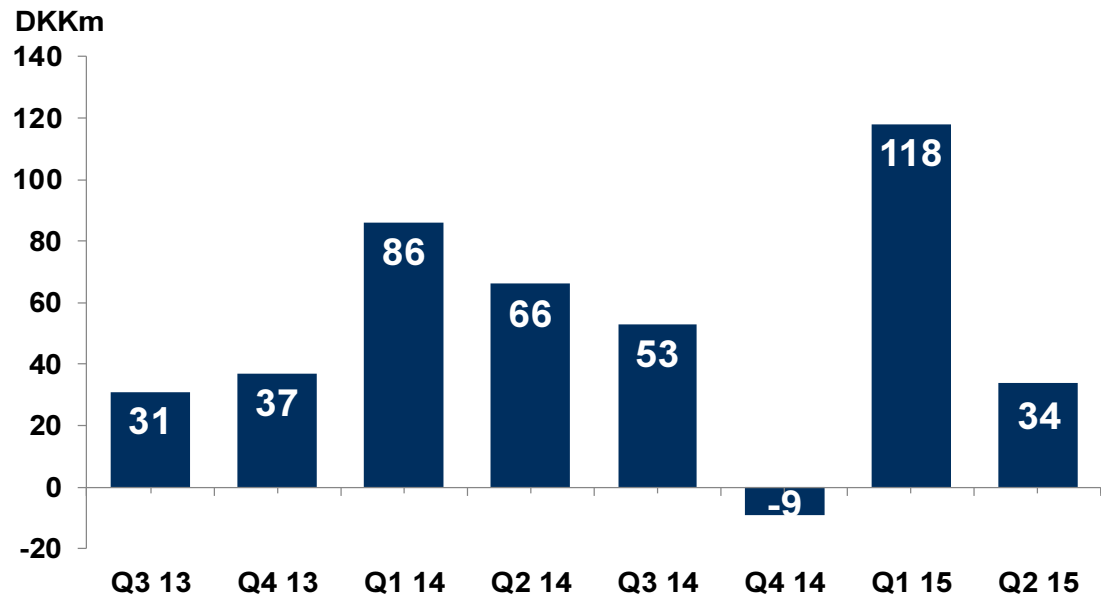
Above the target despite the significant blow to net interest as a result of declining market rates.



## Trading income – normalisation of activity in Q2 2015

### Key points:

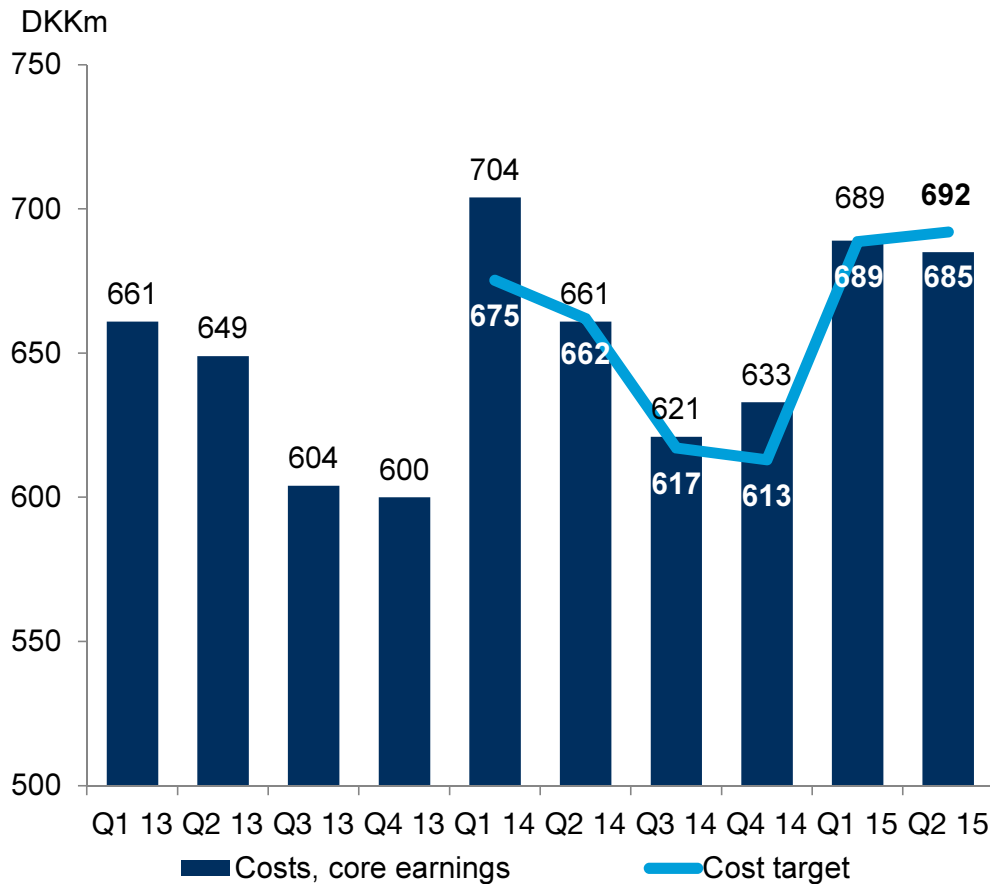
- DKK 152m recorded in H1 2015 vs DKK 152m in H1 2014
- Decline in activity in Fixed Income in Q2 after historically high remortgaging activity in Q1
- Normalisation in foreign exchange trading income in Q2 after high activity in Q1
- Normalisation in equity trading income in Q2 after high activity in Q1.



