Announcement of the 2013 Financial Statements

Company Announcement No 05/2014
19 February 2014

Karen Frøsig, CEO:

"In terms of performance, 2013 was a disappointing year due to the large extraordinary impairment charges in Q4. We have addressed them. With tightened procedures and a strengthened organisation we are positioned to improve earnings in 2014 and consequently apply the Bank's prudent cost base, substantial influx of clients and significant capital strength to create growth and value for the owners."

Highlights

- The Sydbank Group posted a profit after tax of DKK 187m in 2013. The result is unsatisfactory due to the previously announced extraordinary impairment charges for loans and advances in Q4 2013, resulting in a loss of DKK 282m for the quarter. The year's core income and costs are on a par with expectations.

- As a consequence of the extraordinary impairment charges in Q4 2013, the Group has implemented measures to improve governance in credit granting. The risk management function has been separated as an independent central unit with higher staffing, the central and decentralised credit organisation has been strengthened and a number of procedures and systems are being tightened.

- During the year the Group saw a substantial influx of new retail and corporate clients, the majority of whom concern DiBa Bank. Growth in the client portfolio is satisfactory in an otherwise competitive market and the portfolio of retail and corporate clients provides scope for growth in business volume.

- Based on the Group's good liquidity and high solvency, a capital policy has been adopted that better supports the Group's growth strategy and at the same time takes into account Sydbank's status as a SIFI as well as forthcoming regulations. The targets for the years ahead are a common equity Tier 1 capital ratio of 12% compared with 13.4% now as well as a solvency ratio of around 15% compared with 15.7% now.

- As from 2014 a new dividend policy will contribute to creating long-term shareholder value. The objective is to distribute 30-50% of the year's profit after tax while taking into account growth plans and capital policy. Distribution will be effected via dividends and/or via share buybacks.

- For 2014 the Group expects higher earnings as a result of lower impairment charges for loans and advances, a rise in core income, an increase in trading income and synergies from DiBa Bank.

Contacts

Media

A press meeting will be held on Wednesday 19 February 2014 at 9.30am at Sydbank's head office in Aabenraa. It is possible to attend the press meeting via video conference at Sydbank's regional head offices in Copenhagen and Aarhus.
To apply for press accreditation, please contact Mikkel Friis-Thomsen, Head of Corporate Communications, tel +45 29 12 36 64.

Karen Frøsig, CEO, will be available for interviews after the press meeting. Please contact Eva Sand, Group Executive Vice President, Communications, tel +45 61 63 55 07.

Analysts and investors

Karen Frøsig, CEO, via the Group Executive Management Secretariat, tel +45 74 37 20 01
Niels Møllegaard, Group Executive Vice President, tel +45 74 37 20 50
Jørn Adam Møller, Senior Vice President, Accounting, tel +45 74 37 24 56

Summary

The Sydbank Group has posted a profit before tax for 2013 of DKK 171m, equalling a return of 1.7% on average shareholders' equity. The result is considered unsatisfactory on account of the high level of impairment charges. As a consequence of the considerable impairment charges and the decline in trading income, pre-tax profit is below expectations at the beginning of 2013.

On 19 December 2013 Sydbank acquired the DiBa Bank group. The total purchase price for acquiring DiBa Bank represents DKK 479m and comprises the acquired shareholding at 31 December 2013 of 96.8% amounting to DKK 463m and the implemented compulsory redemption of the minority shareholders' remaining share of 3.2% amounting to DKK 16m.

On 31 December 2013 DiBa Bank sold its subsidiaries DiBa Bolig, DiBa Ejendomsadministration and Heering Huse to Sydbank.

The Sydbank Group's profit for 2013 includes the profit of these subsidiaries and DiBa Bank in the ownership period 20-31 December 2013. During the ownership period the subsidiaries recorded core earnings of DKK 4m, a non-recurring cost (exit charge to BEC) of DKK 96m and tax income of DKK 23m, equivalent to a post-tax loss of DKK 69m.

On 29 January 2014 the subsidiaries DiBa Bolig and DiBa Ejendomsadministration were sold to the EDC Poul Erik Bech group.

2013
- 4% decrease in core income.
- DKK 94m decline in trading income to DKK 229m.
- Unchanged level of costs (core earnings) for the sixth consecutive year.
- Increase in impairment charges for loans and advances of DKK 113m to DKK 1,861m.
- Investment portfolio earnings of DKK 319m.
- Non-recurring items, net, of minus DKK 43m.
- Contributions to industry solutions of DKK 17m.
- 2.3% decrease in bank loans and advances to DKK 66.6bn.
- 6.7% rise in deposits to DKK 70.0bn.
- 0.2% decline in the solvency ratio to 15.7%.
- Good liquidity.
- Substantial influx of clients, eg via the acquisition of DiBa Bank.
- Distribution of dividend to shareholders for 2013 will not be recommended.

