

2011 Annual Report

Sydbank

**Sydbank**

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## Group Financial Highlights

	2011	2010	Index 11/10	2009	2008	2007
<b>Income statement (DKKm)</b>						
Core income excl trading income	3,320	3,304	100	3,320	3,066	2,539
Trading income	927	1,290	72	1,266	1,159	1,488
<b>Total core income</b>	<b>4,247</b>	<b>4,594</b>	<b>92</b>	<b>4,586</b>	<b>4,225</b>	<b>4,027</b>
Costs, core earnings	2,463	2,479	99	2,466	2,484	2,200
<b>Core earnings before impairment</b>	<b>1,784</b>	<b>2,115</b>	<b>84</b>	<b>2,120</b>	<b>1,741</b>	<b>1,827</b>
Impairment of loans and advances etc	1,195	1,400	85	1,195	544	-568
<b>Core earnings</b>	<b>589</b>	<b>715</b>	<b>82</b>	<b>925</b>	<b>1,197</b>	<b>2,395</b>
Profit/(Loss) on investment portfolios	(15)	227	-	430	(385)	(193)
<b>Profit before non-recurring items</b>	<b>574</b>	<b>942</b>	<b>61</b>	<b>1,355</b>	<b>812</b>	<b>2,202</b>
Non-recurring items, net	(171)	-	-	86	162	55
<b>Profit before contributions to the Deposit Guarantee Fund and PCA</b>						
	<b>403</b>	<b>942</b>	<b>43</b>	<b>1,441</b>	<b>974</b>	<b>2,257</b>
Contributions to the Deposit Guarantee Fund and the Private Contingency Association (PCA)	102	384	27	443	163	-
<b>Profit before tax</b>	<b>301</b>	<b>558</b>	<b>54</b>	<b>998</b>	<b>811</b>	<b>2,257</b>
Tax	113	147	77	217	205	547
<b>Profit for the year</b>	<b>188</b>	<b>411</b>	<b>46</b>	<b>781</b>	<b>606</b>	<b>1,710</b>
<b>Balance sheet highlights (DKKbn)</b>						
Loans and advances at amortised cost	68.8	73.0	94	74.5	82.5	74.5
Loans and advances at fair value	7.7	10.7	72	12.9	13.3	8.6
Deposits and other debt	66.7	64.2	104	68.8	75.0	66.0
Bonds issued at amortised cost	7.5	11.2	67	8.6	10.1	10.1
Subordinated capital	2.1	2.3	92	3.1	4.2	3.8
Shareholders' equity	9.6	9.6	100	9.1	7.1	6.7
Total assets	153.4	150.8	102	157.8	156.0	132.3
<b>Financial ratios per share (DKK per share of DKK 10)</b>						
EPS Basic	2.6	5.6		11.7	9.5	25.6
EPS Diluted	2.6	5.6		11.7	9.5	25.6
Share price at year-end	90.1	151.3		133.8	64.3	219.3
Book value	131.1	129.8		124.1	112.5	104.6
Share price/book value	0.69	1.17		1.08	0.57	2.10
Average number of shares outstanding (in millions)	73.2	73.5		66.9	63.4	66.7
Proposed dividend	-	1.0		-	-	3.0
<b>Other financial ratios and key figures</b>						
Solvency ratio	16.1	15.4		15.2	14.7	11.9
Core capital ratio	15.2	14.3		13.1	10.8	8.9
Pre-tax profit as % of average shareholders' equity	3.1	6.0		12.3	11.8	34.6
Post-tax profit as % of average shareholders' equity	2.0	4.4		9.6	8.8	26.2
Costs (core earnings) as % of core income	58.0	54.0		53.8	58.8	54.6
Interest rate risk	0.9	1.5		1.0	1.4	2.6
Foreign exchange position	1.6	1.2		1.1	11.4	1.7
Foreign exchange risk	0.1	0.0		0.0	0.0	0.0
Loans and advances relative to deposits	0.9	1.0		1.0	1.0	1.0
Loans and advances relative to shareholders' equity	7.2	7.6		8.2	11.6	11.1
Growth in loans and advances for the year	(5.7)	(2.0)		(9.6)	10.7	13.7
Excess cover relative to statutory liquidity requirements	148.7	106.3		94.4	89.4	103.1
Total large exposures	26.3	54.4		17.2	23.8	46.4
Accumulated impairment ratio excl PCA	2.3	2.0		1.7	1.0	1.0
Impairment ratio for the year excl PCA	1.5	1.7		1.3	0.6	(0.7)
Number of full-time staff at year-end	2,152	2,284	94	2,369	2,479	2,276

Financial ratio definitions on page 73.

As from 2008 solvency and core capital ratios calculated in accordance with the new capital adequacy requirements.

## Summary

The Sydbank Group has recorded a profit before tax for 2011 of DKK 301m equalling a return of 3.1% on average shareholders' equity. The result is below the expectations at the beginning of the year. Intensified financial turbulence led to overall worsened business conditions. The result is unsatisfactory whereas the development of core income excl trading income is satisfactory.

- Slight rise in core income excl trading income.
- Market-related decrease in trading income.
- Slight reduction of costs (core earnings).
- 14.6% decline in impairment charges for loans and advances.
- Loss on investment portfolios of DKK 15m.
- Non-recurring items, net of minus DKK 171m.
- Contribution to the Deposit Guarantee Fund etc of DKK 102m.
- Q4 2011: profit before tax of DKK 95m.
- 5.7% reduction in bank loans and advances to DKK 68.8bn.
- 3.9% rise in deposits to DKK 66.7bn.
- Increase in core capital ratio to 15.2%.
- Good liquidity.
- Substantial influx of clients.
- Dividend to shareholders for 2011 will not be recommended.

### Summary income statement

Group (DKKm)	2011	2010
Core income excl trading income	3,320	3,304
Trading income	927	1,290
<b>Total core income</b>	<b>4,247</b>	<b>4,594</b>
Costs, core earnings	2,463	2,479
<b>Core earnings before impairment</b>	<b>1,784</b>	<b>2,115</b>
Impairment of loans and advances etc	1,195	1,400
<b>Core earnings</b>	<b>589</b>	<b>715</b>
Profit/(Loss) on investment portfolios	(15)	227
<b>Profit before non-recurring items</b>	<b>574</b>	<b>942</b>
Non-recurring items, net	(171)	-
<b>Profit before contributions to the Deposit Guarantee Fund and PCA</b>	<b>403</b>	<b>942</b>
Contributions to the Deposit Guarantee Fund and the Private Contingency Association (PCA)	102	384
<b>Profit before tax</b>	<b>301</b>	<b>558</b>
Tax	113	147
<b>Profit for the year</b>	<b>188</b>	<b>411</b>

Core earnings before impairment represent DKK 1,784m against DKK 2,115m in 2010. The reduction of DKK 331m is ascribable to a decline in trading income. Core income excl trading income grew by DKK 16m and costs (core earnings) dropped by DKK 16m.

Core earnings before impairment are in line with our announcement in the Interim Report – Q1-Q3 2011.

Impairment charges for loans and advances etc represent DKK 1,195m (2010: DKK 1,400m).

In Q4 2011 the Group decided to record additional impairment charges of approximately DKK 200m on the portfolio of cattle farming, pig farming and crop production. The hectare prices applied by the Group since 2009 in connection with the assessment of the exposures in this portfolio correspond to the hectare prices announced by the Danish FSA in December 2011. The reason for the additional impairment charges is the Group's tightened measurement principles as regards agricultural buildings and plant.

The accumulated impairment charges for this portfolio constitute DKK 419m, equal to 7.6% of the portfolio's bank loans and advances and guarantees of DKK 5.5bn.

Investment portfolio earnings represent minus DKK 15m compared with DKK 227m in 2010.

Profit before non-recurring items represents DKK 574m (2010: DKK 942m), equal to a return of 6.0% on average shareholders' equity (2010: 10.1%).

Non-recurring items, net total minus DKK 171m.

Contributions to the Deposit Guarantee Fund and the Private Contingency Association amount to DKK 102m (2010: DKK 384m).

Profit before tax represents DKK 301m (2010: DKK 558m). Less a calculated tax charge of DKK 113m (2010: DKK 147m), the Group's profit stands at DKK 188m compared with DKK 411m in 2010.

## Summary

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Return on shareholders' equity before and after tax constitutes 3.1% and 2.0%, respectively, against 6.0% and 4.4% in 2010. Earnings per share has declined from DKK 5.6 to DKK 2.6.

During the year, shareholders' equity grew by DKK 41m to DKK 9,595m.

At year-end 2011 the solvency ratio stands at 16.1%, including a core capital ratio of 15.2 percentage points compared with 15.4% and 14.3%, respectively, at the end of 2010. The core capital ratio excluding hybrid core capital has increased from 12.7% to 13.4%.

Risk-weighted assets went down from DKK 73.7bn at year-end 2010 to DKK 70.7bn at year-end 2011. The reduction consists of a decrease in credit risk of DKK 5.7bn as well as a rise in market risk and operational risk of DKK 2.0bn and DKK 0.7bn, respectively. The decrease in credit risk is ascribable to a decline in loans and advances and guarantees as well as a positive trend in the average rating of exposures covered by IRB.

The Group's internal capital target continues to represent DKK 9,900m, equal to 14.0% of risk-weighted assets.

The Group's liquidity measured under the 10% statutory requirement constitutes 24.9% at year-end 2011. The Group's liquidity is good. Moody's 12-month liquidity curve shows that the Group is able to withstand a situation in which access to capital markets is cut off for a period exceeding 12 months.

Dividend to shareholders for 2011 will not be recommended.

In 2011 Sydbank saw a substantial influx of retail clients as well as corporate clients. Consequently the foundation for future earnings has been enhanced.

The Group's expectations as regards core earnings before impairment charges for 2012 compared with 2011:

- Slight rise in core income excl trading income – primarily as a result of interest margin increases.
- Unchanged to slightly increasing trading income – however highly dependent on developments in the financial markets.
- Unchanged level of costs.

# Performance in 2011

## Core income excl trading income

Total core income excl trading income increased by DKK 16m to DKK 3,320m.

Core income excl trading income		
Group (DKKm)	2011	2010
Interest margins etc	2,799	2,757
Mortgage credit	188	210
Payment services	156	153
Remortgaging and loan fees	86	90
Other commission	67	71
Other operating income	24	23
<b>Total</b>	<b>3,320</b>	<b>3,304</b>

Despite a 5.7% decline in bank loans and advances and a 3.9% rise in deposits compared with 2010 net interest has increased by DKK 42m due to the positive effects of the interest margin increases in 2H.

