Interim Report – Q1 2017

Sydbank Group

Sydbank

Sydbank's Interim Report – Q1 2017

Strong trading income, high investment portfolio earnings and continued high credit quality ensure very satisfactory start to 2017

Sydbank has delivered a highly satisfactory performance for the first three months of 2017 and continues the positive trend. Trading income as well as investment portfolio earnings are at a very high level for the first quarter. Impairment charges have declined by 71% compared to the first quarter of 2016. The Bank's loans and advances have effectively increased by DKK 0.4bn adjusted for the effect of the amended agreement concerning the funding of mortgage-like loans.

CEO Karen Frøsig comments on Sydbank's Q1 result:

- It is highly satisfactory to note an increase of DKK 164m in profit after tax compared with the same period in 2016. The increase in profits is driven by improvements in trading income, impairment charges and investment portfolio earnings. Profit after tax equals a return of 15.5% p.a. on shareholders' equity.

CEO Karen Frøsig elaborates:

- Prospects for the rest of 2017 give rise to cautious optimism. The financial health of the Bank's customers is generally good. In 2017 Sydbank will step up measures that will strengthen our business model for the benefit of customers and employees. Consequently DKK 75m has been allocated extraordinarily for the digitisation of the Bank as well as the establishment of a new mortgage platform.

Q1 2017 – highlights

- Profit of DKK 447m, equal to a return on shareholders' equity of 15.5% p.a. after tax.
- Core income of DKK 1,053m on a par with the level in the same period in 2016.
- Total income of DKK 1,146m – up 4% compared to the same period in 2016.
- Impairment charges for loans and advances represent DKK 11m and have declined by 71% compared with the same period in 2016.
- Bank loans and advances have declined by DKK 5.3bn, equal to 6.9% compared to year-end 2016. Adjusted for the decline of DKK 5.7bn as a result of the funding of mortgage-like loans, bank loans and advances have effectively increased by DKK 0.4bn during the quarter.
- The Common Equity Tier 1 capital ratio has declined by 0.5 percentage points compared to year-end 2016 and constitutes 15.6%.
- A share buyback of DKK 664m was commenced on 2 March 2017.

Outlook for 2017

- Limited growth is projected for the Danish economy in 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.
- Unchanged trading income relative to income for 2016 but 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 in 2017 are forecast to be on a par with the impairment charges recorded in 2016. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.
- As a result of intensified digitisation of the Bank as well as the establishment of a new mortgage platform non-recurring costs are expected to represent around DKK 75m.

Contents

Group Financial Highlights

Income statement (DKKm)				
Core income	1,053	1,050	100	4,198
Trading income	93	54	172	237
Total income	**1,146**	**1,104**	**104**	**4,435**
Costs, core earnings	691	681	101	2,590
Core earnings before impairment	**455**	**423**	**108**	**1,845**
Impairment of loans and advances etc	11	38	29	87
Core earnings	**444**	**385**	**115**	**1,758**
Investment portfolio earnings	136	(22)	-	104
Profit before non-recurring items	**580**	**363**	**160**	**1,862**
Non-recurring items, net	(6)	-	-	7
Profit before tax	**574**	**363**	**158**	**1,869**
Tax	127	80	159	397
Profit for the period	**447**	**283**	**158**	**1,472**
Balance sheet highlights (DKKbn)				
Loans and advances at amortised cost	71.9	76.2	94	77.2
Loans and advances at fair value	7.1	7.9	90	6.1
Deposits and other debt	80.9	76.8	105	81.1
Bonds issued at amortised cost	3.7	3.7	100	3.7
Subordinated capital	2.1	2.1	100	2.1
Shareholders' equity	11.4	10.9	105	11.8
Total assets	137.6	145.1	95	146.7
Financial ratios per share (DKK per share of DKK 10)				
EPS Basic **	6.4	4.0		20.9
EPS Diluted **	6.4	4.0		20.9
Share price at end of period	241.7	187.7		219.2
Book value	164.7	152.8		169.2
Share price/book value	1.47	1.23		1.30
Average number of shares outstanding (in millions)	69.5	71.3		70.4
Dividend per share	-	-		10.46
Other financial ratios and key figures				
Common Equity Tier 1 capital ratio	15.6	14.4		16.1
Tier 1 capital ratio	16.0	15.7		17.4
Capital ratio	18.1	17.5		19.2
Pre-tax profit as % p.a. of average shareholders' equity	19.8	13.0		16.6
Post-tax profit as % p.a. of average shareholders' equity	15.5	10.1		13.1
Costs (core earnings) as % of total income	60.3	61.7		58.4
Return on assets (%)	0.3	0.2		1.0
Interest rate risk	0.7	1.4		1.6
Foreign exchange position	4.1	1.7		2.2
Foreign exchange risk	0.1	0.0		0.0
Loans and advances relative to deposits *	0.8	0.9		0.8
Loans and advances relative to shareholders' equity *	6.3	7.0		6.6
Growth in loans and advances for the period *	(6.9)	2.6		3.9
Excess cover relative to statutory liquidity requirements	213.2	147.3		186.5
Total large exposures	10.3	10.6		0.0
Accumulated impairment ratio	3.7	4.5		3.6
Impairment ratio for the period **	0.01	0.04		0.10
Number of full-time staff at end of period	2,062	2,027	102	2,037

* 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.

Highlights

Strong trading income, high investment portfolio earnings and continued high credit quality ensure very satisfactory start to 2017

Sydbank's financial statements for Q1 show a pre-tax profit of DKK 574m compared with DKK 363m in Q1 2016. The increase is attributable to a rise in trading income of 72%, an improvement in investment portfolio earnings of DKK 158m as well as a significant decline in impairment charges of 71%.

Profit before tax equals a return of 19.8% p.a. on average shareholders' equity.

Core income, costs (core earnings) and impairment charges are in line with the expectations announced in the 2016 Annual Report. The trading income recorded in Q1 2017 was better than the outlook presented in the 2016 Annual Report.

Net interest etc constitutes DKK 519m compared with DKK 588m in 2016 – a decrease of DKK 69m. DKK 20m of the decrease is attributable to the effect of the amended funding agreement concerning mortgage-like loans.

Core income constitutes DKK 1,053m compared with DKK 1,050m in 2016 – an increase of DKK 3m.

Total income amounts to DKK 1,146m against DKK 1,104m in 2016.

Core earnings constitute DKK 444m compared with DKK 385m in 2016 – an increase of DKK 59m.

Profit for the period amounts to DKK 447m compared with DKK 283m in 2016 – an increase of DKK 164m.

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 to improve utilisation of the possibilities in connection with digitisation and establishment of a new mortgage platform, DKK 75m will be allocated in 2017 to optimise IT systems. The amount will be recognised under "Non-recurring items".

These funds cover three projects:
- Optimisation of housing loan processes
- New mortgage platform
- Streamlining of credit processes.

Clients and employees alike will experience considerable improvements as a result of the 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 contribute to developing the Bank as well as make it possible to adjust costs – also in the years ahead.

Q1 performance
Compared with Q1 2016 core income has increased by DKK 3m to DKK 1,053m. The increase in core income is mainly attributable to a decrease in net interest income etc and a rise in mortgage credit income.

Trading income rose to DKK 93m in Q1 2017 compared with DKK 54m in the same period in 2016, an increase of 72%.

Total income represents DKK 1,146m, an increase of 4% compared with Q1 2016.

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 691m compared with DKK 681m in 2016 – an increase of DKK 10m.

The Group's impairment charges for loans and advances have declined by DKK 27m to DKK 11m compared with Q1 2016.

Together the Group's position-taking and liquidity handling recorded investment portfolio earnings of DKK 136m in Q1 2017 compared with negative earnings of DKK 22m a year ago.

Profit before tax for Q1 2017 amounts to DKK 574m compared with DKK 363m in the same period in 2016.

Tax represents DKK 127m. Profit for the period amounts to DKK 447m compared with DKK 283m in 2016.

During Q1 2017 Sydbank recorded a decrease in bank loans and advances of DKK 5.3bn. The decline is due to an amendment of the Bank's agreement with Totalkredit on joint funding. The amendment has resulted in a decline in bank loans and advances of DKK 5.7bn. The Group's loans and advances have effectively gone up by DKK 0.4bn in Q1 2017.

Capital

The Group has implemented a share buyback programme of DKK 664m. The share buyback commenced on 2 March 2017 and will be completed by 31 December 2017. At end-March 334,000 shares worth DKK 83m, 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 2016 Annual Report.