Q4 2013
- Profit for the period of minus DKK 282m.

Summary income statement

Group (DKKm)	2013	2012
Core income	4,058	4,229
Trading income	229	323
Total income	**4,287**	**4,552**
Costs, core earnings	2,514	2,482
Core earnings before impairment	**1,773**	**2,070**
Impairment of loans and advances etc	1,861	1,748
Core earnings	**(88)**	**322**
Investment portfolio earnings	319	397
Profit before non-recurring items and industry solutions	**231**	**719**
Non-recurring items, net	(43)	(82)
Contributions to industry solutions	17	13
Profit before tax	**171**	**624**
Tax	(16)	157
Profit for the year	**187**	**467**

Core earnings before impairment represent DKK 1,773m compared with DKK 2,070m in 2012. The decrease of DKK 297m is attributable to a decline in core income of DKK 171m, a decrease in trading income of DKK 94m and an increase in costs (core earnings) of DKK 32m.

Impairment charges for loans and advances etc represent DKK 1,861m (2012: DKK 1,748m). In a company announcement on 5 December 2013 the Group announced extraordinary impairment charges as a result of the Danish FSA's inspection in November and December 2013, resulting in projected total impairment charges for 2013 of around DKK 1,825m. Consequently the recorded impairment charges of DKK 1,861m are in line with the previous announcement.

Very satisfactory investment portfolio earnings of DKK 319m compared to DKK 397m in 2012.

Profit before non-recurring items and industry solutions represents DKK 231m (2012: DKK 719m).

Non-recurring items, net, total minus DKK 43m (2012: minus DKK 82m). This item includes costs of DKK 98m (including the exit charge to BEC) and non-recurring income of DKK 55m from the market value adjustment of the Group's shares in Nets Holding.

Profit before tax amounts to DKK 171m (2012: DKK 624m). After calculated tax of minus DKK 16m (2012: DKK 157m), the Group's profit stands at DKK 187m compared with DKK 467m in 2012.

Return on shareholders' equity before and after tax constitutes 1.7% and 1.8%, respectively, against 6.4% and 4.8% in 2012. Earnings per share has declined from DKK 6.4 to DKK 2.5.

During the year shareholders' equity grew by DKK 204m to DKK 10,237m.

Since year-end 2012 risk-weighted assets have increased by DKK 1.5bn to DKK 72.7bn. The increase in credit risk represents DKK 0.3bn and is composed of the effect of the acquisition of DiBa Bank and the declining credit volume in general, as a result of substantial impairment charges etc. The remainder is mainly attributable to the rise in market risk of DKK 1.3bn.

At year-end 2013 the solvency ratio stands at 15.7%, of which 15.3 percentage points are attributable to core capital including hybrid core capital, compared with 15.9% and 15.6%, respectively, at the end of 2012. The common equity Tier 1 capital ratio has decreased from 13.8% to 13.4%. At 31 December 2013 the solvency need constitutes 10.0% (2012: 8.9%).

Based on the Group's good liquidity and high solvency, a capital policy has been adopted that better supports the Group's growth strategy and at the same time takes into account Sydbank's status as a SIFI as well as forthcoming regulations. The targets for the years ahead are a common equity Tier 1 capital ratio of 12% and a solvency ratio of around 15%.

As from 2014 a new dividend policy will contribute to creating long-term shareholder value. The objective is to distribute 30-50% of the year's profit after tax while taking into account growth plans and capital policy. Distribution will be effected via dividends and/or via share buybacks.

The Group's liquidity is good and constitutes 28.0% at year-end 2013 measured under the 10% statutory requirement. Moody's 12-month liquidity curve shows that the Group is able to withstand a situation in which access to capital markets is cut off for a period exceeding 12 months.

Distribution of dividend to shareholders for 2013 will not be recommended.

During the year the Bank saw a substantial influx of new retail and corporate clients, the majority of whom concern DiBa Bank. Growth in the client portfolio is satisfactory in an otherwise competitive market and the portfolio of 434,000 retail and corporate clients provides scope for growth in business volume.

The Group's expectations for 2014:
- Rise in core income – predominantly as a result of the acquisition of DiBa Bank – despite an unchanged level of lending and continued fierce competition.
- Rise in trading income partly as a result of the acquisition of DiBa Bank, however highly dependent on financial market developments.
- Increase in costs (core earnings), mainly as a result of the acquisition of DiBa Bank.
- Given the considerable level of impairment charges in 2013, lower impairment charges for loans and advances are projected in 2014.
- Integration costs related to DiBa Bank of around DKK 50m.