Net income from the cooperation with Totalkredit represents DKK 150m (2010: DKK 167m) after a set-off of loss of DKK 20m (2010: DKK 17m). The cooperation with DLR Kredit has generated an unchanged income of DKK 34m. Total mortgage credit income amounts to DKK 188m (2010: DKK 210m).

Compared with 2010 the remaining income components are unchanged.

## Trading income

Total trading income decreased by 28% – from DKK 1,290m in 2010 to DKK 927m in 2011.

The development must be seen in light of the influence on income in 2010 by a more favourable market whereas income in 2011 was adversely affected by lower investment appetite and trading activity among clients as well as high volatility in the financial markets in the wake of the debt crisis. As a result it has been highly difficult to balance the fluctuations in the derivatives activities. In contrast asset management has remained stable.

## Trading income

Group (DKKm)	2011	2010
Bonds	168	273
Shares	182	273
Foreign exchange	193	217
Money market	(33)	107
Asset management	417	420
<b>Total</b>	<b>927</b>	<b>1,290</b>

## Costs and depreciation

The Group's total costs and depreciation recorded DKK 2,687m against DKK 2,717m in 2010. An unchanged amount of DKK 10m can be attributed to investment portfolio earnings.

Costs – comprised by non-recurring items – constitute DKK 114m comprising DKK 63m, partly for severance pay etc to about 100 employees, partly for the restructuring of line functions – as well as DKK 51m for the winding-up and sale of activities regarding the subsidiary bank in Switzerland.

Finally, contribution to the Deposit Guarantee Fund amounts to DKK 100m in connection with the takeover by the Financial Stability Company of Amagerbanken, Fjordbank Mors and Max Bank. In 2010 costs included an expense of DKK 227m to the Private Contingency Association.

The level of costs (core earning) remains unchanged for the fourth consecutive year as a result of tight cost control as well as a continued decline in staff.

## Costs and depreciation

Group (DKKm)	2011	2010
Staff costs	1,528	1,453
Other administrative expenses	935	900
Depreciation and impairment of property, plant and equipment	122	153
Other operating expenses	102	211
<b>Total</b>	<b>2,687</b>	<b>2,717</b>
Distributed as follows:		
Costs, core earnings	2,463	2,479
Costs, investment portfolio earnings	10	10
Costs, non-recurring items	114	-
Costs, the Deposit Guarantee Fund and the Private Contingency Association	100	227

## Performance in 2011

Costs (core earnings) as a percentage of total core income represent 58.0% (2010: 54.0%).

At year-end 2011 the Group's staff numbered 2,152 (full-time equivalent) compared with 2,284 in 2010.

During the autumn the Bank's service concept was adjusted so that many of the Bank's branches are open for cashier services only in the afternoon hours.

Sydbank closed three small branches in 2011. As part of the Bank's ambition to continue expanding in Zealand, 2011 saw the opening of two new branches in Amager – in Amagerbrogade and in Dragør – as well as a new branch in Hørsholm. At year-end 2011 the number of branches totals 102 in Denmark and unchanged three in Germany.

As at 1 January 2012 the Group has strengthened its German operations by taking over the private banking activities of Gries & Heissel Bankiers AG. The agreement concerns just over 1,000 clients and the main part of the business volume consists of custody accounts. The Group is represented in the following cities in Germany: Berlin, Flensburg, Hamburg, Kiel and Wiesbaden.

In light of the changed market conditions the Group decided towards year-end to enhance the efficiency of and reorganise its foreign private banking activities, which are now based in Flensburg. As a consequence the activities of Sydbank PBI in Gråsten have been transferred to Flensburg, the subsidiary bank in Switzerland is being wound up and the ownership interest in Value-Call has been reduced.

### Core earnings before impairment of loans and advances

Core earnings before impairment of loans and advances decreased by DKK 331m and represent DKK 1,784m (2010: DKK 2,115m).

### Impairment of loans and advances etc

Impairment charges for loans and advances constitute DKK 1,195m against DKK 1,400m in 2010.

In Q4 2011 the Group decided to record additional impairment charges of approximately DKK 200m on the portfolio of cattle

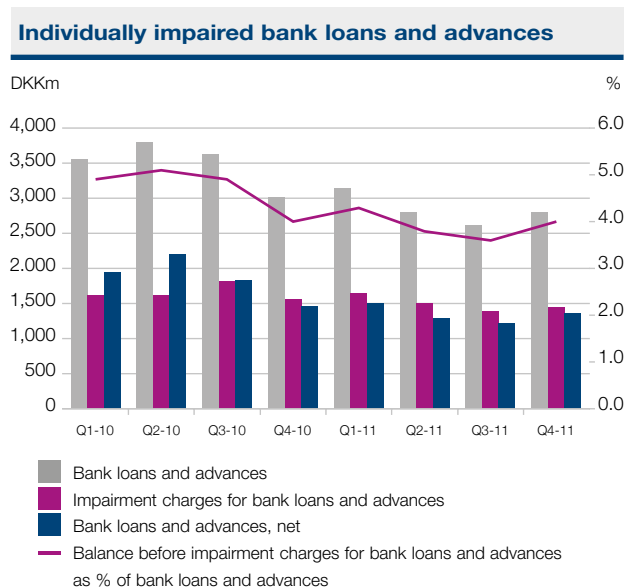
farming, pig farming and crop production. The hectare prices applied by the Group since 2009 in connection with the assessment of the exposures in this portfolio correspond to the hectare prices announced by the Danish FSA in December 2011. The reason for the additional impairment charges is the Group's tightened measurement principles as regards agricultural buildings and plant.

The accumulated impairment charges for this portfolio constitute DKK 419m, equal to 7.6% of the portfolio's bank loans and advances and guarantees of DKK 5.5bn.

The Group's losses on the portfolio in the period 2008-2011 total DKK 81m.

At year-end 2011 the impairment ratio for the year represents 1.70% (2010: 1.89%) relative to bank loans and advances and 1.52% (2010: 1.67%) relative to bank loans and advances and guarantees. At year-end 2011 accumulated impairment and provisions amount to DKK 1,836m (2010: DKK 1,763m).

The impairment charges for the year of DKK 1,195m comprising DKK 333m on the portfolio of cattle farming, pig farming and crop production, DKK 209m on real property, DKK 498m on other corporate lending and DKK 154m on retail lending. Reference is made to the separate publication "Credit Risk 2011" for further elaboration.



Compared with 2010 impaired bank loans and advances before impairment charges increased by DKK 121m to DKK 3,141m, equal to 4%. During the same period individually impaired bank loans and advances after impairment charges increased by DKK 42m, equal to 3%. Impairment charges for bank loans and advances subject to individual impairment represent 52.3% (2010: 51.8%).

#### Individually impaired bank loans and advances

Group (DKKm)	2011	2010
Non-defaulted bank loans and advances	2,183	1,731
Defaulted bank loans and advances	958	1,289
Impaired bank loans and advances	3,141	3,020
Impairment charges for bank loans and advances subject to individual impairment	1,644	1,565
Impaired bank loans and advances after impairment charges	1,497	1,455
Impaired bank loans and advances as % of bank loans and advances before impairment charges	4.4	4.0
Impairment charges as % of bank loans and advances before impairment charges	2.3	2.1
Impaired as % of impaired bank loans and advances	52.3	51.8

In terms of bank loans and advances before impairment charges, impaired bank loans and advances and accumulated impairment charges represent 4.4% and 2.3%, respectively, equal to an impairment ratio of 52.3%.

In terms of the portfolio of bank loans and advances – for cattle farming, pig farming and crop production – before impairment charges the corresponding impaired bank loans and advances and the corresponding accumulated impairment charges represent 14.5% and 7.9%, respectively, equal to an impairment ratio of 54.8%.

#### Core earnings

Core earnings decreased by 18% and represent DKK 589m compared with DKK 715m in 2010.

#### Investment portfolio earnings

Less funding charges and less related costs of DKK 10m, investment portfolio earnings constitute minus DKK 15m (2010: DKK 227m).

#### Profit before non-recurring items

Profit before non-recurring items represents DKK 574m (2010: DKK 942m) equal to a return of 6.0% on average shareholders' equity (2010: 10.1%).

#### Non-recurring items, net

Non-recurring items, net total minus DKK 171m comprising: DKK 57m concerning the dismissal of employees in Denmark, costs and income from the winding-up and sale of activities in the subsidiary bank in Switzerland of DKK 51m and DKK 24m, respectively, the restructuring of line functions etc of DKK 19m and a loss of DKK 68m on the sale of 24.9% of the share capital in Value-Call S.A. in Luxembourg (the remaining portion of the share capital represents 25.0% and has been recognised at DKK 7m).

#### Contributions to the Deposit Guarantee Fund and the Private Contingency Association

The expense for 2011 totals DKK 102m (2010: DKK 384m) comprising costs of DKK 100m for the Deposit Guarantee Fund and impairment charges of DKK 2m for the Private Contingency Association concerning Amagerbanken.

The Group's total costs relating to the Deposit Guarantee Fund and the Private Contingency Association has amounted to DKK 1.1bn since autumn 2008.

#### Profit for the year

Profit before tax represents DKK 301m (2010: DKK 558m). Less a calculated tax charge of DKK 113m (2010: DKK 147m), the Group's profit stands at DKK 188m compared with DKK 411m in 2010.

#### Return

Return on shareholders' equity before and after tax constitutes 3.1% and 2.0%, respectively, against 6.0% and 4.4% in 2010. Earnings per share has declined from DKK 5.6 to DKK 2.6.

#### Q4 2011

Profit before tax for Q4 2011 makes up DKK 95m. Compared with Q3 2011 profit before tax shows:

- A rise in income from interest margins and mortgage credit.
- A normalisation of trading income.
- A decrease in costs of DKK 14m.
- An increase in impairment charges for loans and advances of DKK 215m.
- A profit on investment portfolios of DKK 10m (Q3: loss of DKK 38m).
- A reversal of contribution to the Deposit Guarantee Fund etc of DKK 34m (Q3: DKK 25m).

Profit after tax amounts to DKK 52m in Q4 2011.



