
Interim Report – Q1-Q3 2016

Decline in costs and high credit quality ensure satisfactory result

2 November 2016

Highlights for Q1-Q3 2016

Key points

Decline in costs and high credit quality ensure satisfactory result

Profit

Profit of DKK 1,028m – ROE of 12.0% p.a. after tax

Core income

Core income of DKK 3,131m – drop of 5% compared with 9M 2015

Income

Income of DKK 3,319m – drop of 4% compared with 9M 2015

Costs

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

Impairment charges

Impairment charges of DKK 114m – reduced by 58% compared with 9M 2015

Bank loans

DKK 3.8bn rise in bank loans and advances, equal to 5.1% compared with Q4 2015

Capital

CET1 ratio of 14.9% – increase of 0.4 percentage points compared with Q4 2015

Share buyback

At end-September purchases of DKK 280m of current buyback total DKK 350m

Core income – still under pressure due to negative interest rate environment

DKKm	9M 2016	9M 2015	Index	Q3 2016	Q2 2016	Index
Net interest income etc	1,749	1,812	97	576	585	98
Mortgage credit*	292	290	101	99	105	94
Payment services	149	153	97	53	50	106
Remortgaging and loan fees	67	130	52	16	25	64
Commission and brokerage	261	320	82	81	85	95
Commission etc investment funds and pooled pension plans	286	260	110	99	92	108
Asset management	143	135	106	48	50	96
Custody fees	53	57	93	17	18	94
Other income	131	132	99	41	41	100
Total	3,131	3,289	95	1,030	1,051	98
* Set-off of loss Totalkredit	16	24	67	6	6	100

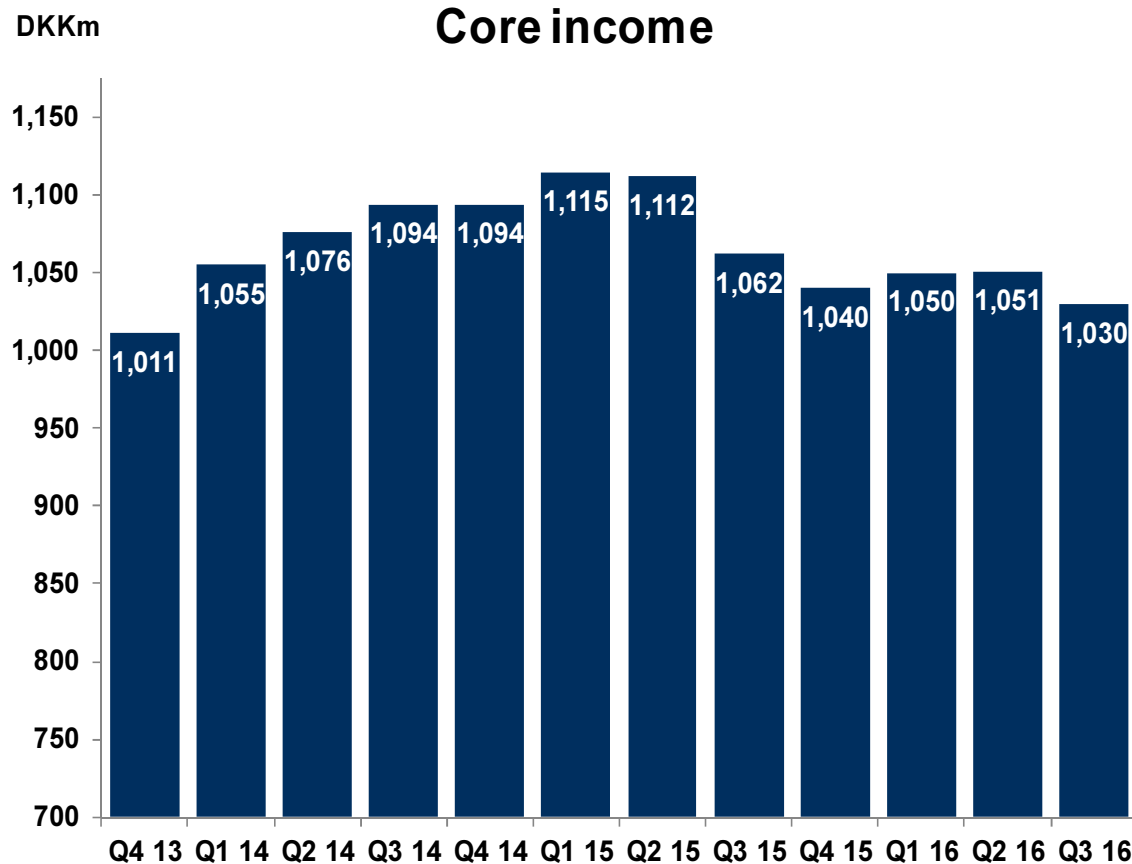
Key points 9M 16 vs 9M 15:

- Net interest income down by 3%
- Remortgaging and loan fees down by 48%
- Commission and brokerage down by 18%
- Other items overall up by 3%.

Key points Q3 16 vs Q2 16:

- Net interest income down by 2%
- Remortgaging and loan fees down by 36% from a low level
- Other items overall at the same level.