On 31 March 2017 the Bank released a company announcement concerning the early repayment of Additional Tier 1 capital of EUR 100m and DKK 85m on 25 April 2017 and 15 May 2017, respectively. Consequently these items are no longer included in the calculation of capital.

Status – targets

Target	Objectives	Status at 31 March 2017	Comments
Return on shareholders' equity after tax	Over 12% *	15.5%	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%	15.6%	Met from Q3 2013
Capital ratio	Around 17.0%	18.1%	Met from Q1 2015
Dividend	30-50% of profit for the year after tax	50% of profit for the year after tax in 2016	Met in 2016

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

Outlook for 2017

Limited growth is projected for the Danish economy in 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 in 2017 are forecast to be on a par with the impairment charges recorded in 2016. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.

As a result of intensified digitisation of the Bank as well as the establishment of a new mortgage platform non-recurring costs are expected to represent around DKK 75m.

Financial Review – Performance in Q1 2017

The Sydbank Group has recorded a profit before tax of DKK 574m (Q1 2016: DKK 363m).

Profit before tax equals a return of 19.8% p.a. on average shareholders' equity.

Profit for the period after tax amounts to DKK 447m compared with DKK 283m in 2016.

Profit after tax equals a return of 15.5% p.a. on average shareholders' equity.

The highly satisfactory result for Q1 2017 significantly exceeds expectations at the beginning of the year.

The result is characterised by:

Q1

- Unchanged core income of DKK 1,053m
- A rise in trading income of DKK 39m
- A 1% increase in costs (core earnings) to DKK 691m
- A 71% decline in impairment charges for loans and advances
- A rise in core earnings of DKK 59m to DKK 444m
- Investment portfolio earnings of DKK 136m
- Bank loans and advances of DKK 71.9bn (year-end 2016: DKK 77.2bn)
- Bank deposits of DKK 80.9bn (year-end 2016: DKK 81.1bn)
- A capital ratio of 18.1%, including a Common Equity Tier 1 capital ratio of 16.0%
- An individual solvency need of 10.2% (year-end 2016: 10.2%).

Core income	1,053	1,050
Trading income	93	54
Total income	**1,146**	**1,104**
Costs, core earnings	691	681
Core earnings before impairment	**455**	**423**
Impairment of loans and advances etc	11	38
Core earnings	**444**	**385**
Investment portfolio earnings	136	(22)
Profit before non-recurring items	**580**	**363**
Non-recurring items, net	(6)	-
Profit before tax	**574**	**363**
Tax	127	80
Profit for the period	**447**	**283**

Core income

Core income has risen by DKK 3m to DKK 1,053m.

Net interest has decreased by DKK 69m to DKK 519m of which DKK 20m is attributable to the effect of the amended funding agreement concerning mortgage-like loans. The funding 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 range of 60-80%. 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 and income will be recognised under mortgage credit income.

Net income from the cooperation with Totalkredit represents DKK 93m (2016: DKK 70m) after a set-off of loss of DKK 9m (2016: DKK 4m).
The cooperation with DLR Kredit has generated an income of DKK 37m (2016: DKK 17m). The increase of DKK 20m is equally attributable to higher commission income and the market value adjustment of the shares in DLR.
Compared to 2016 total mortgage credit income has climbed by DKK 43m to DKK 131m – an increase of 49%. Of the DKK 43m increase, DKK 20m is attributable to funded mortgage-like loans.

Income from remortgaging and loan fees has gone up from DKK 26m in 2016 to DKK 32m – an increase of 23%.

Compared with 2016 income from asset management has gone up by DKK 11m to DKK 56m – a rise of 24%.

The remaining income components have risen by DKK 12m compared to 2016 – an increase of 4%.

Net interest etc	519	588
Mortgage credit	131	88
Payment services	48	46
Remortgaging and loan fees	32	26
Commission and brokerage	103	95
Commission etc investment funds and pooled pension plans	102	95
Asset management	56	45
Custody fees	18	18
Other operating income	44	49
Total	**1,053**	**1,050**

Trading income
Trading income rose to DKK 93m in Q1 2017 compared with DKK 54m in the same period in 2016 – an increase of 72%.

In Fixed Income considerable trading activity was recorded in mortgage bonds as well as corporate bonds in Q1 2017. In Equities activity was at a satisfactory level in Q1 2017.

Bonds	63	26
Shares	22	20
Foreign exchange, interest etc	8	8
Total	**93**	**54**

Costs and depreciation
The Group's costs and depreciation totalled DKK 698m, equal to an increase of DKK 15m compared with 2016.

Staff costs	389	378
Other administrative expenses	280	275
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	24	24
Other operating expenses	5	6
Total costs and depreciation	**698**	**683**
Distributed as follows:		
Costs, core earnings	691	681
Costs, investment portfolio earnings	2	2
Non-recurring costs	6	-

Costs (core earnings) represent DKK 691m compared with DKK 681m in 2016.

At the end of Q1 2017 the Group's staff numbered 2,062 (full-time equivalent) compared with 2,037 at 31 December 2016.

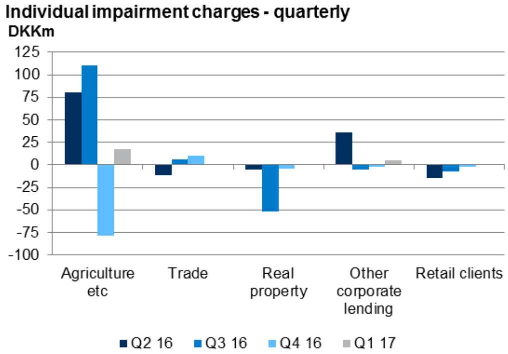
The number of branches is unchanged compared with year-end 2016: 64 in Denmark and three in Germany.

Core earnings before impairment
Core earnings before impairment charges for loans and advances represent DKK 445m – an increase of DKK 32m or 8% compared with the same period in 2016.

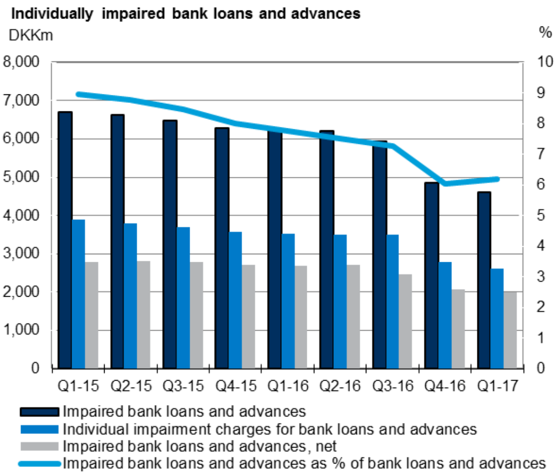
Impairment of loans and advances etc
Impairment charges for loans and advances represent DKK 11m compared with DKK 38m in the same period in 2016 – a decrease of DKK 27m or 71%.

In Q1 2017 individual impairment charges as regards agricultural exposures totalled DKK 17m. Collective impairment charges for agricultural exposures represent DKK 150m at 31 March 2017 – unchanged compared with year-end 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.



At 31 March 2017 the impairment ratio represents 0.01% relative to bank loans and advances and 0.01% relative to bank loans and advances and guarantees. At end-March 2017 accumulated impairment and provisions amount to DKK 3,206m – a decline of DKK 83m compared with the beginning of the year.



Compared with 31 March 2016 impaired bank loans and advances before impairment charges have decreased by DKK 1,608m to DKK 4,615m, equal to a decline of 25.8%.

DKK 1,175m of the decrease is attributable to non-defaulted bank loans and advances and DKK 433m is attributable to defaulted bank loans and advances. During the same period individually impaired bank loans and advances after impairment charges dropped by DKK 692m, equal to 25.7%. Impairment charges for individually impaired bank loans and advances represent 56.6% (31 Mar 2016: 56.7% and 31 Dec 2016: 57.1%).

The decline in impaired bank loans and advances is significantly impacted by the conversion of bank loans and advances – as regards agricultural exposures – to subordinated loan capital and the subsequent write-off for accounting purposes.

In Q1 2017 reported losses amounted to DKK 180m (Q1 2016: DKK 240m). Of the reported losses DKK 158m has previously been written down.

