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# Interim Report – Q1 2016

Sydbank Group

**Sydbank**

## Sydbank's Interim Report – Q1 2016

### Continued tight rein on costs and credit quality ensures satisfactory start to 2016

Sydbank has got off to a satisfactory start in 2016: solid performance – with growth in lending for the ninth consecutive quarter. The Bank's loans and advances have risen by DKK 1.9bn and the Bank's impairment charges have fallen by 67% compared with one year ago. Moreover the financial statements show a decline in the Bank's costs (core earnings). In 2016 and 2017 Sydbank will allocate extra resources to develop customer-oriented digital solutions.

CEO Karen Frøsig comments:

- We have delivered a solid Q1 performance and we are pleased. We have recorded growth in lending for the ninth quarter in a row and we are particularly pleased to note that impairment charges continue the favourable trend that we have seen since the beginning of 2014 and that we have managed to lower costs.

On Sydbank's Q1 result she comments:

- Core income and consequently the result are slightly below the projections presented in the 2015 financial statements. This is mainly attributable to the Group's adjustment of prices due to the market situation that arose when the Group's mortgage loan provider announced increases in administration margins on mortgage loans. The reasons why the overall decline in profit is limited to DKK 34m are a sharp decline in impairment charges of 67% as well as a drop in costs (core earnings).

She elaborates:

- In 2016 Sydbank will accelerate process automation and DKK 25m will be allocated annually in 2016 and in 2017 to optimise IT systems. Clients and employees alike will experience improvements. Specifically the projects include optimisation of housing loan processes and improved integration of credit processes. Both projects will contribute to developing the Bank as well as make it possible to adjust costs.

### Q1 2016 – highlights

- Profit of DKK 283m, equal to a return on shareholders' equity of 10.1% p.a. after tax.
- Core income of DKK 1,050m – a decline of 6% compared to the same period in 2015 when core income was historically high.
- Total income of DKK 1,104m – a drop of 10% compared to the same period in 2015.
- Impairment charges for loans and advances represent DKK 38m and have declined by 67% compared with the same period in 2015.
- Bank loans and advances have risen by DKK 1.9bn, equal to 2.6%.
- The Common Equity Tier 1 capital ratio has declined by 0.1 percentage points and constitutes 14.4%.
- A share buyback programme of DKK 350m was commenced on 29 February 2016.

### Outlook for 2016

Sydbank projects limited positive economic growth in the Danish economy in 2016. Furthermore Sydbank expects:

- a slight decline in core income due to price adjustments as a result of the turmoil that arose following the announcement of increases in administration margins on mortgage loans.
- unchanged trading income relative to income for 2015 but dependent on financial market developments.
- a reduction in costs (core earnings) – in spite of the general pay rises agreed for the financial sector of 1.80% and a payroll tax increase of 1.40% – as a result of the measures implemented and the discontinuation of payments to the deposit guarantee scheme.
- lower impairment charges in 2016. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.

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## Group Financial Highlights

	Q1 2016	Q1 2015	Index 16/15	Full year 2015
<b>Income statement (DKK m)</b>				
Core income	1,050	1,115	94	4,329
Trading income	54	118	46	215
<b>Total income</b>	<b>1,104</b>	<b>1,233</b>	<b>90</b>	<b>4,544</b>
Costs, core earnings	681	689	99	2,675
<b>Core earnings before impairment</b>	<b>423</b>	<b>544</b>	<b>78</b>	<b>1,869</b>
Impairment of loans and advances etc	38	116	33	316
<b>Core earnings</b>	<b>385</b>	<b>428</b>	<b>90</b>	<b>1,553</b>
Investment portfolio earnings	(22)	(31)	71	(80)
<b>Profit before non-recurring items</b>	<b>363</b>	<b>397</b>	<b>91</b>	<b>1,473</b>
Non-recurring items, net	-	-	-	-
<b>Profit before tax</b>	<b>363</b>	<b>397</b>	<b>91</b>	<b>1,473</b>
Tax	80	93	86	325
<b>Profit for the period</b>	<b>283</b>	<b>304</b>	<b>93</b>	<b>1,148</b>

### Balance sheet highlights (DKK bn)

Loans and advances at amortised cost	76.2	70.6	108	74.3
Loans and advances at fair value	7.9	8.0	99	10.2
Deposits and other debt	76.8	72.1	107	79.9
Bonds issued at amortised cost	3.7	3.7	100	3.7
Subordinated capital	2.1	2.1	100	2.1
Shareholders' equity	10.9	11.1	98	11.4
Total assets	145.1	155.7	93	142.7

### Financial ratios per share (DKK per share of DKK 10)

EPS Basic **	4.0	4.1		15.8
EPS Diluted **	4.0	4.1		15.8
Share price at end of period	187.7	218.1		221.8
Book value	152.8	151.2		160.2
Share price/book value	1.23	1.44		1.38
Average number of shares outstanding (in millions)	71.3	73.4		72.5
Dividend per share	-	-		11.12

### Other financial ratios and key figures

Common Equity Tier 1 capital ratio	14.4	14.6		14.5
Tier 1 capital ratio	15.7	16.0		15.9
Capital ratio	17.5	17.6		17.6
Pre-tax profit as % of average shareholders' equity **	3.3	3.5		13.0
Post-tax profit as % of average shareholders' equity **	2.5	2.7		10.1
Costs (core earnings) as % of total income	61.7	55.9		58.9
Return on assets (%)	0.2	0.2		0.8
Interest rate risk	1.4	0.3		2.8
Foreign exchange position	1.7	1.5		2.2
Foreign exchange risk	0.0	0.0		0.0
Loans and advances relative to deposits *	0.9	0.8		0.8
Loans and advances relative to shareholders' equity *	7.0	6.4		6.5
Growth in loans and advances for the period *	2.6	3.2		8.5
Excess cover relative to statutory liquidity requirements	147.3	141.1		166.8
Total large exposures	10.6	10.1		0.0
Accumulated impairment ratio	4.5	4.9		4.7
Impairment ratio for the period **	0.04	0.13		0.36
Number of full-time staff at end of period	2,027	2,147	94	2,044

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

\*\* Ratios have not been converted to a full-year basis.

## Highlights

### Continued tight rein on costs and credit quality ensures satisfactory start to 2016

Sydbank's financial statements for Q1 show a pre-tax profit of DKK 363m compared with DKK 397m in Q1 2015. The decline is due to a normalisation of trading income as well as of remortgaging activity, which was historically high in Q1 2015. The reasons why the overall decline in profit before tax is limited to DKK 34m are a sharp decline in impairment charges of 67% as well as a drop in costs (core earnings) despite the acquisition of Sydinvest Administration A/S on 1 April 2015.

Profit before tax equals a return of 13.0% p.a. on average shareholders' equity.

Core income and consequently the result are below the expectations presented in the 2015 financial statements. This is mainly caused by the Group's adjustment of prices due to the turmoil that arose when the Group's mortgage loan provider announced increases in administration margins on mortgage loans.

Core income represents DKK 1,050m compared with DKK 1,115m in 2015 – a decline of DKK 65m.

Total income amounts to DKK 1,104m against DKK 1,233m in 2015.

Core earnings constitute DKK 385m compared with DKK 428m in 2015 – a decrease of DKK 43m.

Profit for the period amounts to DKK 283m compared with DKK 304m in 2015.

### Follow-up on the 3-year plan – Blue growth

The strategy for the 3-year period 2016-2018 is named "Blue growth".

- Blue growth means high-quality and profitable banking – pure and simple.

Blue growth – targets:

- Realise a return on shareholders' equity of a minimum of 12% after tax or be in the top 3 of the 6 largest banks
- Maintain top 3 ranking among the 6 largest banks in terms of customer satisfaction.

To ensure further automation of processes and utilisation of the possibilities in connection with digitisation, DKK 25m will be allocated annually in 2016 and 2017 to optimise IT systems. The amount will be recognised under "Non-recurring items".

These funds cover two projects implemented in 2016:

- Optimisation of housing loan processes
- Integration of credit processes into existing CRM solution.

Both projects will lead to savings in 2017 and onwards.

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. Both projects will contribute to developing the Bank as well as make it possible to adjust costs – also in the years ahead.



### Q1 performance

Compared with Q1 2015 core income has dropped by DKK 65m or 6% to DKK 1,050m. The decline is primarily attributable to remortgaging and loan fees as well as commission and brokerage income.

Trading income decreased to DKK 54m in Q1 2016 compared to DKK 118m in the same period in 2015.

Total income represents DKK 1,104m, a decline of 10% compared with Q1 2015.

Costs (core earnings) are a constant area of focus at Sydbank. Therefore the Bank maintained tight control of costs (core earnings) in Q1, which constituted DKK 681m compared with DKK 689m in 2015 – a reduction of DKK 8m.

The Group's impairment charges for loans and advances have declined by DKK 78m to DKK 38m compared with Q1 2015.

Core earnings constitute DKK 385m compared with DKK 428m in Q1 2015 – a decline of DKK 43m.

Together the Group's position-taking and liquidity handling recorded investment portfolio earnings of minus DKK 22m in Q1 2016 compared with minus DKK 31m a year ago.

Profit before tax for Q1 2016 amounts to DKK 363m compared with DKK 397m in the same period in 2015.

Tax represents DKK 80m. Profit for the period amounts to DKK 283m compared with DKK 304m in 2015.

