

# Announcement of the 2010 financial statements

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## Group Financial Highlights

	2010	2009	Index 10/09	2008	2007	2006
<b>Income statement (DKKm)</b>						
Core income excl trading income	3,304	3,320	100	3,066	2,539	2,298
Trading income	1,290	1,266	102	1,159	1,488	1,319
<b>Total core income</b>	<b>4,594</b>	<b>4,586</b>	<b>100</b>	<b>4,225</b>	<b>4,027</b>	<b>3,617</b>
Costs, core earnings	2,479	2,466	101	2,484	2,200	2,030
<b>Core earnings before impairment</b>	<b>2,115</b>	<b>2,120</b>	<b>100</b>	<b>1,741</b>	<b>1,827</b>	<b>1,587</b>
Impairment of loans and advances etc	1,400	1,195	117	544	(568)	(171)
<b>Core earnings</b>	<b>715</b>	<b>925</b>	<b>77</b>	<b>1,197</b>	<b>2,395</b>	<b>1,758</b>
Profit/(Loss) on investment portfolios	227	430	-	(385)	(193)	173
<b>Profit before non-recurring items</b>	<b>942</b>	<b>1,355</b>	<b>70</b>	<b>812</b>	<b>2,202</b>	<b>1,931</b>
Non-recurring items, net	-	86	-	162	55	120
<b>Profit before contribution to the Private Contingency Association etc</b>	<b>942</b>	<b>1,441</b>	<b>65</b>	<b>974</b>	<b>2,257</b>	<b>2,051</b>
Contribution to the Private Contingency Association etc	384	443	87	163	-	-
<b>Profit before tax</b>	<b>558</b>	<b>998</b>	<b>56</b>	<b>811</b>	<b>2,257</b>	<b>2,051</b>
Tax	147	217	68	205	547	537
<b>Profit for the year</b>	<b>411</b>	<b>781</b>	<b>53</b>	<b>606</b>	<b>1,710</b>	<b>1,514</b>
<b>Balance sheet highlights (DKKbn)</b>						
Loans and advances at amortised cost	73.0	74.5	98	82.5	74.5	65.5
Loans and advances at fair value	10.7	12.9	83	13.3	8.6	7.7
Deposits and other debt	64.2	68.8	93	75.0	66.0	50.0
Bonds issued at amortised cost	11.2	8.6	130	10.1	10.1	10.0
Subordinated capital	2.3	3.1	74	4.2	3.8	3.5
Shareholders' equity	9.6	9.1	105	7.1	6.7	6.3
Total assets	150.8	157.8	96	156.0	132.3	114.8
<b>Financial ratios per share (DKK per share of DKK 10)</b>						
EPS Basic	5.6	11.7		9.5	25.6	22.1
EPS Diluted	5.6	11.7		9.5	25.6	22.1
Share price at year-end	151.3	133.8		64.3	219.3	270.0
Book value	129.8	124.1		112.5	104.6	92.1
Share price/book value	1.17	1.08		0.57	2.10	2.93
Average number of shares outstanding (in millions)	73.5	66.9		63.4	66.7	68.5
Proposed dividend	1.0	-		-	3.0	3.0
<b>Other financial ratios and key figures</b>						
Solvency ratio	15.4	15.2		14.7	11.9	11.8
Core capital ratio	14.3	13.1		10.8	8.9	9.0
Pre-tax profit as % of average shareholders' equity	6.0	12.3		11.8	34.6	36.2
Post-tax profit as % of average shareholders' equity	4.4	9.6		8.8	26.2	26.7
Costs (core earnings) as % of core income	54.0	53.8		58.8	54.6	56.1
Interest rate risk	1.5	1.0		1.4	2.6	2.0
Foreign exchange position	1.2	1.1		11.4	1.7	10.3
Foreign exchange risk	0.0	0.0		0.0	0.0	0.1
Loans and advances relative to deposits	1.0	1.0		1.0	1.0	1.2
Loans and advances relative to shareholders' equity	7.6	8.2		11.6	11.1	10.3
Growth in loans and advances for the year	(2.0)	(9.6)		10.7	13.7	22.4
Excess cover relative to statutory liquidity requirements	106.3	94.4		89.4	103.1	74.0
Total large exposures	54.4	17.2		23.8	46.4	34.7
Accumulated impairment ratio excl PCA	2.0	1.7		1.0	1.0	1.7
Impairment ratio for the year excl PCA	1.7	1.3		0.6	(0.7)	(0.2)
Number of full-time staff at year-end	2,284	2,369	96	2,479	2,276	2,190

## Summary

The Sydbank Group has generated a profit before tax of DKK 558m. The result is considered to be acceptable given the difficult economic situation. The result equals a return of 6.0% on average shareholders' equity.