Core income has dropped to lowest level since Q4 2013



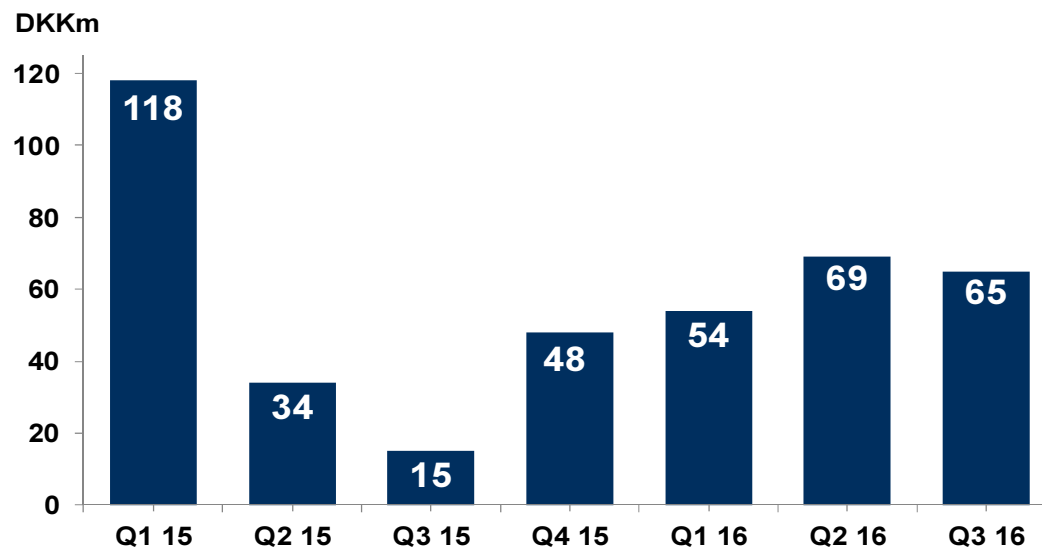
The core income level decreased as a result of the negative interest rate environment.

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

Trading income – satisfactory in Q3 2016

Key points:

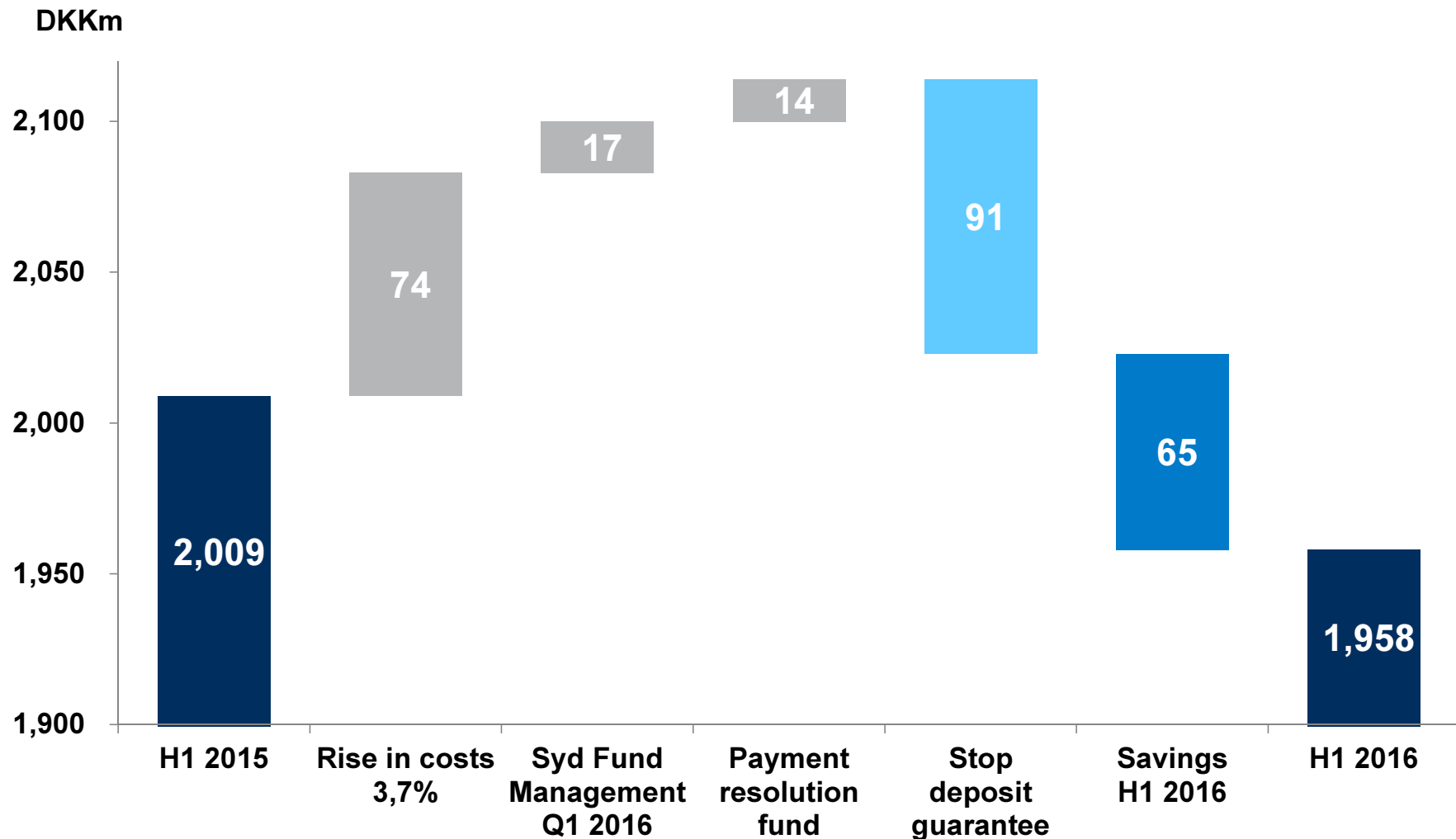
- DKK 65m recorded in Q3 2016 vs DKK 69m in Q2 2016
- Level of activity has been satisfactory in the quarter.