During Q1 2016 Sydbank recorded an increase in bank loans and advances of DKK 1.9bn. This is satisfactory given the highly competitive market.

### Capital

The Group has implemented a share buyback programme of DKK 350m. The share buyback commenced on 29 February 2016 and will be completed by 31 December 2016. At end-March 233,000 shares worth DKK 45m, made up at the trade date, had been repurchased. The share buyback is part of the capital adjustment to optimise the capital structure in accordance with the capital targets and capital policy published in the 2015 Annual Report.

### Status – targets

Target	Objective	Status at 31 March 2016	Comment
Return on shareholders' equity after tax	Over 12% *	10.1%	Progressing as planned
Customer satisfaction – Corporate	Top 3 **	3rd – Aalund	Met in 2015
Customer satisfaction – Retail	Top 3 **	2nd – EPSI	Met in 2015
Common Equity Tier 1 capital ratio	Around 13.5%	14.4%	Met from Q3 2013
Capital ratio	Around 17.0%	17.5%	Met from Q1 2015
Dividend	30-50% of profit for the year after tax	50%+20% of profit for the year after tax in 2015	Met in 2015

\* or top 3 ranking among the 6 largest banks \*\* among the 6 largest banks

### Outlook for 2016

Limited economic growth is projected for the Danish economy in 2016.

Core income is expected to decline slightly due to price adjustments as a result of the turmoil that arose following the announcement of increases in administration margins on mortgage loans.

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. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.

## Financial Review – Performance in Q1 2016

The Sydbank Group has recorded a profit before tax of DKK 363m (Q1 2015: DKK 397m).

Profit before tax equals a return of 13.0% p.a. on average shareholders' equity.

Profit for the period after tax amounts to DKK 283m compared with DKK 304m in 2015.

Profit after tax equals a return of 10.1% p.a. on average shareholders' equity.

Profit is slightly below the expectations at the beginning of the year.

The result is characterised by the following:

### Q1

- A 6% decrease in core income
- A decline in trading income to DKK 54m
- A 1% decrease in costs (core earnings) to DKK 681m
- A 67% decline in impairment charges for loans and advances
- A decrease in core earnings of DKK 43m to DKK 385m
- Negative investment portfolio earnings of DKK 22m
- Bank loans and advances of DKK 76.2bn (year-end 2015: DKK 74.3bn)
- Bank deposits of DKK 76.8bn (year-end 2015: DKK 79.9bn)
- A capital ratio of 17.5%, including a Common Equity Tier 1 capital ratio of 14.4%
- An individual solvency need of 9.7% (year-end 2015: 9.7%).

Income statement – Q1 (DKKm)	2016	2015
Core income	1,050	1,115
Trading income	54	118
<b>Total income</b>	<b>1,104</b>	<b>1,233</b>
Costs, core earnings	681	689
<b>Core earnings before impairment</b>	<b>423</b>	<b>544</b>
Impairment of loans and advances etc	38	116
<b>Core earnings</b>	<b>385</b>	<b>428</b>
Investment portfolio earnings	(22)	(31)
<b>Profit before non-recurring items</b>	<b>363</b>	<b>397</b>
Non-recurring items, net	-	-
<b>Profit before tax</b>	<b>363</b>	<b>397</b>
Tax	80	93
<b>Profit for the period</b>	<b>283</b>	<b>304</b>

### Core income

Total core income has declined by DKK 65m to DKK 1,050m.

Net interest has decreased by DKK 7m to DKK 588m.

Net income from the cooperation with Totalkredit represents DKK 70m (2015: DKK 76m) after a set-off of loss of DKK 4m (2015: DKK 8m). The cooperation with DLR Kredit has generated an income of DKK 17m (2015: DKK 19m). Compared to 2015 total mortgage credit income has gone down by DKK 8m to DKK 88m – a decrease of 8%.

Income from remortgaging and loan fees has dropped from DKK 52m to DKK 26m compared to 2015 – a decline of 50%. The decrease is a consequence of the exceptionally high remortgaging activity in Q1 2015.

Commission and brokerage income has gone down by DKK 37m to DKK 95m compared with 2015 – a decrease of 28%.

The remaining income components have risen by DKK 13m compared to 2015.

Core income – Q1 (DKKm)	2016	2015
Net interest etc	588	595
Mortgage credit	88	96
Payment services	46	53
Remortgaging and loan fees	26	52
Commission and brokerage	95	132
Commission etc investment funds and pooled pension plans	95	87
Asset management	45	47
Custody fees	18	19
Other operating income	49	34
<b>Total</b>	<b>1,050</b>	<b>1,115</b>

### Trading income

Trading income decreased to DKK 54m in Q1 2016 compared to DKK 118m in the same period in 2015. Trading income is at a normal level.

## Costs and depreciation

The Group's costs and depreciation totalled DKK 683m, equal to a decrease of DKK 8m compared to 2015.

Costs and depreciation – Q1 (DKKm)	2016	2015
Staff costs	378	394
Other administrative expenses	275	243
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	24	24
Other operating expenses	6	30
<b>Total costs and depreciation</b>	<b>683</b>	<b>691</b>
Distributed as follows:		
Costs, core earnings	681	689
Costs, investment portfolio earnings	2	2
Non-recurring costs	-	-

Costs (core earnings) represent DKK 681m compared with DKK 689m in 2015.

At the end of Q1 2016 the Group's staff numbered 2,027 (full-time equivalent) compared with 2,147 at 31 March 2015.

As a consequence of the Bank's ongoing adjustment of its service concept and its efforts to reduce costs (core earnings), four branches were closed during the first quarter. This brings the number of branches to 67 in Denmark and three in Germany.

## Core earnings before impairment

Core earnings before impairment charges for loans and advances represent DKK 423m – a decrease of DKK 121m compared with the same period in 2015.

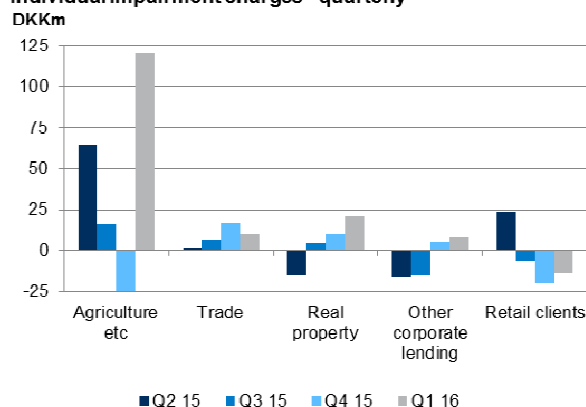
## Impairment of loans and advances etc

Impairment charges for loans and advances represent DKK 38m compared with DKK 116m during the same period in 2015. This is a reduction of DKK 78m or 67%.

In Q1 2016 individual impairment charges as regards agricultural exposures totalled DKK 120m. Collective impairment charges for agricultural exposures represent DKK 150m at 31 March 2016 – a reduction of DKK 75m compared with DKK 225m at year-end 2015. The net effect of impairment charges as regards agriculture constitutes DKK 45m in Q1 2016.

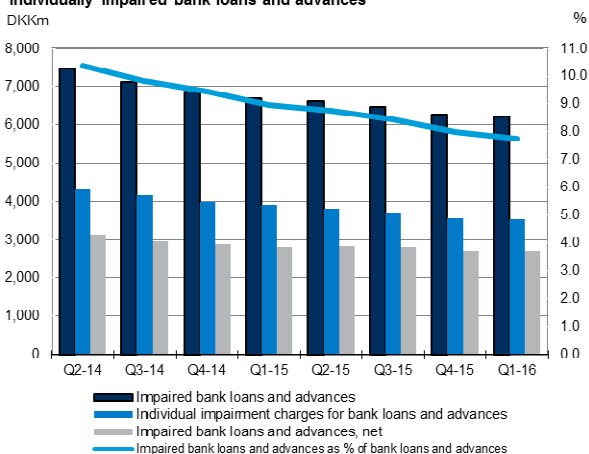
The chart below shows impairment charges for loans and advances in the last four quarters as regards agriculture etc, trade, real property, other corporate lending as well as retail clients.

## Individual impairment charges - quarterly



At 31 March 2016 the impairment ratio represents 0.05% relative to bank loans and advances and 0.04% relative to bank loans and advances and guarantees. At end-March 2016 accumulated impairment and provisions amount to DKK 4,034m – a decline of DKK 148m compared with the beginning of the year.

## Individually impaired bank loans and advances



Compared with 31 March 2015 impaired bank loans and advances before impairment charges have decreased by DKK 477m to DKK 6,223m, equal to a decline of 7.1%.

DKK 194m of the decrease is attributable to non-defaulted bank loans and advances and DKK 283m is attributable to defaulted bank loans and advances. During the same period individually impaired bank loans and advances after impairment charges dropped by DKK 101m, equal to 3.6%. Impairment charges for individually impaired bank loans and advances represent 56.7% (end-March 2015: 58.3% and year-end 2015: 56.9%).

In Q1 2016 reported losses amounted to DKK 240m (Q1 2015: DKK 228m). Of the reported losses DKK 220m has previously been written down.