The financial statements are characterised by:

- Unchanged level of core income excl trading income
- Slight rise in trading income
- Unchanged level of costs (core earnings)
- Unchanged core earnings before impairment
- Impairment charges for loans and advances of DKK 1,400m
- Profit on investment portfolios of DKK 227m
- Contribution of DKK 384m to the Private Contingency Association
- 2% reduction in bank loans and advances to DKK 73.0bn
- 7% decline in deposits to DKK 64.2bn
- Rise of DKK 436m in shareholders' equity to DKK 9.6bn
- Core capital ratio of 14.3%
- Solvency ratio of 15.4%
- Individual solvency need of 9.6%
- Dividend of DKK 1 per share – a total of DKK 74m.

Summary income statement (DKKm)	2010	2009
Core income excl trading income	3,304	3,320
Trading income	1,290	1,266
<b>Total core income</b>	<b>4,594</b>	<b>4,586</b>
Costs, core earnings	2,479	2,466
<b>Core earnings before impairment</b>	<b>2,115</b>	<b>2,120</b>
Impairment of loans and advances etc	1,400	1,195
<b>Core earnings</b>	<b>715</b>	<b>925</b>
Profit/(Loss) on investment portfolios	227	430
<b>Profit before non-recurring items</b>	<b>942</b>	<b>1,355</b>
Non-recurring items, net	-	86
<b>Profit before contribution to the Private Contingency Association etc</b>	<b>942</b>	<b>1,441</b>
Contribution to the Private Contingency Associations etc	384	443
<b>Profit before tax</b>	<b>558</b>	<b>998</b>
Tax	147	217
<b>Profit for the year</b>	<b>411</b>	<b>781</b>

Core earnings before impairment represent DKK 2,115m, an unchanged level compared with DKK 2,120m in 2009. The unchanged level of core earnings before impairment reflects a reduction in core income excl trading income of DKK 16m, a rise in trading income of DKK 24m and an increase in costs (core earnings) of DKK 13m.

Core earnings before impairment are at the low end of the projected level announced in the Interim Report – Q1-Q3 2010. This can be ascribed to lower trading income in Q4 2010.

Impairment charges for loans and advances represent DKK 1,400m against DKK 1,195m in 2009. This level exceeds the Group's expectations at the beginning of the year. The ordinary inspection conducted by the Danish FSA of the Group's lending portfolio was concluded at the end of Q3 2010, and the Danish FSA assesses that the Group's overall level of impairment charges is satisfactory. The development in Q4 2010 has been affected by a more cautious approach adopted by the Bank as regards impairment charges for certain bank loans and advances. Consequently the increase does not reflect a deterioration in credit quality. Moreover the level reflects the situation in the real economy.

Investment portfolio earnings constitute DKK 227m compared with DKK 430m in 2009.

The contribution to the Private Contingency Association totals DKK 384m (2009: DKK 443m).

Following a tax charge of DKK 147m, profit for the year constitutes DKK 411m. In 2009 profit for the year amounted to DKK 781m. Profit for the year for 2010 equals a return on average shareholders' equity of 4.4% (2009: 9.6%) and earnings per share has declined from DKK 11.7 to DKK 5.6 in 2010.

During the year, shareholders' equity grew by DKK 436m to DKK 9,554m. The capital structure was strengthened during the year and core capital currently accounts for 93.2% of the total capital base against 86.6% at the beginning of the year.

The Group's solvency ratio stands at 15.4%, including a core capital ratio of 14.3%. At the beginning of the year, the solvency ratio stood at 15.2% and the core capital ratio stood at 13.1%.

Risk-weighted assets went down from DKK 77.9bn to DKK 73.7bn at year-end 2010. The decrease is solely ascribable to declining credit risk, due in part to a reduction in loans and advances and guarantees as well as a positive trend in the average rating of exposures comprised by the IRB approach.

At 30 September 2010 the Group changed the method for determining its individual solvency need. After this date the individual solvency need is determined on the basis of an economic capital model and a buffer is added to allow for model and rating uncertainty as well as additional risks. At 31 December 2010 the individual solvency need represents 9.6% against 9.0% at year-end 2009.

The Group's internal capital target continues to represent DKK 9,900m, equal to 13.4% of risk-weighted assets.

The Group's liquidity measured under the 15% and 10% statutory requirements constitutes 33.0% and 20.6%, respectively, at year-end 2010.

The Board of Directors recommends to the general meeting that 18% of the Group's profit be distributed in dividends, corresponding to DKK 1 per share or a total of DKK 74m, and DKK 10m be paid to the sponsorship fund Sydbank Fonden.

Assuming that economic trends remain weak, the Group projects core earnings before impairment charges for loans and advances in the region of DKK 1.7-2.0bn in 2011.

## Performance in 2010

### Core income excl trading income

Total core income excl trading income decreased by DKK 16m to DKK 3,304m.

Core income excl trading income (DKKm)	2010	2009
Interest margins etc	2,757	2,776
Mortgage credit	210	221
Payment services	153	159
Remortgaging and loan fees	90	83
Other commission	71	59
Other operating income	23	22
<b>Total</b>	<b>3,304</b>	<b>3,320</b>

Income from interest margins fell by DKK 19m due to a 2% decline in bank loans and advances, a 7% decrease in deposits as well as higher interest expenses concerning longer-term funding since September 2010.

