



Sydbank

2016 Annual Report

A highly satisfactory result – decline in costs and high credit quality

1 March 2017

Sydbank

Highlights for 2016

Key points

Decline in costs and high credit quality ensure highly satisfactory result

Profit

Profit of DKK 1,472m – ROE of 13.1% p.a. after tax

Core income

Core income of DKK 4,198m – drop of 3% compared with 2015

Income

Income of DKK 4,435m – drop of 2% compared with 2015

Costs

Reduced by 3% compared with 2015

Impairment charges

Impairment charges of DKK 87m – reduced by 72% compared with 2015

Bank loans

DKK 2.9bn rise in bank loans and advances, equal to 3.9% in 2016

Capital

CET1 ratio of 16.1% – increase of 1.6 percentage points compared with Q4 2015

Distribution

Total distribution of DKK 1,400m, including new share buyback of DKK 664m in 2017

Core income – improved by DKK 34m in Q4 – of which performance-related income of DKK 23m

DKKm	12M 2016	12M 2015	Index	Q4 2016	Q3 2016	Index
Net interest income etc	2,323	2,404	97	574	576	100
Mortgage credit*	400	376	106	108	99	109
Payment services	199	207	96	50	53	94
Remortgaging and loan fees	70	159	44	3	16	19
Commission and brokerage	354	407	87	93	81	115
Commission etc investment funds and pooled pension plans	381	341	112	95	99	96
Asset management	220	183	120	77	48	160
Custody fees	71	75	95	18	17	106
Other income	180	177	102	49	41	120
Total	4,198	4,329	97	1,067	1,030	104
* Set-off of loss Totalkredit	23	32	72	7	6	117

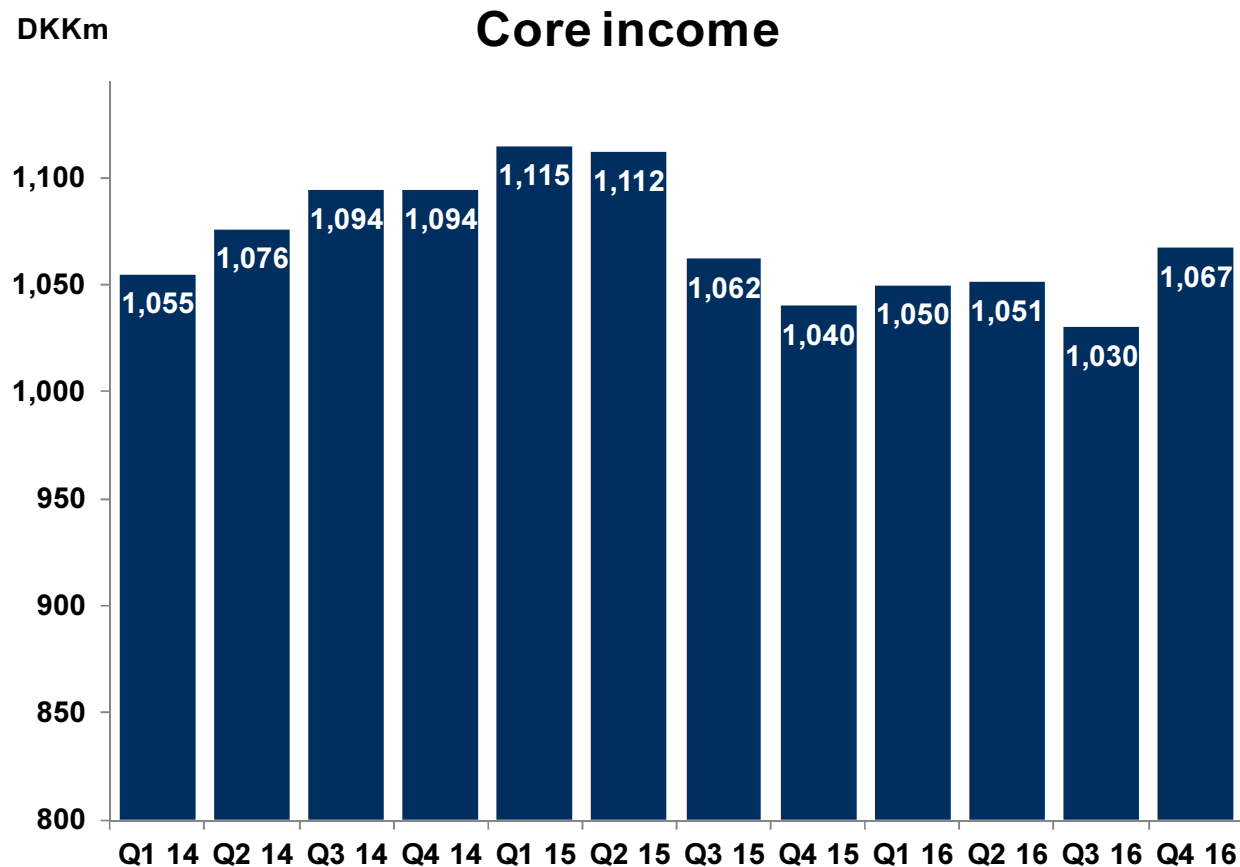
Key points 12M 16 vs 12M 15:

- Net interest income down by 3%
- Remortgaging and loan fees down by 56%
- Commission and brokerage down by 13%
- Asset management up by 20% in part attributable to performance-related income
- Other items overall up by 5%.

Key points Q4 16 vs Q3 16:

- Net interest income at index 100
- Remortgaging and loan fees down by 81% from a low level
- Asset management up by 60% in part attributable to performance-related income
- Other items overall up by 6%.

Core income has been relatively stable in recent quarters



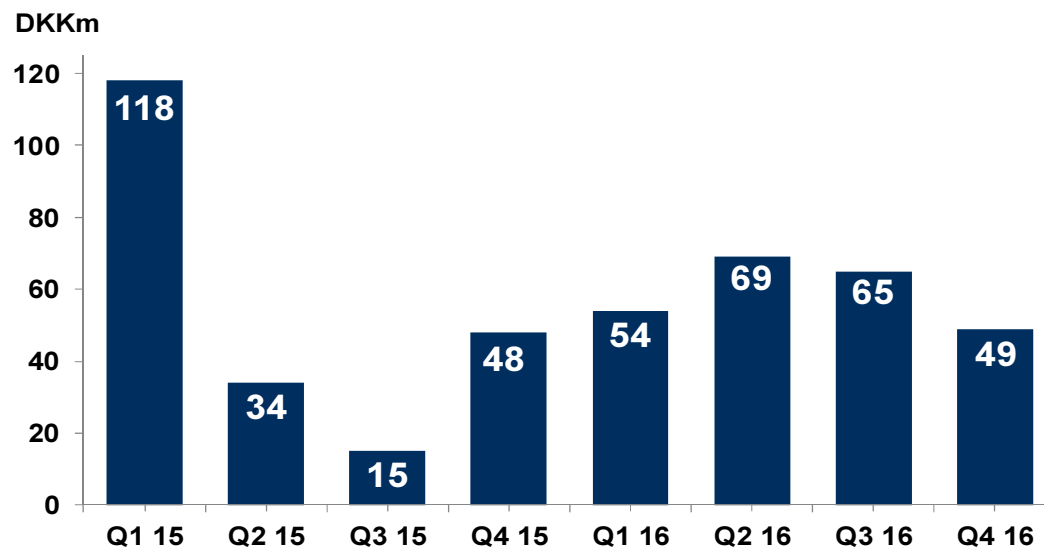
The core income level decreased as a result of the negative interest rate environment.