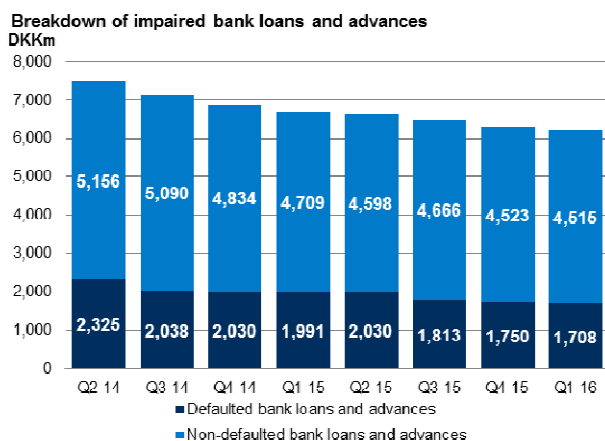
Individually impaired bank loans and advances (DKKm)	31 Mar 2016	31 Dec 2015	31 Mar 2015
Non-defaulted bank loans and advances	4,515	4,523	4,709
Defaulted bank loans and advances	1,708	1,750	1,991
Impaired bank loans and advances	6,223	6,273	6,700
Impairment charges for bank loans and advances subject to individual impairment	3,529	3,569	3,905
Impaired bank loans and advances after impairment charges	2,694	2,704	2,795
Impaired bank loans and advances as % of bank loans and advances before impairment charges	7.8	8.0	8.9
Impairment charges as % of bank loans and advances before impairment charges	4.4	4.6	5.2
Impairment as % of impaired bank loans and advances	56.7	56.9	58.3
Impairment charges as % of defaulted bank loans and advances	206.6	203.9	196.1

Impairment charges as a percentage of defaulted bank loans and advances at 31 March 2016 stand at 206.6.

The figure below shows the breakdown of impaired bank loans and advances in terms of defaulted bank loans and advances and non-defaulted bank loans and advances. The bulk of impaired bank loans and advances concern non-defaulted bank loans and advances.

Since 31 March 2015 defaulted bank loans and advances have declined by DKK 283m to DKK 1,708m, equal to a decrease of 14%.

Since 31 March 2015 non-defaulted bank loans and advances have dropped by DKK 194m to DKK 4,515m, equal to a decline of 4%.



### Core earnings

Core earnings represent DKK 385m – a decrease of DKK 43m or 10% compared with the same period in 2015.

### Investment portfolio earnings

Together the Group's position-taking and liquidity handling generated negative earnings of DKK 22m in Q1 2016 compared with negative earnings of DKK 31m a year ago.

Investment portfolio earnings – Q1 (DKKm)	2016	2015
Position-taking	(26)	(69)
Liquidity generation and liquidity reserves	11	40
Strategic positions	(5)	0
Costs	(2)	(2)
<b>Total</b>	<b>(22)</b>	<b>(31)</b>

The negative investment portfolio earnings in Q1 2016 are a consequence of widening credit spreads on mortgage bonds. The loss results from mortgage bond yields having dropped less than the interest rates of hedging transactions.

Margin expenses as regards the Group's senior issues are included under liquidity generation and liquidity reserves and represented DKK 7m in Q1 2016 as well as in Q1 2015.

Profit for the period (DKKm)	2016		2015		
	Q1	Q4	Q3	Q2	Q1
Core income	1,050	1,040	1,062	1,112	1,115
Trading income	54	48	15	34	118
<b>Total income</b>	<b>1,104</b>	<b>1,088</b>	<b>1,077</b>	<b>1,146</b>	<b>1,233</b>
Costs, core earnings	681	666	635	685	689
<b>Core earnings before impairment</b>	<b>423</b>	<b>422</b>	<b>442</b>	<b>461</b>	<b>544</b>
Impairment of loans and advances etc	38	44	55	101	116
<b>Core earnings</b>	<b>385</b>	<b>378</b>	<b>387</b>	<b>360</b>	<b>428</b>
Investment portfolio earnings	(22)	7	8	(64)	(31)
<b>Profit before non-recurring items</b>	<b>363</b>	<b>385</b>	<b>395</b>	<b>296</b>	<b>397</b>
Non-recurring items, net	-	-	-	-	-
<b>Profit before tax</b>	<b>363</b>	<b>385</b>	<b>395</b>	<b>296</b>	<b>397</b>
Tax	80	69	93	70	93
<b>Profit for the period</b>	<b>283</b>	<b>316</b>	<b>302</b>	<b>226</b>	<b>304</b>

### Profit for the period

Profit before tax amounts to DKK 363m (2015: DKK 397m). Tax represents DKK 80m, equal to an effective tax rate of 22.0%. Profit for the period amounts to DKK 283m against DKK 304m in 2015.

### Return

Profit for the period equals a return on average shareholders' equity of 10.1% p.a. after tax against 10.9% p.a. in Q1 2015. Earnings per share stands at DKK 4.0 compared with DKK 4.1 in 2015.

### Subsidiaries

Ejendomsselskabet has recorded a profit after tax of DKK 1m compared with DKK 0m in Q1 2015. Profit after tax in DiBa A/S and Sydinvest Administration A/S represents DKK 62m (2015: DKK 1m) and DKK 3m (2015: DKK 0m), respectively.

### Q1 2016 compared with Q4 2015

Profit before tax for the quarter represents DKK 363m.

Compared with Q4 2015 profit before tax reflects:

- unchanged net interest etc compared
- a rise in core income of DKK 10m
- a rise in trading income of DKK 6m
- a rise in costs (core earnings) of DKK 15m
- a decline in impairment charges for bank loans and advances of DKK 6m – an improvement from the low level in Q4
- a rise in core earnings of DKK 7m to DKK 385m
- investment portfolio earnings of minus DKK 22m (Q4 2015: DKK 7m).

### Total assets

The Group's total assets made up DKK 145.1bn at 31 March 2016 against DKK 142.7bn at year-end 2015.

Assets (DKKbn)	31 Mar 2016	31 Dec 2015
Amounts owed by credit institutions etc	4.5	5.2
Loans and advances at fair value (reverse transactions)	7.9	10.2
Bank loans and advances (at amortised cost)	76.2	74.3
Securities and holdings etc	30.3	28.3
Assets related to pooled plans	12.1	12.0
Other assets etc	14.1	12.7
<b>Total</b>	<b>145.1</b>	<b>142.7</b>

The Group's bank loans and advances made up DKK 76.2bn at end-March 2016 against DKK 74.3bn at year-end 2015 and DKK 70.6bn at end-March 2015.

Shareholders' equity and liabilities (DKKbn)	31 Mar 2016	31 Dec 2015
Amounts owed to credit institutions etc	22.7	17.8
Deposits and other debt	76.8	79.9
Deposits in pooled plans	12.1	12.0
Bonds issued	3.7	3.7
Other liabilities etc	16.8	15.8
Subordinated capital	2.1	2.1
Shareholders' equity	10.9	11.4
<b>Total</b>	<b>145.1</b>	<b>142.7</b>

The Group's deposits represent DKK 76.8bn against DKK 79.9bn at year-end 2015 and DKK 72.1bn at end-March 2015.

## Capital

At 31 March 2016 shareholders' equity constitutes DKK 10,874m – a decline of DKK 553m since year-end 2015. The change comprises an addition from profit for the period of DKK 283m less actual distribution of DKK 803m and net purchases of own shares of DKK 33m.

The Group has implemented a share buyback programme of DKK 350m. The share buyback commenced on 29 February 2016 and will be completed by 31 December 2016. At end-March 233,000 shares worth DKK 45m, made up at the trade date, had been repurchased.

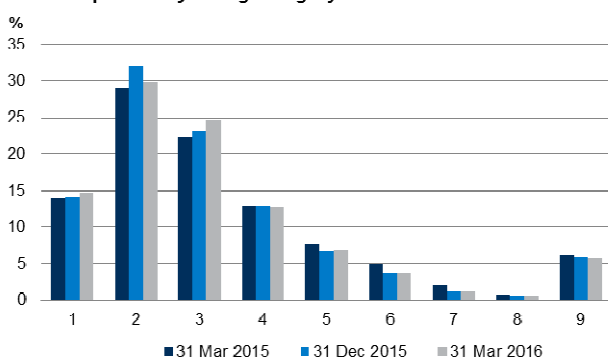
The share buyback is part of the capital adjustment to optimise the capital structure in accordance with the Group's capital policy published in the 2015 Annual Report.

Risk-weighted assets (DKKbn)	31 Mar 2016	31 Dec 2015
Credit risk	43.9	44.9
Market risk	8.4	8.9
Operational risk	8.2	8.2
Other exposures incl credit valuation adjustment	5.8	6.0
<b>Total</b>	<b>66.3</b>	<b>68.0</b>

Risk-weighted assets represent DKK 66.3bn (year-end 2015: DKK 68.0bn). The change is mainly attributable to a decrease in credit risk of DKK 1.0bn.

The development in the gross exposure by rating category at 31 March 2015, 31 December 2015 and 31 March 2016 appears below.

Gross exposure by rating category



The gross exposure consists of loans and advances, undrawn credit commitments, interest receivable, guarantees and counterparty risk on derivatives. The graph comprises exposures treated according to IRB. Exposures relating to clients in default are not included in the breakdown of rating categories. Impairment charges for exposures have not been deducted from the exposures.

Compared with 31 March 2015 the gross exposure by rating category shows an overall positive development with an increasing share in the four best rating categories.