### Trading income

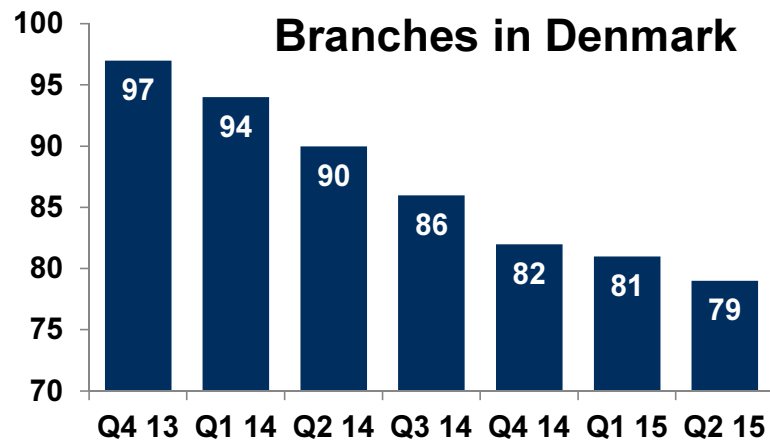
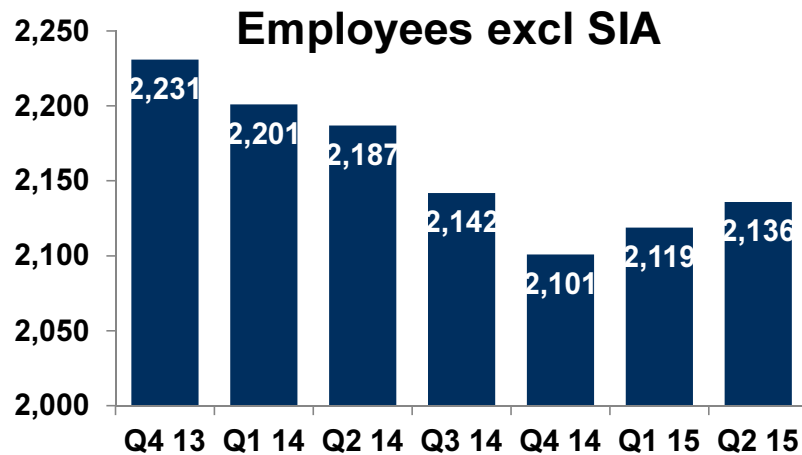
DKKm	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
Fixed Income	7	18	36	32	19	-29	64	1
Equities	17	19	31	26	17	9	32	18
Money Market and Foreign Exchange	7	0	19	8	17	11	22	15
<b>Total</b>	<b>31</b>	<b>37</b>	<b>86</b>	<b>66</b>	<b>53</b>	<b>-9</b>	<b>118</b>	<b>34</b>

## Costs (core earnings) – Q2 2015 slightly better than 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 as well as the effect of the acquisition of Sydinvest Administration
- In Q2 2015 costs of DKK 685m are DKK 7m below the target for 2016 in terms of 2015 prices
- The reduction must be viewed on a full-year basis.

## 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 H1 2015 as a result of high activity combined with 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 Q3 2015
- Electronic document handling is an important element in the automation process
- Introduction of new cash handling concept in H2 2015.

## Sydbank Favorit: Good response to freedom of choice – many clients have already registered for Sydbank's loyalty programme

- Optional benefits are well received
- Clients choose classic benefits
  1. Free withdrawals from all ATMs
  2. Free currency exchange
  3. Visa/Dankort discount
- 78.3% of Favorit 5, 7 and 10 clients have registered as at 1 August





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## Sydbank and Totalkredit in new cooperation offering corporate mortgage loans

- Mortgage finance is available to Sydbank's corporate clients
- Sydbank is now able to offer its clients a complete range of products
- A highly competitive product – also in terms of price
- Based on a set-off model
- New operational setup ensures swift and competent advisory services to clients