# Performance in 2011

## Profit for the period

Group (DKKm)	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Core income excl trading income	880	852	789	799	812
Trading income	229	164	235	299	239
<b>Total core income</b>	<b>1,109</b>	<b>1,016</b>	<b>1,024</b>	<b>1,098</b>	<b>1,051</b>
Costs, core earnings	573	587	653	650	610
<b>Core earnings before impairment</b>	<b>536</b>	<b>429</b>	<b>371</b>	<b>448</b>	<b>441</b>
Impairment of loans and advances etc	460	245	240	250	456
<b>Core earnings</b>	<b>76</b>	<b>184</b>	<b>131</b>	<b>198</b>	<b>(15)</b>
Profit/(Loss) on investment portfolios	10	(38)	(62)	75	(8)
<b>Profit before non-recurring items</b>	<b>86</b>	<b>146</b>	<b>69</b>	<b>273</b>	<b>(23)</b>
Non-recurring items, net	(25)	(146)	-	-	-
<b>Profit before contributions to the Deposit Guarantee Fund and PCA</b>	<b>61</b>	<b>0</b>	<b>69</b>	<b>273</b>	<b>(23)</b>
Contributions to the Deposit Guarantee Fund and the Private Contingency Association (PCA)	(34)	(25)	63	98	-
<b>Profit before tax</b>	<b>95</b>	<b>25</b>	<b>6</b>	<b>175</b>	<b>(23)</b>
Tax	43	25	1	44	2
<b>Profit for the period</b>	<b>52</b>	<b>0</b>	<b>5</b>	<b>131</b>	<b>(25)</b>

The quarterly breakdown is based on the published unaudited interim reports.

### Sydbank – the parent

The Bank's total income before costs and impairment charges for loans and advances makes up DKK 4,072m (2010: DKK 4,763m). Income includes a loss on holdings in associates and subsidiaries of DKK 120m (2010: loss of DKK 6m), comprising a loss in subsidiaries after tax of DKK 43m (2010: loss of DKK 7m).

Total costs including non-recurring costs and costs to the Deposit Guarantee Fund of DKK 214m (2010: DKK 227m) constitute DKK 2,581m (2010: DKK 2,650m). An impairment charge of DKK 1,195m (2010: DKK 1,556m) concerning loans and advances and amounts owed has been recorded, including DKK 2m (2010: DKK 157m) relating to the Private Contingency Association.

Profit before tax amounts to DKK 296m (2010: DKK 557m).

### Subsidiaries

The subsidiary bank, Sydbank (Schweiz) AG, which is being wound up, recorded a loss after tax of DKK 30m (2010: profit of DKK 3m). The result is affected by winding-up costs charged to the income statement.

Ejendomsselskabet recorded a loss after tax of DKK 13m (2010: loss of DKK 10m).

## Balance sheet

The Group's total assets made up DKK 153.4bn at year-end 2011 against DKK 150.8bn at year-end 2010.

Assets		
Group – year-end (DKKbn)	2011	2010
Amounts owed by credit institutions etc	9.5	8.4
Loans and advances at fair value (reverse transactions)	7.7	10.7
Loans and advances at amortised cost (bank loans and advances)	68.8	73.0
Securities and holdings etc	40.0	37.2
Assets related to pooled plans	8.6	7.9
Other assets etc	18.8	13.6
<b>Total</b>	<b>153.4</b>	<b>150.8</b>

The Group's bank loans and advances total DKK 68.8bn – a decrease of 5.7% which consists of a decline in corporate lending and a slight increase in retail lending.

## Shareholders' equity and liabilities

Group – year-end (DKKbn)	2011	2010
Amounts owed to credit institutions etc	38.8	40.2
Deposits and other debt	66.7	64.2
Deposits in pooled plans	8.6	7.9
Bonds issued	7.5	11.2
Other liabilities etc	19.8	15.1
Provisions	0.3	0.3
Subordinated capital	2.1	2.3
Shareholders' equity	9.6	9.6
<b>Total</b>	<b>153.4</b>	<b>150.8</b>

The Group's deposits make up DKK 66.7bn against DKK 64.2bn at year-end 2010. The 3.9% rise is predominantly ascribable to an increase in demand deposits.

## Subordinated capital

During the year the Group has prepaid supplementary capital amounting to DKK 200m. Supplementary capital and hybrid Tier 1 capital represent DKK 743m and DKK 1,382m, respectively. Subordinated capital totals DKK 2,125m (2010: DKK 2,329m).

## Share capital

Share capital is unchanged at DKK 742,499,990 at year-end 2011.

The Sydbank share		
Number	2011	2010
Average number of shares outstanding	73,246,496	73,522,284
Number of shares outstanding at year-end	73,192,644	73,588,089
Number of shares issued at year-end	74,249,999	74,249,999

The number of shares outstanding decreased from 73,588,089 (99.11%) at the end of 2010 to 73,192,644 (98.58%) at the end of 2011. The Sydbank share's book value represents 131.1 (2010: 129.8). At year-end 2011 the closing price of the Sydbank share stood at 90.1 and share price/book value at 0.69.

## Shareholders' equity

At year-end 2011 shareholders' equity constitutes DKK 9,595m – an increase of DKK 41m since 1 January. The change comprises additions from profit for the year of DKK 188m and disposals deriving from a DKK 13m adjustment of revaluation reserves, net purchase of own shares of DKK 54m as well as dividend distribution etc of DKK 80m.

## Accounting estimates

Estimates in relation to the measurement of assets and liabilities are based on assumptions considered reasonable by management but which by their nature are uncertain. They may prove to be incomplete or inaccurate as a result of developments differing from projections in the external environment in which the Group operates or in other respects relating to clients or business relations.

## Performance in 2011

### Solvency and capital

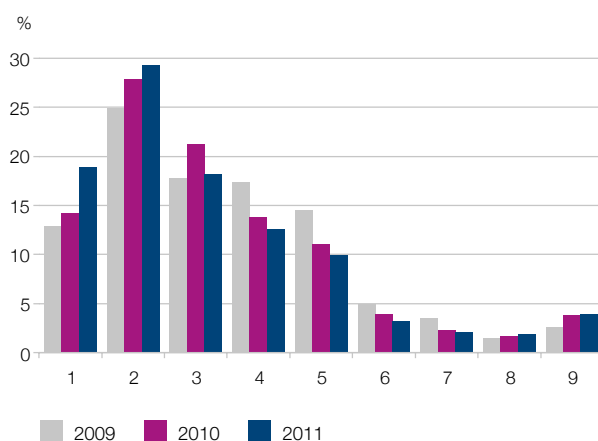
The capital structure was strengthened during the year and core capital currently accounts for 94.0% of the total capital base against 93.2% at the beginning of the year.

#### Solvency

Group (DKKm)	2011	2010
Risk-weighted assets	70,659	73,716
Core capital (excl hybrid core capital)	9,476	9,336
Core capital	10,706	10,559
Capital base	11,392	11,329
Core capital ratio (excl hybrid core capital)	13.4	12.7
Core capital ratio	15.2	14.3
Solvency ratio	16.1	15.4

Risk-weighted assets went down from DKK 73.7bn at year-end 2010 to DKK 70.7bn at year-end 2011. The reduction consists of a decrease in credit risk of DKK 5.7bn as well as a rise in market risk and operational risk of DKK 2.0bn and DKK 0.7bn, respectively. The decrease in credit risk is ascribable to a decline in loans and advances and guarantees as well as a positive trend in the average rating of exposures covered by IRB. The development in the breakdown by rating category from 2009 to 2011 appears below.

#### Gross exposures by rating category, excluding default



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.

Gross exposures by rating category show a positive development and account for an increasing share of the two best rating categories.

The transition to IRB of exposures relating to corporate and retail clients in Germany took place in 1H 2011. As a result more than 98% of the Group's exposures as regards corporate and retail clients are now covered by IRB.

Reference is made to the note on credit risk on page 79 and the separate publication "Credit Risk 2011".

At year-end 2011 the solvency ratio stands at 16.1%, including a core capital ratio of 15.2 percentage points compared with 15.4% and 14.3%, respectively, at year-end 2010. The core capital ratio excluding hybrid core capital has increased from 12.7% to 13.4%.

At 31 December 2011 the individual solvency need constitutes 9.4% (2010: 9.6%).

The Group's internal capital target continues to represent DKK 9,900m, equal to 14.0% at year-end 2011 (year-end 2010: 13.4%) of risk-weighted assets.

Moreover reference is made to "Capital Management" on page 16.

In July 2011 Sydbank and 89 other banks from EU countries participated in a stress test conducted at the request of the European Banking Authority (EBA). The stress test sought to assess the resilience of the European banking sector to a significant deterioration in the macro-economy. The test showed that Sydbank's capital position is among the strongest in Europe.

Moreover Sydbank and other major banks from EU countries participated in a capital test as at 30 September 2011 – also at the request of the EBA. The purpose of the capital test was to assess the European banking sector's potential need for recapitalisation. Also this test showed that Sydbank's capital position is among Europe's strongest in relative terms.

Sydbank has a strong capital structure and the Group has no exposure to government bonds with poor credit ratings.

### Solvency of the parent

At end-2011 the solvency ratio represents 16.3%, of which 15.3 percentage points are ascribable to core capital.

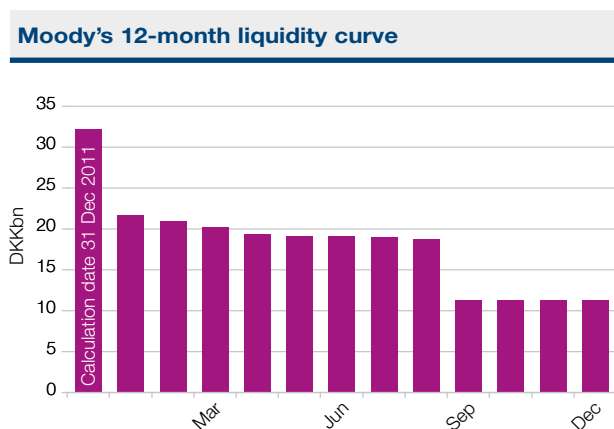
### Interest rate risk etc

The Group's interest rate risk comprises minus DKK 95m at 31 December 2011 (2010: DKK 156m). The Group's exchange rate risk continues to be very low and its equity risk modest.

### Funding and liquidity

The Group's liquidity measured under the 10% statutory requirement constitutes 24.9% at year-end 2011.

The Group's liquidity is good. Moody's 12-month liquidity curve shows that the Group is able to withstand a situation in which access to capital markets is cut off for a period exceeding 12 months.