The Group's capital ratio stands at 17.5%, of which the Tier 1 capital ratio represents 15.7% compared with 17.6% and 15.9%, respectively, at year-end 2015. The Common Equity Tier 1 capital ratio stands at 14.4% (31 Dec 2015: 14.5%). At 31 March 2016 the individual solvency need represents 9.7%, equal to the level at year-end 2015.

The parent's capital ratio stands at 17.0%, of which the Tier 1 capital ratio represents 15.2% compared with 17.2% and 15.5%, respectively, at year-end 2015. The Common Equity Tier 1 capital ratio stands at 14.0% (31 Dec 2015: 14.1%).

## Market risk

At 31 March 2016 the Group's interest rate risk represents DKK 165m. The Group's exchange rate risk continues to be very low and its equity position modest.

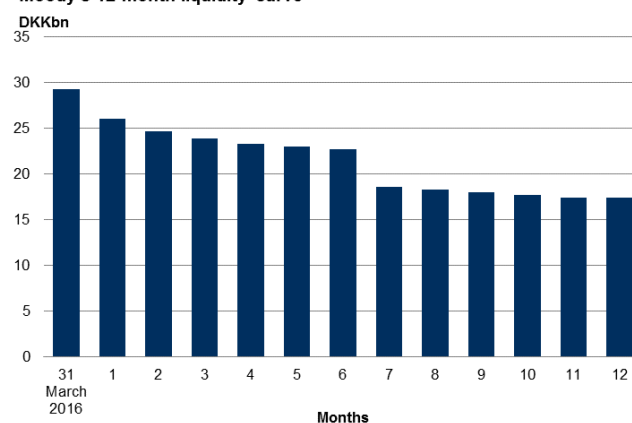
## Liquidity

The Group's liquidity measured under the 10% statutory requirement constitutes 24.7% at 31 March 2016.

Sydbank is a systemically important financial institution (SIFI) and must therefore meet the new liquidity coverage ratio (LCR) of a minimum of 100% as of 1 October 2015. Sydbank has made adjustments to its cash resources – increased its portfolio of Level 1A assets as well as expanded the Group's deposit base as regards retail and corporate clients. The Group's LCR constituted 126% at 31 March 2016.

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 of 12 months.

Moody's 12-month liquidity curve



## Rating

Moody's most recent rating of Sydbank:

- Outlook: Stable
- Long-term deposit: A3
- Senior unsecured: Baa1
- Short-term deposit: P-2

## Supervisory Diamond

The Supervisory Diamond sets up a number of benchmarks to indicate banking activities that initially should be regarded as involving a higher risk. Any breach of the Supervisory Diamond is subject to reactions by the Danish FSA.

The calculations are shown below:

Supervisory Diamond	31 Mar 2016	31 Dec 2015	31 Mar 2015
Sum of large exposures < 125%	11	0	10
Lending growth < 20% annually	3	9	3
Commercial property exposure < 25%	8	8	8
Funding ratio < 1	0.85	0.82	0.80
Excess cover relative to statutory liquidity requirements > 50%	147	167	141

Sydbank A/S complies with all the benchmarks of the Supervisory Diamond.

## EU Bank Recovery and Resolution Directive

The directive, including the bail-in provisions, was implemented in Danish law on 1 June 2015.

According to legislation each credit institution must meet a minimum requirement for eligible liabilities (bail-in-able liabilities). The Danish FSA has been authorised to set the requirement for Sydbank.

It remains uncertain as to when the minimum requirement must be met. The final minimum requirement may affect the Group's capital and funding structure.

Moreover a resolution fund is under establishment. Credit institutions must make contributions to the fund according to their relative size and risk in Denmark. The resolution fund must be established and have assets at its disposal equal to at least 1% of the covered deposits of all Danish credit institutions by 31 December 2024.

The Group's contribution to the resolution fund for 2016 represents DKK 17m.

## Focus on agriculture

A breakdown by industry of bank loans and advances to the agricultural sector is shown below.

Impaired bank loans and advances to agriculture grew by DKK 111m to DKK 2,002m in Q1 2016, equal to an increase of 1.9% of loans and advances.

Of total loans and advances to agriculture an impairment charge of 21.0% has been recorded at 31 March 2016 against 21.2% at year-end 2015.

31 Mar 2016 (DKKm)	Pig farming	Cattle farming	Crop production	Other agri- culture	Total loans and advances
Bank loans and advances before impairment charges	1,766	1,648	1,259	1,161	5,834
Individual impairment charges	329	578	53	115	1,075
Previous events	60	90	-	-	150
<b>Bank loans and advances after impairment charges</b>	<b>1,377</b>	<b>980</b>	<b>1,206</b>	<b>1,046</b>	<b>4,609</b>
Impaired bank loans and advances	678	963	113	248	2,002
Impaired as % of bank loans and advances	38.4	58.4	9.0	21.4	34.3
Impairment as % of impaired bank loans and advances	48.5	60.0	46.9	46.4	53.7
Impairment as % of bank loans and advances	22.0	40.5	4.2	9.9	21.0

31 Dec 2015 (DKKm)	Pig farming	Cattle farming	Crop production	Other agri- culture	Total loans and advances
Bank loans and advances before impairment charges	1,702	1,712	1,270	1,228	5,912
Individual impairment charges	281	599	50	97	1,027
Previous events	100	125	-	-	225
<b>Bank loans and advances after impairment charges</b>	<b>1,321</b>	<b>988</b>	<b>1,220</b>	<b>1,131</b>	<b>4,660</b>
Impaired bank loans and advances	592	996	103	200	1,891
Impaired as % of bank loans and advances	34.8	58.2	8.1	16.3	32.0
Impairment as % of impaired bank loans and advances	47.5	60.1	48.5	48.5	54.3
Impairment as % of bank loans and advances	22.4	42.3	3.9	7.9	21.2

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A large supply combined with a lower demand continues to squeeze the agricultural sector's settlement prices, which are at a very low and unsatisfactory level.

In 2015 earnings were disappointing. Many farmers recorded losses. Milk producers in particular are expected to realise average losses of DKK 100,000 per farm.

The unsustainable and unsatisfactory earnings in agriculture have deteriorated in 2016 as prices have continued to drop. The prospects for earnings in agriculture in 2016 have been revised downwards compared to expectations at the beginning of the year.

In light of the outlook for 2016, primarily based on forecasts published by SEGES in September 2015, the Bank made an extraordinary increase in its collective impairment charges in 2015 to a total of DKK 225m to meet risks on agricultural exposures.

The quotation for pork stands at DKK 8.70 per kg at mid-April 2016 and is consequently significantly lower than SEGES's forecast for Q2 2016 which projects an average quotation for pork of DKK 9.75 per kg.

The situation is worst for milk producers. As a result of the absence of milk quotas a growing quantity of milk is being produced in Europe. In a market under pressure where prices are falling, production at the individual farms is increasing in an attempt to produce their way out of the crisis. As a consequence prices are dropping even further.

According to the September 2015 forecast, the settlement price of conventional milk was projected

to be around DKK 2.37 per kg incl supplements and supplementary payments etc in 2016. The current settlement price is DKK 2.21 per kg. The most recent forecasts suggest a decline in prices to approx DKK 2.12 per kg.

Such a price drop would reduce income per milk cow by approx DKK 2,500. This means that earnings from an average size farm of 200 cows would be DKK 500,000 lower.

Organic milk producers still represent a bright spot in the agricultural sector as their earnings are satisfactory due to a large demand and low supply.

However earnings still vary greatly from farm to farm.

It is not likely that the negative developments in prices will turn in 2016. The sector projects that prices will not improve until 2017 at the earliest.

The low settlement prices will continue to put pressure on some farmers – pig producers as well as milk producers – to wind up production or their farms.

In Q1 2016 individual impairment charges of DKK 120m were recorded on agricultural exposures. Individual impairment charges in the first three months were as expected. The impairment charge concerns an individualisation of DKK 120m of the collective impairment charges of DKK 225m recorded in 2015. Following the individualisation collective impairment charges represented DKK 105m. As a result of the deterioration in the agricultural sector in Q1 2016 it is necessary to increase collective impairment charges by DKK 45m. Consequently collective impairment charges regarding agricultural exposures constitute DKK 150m at the end of Q1 2016.

## Income Statement

DKKkm	Note	Q1 2016	Q1 2015	Full year 2015
Interest income	2	689	746	2,846
Interest expense	3	71	101	342
<b>Net interest income</b>		<b>618</b>	<b>645</b>	<b>2,504</b>
Dividends on shares		5	11	64
Fee and commission income	4	453	493	1,902
Fee and commission expense		76	62	300
<b>Net interest and fee income</b>		<b>1,000</b>	<b>1,087</b>	<b>4,170</b>
Market value adjustments	5	58	108	251
Other operating income		7	7	40
Staff costs and administrative expenses	6	653	637	2,455
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment		24	24	97
Other operating expenses	8	5	30	130
Impairment of loans and advances etc	9	22	116	311
Profit on holdings in associates and subsidiaries	10	2	2	5
<b>Profit before tax</b>		<b>363</b>	<b>397</b>	<b>1,473</b>
Tax	11	80	93	325
<b>Profit for the period</b>		<b>283</b>	<b>304</b>	<b>1,148</b>
EPS Basic (DKK) *		4.0	4.1	15.8
EPS Diluted (DKK) *		4.0	4.1	15.8
Dividend per share (DKK)		-	-	11.12

\* Calculated on the basis of average number of shares outstanding, see page 17.