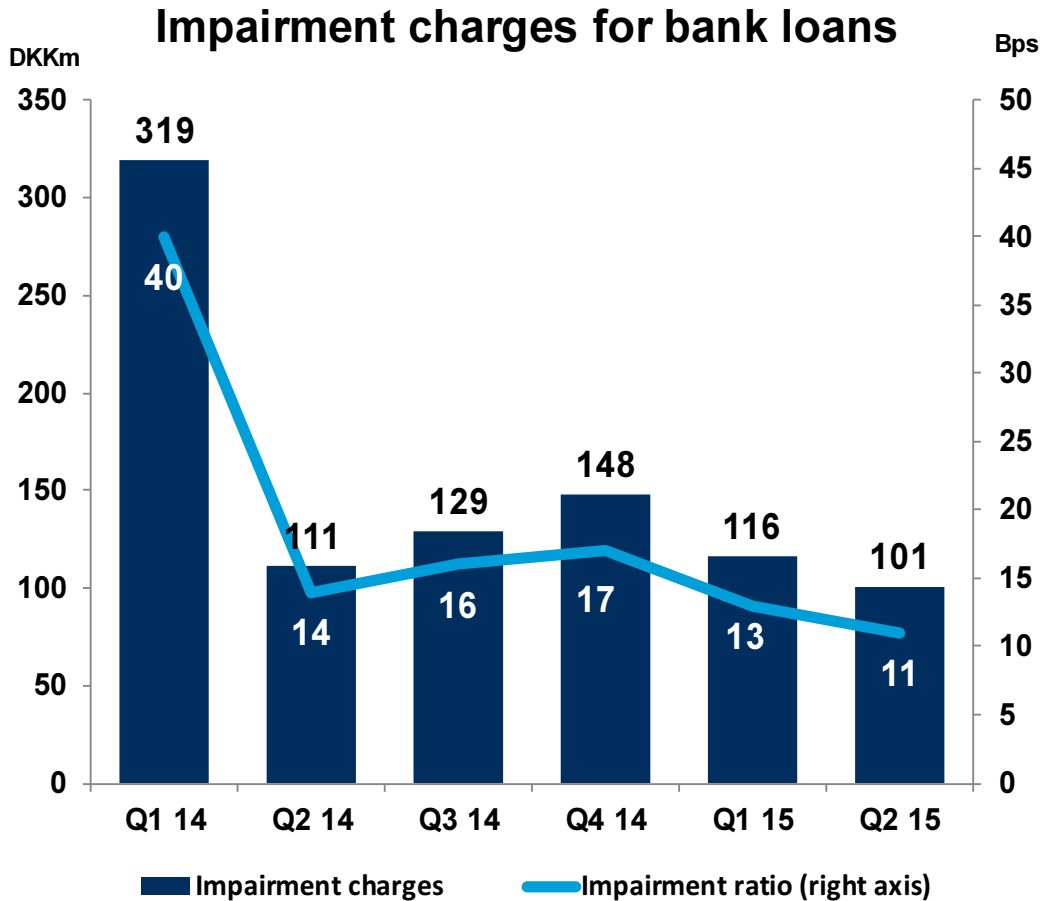
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## Sydbank creates Denmark's most efficient and customer-oriented cash handling solution

- Denmark's finest network of state-of-the-art ATMs where clients can deposit and withdraw DKK and EUR 24 hours a day
- Fast deposits for corporate clients
- Access to cash, foreign exchange, deposits and withdrawals at all 11 full-service branches, 13 part-time branches and 57 advisory branches
- All branches will keep their coin counters
- Night safes will be phased out



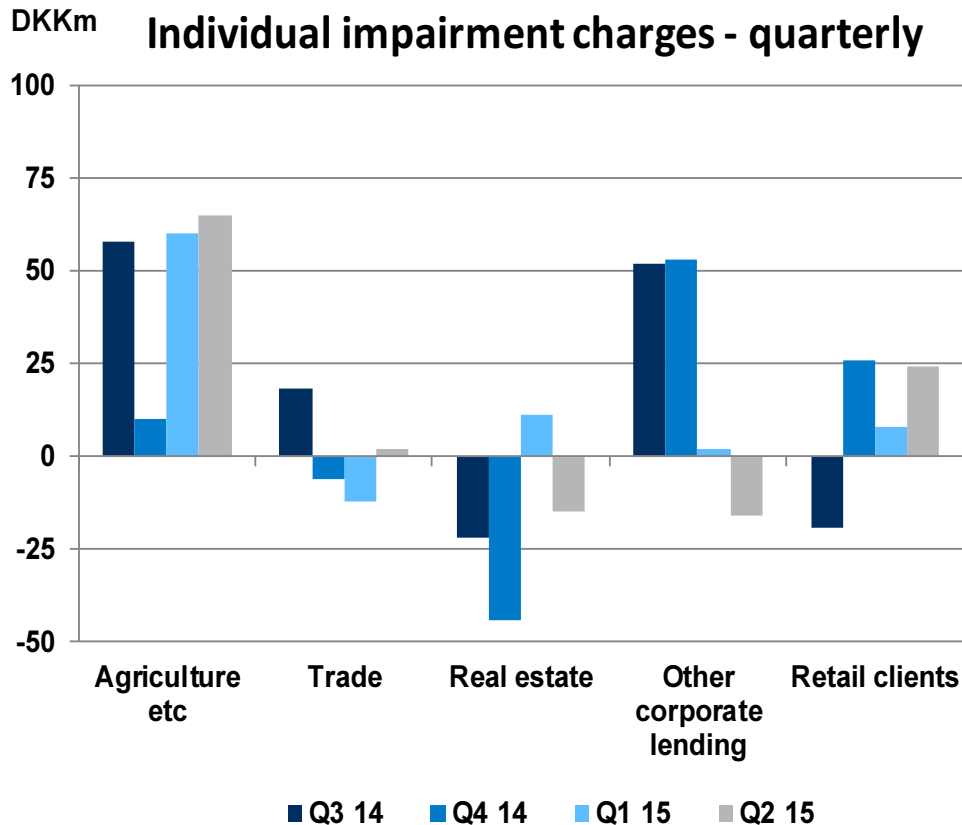
Impairment charges represent DKK 101m – equal to 11 bps