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

Trading income – satisfactory in 2016

Key points:

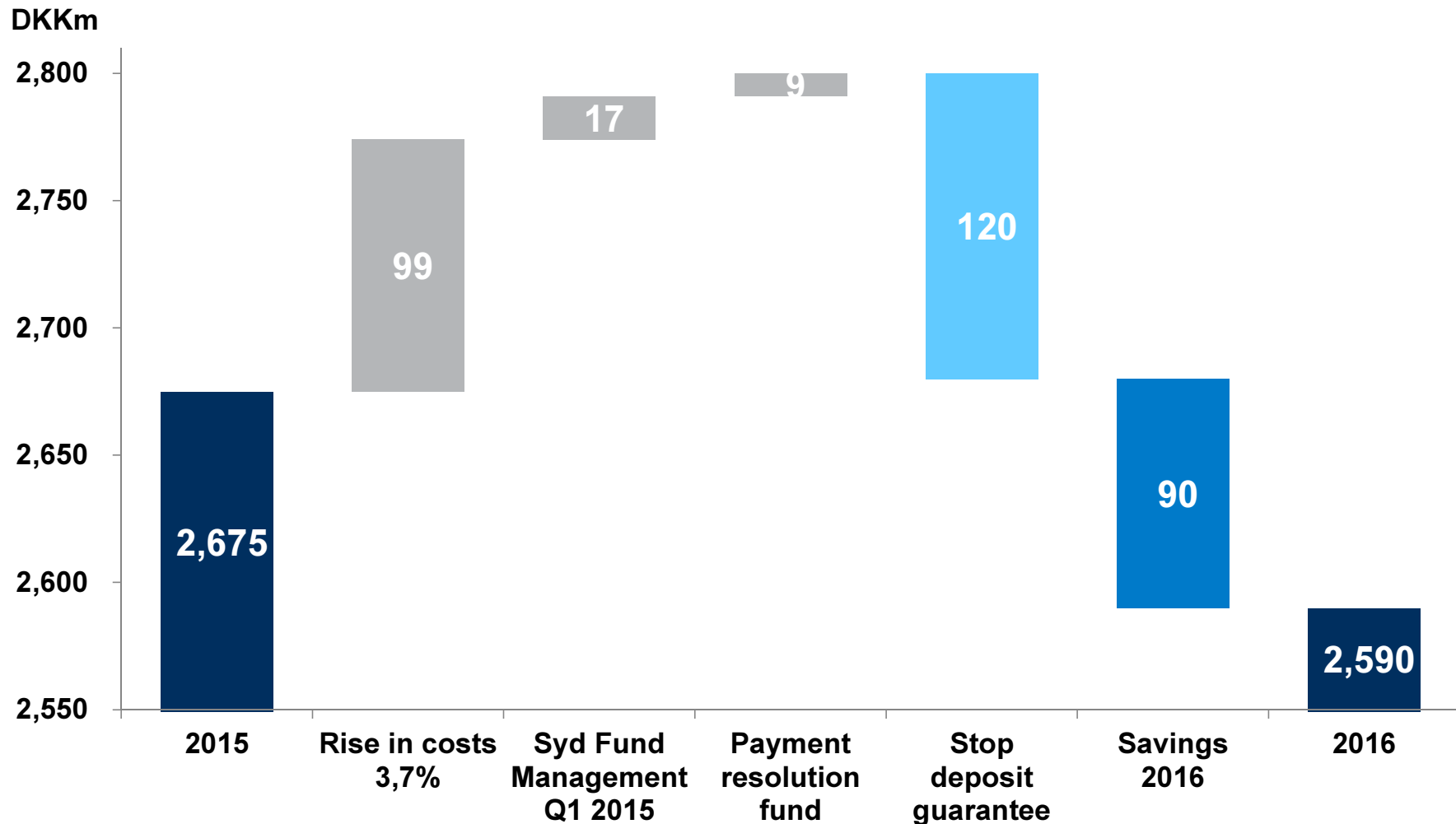
- DKK 49m recorded in Q4 2016 vs DKK 65m in Q3 2016
- DKK 237m recorded in 2016 up by 10% compared with 2015
- Level of activity has been satisfactory in Q4 2016 as well as for the whole of 2016.



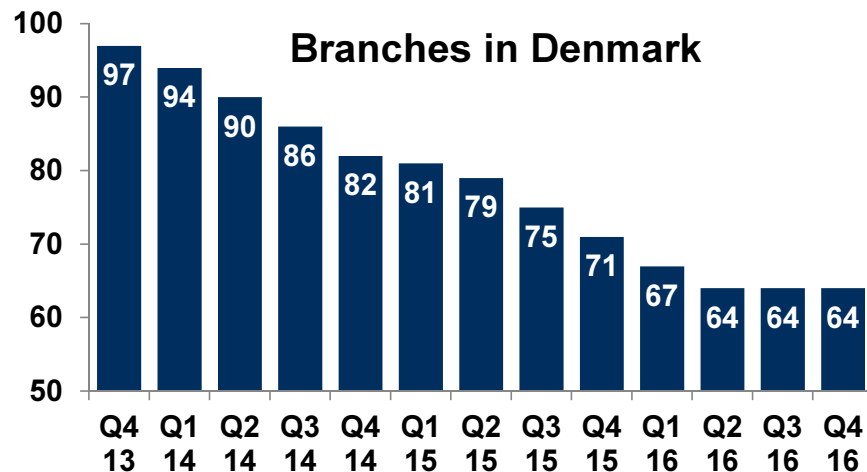
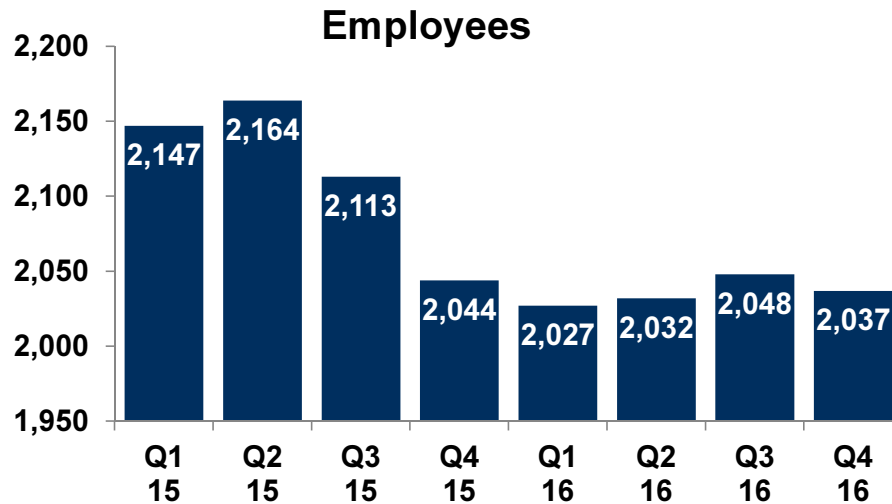
Trading income

