

### **Annual results**

Sydbank realised a profit before tax of DKK 998m in 2009, which is an increase of DKK 187m compared to 2008.

Given the difficult economic conditions, we, the Board, find the result satisfactory and there is also reason to be pleased about several aspects of the financial statements.

Total core earnings before impairment rose by DKK 379m to a total of DKK 2,120bn. This is the highest level of core earnings before impairment in Sydbank's history, and the result is also above the projected level announced in the Q1-Q3 Interim Report.

The rise can be ascribed to an increase in the Bank's net interest income of DKK 254m driven by rising interest margins. The growth in interest margins has more than compensated for the decline in lending.

Furthermore, despite the financial crisis, there has been a positive development in trading income amounting to DKK 107m.

Finally costs have been reduced by DKK 18m compared to 2008. Already at the beginning of 2009 we announced that, in light of the financial crisis, costs would be maintained at their 2008 level, which we have succeeded in doing.

Impairment of loans and advances went up from DKK 544m in 2008 to DKK 1,195m in 2009, a development that was expected and that is attributable to the ongoing economic crisis which the country and many industries are facing. As a result a growing number of clients are finding it difficult to meet their financial obligations.

Investment portfolio earnings, which recorded a loss of DKK 385m in 2008, have fortunately swung from red to black and represented DKK 430m in 2009.

After non-recurring items of DKK 86m and after the Bank's contribution of DKK 443m to the Private Contingency Association, profit before tax constitutes DKK 998m. The result equals a return of 12.3% on average shareholders' equity.

## Capital

As already mentioned at the Annual General Meeting in 2009, Bank Package II provided Danish banks with the possibility to apply for a government capital injection in the form of hybrid core capital. Acting on the authorisation given to the Board of Directors by the Annual General Meeting in 2009, Sydbank submitted an application to receive up to DKK 1.2bn. This amount corresponds to roughly half the amount which we would have been eligible to receive. The application was granted and consequently the Bank had a facility that could be used if considered appropriate at a later point in time. At its meeting held on 24 November, the Board of Directors decided that the Bank did not need a government capital injection and a company announcement was released on the same day stating that Sydbank had decided not to exercise its option of a government capital injection.

As an alternative to a government capital injection, we decided to explore the possibilities of strengthening Sydbank's capital base by increasing the share capital – by means of a private placement. In the interim report for the first six months of 2009 we informed the Stock Exchange that we were considering increasing the Bank's share capital by up to 10%.

In September Sydbank launched an offering of up to 6,749,999 new shares. Despite being in the midst of a deep financial crisis, the interest for the new shares was overwhelming. In the space of a few short hours, the offering was oversubscribed by 2.3 times at a price very close to the share price and generated proceeds of DKK 855m.

At year-end 2009 the Bank's core capital including hybrid core capital represents DKK 10.2bn, which is an increase of DKK 2,155m or almost 29% since the beginning of the year. The rise is primarily ascribable to the capital increase mentioned earlier, the net sale of an existing portfolio of own shares as well as profit for the year. With the addition of supplementary capital, the capital base totals DKK 11.8bn. The core capital ratio including hybrid core capital stands at 13.1% at year-end, which is an increase of 2.3 percentage points compared to year-end 2008. When including supplementary capital, the solvency ratio totals 15.2% - a rise of 0.5 percentage points, even though we have prepaid supplementary capital totalling DKK 1,095m during the year.

As a result core capital and solvency ratios are considerably higher than last year.

At year-end 2009 bank loans and advances stood at DKK 74.5bn, a decrease of 10%, primarily ascribable to a cyclical decline in corporate lending. During 2009 the Bank's deposits dropped by 8% to DKK 68.8bn. The reduction is exclusively ascribable to a decline in time deposits.

### **Amendments to Articles of Association**

In connection with the capital increase, we became aware of an inappropriateness in the Bank's Articles of Association. Article 3 provides that a so-called "consultation" must be held with the Shareholders' Committee irrespective of authorisation for the capital increase having been given by the General Meeting. Such a consultation is not practicable, for one thing because a placement is subject to a tight time schedule but in particular because it concerns "inside information" relating to the stock market. It is not in keeping with the times to have formal requirements in the Articles of Association which entail that a relatively large group must be informed of such matters.

As a consequence the Board of Directors proposes today that the provision regarding "consultation with the Shareholders' Committee" be deleted from Article 3 of the Articles of Association, a proposal that has been endorsed by the Shareholders' Committee.