Impairment charges represent:

- 24 bps in H1 15, down from 54 bps in H1 14
- 11 bps in Q2 15, down from 13 bps in Q1 15
- 11 bps is the lowest level since Q3 2008.

# Impairment charges in Q2 2015 – as in Q1 – mainly agriculture and collective impairments



**Key points Q2 2015:**

- DKK 106m, equal to 105% of impairment charges for the quarter, consists of collective impairment charges and agriculture.

**Key points H1 2015:**

- DKK 213m, equal to 98% of impairment charges for the period, consists of collective impairment charges and agriculture.

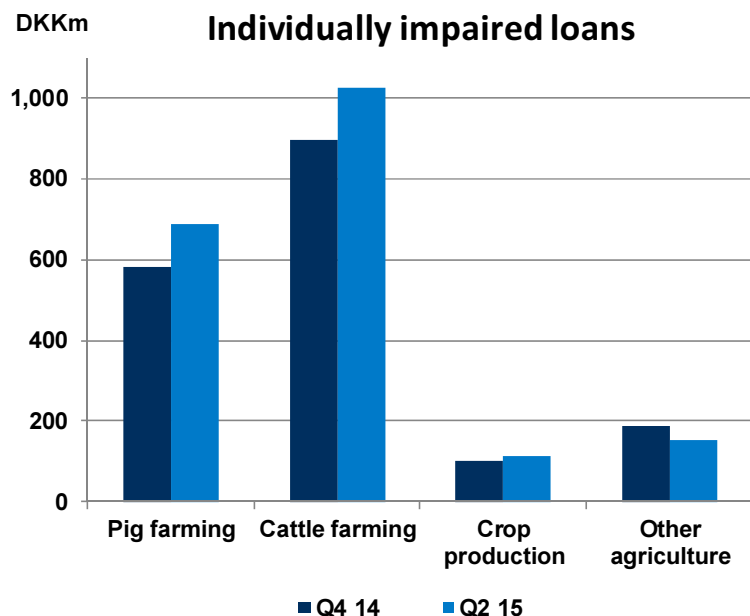
**Quarterly impairment charges**

DKKm	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
Agriculture etc	0	8	58	10	60	65
Trade	50	24	18	-6	-12	2
Real estate	132	95	-22	-44	11	-15
Other corporate lending	82	0	52	53	2	-16
Total corporate lending	264	127	106	13	61	36
Retail clients	56	-30	-19	26	8	24
Individual impairments	320	97	87	39	69	60
Collective provisions	-1	14	42	109	47	41
<b>Total impairments</b>	<b>319</b>	<b>111</b>	<b>129</b>	<b>148</b>	<b>116</b>	<b>101</b>

## Agriculture – impairment charges up by 2.3 percentage points in H1 2015

### Key points:

- Bank loans are at the same level as at year-end 2014
- Impaired bank loans have increased by DKK 210m. Increase of 3.4 percentage points of bank loans
- 19.8% impairment charges of bank loans at the end of H1 2015 vs 19.2% at the end of Q1 2015 and 17.5% at year-end 2014.