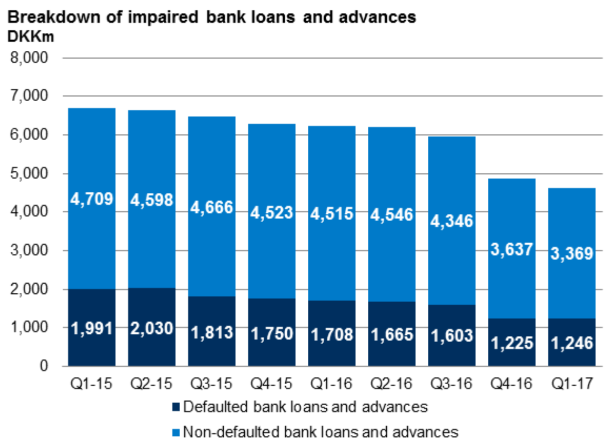
Non-defaulted bank loans and advances	3,369	3,637	4,515
Defaulted bank loans and advances	1,246	1,225	1,708
Impaired bank loans and advances	4,615	4,862	6,223
Impairment charges for bank loans and advances subject to individual impairment	2,613	2,726	3,485
Impaired bank loans and advances after impairment charges	2,002	2,136	2,738
Impaired bank loans and advances as % of bank loans and advances before impairment charges	6.2	6.1	7.8
Impairment charges as % of bank loans and advances before impairment charges	3.5	3.4	4.4
Impairment as % of impaired bank loans and advances	56.6	56.1	56.0
Impairment charges as % of defaulted bank loans and advances	209.7	222.5	204.0

Impairment charges as a percentage of defaulted bank loans and advances at 31 March 2017 stand at 209.7.

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 2016 defaulted bank loans and advances have dropped by DKK 462m to DKK 1,246m, equal to a decline of 27.0%.

Since 31 March 2016 non-defaulted bank loans and advances have dropped by DKK 1,146m to DKK 3,369m, equal to a decline of 25.4%.



Core earnings

Core earnings represent DKK 444m – an increase of DKK 59m or 15% compared with Q1 2016.

Investment portfolio earnings

Together the Group's position-taking and liquidity handling recorded investment portfolio earnings of DKK 136m in Q1 2017 compared with negative earnings of DKK 22m a year ago.

The high investment portfolio earnings in Q1 2017 are a consequence of the narrowing credit spreads on mortgage bonds as well as gains on interest rate fluctuations.

The risk continues to be composed so that the Bank will profit from an interest rate increase.

Position-taking	89	(26)
Liquidity generation and liquidity reserves	39	11
Strategic positions	10	(5)
Costs	(2)	(2)
Total	**136**	**(22)**

Margin expenses as regards the Group's senior issues are included under liquidity generation and liquidity reserves and represent DKK 7m in Q1 2017 compared with DKK 7m in Q1 2016.

Non-recurring items etc, net

Non-recurring items etc represent DKK 6m (Q1 2016: DKK 0m). The item consists of process digitisation costs related to Blue growth as well as the establishment of a new mortgage platform.

Core income	1,053	1,067	1,030	1,051	1,050
Trading income	93	49	65	69	54
Total income	**1,146**	**1,116**	**1,095**	**1,120**	**1,104**
Costs, core earnings	691	632	612	665	681
Core earnings before impairment	**455**	**484**	**483**	**455**	**423**
Impairment of loans and advances etc	11	(27)	33	43	38
Core earnings	**444**	**511**	**450**	**412**	**385**
Investment portfolio earnings	136	63	49	14	(22)
Profit before non-recurring items	**580**	**574**	**499**	**426**	**363**
Non-recurring items, net	(6)	(14)	(5)	26	-
Profit before tax	**574**	**560**	**494**	**452**	**363**
Tax	127	116	109	92	80
Profit for the period	**447**	**444**	**385**	**360**	**283**

Profit for the period
Profit before tax amounts to DKK 574m (Q1 2016: DKK 363m). Tax represents DKK 127m, equal to an effective tax rate of 22.0%. Profit for the period amounts to DKK 447m compared with DKK 283m in 2016.

Return
Profit for the period equals a return on average shareholders' equity of 15.5% p.a. after tax against 10.1% p.a. in Q1 2016. Earnings per share stands at DKK 6.4 compared with DKK 4.0 in 2016.

Subsidiaries
Ejendomsselskabet recorded a profit after tax of DKK 1m (Q1 2016: DKK 1m). Profit after tax in DiBa A/S and Syd Fund Management A/S represents DKK 0m (Q1 2016: DKK 62m) and DKK 4m (Q1 2016: DKK 3m), respectively.

Q1 2017 compared with Q4 2016
Profit before tax for the quarter represents DKK 574m.

Compared with Q4 2016 profit before tax reflects:

- a decline in net interest etc of DKK 56m
- a decrease in core income of DKK 14m
- a rise in trading income of DKK 44m
- a rise in costs (core earnings) of DKK 59m
- an increase in impairment charges for bank loans and advances of DKK 38m
- a decline in core earnings of DKK 67m to DKK 444m
- investment portfolio earnings of DKK 136m (Q4 2016: DKK 63m).

Total assets
The Group's total assets made up DKK 137.6bn at 31 March 2017 against DKK 146.7bn at year-end 2016.

Amounts owed by credit institutions etc	8.6	9.0
Loans and advances at fair value (reverse transactions)	7.1	6.1
Loans and advances at amortised cost (bank loans and advances)	71.9	77.2
Securities and holdings etc	24.5	28.3
Assets related to pooled plans	14.4	13.8
Other assets etc	11.1	12.3
Total	**137.6**	**146.7**

The Group's bank loans and advances made up DKK 71.9bn at end-March 2017 against DKK 77.2bn at year-end 2016 and DKK 76.2bn at end-March 2016.

Amounts owed to credit institutions etc	8.6	17.6
Deposits and other debt	80.9	81.1
Deposits in pooled plans	14.4	13.8
Bonds issued	3.7	3.7
Other liabilities etc	16.5	16.6
Subordinated capital	2.1	2.1
Shareholders' equity	11.4	11.8
Total	**137.6**	**146.7**

The Group's deposits amount to DKK 80.9bn, corresponding to the level at the end of 2016.

As a consequence of the amendment of the funding agreement concerning mortgage-like loans effective 1 January 2017, funded bank loans and advances and the corresponding funding are no longer recognised in the Bank's balance sheet. Funded mortgage-like loans represent DKK 5.7bn at end-March 2017. The funding was included in "Amounts owed to credit institutions etc" at year-end 2016.

Capital

At 31 March 2017 shareholders' equity constitutes DKK 11,406m – a decline of DKK 351m since year-end 2016. The change comprises an addition from profit for the period of DKK 447m less actual distribution of DKK 735m and net purchases of own shares of DKK 63m.

The Group has implemented a share buyback programme of DKK 664m. The share buyback commenced on 2 March 2017 and will be completed by 31 December 2017. At end-March 334,000 shares worth DKK 83m, 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 2016 Annual Report.

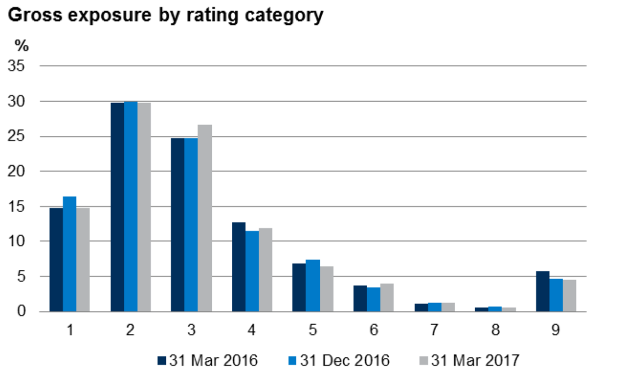
On 31 March 2017 the Bank released a company announcement concerning the early repayment of Additional Tier 1 capital of EUR 100m and DKK 85m on 25 April 2017 and 15 May 2017, respectively. Consequently these items are no longer included in the calculation of capital.

Credit risk	40.7	41.7
Market risk	6.7	8.1
Operational risk	8.0	8.0
Other exposures incl credit valuation adjustment	5.6	5.8
Total	**61.0**	**63.6**

Risk-weighted assets represent DKK 61.0bn (year-end 2016: DKK 63.6bn). The change is mainly attributable to a decrease in market risk of DKK 1.4bn as well as a decline in credit risk of DKK 1.0bn.

The development in the gross exposure by rating category at 31 March 2016, 31 December 2016 and 31 March 2017 appears below.