## Statement of Comprehensive Income

<b>Profit for the period</b>	<b>283</b>	<b>304</b>	<b>1,148</b>
<b>Other comprehensive income</b>			
Items that may be reclassified to the income statement:			
Translation of foreign entities	(2)	34	26
Hedge of net investment in foreign entities	2	(34)	(26)
Property revaluation	0	0	0
<b>Other comprehensive income after tax</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Comprehensive income for the period</b>	<b>283</b>	<b>304</b>	<b>1,148</b>

## Balance Sheet

DKK <sup>m</sup>	Note	31 Mar 2016	31 Dec 2015	31 Mar 2015
<b>Assets</b>				
Cash and balances on demand at central banks		1,200	967	3,271
Amounts owed by credit institutions and central banks	12	3,326	4,274	12,114
Loans and advances at fair value		7,865	10,183	7,966
Loans and advances at amortised cost		76,185	74,275	70,620
Bonds at fair value		28,411	26,362	27,970
Shares etc		1,745	1,736	1,648
Holdings in associates etc		165	163	169
Assets related to pooled plans		12,123	12,000	11,805
Intangible assets		319	324	340
Total land and buildings		1,007	1,012	1,080
investment property		-	-	2
owner-occupied property		1,007	1,012	1,078
Other property, plant and equipment		70	68	68
Current tax assets		311	185	307
Deferred tax assets		83	83	104
Assets in temporary possession		7	7	14
Other assets	13	12,191	11,047	18,112
Prepayments		64	56	74
<b>Total assets</b>		<b>145,072</b>	<b>142,742</b>	<b>155,662</b>
<b>Shareholders' equity and liabilities</b>				
Amounts owed to credit institutions and central banks	14	22,661	17,785	31,590
Deposits and other debt	15	76,820	79,900	72,119
Deposits in pooled plans		12,130	12,009	11,811
Bonds issued at amortised cost		3,723	3,727	3,727
Current tax liabilities		148	-	1
Other liabilities	16	16,258	15,440	22,905
Deferred income		5	4	5
<b>Total debt</b>		<b>131,745</b>	<b>128,865</b>	<b>142,158</b>
Provisions	17	326	320	279
Subordinated capital	18	2,127	2,130	2,131
Shareholders' equity:				
Share capital		742	742	742
Revaluation reserves		79	79	90
Other reserves:				
Reserves according to articles of association		425	425	425
Other reserves		13	13	10
Retained earnings		9,615	9,355	9,827
Proposed dividend etc		-	813	-
<b>Total shareholders' equity</b>		<b>10,874</b>	<b>11,427</b>	<b>11,094</b>
<b>Total shareholders' equity and liabilities</b>		<b>145,072</b>	<b>142,742</b>	<b>155,662</b>

## Financial Highlights – Quarterly

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
<b>Income statement (DKKm)</b>					
Core income	1,050	1,040	1,062	1,112	1,115
Trading income	54	48	15	34	118
<b>Total income</b>	<b>1,104</b>	<b>1,088</b>	<b>1,077</b>	<b>1,146</b>	<b>1,233</b>
Costs, core earnings	681	666	635	685	689
<b>Core earnings before impairment</b>	<b>423</b>	<b>422</b>	<b>442</b>	<b>461</b>	<b>544</b>
Impairment of loans and advances etc	38	44	55	101	116
<b>Core earnings</b>	<b>385</b>	<b>378</b>	<b>387</b>	<b>360</b>	<b>428</b>
Investment portfolio earnings	(22)	7	8	(64)	(31)
<b>Profit before non-recurring items</b>	<b>363</b>	<b>385</b>	<b>395</b>	<b>296</b>	<b>397</b>
Non-recurring items, net	-	-	-	-	-
<b>Profit before tax</b>	<b>363</b>	<b>385</b>	<b>395</b>	<b>296</b>	<b>397</b>
Tax	80	69	93	70	93
<b>Profit for the period</b>	<b>283</b>	<b>316</b>	<b>302</b>	<b>226</b>	<b>304</b>

### Balance sheet highlights (DKKbn)

Loans and advances at amortised cost	76.2	74.3	72.4	71.4	70.6
Loans and advances at fair value	7.9	10.2	6.6	9.7	8.0
Deposits and other debt	76.8	79.9	76.9	81.2	72.1
Bonds issued at amortised cost	3.7	3.7	3.7	3.7	3.7
Subordinated capital	2.1	2.1	2.1	2.1	2.1
Shareholders' equity	10.9	11.4	11.2	11.1	11.1
Total assets	145.1	142.7	140.9	153.1	155.7

### Financial ratios per share (DKK per share of DKK 10)

EPS Basic **	4.0	4.4	4.2	3.1	4.1
EPS Diluted **	4.0	4.4	4.2	3.1	4.1
Share price at end of period	187.7	221.8	253.9	255.8	218.1
Book value	152.8	160.2	156.3	153.1	151.2
Share price/book value	1.23	1.38	1.62	1.67	1.44
Average number of shares outstanding (in millions)	71.3	71.5	72.1	73.0	73.4
Dividend per share	-	11.12	-	-	-

### Other financial ratios and key figures

Common Equity Tier 1 capital ratio	14.4	14.5	14.4	14.1	14.6
Tier 1 capital ratio	15.7	15.9	15.9	15.5	16.0
Capital ratio	17.5	17.6	17.6	17.2	17.6
Pre-tax profit as % of average shareholders' equity **	3.3	3.4	3.5	2.6	3.5
Post-tax profit as % of average shareholders' equity **	2.5	2.8	2.7	2.0	2.7
Costs (core earnings) as % of total income	61.7	61.2	59.0	59.8	55.9
Return on assets (%)	0.2	0.2	0.2	0.1	0.2
Interest rate risk	1.4	2.8	2.0	2.2	0.3
Foreign exchange position	1.7	2.2	1.3	3.0	1.5
Foreign exchange risk	0.0	0.0	0.0	0.0	0.0
Loans and advances relative to deposits *	0.9	0.8	0.8	0.8	0.8
Loans and advances relative to shareholders' equity *	7.0	6.5	6.5	6.4	6.4
Growth in loans and advances for the period *	2.6	2.6	1.4	1.1	3.2
Excess cover relative to statutory liquidity requirements	147.3	166.8	186.2	185.1	141.1
Total large exposures	10.6	0.0	10.2	10.2	10.1
Accumulated impairment ratio	4.5	4.7	4.9	4.9	4.9
Impairment ratio for the period **	0.04	0.05	0.06	0.11	0.13
Number of full-time staff at end of period	2,027	2,044	2,113	2,164	2,147

\* 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.



## Capital

DKKm	Share capital	Reval. reserves	Reserves acc to articles of assoc*	Reserve for net revaluation acc to equity method	Retained earnings	Proposed dividend etc	Total
Shareholders' equity at 1 Jan 2016	742	79	425	13	9,355	813	11,427
Profit for the period	-	-	-	-	283	-	283
<b>Other comprehensive income</b>							
Translation of foreign entities	-	-	-	-	(2)	-	(2)
Hedge of net investment in foreign entities	-	-	-	-	2	-	2
Property revaluation	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-
Comprehensive income for the period	-	-	-	-	283	-	283
<b>Transactions with owners</b>							
Purchase of own shares	-	-	-	-	(403)	-	(403)
Sale of own shares	-	-	-	-	370	-	370
Dividend etc paid	-	-	-	-	-	(813)	(813)
Dividend, own shares	-	-	-	-	10	-	10
Total transactions with owners	-	-	-	-	(23)	(813)	(836)
<b>Shareholders' equity at 31 Mar 2016</b>	<b>742</b>	<b>79</b>	<b>425</b>	<b>13</b>	<b>9,615</b>	<b>-</b>	<b>10,874</b>
Shareholders' equity at 1 Jan 2015	742	90	425	10	9,508	536	11,311
Profit for the period	-	-	-	-	304	-	304
<b>Other comprehensive income</b>							
Translation of foreign entities	-	-	-	-	34	-	34
Hedge of net investment in foreign entities	-	-	-	-	(34)	-	(34)
Total other comprehensive income	-	-	-	-	-	-	-
Comprehensive income for the period	-	-	-	-	304	-	304
<b>Transactions with owners</b>							
Purchase of own shares	-	-	-	-	(247)	-	(247)
Sale of own shares	-	-	-	-	255	-	255
Dividend etc paid	-	-	-	-	-	(536)	(536)
Dividend, own shares	-	-	-	-	7	-	7
Total transactions with owners	-	-	-	-	15	(536)	(521)
<b>Shareholders' equity at 31 Mar 2015</b>	<b>742</b>	<b>90</b>	<b>425</b>	<b>10</b>	<b>9,827</b>	<b>-</b>	<b>11,094</b>

\* Reserves according to the Articles of Association are identical to the undistributable savings bank reserve in accordance with Article 4 of the Articles of Association.

The Sydbank share	31 Mar 2016	Full year 2015	31 Mar 2015
Share capital (DKK)	742,499,990	742,499,990	742,499,990
Shares issued (number)	74,249,999	74,249,999	74,249,999
Shares outstanding at end of period (number)	71,163,932	71,334,716	73,392,256
Average number of shares outstanding (number)	71,303,055	72,501,307	73,360,813

The Bank has only one class of shares as all shares carry the same rights.