The decrease in the Group's liquidity after eight months can be ascribed to the repayment of existing senior loans of EUR 1bn.

Since spring 2011 the Group has contemplated issuing senior loans, however the market for long-term funding has been very limited and terms have been unsatisfactory. Given its good liquidity the Group is awaiting a normalisation of markets.

As at 1 October 2011 Danmarks Nationalbank increased banks' access to raise loans against security. The collateral basis has been expanded to include good quality credit claims. The Group does not plan to draw liquidity under the facility but has included the possibility in its strategic contingency resources.

On 7 February 2012 Sydbank and BRFkredit concluded an agreement on the joint funding of the Bank's housing loans. In future Sydbank can finance loans to retail clients via covered bonds (SDO) against registered mortgages on owner-occupied homes and recreational dwellings within the framework of joint funding legislation.

The agreement provides Sydbank with flexible and competitive access to long-term funding of housing loans on market terms via BRFkredit's triple A rated covered bond (SDO) issues.

The Danish FSA has given its approval in principle of the joint funding model.

The existing agreement on mortgage credit lending via Totalkredit and DLR Kredit will continue.

### Rating

On 19 May 2011 Moody's assigned the following ratings to Sydbank:

- Long-term debt: A2
- Short-term debt: P-1
- Bank financial strength: C

On 16 February 2012 Moody's announced that Sydbank's long-term debt, short-term debt, and bank financial strength had been changed from "stable outlook" to "review for downgrade".

### Shareholders

In 2011 the Sydbank share yielded a return of minus 40% (2010: 13%) as a result of the share price decline during the year. The Board of Directors recommends to the general meeting that no dividend be distributed, but that DKK 7m be paid to the sponsorship fund SydbankFonden.

## Performance in 2011

### 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 2011 are shown below:

#### Supervisory Diamond benchmarks

Group	2011	2010
Sum of large exposures < 125%	26%	54%
Funding ratio < 1	0.88	0.87
Commercial property exposure < 25%	11%	11%
Growth in loans and advances < 20%*	(9%)	(4%)
Excess liquidity cover relative to 10% requirement > 50%	149%	106%

\* Including reverse transactions.

As at 31 December 2011 the Group complies with all the benchmarks of the Supervisory Diamond.

### Regulation

In July 2011 the EU Commission proposed a major revision of the Capital Requirements Directive (CRD IV) which will implement Basel III in the EU. As part of the political negotiations over the proposal with the EU with a view to implementing the general rules in early 2013, the Danish presidency has submitted a compromise based on the EU Commission's proposal, which it seeks to implement in the first half of 2012.

The original proposal as well as the compromise suggests a wider definition of liquid assets in the short-term Liquidity Coverage Ratio (LCR) compared with the Basel III definition. The compromise does not stipulate the weight of Level 1 assets (of extremely high liquidity and credit quality) and Level 2 assets (of high liquidity and credit quality) in the calculation of

the liquidity buffer. According to the Basel III rules Level 2 assets may comprise a maximum of 40% of the total liquidity buffer.

The long-term Net Stable Funding Ratio (NSFR) has been postponed for the time being and will be reconsidered at a later point.

The Group estimates that its current core capital ratio (excl hybrid core capital) of 13.4% will be impacted only marginally when the new capital requirements have been fully phased in. The Group thus already complies with the future minimum capital requirements. Similarly the Group expects to be able to meet the stricter liquidity requirements.

### Outlook for 2012

The 2012 outlook is based on the central assumption that the Danish economy is in a recession. The outlook for economic growth in 2012 is more uncertain than usual but increasingly suggests zero growth. Realistically the Danish economy will not start to grow again before 2013 – among other things due to considerable weakening of the Danish competitiveness over the past many years. Moreover Denmark is also affected by the debt crisis in Southern Europe, which is reflected in lacking confidence among businesses and consumers alike.

Core income excl trading income is expected to rise slightly – primarily as a result of interest margin increases and secondarily as a result of increased contributions as regards mortgage credit income.

Trading income is projected to remain unchanged or rise slightly relative to the income for 2011 but is very dependent on developments in the financial markets.

Costs are expected to remain unchanged.

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The prospects for the Danish and the international economy remain bleak, which will involve a continued large need for impairment charges as regards the Group's lending portfolio. Nevertheless the Group projects a decline in losses and other things being equal an unchanged level of impairment compared with 2011.

Investment portfolio earnings will depend on financial market developments. At the beginning of 2012 the Bank's position-taking is characterised by positions in Danish floating-rate mortgage bonds involving limited interest rate risk.

The Group's tax is budgeted at 25%.

# Capital Management

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The Group's capital management aims to ensure efficient deployment of capital relative to the Group's overall capital targets. The Group's risk profile is determined while taking into account the capital targets and implies first and foremost that the Group must have adequate capital to meet the Group's growth expectations and fluctuations in the risks assumed by the Group.

The Group applies internal ratings based approaches to manage the credit risk of the Group's corporate and retail client portfolios. Sydbank uses the advanced IRB approach as regards retail clients and the foundation IRB approach as regards corporate clients to calculate the Group's capital requirement.

The Group applies the Standardised Approach to credit risk in relation to a few portfolio exposures to governments etc, credit institutions and exposures via the Group's subsidiary in Switzerland.

Further details, also concerning risk-weighted assets (RWA), capital information and solvency ratios, are found in note 3.

The Group's capital management focuses on four capital elements: minimum capital, adequate capital base, internal capital target and capital base.

Minimum capital represents the necessary capital in compliance with the executive order on capital adequacy and the adequate capital base is the Group's own determination of capital which is sufficient to protect depositors against loss under the prevailing economic conditions. The solvency need is defined as the adequate capital base in percentage terms of risk-weighted assets.

During 2011 the Group changed the risk organisation so that individual risk committees report directly to the Group Executive Management. The risk committees identify, monitor and assess

risks within the individual risk areas and ensure that models and principles are formulated to calculate risk. The committees ensure that the Bank's business units proactively carry out their operations to counter identified risks. The Group's Chief Risk Officer is a member of all risk committees, for further details see "Risk Management" on page 78.

A risk analysis is carried out annually to determine the Group's risk profile. The Board of Directors considers the analysis and the Group's determination of the adequate capital base and the individual solvency need is made in continuation of this analysis.

The method for determining the Group's solvency need was also adjusted during 2011. The proposal for the determination of the adequate capital base is prepared by Accounting & Risk Management and submitted to the Group Executive Management. The Board of Directors discusses and determines the solvency need on the basis of the proposal.

The solvency need as regards credit risk is determined on the basis of an economic capital model and a buffer is added to allow for rating uncertainty as well as additional credits risks, particularly in respect of weak exposures and industries with special challenges.

The models and methods used to calculate the solvency need as regards market risk and operational risk are unchanged and are based on the models used to calculate the regulatory solvency requirement. The models have been carefully reviewed to determine whether the Group's risks are adequately covered or whether the solvency need must be adjusted. The models used to calculate the regulatory solvency requirement are described in detail in note 3.

Due to the significant uncertainty which continues to surround the international as well as the Danish economy, the Group has recognised a capital add-on of 0.6% of RWA at year-end 2011.

The adequate capital base/solvency need can be broken down as follows:

#### Adequate capital base/solvency need

	DKKkm	% of RWA
Credit risk	4,532	6.4
Market risk	870	1.2
Operational risk	646	0.9
Other circumstances	192	0.3
Capital add-on	400	0.6
Adequate capital base/solvency need	6,640	9.4

Other circumstances include property, plant and equipment and the Group's equity investments.

The internal capital target is the level of capital that the Group wishes to have at its disposal to protect shareholders against loss under prevailing and worsened economic conditions.

The capital base is the actual capital that the Group has at its disposal.

Based on the adequate capital base the Group's capital structure may be specified as follows:

#### Capital

	DKKkm	% of RWA
Adequate capital base/solvency need	6,640	9.4
Buffer capital	3,260	4.6
Internal capital target	9,900	14.0
Free capital	1,492	2.1
Capital base	11,392	16.1

The difference between the adequate capital base and the internal capital target – the buffer capital – reflects the additional capital which the Group finds it is necessary to have in order to protect shareholders against loss.

As shown the Group's buffer capital represents DKK 3.3bn or 32.9% of the Group's internal capital target of DKK 9.9bn.

The difference between the capital base and the internal capital target is made up of free capital. The Group may use free capital to assume new risks, including acquiring other institutions, purchasing own shares, distributing dividend and redeeming subordinated capital.

Free capital constitutes DKK 1.5bn at year-end 2011. The Group expects that it will repay the remaining portion of supplementary capital of DKK 0.7bn three years before maturity in connection with the interest rate step-up in the first six months of 2012.

The capital buffer totals DKK 4.8bn, equivalent to 71.6% of the adequate capital base.

It is the aim of the Group that core capital (excl hybrid core capital) represents a minimum of 80% of the capital base.

Breakdown as at 31 December 2011:

#### Capital base

	DKKkm	%
Core capital (excl hybrid core capital)	9,476	83.2
Hybrid core capital after deductions	1,230	10.8
Supplementary capital after deductions	686	6.0
Capital base	11,392	100.0



## Capital Management

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As mentioned above the Group determines the solvency need as regards credit risk on the basis of an economic capital model. This model measures the credit risk of the Group's corporate and retail client portfolios in connection with the assessment of the adequate capital base. In addition, the Group makes regular use of expert assessments of specific risks and sub-areas, for instance risk concentration. Stress testing is another important element in connection with the assessment of the adequate capital base.

The object of stress testing is to assess the impact of adverse events on capital needed and income. Stress test calculations show the impact for the coming years in given economic scenarios.

As at 31 December 2011 the Group has based its stress test calculations on the following macro-economic scenarios:

**Basic scenario** which reflects the Group's forecast of developments in the economy.

**Mild recession** which reflects deteriorated economic conditions compared with the basic scenario. Annualised, GDP is expected to develop positively in 2012 and 2013. Unemployment will rise in 2012 and fall slightly in 2013.

**Global double dip** which reflects that the Danish economy will be hit by three blows. A domestic blow where the confidence among Danish consumers and businesses alike will be weakened significantly. A foreign blow where the international economy will be hit by a new economic recession. An interest rate blow where the euro area debt crisis will spill over into relatively safe countries such as Denmark resulting in an increase of the Danish bond yields. The scenario resembles a very deep recession, albeit in terms of GDP it is not quite as severe as in the period 2008-2009. Unemployment will increase substantially. GDP developments will be negative in 2012 and 2013 and house prices will drop sharply during the same period.