In addition the Danish Parliament has adopted new company legislation stipulating various mandatory requirements to our Articles of Association, including notice periods for convening general meetings, the publication of general meeting documents, the submission of proposals to be put before general meetings as well as several other matters of procedure. Even though these legislative amendments are mandatory, the amendments to the Articles of Association must be adopted by the General Meeting and consequently these amendments are on the agenda today.

### **The financial crisis**

The first warnings of a financial crisis were seen back in 2007 when subprime problems emerged in the US mortgage market. The crisis soon spread to Europe and Denmark where

the death toll included several banks. One consequence of the crisis was that confidence between banks, nationally as well as internationally, evaporated, leading to a money market freeze and a substantial rise in the price for obtaining liquidity. In October 2008 the Danish government, like governments in most other European countries, was forced to intervene, for instance with a government guarantee to depositors and other simple creditors – also known as Bank Package I.

In early 2009 the Danish Parliament adopted Bank Package II to further stabilise the financial sector and halt the alleged deliberate balance sheet reduction which was occurring in several institutions and which, according to some observers, triggered a sort of credit squeeze. Under Bank Package II a bank can strengthen its core capital by an injection of new hybrid core capital provided by the government.

Roughly half of the Danish banks have decided to participate in the scheme and have raised government hybrid core capital. As mentioned earlier, Sydbank decided to decline the offer of government capital as we found a better alternative to strengthen our core capital, namely the share capital increase at market price.

Moreover under the bank packages an institution may purchase a government guarantee to secure its funding. Whether Sydbank will make use of this option is not yet clarified and will depend on market conditions when it becomes necessary to refinance parts of our existing funding during 2010.

At last year's Annual General Meeting I mentioned the negative impact of the financial crisis on the Sydbank share.

This year it is gratifying to see the favourable developments in the equity market – and not least the Sydbank share – despite the ongoing financial crisis. Today the Sydbank share is trading at approx 140, which is an increase of 75 percentage points or 105% since 1 January 2009.

### **Image**

The financial crisis has left deep imprints on the overall image of the sector. At the moment, not a day passes without media coverage of yet another person falling prey to poor advice by banks or yet another victim of an alleged credit squeeze. Regardless of what we may

think about the individual cases, there is no doubt that the sector must improve its image – an improvement that can only be achieved if we, as a sector, take our share of the responsibility for the financial crisis, and not least that the sector as a whole adjusts the future agenda for its business operations based on experience gained during the crisis.

Regardless of the general image of the sector, it is our firm belief that our own clients really do consider Sydbank to be a reliable business partner and that prospective clients regard Sydbank as an attractive bank which is definitely worth considering when changing banks. This perception is supported by three major surveys conducted by Aalund Business Research as regards corporate clients as well as EPSI and TNS Gallup as regards retail clients. The Aalund survey analyses client satisfaction on the basis of 14 questions and Sydbank received top marks in 13 of 14 questions. In the EPSI survey Sydbank received the highest ranking in clients' perception of service and quality of advice. The Gallup survey also awarded excellent marks to the Bank for its advisory services.

Since the number of Sydbank clients is increasing and not least since very few clients choose to switch to another bank, we can moreover note that the Bank in the marketplace is perceived as an attractive banking partner, both for existing as well as new clients.

### **Foreign entities**

Not surprisingly, Sydbank Schweiz, which is engaged solely in private banking activities, has clearly felt the impact of the international financial crisis and subsequent unrest in securities markets. In addition activities in Switzerland have been influenced by the uncertainty relating to the discussion about the exchange of client information between Denmark and Switzerland. Our position in this respect is quite clear – we will not use our presence in Switzerland to be a party to Danish tax evasion and consequently, ever since the bank was established in Switzerland, we have made it crystal clear that we do not wish to receive deposits from Danish residents. Our activities in Switzerland are focussed exclusively on servicing clients – primarily Scandinavian – residing abroad.

For many years our regional head office in Germany was situated in Norderstrasse in Flensburg. However as the bank grew conditions were far from ideal. Consequently, in order to ensure the continued growth of operations in Germany, we established a new regional head

office at Rathausplatz in Flensburg and we are very happy to see that we now have modern and not least functional bank premises in one of Flensburg's prime locations.