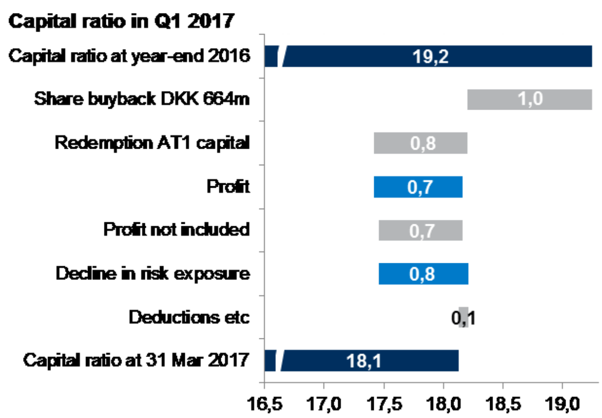
Compared with 31 March 2016 the gross exposure by rating category shows an overall positive development with an increasing share in the four best rating categories.



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.

The Group's capital ratio stands at 18.1%, of which the Tier 1 capital ratio represents 16.0% compared with 19.2% and 17.4%, respectively, at year-end 2016. The Common Equity Tier 1 capital ratio stands at 15.6% (31 Dec 2016: 16.1%).

The development in the Group's capital ratio from 31 December 2016 to 31 March 2017 is illustrated below.



Profit for the period is not included in the calculation of capital ratios at 31 March 2017. If 50% of profit after tax for the period had been recognised the capital ratios would have been 0.4 percentage points higher.

At 31 March 2017 the individual solvency need represents 10.2%, equal to the level at year-end 2016.

The parent's capital ratio stands at 17.5%, of which the Tier 1 capital ratio represents 15.5% compared with 18.7% and 16.8%, respectively, at year-end 2016. The Common Equity Tier 1 capital ratio stands at 15.1% (31 December 2016: 15.6%).

Capital requirements

The Group's capital management is anchored in the Internal Capital Adequacy Assessment Process (ICAAP), a review conducted to identify risks and establish the individual solvency need.

At end-March 2017 the individual solvency need represented 10.2%. The solvency need consists of a minimum capital requirement of 8% under Pillar I and a capital add-on under Pillar II. Approximately 56% of the solvency need must be covered by Common Equity Tier 1 capital, equal to 5.6% of the risk exposure amount.

In addition to the solvency need the Group must meet a combined buffer requirement. The combined buffer requirement for the Group constitutes 1.9% at 31 March 2017. When fully loaded the combined buffer requirement will represent 3.5% bringing the fully loaded CET1 capital ratio requirement to 9.2%.

Capital and solvency		
Common Equity Tier 1 capital ratio	15.6	15.6
Capital ratio	18.1	17.0
Capital requirements (incl buffers)**		
Total capital requirement	12.1	13.7
CET1 capital requirement	7.6	9.2
-of which countercyclical capital buffer	*0.0*	*0.0*
-of which capital conservation buffer	*1.3*	*2.5*
-of which SIFI buffer	*0.6*	*1.0*
Excess capital		
Common Equity Tier 1 capital	8.0	6.4
Total capital	6.0	3.3

* Based on fully loaded CRR/CRD IV rules and requirements.
** The total capital requirement consists of an individual solvency need and a combined buffer requirement. The fully loaded countercyclical capital buffer is based on the national buffer rate as at 31 March 2017.

Market risk

At 31 March 2017 the Group's interest rate risk represents DKK 66m. The Group's exchange rate risk continues to be very low and its equity position modest.

Funding and liquidity

The Group's liquidity – measured under the 10% statutory requirement – constitutes 31.3% at 31 March 2017 against 28.6% at 31 December 2016.

The guidelines for calculating the Liquidity Coverage Ratio – LCR – specify a run-off of exposures, while taking into account counterparties, funding size, hedging and duration. Consequently the most stable deposits are favoured relative to large deposits, in particular large deposits from business enterprises and financial counterparties.

As a SIFI in Denmark Sydbank must meet the LCR in full. The Group's LCR constituted 149% at 31 March 2017 (31 Dec 2016: 166%).

Total liquidity buffer	25.5	28.0	21.2
Net cash outflow	17.1	16.9	16.7
LCR (%)	149	166	126

The Group met the LCR requirement – of 100% – throughout the period and, as can be seen, its excess cover is significant at 31 March 2017.

Shareholders' equity and subordinated capital	12.7	13.9	13.0
Senior loans with maturities over 1 year	3.7	3.7	-
Stable deposits	74.3	74.0	71.1
Total stable funding	90.7	91.6	84.1
Loans and advances (excl reverse and mortgage-like loans funded via external counterparties)	71.9	71.9	76.2
Funding ratio (%)	126	127	110

As shown above the Group's stable funding exceeds the Group's loans and advances by DKK 18.8bn at 31 March 2017 (31 Dec 2016: DKK 19.7bn).

Joint funding

The Bank's agreement on joint funding with Totalkredit was changed effective 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 range of 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 are no longer recognised in the Bank's balance sheet.

At 31 March 2017 funded mortgage-like loans amount to DKK 5.7bn (31 Dec 2016: DKK 5.3bn). Had the agreement been effective as of 31 December 2016, bank loans and advances would have been recognised at DKK 5.3bn less at this date and instead the Bank would have registered guarantees for DKK 1.2bn as regards the guarantees in the range of 60-80%.

At 1 April 2017 funded mortgage-like loans represent DKK 6.4bn.

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.

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

Sum of large exposures < 125%	10	0	11
Lending growth < 20% annually	(6)	4	3
Commercial property exposure < 25%	8	9	8
Funding ratio < 1	0.75	0.80	0.85
Excess cover relative to statutory liquidity requirements > 50%	213	186	147

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 (MREL). The Danish FSA has been authorised to set the requirement for Sydbank.

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

The general resolution principle for SIFIs is that it should be possible to restructure them and send them back to the market with adequate capitalisation to ensure market confidence. In accordance with this principle the MREL for SIFIs is expected to be set at two times the total capital requirement. It is expected that the MREL will have to be met with convertible instruments ("contractual bail-in").

Over the next few months the Danish FSA will have discussions with the industry on phase-in and more detailed requirements for the capital that can be used to meet the MREL. The discussions will take into consideration international developments in the area.

The Danish FSA expects to approve resolution plans and set individual MRELs for SIFIs before the end of 2017. 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 2017 represents DKK 17m.

Leverage ratio
The CRR/CRD IV rules require credit institutions to calculate, report, monitor and disclose their leverage ratio, which is defined as Tier 1 capital as a percentage of total exposure.

The Group's leverage ratio stood at 6.8% at 31 March 2017 (year-end 2016: 7.0%) taking into account the transitional rules. Assuming fully loaded Tier 1 capital under CRR/CRD IV without any refinancing of non-eligible Additional Tier 1 capital, the leverage ratio would be 6.6% (year-end 2016: 6.5%).

IFRS 9
With IFRS 9, coming into force on 1 January 2018, a new impairment model will be implemented according to which impairment charges must be recognised for all the Bank's loans and advances and guarantees on the basis of expected losses. Under the existing rules impairment charges are recognised only when there is objective evidence of impairment.

Under IFRS 9 exposures are divided into three groups for calculating impairment and are classified into different stages (1, 2 or 3), depending on the risk of credit loss. The staging assessment and the calculation of the expected loss will to a large extent be based on the Bank's existing rating models and credit management. Systems to calculate impairment charges in accordance with IFRS 9 are being developed and are adjusted in line with the Danish FSA's statements as regards the more detailed interpretation of the rules. Overall the change in the method to calculate credit loss is expected to trigger an increase in the Group's impairment charges. A more precise quantification is expected in connection with the presentation of the financial statements for 1H 2017.

In general the projected increase in the Group's impairment charges will reduce the Group's shareholders' equity and will consequently have a corresponding negative impact on capital resources. To counter an unintended impact on capital resources and hence banks' possibilities of supporting lending, the European Commission has proposed a 5-year transitional arrangement so that an adverse impact from the new impairment model will not have full effect on capital resources until a period of 5 years has passed.

Basel IV
The Basel Committee on Banking Supervision (BCBS) is currently reviewing the requirements for calculating the risk exposure amount (REA). This review is also known as Basel IV. Among other things, Basel IV proposes to constrain the use of internal models and introduce a permanent floor for

the risk exposure amount. The new requirements are expected to be released in mid-2017 after which the EU implementation process will begin. The Group is following developments closely but the extent of the final regulatory changes and the timeline for implementation are currently unknown.

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 fell by DKK 120m to DKK 1,201m in Q1 2017, equal to a decline of 2.4% in loans and advances.

Of total loans and advances to agriculture an impairment charge of 15.2% was recorded at 31 March 2017 against 15.9% at 31 December 2016.