**Lending freeze** which reflects the same geopolitical scenario as the double dip scenario. However Danish households and consumers are more reluctant to borrow money. The result is a harder domestic blow to the Danish economy. The recession will be deeper than in the double dip scenario.

**Moderate recession** which reflects that compared with the double dip scenario, Denmark will not be impacted by the interest rate blow and the domestic and foreign blows will be less severe. The average bond yield will remain very low throughout the period and unemployment will increase considerably. GDP developments will be negative in 2012 and flat in 2013. House prices will decline during the same period.

**Deflation** which reflects that the crisis in Denmark and the euro area will lead to deflation. Interest rates are expected to continue to drop similar to what was seen in Japan. The recession will be about as severe as in the double dip scenario but the decline in house prices will be sharper. Unemployment is also expected to develop significantly worse than in the double dip scenario.

These scenarios and their relevance are subject to ongoing assessment and management accepts the scenarios as the basis for further stress test calculations. The impacts of the scenarios form part of the assessment of the adequate capital base. The stress tests show that the Group is adequately capitalised.

Throughout 2011 the Group has fully met external as well as internal capital requirements.

## Mission Statement and Business Goals

### History and status

Sydbank was formed in 1970 through a merger between four small banks in Southern Jutland. Since then the Bank has grown through mergers, acquisitions and branch openings and today its scope of activities encompasses the entire country.

The Bank is one of Denmark's largest banks with a market share representing 6-9%, depending on customer segment and type of business. The market share is naturally largest in the areas where Sydbank has its historical roots – especially the Region of Southern Denmark. The Bank's international presence includes five branches in Germany.

### Mission statement

Since 1995 Sydbank's fundamental values have been communicated via its mission statement. According to this, as a service undertaking, the Bank first and foremost aims to meet the financial requirements of its clients. In all relations Sydbank aims to create value based on the service philosophy, "What can we do for you", and the key words of our guiding values – competent, reliable, obliging and competitive – must be reflected in the Bank's activities.

Sydbank aims to be perceived by retail clients and small corporate clients as an approachable business partner with roots in the local community. Also as regards major clients, including private banking clients, corporate enterprises, banks and institutional clients, Sydbank wishes to be perceived as a partner that fulfils clients' banking requirements with dynamism and financial capacity.

Sydbank is expanding its banking operations in the Danish market for instance by opening branches in major towns and consequently the Bank is consolidating its position as a nationwide player. In addition the Bank continues to expand its long-standing presence in Germany.

Sydbank's organisational philosophy is based on the requirements of clients and business activities, and on broad delegation of professional competence and decision-making responsibility to individual customer-oriented units. At the same time efforts are made to streamline administrative procedures. Dedicated and performance-oriented employees who can and who want to make a difference are the Bank's most valuable resource and competitive parameter.

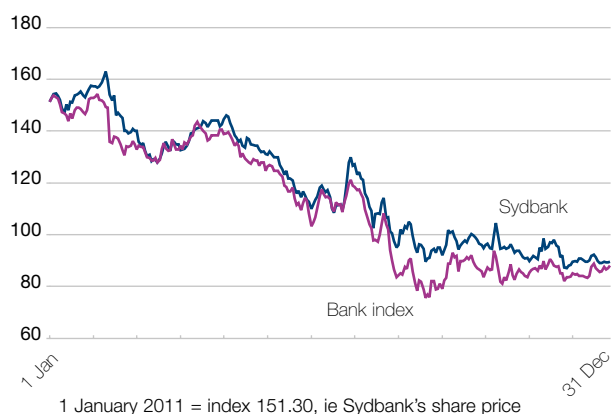
### Overall financial goals

The Group aims to generate over time financial results to the satisfaction of shareholders' long-term return expectations. Moreover the capital base must exceed the capital needed as calculated by the Bank including a buffer to adequately resist significant cyclical fluctuations and individual events.

### The Sydbank share

At year-end 2011 Sydbank's shareholders numbered 143,000. Since December 2006 the Sydbank share has been part of OMXC20. The share price (DKK 10 each) stood at 90.10 at year-end 2011 against 151.30 at year-end 2010.

#### Share price developments 2011



## Clients and Business Areas

### Clients

The number of new Sydbank clients continues to develop positively. In 2011 the number of clients exceeded 400,000, including 34,000 corporate clients. This trend is very satisfactory and reflects that Sydbank continues to attract and retain clients – despite an economic crisis sentiment and a highly competitive market.

### Business areas

Sydbank's product range and supply channels are competitive and fulfil customer needs. The Bank attaches importance to being a dedicated sparring partner and providing professional advice as well as smooth services to all customer segments. This is based on Sydbank's in-depth knowledge of individual customer needs and on staff specialist knowledge and competence.

### Retail segment

Sydbank operates its business focusing on the Bank's own services and products and ongoing product innovation. In 2011 focus was on digital solutions in particular – for instance the popular Sydbank MobilBank was launched.

To supplement Sydbank's own products and services the Bank has concluded cooperation agreements with subsuppliers from outside the classic banking product range. The primary mortgage credit partners are Totalkredit, Nykredit and DLR Kredit and its life insurance partners are Topdanmark and PFA.

### Wealth and financial advisory services and private banking

Sydbank has targeted the business areas wealth and financial advisory services for quite a few years combining high professional expertise and geographical proximity to the client. With 15 Danish investment centres and investment departments – and an investment centre in Germany – wealthy clients with investment needs and enterprises in need of financial advisory services are typically not far from their personal investment manager. Sydbank mainly focuses on personal and individual advisory services to its clients, but the Bank also offers various digital information and trading systems in connection with securities and foreign exchange trading.

Moreover Sydbank has successfully offered special expertise and services to the Bank's private banking clients for a number of years.

Sydbank's services are available to investment clients domiciled outside Denmark via the Investment Centre in Flensburg – the regional head office for Germany.

### Asset Management

Sydbank provides advisory and management services to for instance investment funds and hedge funds, pooled pension plans, funds and institutional clients as well as customised portfolio management agreements to major wealthy clients. Moreover the Bank offers investment allocation models including PengePlan® to its other clients.

Asset Management is responsible for the Bank's macro, equity and fixed income research.

About half of Sydbank's assets under management relate to emerging market bonds and shares, which is an area where the Bank has built a strong expertise over the years. Overall, asset management is a growth area. However 2011 was characterised by declining share prices and diminishing risk appetite among the majority of clients and consequently assets under management at year-end 2011 are slightly smaller than the previous year.

#### Asset management

DKKbn	2011	2010
Pooled pension plans	8	8
Portfolio management mandates	9	9
Management agreements	3	3
Investment funds and hedge funds	41	45
<b>Total</b>	<b>61</b>	<b>65</b>

#### Custody account volume

DKKbn	2011	2010
Retail and corporate clients	93	98
Pooled pension plans	8	8
Financial institutions	6	7
Investment funds and hedge funds	37	40
<b>Total</b>	<b>144</b>	<b>153</b>

The custody account volume of retail and corporate clients by type of security:

#### Custody account volume distribution – retail and corporate clients

DKKbn	2011	2010
Danish bonds	24	25
Foreign bonds	5	3
Danish shares	18	22
Foreign shares	7	7
Investment funds and hedge funds	39	41
<b>Total</b>	<b>93</b>	<b>98</b>

#### Corporate segment

Sydbank has special focus on being a competent sparring partner to the business sector for instance when enterprises seek efficient payment services and cash management solutions. Via its branches in Germany and its close collaboration with Nordic banks and the Connector banks, Sydbank offers payment solutions virtually worldwide. Since autumn 2011 Sydbank has been able to offer payments and accounts in Chinese yuan (CNY) just as the Bank's clients can receive local banking services in approximately 60 Chinese bank branches.

Sydbank participates in the Single Euro Payments Area (SEPA). As a result it is easier, faster and cheaper for the Bank's corporate clients to execute EUR payments in all EU countries and they can also collect EUR payments throughout Europe.

Moreover advice and settlement in connection with documentary credit, debt collection and guarantee transactions as well as export finance are a natural part of the Bank's services to corporate clients.

Another special field of competence is the hedging of corporate clients' interest rate and foreign exchange risks. Sydbank's ongoing advisory services and sophisticated analysis tools provide clients with an overview of their funding structure and interest rate and foreign exchange risks.

A growing number of corporate clients have joined Sydbank's corporate pension programme, which is a flexible and competitive product to accommodate the business sector's requirements in this area.

Every year Aalund Business Research prepares Bankbarometer Business, which analyses clients' satisfaction with their bank in enterprises with 10-499 employees. The 2011 survey shows that Sydbank is number one among Denmark's four largest corporate banks. On a scale from 1 to 10 Sydbank achieved a top score of 8.0 on Aalund's satisfaction barometer.

#### Corporate Banking & Finance

This division consists of three departments:

- Corporate Banking which provides banking services to some of the Bank's largest corporate and investment clients.
- Merchant Bank which provides advisory services to corporate clients on for instance succession, the acquisition and sale of enterprises, the raising of subordinated loan capital, initial public offerings and share issues. Merchant Bank also prepares company and industry analyses.
- Sydleasing which provides leasing services to the Bank's corporate and retail clients. Corporate clients can lease eg equipment, machinery and cars and retail clients can lease cars.

#### Sydbank Markets

Sydbank Markets quotes prices as regards foreign exchange and securities and undertakes market making obligations. In addition to being responsible for Sydbank's treasury portfolio, the division services institutional clients, major clients, local banks as well as Sydbank's decentralised investment centres and departments.

#### Sydbank in Germany

Sydbank's five branches in Germany – Berlin, Flensburg, Hamburg, Kiel and Wiesbaden – target Danish corporate clients who trade with Germany as well as German corporate and retail clients. The Bank's areas of expertise such as private banking as well as financial and wealth advisory services are also available at Sydbank in Germany.

In addition the Flensburg branch is a specialist banker for retail clients commuting across the Danish-German border.

#### Sydbank in Switzerland

The subsidiary bank, Sydbank (Schweiz) AG in St. Gallen, is being wound up.

## Organisation, Distribution and Staff

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Clients' contact with Sydbank takes place via the branches in the Bank's 11 Danish regions, its branches in Germany, and the expert functions at the head office.

Providing full service to all clients, the Danish regions are organised in corporate, investment and retail sections and service the Bank's smaller branches. Administrative tasks are carried out by customer secretariats.