After a set-off of loss of DKK 17m (2009: DKK 8m) net income from the cooperation with Totalkredit represents DKK 167m (2009: DKK 160m). The cooperation with DLR Kredit has generated an income of DKK 34m (2009: DKK 52m). Total mortgage credit income amounts to DKK 210m (2009: DKK 221m).

In 2010 the remaining income components increased by a total of DKK 14m or 4% compared with 2009.

### Trading income

Securities trading remained at a high level in 2010 and the favourable developments in retail and institutional segments have continued. In Q4 2010 the bond and fixed income departments were hit by a sharp rise in long-term interest rates as well as derived effects of the crisis in European peripheral countries. Foreign exchange and derivatives trading has stabilised at a lower level. The positive trend within Asset

Management is attributable to a greater demand for the Bank's asset management products in general – including in particular units – by existing clients as well as the many new clients the Group has welcomed during the year. Furthermore the year's decent returns have made a substantial contribution to the increase in assets under management.

Trading income (DKKm)	2010	2009
Bonds	273	292
Shares	273	258
Foreign exchange	217	234
Money market	107	178
Asset management	420	304
<b>Total</b>	<b>1,290</b>	<b>1,266</b>

### Costs and depreciation

The Group's total costs and depreciation recorded DKK 2,717m against DKK 2,746m in 2009. This includes a guarantee commission of DKK 227m to the Private Contingency Association etc (2009: DKK 270m).

The level of costs (core earnings) remains unchanged for the third consecutive year as a result of higher productivity and efficiency measures as well as a continued decline in staff.

Costs and depreciation (DKKm)	2010	2009
Staff costs	1,453	1,454
Other administrative expenses	900	887
Depreciation and impairment of property, plant and equipment	153	135
Other operating expenses	211	270
<b>Total</b>	<b>2,717</b>	<b>2,746</b>
Distributed as follows:		
Costs, core earnings	2,479	2,466
Costs, investment portfolio earnings	10	10
Costs, guarantee commission to the Private Contingency Association	227	270

Costs (core earnings) as a percentage of total core income are at an unchanged level and represent 54.0% in 2010 against 53.8% in 2009.

At year-end 2010 the Group's staff numbered 2,284 (full-time equivalent) compared with 2,369 in 2009.

Sydbank closed eight small branches in 2010, bringing the number of branches to 102 in Denmark and three in Germany.

#### Core earnings before impairment of loans and advances

The level of core earnings before impairment of loans and advances remains unchanged at DKK 2,115m (2009: DKK 2,120m).

#### Impairment of loans and advances etc

Impairment charges for loans and advances represent DKK 1,400m against DKK 1,195m in 2009. This level exceeds the Group's expectations at the beginning of the year.

The ordinary inspection conducted by the Danish FSA of the Group's lending portfolio was concluded at the end of Q3 2010, and the Danish FSA assesses that the Group's overall level of impairment charges is satisfactory.

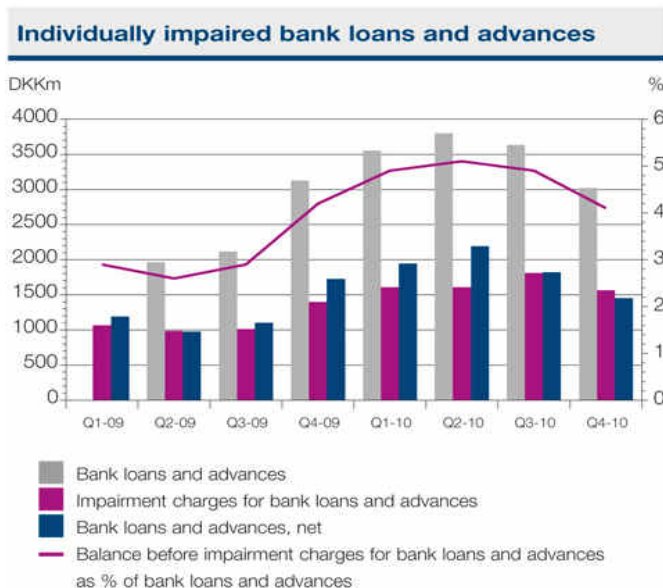
The development in Q4 2010 has been affected by a more cautious approach adopted by the Bank as regards impairment charges for certain bank loans and advances. Consequently the increase does not reflect a deterioration in credit quality. Moreover the level reflects the situation in the real economy.

The impairment charges are predominantly ascribable to the Group's highly-diversified corporate lending portfolio.

As at 31 December 2010 the impairment ratio (excl impairment charges for the year of DKK 157m concerning the Private Contingency Association) represents 1.89% relative to bank loans and advances and 1.67% relative to bank loans and advances and guarantees.