Governance structure and credit-related measures
The final conclusion of the Danish FSA's inspection in November-December 2013 was received on 31 January 2014. In its report the Danish FSA concludes that "risks associated with the bank's loans and advances are on a par with the risks of other major banks" but that improvements in governance in connection with credit granting are necessary. In light of this, in the past few months, management has assessed the need for measures relating to governance and credit and has decided as follows:

- Strengthening of the governance structure by expanding internal controls.
- Establishment of a Risk Committee under the Board of Directors.
- Separation of risk management as an independent central unit reporting directly to the Group Executive Management and with higher staffing in relation to credit.
- Extended terms of reference for the existing Credit Risk Committee – including increased meeting frequency.
- Extended terms of reference for the Credit Committee and increased reporting.
- Restructuring of Credits in December 2013 resulting in a simpler structure in line with the Bank's 10 Danish regions.
- Appointment of regional heads of credit responsible for small approvals.
- General reduction in the lending authority of employees.

Group Financial Highlights

	2013	2012	Index 13/12	2011	2010	2009
Income statement (DKKm)						
Core income	4,058	4,229	96	4,080	4,150	3,999
Trading income	229	323	71	167	444	587
Total income	**4,287**	**4,552**	**94**	**4,247**	**4,594**	**4,586**
Costs, core earnings	2,514	2,482	101	2,463	2,479	2,466
Core earnings before impairment	**1,773**	**2,070**	**86**	**1,784**	**2,115**	**2,120**
Impairment of loans and advances etc	1,861	1,748	106	1,195	1,400	1,195
Core earnings	**(88)**	**322**	**(27)**	**589**	**715**	**925**
Investment portfolio earnings	319	397	80	(15)	227	430
Profit before non-recurring items and industry solutions	**231**	**719**	**32**	**574**	**942**	**1,355**
Non-recurring items, net	(43)	(82)	-	(171)	-	86
Contributions to industry solutions	17	13	-	102	384	443
Profit before tax	**171**	**624**	**27**	**301**	**558**	**998**
Tax	(16)	157	-	113	147	217
Profit for the year	**187**	**467**	**40**	**188**	**411**	**781**
Balance sheet highlights (DKKbn)						
Loans and advances at amortised cost	66.6	68.2	98	68.8	73.0	74.5
Loans and advances at fair value	4.9	6.1	80	7.7	10.7	12.9
Deposits and other debt	70.0	65.7	107	66.7	64.2	68.8
Bonds issued at amortised cost	6.5	4.0	163	7.5	11.2	8.6
Subordinated capital	1.8	1.4	129	2.1	2.3	3.1
Shareholders' equity	10.2	10.0	102	9.6	9.6	9.1
Total assets	147.9	152.7	97	153.4	150.8	157.8
Financial ratios per share (DKK per share of DKK 10)						
EPS Basic	2.5	6.4		2.6	5.6	11.7
EPS Diluted	2.5	6.4		2.6	5.6	11.7
Share price at year-end	144.0	99.7		90.1	151.3	133.8
Book value	139.7	137.6		131.1	129.8	124.1
Share price/book value	1.03	0.72		0.69	1.17	1.08
Average number of shares outstanding (in millions)	73.4	73.1		73.2	73.5	66.9
Proposed dividend	-	-		-	1.0	-
Other financial ratios and key figures						
Solvency ratio	15.7	15.9		16.1	15.4	15.2
Core capital (incl hybrid core capital) ratio	15.3	15.6		15.2	14.3	13.1
Common equity Tier 1 capital ratio	13.4	13.8		13.4	12.7	11.5
Pre-tax profit as % of average shareholders' equity	1.7	6.4		3.1	6.0	12.3
Post-tax profit as % of average shareholders' equity	1.8	4.8		2.0	4.4	9.6
Costs (core earnings) as % of total income	58.6	54.5		58.0	54.0	53.8
Interest rate risk	0.6	1.8		0.9	1.5	1.0
Foreign exchange position	2.1	0.9		1.6	1.2	1.1
Foreign exchange risk	0.0	0.0		0.1	0.0	0.0
Loans and advances relative to deposits*	0.8	0.9		0.9	1.0	1.0
Loans and advances relative to shareholders' equity*	6.5	6.8		7.2	7.6	8.2
Growth in loans and advances for the year*	(2.3)	(1.0)		(5.7)	(2.0)	(9.6)
Excess cover relative to statutory liquidity requirements	179.8	127.4		148.7	106.3	94.4
Total large exposures	25.8	21.6		26.3	54.4	17.2
Accumulated impairment ratio excl PCA	5.1	3.8		2.3	2.0	1.7
Impairment ratio for the year excl PCA	2.2	2.2		1.5	1.7	1.3
Number of full-time staff at year-end	2,231	2,132	105	2,152	2,284	2,369

* Financial ratios are calculated on the basis of loans and advances at amortised cost.