### **Board of Directors**

At last year's Annual General Meeting former KPMG partner, Svend Erik Busk, General Manager, was elected to the Shareholders' Committee. As mentioned in last year's report, Svend Erik Busk was elected to the Bank's Board of Directors at the subsequent Shareholders' Committee meeting and appointed chairman of the Board of Directors' Audit Committee. Given his professional background as a state authorised public accountant, Svend Erik Busk fulfils the very strict requirements stipulated by the Danish FSA regarding audit committee chairmen.

As a consequence of the bank packages introduced, an amendment to the Danish Financial Business Act stipulates that the board of directors at the annual general meeting must account for the remuneration to the executive management. In this respect I can inform you that in 2009 the remuneration excluding pension to the Group Executive Management totalled DKK 9.9m, with DKK 3.3m to Carsten Andersen, DKK 2.5m to Preben L. Hansen, DKK 2.1m to Karen Frøsig and DKK 2.0m to Allan Nørholm.

### **Outlook for 2010**

Even though the Danish economy is showing several signs of stabilisation, the recent years' crisis will leave its mark for many years to come. However it seems realistic to expect modest positive growth in the Danish economy in 2010 and on this basis we project unchanged to moderate growth in our bank loans and advances.

Trading income surprised positively in 2009, partly due to the fact that capital gains were also recorded on securities in the trading portfolio. In 2010 there are no expectations of further investment portfolio gains and therefore trading income is projected to remain unchanged or to decline slightly.

Like last year it is anticipated that costs will be maintained at their 2008 level, entailing a reduction in staff of around 100, which will be implemented via natural wastage to the greatest extent possible.

Overall the Group projects core earnings before impairment of loans and advances in the region of DKK 1.9-2.1bn, which is unchanged compared to 2009.

The prospects for many industries remain bleak, which will trigger a continued large demand for impairment charges as regards the Bank's corporate clients. In contrast it is expected that the financial situation of the broad portfolio of retail clients will be satisfactory also in 2010. Overall an unchanged or declining impairment level is projected.

Regardless of the difficult economic conditions that will also characterise 2010, my report will hopefully have shown that Sydbank's performance is satisfactory despite the fact that we, like others, have been affected by the financial crisis.

### **Group Executive Management**

Concurrently with the publication of the annual report for 2009, it was announced that Group Chief Executive Carsten Andersen, aged 64, wished to retire at the end of May. The Board of Directors has appointed Deputy Group Chief Executive Karen Frøsig as new Group Chief Executive as of 1 June.

Carsten Andersen joined Sydbank as CFO in 1976, became a member of the Group Executive Management in 1978 and was appointed Group Chief Executive in 1981. For 34 years Carsten Andersen has, like no other, shaped developments and created the Sydbank we know today.

His first task was to create one united bank out of the four banks that merged to form Sydbank in 1970, an assignment that was successfully completed.

The next milestone in his career involved the acquisition of Århus Bank, the merger with Svendborg Bank and the acquisition of parts of the ailing 6. juli Bank and subsequently the acquisition of eight branches located in the capital from the then Fællesbanken. The last two acquisitions, which were carried out without Sydbank also taking over non-performing

exposures, were a rare sight in the banking world and attracted nationwide press coverage. At the same time these acquisitions provided Sydbank with a sound foundation in the metropolitan area.

The third milestone was the merger with Sparekassen Sønderjylland and subsequently and not least the acquisition of the healthy parts of Varde Bank and Aktivbanken. These acquisitions that doubled Sydbank's total assets overnight and created Denmark's then fifth largest bank represented a quite extraordinary accomplishment.

The most recent project that brought Carsten Andersen into the limelight was the acquisition of bankTrelleborg. The acquisition occurred under extensive media coverage, partly triggered by the former shareholders who failed to comprehend the magnitude of the crisis in bankTrelleborg. This last merger, which may have been small, showed yet again Carsten Andersen's tactical skills as the merger provided Sydbank with a branch network in Zealand and we could thereby rightly call Sydbank a nationwide bank.

This year marks the 40<sup>th</sup> anniversary of Sydbank. Carsten has been involved for 34 years. No one has shaped and developed the Bank like you have. You organised the Bank, you recruited the team. Your informal leadership style and your ability to communicate and convey difficult as well as unpleasant messages have been praised, and deservedly so.

You have taken the beatings when they were in the air but have shared the successes and excellent results with the organisation.

We will miss you – thank you for your contribution!