DKKm	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Fixed Income	64	1	-4	13	26	39	45	25
Equities	32	18	8	25	20	19	14	12
Money Market and Foreign Exchange	22	15	11	10	8	11	6	12
Total	118	34	15	48	54	69	65	49

Costs (core earnings) – down by DKK 90m vs 2015



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



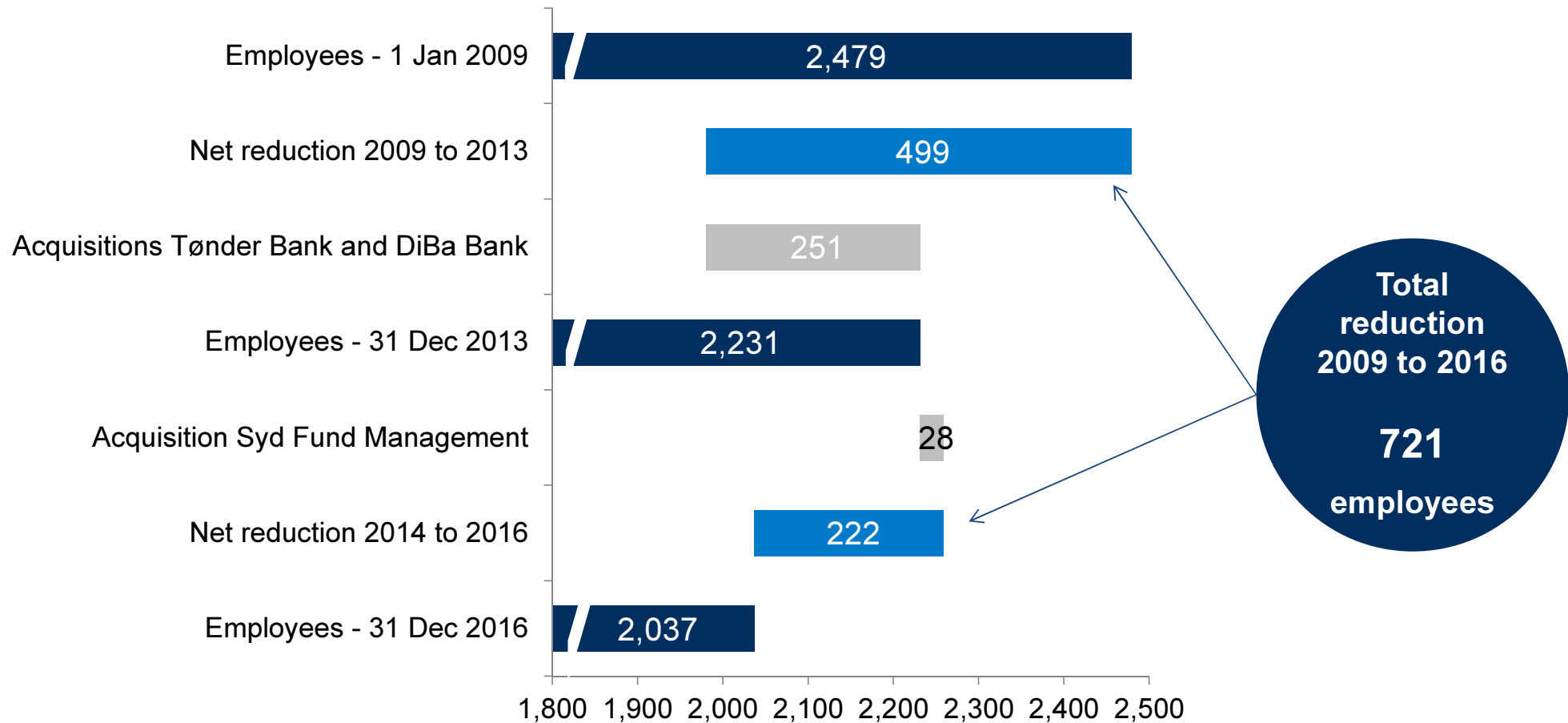
Initiatives in 2016:

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

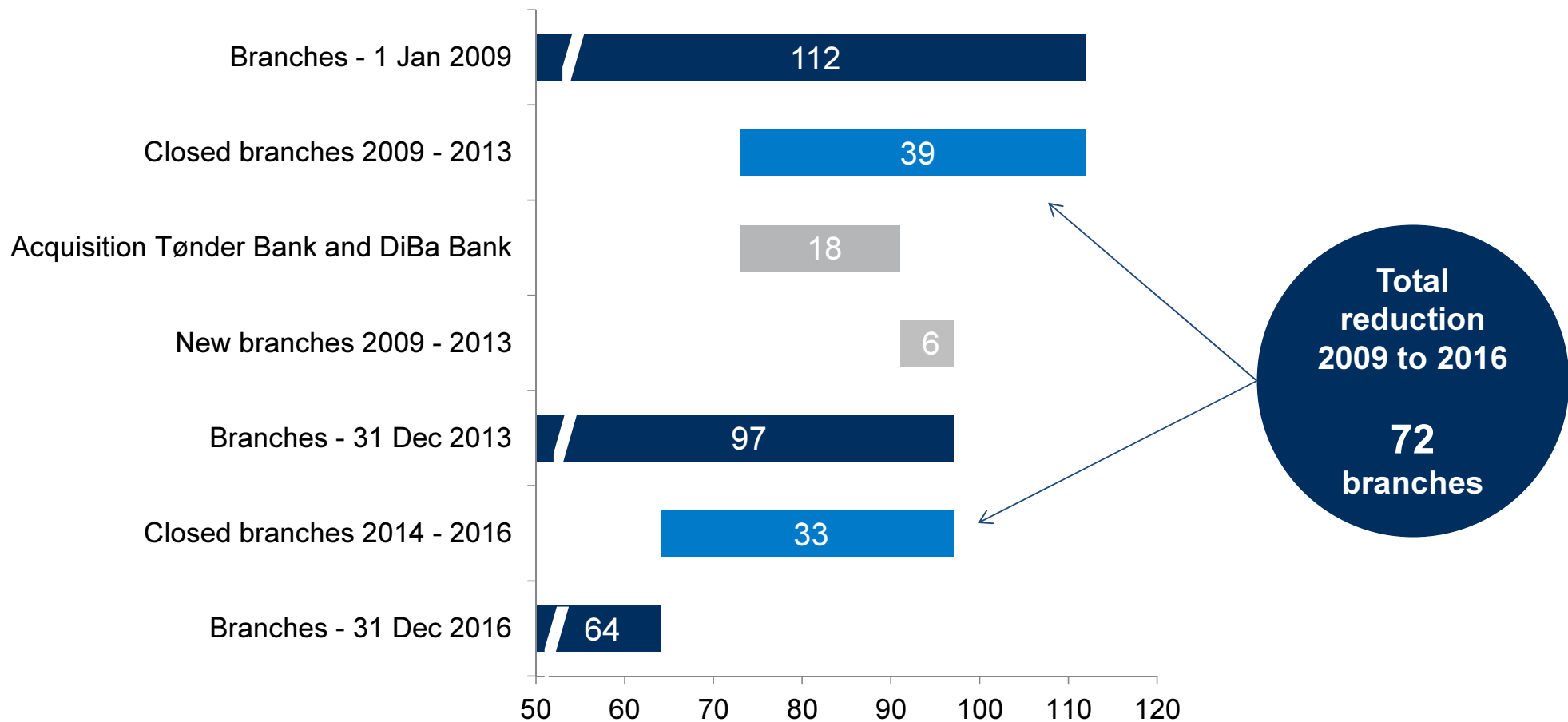
Blue growth 2016-2018 – implemented projects:

- 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 the long term.