In 2016 almost only organic milk producers and pig producers were able to generate acceptable earnings. Preliminary results show that conventional milk producers have recorded negative results after owners' wages.

According to SEGES, the average breakeven price – the settlement price necessary to obtain a balance in operations – has been reduced to DKK 2.40 per kg milk. This is due to a combination of improved yields and higher capacity utilisation.

In 2016 the average settlement price was DKK 2.18 per kg milk – ie somewhat lower than the average breakeven price of DKK 2.40 per kg milk. The best milk producers have a breakeven price of around DKK 2.00 per kg milk.

In 2017 the situation for the agricultural sector has improved considerably compared to 2016.

In the first four months of the year the average settlement price was DKK 2.79 per kg conventional milk.

The favourable trend in milk prices is predominantly attributable to falling production worldwide as well as rising demand from China.

An average herd of 200 cows yielding 10,000 kg per cow will be able to generate a profit of approximately DKK 600,000 given the current settlement price and a breakeven price of DKK 2.40 per kg milk.

The same positive picture presents itself regarding pig producers.

The current settlement price from the abattoir is DKK 11.00 per kg before supplementary payments. In the first four months of the year the average quotation was DKK 10.26 per kg before supplementary payments. Most pig producers have a breakeven quotation of approximately DKK 9.50 per kg before supplementary payments.

Pig producers with sows and piglet production currently have very satisfactory earnings.

International demand for Danish piglets is very high and consequently the market price for piglets is currently around DKK 535 per pig.

Due to the high piglet prices, pork producers who do not have sows themselves and purchase piglets at market prices find it difficult to generate satisfactory profits.

Bank loans and advances before impairment charges	1,396	1,213	1,229	1,134	4,972
Individual impairment charges	134	284	83	104	605
Previous events	25	100		25	150
Bank loans and advances after impairment charges	**1,237**	**829**	**1,146**	**1,005**	**4,217**
Impaired bank loans and advances	332	466	223	180	1,201
Impaired as % of bank loans and advances	23.8	38.4	18.1	15.9	24.2
Impairment as % of impaired bank loans and advances	40.4	60.9	37.2	57.8	50.4
Impairment as % of bank loans and advances	11.4	31.7	6.8	11.4	15.2

Bank loans and advances before impairment charges	1,428	1,364	1,220	1,126	5,138
Individual impairment charges	167	321	83	95	666
Previous events	25	100		25	150
Bank loans and advances after impairment charges	**1,236**	**943**	**1,137**	**1,006**	**4,322**
Impaired bank loans and advances	374	561	209	177	1,321
Impaired as % of bank loans and advances	26.2	41.1	17.1	15.7	25.7
Impairment as % of impaired bank loans and advances	44.7	57.2	39.7	53.7	50.4
Impairment as % of bank loans and advances	13.4	30.9	6.8	10.7	15.9

Consequently a number of pork producers have been forced to wind up production – and in some cases also the entire farm.

The profitability of individual farms continues to vary greatly but given the current settlement prices of milk and pork most farmers will be able to generate profits, except however for "pure" pork producers.

The profitable market conditions are forecast to continue for the rest of 2017.

The agricultural sector is in a positive economic development but market analysts expect that it will level off this year.

However the current positive trend does not change the fact that the agricultural sector overall has too large debts and is consequently very vulnerable to developments in settlement prices and interest rates.

In Q1 2017 individual impairment charges of DKK 17m were recorded on agricultural exposures. Individual impairment charges in the first three months were as expected. The collective impairment charge of DKK 150m made in 2016 was unchanged at the end of Q1 2017.

Conversion of bank loans and advances to subordinated loan capital

In Q1 2017 debt concerning an additional seven agricultural exposures was converted to subordinated loan capital. At 31 March 2017 the debt of 55 agricultural clients has thus been converted.

In Q1 2017 DKK 67m was converted, bringing the total amount converted to DKK 565m at the end of Q1 2017.

Income Statement

Interest income	2	569	689	2,674
Interest expense	3	47	71	281
Net interest income		**522**	**618**	**2,393**
Dividends on shares		11	5	47
Fee and commission income	4	495	453	1,902
Fee and commission expense		60	76	340
Net interest and fee income		**968**	**1,000**	**4,002**
Market value adjustments	5	319	58	553
Other operating income		6	7	31
Staff costs and administrative expenses	6	669	653	2,487
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment		24	24	115
Other operating expenses	8	5	5	19
Impairment of loans and advances etc	9	22	22	98
Profit on holdings in associates and subsidiaries	10	1	2	2
Profit before tax		**574**	**363**	**1,869**
Tax	11	127	80	397
Profit for the period		**447**	**283**	**1,472**
EPS Basic (DKK) *		6.4	4.0	20.9
EPS Diluted (DKK) *		6.4	4.0	20.9
Dividend per share (DKK)		-	-	10.46

* Calculated on the basis of average number of shares outstanding, see page 19.

Statement of Comprehensive Income

Profit for the period	**447**	**283**	**1,472**
Other comprehensive income			
Items that may be reclassified to the income statement:			
Translation of foreign entities	1	(2)	1
Hedge of net investment in foreign entities	(1)	2	(1)
Property revaluation	-	-	3
Other comprehensive income after tax	0	0	3
Comprehensive income for the period	**447**	**283**	**1,475**

Balance Sheet

Assets				
Cash and balances on demand at central banks		1,991	2,047	1,200
Amounts owed by credit institutions and central banks	12	6,591	6,981	3,326
Loans and advances at fair value		7,075	6,092	7,865
Loans and advances at amortised cost		71,890	77,191	76,185
Bonds at fair value		22,526	26,331	28,411
Shares etc		1,858	1,838	1,745
Holdings in associates etc		163	162	165
Assets related to pooled plans		14,412	13,817	12,123
Intangible assets		297	303	319
Land and buildings – owner-occupied property		990	986	1,007
Other property, plant and equipment		63	69	70
Current tax assets		85	11	311
Deferred tax assets		56	57	83
Assets in temporary possession		1	2	7
Other assets	13	9,490	10,742	12,191
Prepayments		64	57	64
Total assets		**137,552**	**146,686**	**145,072**
Shareholders' equity and liabilities				
Amounts owed to credit institutions and central banks	14	8,569	17,556	22,661
Deposits and other debt	15	80,946	81,109	76,820
Deposits in pooled plans		14,421	13,825	12,130
Bonds issued at amortised cost		3,716	3,714	3,723
Current tax liabilities		1	38	148
Other liabilities	16	15,962	16,187	16,258
Deferred income		5	3	5
Total liabilities		**123,620**	**132,432**	**131,745**
Provisions	17	402	373	326
Subordinated capital	18	2,124	2,124	2,127
Shareholders' equity:				
Share capital		722	722	742
Revaluation reserves		82	82	79
Other reserves:				
Reserves according to articles of association		425	425	425
Other reserves		13	13	13
Retained earnings		10,164	9,769	9,615
Proposed dividend etc		-	746	-
Total shareholders' equity		11,406	11,757	10,874
Total shareholders' equity and liabilities		**137,552**	**146,686**	**145,072**