The total provision of DKK 377m for the Private Contingency Association was written off in Q4 2010. At year-end 2010 accumulated impairment and provisions amount to DKK 1,763m. Excluding the provision for the Private Contingency Association at year-end 2009, the rise constitutes DKK 205m compared with the beginning of the year.

Individually impaired bank loans and advances increased up to and including Q2 2010. In Q3 and Q4 2010 individually impaired bank loans and advances declined significantly, as did the share of impaired bank loans and advances before impairment charges.



Impaired bank loans and advances before impairment charges declined by DKK 106m to 3,020m (2009: DKK 3,126m) during the year. The defaulted share of individually impaired bank loans and advances at year-end 2010 decreased to DKK 1,289m (2009: DKK 1,740m) and the non-defaulted share rose to DKK 1,731m (2009: DKK 1,386m). Individually impaired bank loans and advances after impairment charges fell by DKK 274m to DKK 1,455m during the year. At year-end 2010 impairment charges for bank loans and advances subject to individual impairment represent 51.8% (2009: 44.7%) of impaired bank loans and advances..

Individually impaired bank loans and advances (DKKm)	2010	2009
Non-defaulted loans and advances	1,731	1,386
Defaulted loans and advances	1,289	1,740
Impaired bank loans and advances	3,020	3,126
Impairment charges for bank loans and advances subject to individual impairment	1,565	1,397
Impaired bank loans and advances after impairment charges	1,455	1,729
Impaired bank loans and advances as % of bank loans and advances before impairment charges	4.0	4.1
Impairment charges as % of bank loans and advances before impairment charges	2.1	1.9
Impaired as % of impaired bank loans and advances	51.8	44.7

## Core earnings

Core earnings represent DKK 715m compared with DKK 925m in 2009.

## Investment portfolio earnings

Less funding charges and less related costs of DKK 10m, investment portfolio earnings constitute DKK 227m (2009: DKK 430m).



## **Contribution to the Private Contingency Association**

Guarantee commission and the provision for the guarantee to the Private Contingency Association amount to DKK 211m and DKK 157m, respectively, totalling DKK 368m for 2010. In addition DKK 16m has been charged to income to cover the expected payment to the Deposit Guarantee Fund regarding the bankruptcy of Capinordic Bank.

According to the preliminary calculations of the Financial Stability Company, the guarantee of the Private Contingency Association, which covers the losses from DKK 0-10bn, will be paid in full. This is why the Group, as mentioned above, decided to write off the provision of DKK 377m for the Private Contingency Association in Q4 2010. The amount is expected to be paid in early 2011.

Losses exceeding DKK 10bn will be covered by the guarantee commission of DKK 15bn that the banks have paid under the general guarantee scheme via the Private Contingency Association

The Group's total expense to the Private Contingency Association etc since autumn 2008 amounts to DKK 990m.

## **Profit for the year**

Profit before tax amounts to DKK 558m compared with DKK 998m in 2009. The tax charge represents DKK 147m (2009: DKK 217m). Profit for the year constitutes DKK 411m compared with DKK 781m in 2009.

## **Return**

Return on shareholders' equity represents 4.4% against 9.6% in 2009. Earnings per share has decreased from DKK 11.7 to DKK 5.6.

## **Q4 2010 compared with Q3 2010**

Profit before tax declined by DKK 269m and reflected:

- A decrease in core income excl trading income of DKK 20m, ascribable in part to higher interest expenses concerning longer-term funding and lower mortgage credit income
- In Q4 2010 the bond and fixed income departments were hit by a sharp rise in long-term interest rates as well as derived effects of the crisis in European peripheral countries, which led to a decline in trading income
- A rise in costs (core earnings) of DKK 22m, partly due to a lower holiday frequency in Q4 2010
- An increase in impairment charges for loans and advances of DKK 145m as a result of a more cautious approach adopted by the Bank as regards impairment charges for certain bank loans and advances
- A decline in investment portfolio earnings from DKK 111m in Q4 to minus DKK 8m
- The cessation of contributions to the Private Contingency Association has resulted in a positive difference of DKK 123m.

Profit before tax and profit after tax for Q4 2010 amount to minus DKK 23m and minus DKK 25m, respectively, compared with DKK 246m and DKK 185m in Q3 2010.