Employees – total reduction of 721 since the beginning of 2009

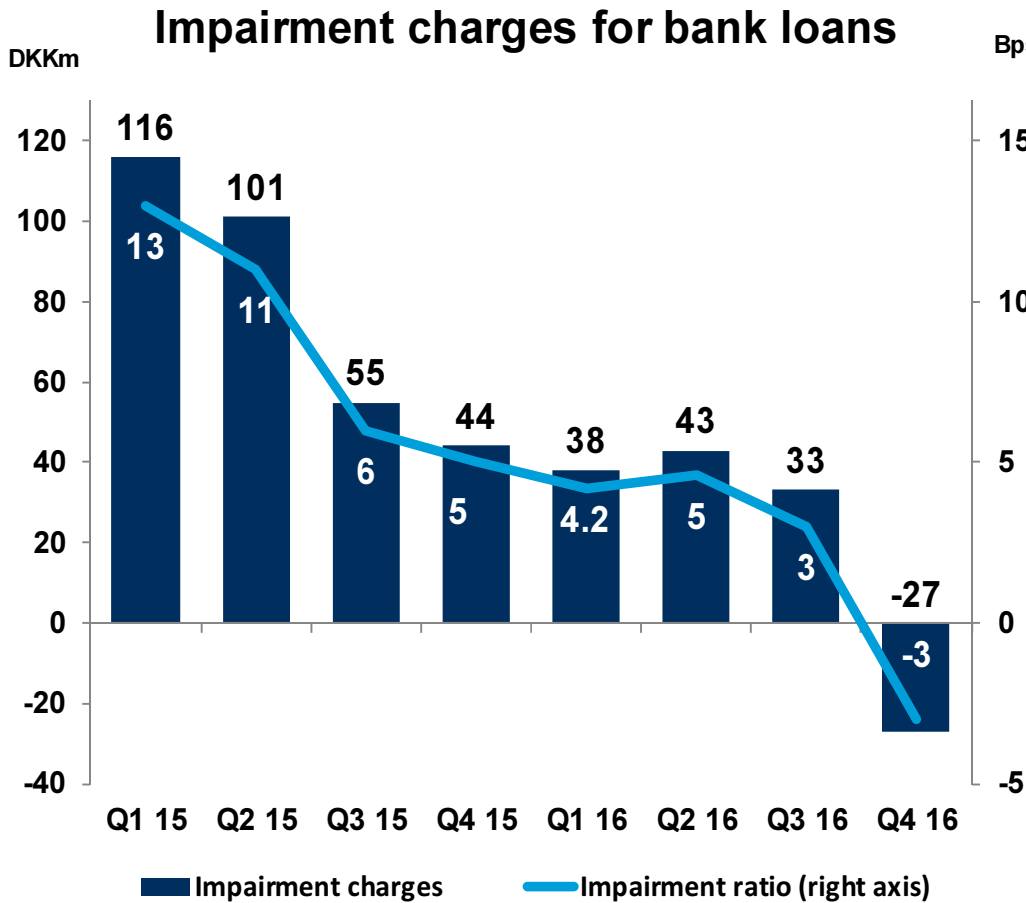


Number of branches – 72 amalgamated since the beginning of 2009



Clients choose other service forms. This has reduced the need for branches.

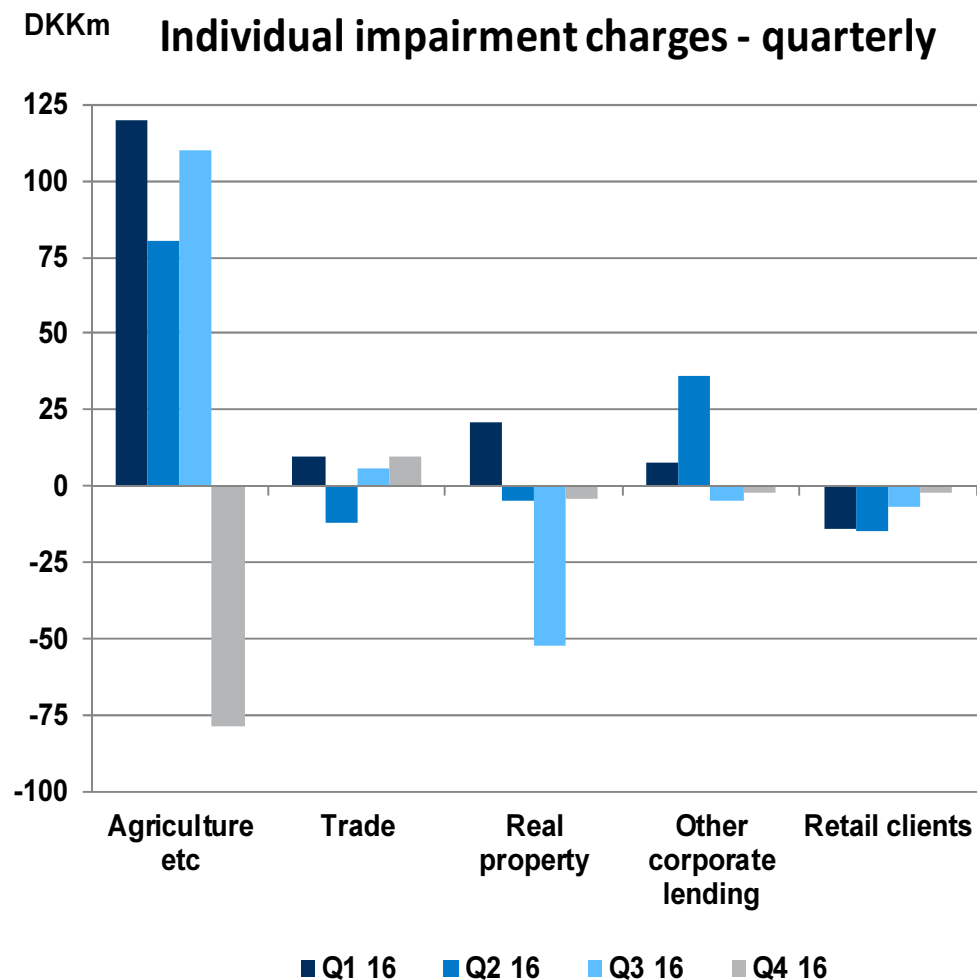
Impairment charges – reversal in Q4 2016 due to conversion of agricultural debt



Impairment charges represent:

- 9bps in 12M 16, down from 36bps in 12M 15
- -3bps in Q4 16 is the lowest level since Q3 2007.

Impairment charges in Q4 2016 – reversal concerns agriculture



Key points Q4 2016:

- Individual impairment charges for agricultural exposures represent a reversal of DKK 79m as a consequence of the conversion of bank loans and advances to subordinated loan capital and subsequent write-off for accounting purposes.
- Collective impairment charges regarding agricultural exposures represent DKK 150m at end-Q4 2016.