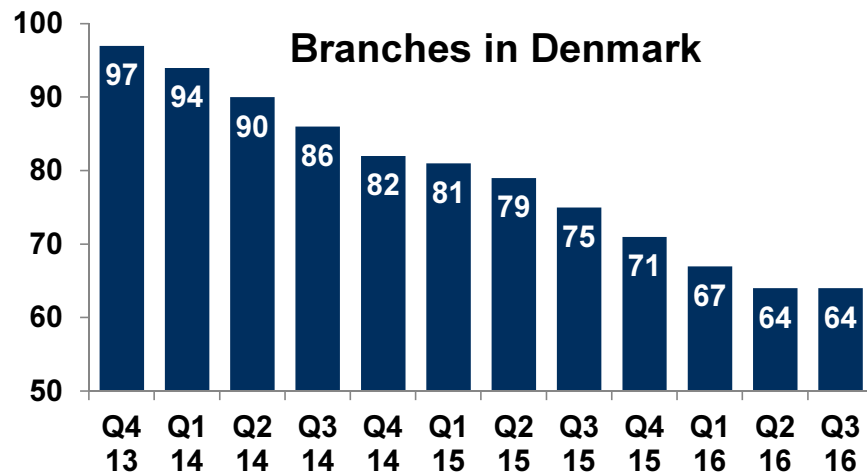
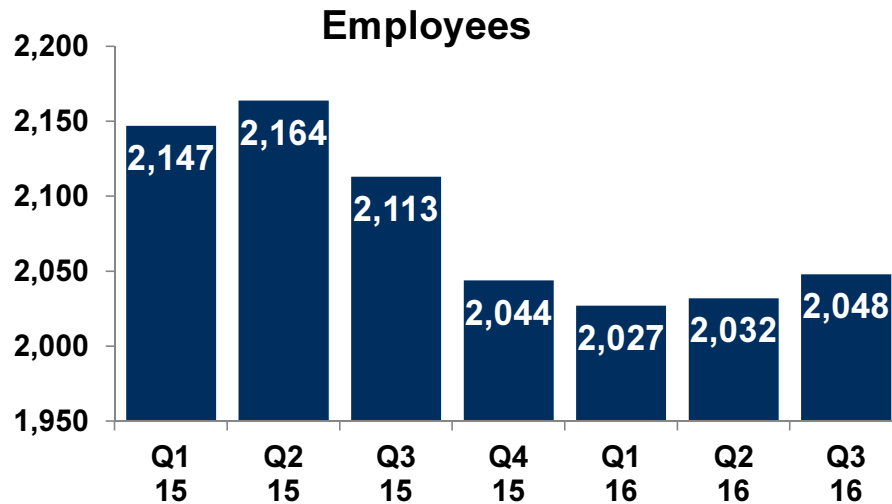
Trading income

DKKm	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16
Fixed Income	64	1	-4	13	26	39	45
Equities	32	18	8	25	20	19	14
Money Market and Foreign Exchange	22	15	11	10	8	11	6
Total	118	34	15	48	54	69	65

Costs (core earnings) – recorded savings of DKK 65m vs 9M 2015



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



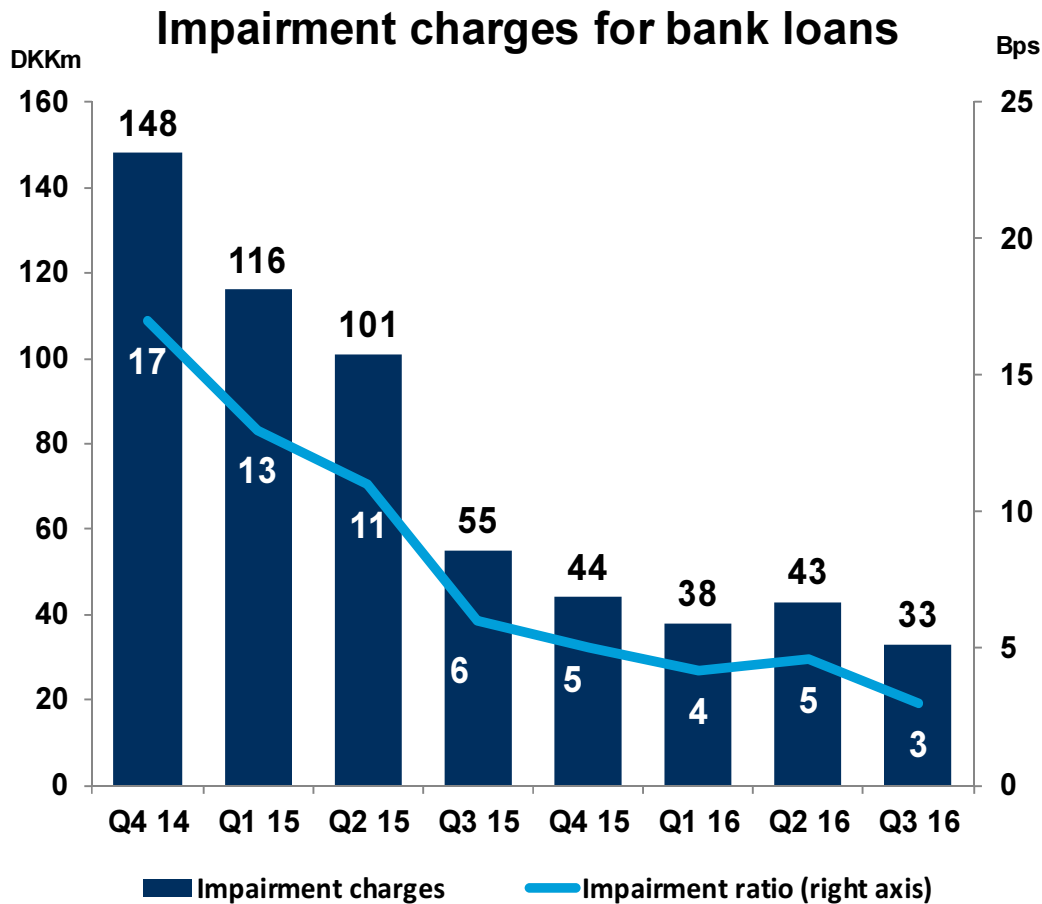
Initiatives in 2016:

- Staff – no reduction in 2016
- Branches in Denmark now at a stable level.