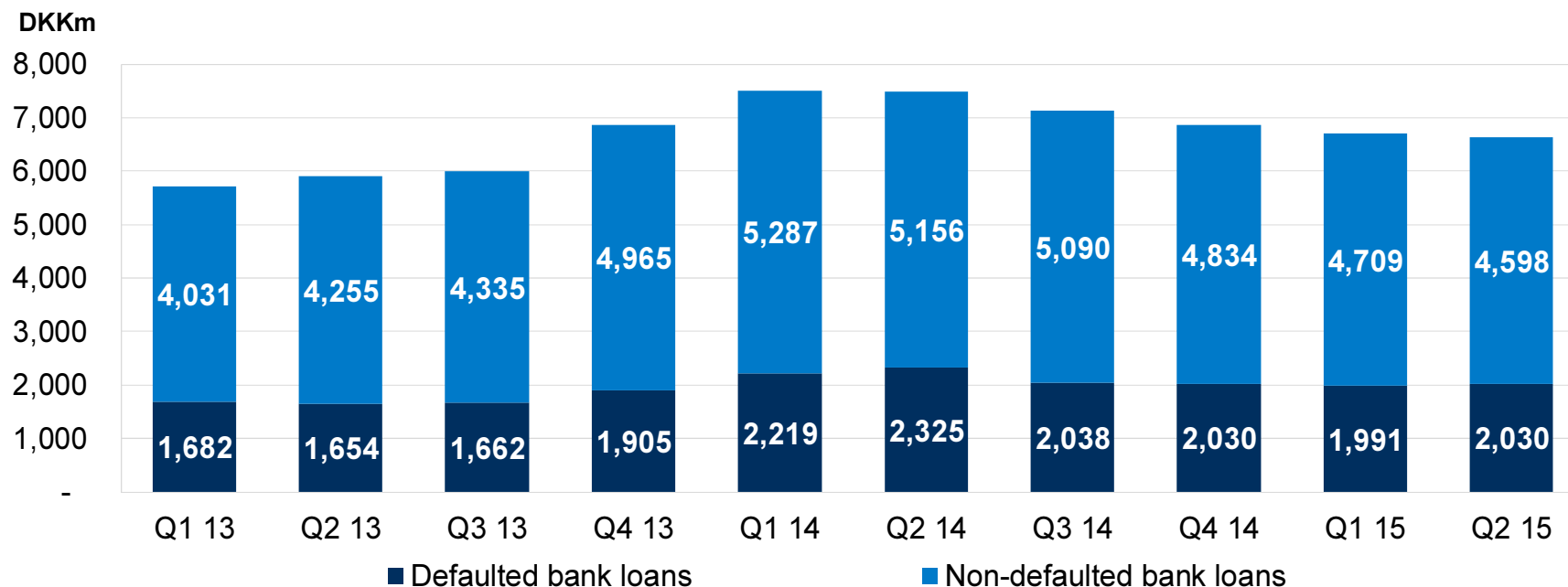
### 30 June 2015

DKKm	Pig farming	Cattle farming	Crop production	Other agriculture	Total
Bank loans	1,972	1,921	1,356	1,041	6,290
Individual impairment charges	348	640	53	79	1,120
Collective impairment charges	85	40			125
<b>Loans after impairment charges</b>	<b>1,539</b>	<b>1,241</b>	<b>1,303</b>	<b>962</b>	<b>5,045</b>
Impaired bank loans	582	897	100	188	1,767
Impaired as % of bank loans	29.5	46.7	7.4	18.1	28.1
Impairment as % impaired loans	59.8	71.3	53.0	42.0	63.4
Impairment as % bank loans	22.0	35.4	3.9	7.6	<b>19.8</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 fifth consecutive quarter – 1% in Q2