Key points 12M 2016:

- Total impairment charges as regards agriculture constitute DKK 156m compared with total impairment charges of DKK 87m.

Quarterly impairment charges

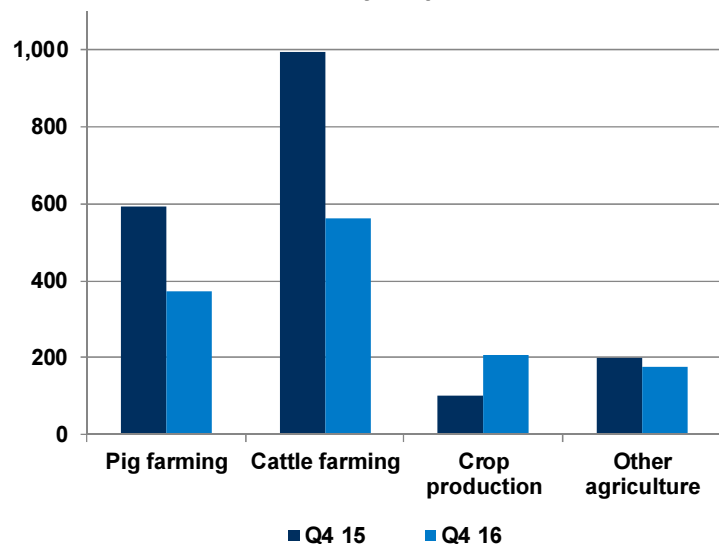
DKKm	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Agriculture etc	16	-25	120	80	110	-79
Trade	7	17	10	-12	6	10
Real property	4	10	21	-5	-52	-4
Other corporate lending	-15	5	8	36	-5	-2
Total corporate lending	12	7	159	99	59	-75
Retail clients	-6	-20	-14	-15	-7	-2
Individual impairments	6	-13	145	84	52	-77
Collective impairments	49	57	-107	-41	-19	50
Total impairments	55	44	38	43	33	-27

Agriculture – impairment ratio has dropped to 15.9% at year-end 2016 – as a result of the conversion activity with subsequent write-offs

Key points:

- In 2016 loans and advances dropped by DKK 774m from year-end 2015. DKK 498m concerns write-off of debt for accounting purposes.
- Impaired loans and advances fell by DKK 570m, equal to a drop of 9.6 percentage points of loans and advances.
- 15.9% of loans and advances impaired at end-Q4 2016 compared to 22.5% at end-Q3 2016 and 21.2% at year-end 2015.

DKKm Individually impaired loans



31 December 2016

DKKm	Pig farming	Cattle farming	Crop production	Other agriculture	Total
Bank loans	1,428	1,364	1,220	1,126	5,138
Individual impairment charges	167	321	83	95	666
Collective impairment charges	25	100		25	150
Loans after impairment charges	1,236	943	1,137	1,006	4,322
Impaired bank loans	374	561	209	177	1,321
Impaired as % of bank loans	26.2	41.1	17.1	15.7	25.7
Impairment as % impaired loans	44.7	57.2	39.7	53.7	50.4
Impairment as % bank loans	13.4	30.9	6.8	10.7	15.9

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 – status of debt conversion under "The Sydbank model"

At year-end 2016 48 efficient and indebted agricultural exposures have converted bank loans and advances of DKK 498m to subordinated loan capital.

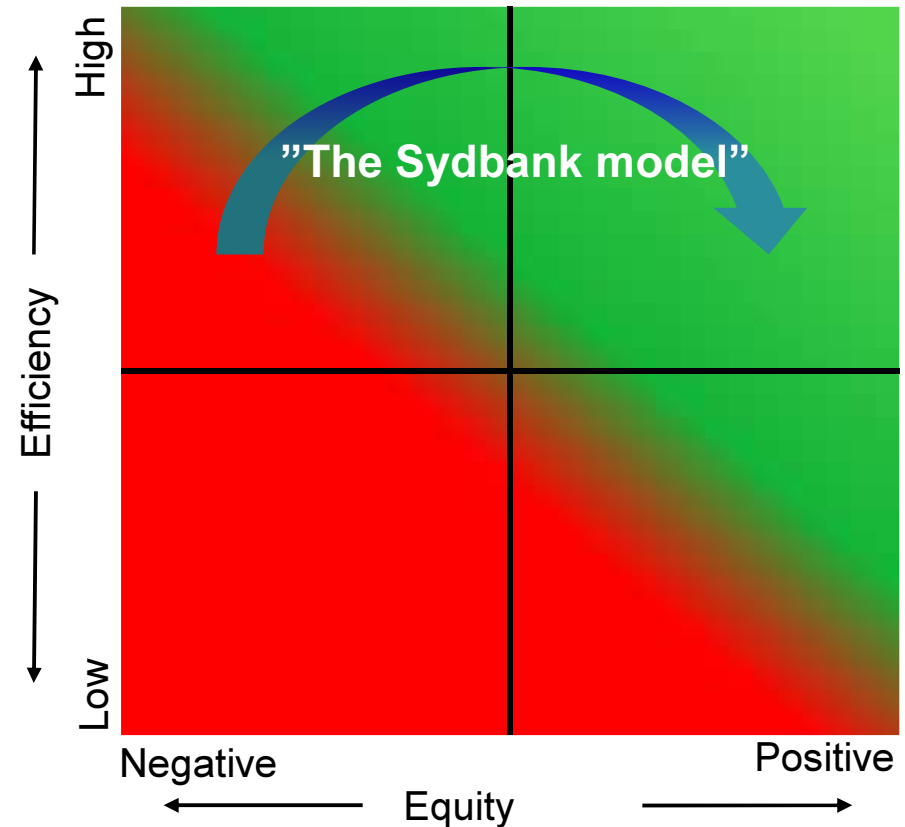
The loan capital may be redeemed by the farmer after 5 years at a fixed discount and is interest-free during the period.

The subordinated loan capital has been written off in the Bank's financial statements.