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.

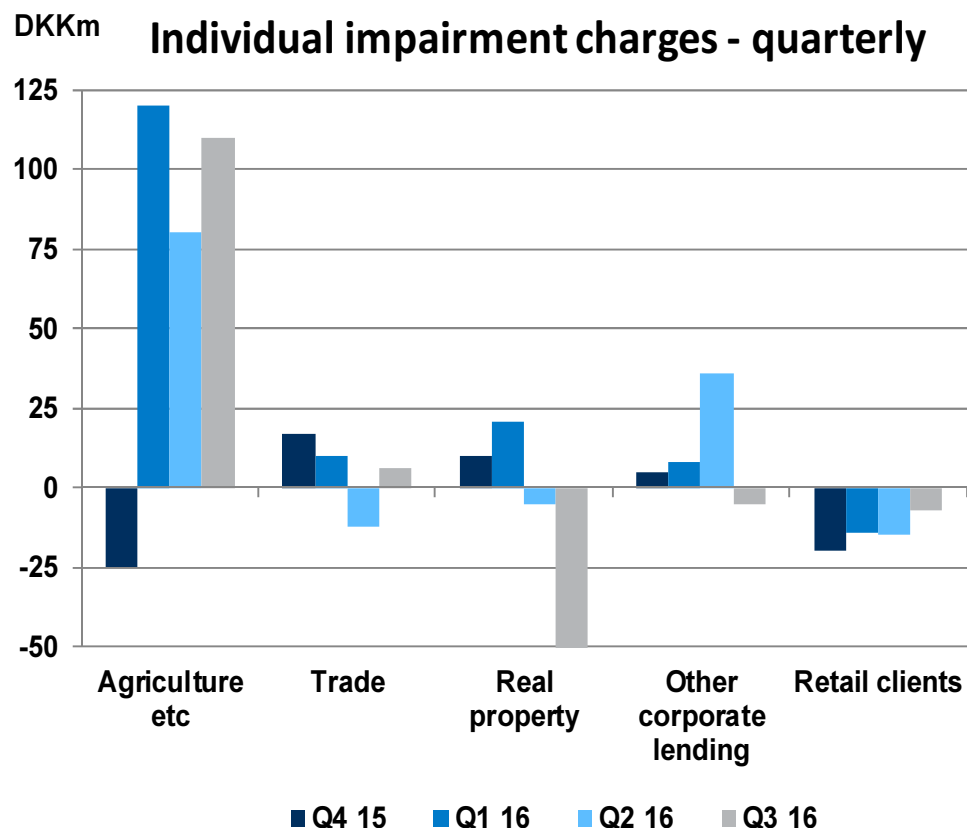
Impairment charges in Q3 2016 represent DKK 33m – equal to 3bps



Impairment charges represent:

- 12bps in 9M 16, down from 31bps in 9M 15
- 3bps in Q3 16 is the lowest level since Q2 2008.

Impairment charges in Q3 2016 – continued focus on agriculture



Key points Q3 2016:

- Individual impairment charges for agricultural exposures represent DKK 110m. This is a consequence of more cautious impairment principles.
- Collective impairment charges regarding agricultural exposures represent DKK 120m at end-Q3.

Key points 9M 2016:

- Total impairment charges as regards agriculture constitute DKK 205m compared with total impairment charges of DKK 114m.

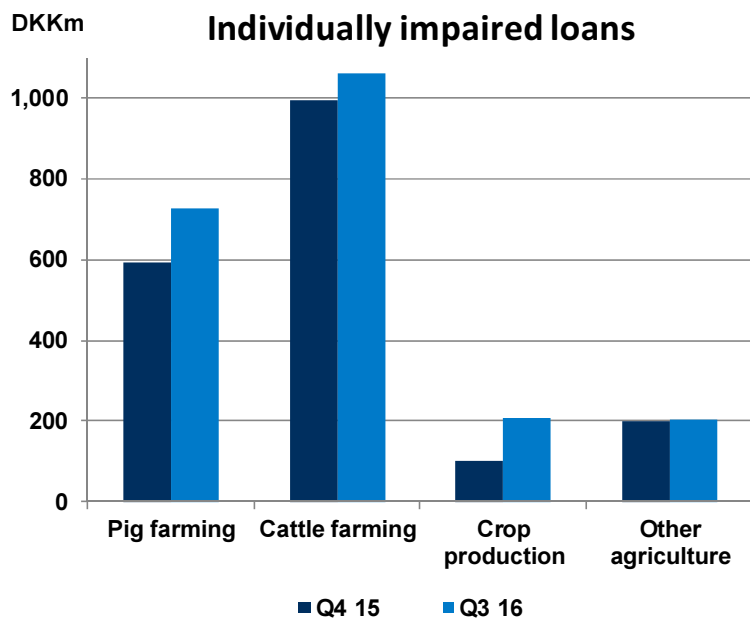
Quarterly impairment charges

DKKm	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16
Agriculture etc	65	16	-25	120	80	110
Trade	2	7	17	10	-12	6
Real property	-15	4	10	21	-5	-52
Other corporate lending	-16	-15	5	8	36	-5
Total corporate lending	36	12	7	159	99	59
Retail clients	24	-6	-20	-14	-15	-7
Individual impairments	60	6	-13	145	84	52
Collective impairments	41	49	57	-107	-41	-19
Total impairments	101	55	44	38	43	33

Agriculture – impairment ratio of 22.5% at the end of Q3 2016

Key points:

- Loans in Q3 2016 at same level as at end-2015
- Impaired bank loans have increased by DKK 309m, equal to 5.1 percentage points of bank loans
- 22.5% impairment of bank loans at the end of Q3 2016 vs 21.7% at the end of Q2 2015 and 21,2% at year-end 2015.