Financial Highlights – Quarterly

Income statement (DKKm)					
Core income	1,053	1,067	1,030	1,051	1,050
Trading income	93	49	65	69	54
Total income	**1,146**	**1,116**	**1,095**	**1,120**	**1,104**
Costs, core earnings	691	632	612	665	681
Core earnings before impairment	**455**	**484**	**483**	**455**	**423**
Impairment of loans and advances etc	11	(27)	33	43	38
Core earnings	**444**	**511**	**450**	**412**	**385**
Investment portfolio earnings	136	63	49	14	(22)
Profit before non-recurring items	**580**	**574**	**499**	**426**	**363**
Non-recurring items, net	(6)	(14)	(5)	26	-
Profit before tax	**574**	**560**	**494**	**452**	**363**
Tax	127	116	109	92	80
Profit for the period	**447**	**444**	**385**	**360**	**283**
Balance sheet highlights (DKKbn)					
Loans and advances at amortised cost	71.9	77.2	78.1	78.8	76.2
Loans and advances at fair value	7.1	6.1	6.9	6.8	7.9
Deposits and other debt	80.9	81.1	78.6	79.9	76.8
Bonds issued at amortised cost	3.7	3.7	7.1	7.1	3.7
Subordinated capital	2.1	2.1	2.1	2.1	2.1
Shareholders' equity	11.4	11.8	11.4	11.1	10.9
Total assets	137.6	146.7	146.2	148.0	145.1
Financial ratios per share (DKK per share of DKK 10)					
EPS Basic **	6.4	6.4	5.5	5.1	4.0
EPS Diluted **	6.4	6.4	5.5	5.1	4.0
Share price at end of period	241.7	219.2	201.4	167.2	187.7
Book value	164.7	169.2	163.0	157.6	152.8
Share price/book value	1.47	1.30	1.24	1.06	1.23
Average number of shares outstanding (in millions)	69.5	69.7	69.9	70.7	71.3
Dividend per share	-	10.46	-	-	-
Other financial ratios and key figures					
Common Equity Tier 1 capital ratio	15.6	16.1	14.9	14.8	14.4
Tier 1 capital ratio	16.0	17.4	16.2	16.1	15.7
Capital ratio	18.1	19.2	18.0	18.0	17.5
Pre-tax profit as % p.a. of average shareholders' equity	19.8	19.4	17.6	16.5	13.0
Post-tax profit as % p.a. of average shareholders' equity	15.5	15.3	13.7	13.2	10.1
Costs (core earnings) as % of total income	60.3	58.4	59.0	59.4	61.7
Return on assets (%)	0.3	0.3	0.3	0.2	0.2
Interest rate risk	0.7	1.6	0.6	0.6	1.4
Foreign exchange position	4.1	2.2	1.4	2.1	1.7
Foreign exchange risk	0.1	0.0	0.0	0.0	0.0
Loans and advances relative to deposits *	0.8	0.8	0.8	0.9	0.9
Loans and advances relative to shareholders' equity *	6.3	6.6	6.9	7.1	7.0
Growth in loans and advances for the period *	(6.9)	3.9	(1.0)	3.5	2.6
Excess cover relative to statutory liquidity requirements	213.2	186.5	209.5	192.7	147.3
Total large exposures	10.3	0.0	35.2	0.0	10.6
Accumulated impairment ratio	3.7	3.6	4.2	4.2	4.5
Impairment ratio for the period **	0.01	(0.03)	0.03	0.05	0.04
Number of full-time staff at end of period	2,062	2,037	2,048	2,032	2,027

* 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

Shareholders' equity at 1 Jan 2017	722	82	425	13	9,769	746	11,757
Profit for the period	-	-	-	-	447	-	447
Other comprehensive income							
Translation of foreign entities	-	-	-	-	1	-	1
Hedge of net investment in foreign entities	-	-	-	-	(1)	-	(1)
Property revaluation	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-
Comprehensive income for the period	-	-	-	-	447	-	447
Transactions with owners							
Purchase of own shares	-	-	-	-	(343)	-	(343)
Sale of own shares	-	-	-	-	280	-	280
Dividend etc paid	-	-	-	-	-	(746)	(746)
Dividend, own shares	-	-	-	-	11	-	11
Total transactions with owners	-	-	-	-	(52)	(746)	(798)
Shareholders' equity at 31 Mar 2017	**722**	**82**	**425**	**13**	**10,164**	**-**	**11,406**
Shareholders' equity at 1 Jan 2016	742	79	425	13	9,355	813	11,427
Profit for the period	-	-	-	-	283	-	283
Other comprehensive income							
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
Transactions with owners							
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)
Shareholders' equity at 31 Mar 2016	**742**	**79**	**425**	**13**	**9,615**	**-**	**10,874**

* 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.

Share capital (DKK)	722,401,990	722,401,990	742,499,990
Shares issued (number)	72,240,199	72,240,199	74,249,999
Shares outstanding at end of period (number)	69,248,667	69,501,452	71,163,932
Average number of shares outstanding (number)	69,458,941	70,392,671	71,303,055

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

Capital

Solvency			
Common Equity Tier 1 capital ratio	15.6	16.1	14.4
Tier 1 capital ratio	16.0	17.4	15.7
Capital ratio	18.1	19.2	17.5
Total capital:			
Shareholders' equity	11,406	11,757	10,874
Expected maximum dividend based on dividend policy	(447)	-	(141)
Capital deduction based on prudence concept	(56)	(65)	(75)
Actual or contingent obligations to purchase own shares	(581)	-	(311)
Proposed dividend	-	(746)	-
Intangible assets and capitalised deferred tax assets	(294)	(299)	(343)
Significant investments in financial sector	(523)	(434)	(452)
Common Equity Tier 1 capital	**9,505**	**10,213**	**9,552**
Additional Tier 1 capital	278	831	833
Tier 1 capital	**9,783**	**11,044**	**10,385**
Tier 2 capital	1,017	961	963
Difference between expected losses and accounting impairment charges	230	237	248
Total capital	**11,030**	**12,242**	**11,596**
Credit risk*	40,677	41,683	43,895
Market risk	6,682	8,075	8,455
Operational risk	8,025	8,025	8,173
Other exposures incl credit valuation adjustment	5,571	5,824	5,778
Risk exposure amount	**60,955**	**63,607**	**66,301**
Capital requirement under Pillar I	**4,876**	**5,089**	**5,304**
*** Credit risk**			
Corporate clients, IRB	29,459	30,306	31,714
Retail clients, IRB	8,931	9,200	9,591
Corporate clients, STD	479	605	641
Retail clients, STD	654	648	565
Credit institutions etc	1,154	924	1,384
Total	**40,677**	**41,683**	**43,895**

Cash Flow Statement

Operating activities			
Pre-tax profit for the period	574	1,869	363
Taxes paid	(205)	(245)	(209)
Adjustment for non-cash operating items	74	291	51
Cash flows from working capital	563	2,390	101
Cash flows from operating activities	1,006	4,305	306
Investing activities			
Purchase and sale of holdings in associates	0	1	1
Purchase and sale of intangible assets and property, plant and equipment	(17)	(69)	(21)
Cash flows from investing activities	(17)	(68)	(20)
Financing activities			
Purchase and sale of own holdings	(63)	(342)	(33)
Dividends etc	(735)	(803)	(803)
Raising of subordinated capital	1	(6)	(3)
Issue of bonds	2	(13)	(4)
Cash flows from financing activities	(795)	(1,164)	(843)
Cash flows for the period	**194**	**3,073**	**(557)**
Cash and cash equivalents at 1 Jan	7,561	4,488	4,488
Cash flows for the period	194	3,073	(557)
Cash and cash equivalents at end of period	**7,755**	**7,561**	**3,931**

Segment Reporting etc

Operating segments – Q1 2017						
Core income	968	56	29	-	-	**1,053**
Trading income	-	-	93	-	-	**93**
Total income	**968**	**56**	**122**	-	-	**1,146**
Costs, core earnings	630	23	23	-	15	**691**
Impairment of loans and advances etc	11	-	-	-	-	**11**
Core earnings	**327**	**33**	**99**	-	**(15)**	**444**
Investment portfolio earnings	10	-	-	126	-	**136**
Profit/(Loss) before non-recurring items	**337**	**33**	**99**	**126**	**(15)**	**580**
Non-recurring items, net	-	-	-	-	(6)	**(6)**
Profit/(Loss) before tax	**337**	**33**	**99**	**126**	**(21)**	**574**

Operating segments – Q1 2016						
Core income	977	45	28	-	-	**1,050**
Trading income	-	-	54	-	-	**54**
Total income	**977**	**45**	**82**	-	-	**1,104**
Costs, core earnings	616	21	29	-	15	**681**
Impairment of loans and advances etc	38	-	-	-	-	**38**
Core earnings	**323**	**24**	**53**	-	**(15)**	**385**
Investment portfolio earnings	(5)	-	-	(17)	-	**(22)**
Profit/(Loss) before non-recurring items	**318**	**24**	**53**	**(17)**	**(15)**	**363**
Non-recurring items, net	-	-	-	-	-	-
Profit/(Loss) before tax	**318**	**24**	**53**	**(17)**	**(15)**	**363**

Segment Reporting etc

Correlation between performance measures and the income statement according to IFRS								
2017								
Net interest and fee income	991	(29)			**962**	6		**968**
Market value adjustments	55	121		11	**187**	132		**319**
Other operating income	6				**6**			**6**
Income	**1,052**	**93**		**11**	**1,155**	**138**		**1,293**
Staff costs and administrative expenses			(661)		**(661)**	(2)	(6)	**(669)**
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment			(24)		**(24)**			**(24)**
Other operating expenses			(5)		**(5)**			**(5)**
Impairment of loans and advances etc				(22)	**(22)**			**(22)**
Profit on holdings in associates and subsidiaries	1				**1**			**1**
Profit/(Loss) before tax	**1,053**	**93**	**(691)**	**(11)**	**444**	**136**	**(6)**	**574**
2016								
Income	**1,047**	**54**		**(16)**	**1,085**	**(20)**		1,065
Staff costs and administrative expenses			(651)		**(651)**	(2)		(653)
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment			(24)		**(24)**			(24)
Other operating expenses			(5)		**(5)**			(5)
Impairment of loans and advances etc				(22)	**(22)**			(22)
Profit on holdings in associates and subsidiaries	2				**2**			2
Profit/(Loss) before tax	**1,050**	**54**	**(681)**	**(38)**	**385**	**(22)**		**363**

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 2016 Annual Report, to which reference is made.