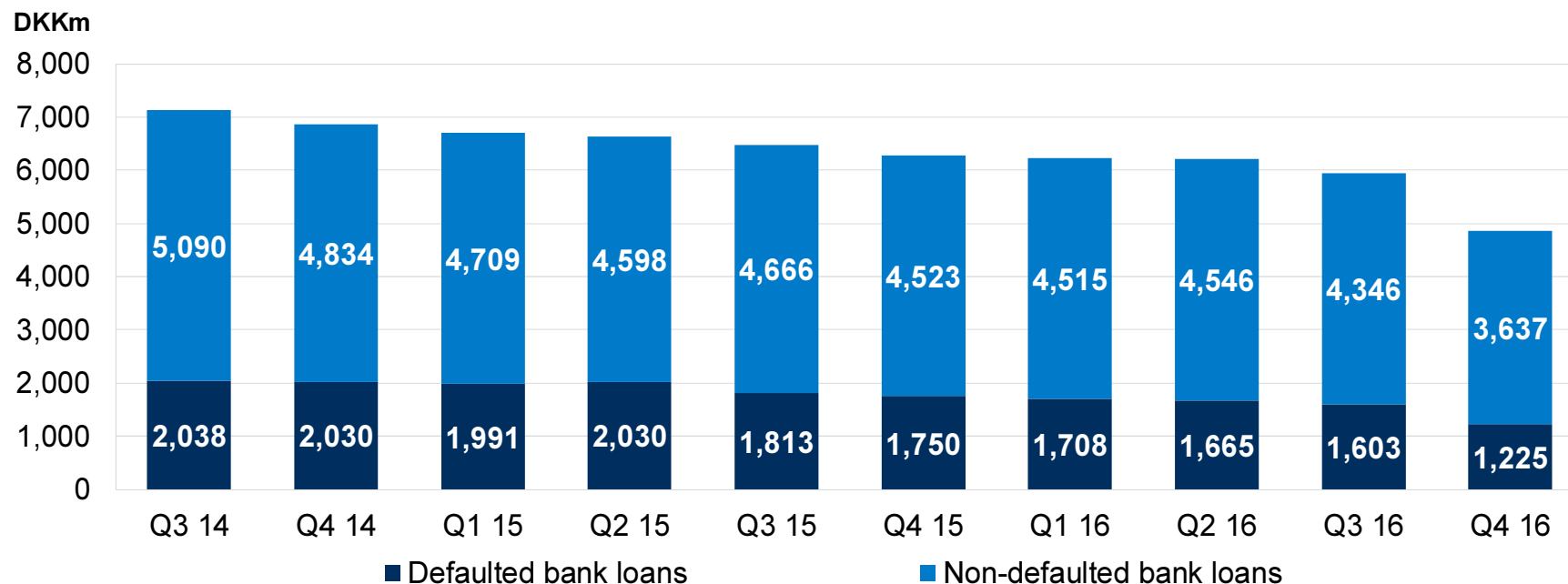
Under "the Sydbank model" the farmer's total capital – equity + subordinated capital – becomes positive.

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

It is expected that the last agreements will be signed in Q1 2017.



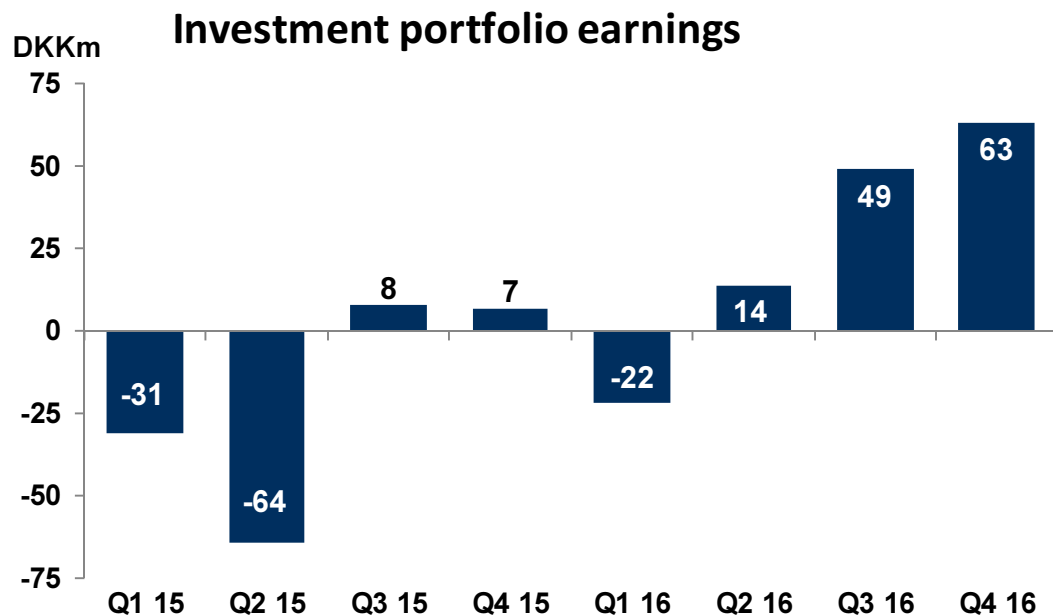
Impaired bank loans – down for eleventh consecutive quarter



Individually impaired bank loans

DKKm	31 Dec 2014	31 Dec 2015	31 Dec 2016
Non-defaulted bank loans	4,834	4,523	3,637
Defaulted bank loans	2,030	1,750	1,225
Impaired bank loans	6,864	6,273	4,862
Impairment charges for bank loans subject to individual impairment	3,996	3,569	2,778
Impaired bank loans after impairment charges	2,868	2,704	2,084
Impaired bank loans as % of bank loans before impairment charges	9.4	8.0	6.1
Impairment charges as % of bank loans before impairment charges	5.5	4.6	3.5
Impairment as % of impaired bank loans	58.2	56.9	57.1
Impairment as % of defaulted bank loans	196.8	203.9	226.8

Investment portfolio earnings – satisfactory result for 2016



Investment portfolio earnings of DKK 63m in Q4 2016 brings result for 2016 to a satisfactory level.

Investment portfolio earnings for 2016 represents DKK 104m compared with negative earnings for 2015 of DKK 80m.

Investment portfolio earnings

DKKm	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Position-taking	5	17	-26	-5	40	91
Liquidity generation and reserves	2	-8	11	18	4	-24
Strategic positions	2	0	-5	3	6	-2
Costs	-1	-2	-2	-2	-1	-2
Total	8	7	-22	14	49	63

Income statement – highly satisfactory profit for 2016 – ROE 13.1%

DKKm	12M 2016	12M 2015	Index	Q4 2016	Q3 2016	Index
Core income	4,198	4,329	97	1,067	1,030	104
Trading income	237	215	110	49	65	75
Total income	4,435	4,544	98	1,116	1,095	102
Costs, core earnings	2,590	2,675	97	632	612	103
Core earnings before impairment	1,845	1,869	99	484	483	100
Impairment of loans and advances etc	87	316	28	-27	33	-
Core earnings	1,758	1,553	113	511	450	114
Investment portfolio earnings	104	-80	-	63	49	129
Profit before non-recurring items	1,862	1,473	126	574	499	115
Non-recurring items, net	7	-	-	-14	-5	-
Profit before tax	1,869	1,473	127	560	494	113
Tax	397	325	122	116	109	106
Profit for the period	1,472	1,148	128	444	385	115
Costs (core earnings) / total income, C/I	0.58	0.59		0.57	0.56	
Return on equity, ROE full-year basis	13.1	10.2		15.4	13.7	
Earnings per share, EPS	20.9	15.8		6.4	5.5	

Key points 12M 16 vs 12M 15:

- Core income down by 3%
- Costs (core earnings) down by 3%
- Impairment charges down by 72% from 36bps to 9bps
- Core earnings up by 13%.