## Capital

DKKm	31 Mar 2016	31 Dec 2015	31 Mar 2015
<b>Solvency</b>			
Common Equity Tier 1 capital ratio	14.4	14.5	14.6
Tier 1 capital ratio	15.7	15.9	16.0
Capital ratio	17.5	17.6	17.6
<b>Total capital:</b>			
Shareholders' equity	10,874	11,427	11,094
Expected maximum dividend based on dividend policy	(141)	-	(152)
Capital deduction based on prudence concept	(75)	-	-
Actual or contingent liabilities to purchase own shares	(311)	-	-
Proposed dividend etc	-	(813)	-
Intangible assets and capitalised deferred tax assets	(343)	(349)	(374)
Significant investments in financial sector	(452)	(413)	(322)
<b>Common Equity Tier 1 capital</b>	<b>9,552</b>	<b>9,852</b>	<b>10,246</b>
Additional Tier 1 capital	833	973	973
<b>Tier 1 capital</b>	<b>10,385</b>	<b>10,825</b>	<b>11,219</b>
Tier 2 capital	963	908	908
Difference between expected losses and accounting impairment charges	248	251	272
<b>Total capital</b>	<b>11,596</b>	<b>11,984</b>	<b>12,399</b>
Credit risk	43,895	44,931	49,111
Market risk	8,455	8,876	5,713
Operational risk	8,173	8,173	8,575
Other exposures incl credit valuation adjustment	5,778	5,975	6,898
<b>Total risk exposure</b>	<b>66,301</b>	<b>67,955</b>	<b>70,297</b>
<b>Capital requirement under Pillar I</b>	<b>5,304</b>	<b>5,436</b>	<b>5,624</b>

## Cash Flow Statement

DKKm	Q1 2016	Full year 2015	Q1 2015
<b>Operating activities</b>			
Pre-tax profit for the period	363	1,473	397
Taxes paid	(209)	(427)	(352)
Adjustment for non-cash operating items	51	470	144
Cash flows from working capital	101	998	2,318
Cash flows from operating activities	306	2,514	2,507
<b>Investing activities</b>			
Purchase and sale of holdings in associates	1	13	1
Purchase and sale of intangible assets and property, plant and equipment	(21)	(23)	(33)
Cash flows from investing activities	(20)	(10)	(32)
<b>Financing activities</b>			
Purchase and sale of own holdings	(33)	(503)	8
Dividends etc	(803)	(529)	(529)
Raising of subordinated capital	(3)	745	746
Issue of bonds	(4)	(14)	(13)
Cash flows from financing activities	(843)	(301)	212
<b>Cash flows for the period</b>	<b>(557)</b>	<b>2,203</b>	<b>2,687</b>
Cash and cash equivalents at 1 Jan	4,488	2,285	2,285
Cash flows for the period	(557)	2,203	2,687
<b>Cash and cash equivalents at end of period</b>	<b>3,931</b>	<b>4,488</b>	<b>4,972</b>

## Segment Reporting

DKKm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
<b>Operating segments – Q1 2016</b>						
Core income	977	45	28	-	-	1,050
Trading income	-	-	54	-	-	54
<b>Total income</b>	<b>977</b>	<b>45</b>	<b>82</b>	<b>-</b>	<b>-</b>	<b>1,104</b>
Costs, core earnings	614	18	34	-	15	681
Impairment of loans and advances etc	38	-	-	-	-	38
<b>Core earnings</b>	<b>325</b>	<b>27</b>	<b>48</b>	<b>-</b>	<b>(15)</b>	<b>385</b>
Investment portfolio earnings	(5)	-	-	(17)	-	(22)
<b>Profit before non-recurring items</b>	<b>320</b>	<b>27</b>	<b>48</b>	<b>(17)</b>	<b>(15)</b>	<b>363</b>
Non-recurring items, net	-	-	-	-	-	-
<b>Profit before tax</b>	<b>320</b>	<b>27</b>	<b>48</b>	<b>(17)</b>	<b>(15)</b>	<b>363</b>

DKKm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
<b>Operating segments – Q1 2015</b>						
Core income	1,028	47	40	-	-	1,115
Trading income	-	-	118	-	-	118
<b>Total income</b>	<b>1,028</b>	<b>47</b>	<b>158</b>	<b>-</b>	<b>-</b>	<b>1,233</b>
Costs, core earnings	632	14	27	-	16	689
Impairment of loans and advances etc	116	-	-	-	-	116
<b>Core earnings</b>	<b>280</b>	<b>33</b>	<b>131</b>	<b>-</b>	<b>(16)</b>	<b>428</b>
Investment portfolio earnings	-	-	-	(31)	-	(31)
<b>Profit before non-recurring items</b>	<b>280</b>	<b>33</b>	<b>131</b>	<b>(31)</b>	<b>(16)</b>	<b>397</b>
Non-recurring items, net	-	-	-	-	-	-
<b>Profit before tax</b>	<b>280</b>	<b>33</b>	<b>131</b>	<b>(31)</b>	<b>(16)</b>	<b>397</b>

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## Notes



### Note 1

#### **Accounting policies**

The Interim Report is prepared in compliance with IAS 34 “Interim Financial Reporting” as adopted by the EU and in compliance with additional Danish disclosure requirements for interim reports. As a result of the use of IAS 34, the presentation is less complete compared with the presentation of an annual report and the recognition and measurement principles are in compliance with IFRS.

The accounting policies are consistent with those adopted in the 2015 Annual Report, to which reference is made.

The 2015 Annual Report provides a comprehensive description of the accounting policies applied.

The measurement of certain assets and liabilities requires managerial estimates as to how future events will affect the value of such assets and liabilities. The significant estimates made by management in the use of the Group’s accounting policies and the inherent considerable uncertainty of such estimates used in the preparation of the condensed interim report are identical to those used in the preparation of the annual report as at 31 December 2015.

The Group’s significant risks and the external elements which may affect the Group are described in greater detail in the 2015 Annual Report.

## Notes

DKKkm	Q1 2016	Q1 2015	Full year 2015
<b>Note 2</b>			
<b>Interest income</b>			
Reverse transactions with credit institutions and central banks	(2)	(8)	(32)
Amounts owed by credit institutions and central banks	(2)	0	(8)
Reverse loans and advances	(7)	(1)	(24)
Loans and advances and other amounts owed	654	694	2,732
Bonds	78	88	289
Derivatives	(34)	(27)	(119)
comprising:			
Foreign exchange contracts	21	23	93
Interest rate contracts	(55)	(50)	(212)
Other contracts	0	0	0
Other interest income	2	0	8
<b>Total</b>	<b>689</b>	<b>746</b>	<b>2,846</b>

### Note 3

<b>Interest expense</b>			
Repo transactions with credit institutions and central banks	12	(8)	(41)
Credit institutions and central banks	(17)	6	22
Repo deposits	15	0	(4)
Deposits and other debt	37	82	265
Bonds issued	15	15	60
Subordinated capital	9	6	35
Other interest expense	0	0	5
<b>Total</b>	<b>71</b>	<b>101</b>	<b>342</b>

### Note 4

<b>Fee and commission income</b>			
Securities trading and custody accounts	247	253	1,029
Payment services	72	72	297
Loan fees	28	53	159
Guarantee commission	20	26	110
Other fees and commission	86	89	307
<b>Total</b>	<b>453</b>	<b>493</b>	<b>1,902</b>

## Notes

DKKm	Q1 2016	Q1 2015	Full year 2015
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### Note 5

#### Market value adjustments

Other loans and advances and amounts owed at fair value	1	0	2
Bonds	172	121	(197)
Shares etc	41	46	128
Investment property	0	0	(1)
Foreign exchange	46	64	213
Total derivatives	(202)	(121)	106
Assets related to pooled plans	(38)	732	163
Deposits in pooled plans	39	(733)	(163)
Other assets/liabilities	(1)	(1)	0
<b>Total</b>	<b>58</b>	<b>108</b>	<b>251</b>

### Note 6

#### Staff costs and administrative expenses

Salaries and remuneration:			
Group Executive Management	3	3	14
Board of Directors	1	1	5
Shareholders' Committee	1	1	2
<b>Total</b>	<b>5</b>	<b>5</b>	<b>21</b>

#### Staff costs:

Wages and salaries	300	319	1,247
Pensions	30	31	128
Social security contributions	4	4	16
Payroll tax etc	39	35	140
<b>Total</b>	<b>373</b>	<b>389</b>	<b>1,531</b>

#### Other administrative expenses:

IT	138	139	533
Rent etc	26	26	118
Marketing and entertainment expenses	17	18	82
Other costs	94	60	170
<b>Total</b>	<b>275</b>	<b>243</b>	<b>903</b>
<b>Total</b>	<b>653</b>	<b>637</b>	<b>2,455</b>

### Note 7

#### Staff

Average number of staff (full-time equivalent)	2,064	2,147	2,154
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## Notes