30 September 2016

DKKm	Pig farming	Cattle farming	Crop production	Other agriculture	Total
Bank loans	1,790	1,765	1,331	1,140	6,026
Individual impairment charges	381	668	74	111	1,234
Collective impairment charges	-	120			120
Loans after impairment charges	1,409	977	1,257	1,029	4,672
Impaired bank loans	747	1,037	207	219	2,210
Impaired as % of bank loans	41.7	58.8	15.6	19.2	36.7
Impairment as % impaired loans	51.0	64.4	35.7	50.7	55.8
Impairment as % bank loans	21.3	44.6	5.6	9.7	22.5

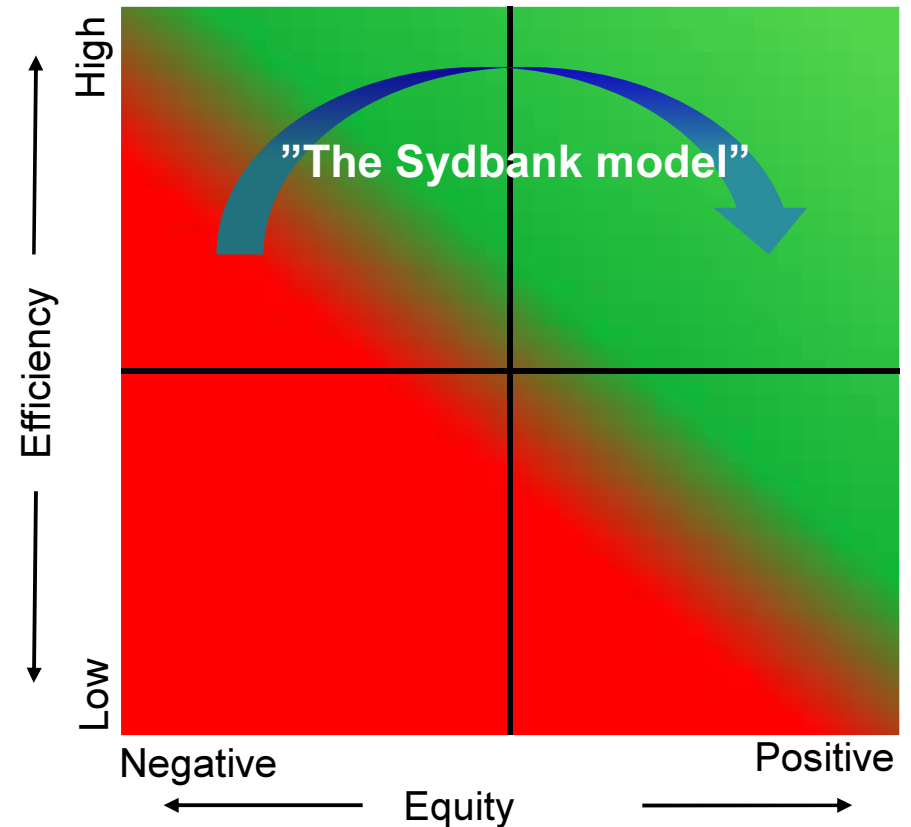
31 December 2015

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 – "The Sydbank model"

Under the "Sydbank model" the farmer's total capital – equity + subordinated loan capital – positive.

The solution is exclusively offered to farmers with high efficiency and negative equity.



Agriculture – debt conversion in 2H 2016 – status

During the second half of 2016 the selected agricultural clients will be offered to option to convert part of their bank debt into subordinated loan capital.

Status:

The model was released in August 2016

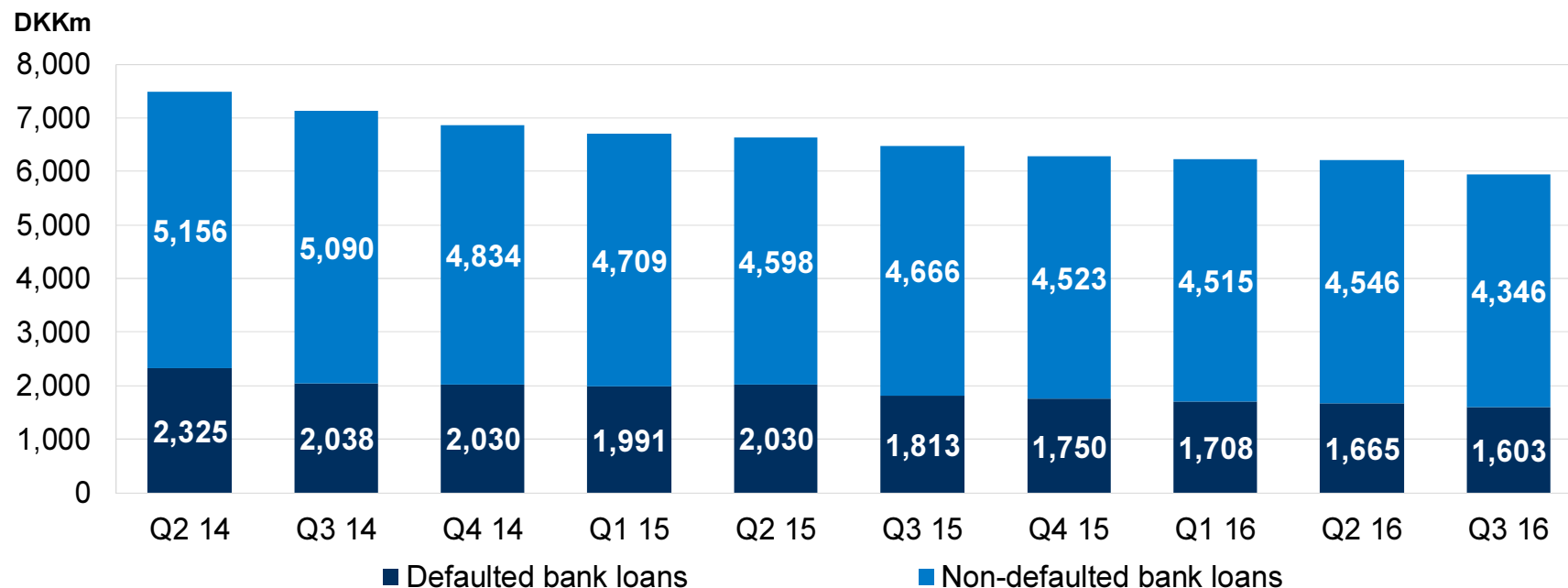
The legal documents were completed at end-September 2016 and the first clients were contacted. No agreements had been signed

The first agreements were signed in October 2016

It is expected that agreements as regards the bulk of the selected exposures will have been signed before the end of Q4 2016.



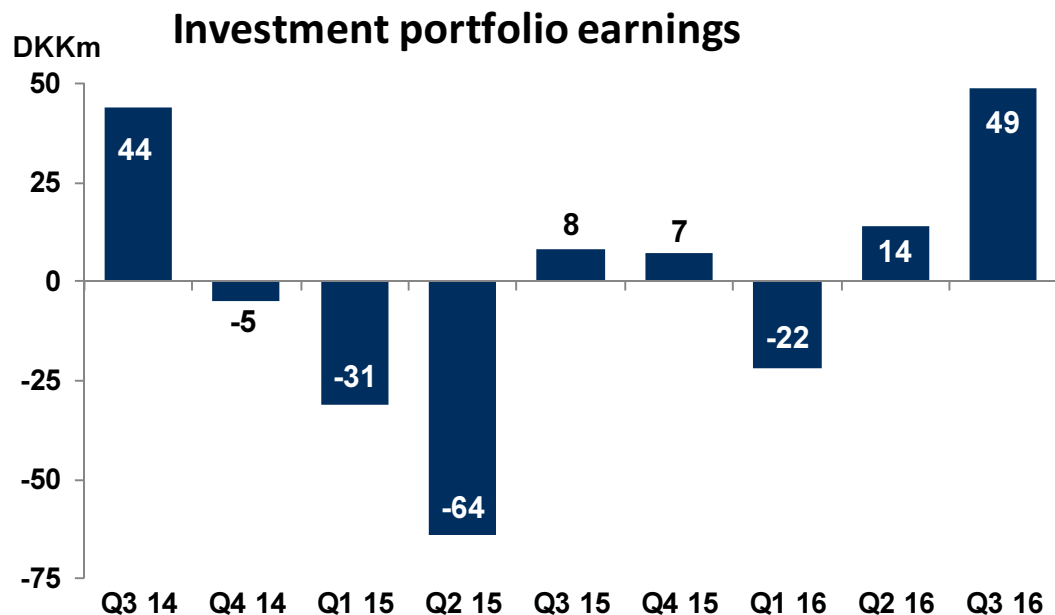
Impaired bank loans – down for tenth consecutive quarter



Individually impaired bank loans

DKKm	30 Sep 2015	31 Dec 2015	30 Sep 2016
Non-defaulted bank loans	4,666	4,523	4,346
Defaulted bank loans	1,813	1,750	1,603
Impaired bank loans	6,479	6,273	5,949
Impairment charges for bank loans subject to individual impairment	3,687	3,569	3,490
Impaired bank loans after impairment charges	2,792	2,704	2,459
Impaired bank loans as % of bank loans before impairment charges	8.5	8.0	7.3
Impairment charges as % of bank loans before impairment charges	4.8	4.6	4.3
Impairment as % of impaired bank loans	56.9	56.9	58.7
Impairment as % of defaulted bank loans	203.4	203.9	217.7

Investment portfolio earnings – the best since Q1 2014



Investment portfolio earnings is the best quarterly result since Q1 2014 bringing 9M performance to a satisfactory level.

Investment portfolio earnings

DKKm	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16
Position-taking	-69	5	17	-26	-5	40
Liquidity generation and reserves	7	2	-8	11	18	4
Strategic positions	0	2	0	-5	3	6
Costs	-2	-1	-2	-2	-2	-1
Total	-64	8	7	-22	14	49

Income statement – decline in costs and impairment charges

DKKm	9M 2016	9M 2015	Index	Q3 2016	Q2 2016	Index
Core income	3,131	3,289	95	1,030	1,051	98
Trading income	188	167	113	65	69	94
Total income	3,319	3,456	96	1,095	1,120	98
Costs, core earnings	1,958	2,009	97	612	665	92
Core earnings before impairment	1,361	1,447	94	483	455	106
Impairment of loans and advances etc	114	272	42	33	43	77
Core earnings	1,247	1,175	106	450	412	109
Investment portfolio earnings	41	-87	-	49	14	-
Profit before non-recurring items	1,288	1,088	118	499	426	117
Non-recurring items, net	21	-	-	-5	26	-
Profit before tax	1,309	1,088	120	494	452	109
Tax	281	256	110	109	92	118
Profit for the period	1,028	832	124	385	360	107
Costs (core earnings) / total income, C/I	0.59	0.58		0.56	0.59	
Return on equity, ROE	9.0	7.4		3.4	3.3	
Earnings per share, EPS	14.6	11.4		5.5	5.1	

Key points 9M 16 vs 9M 15:

- Core income down by 5%
- Costs (core earnings) down by 3% despite purchase of SFM
- Impairment charges down by 58% from 31bps to 12bps
- Core earnings up by 6%.