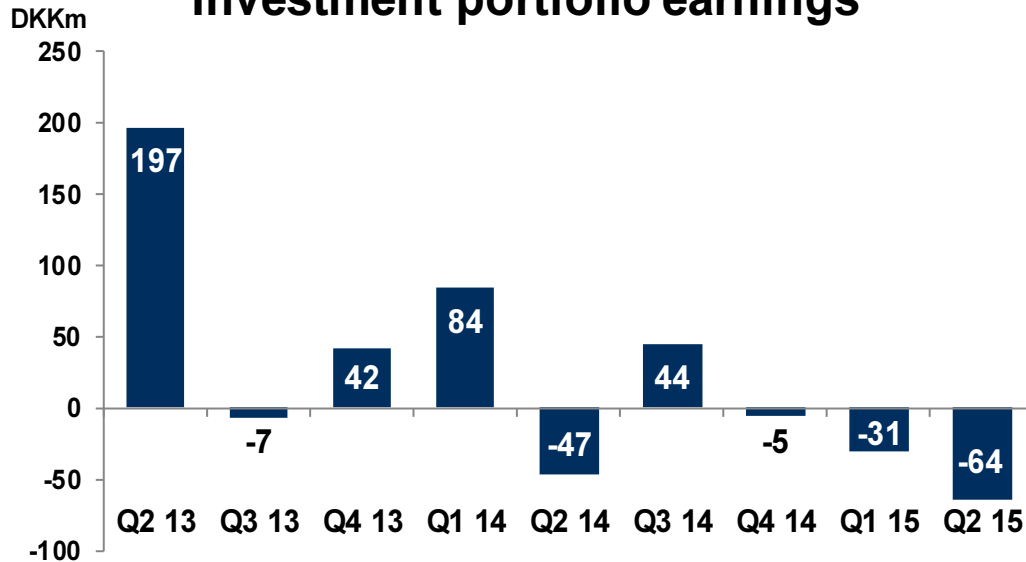


### Individually impaired bank loans

DKKm	30 June 2014	31 Dec 2014	30 June 2015
Non-defaulted bank loans	5,156	4,834	4,598
Defaulted bank loans	2,325	2,030	2,030
Impaired bank loans	7,481	6,864	6,628
Impairment charges for bank loans subject to individual impairment	4,346	3,996	3,807
Impaired bank loans after impairment charges	3,135	2,868	2,821
Impaired bank loans as % of bank loans before impairment charges	10.4	9.4	8.8
Impairment charges as % of bank loans before impairment charges	6.0	5.5	5.0
Impairment as % of impaired bank loans	58.1	58.2	57.4
Impairment as % of defaulted bank loans	187.0	196.8	187.5

# Investment portfolio earnings – turbulence in fixed income markets

## Investment portfolio earnings

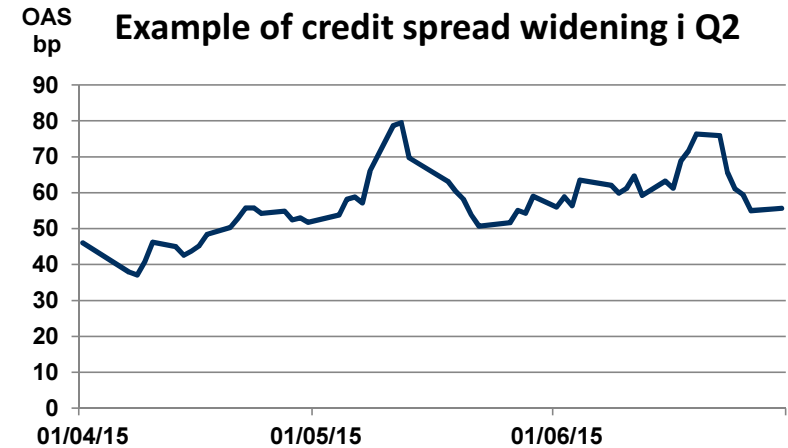


### Key points Q2 2015:

- The negative investment portfolio earnings are a consequence of the turmoil in fixed income markets in Q2. The high volatility has resulted in a continued widening of the credit spread of mortgage bonds. The loss results from mortgage bond yields having risen more than the interest rates of hedging transactions.

### Investment portfolio earnings

DKKm	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
Position-taking	62	-17	37	-7	-69	-64
Liquidity generation and reserves	24	-1	6	-6	40	0
Strategic positions	0	-27	2	10	0	0
Costs	-2	-2	-1	-2	-2	0
<b>Total</b>	<b>84</b>	<b>-47</b>	<b>44</b>	<b>-5</b>	<b>-31</b>	<b>-64</b>



## Income statement – rise in core earnings of 61% due to increase in core income and sharp decline in impairment charges

DKKm	H1 2015	H1 2014	Index	Q2 2015	Q1 2015	Index
Core income	2,227	2,131	105	1,112	1,115	100
Trading income	152	152	100	34	118	29
<b>Total income</b>	<b>2,379</b>	<b>2,283</b>	<b>104</b>	<b>1,146</b>	<b>1,233</b>	<b>93</b>
Costs, core earnings	1,374	1,365	101	685	689	99
<b>Core earnings before impairment</b>	<b>1,005</b>	<b>918</b>	<b>109</b>	<b>461</b>	<b>544</b>	<b>85</b>
Impairment of loans and advances etc	217	430	50	101	116	87
<b>Core earnings</b>	<b>788</b>	<b>488</b>	<b>161</b>	<b>360</b>	<b>428</b>	<b>84</b>
Investment portfolio earnings	-95	37	-	-64	-31	-
<b>Profit before non-recurring items</b>	<b>693</b>	<b>525</b>	<b>132</b>	<b>296</b>	<b>397</b>	<b>75</b>
Non-recurring items, net	0	107	-	0	0	-
<b>Profit before tax</b>	<b>693</b>	<b>632</b>	<b>110</b>	<b>296</b>	<b>397</b>	<b>75</b>
Tax	163	118	138	70	93	75
<b>Profit for the period</b>	<b>530</b>	<b>514</b>	<b>103</b>	<b>226</b>	<b>304</b>	<b>74</b>
Costs (core earnings) / total income, C/I	0.58	0.60		0.60	0.56	
Return on equity, ROE	4.7	4.9		2.0	2.7	
Earnings per share, EPS	7.2	7.0		3.1	4.1	