The 2016 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 2016.

The Group's significant risks and the external elements which may affect the Group are described in greater detail in the 2016 Annual Report.

Notes

Note 2

Interest income			
Reverse transactions with credit institutions and central banks	(3)	(2)	(9)
Amounts owed by credit institutions and central banks	(5)	(2)	(19)
Reverse loans and advances	(7)	(7)	(24)
Loans and advances and other amounts owed	567	654	2,580
Bonds	53	78	281
Derivatives	(37)	(34)	(141)
comprising:			
Foreign exchange contracts	15	21	67
Interest rate contracts	(52)	(55)	(208)
Other contracts	0	0	0
Other interest income	1	2	6
Total	**569**	**689**	**2,674**

Note 3

Interest expense			
Repo transactions with credit institutions and central banks	(7)	12	(35)
Credit institutions and central banks	8	(17)	39
Repo deposits	(3)	15	(6)
Deposits and other debt	37	37	193
Bonds issued	3	15	55
Subordinated capital	8	9	34
Other interest expense	1	0	1
Total	**47**	**71**	**281**

Note 4

Fee and commission income			
Securities trading and custody accounts	256	247	1,024
Payment services	73	72	307
Loan fees	35	28	118
Guarantee commission	31	20	115
Other fees and commission	100	86	338
Total	**495**	**453**	**1,902**

Notes

Note 5

Market value adjustments			
Other loans and advances and amounts owed at fair value	0	1	1
Bonds	89	172	278
Shares etc	65	41	161
Investment property	0	0	0
Foreign exchange	50	46	195
Total derivatives	115	(202)	(81)
Assets related to pooled plans	296	(38)	636
Deposits in pooled plans	(297)	39	(636)
Other assets/liabilities	1	(1)	(1)
Total	**319**	**58**	**553**

Note 6

Staff costs and administrative expenses			
Salaries and remuneration:			
Group Executive Management	4	3	15
Board of Directors	1	1	6
Shareholders' Committee	1	1	3
Total	6	5	24
Staff costs:			
Wages and salaries	310	300	1,207
Pensions	31	30	121
Social security contributions	4	4	15
Payroll tax etc	38	39	152
Total	383	373	1,495
Other administrative expenses:			
IT	139	138	626
Rent etc	26	26	121
Marketing and entertainment expenses	19	17	72
Other costs	96	94	149
Total	280	275	968
Total	**669**	**653**	**2,487**

Note 7

Staff			
Average number of staff (full-time equivalent)	2,093	2,064	2,078

Notes

Note 8			
Other operating expenses			
Contributions to the Resolution Fund	5	5	19
Other expenses	-	0	0
Total	**5**	**5**	**19**
Note 9			
Impairment of loans and advances recognised in the income statement			
Impairment and provisions	33	24	(77)
Write-offs	22	20	342
Recovered from debt previously written off	33	22	167
Impairment of loans and advances etc	**22**	**22**	**98**
Impairment and provisions at end of period			
Individual impairment and provisions	2,822	3,662	2,904
Collective impairment and provisions	384	372	385
Impairment and provisions at end of period	**3,206**	**4,034**	**3,289**
Individual impairment of loans and advances and provisions for guarantees			
Impairment and provisions at 1 Jan	2,904	3,687	3,687
Exchange rate adjustment	0	0	0
New individual impairment charges	466	521	1,206
Reversal of individual impairment charges	390	326	998
Impairment charges previously recorded, now finally written off	158	220	991
Impairment and provisions at end of period	**2,822**	**3,662**	**2,904**
Individual impairment of loans and advances	2,613	3,485	2,726
Individual provisions for unused credit facilities	62	44	52
Individual provisions for guarantees	147	133	126
Impairment and provisions at end of period	**2,822**	**3,662**	**2,904**
Collective impairment of loans and advances and provisions for guarantees			
Impairment and provisions at 1 Jan	385	495	495
Impairment and provisions during the period	(1)	(123)	(110)
Impairment and provisions at end of period	**384**	**372**	**385**
Sum of loans and advances and amounts owed subject to collective impairment and provisions	11,989	6,809	12,861
Collective impairment and provisions	384	372	385
Loans and advances and amounts owed after collective impairment and provisions	**11,605**	**6,437**	**12,476**
Individual impairment of loans and advances subject to objective evidence of impairment			
Balance before impairment of individually impaired loans and advances	4,615	6,223	4,862
Impairment of individually impaired loans and advances	2,613	3,485	2,726
Balance after impairment of individually impaired loans and advances	**2,002**	**2,738**	**2,136**
Interest recognised as income concerning individually and collectively impaired loans and advances	157	143	577

Notes

Note 9 – continued

Loans and advances and guarantees as well as impairment charges for loans and advances etc by industry

Agriculture, hunting, forestry and fisheries	5,377	5,737	668	704	17	120	85	107
Pig farming	*1,497*	*1,571*	*141*	*177*	*(4)*	*58*	*26*	*5*
Cattle farming	*1,379*	*1,566*	*326*	*345*	*11*	*46*	*50*	*85*
Crop production	*1,307*	*1,356*	*93*	*86*	*4*	*(7)*	*5*	*0*
Other agriculture	*1,194*	*1,244*	*108*	*96*	*6*	*23*	*4*	*17*
Manufacturing and extraction of raw materials	8,898	8,249	235	225	8	3	12	12
Energy supply etc	2,815	2,765	9	10	0	2	0	0
Building and construction	3,963	3,831	73	79	(2)	0	4	3
Trade	13,169	12,516	298	316	1	10	21	43
Transportation, hotels and restaurants	3,529	3,659	135	137	(3)	4	0	2
Information and communication	414	396	12	15	(1)	(1)	1	0
Finance and insurance	5,573	5,740	125	134	(2)	(3)	1	8
Real property	6,389	6,981	338	342	0	21	25	22
Leasing of commercial property	*3,412*	*3,623*	*199*	*189*	*3*	*15*	*7*	*6*
Leasing of residential property	*1,037*	*1,025*	*93*	*97*	*(1)*	*1*	*14*	*9*
Housing associations and cooperative housing associations	*1,301*	*1,591*	*0*	0	*0*	*0*	*0*	*0*
Purchase, development and sale on own account	*498*	*599*	*35*	*37*	*0*	*4*	*0*	*7*
Other related to real property	*141*	*143*	*11*	*19*	*(2)*	*1*	*4*	*0*
Other corporate lending	4,120	4,080	164	165	5	3	14	17
Total corporate lending	**54,247**	**53,954**	**2,057**	**2,127**	**23**	**159**	**163**	**214**
Public authorities	468	785	-	-	-	-	-	-
Retail clients	31,613	37,000	765	777	0	(14)	17	26
Collective impairment charges			384	385	(1)	(123)	-	-
Total	**86,328**	**91,739**	**3,206**	**3,289**	**22**	**22**	**180**	**240**

Notes

Note 10

Profit on holdings in associates and subsidiaries			
Profit on holdings in associates etc	1	2	2
Total	**1**	**2**	**2**

Note 11

Effective tax rate			
Current tax rate of Sydbank	22.0	22.0	22.0
Permanent differences *	-	-	(1.0)
Adjustment of prior year tax charges	-	-	0.3
Effective tax rate	**22.0**	**22.0**	**21.3**

* Permanent differences predominantly consist of a capital gain of DKK 31m concerning the adjustment of the purchase sum from the sale of the shares in Nets Holding in 2014.