Profit for the period (DKKm)	2010				2009
	Q4	Q3	Q2	Q1	Q4
Core income excl trading income	812	832	831	829	849
Trading income	239	325	327	399	296
<b>Total core income</b>	<b>1,051</b>	<b>1,157</b>	<b>1,158</b>	<b>1,228</b>	<b>1,145</b>
Costs, core earnings	610	588	625	656	592
<b>Core earnings before impairment</b>	<b>441</b>	<b>569</b>	<b>533</b>	<b>572</b>	<b>553</b>
Impairment of loans and advances etc	456	311	310	323	346
<b>Core earnings</b>	<b>(15)</b>	<b>258</b>	<b>223</b>	<b>249</b>	<b>207</b>
Profit/(Loss) on investment portfolios	(8)	111	8	116	69
<b>Profit before non-recurring items</b>	<b>(23)</b>	<b>369</b>	<b>231</b>	<b>365</b>	<b>276</b>
Non-recurring items, net	-	-	-	-	86
<b>Profit before contribution to PCA etc</b>	<b>(23)</b>	<b>369</b>	<b>231</b>	<b>365</b>	<b>362</b>
Contribution to PCA etc	-	123	122	139	116
<b>Profit before tax</b>	<b>(23)</b>	<b>246</b>	<b>109</b>	<b>226</b>	<b>246</b>
Tax	2	61	27	57	29
<b>Profit for the period</b>	<b>(25)</b>	<b>185</b>	<b>82</b>	<b>169</b>	<b>217</b>

## Subsidiaries

The subsidiary bank, Sydbank (Schweiz) AG, which conducts private banking activities in St. Gallen, recorded a profit after tax of DKK 3m (2009: DKK 0m).

Ejendomsselskabet recorded a loss after tax of DKK 10m (2009: profit of DKK 1m).

## Balance sheet

The Group's total assets made up DKK 150.8bn at year-end 2010 against DKK 157.8bn at year-end 2009.

Assets year-end (DKKbn)	2010	2009
Amounts owed by credit institutions etc	8.4	14.5
Loans and advances at fair value (reverse transactions)	10.7	12.9
Loans and advances at amortised cost (bank loans and advances)	73.0	74.5
Securities and holdings etc	37.2	38.5
Assets related to pooled plans	7.9	6.7
Other assets etc	13.6	10.7
<b>Total</b>	<b>150.8</b>	<b>157.8</b>

The Group's bank loans and advances total DKK 73.0bn – a decrease of 2% which is primarily ascribable to a decline in corporate lending.

Shareholders' equity and liabilities (DKKbn)	2010	2009
Amounts owed to credit institutions etc	40.2	45.4
Deposits and other debt	64.2	68.8
Deposits in pooled plans	7.9	6.7
Bonds issued	11.2	8.6
Other liabilities etc	15.1	15.6
Provisions	0.3	0.5
Subordinated capital	2.3	3.1
Shareholders' equity	9.6	9.1
<b>Total</b>	<b>150.8</b>	<b>157.8</b>

The Group's deposits make up DKK 64.2bn against DKK 68.8bn at year-end 2009 – a decrease of 7%.

### Subordinated capital

During the year the Group has prepaid supplementary capital amounting to DKK 800m. Supplementary capital represents DKK 945m and hybrid Tier 1 capital DKK 1,384m. Subordinated capital totals DKK 2,329m (2009: DKK 3,124m).

### Share capital

Share capital is unchanged at DKK 742,499,990 at year-end 2010.

The Sydbank share (number)	2010	2009
Average number of shares outstanding	73,522,284	66,926,690
Number of shares outstanding at year-end	73,588,089	73,471,636
Number of shares issued at year-end	74,249,999	74,249,999

The number of shares outstanding increased from 73,471,636 (98.95%) at the end of 2009 to 73,588,089 (99.11%) at the end of 2010. The Sydbank share's book value represents 129.8. At year-end 2010 the closing price of the Sydbank share stood at 151.3 and share price/book value at 1.17.

### Shareholders' equity

At year-end 2010 shareholders' equity constitutes DKK 9,554m – an increase of DKK 436m since 1 January 2010. The change comprises additions from:

- net sale of own shares of DKK 26m
- profit for the year of DKK 411m

as well as disposals deriving from a DKK 1m adjustment of revaluation reserves.

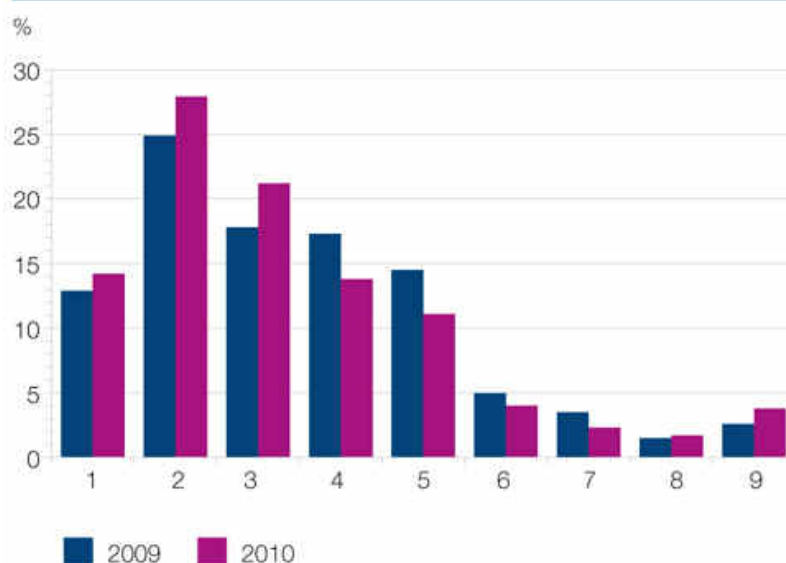
## Solvency and capital

The capital structure was strengthened during the year and core capital currently accounts for 93.2% of the total capital base against 86.6% at the beginning of the year.