### Key points in general

- Strong core income despite negative interest rate environment

### Key points H1 15 vs H1 14

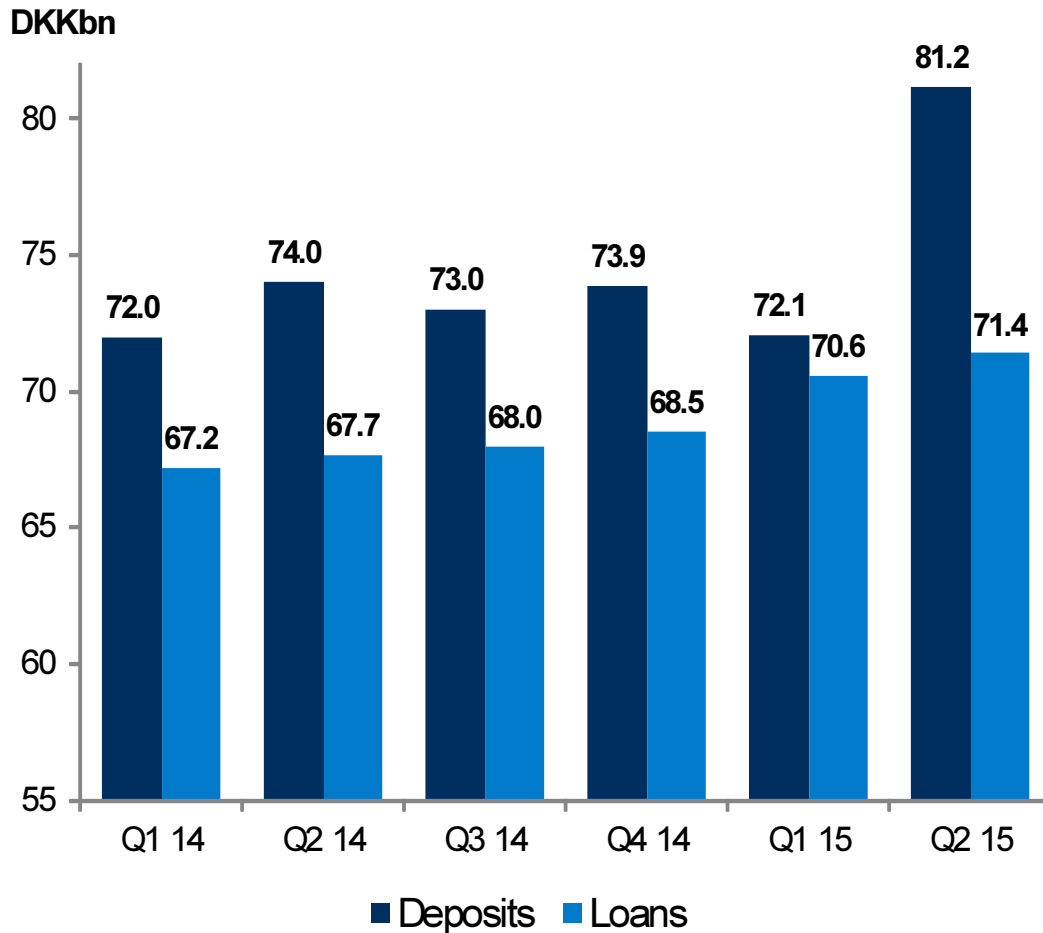
- Core income up by 5% - all-time high
- Costs (core earnings) up by 1% due to purchase of SIA
- Impairment charges down by 50% from 54bps to 24bps
- Core earnings up by 61%

### Key points Q2 15 vs Q1 15

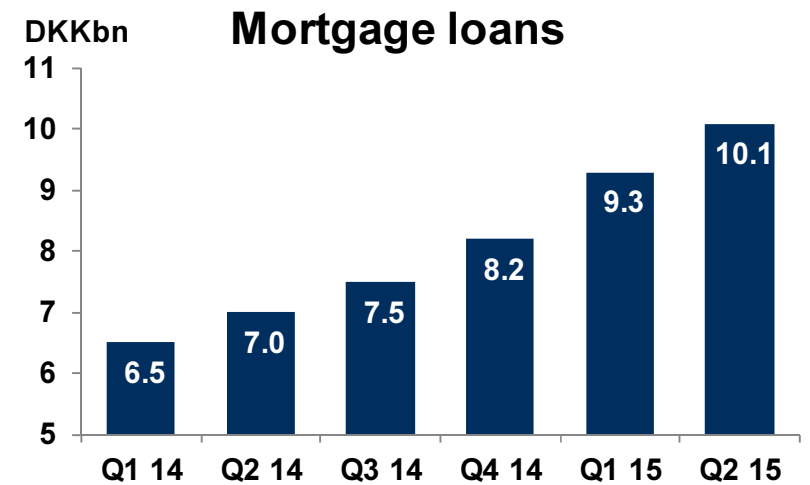
- Core income maintained as a result of SIA despite decline in activity compared with Q1
- Total income down by 7%
- Costs (core earnings) down by 1%
- Impairment charges down by 13% from 13bps to 11bps



# Bank loans up by 4.2% in H1 2015 – deposits up by DKK 9.1m in Q2



- Bank loans have risen for six consecutive quarters. The rise in Q2 2015 represents DKK 0.8bn, equal to 1.1%
- Rise in mortgage loans accounts for DKK 0.8bn
- Rise in deposits represents DKK 9.1bn.