### Branches

Sydbank has 102 branches in Denmark and five branches in Germany. The number of branches is adjusted on an ongoing basis.

Customer and employee safety is given very high priority. Consequently all counters in the Bank's branches are equipped with time delay locks and to further reduce the risk of robberies new security measures are implemented on a continuing basis, for instance closed cash-handling systems and cashless branches.

### Digital solutions

The eBanking solutions provided by Sydbank to its clients were further developed also in 2011. Sydbank MobilBank was launched as a supplement to Sydbank NetBank and enables clients to pay bills, trade securities and much more via their iPhones and Android phones.

Clients responded very positively to the MobilBank app and also NetBank is becoming increasingly popular.

Sydbank Online Banking for corporate clients can be fully integrated with a client's ERP system and supports a wide range of national and international cash management solutions. The system also includes a Trade Finance Online module. More than 90% of clients' international payments are conducted via the Bank's digital solutions which are serviced by Sydbank's

Hotline. In 2011 the hotline responded to more than 140,000 customer enquiries.

Also in 2012 Sydbank will focus on developing digital solutions that benefit the Bank's clients.

Sydbank issues Dankort and VISA/Dankort cards and also offers versatile MasterCard programmes for retail and corporate clients – both as credit cards and debit cards. All Sydbank MasterCard programmes offer a number of advantages, including one of the best travel insurances in the market. Sydbank has issued approximately 350,000 cards which can be used online as well as in ATMs and in shops – in Denmark and abroad.

In all the Bank's branches – as well as in about 45 selected locations, for instance shopping centres – Sydbank has installed ATMs of which most are open 22 hours every day of the year. In 2011 the Bank's ATMs handled more than six million cash withdrawals.

### Staff

In 2011 the Group's staff fell by 132 to 2,152 (full-time equivalent) – a decline of 6%. The decrease reflects Sydbank's aim for a moderate and steady reduction in staff – especially as a result of a series of new productivity enhancing systems as well as clients' increasing use of digital solutions.

Throughout the year the Bank has greatly focused on developing adviser competences in terms of professional expertise and service. Competent advisory services to clients will also have high priority in 2012. Sydbank does not have incentive pay programmes. However a scheme where savings are deducted from gross pay to purchase Sydbank shares has been offered since 2007 – an offer which almost half of the staff accepted in 2011.

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## **IT**

Sydbank's primary IT supplier is Bankdata which also provides system solutions to 13 other Danish banks. Bankdata has an operating agreement with JN Data in Silkeborg.

In 2010 it was agreed that Jyske Bank would become a new member of Bankdata. In 2H 2012 Jyske Bank will convert to Bankdata's systems. A series of development projects are well underway and must be completed before the conversion.

As a result of the agreement, the total business volume of Bankdata will grow by over 50%. Consequently it will be possible to double the capacity for development as well as to achieve significant savings within IT for the member banks. The increased development capacity will be a reality already in 2012 whereas savings will be achieved as from 2013.

### **Danish Regional Bankers' Association**

Sydbank is a member of the industry association, Regional Bankers' Association (RBF), together with Arbejdernes Landsbank, Jyske Bank and Spar Nord Bank. The main object of the association is to strengthen members' position in relation to sector policy.

# Corporate Governance and Corporate Social Responsibility

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## Corporate governance

Sydbank backs and actively addresses the recommendations issued by the Committee on Corporate Governance. In 2002 and 2003 the Board of Directors addressed the first recommendations by the Committee (“the Nørby Committee”), and since 2006 the Bank has followed the “comply or explain principle”. The position of the Board of Directors as regards each recommendation appears from “Sydbank’s Corporate Governance Principles” which can be read in their entirety at [sydbank.com](http://sydbank.com).

Highlights:

- Sydbank’s Articles of Association include a voting right limitation according to which no shareholder on his own behalf may cast a vote of more than 5,000 shares.
- The existing framework for the work of the Board of Directors is considered adequate also in relation to existing recruitment criteria and processes, restrictions as regards other directorships as well as the length of the term of office.

The Board of Directors consists of between six and ten members to be elected by and from among the members of the Shareholders’ Committee. Furthermore it includes any additional members as prescribed by law. The board members elected by the Shareholders’ Committee are elected for a term of four years. Members are eligible for re-election. If the number of board members is reduced to less than six, the Shareholders’ Committee will add to the number of board members as soon as possible in order to increase the number of members to at least six.

When a member of the Board of Directors attains the age of 65, he will resign from office no later than at the next Annual General Meeting.

Resolutions to amend the Articles of Association as well as the dissolution of the Bank or its merger with other companies will only be adopted if at least two-thirds of the voting share capital are represented at the general meeting and the resolution is carried by two-thirds of votes cast and of the voting share cap-

ital represented at the general meeting. If two-thirds of the voting share capital are not represented at the general meeting and the resolution has been carried by two-thirds of both the votes cast and of the voting share capital represented at the general meeting, the resolution can be adopted at a new general meeting by the majority of votes cast as prescribed above irrespective of the proportion of voting share capital represented.

Resolutions to amend the Articles of Association submitted by the Shareholders’ Committee or the Board of Directors may be finally adopted at a single general meeting by two-thirds of both the votes cast and of the voting share capital represented at the general meeting.

The Board of Directors may authorise a share capital increase of up to DKK 432,500,010 in one or more issues.

This authorisation will apply until 1 March 2016. Increases in share capital pursuant to such authorisation may be effected without any pre-emption rights for the Bank’s existing shareholders, if effected by an unrestricted public subscription at market price, by conversion of debt or as consideration for the Bank’s acquisition of a going concern or specific capital assets of a value corresponding to the value of shares issued.

The general meeting has authorised the Board of Directors to allow the Bank to acquire own shares within a total nominal value of 10% of the Bank’s share capital.

The Board of Directors holds at least 11 ordinary board meetings each year and evaluates its work annually. The assessment will include an evaluation of the work and results of the Board of Directors and the individual members as well as the chairman.

Directorships of the Board of Directors can be seen on pp 96-97.

Sydbank’s Articles of Association can be read in their entirety at [sydbank.com](http://sydbank.com).

### **Significant internal controls and risk management systems**

Sydbank's risk management and internal controls relating to financial reporting are designed for the purpose of preparing:

- Management accounts which make it possible to measure and follow up on the Group's performance.
- Financial statements which give a true and fair view without material misstatement and which are in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed financial companies.

The Group's internal controls and risk management systems are updated on an ongoing basis and are designed with a view to identifying and eliminating errors and omissions in the financial statements. Internal controls and risk management systems provide reasonable assurance that all material errors and omissions are detected and corrected.

### **Overall control environment**

The Group Executive Management is responsible for maintaining effective internal controls and a risk management system in connection with financial reporting. The Group Executive Management has designed and implemented controls considered necessary and effective to counter the identified risks relating to financial reporting.

### **Risk assessment**

The Board of Directors and the Group Executive Management regularly assess the risks relating to the Group, including those affecting financial reporting. A description of the most significant identified risks is given in the annual report under "Accounting estimates and judgements" (note 2).

The Group Executive Management and the Audit Committee regularly consider whether new internal controls should be implemented to counter identified risks. In addition the Audit Committee reviews particularly risky areas on an ongoing basis.

Procedures have been put into place to ensure that Sydbank at all times complies with relevant legislation and other regulations

in connection with financial reporting. The Audit Committee is regularly informed of significant changes in legislation.

### **Monitoring**

Analyses and control activities are conducted in connection with the preparation of the financial statements to ensure that financial reporting is in compliance with IFRS as described under "Accounting policies" (note 1).

### **Compliance**

Compliance is an independent function reporting directly to the Bank's Group Executive Management. The division assesses and supervises that the Bank's business areas comply with legislation and internal rules. In addition Compliance provides assistance and counselling to the business areas. The ongoing reporting of the division includes assessments of risks in the form of financial losses, administrative sanctions and the loss of good standing.

### **Risk organisation**

Sydbank has a formal risk organisation comprising a Chief Risk Officer, reporting directly to the Bank's Group Executive Management, and a number of risk committees. The Chief Risk Officer is responsible for prudent risk management within the Group and compliance with the requirements of the executive order on management and control of banks etc. The risk committees are managed by a member of the Bank's Group Executive Management and the Chief Risk Officer is a permanent member. The risk committees identify, monitor and assess risks within the individual risk areas and ensure that models and principles are formulated to calculate risk. The committees ensure that the Bank's business areas counter identified risks.

### **Audit Committee**

The Audit Committee has no independent decision-making authority but reports to the Board of Directors and meets as a minimum four times a year.

The Audit Committee reviews and monitors on an ongoing



# Corporate Governance and Corporate Social Responsibility

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basis the adequacy of the Group's internal controls. Moreover the Committee assesses significant risks in connection with accounting, auditing and security issues. The assessments are carried out when the Board of Directors, Internal Audit, the Audit Committee or independent auditors believe an issue deserves closer examination before it is brought before the Board of Directors.

Moreover the Audit Committee follows up on measures taken to rectify weaknesses in internal controls as well as errors and omissions in the financial statements reported by independent auditors and Internal Audit and ensures that controls and procedures are implemented to counter these errors and omissions. The Audit Committee held six meetings in 2011.

## Remuneration Committee

The Remuneration Committee has no independent decision-making authority but reports to the Board of Directors. The Remuneration Committee formulates the Bank's remuneration policy and decides which of the Bank's functions are covered by the concept of "material risk takers". Following approval by the Board of Directors the remuneration policy is submitted to the general meeting which will make the final decision. The Remuneration Committee ensures that the remuneration policy in force is complied with.

Reference is made to [sydbank.com](http://sydbank.com) for further information.

## Internal Audit

Sydbank has established an internal audit function in order to gain an objective and independent assessment of the adequacy, effectiveness and quality of the Group's internal controls. Internal Audit reports to the Board of Directors which has approved a functional description for Internal Audit.

Internal Audit oversees that:

- The Group has good administrative and accounting practices.
- There are written business procedures for all important areas of activity.
- There are satisfactory internal control procedures.
- There are prudent control and security measures within IT.

Moreover Internal Audit oversees that management's instructions on security and controls are incorporated into business procedures and are observed.

## Corporate social responsibility

Sydbank has not formulated a formal CSR policy. All the same Sydbank is an enterprise operating as a responsible player in society while respecting its business goals.

The Bank is an active player in the activities of associations and sports. Numerous sponsorships are nurtured locally and regionally – not least amateur associations. In addition Sydbank's funds give small and large donations for cultural and social purposes.