Solvency (DKKm)	2010	2009
Risk-weighted assets	73,716	77,909
Core capital (excl hybrid core capital)	9,336	8,981
Core capital	10,559	10,224
Capital base	11,329	11,809
Core capital ratio (excl hybrid core capital)	12.7	11.5
Core capital ratio	14.3	13.1
Solvency ratio	15.4	15.2

Risk-weighted assets went down from DKK 77.9bn to DKK 73.7bn at year-end 2010. The decrease is solely ascribable to declining credit risk, due in part to a reduction in loans and advances and guarantees as well as a positive trend in the average rating of the exposures comprised by the IRB approach. The development in the distribution of ratings from 2009 to 2010 appears below.

### Gross exposures by rating category



Gross exposures consist 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.

At year-end 2010 the solvency ratio stands at 15.4%, of which 14.3 percentage points is ascribable to core capital, compared with 15.2% and 13.1%, respectively, at year-end 2009. The core capital ratio (excl hybrid core capital) has risen from 11.5% to 12.7%.

At 30 September 2010 the Group changed the method for determining its individual solvency need. After this date the individual solvency need is determined on the basis of an economic capital model and a buffer is added to allow for model and rating uncertainty as well as additional risks. At 31 December 2010 the individual solvency need represents 9.6% against 9.0% at year-end 2009.

The Group's internal capital target continues to represent DKK 9,900m, equal to 13.4% of risk-weighted assets.

## Funding and liquidity

The expiry of Bank Package I on 30 September 2010 has not had a negative effect on the Group's liquidity positions.

In August 2010 the Bank raised a non state-guaranteed bond loan of EUR 1bn with a maturity period of two years on the international market, broadly diversified across countries as well as investors.

The Group's liquidity measured under the 15% and 10% statutory requirements constitutes 33.0% and 20.6%, respectively, at year-end 2010.

## Rating

Sydbank's rating – A1 (long-term debt), P-1 (short-term debt) and C+ (financial strength) – was maintained in 2010.

## Shareholders

In 2010 the Sydbank share returned 13% as a result of the increase in the share price during the year. The Board of Directors recommends to the general meeting that 18% of the Group's profit be distributed in dividends, corresponding to DKK 1 per share or a total of DKK 74m, and DKK 10m be paid to the sponsorship fund Sydbank Fonden.

## Supervisory diamond

The supervisory diamond sets up a number of benchmarks to indicate banking activities which initially should be regarded as involving a higher risk. After the end of 2012 any breach of the supervisory diamond will be subject to reactions by the Danish FSA.

The Group's calculations of the benchmarks of the supervisory diamond at year-end 2010 are shown below.

Supervisory diamond benchmarks	2010
Sum of large exposures < 125%	54%
Funding ratio < 1	0.87
Commercial property exposure < 25%	11%
Growth in loans and advances < 20%	-4%
Excess liquidity cover relative to 10% requirement > 50%	106%

At 31 December 2010 the Group complies with all the benchmarks of the supervisory diamond.

## Regulation

In December 2010 the Basel Committee issued the so-called Basel III guidelines. The G20 countries endorsed the complete Basel III guidelines at the summit in Seoul on 11-12 November 2010.

The EU Commission has announced that a draft directive (CRD IV) will be published in summer 2011 to implement Basel III within the EU.

The liquidity rules in Basel III remain problematic for the Danish mortgage finance system because the liquidity requirements do not allow Danish mortgage bonds to be counted as liquid assets to a sufficient degree. If consideration is not given to the special financing system in Denmark, this may not only create challenges for banks and mortgage credit institutions but also lead to increased borrowing costs for clients.

The new capital standards entail a significant increase in the minimum capital requirement for credit institutions. The minimum capital requirement for core capital (excl hybrid core capital) will be raised gradually from the present 2% of risk-weighted assets to 7% in 2019, including a buffer requirement of 2.5%. Failure to comply with the buffer requirement will result in restrictions on for instance dividend payments. In addition there are stricter requirements for capital that may count as hybrid core capital and subordinated loan capital.

The Group estimates that its current core capital ratio (excl hybrid core capital) of 12.7% will be impacted only marginally when the Basel III guidelines have been fully phased in. The Group thus already complies with the future minimum capital requirements.

In addition to the above, the Basel Committee has introduced a requirement for countercyclical buffers when the ratio of credit growth in the economy and GDP differs from its long-term trend and when the relevant national authorities judge credit growth to be associated with a build-up of economic risk.

It is expected that the Basel Committee will propose initiatives regarding so-called systemically important banks during the first six months of 2011. Sydbank will not be directly impacted by this proposal. However spillover effects cannot be ruled out.