Note 12

Amounts owed by credit institutions and central banks			
Amounts owed at notice by central banks	2,985	4,316	460
Amounts owed by credit institutions	3,606	2,665	2,866
Total	**6,591**	**6,981**	**3,326**
Of which reverse transactions	1,026	1,652	1,091

Note 13

Other assets			
Positive market value of derivatives etc	6,405	7,289	8,747
Sundry debtors	431	440	350
Interest and commission receivable	136	178	213
Cash collateral provided, CSA agreements	2,518	2,834	2,881
Other assets	0	1	0
Total	**9,490**	**10,742**	**12,191**

Notes

Note 14

Amounts owed to credit institutions and central banks			
Amounts owed to central banks	103	36	221
Amounts owed to credit institutions	8,466	17,520	22,440
Total	**8,569**	**17,556**	**22,661**
Of which repo transactions	3,028	8,019	15,236

Note 15

Deposits and other debt			
On demand	64,136	65,717	59,119
At notice	5,151	5,237	6,231
Time deposits	6,678	4,945	6,167
Special categories of deposits	4,981	5,210	5,303
Total	**80,946**	**81,109**	**76,820**
Of which repo transactions	2,503	2,288	318

Note 16

Other liabilities			
Negative market value of derivatives etc	6,662	7,589	9,265
Sundry creditors etc	3,649	4,236	4,052
Negative portfolio, reverse transactions	4,676	3,355	1,900
Interest and commission etc	29	34	58
Cash collateral received, CSA agreements	946	973	983
Total	**15,962**	**16,187**	**16,258**

Note 17

Provisions			
Provisions for pensions and similar obligations	3	3	3
Provisions for deferred tax	165	165	127
Provisions for guarantees	147	126	134
Provisions for unused credit facilities	62	52	44
Other provisions *	25	27	18
Total	**402**	**373**	**326**

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

Notes

Note 18

Subordinated capital

Interest rate	Note		Nominal (m)	Maturity			
2.13 (fixed)	1)	Bond loan	EUR 100	11 Mar 2027	739	738	739
Total Tier 2 capital					**739**	**738**	**739**
0.77 (floating)	2)	Bond loan	EUR 100	Redemption	742	743	744
0.85 (floating)	3)	Bond loan	EUR 75	Perpetual	558	558	559
6.36 (fixed)	4)	Bond loan	DKK 85	Redemption	85	85	85
Total Additional Tier 1 capital					**1,385**	**1,386**	**1,388**
Total subordinated capital					**2,124**	**2,124**	**2,127**

1) Optional redemption from 11 March 2022 after which the interest rate will be fixed at 1.72% above 5Y Mid-Swap.
2) Redemption on 25 April 2017.
3) The interest rate follows the 10Y Mid-Swap plus a premium of 0.2%.
4) Redemption on 14 May 2017.

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	3,814	3,880	3,705
Mortgage finance guarantees	3,786	2,550	1,757
Registration and remortgaging guarantees	2,306	3,237	2,588
Other contingent liabilities	1,535	1,718	1,673
Total	**11,441**	**11,385**	**9,723**
Other obligating agreements			
Irrevocable credit commitments	633	895	915
Other liabilities	29	30	35
Total	**662**	**925**	**950**

Totalkredit loans arranged by Sydbank are comprised by 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.

As a result of the statutory participation in the deposit guarantee scheme the industry has paid an annual contribution of 2.5‰ of covered net deposits until the Banking Department's capital exceeds 1% of total covered net deposits, which was reached at year-end 2015. The Banking Department will cover the direct losses in connection with the winding-up of distressed financial institutions under Bank Package III and Bank Package IV which are attributable to covered net deposits. Any losses as a result of the final winding-up will be covered by the Guarantee Fund via the Winding-up and Restructuring Department as regards which Sydbank is currently liable for 5.61% of any losses.

Notes

Note 19 – continued

As a result of the statutory participation in the resolution financing arrangement (the Resolution Fund) from 2015, credit institutions will pay an annual contribution over a 10-year period to reach a target funding level totalling 1% of covered deposits. Credit institutions must make contributions according to their relative size and risk in Denmark and the first contributions were paid at year-end 2015. Sydbank expects that contributions will total approximately DKK 200m over a 10-year period.

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	5,517	10,435	15,875
Assets purchased as part of reverse transactions			
Bonds at fair value	8,073	7,763	8,939

Note 21

Collateral
As of 31 March 2017 the Group had deposited as collateral securities at a market value of DKK 101m with Danish and foreign exchanges and clearing centres etc in connection with margin calls and securities settlements etc.

Notes

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 2017. Reference is made to the Group's 2016 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	519	588	88	2,323
Mortgage credit *	131	88	149	400
Payment services	48	46	104	199
Remortgaging and loan fees	32	26	123	70
Commission and brokerage	103	95	108	354
Commission etc investment funds and pooled pension plans	102	95	107	381
Asset management	56	45	124	220
Custody fees	18	18	100	71
Other income	44	49	90	180
Total	**1,053**	**1,050**	**100**	**4,198**

*** Mortgage credit**				
Totalkredit cooperation	102	74	138	314
Totalkredit, set-off of loss	9	4	225	23
Totalkredit cooperation, net	93	70	133	291
DLR Kredit	37	17	218	107
Other mortgage credit income	1	1	100	2
Total	**131**	**88**	**149**	**400**

Notes

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 is 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 158m.

Notes

Note 26 – continued

Financial assets					
Amounts owed by credit institutions and central banks	-	1,026	-	1,026	1,026
Loans and advances at fair value	-	7,075	-	7,075	7,075
Bonds at fair value	-	22,526	-	22,526	22,526
Shares etc	262	18	1,578	1,858	1,858
Assets related to pooled plans	5,374	9,038	-	14,412	14,412
Other assets	73	6,390	-	6,463	6,463
Total	**5,709**	**46,073**	**1,578**	**53,360**	**53,360**
Financial liabilities					
Amounts owed to credit institutions and central banks	-	3,028	-	3,028	3,028
Deposits and other debt	-	2,503	-	2,503	2,503
Deposits in pooled plans	-	14,421	-	14,421	14,421
Other liabilities	61	11,277	-	11,338	11,338
Total	**61**	**31,229**	**-**	**31,290**	**31,290**

Assets measured on the basis of unobservable inputs		
Carrying amount at 1 Jan	1,557	1,493
Additions	0	0
Disposals	19	7
Market value adjustment	40	32
Carrying amount at end of period	**1,578**	**1,518**
Recognised in profit for the period		
Dividend	18	1
Market value adjustment	40	32
Total	**58**	**33**

Notes

Note 27

Leverage ratio

Exposure for computation of leverage ratio:			
Total assets	137,552	146,686	145,072
Pooled assets excluded	(14,412)	(13,817)	(12,123)
Correction derivatives etc	575	2,801	(11)
Guarantees etc	11,441	11,385	9,723
Undrawn credit commitments etc	9,908	11,338	11,627
Other adjustments	(1,067)	(482)	1,644
Total	143,997	**157,911**	**155,932**
Tier 1 capital – current (transitional rules)	9,783	11,044	10,385
Tier 1 capital – fully loaded	9,504	10,213	9,552
Leverage ratio (%) – current (transitional rules)	6.8	7.0	6.7
Leverage ratio (%) – fully loaded	6.6	6.5	6.1

Note 28

Group holdings and enterprises

Sydbank A/S		DKK	722			
Consolidated subsidiaries						
DiBa A/S, Aabenraa	Investment	DKK	300	2,036	79	100
Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa	Real property	DKK	10	4	(8)	100
Syd Fund Management A/S, Aabenraa	Administration	DKK	40	46	6	100
Sydbank (Schweiz) AG, in Liquidation, St. Gallen, Switzerland	-	CHF	40	248	(1)	100
Holdings in associates						
Foreningen Bankdata, Fredericia	IT	DKK	510	510	(34)	31
Komplementarselskabet Core Property Management A/S, Copenhagen	Real property	DKK	10	29	15	20
Core Property Management P/S, Copenhagen	Real property	DKK	10	10	-	20

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

Management Statement

We have reviewed and approved the Interim Report – Q1 2017 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 2017 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 2017. 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, 3 May 2017

Group Executive Management

Karen Frøsig CEO	Bjarne Larsen	Jan Svarre

Board of Directors

Torben H. Nielsen Chairman	Peder Damgaard Vice-Chairman	Alex Slot Hansen
John Lesbo	Lars Mikkelgaard-Jensen	Janne Moltke-Leth
Frank Møller Nielsen	Jacob Chr. Nielsen	Bo Normann Rasmussen
Jarl Oxlund	Margrethe Weber	

Supplementary Information

Financial calendar

In 2017 the Group's preliminary announcement of financial statements will be released as follows:

- Interim Report – First Half 2017
  29 August 2017

- Interim Report – Q1-Q3 2017
  31 October 2017

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Relevant links

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For further information reference is made to Sydbank's 2016 Annual Report at sydbank.com.