DKKm	Q1 2016	Q1 2015	Full year 2015
<b>Note 8</b>			
<b>Other operating expenses</b>			
Contributions to the Guarantee Fund for Depositors and Investors	-	30	121
Contributions to the Resolution Fund	5	-	9
Other expenses	0	0	0
<b>Total</b>	<b>5</b>	<b>30</b>	<b>130</b>
<b>Note 9</b>			
<b>Impairment of loans and advances recognised in the income statement</b>			
Impairment and provisions	24	111	222
Write-offs	20	22	200
Recovered from debt previously written off	22	17	111
<b>Impairment of loans and advances etc</b>	<b>22</b>	<b>116</b>	<b>311</b>
<b>Impairment and provisions at end of period</b>			
Individual impairment and provisions	3,662	4,018	3,687
Collective impairment and provisions	372	348	495
<b>Impairment and provisions at end of period</b>	<b>4,034</b>	<b>4,366</b>	<b>4,182</b>
<b>Individual impairment of loans and advances and provisions for guarantees</b>			
Impairment and provisions at 1 Jan	3,687	4,111	4,111
Exchange rate adjustment	0	0	0
New individual impairment charges	521	485	1,223
Reversed individual impairment charges	326	372	984
Impairment charges previously recorded, now finally written off	220	206	663
<b>Impairment and provisions at end of period</b>	<b>3,662</b>	<b>4,018</b>	<b>3,687</b>
Individual impairment of loans and advances	3,528	3,905	3,569
Individual provisions for guarantees	134	113	118
<b>Impairment and provisions at end of period</b>	<b>3,662</b>	<b>4,018</b>	<b>3,687</b>
<b>Collective impairment of loans and advances and provisions for guarantees</b>			
Impairment and provisions at 1 Jan	495	301	301
Impairment and provisions during the period	(123)	47	194
<b>Impairment and provisions at end of period</b>	<b>372</b>	<b>348</b>	<b>495</b>
Sum of loans and advances and amounts owed subject to collective impairment and provisions	6,809	5,008	6,810
Collective impairment and provisions	372	348	495
<b>Loans and advances and amounts owed after collective impairment and provisions</b>	<b>6,437</b>	<b>4,660</b>	<b>6,315</b>
<b>Individual impairment of loans and advances subject to objective evidence of impairment</b>			
Balance before impairment of individually impaired loans and advances	6,223	6,700	6,273
Impairment of individually impaired loans and advances	3,529	3,905	3,569
<b>Balance after impairment of individually impaired loans and advances</b>	<b>2,694</b>	<b>2,795</b>	<b>2,704</b>
Accrued interest concerning individually and collectively impaired loans and advances	143	127	641



## Notes

Industry	Loans/advances and guarantees		Impairment and provisions		Impairment of loans and advances etc for the period		Sydbank Group Loss for the period	
	31 Mar	31 Dec	31 Mar	31 Dec	Q1	Q1	Q1	Q1
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Note 9 – continued</b>								
<b>Loans and advances and guarantees as well as impairment charges for loans and advances etc by industry</b>								
Agriculture, hunting, forestry and fisheries	6,079	6,268	1,075	1,027	120	60	107	6
<i>Pig farming</i>	1,796	1,797	329	281	58	27	5	0
<i>Cattle farming</i>	1,755	1,798	578	599	46	31	85	0
<i>Crop production</i>	1,327	1,386	53	50	(7)	0	0	4
<i>Other agriculture</i>	1,201	1,287	115	97	23	2	17	2
Manufacturing and extraction of raw materials	8,266	7,835	176	183	3	11	12	21
Energy supply etc	3,305	3,512	34	32	2	2	0	4
Building and construction	3,555	3,421	95	102	0	4	3	3
Trade	13,214	12,828	407	434	10	(12)	43	11
Transportation, hotels and restaurants	3,471	3,397	69	64	4	3	2	2
Information and communication	326	312	18	20	(1)	(2)	0	1
Finance and insurance	6,369	6,410	179	216	(3)	(9)	8	18
Real property	7,467	7,467	435	422	21	11	22	82
<i>Leasing of commercial property</i>	3,679	3,585	191	201	15	8	6	53
<i>Leasing of residential property</i>	1,245	1,375	113	122	1	0	9	7
<i>Cooperative housing associations/     Non-profit housing associations</i>	1,809	1,789	0	0	0	-	0	-
<i>Purchase, development and sale on own account</i>	563	568	84	75	4	5	7	18
<i>Other related to real property</i>	171	150	47	24	1	(2)	0	4
Other corporate lending	3,456	3,602	175	182	3	(7)	17	11
<b>Total corporate lending</b>	<b>55,508</b>	<b>55,052</b>	<b>2,663</b>	<b>2,682</b>	<b>159</b>	<b>61</b>	<b>214</b>	<b>159</b>
Public authorities	693	999	-	-	-	-	-	-
Retail clients	33,607	32,786	866	887	(14)	8	26	69
Collective impairment charges			372	495	(123)	47	-	-
Provisions for guarantees			133	118				
<b>Total</b>	<b>89,808</b>	<b>88,837</b>	<b>4,034</b>	<b>4,182</b>	<b>22</b>	<b>116</b>	<b>240</b>	<b>228</b>

## Notes

DKKm	Q1 2016	Q1 2015	Full year 2015
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### Note 10

#### Profit on holdings in associates and subsidiaries

Profit/(Loss) on holdings in associates etc	2	2	5
<b>Total</b>	<b>2</b>	<b>2</b>	<b>5</b>

### Note 11

#### Effective tax rate

Current tax rate of Sydbank	22.0	23.5	23.5
Permanent differences	-	-	(1.1)
Adjustment of prior year tax charges	-	-	(0.3)
<b>Effective tax rate</b>	<b>22.0</b>	<b>23.5</b>	<b>22.1</b>

DKKm	31 Mar 2016	31 Dec 2015	31 Mar 2015
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### Note 12

#### Amounts owed by credit institutions and central banks

Amounts owed at notice by central banks	460	-	-
Amounts owed by credit institutions	2,866	4,274	12,114
<b>Total</b>	<b>3,326</b>	<b>4,274</b>	<b>12,114</b>
Of which reverse transactions	1,091	1,062	10,712

### Note 13

#### Other assets

Positive market value of derivatives etc	8,747	8,014	13,499
Sundry debtors	350	351	655
Interest and commission receivable	213	196	202
Cash collateral provided, CSA agreements	2,881	2,485	3,743
Other assets	0	1	13
<b>Total</b>	<b>12,191</b>	<b>11,047</b>	<b>18,112</b>

## Notes

DKKm	31 Mar 2016	31 Dec 2015	31 Mar 2015
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### Note 14

#### Amounts owed to credit institutions and central banks

Amounts owed to central banks	221	16	13
Amounts owed to credit institutions	22,440	17,769	31,577
<b>Total</b>	<b>22,661</b>	<b>17,785</b>	<b>31,590</b>
Of which repo transactions	15,236	11,607	20,010

### Note 15

#### Deposits and other debt

On demand	59,119	61,628	60,085
At notice	6,231	6,192	341
Time deposits	6,167	6,564	5,941
Special categories of deposits	5,303	5,516	5,752
<b>Total</b>	<b>76,820</b>	<b>79,900</b>	<b>72,119</b>
Of which repo transactions	318	2,909	1,056

### Note 16

#### Other liabilities

Negative market value of derivatives etc	9,265	8,417	14,138
Sundry creditors etc	4,052	4,192	1,574
Negative portfolio, reverse transactions	1,900	2,033	6,087
Interest and commission etc	58	53	93
Cash collateral received, CSA agreements	983	745	1,013
<b>Total</b>	<b>16,258</b>	<b>15,440</b>	<b>22,905</b>

### Note 17

#### Provisions

Provisions for pensions and similar obligations	3	3	4
Provisions for deferred tax	127	127	80
Provisions for guarantees	134	118	113
Other provisions *	62	72	82
<b>Total</b>	<b>326</b>	<b>320</b>	<b>279</b>

\* Other provisions mainly concern provisions for onerous contracts and legal actions.

## Notes

DKK m	31 Mar 2016	31 Dec 2015	31 Mar 2015
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### Note 18

#### Subordinated capital

Interest rate	Note		Nominal (m)	Maturity			
2.13 (fixed)	1)	Bond loan	EUR 100	11 Mar 2027	739	740	740
<b>Total Tier 2 capital</b>					<b>739</b>	<b>740</b>	<b>740</b>
0.95 (floating)	2)	Bond loan	EUR 100	Perpetual	744	745	746
1.14 (floating)	3)	Bond loan	EUR 75	Perpetual	559	560	560
6.36 (fixed)	4)	Bond loan	DKK 85	Perpetual	85	85	85
<b>Total Additional Tier 1 capital</b>					<b>1,388</b>	<b>1,390</b>	<b>1,391</b>
<b>Total subordinated capital</b>					<b>2,127</b>	<b>2,130</b>	<b>2,131</b>
1) Optional redemption from 11 March 2022 after which the interest rate will be fixed at 1.72% above 5Y Mid-Swap.							
2) Optional redemption from 25 April 2017 after which the interest rate will be fixed at 2.10% above 3M EURIBOR.							
3) The interest rate follows the 10Y Mid-Swap plus a premium of 0.2%.							
4) Optional redemption from 14 May 2017 after which the interest rate will be fixed at 1.75% above 3M CIBOR.							
Costs relating to the raising and redemption of subordinated capital					0	0	0

### Note 19

#### Contingent liabilities and other obligating agreements

##### Contingent liabilities

Financial guarantees	3,705	4,011	3,840
Mortgage finance guarantees	1,757	1,781	1,603
Registration and remortgaging guarantees	2,588	3,002	6,438
Other contingent liabilities	1,673	1,704	1,606
<b>Total</b>	<b>9,723</b>	<b>10,498</b>	<b>13,487</b>

##### Other obligating agreements

Irrevocable credit commitments	915	784	1,346
Other liabilities	35	37	41
<b>Total</b>	<b>950</b>	<b>821</b>	<b>1,387</b>

Totalkredit loans arranged by Sydbank are subject to an agreed right of set-off against future current commission which Totalkredit may invoke in the event of losses on the loans arranged.