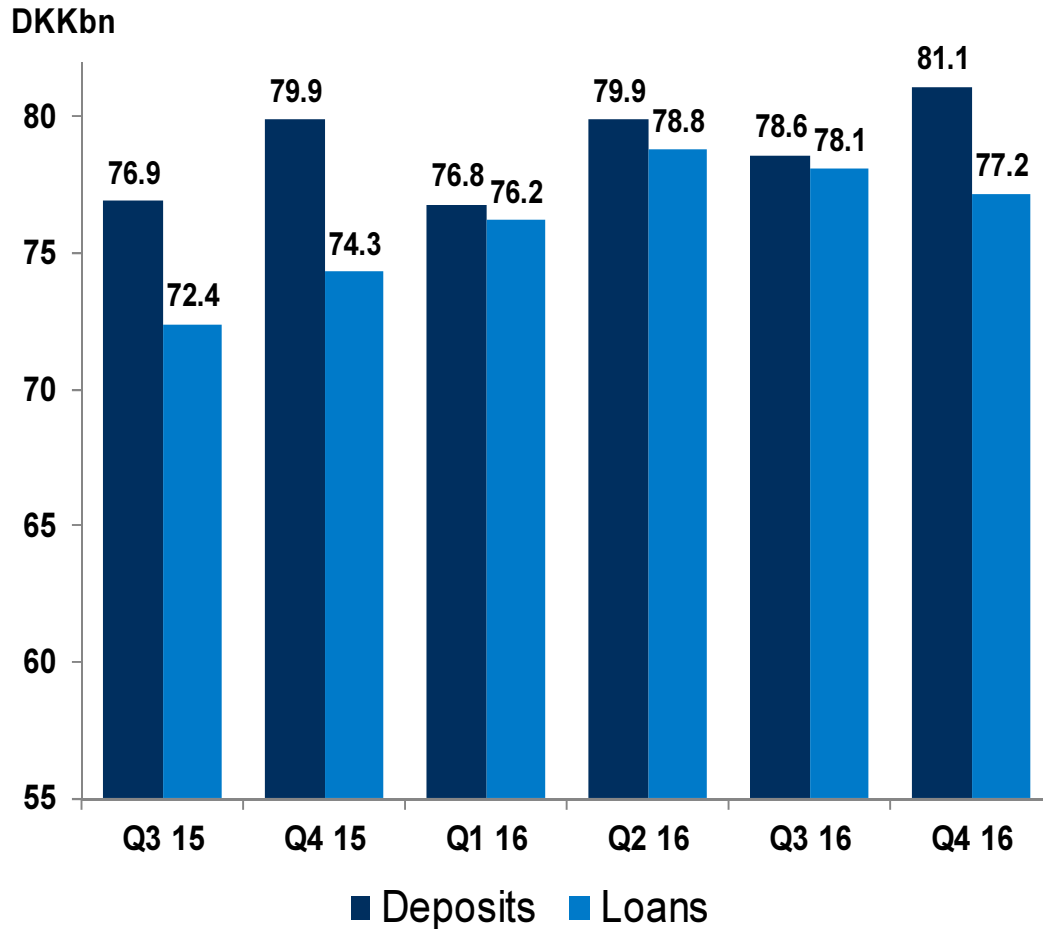
Key points Q4 16 vs Q3 16:

- Core income up by 4%
- Total income up by 2%
- Costs (core earnings) up by 3%
- Impairment charges – reversal of DKK 27m.

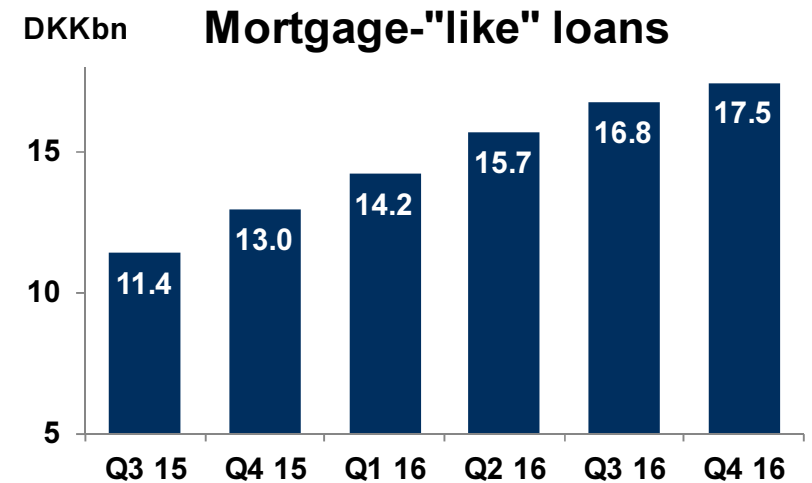
Non-recurring items:

- Adjustment of DKK 31m concerning adjustment of the purchase sum from the sale of shares in Nets
- Costs of DKK 24m related to "Blue growth" projects.

Q4 2016: Bank loans down by DKK 0.9bn – 2016: Bank loans up by DKK 2.9m



- Loans and advances are down by DKK 0.9bn in Q4 2016 – rise of DKK 2.9bn in 2016, equal to 3.9%.
- Rise in mortgage-like loans accounts for DKK 0.7bn in Q4 2016 – increase of DKK 4.5bn in 2016.
- Deposits went up by DKK 2.5bn i Q4 2016 – increase of DKK 1.2bn in 2016.



Change of joint funding agreement results in decrease in loans in Q1 2017

- The Bank's agreement on joint funding with Totalkredit was changed effective as of 1 January 2017.
- The agreement was changed from an offsetting model according to which the Bank covers losses as regards the entire loan to a guarantee model according to which the Bank provides a guarantee for the part of the loan in the LTV interval 60-80%.
- The Bank no longer has a credit risk as regards the part of the loan in the LTV range of 0-60%.
- As a consequence of the amendment of the agreement, funded bank loans and advances will not be recognised in the Bank's balance sheet in future.
- Funded mortgage loans amount to DKK 5.3bn at 31 December 2016.
- Had the agreement been effective as of 31 December 2016, bank loans and advances would have been recognised at DKK 5.3bn less and the Bank would instead have provided a guarantee for DKK 1.2bn as regards the part of the loan in the LTV range of 60-80%.

Capital ratios improved significantly in Q4 2016 – as a result of the effect of income and the decrease in total risk exposure

DKKm	Q4 2014	Q4 2015	Q3 2016	Q4 2016
Credit risk	49,417	44,931	44,550	41,683
Market risk	8,003	8,876	8,213	8,075
Operational risk	8,575	8,173	8,173	8,025
Other exposures incl CVA	6,472	5,975	5,738	5,824
Risk exposure amount	72,467	67,955	66,674	63,607
CET1	10,101	9,852	9,966	10,213
Tier 1	11,209	10,825	10,799	11,044
Total capital	11,596	11,984	12,014	12,242
CET1 ratio	13.9	14.5	14.9	16.1
Tier 1 ratio	15.5	15.9	16.2	17.4
Capital ratio	16.0	17.6	18.0	19.2
Individual solvency need	10.4	9.7	10.0	10.2

Key points Q4 2016:

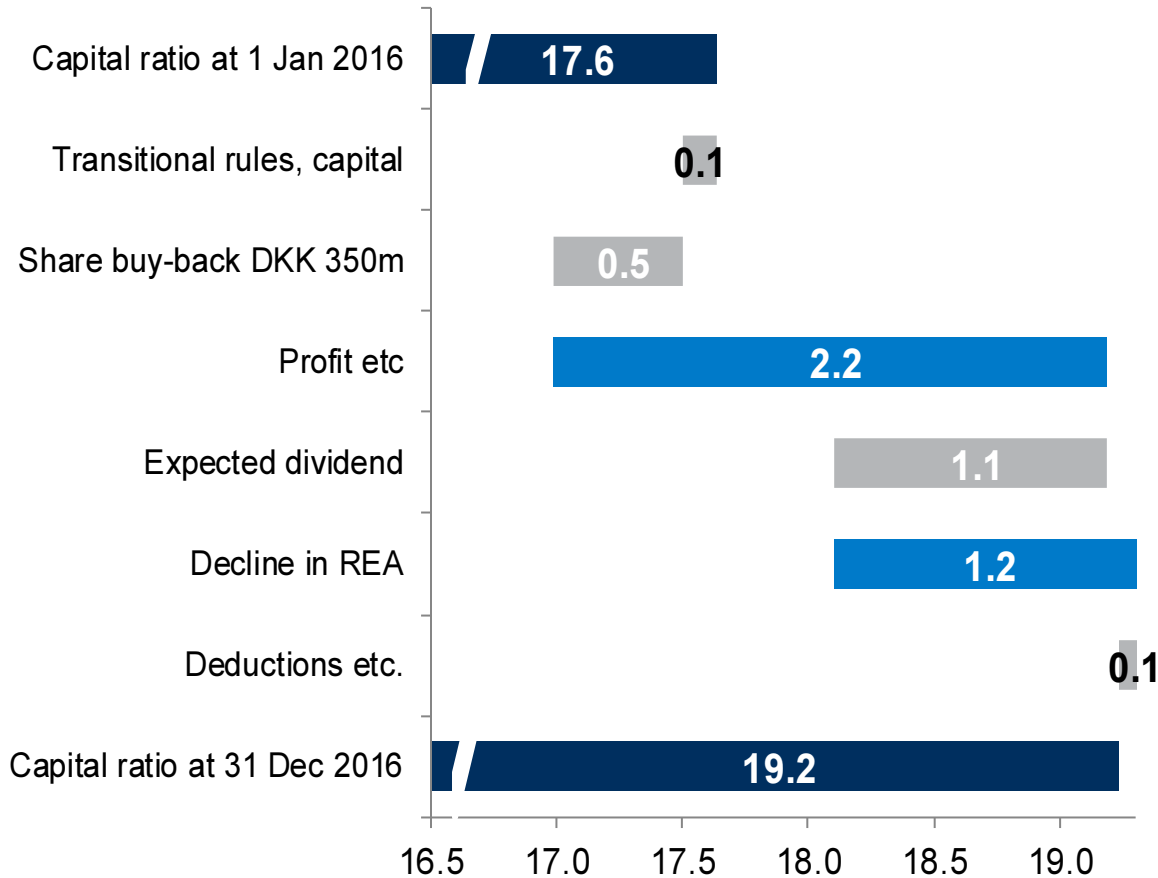
- The large decrease in risk-weighted exposures is mainly attributable to credit risk.
- CET1 ratio is up by 1.2 in Q4 2016.

Key points 12M 2016:

- The share buyback programme of DKK 350m implemented in 2016 has reduced capital ratios by 0.5
- Decline in risk-weighted assets – mainly due to credit risk and market risk.

DKKm	Q4 2014	Q4 2015	Q3 2016	Q4 2016
Corporate, IRB	36,384	32,241	32,065	30,306
Retail, IRB	9,355	9,583	9,676	9,200
Corporate, STD	1,274	767	657	605
Retail, STD	1,182	553	637	648
Credit institutions etc.	1,222	1,787	1,515	924
Credit risk total	49,417	44,931	44,550	41,683

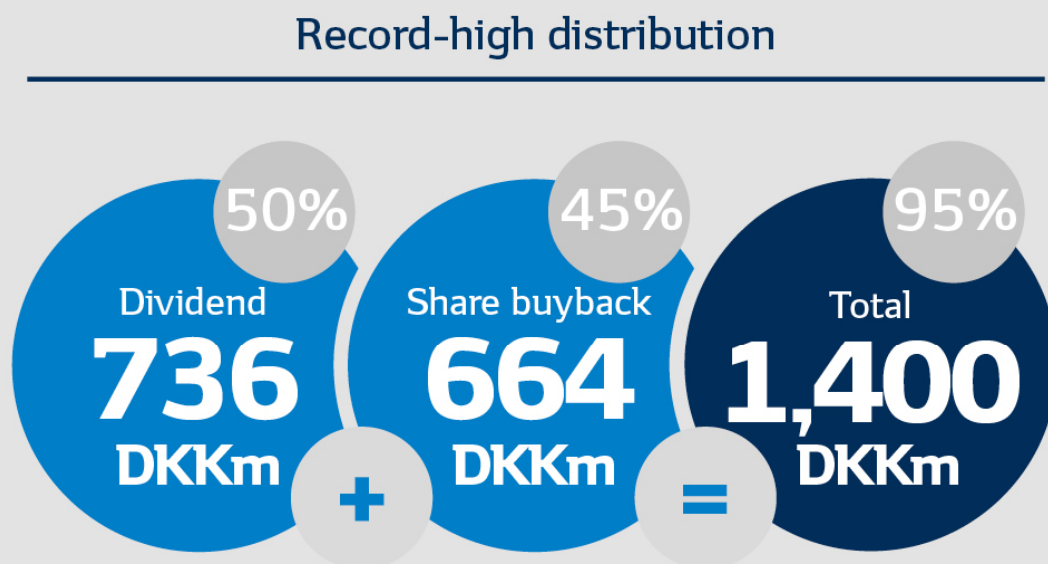
Capital ratio development in 2016



Key points:

- The share buyback programme of DKK 350m implemented in 2016 has reduced the capital ratio by 0.5 percentage points
- The decrease in risk exposure is attributable to credit risk and market risk.

Record-high distribution – based on the highly satisfactory result as well as solid capital resources – dividend of DKK 10.46 per share



Sydbank distributes 50% (DKK 10.46 per share) of profit for the year after tax.

Status – targets

Target	Objective	Status 31 December 2016	Comment
Return on shareholders' equity after tax	Over 12%*	13.1%	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%	16.1%	Met from Q3 2015
Capital ratio	Around 17.0%	19.2%	Met from Q1 2015
Dividend	30-50% of profit for the year after tax	50% of profit for the year after tax (proposed)	Met in 2016 (proposed dividend)

* or top 3 ranking among the 6 largest banks

** among the 6 largest banks

Outlook for 2017

- Based on the level of interest rates at the beginning of 2017, core income is expected to be on a par with the core income generated in 2016.
- Trading income is projected to remain unchanged relative to income in 2016 but is dependent on financial market developments.
- As a consequence of general pay rises for the financial sector and a payroll tax increase of 0.5%, costs (core earnings) are expected to rise slightly despite the measures implemented.
- Impairment charges for 2017 are forecast to be on a par with the impairment charges recorded for 2016. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.
- As a result of intensified digitization of the Bank as well as the establishment of a new mortgage platform non-recurring costs are expected to represent around DKK 75m.

Employee shares – new scheme in 2017 – based on "Blue growth" targets



Free shares – if/provided:

ROE > 12% or top 3 DKK 4,000

Customer satisfaction retail EPSI top 3 DKK 2,000

Customer satisfaction corporate Aalund top 3 DKK 2,000

Maximum allocation DKK 8,000

Questions

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.