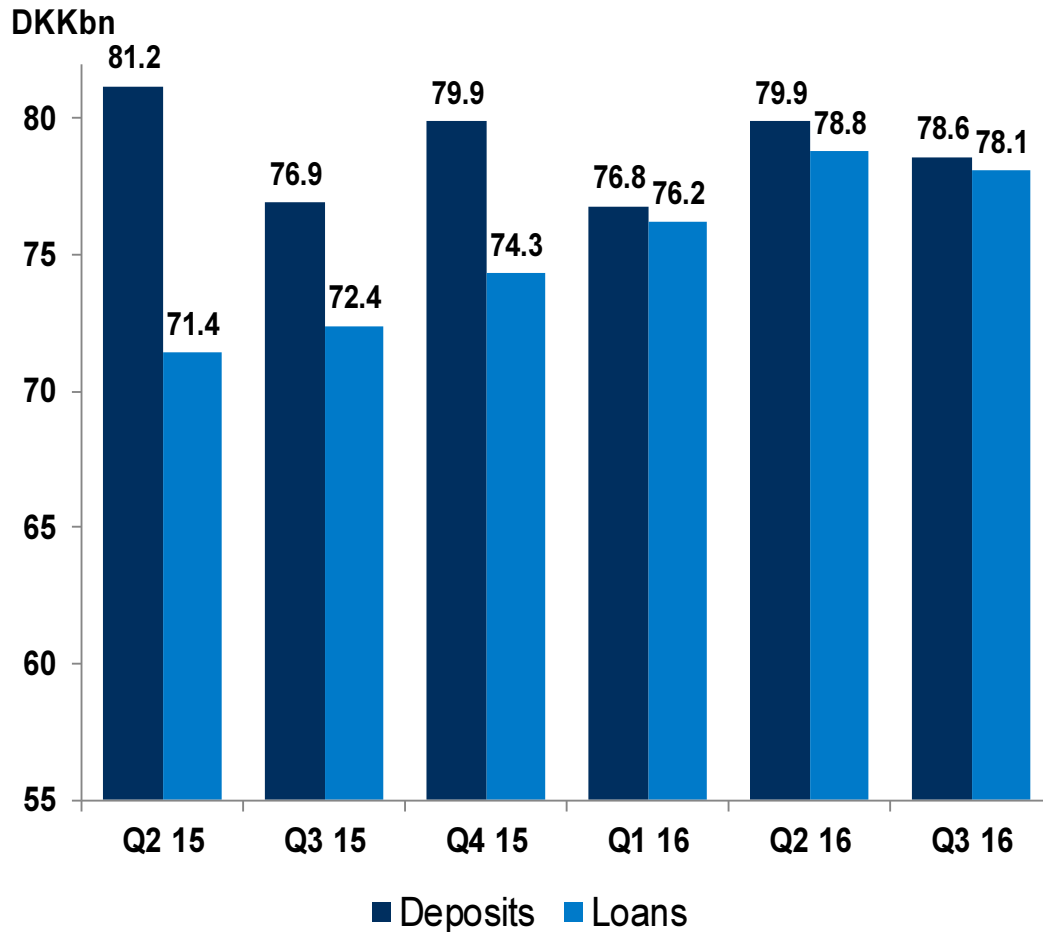
Key points Q3 16 vs Q2 16:

- Core income down by 2%
- Total income down by 2%
- Costs (core earnings) down by 8%
- Impairment charges down by 23%, lowest since Q2 2008.

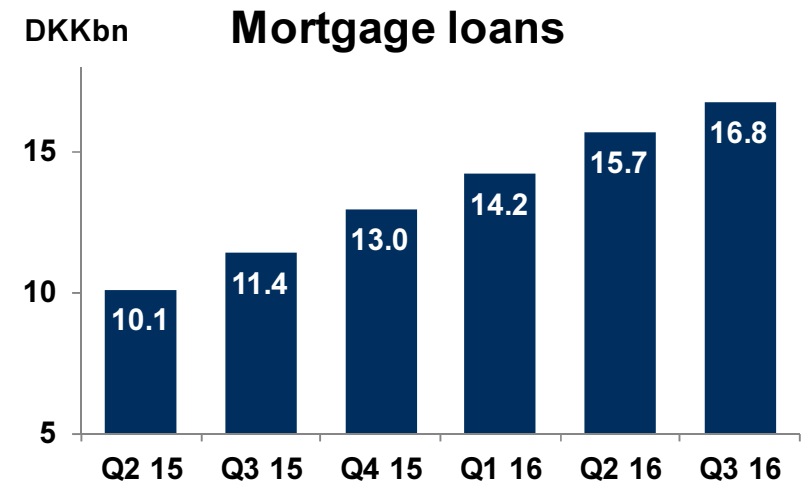
Non-recurring items:

- Adjustment of DKK 31m concerning adjustment of the purchase sum from the sale of shares in Nets
- Costs of DKK 10m related to "Blue growth" projects.