Group Financial Highlights – Quarterly

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Income statement (DKKm)					
Core income	1,011	995	1,016	1,036	1,067
Trading income	37	31	75	86	71
Total income	**1,048**	**1,026**	**1,091**	**1,122**	**1,138**
Costs, core earnings	600	604	649	661	575
Core earnings before impairment	**448**	**422**	**442**	**461**	**563**
Impairment of loans and advances etc	888	299	325	349	550
Core earnings	**(440)**	**123**	**117**	**112**	**13**
Investment portfolio earnings	42	(7)	197	87	132
Profit before non-recurring items and industry solutions	**(398)**	**116**	**314**	**199**	**145**
Non-recurring items, net	(43)	-	-	-	(82)
Contributions to industry solutions	4	2	(4)	15	3
Profit before tax	**(445)**	**114**	**318**	**184**	**60**
Tax	(163)	29	71	47	16
Profit for the period	**(282)**	**85**	**247**	**137**	**44**
Balance sheet highlights (DKKbn)					
Loans and advances at amortised cost	66.6	67.4	67.8	67.9	68.2
Loans and advances at fair value	4.9	4.6	4.5	5.8	6.1
Deposits and other debt	70.0	68.1	65.9	66.7	65.7
Bonds issued at amortised cost	6.5	3.8	3.8	3.8	4.0
Subordinated capital	1.8	1.4	1.4	1.4	1.4
Shareholders' equity	10.2	10.6	10.5	10.2	10.0
Total assets	147.9	144.5	141.4	155.4	152.7
Financial ratios per share (DKK per share of DKK 10)					
EPS Basic**	(3.8)	1.2	3.4	1.9	0.6
EPS Diluted**	(3.8)	1.2	3.4	1.9	0.6
Share price at end of period	144.0	143.8	114.0	119.1	99.7
Book value	139.7	143.8	142.6	139.3	137.6
Share price/book value	1.03	1.00	0.80	0.86	0.72
Average number of shares outstanding (in millions)	73.6	73.6	73.5	73.0	72.9
Proposed dividend	-	-	-	-	-
Other financial ratios and key figures					
Solvency ratio	15.7	16.9	16.5	15.7	15.9
Core capital (incl hybrid core capital) ratio	15.3	16.5	16.2	15.3	15.6
Common equity Tier 1 capital ratio	13.4	14.8	14.4	13.7	13.8
Pre-tax profit as % of average shareholders' equity**	(4.3)	1.1	3.1	1.8	0.6
Post-tax profit as % of average shareholders' equity**	(2.7)	0.8	2.4	1.4	0.4
Costs (core earnings) as % of total income	57.3	58.9	59.5	58.9	54.5
Interest rate risk	0.6	0.0	0.2	1.7	1.8
Foreign exchange position	2.1	2.9	2.3	4.6	0.9
Foreign exchange risk	0.0	0.1	0.1	0.1	0.0
Loans and advances relative to deposits*	0.8	0.9	0.9	0.9	0.9
Loans and advances relative to shareholders' equity*	6.5	6.4	6.5	6.7	6.8
Growth in loans and advances for the period*	(1.2)	(0.6)	(0.1)	(0.4)	1.4
Excess cover relative to statutory liquidity requirements	179.8	200.3	167.4	147.6	127.4
Total large exposures	25.8	22.2	30.5	10.4	21.6
Accumulated impairment ratio	5.1	4.2	4.0	3.9	3.8
Impairment ratio for the period**	1.05	0.36	0.39	0.45	0.69
Number of full-time staff at end of period	2,231	2,078	2,087	2,106	2,132

* Financial ratios are calculated on the basis of loans and advances at amortised cost.
** Quarterly ratios have not been converted to a full-year basis.

Supplementary Information

General meeting and dividend

The Board of Directors recommends to the general meeting that no dividend be distributed.

The AGM will be held on Thursday 13 March 2014 in Aabenraa.

Financial calendar

In 2014 the Group's preliminary announcement of financial statements will be released as follows:

- Interim Report – Q1 2014
  30 April 2014

- Interim Report – First Half 2014
  20 August 2014

- Interim Report – Q1-Q3 2014
  28 October 2014

Address

Sydbank A/S
Peberlyk 4
DK-6200 Aabenraa
Tel +45 74 37 37 37
CVR No DK 12626509

Relevant links

sydbank.dk
sydbank.com

For further information reference is made to Sydbank's 2013 Annual Report at sydbank.com.