## Outlook for 2011

The 2011 outlook is based on the central assumption that the Danish economy is gradually regaining its strength. However the outlook for economic growth in 2011 is extremely modest and uncertain. The recovery will be slow, for one thing because the competitiveness of the Danish economy has weakened substantially over the last many years and will therefore be one of the last to gain speed – and consequently many businesses will continue to struggle. Moreover 2011 is an election year and the uncertainty surrounding the composition of the government after the referendum could have a negative impact on the industrial policy climate in Denmark.

The Group's bank loans and advances are projected to display weak growth.

Core income excl trading income is expected to decline slightly, primarily as a result of higher funding costs and secondarily as a result of lower mortgage credit income due in part to the normalisation of the speed of registration.

It is assumed that trading income will show a falling trend compared with the trading income recorded in 2010. Much will however depend on financial market developments.

The level of costs is projected to remain largely unchanged since rises in pay and payroll taxes are expected to be offset by a budgeted reduction in staff of 50.

Based on the above assumptions, the Group projects core earnings in the region of DKK 1.7-2.0bn before impairment charges for loans and advances.

The prospects for many industries continue to seem uncertain, which will trigger a continued need for impairment charges as regards the Bank's corporate client portfolio. In contrast it is expected that the financial situation of the broad portfolio of retail clients will be satisfactory also in 2011. Overall the Group's impairment charges are projected to display a clear declining trend in 2011.

Investment portfolio earnings will depend on financial market developments. At the beginning of 2011 the Bank's position-taking is characterised by positions in Danish floating-rate mortgage bonds, which involves limited interest rate risk.

The collapse of Amagerbanken on 6 February 2011 is projected to result in an expense for the Group in Q1 2011 in connection with the payment by the Deposit Guarantee Fund of secured net deposits in Amagerbanken. The expense will be determined at a later date.

The Group's tax is budgeted at 25%.

## Income Statement – Sydbank Group

DKKm	2010	2009
Interest income	4,189	5,695
Interest expense	971	2,290
<b>Net interest income</b>	<b>3,218</b>	<b>3,405</b>
Dividends on shares	22	31
Fee and commission income	1,330	1,114
Fee and commission expense	184	151
<b>Net interest and fee income</b>	<b>4,386</b>	<b>4,399</b>
Market value adjustments	420	667
Other operating income	23	23
Staff costs and administrative expenses	2,353	2,341
Depreciation and impairment of property, plant and equipment	153	135
Other operating expenses	211	270
Impairment of loans and advances etc	1,556	1,368
Profit/(Loss) on holdings in associates and subsidiaries	2	23
<b>Profit before tax</b>	<b>558</b>	<b>998</b>
Tax	147	217
<b>Profit for the year</b>	<b>411</b>	<b>781</b>
<b>Distribution of profit for the year</b>		
Profit for the year	411	781
<b>Total amount to be allocated</b>	<b>411</b>	<b>781</b>
Proposed dividend	74	-
Proposal for allocation for other purposes	10	-
Transfer to shareholders' equity	327	781
<b>Total amount allocated</b>	<b>411</b>	<b>781</b>
EPS Basic (DKK)	5.6	11.7
EPS Diluted (DKK)	5.6	11.7
Proposed dividend per share (DKK)	1.0	-

## Statement of Comprehensive Income – Sydbank Group

<b>Profit for the year</b>	<b>411</b>	<b>781</b>
<b>Other comprehensive income</b>		
Translation of foreign entities	40	1
Hedge of net investment in foreign entities	(40)	(1)
Property revaluation	(1)	23
<b>Other comprehensive income after tax</b>	<b>(1)</b>	<b>23</b>
<b>Comprehensive income after tax</b>	<b>410</b>	<b>804</b>



## Balance Sheet – Sydbank Group

DKKm	2010	2009
<b>Assets</b>		
Cash and balances on demand at central banks	855	862
Amounts owed by credit institutions and central banks	7,527	12,489
Loans and advances at fair value	10,724	12,930
Loans and advances at amortised cost	73,028	74,544
Bonds at fair value	35,021	36,642
Shares etc	1,894	1,552
Holdings in associates etc	307	310
Assets related to pooled plans	7,923	6,735
Intangible assets	13	14
Total land and buildings	1,045	1,046
investment property	-	2
owner-occupied property	1,045	1,044
Other property, plant and equipment	105	139
Current tax assets	82	32
Deferred tax assets	11	11
Assets in temporary possession	1	-
Other assets	12,256	10,464
Prepayments	51	51
<b>Total assets</b>	<b>150,843</b>	<b>157,821</b>
<b>Shareholders' equity and liabilities</b>		
Amounts owed to credit institutions and central banks	40,250	45,314
Deposits and other debt	64,161	68,780
Deposits in pooled plans	7,923	6,735
Bonds issued at amortised cost	11,242	8,622
Current tax liabilities	8	8
Other liabilities	15,084	15,616
Deferred income	11	27
<b>Total liabilities</b>	<b>138,679</b>	<b>145,102</b>
Provisions	281	477
Subordinated capital	2,329	3,124
Shareholders' equity:		
Share capital	742	742
Revaluation reserves	110	112
Other reserves:		
Reserves according to articles of association	423	418
Reserve for net revaluation according to the equity method	26	33
Retained earnings	8,169	7,813
Proposed dividend etc	84	-
Total shareholders' equity	9,554	9,118
<b>Total shareholders' equity and liabilities</b>	<b>150,843</b>	<b>157,821</b>