The local and regional commitment is the cornerstone of Sydbank's corporate mission and one of the reasons why the Bank remains the business partner characterised by closeness and local knowledge – despite its nationwide presence.

Within the investment area Sydbank's social responsibility is primarily exercised via the manner in which investments are made in the portfolios managed by the Bank. The Bank finds it important that the companies invested in comply with the UN Principles for Responsible Investment (UNPRI).

Also in relation to its employees the Bank takes its social responsibility seriously. Continuous initiatives within stress prevention, senior policy schemes and health promotion constitute some of the reasons why Sydbank is a highly attractive workplace. Also in terms of environmental awareness, the Group has launched a range of initiatives in recent years aimed at minimising the Bank's energy consumption.

The Bank's activities and CSR efforts aim to emphasise Sydbank's position as ethically sound – among employees, clients and other stakeholders.

The Bank does not carry out targeted follow-up activities on the effect of the efforts within this area.

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## Income Statement

DKKm	Note	Sydbank Group		Sydbank A/S	
		2011	2010	2011	2010
Interest income	5	4,363	4,189	4,352	4,179
Interest expense	6	1,235	971	1,236	973
<b>Net interest income</b>		<b>3,128</b>	<b>3,218</b>	<b>3,116</b>	<b>3,206</b>
Dividends on shares	7	28	22	28	22
Fee and commission income	8	1,304	1,330	1,279	1,293
Fee and commission expense	8	219	184	221	184
<b>Net interest and fee income</b>		<b>4,241</b>	<b>4,386</b>	<b>4,202</b>	<b>4,337</b>
Market value adjustments	9	(26)	420	(33)	410
Other operating income	10	48	23	23	22
Staff costs and administrative expenses	11	2,463	2,353	2,380	2,301
Depreciation and impairment of property, plant and equipment		122	153	100	138
Other operating expenses		102	211	101	211
Impairment of loans and advances etc	12	1,198	1,556	1,195	1,556
Profit/(Loss) on holdings in associates and subsidiaries	13	(77)	2	(120)	(6)
<b>Profit before tax</b>		<b>301</b>	<b>558</b>	<b>296</b>	<b>557</b>
Tax	14	113	147	108	146
<b>Profit for the year</b>		<b>188</b>	<b>411</b>	<b>188</b>	<b>411</b>
<b>Distribution of profit for the year</b>					
Profit for the year				188	411
<b>Total amount to be allocated</b>				<b>188</b>	<b>411</b>
Proposed dividend				-	74
Proposal for allocation for other purposes				7	10
Transfer to shareholders' equity				181	327
<b>Total amount allocated</b>				<b>188</b>	<b>411</b>
EPS Basic (DKK)*				2.6	5.6
EPS Diluted (DKK)*				2.6	5.6
Proposed dividend per share (DKK)				-	1.0

\* Calculated on the basis of average number of shares outstanding, see page 11.

## Statement of Comprehensive Income

<b>Profit for the year</b>	<b>188</b>	<b>411</b>	<b>188</b>	<b>411</b>
<b>Other comprehensive income</b>				
Translation of foreign entities	6	40	6	40
Hedge of net investment in foreign entities	(6)	(40)	(6)	(40)
Property revaluation (reversal)	(13)	(1)	(13)	(1)
<b>Other comprehensive income after tax</b>	<b>(13)</b>	<b>(1)</b>	<b>(13)</b>	<b>(1)</b>
<b>Total comprehensive income for the year</b>	<b>175</b>	<b>410</b>	<b>175</b>	<b>410</b>

## Balance Sheet

DKKm	Note	Sydbank Group		Sydbank A/S	
		2011	2010	2011	2010
<b>Assets</b>					
Cash and balances on demand at central banks		939	855	921	840
Amounts owed by credit institutions and central banks	15	8,526	7,527	8,808	8,017
Loans and advances at fair value	16	7,658	10,724	7,658	10,724
Loans and advances at amortised cost	16	68,847	73,028	68,169	72,228
Bonds at fair value	17	38,622	35,021	38,621	35,021
Shares etc	18	1,281	1,894	1,281	1,894
Holdings in associates etc	19	192	307	192	307
Holdings in subsidiaries	20	-	-	229	257
Assets related to pooled plans	21	8,553	7,923	8,553	7,923
Intangible assets	22	12	13	12	13
Total land and buildings		1,015	1,045	826	840
investment property	23	-	-	-	-
owner-occupied property	24	1,015	1,045	826	840
Other property, plant and equipment	25	85	105	85	99
Current tax assets		13	82	14	83
Deferred tax assets		5	11	5	7
Assets in temporary possession		1	1	1	1
Other assets	26	17,641	12,256	17,614	12,253
Prepayments		51	51	50	51
<b>Total assets</b>		<b>153,441</b>	<b>150,843</b>	<b>153,039</b>	<b>150,558</b>
<b>Shareholders' equity and liabilities</b>					
Amounts owed to credit institutions and central banks	27	38,767	40,250	39,132	40,327
Deposits and other debt	28	66,724	64,161	66,010	63,815
Deposits in pooled plans		8,557	7,923	8,557	7,923
Bonds issued at amortised cost	29	7,500	11,242	7,500	11,242
Current tax liabilities		-	8	-	8
Other liabilities	30	19,911	15,084	19,878	15,071
Deferred income		6	11	6	11
<b>Total liabilities</b>		<b>141,465</b>	<b>138,679</b>	<b>141,083</b>	<b>138,397</b>
Provisions	31	256	281	236	278
Subordinated capital	32	2,125	2,329	2,125	2,329
Shareholders' equity:					
Share capital		742	742	742	742
Revaluation reserves		95	110	95	110
Other reserves:					
Reserves according to articles of association		425	423	425	423
Reserve for net revaluation according to the equity method		26	26	26	26
Retained earnings		8,300	8,169	8,300	8,169
Proposed dividend etc		7	84	7	84
Total shareholders' equity		9,595	9,554	9,595	9,554
<b>Total shareholders' equity and liabilities</b>		<b>153,441</b>	<b>150,843</b>	<b>153,039</b>	<b>150,558</b>

## Statement of Changes in Equity

Sydbank Group							
DKK m	Share capital	Revaluation reserves	Reserves acc to articles of association*	Reserve for net revaluation according to equity method	Retained earnings	Proposed dividend etc	Total
Shareholders' equity at 1 Jan 2011	742	110	423	26	8,169	84	9,554
Profit for the period	-	-	2	-	179	7	188
<b>Other comprehensive income</b>							
Translation of foreign entities	-	-	-	-	6	-	6
Hedge of net investment in foreign entities	-	-	-	-	(6)	-	(6)
Property revaluation (reversal)	-	(13)	-	-	-	-	(13)
Adjustment concerning property sold	-	(2)	-	-	2	-	-
Total other comprehensive income	-	(15)	-	-	2	-	(13)
<b>Comprehensive income for the year</b>	-	<b>(15)</b>	<b>2</b>	-	<b>181</b>	<b>7</b>	<b>175</b>
<b>Transactions with owners</b>							
Purchase of own shares	-	-	-	-	(2,030)	-	(2,030)
Sale of own shares	-	-	-	-	1,976	-	1,976
Adopted dividend etc	-	-	-	-	-	(84)	(84)
Dividend, own shares	-	-	-	-	4	-	4
Total transactions with owners	-	-	-	-	(50)	(84)	(134)
<b>Shareholders' equity at 31 Dec 2011</b>	<b>742</b>	<b>95</b>	<b>425</b>	<b>26</b>	<b>8,300</b>	<b>7</b>	<b>9,595</b>
Shareholders' equity at 1 Jan 2010	742	112	418	33	7,813	-	9,118
Profit for the period	-	-	5	(7)	329	84	411
<b>Other comprehensive income</b>							
Translation of foreign entities	-	-	-	-	40	-	40
Hedge of net investment in foreign entities	-	-	-	-	(40)	-	(40)
Property revaluation (reversal)	-	(1)	-	-	-	-	(1)
Adjustment concerning property sold	-	(1)	-	-	1	-	-
Total other comprehensive income	-	(2)	-	-	1	-	(1)
<b>Comprehensive income for the year</b>	-	<b>(2)</b>	<b>5</b>	<b>(7)</b>	<b>330</b>	<b>84</b>	<b>410</b>
<b>Transactions with owners</b>							
Purchase of own shares	-	-	-	-	(2,464)	-	(2,464)
Sale of own shares	-	-	-	-	2,490	-	2,490
Total transactions with owners	-	-	-	-	26	-	26
<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>

## Sydbank A/S

DKKm	Share capital	Revaluation reserves	Reserves acc to articles of association*	Reserve for net revaluation according to equity method	Retained earnings	Proposed dividend etc	Total
Shareholders' equity at 1 Jan 2011	742	110	423	26	8,169	84	9,554
Profit for the period	-	-	2	-	179	7	188
<b>Other comprehensive income</b>							
Translation of foreign entities	-	-	-	-	6	-	6
Hedge of net investment in foreign entities	-	-	-	-	(6)	-	(6)
Property revaluation (reversal)	-	(13)	-	-	-	-	(13)
Adjustment concerning property sold	-	(2)	-	-	2	-	-
Total other comprehensive income	-	(15)	-	-	2	-	(13)
<b>Comprehensive income for the year</b>	<b>-</b>	<b>(15)</b>	<b>2</b>	<b>-</b>	<b>181</b>	<b>7</b>	<b>175</b>
<b>Transactions with owners</b>							
Purchase of own shares	-	-	-	-	(2,030)	-	(2,030)
Sale of own shares	-	-	-	-	1,976	-	1,976
Adopted dividend etc	-	-	-	-	-	(84)	(84)
Dividend, own shares	-	-	-	-	4	-	4
Total transactions with owners	-	-	-	-	(50)	(84)	(134)
<b>Shareholders' equity at 31 Dec 2011</b>	<b>742</b>	<b>95</b>	<b>425</b>	<b>26</b>	<b>8,300</b>	<b>7</b>	<b>9,595</b>
Shareholders' equity at 1 Jan 2010	742	112	418	33	7,813	-	9,118
Profit for the period	-	-	5	(7)	329	84	411
<b>Other comprehensive income</b>							
Translation of foreign entities	-	-	-	-	40	-	40
Hedge of net investment in foreign entities	-	-	-	-	(40)	-	(40)
Property revaluation (reversal)	-	(1)	-	-	-	-	(1)
Adjustment concerning property sold	-	(1)	-	-	1	-	-
Total other comprehensive income	-	(2)	-	-	1	-	(1)
<b>Comprehensive income for the year</b>	<b>-</b>	<b>(2)</b>	<b>5</b>	<b>(7)</b>	<b>330</b>	<b>84</b>	<b>410</b>
<b>Transactions with owners</b>							
Purchase of own shares	-	-	-	-	(2,464)	-	(2,464)
Sale of own shares	-	-	-	-	2,490	-	2,490
Total transactions with owners	-	-	-	-	26	-	26
<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>

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

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.