## Lower capital ratios in Q2 2015 – due to current share buy-back programme

DKKm	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Credit risk	47,191	49,417	49,111	47,268
Market risk	8,374	8,003	5,713	7,455
Operational risk	8,306	8,575	8,575	8,575
Other exposures incl. CVA	5,561	6,472	6,898	6,195
Risk-weighted assets	69,432	72,467	70,297	69,493
CET1	10,307	10,101	10,246	9,805
Tier 1	11,414	11,209	11,219	10,777
Total capital	11,787	11,596	12,399	11,946
CET1 ratio	14.8	13.9	14.6	14.1
Tier 1 ratio	16.4	15.5	16.0	15.5
Capital ratio	17.0	16.0	17.6	17.2
Individual solvency need	10.0	10.4	10.3	10.3

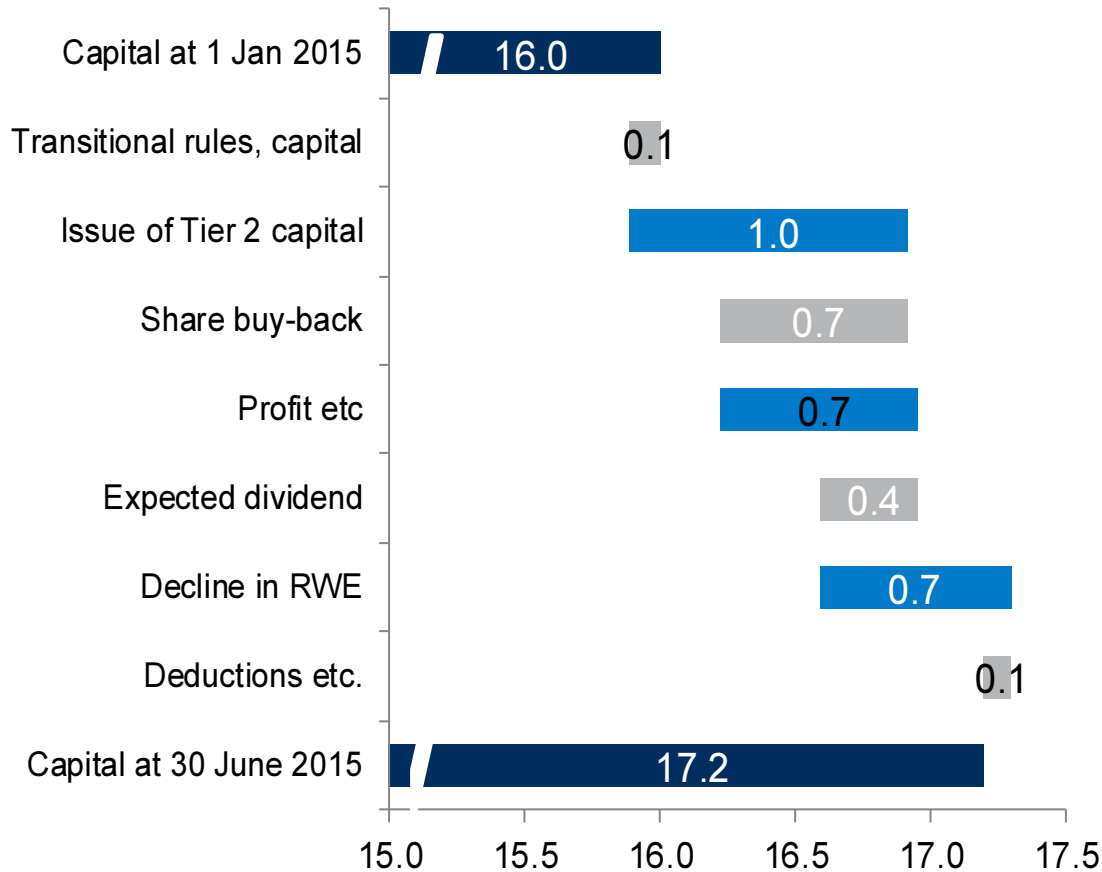
### Key points Q2 2015:

- CET1 ratio down by 0.5 percentage points in Q2. Of which 0.7 percentage points as a result of the share buy-back program.

### Key points Q1 2015:

- Strengthening of capital with the issue of Tier 2 capital worth EUR 100m

## Capital ratio development in H1 2015



### Key points:

- The share buy-back 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.

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## Outlook for 2015

- Core income is expected to rise slightly due in part to an increase in bank loans resulting from the measures implemented and despite continued fierce competition and the negative interest rate environment.
- 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%.
- Significantly lower impairment charges for loans and advances.
- 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.

Questions

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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.