Q3 2016: Bank loans down by 0.7bn – first drop since Q4 2013



- Loans and advances are down by DKK 0.7bn in Q3 2016 – following rises for 10 consecutive quarters.
- Rise in mortgage loans accounts for DKK 1.1bn in Q3 2016.
- Decrease in deposits represents DKK 1.3bn in Q3 2016.



Slight improvement in capital ratios in Q3 2016 – as a result of the net effect of income and the increase in risk exposure amount

DKKm	Q4 2014	Q4 2015	Q2 2016	Q3 2016
Credit risk	49,417	44,931	44,208	44,550
Market risk	8,003	8,876	7,447	8,213
Operational risk	8,575	8,173	8,173	8,173
Other exposures incl CVA	6,472	5,975	5,890	5,738
Risk exposure amount	72,467	67,955	65,718	66,674
CET1	10,101	9,852	9,755	9,966
Tier 1	11,209	10,825	10,586	10,799
Total capital	11,596	11,984	11,799	12,014
CET1 ratio	13.9	14.5	14.8	14.9
Tier 1 ratio	15.5	15.9	16.1	16.2
Capital ratio	16.0	17.6	18.0	18.0
Individual solvency need	10.4	9.7	10.0	10.0

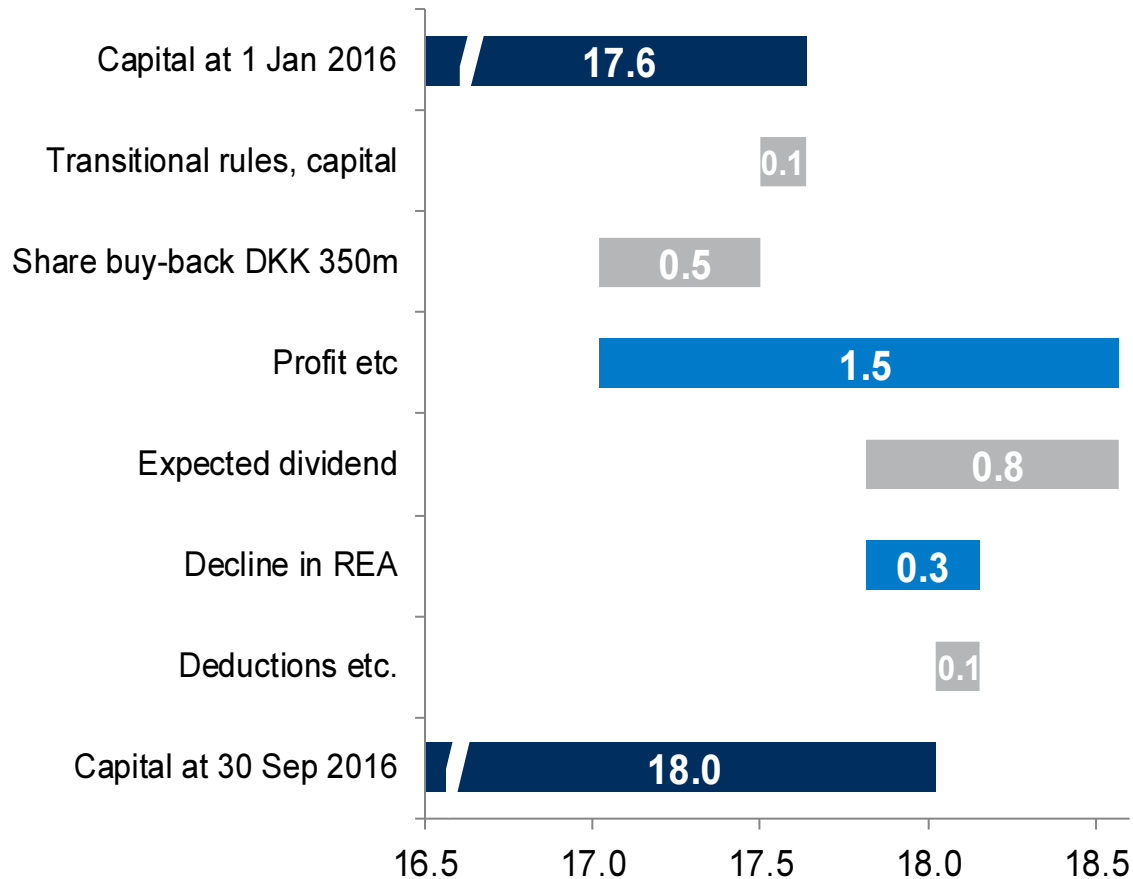
Key points Q3 2016:

- Rise in RWA can be ascribed to credit risk as well as market risk.
- CET1 ratio is up by 0.1 in Q2 2016.

Key points 9M 2016:

- The implemented share buyback programme of DKK 350m has reduced capital ratios by 0.5
- Decline in risk-weighted assets – mainly due to credit risk and market risk.

Capital ratio development from end-Q4 2014 to end-Q3 2016



Key points:

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

Advanced IRB approaches – in future also as regards corporate clients

Today Sydbank applies its own IRB approaches:

- Retail clients – advanced IRB approach
- Corporate clients – foundation IRB approach

It has been decided to implement a project for the purpose of gaining approval to apply the advanced IRB approach also as regards corporate clients.

The objective is to gain approval in 2019.

Analysts, model developers etc will be hired in the course of the second half of 2016.



Status – targets

Target	Objective	Status 30 September 2016	Comment
Return on shareholders' equity after tax	Over 12%*	12.0%	Progressing as planned
Customer satisfaction - Corporate	Top 3 **	3rd - Aalund	Met in 2016
Customer satisfaction - Retail	Top 3 **	5th - EPSI	Not met in 2016
Common Equity Tier 1 capital ratio	Around 13.5%	14.9%	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.