## Capital – Sydbank Group

DKKm	Share capital	Revaluation reserves	Reserves acc. to articles of association	Reserve for net revaluation acc to equity method	Retained earnings	Proposed dividend etc	Total
Shareholders' equity at 1 Jan 2010	<b>742</b>	<b>112</b>	<b>418</b>	<b>33</b>	<b>7,813</b>	-	<b>9,118</b>
<b>Changes in equity in 2010</b>							
Purchase of own shares	-	-	-	-	(2,464)	-	(2,464)
Sale of own shares	-	-	-	-	2,490	-	2,490
Adjustment concerning property sold	-	(1)	-	-	1	-	-
Comprehensive income for the period	-	(1)	5	(7)	329	84	410
Total changes in equity in 2010	-	(2)	5	(7)	356	84	436
<b>Shareholders' equity at 31 Dec 2010</b>	<b>742</b>	<b>110</b>	<b>423</b>	<b>26</b>	<b>8,169</b>	<b>84</b>	<b>9,554</b>
Shareholders' equity at 1 Jan 2009	<b>675</b>	<b>91</b>	<b>411</b>	<b>20</b>	<b>5,891</b>	-	<b>7,088</b>
<b>Changes in equity in 2009</b>							
Purchase of own shares	-	-	-	-	(2,679)	-	(2,679)
Sale of own shares	-	-	-	-	3,112	-	3,112
Share issue *	67	-	-	-	788	-	855
Adjustment concerning property sold	-	(2)	-	-	2	-	-
Tax on equity items	-	-	-	-	(62)	-	(62)
Comprehensive income for the period	-	23	7	13	761	-	804
Total changes in equity in 2009	67	21	7	13	1,922	-	2,030
<b>Shareholders' equity at 31 Dec 2009</b>	<b>742</b>	<b>112</b>	<b>418</b>	<b>33</b>	<b>7,813</b>	-	<b>9,118</b>

\* Shares issued in connection with the capital increase of Sydbank A/S of DKK 67,499,990 nominal (6,749,999 shares of DKK 10 nominal). As at 31 December 2010 the share capital comprises 74,249,999 shares at a nominal value of DKK 10 or a total of DKK 742.5m. The Bank has only one class of shares as all shares carry the same rights.

## Capital – Sydbank Group

DKKm	2010	2009
<b>Solvency</b>		
Solvency ratio	15.4	15.2
Core capital ratio	14.3	13.1
<b>Capital base after deductions</b>		
Shareholders' equity	9,554	9,118
Revaluation reserves	(110)	(112)
Proposed dividend	(84)	-
Intangible assets and capitalised tax assets	(24)	(25)
<b>Core capital (excl hybrid core capital)</b>	<b>9,336</b>	<b>8,981</b>
Hybrid core capital	1,384	1,386
50% of holdings > 10%	(161)	(105)
50% of difference between expected losses and accounting provisions and accounting value adjustment	-	(33)
50% of the value of transferred payments etc with delivery risk	-	(5)
<b>Core capital (incl hybrid core capital) after deductions</b>	<b>10,559</b>	<b>10,224</b>
Subordinated loan capital	945	1,744
Revaluation reserves	110	112
<b>Capital base before deductions</b>	<b>11,614</b>	<b>12,080</b>
50% of holdings > 10%	(161)	(105)
50% of difference between expected losses and accounting provisions and accounting value adjustment	-	(33)
50% of the value of transferred payments etc with delivery risk	-	(5)
Holdings in associates	(124)	(128)
<b>Capital base after deductions</b>	<b>11,329</b>	<b>11,809</b>
Credit risk	58,040	62,608
Market risk	8,298	8,764
Operational risk	7,378	6,537
<b>Risk-weighted assets</b>	<b>73,716</b>	<b>77,909</b>
<b>Capital requirement under Pillar I</b>	<b>5,897</b>	<b>6,233</b>

## Supplementary Information

### Financial calendar

In 2011 Sydbank's financial statements will be announced as follows:

- Annual General Meeting  
10 March 2011
- Interim Report – Q1 2011  
26 April 2011
- Interim Report – First Half 2011  
16 August 2011
- Interim Report – Q1-Q3 2011  
25 October 2011

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### Relevant links

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

For further information, reference is made to Sydbank's audited Annual Report 2010 at [sydbank.com](http://sydbank.com).