Sydbank does not expect that this set-off will have a significant impact on Sydbank's financial position.

As a result of the Bank's membership of Bankdata, the Bank will be obligated to pay an exit charge in the event of exit.

The deposit guarantee scheme has been changed and the EU's recovery and resolution directive has been implemented in Danish law effective 1 June 2015. The new guarantee fund will cover losses on covered deposits with distressed credit institutions. The fund must account for at least 0.8% of the covered deposits. From 2016 any contributions to the fund will be calculated on the basis of the credit institution's covered deposits and risk relative to other credit institutions in Denmark.

## Notes

DKKm	31 Mar 2016	31 Dec 2015	31 Mar 2015
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### Note 19 – continued

Moreover a Danish resolution fund has been established. Each credit institution will contribute to the fund on the basis of its size and risk relative to other credit institutions in Denmark. The resolution fund must be established and have assets at its disposal equal to at least 1% of the covered deposits of all Danish credit institutions by 31 December 2024. The intention is that losses will be covered by the annual contributions from the participating credit institutions. If one of the funds suffers a loss the annual contribution may be increased.

The Group is party to a number of legal actions. These actions are under continuous review and the necessary provisions made are based on an assessment of the risk of loss. Pending legal actions are not expected to have any significant impact on the financial position of the Group.

### Note 20

#### Repo and reverse transactions

In connection with repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet and consideration received is recognised as a debt. Repo transaction securities are treated as assets provided as collateral for liabilities.

In connection with reverse transactions, which involve purchasing securities to be resold at a later date, the Group is entitled to sell or deposit them as collateral for other loans. The securities are not recognised in the balance sheet and consideration paid is recognised as a receivable.

Assets received as collateral in connection with reverse transactions may be sold to a third party. In such cases a negative portfolio may arise as a result of the accounting rules. This is recognised under “Other liabilities”.

#### Assets sold as part of repo transactions

Bonds at fair value	15,875	14,712	21,386
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#### Assets purchased as part of reverse transactions

Bonds at fair value	8,939	11,140	18,554
Shares etc	-	1	-

### Note 21

#### Collateral

At 31 March 2016 the Group had deposited as collateral securities at a market value of DKK 165m with Danish and foreign exchanges and clearing centres etc in connection with margin calls and securities settlements etc.

## Notes

DKKm	Q1 2016	Q1 2015	Index 16/15	Full year 2015
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### Note 22

#### Related parties

Sydbank is the bank of a number of related parties. Transactions with related parties are settled on an arm's length basis.

No unusual transactions took place with related parties in Q1 2016. Reference is made to the Group's 2015 Annual Report for a detailed description of related party transactions.

### Note 23

#### Reporting events occurring after the balance sheet date

After the expiry of Q1, no matters of significant impact on the financial position of the Sydbank Group have occurred.

### Note 24

#### Large shareholders

Silchester International Investors LLP owns more than 5% of Sydbank's share capital.

### Note 25

#### Core income

Net interest etc	588	595	99	2,404
Mortgage credit *	88	96	92	376
Payment services	46	53	87	207
Remortgaging and loan fees	26	52	50	159
Commission and brokerage	95	132	72	407
Commission etc investment funds and pooled pension plans	95	87	109	341
Asset management	45	47	96	183
Custody fees	18	19	95	75
Other income	49	34	144	177
<b>Total</b>	<b>1,050</b>	<b>1,115</b>	<b>94</b>	<b>4,329</b>

#### \* Mortgage credit

Totalkredit cooperation	74	84	88	326
Totalkredit, set-off of loss	4	8	50	32
Totalkredit cooperation, net	70	76	92	294
DLR Kredit	17	19	89	79
Other mortgage credit income	1	1	-	3
<b>Total</b>	<b>88</b>	<b>96</b>	<b>92</b>	<b>376</b>

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## Notes

DKKm

### Note 26

#### Financial instruments recognised at fair value

Measurement of financial instruments is based on quoted prices from an active market, on generally accepted valuation models with observable market data or on available data that only to a limited extent are observable market data.

Measurement of financial instruments for which prices are quoted in an active market or which are based on generally accepted valuation models with observable market data is not subject to significant estimates.

As regards financial instruments where measurement is based on available data that only to a limited extent are observable market data, measurement is subject to estimates. Such financial instruments appear from the column unobservable inputs below and include primarily unlisted shares, including shares in DLR Kredit A/S.

The fair value of unlisted shares and other holdings is calculated on the basis of available information on trades etc – including to a very significant extent on shareholders agreements based on book value. To an insignificant extent fair value is calculated on the basis of expected cash flows.

A 10% change in the calculated market value of financial assets measured on the basis of unobservable inputs will affect profit before tax by DKK 152m.

## Notes

31 Mar 2016	Quoted prices	Observable inputs	Unobservable inputs	Total fair value	Carrying amount
DKKkm					

### Note 26 – continued

#### Financial assets

Amounts owed by credit institutions and central banks	-	1,091	-	1,091	1,091
Loans and advances at fair value	-	7,865	-	7,865	7,865
Bonds at fair value	-	28,410	1	28,411	28,411
Shares etc	209	19	1,517	1,745	1,745
Assets related to pooled plans	4,006	8,117	-	12,123	12,123
Other assets	42	8,823	-	8,865	8,865
<b>Total</b>	<b>4,257</b>	<b>54,325</b>	<b>1,518</b>	<b>60,100</b>	<b>60,100</b>

#### Financial liabilities

Amounts owed to credit institutions and central banks	-	15,236	-	15,236	15,236
Deposits and other debt	-	318	-	318	318
Deposits in pooled plans	-	12,130	-	12,130	12,130
Other liabilities	63	11,102	-	11,165	11,165
<b>Total</b>	<b>63</b>	<b>38,786</b>	<b>-</b>	<b>38,849</b>	<b>38,849</b>

DKKkm

31 Mar  
201631 Mar  
2015

#### Assets measured on the basis of unobservable inputs

Carrying amount at 1 Jan	1,493	1,392
Additions	0	24
Disposals	7	6
Market value adjustment	32	18
<b>Carrying amount at end of period</b>	<b>1,518</b>	<b>1,428</b>

#### Recognised in profit for the period

Interest income	0	-
Dividend	1	-
Market value adjustment	32	18
<b>Total</b>	<b>33</b>	<b>18</b>



## Notes

31 Mar 2016		Sydbank Group				
DKKm	Activity	Share capital (m)	Shareholders' equity (DKKm)	Profit/(Loss) (DKKm)	Ownership share (%)	
<b>Note 27</b>						
<b>Group holdings and enterprises</b>						
Sydbank A/S		DKK	742			
<b>Consolidated subsidiaries</b>						
DiBa A/S, Aabenraa	Investment	DKK	66	1,957	(4)	100
Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa	Real property	DKK	10	10	(13)	100
Sydinvest Administration A/S, Aabenraa	Administration	DKK	40	40	3	100
Sydbank (Schweiz) AG, in Liquidation, St. Gallen, Switzerland	-	CHF	40	248	(1)	100
<b>Holdings in associates</b>						
Foreningen Bankdata, Fredericia	IT	DKK	544	544	95	31
Core Property Management A/S, Copenhagen	Real property	DKK	10	27	12	20

Financial information according to the companies' most recently published annual reports.

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## Management Statement

We have reviewed and approved the Interim Report – Q1 2016 of Sydbank A/S.

The consolidated interim financial statements are prepared in accordance with IAS 34 “Interim Financial Reporting” as approved by the EU. Furthermore the interim financial statements (of the parent company) are prepared in compliance with Danish disclosure requirements for interim reports of listed financial companies.

The Interim Report has not been audited or reviewed.

In our opinion the interim financial statements give a true and fair view of the Group’s and the parent company’s assets, shareholders’ equity and liabilities and financial position at 31 March 2016 and of the results of the Group’s and the parent company’s operations and consolidated cash flows for the period 1 January – 31 March 2016. Moreover it is our opinion that the management’s review includes a fair review of the developments in the Group’s and the parent company’s operations and financial position as well as a description of the most significant risks and elements of uncertainty which may affect the Group and the parent company.

Aabenraa, 27 April 2016

### Group Executive Management

Karen Frøsig  
CEO

Bjarne Larsen

Jan Svarre

### Board of Directors

Torben H. Nielsen  
Chairman

Peder Damgaard  
Vice-Chairman

Svend Erik Busk

Alex Slot Hansen

Lars Mikkelaard-Jensen

Janne Moltke-Leth

Frank Møller Nielsen

Jacob Chr. Nielsen

Bo Normann Rasmussen

Jarl Oxlund

Margrethe Weber

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## Supplementary Information

### Financial calendar

In 2016 the Group's preliminary announcement of financial statements will be released as follows:

- Interim Report – First Half 2016  
25 August 2016
- Interim Report – Q1-Q3 2016  
2 November 2016

### Sydbank contacts

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CVR No DK 12626509

### Relevant links

[sydbank.dk](http://sydbank.dk)  
[sydbank.com](http://sydbank.com)

For further information reference is made to Sydbank's 2015 Annual Report at [sydbank.com](http://sydbank.com).