# Cash Flow Statement

DKKm	Sydbank Group	
	2011	2010
<b>Operating activities</b>		
Pre-tax profit for the year	301	558
Taxes paid	(60)	(187)
Adjustment of non-cash operating items:		
Profit/(Loss) on holdings in associates	77	(2)
Amortisation and depreciation of intangible assets and property, plant and equipment	122	153
Impairment of loans and advances/guarantees	1,198	1,556
Other non-cash operating items	(17)	(188)
<b>Total</b>	<b>1,621</b>	<b>1,890</b>
Changes in working capital:		
Credit institutions and central banks	59	(4,819)
Trading portfolio	(2,988)	1,279
Other financial instruments at fair value	443	617
Loans and advances	6,049	2,167
Deposits	2,563	(4,620)
Other assets/liabilities	(997)	(2,968)
<b>Cash flows from operating activities</b>	<b>6,750</b>	<b>(6,454)</b>
<b>Investing activities</b>		
Purchase of holdings in associates	0	(4)
Sale of holdings in associates	35	0
Purchase of property, plant and equipment	(93)	(127)
Sale of property, plant and equipment	10	8
<b>Cash flows from investing activities</b>	<b>(48)</b>	<b>(123)</b>
<b>Financing activities</b>		
Purchase and sale of own holdings	(47)	26
Dividend	(84)	-
Raising/redemption of subordinated capital	(204)	(795)
Issue/redemption of bonds	(3,742)	2,620
<b>Cash flows from financing activities</b>	<b>(4,077)</b>	<b>1,851</b>
<b>Cash flows for the year</b>	<b>2,625</b>	<b>(4,726)</b>
Cash equivalent positions at 1 Jan	2,695	7,421
Cash flows for the year (changes during the year)	2,625	(4,726)
<b>Cash equivalent positions at 31 Dec</b>	<b>5,320</b>	<b>2,695</b>
<b>Cash equivalent positions at 31 Dec</b>		
Cash and balances on demand at central banks	939	855
Fully secured and cash equivalent balances on demand with credit institutions and insurance companies	1,881	1,840
Unencumbered certificates of deposit	2,500	-
<b>Cash equivalent positions at 31 Dec</b>	<b>5,320</b>	<b>2,695</b>





# Notes

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## Note 1 Accounting policies

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### Basis of preparation

The financial statements of the Sydbank Group have been prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements of the parent, Sydbank A/S, have been prepared in compliance with the Danish Financial Business Act, including the executive order on financial reporting of credit institutions and brokerage firms etc, which is in compliance with recognition and measurement under IFRS apart from the measurement of holdings in subsidiaries and associates at equity value.

Furthermore the annual report has been prepared in compliance with additional Danish disclosure requirements for annual reports of listed financial companies.

On 22 February 2012 the Board of Directors and the Group Executive Management have reviewed and approved the 2011 Annual Report of Sydbank A/S. The Annual Report will be submitted for adoption by the AGM on 15 March 2012.

### New accounting policies

The following have been implemented effective as from 1 January 2011:

- Amendment to IAS 24: Related Party Disclosures.
- Improvements to IFRS May 2010.

Sydbank's implementation of the new financial reporting standards and interpretations (IFRIC) has not had any effect on recognition and measurement in the consolidated financial statements for 2011 and consequently nor on EPS Basic nor EPS Diluted. The new standards and interpretations have resulted in a few changes in disclosures in the notes as well as in names of statements and items.

The accounting policies applied are consistent with those adopted in the previous year.

### Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Group and the

value of the asset can be measured reliably. Liabilities are recognised in the balance sheet when they are probable and can be measured reliably.

On initial recognition assets and liabilities are measured at fair value. Subsequent measurement of assets and liabilities is as described for each item below.

Recognition and measurement take into account gains, losses and risks arising before the presentation of the financial statements and which confirm or invalidate circumstances existing at the balance sheet date.

Income is recognised in the income statement as earned. Costs incurred to earn the year's income are recognised in the income statement. Value adjustments of financial assets, financial liabilities and derivatives are recognised in the income statement apart from value adjustments of financial instruments used to provide foreign currency hedge of net investments in foreign subsidiaries and associates. The latter value adjustments are recognised in the statement of comprehensive income. Purchase and sale of financial instruments are recognised on the settlement date.

### Significant recognition and measurement principles

#### Consolidated financial statements

The consolidated financial statements include the parent, Sydbank A/S, as well as subsidiaries in which Sydbank A/S exercises control over financial and operating policies. Group holdings and enterprises (note 42) lists the consolidated entities.

The consolidated financial statements combine the financial statements of the parent and the individual subsidiaries in accordance with the Group's accounting policies, in which intragroup income and costs, shareholdings, balances and dividends as well as realised and unrealised gains on intragroup transactions have been eliminated.

Enterprises acquired are included from the date of acquisition.

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The assets (including identifiable intangible assets) as well as the liabilities and contingent liabilities of the enterprises acquired are recognised at the date of acquisition at fair value in accordance with the acquisition method.

Where the cost of acquisition exceeds the fair value of the net assets of the enterprise acquired, the difference is recognised as goodwill. Goodwill is recognised in the functional currency of the enterprise acquired at the exchange rate on the date of transaction. Where the fair value of net assets exceeds the cost of acquisition (negative goodwill), the difference is recognised as income in the income statement at the date of acquisition.

Divested enterprises are included until the transfer date.

#### **Foreign currency translation**

The consolidated financial statements are presented in DKK, the functional currency of the parent. Transactions in foreign currencies are translated at the exchange rate on the date of transaction. Balances in foreign currencies are translated at the closing rate.

#### **Offsetting**

The Group sets off assets and liabilities only when the Group has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### **Income criteria**

Income and expenses are accrued over the periods to which they relate and are recognised in profit or loss at the amounts relevant to the accounting period. Fees and commission concerning loans and advances and amounts owed are recognised in the carrying amounts of loans and advances and amounts owed and are recognised in profit or loss over the life of the loans as part of the effective interest rate. Guarantee commission is recognised as income over the life of the guarantees. Income for implementing a given transaction, including securities fees and payment service fees, is recognised as income when the transaction has been implemented.

#### **Guarantee scheme**

The Bank participated in the government guarantee scheme which expired on 30 September 2010. Guarantee commission is recognised on a straight-line basis in the income statement over the guarantee period and is presented under "Other operating expenses". The Bank's cover of losses under the scheme is recognised in the income statement under "Impairment of loans and advances etc". Contributions to the Guarantee Fund for Depositors and Investors including to cover losses related to the winding-up or bankruptcy of banks after 1 October 2010 are recognised under "Other operating expenses".

#### **Repo and reverse transactions**

Securities sold under agreements to repurchase the same remain on the balance sheet. Consideration received is recognised as a debt and the difference between selling and buying prices is recognised over the life as interest in the income statement. Gains or losses on securities are recognised in the income statement.

Securities bought under agreements to resell the same are not recognised in the balance sheet and gains or losses on securities are not recognised in the income statement. Consideration paid is recognised as a receivable and the difference between buying and selling prices is recognised over the life as interest in the income statement.

Repo and reverse transactions are recognised and measured at fair value as they are regarded as an integral part of the trading portfolio and form part of ongoing risk management and determination of gains thereon.

#### **Amounts owed and loans and advances**

Initial recognition of amounts owed by credit institutions and central banks as well as loans and advances is at fair value plus transaction costs and less origination fees received.

Subsequent measurement of amounts owed by credit institutions etc and loans and advances that are not reverse transactions is at amortised cost less impairment charges.

# Notes

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## Note 1 Accounting policies – continued

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Amounts owed by credit institutions etc and loans and advances at amortised cost are all assessed individually to determine whether objective evidence of impairment exists. Significant amounts owed and loans and advances are all assessed to determine whether objective evidence of impairment exists.

There is objective evidence of impairment of amounts owed and loans and advances if one or more of the following events have occurred:

- Considerable financial difficulties on the part of the debtor.
- Breach of contract by the debtor, for instance by way of failure to fulfil the payment obligations as regards instalments and interest.
- Terms granted to the debtor by the Group, which would otherwise not have been considered if the debtor had not been experiencing financial difficulties.
- The likelihood of bankruptcy or other financial restructuring on the part of the debtor.

Impairment charges are determined individually when there is objective evidence of impairment at an individual level.

Individually assessed loans and advances without impairment as well as other loans and advances are subsequently assessed at portfolio level. If there is objective evidence of impairment at portfolio level an impairment test is carried out where the expected future cash flows are estimated on the basis of the historical loss experience adjusted for the effects of prevailing conditions. The impairment charge for the portfolio is calculated in a ratings based model where loans and advances are grouped according to client ratings at the balance sheet date. Where migration towards poorer ratings is registered, impairment charges are made on a net basis.

Impairment charges calculated via the ratings based model are supplemented by the effect of events unaccounted for by the model.

Impairment charges are determined as the difference between amortised cost and the discounted value of the expected future cash flows, including the realisable value of any collateral.

Individual impairment charges are determined on the basis of the most likely outcome of the cash flows. Any subsequent increase in the discounted value of the expected cash flows will result in reversal in full or in part of the impairment charge. Determination of the discounted value is based on the original effective interest rate as regards fixed-rate loans and advances and the current effective interest rate as regards floating-rate loans and advances.

Interest calculated on the impaired value is recognised as income when impairment charges for loans and advances are recognised.

### Leasing

Leased assets in connection with finance leases in which the Group is the lessor are recognised under loans and advances at the net investment in the leases less amortisation (repayment), which is computed according to the annuity method over the lease term. Income from the leased assets is recognised on the basis of the agreed effective interest rate of the leases and is recognised in profit or loss under "Interest income". Sales proceeds from leased assets are recognised under "Other operating income".

### Bonds and shares etc

Bonds and shares etc are recognised and measured at fair value. The fair value option is applied to shares outside the trading portfolio as they form part of a portfolio which is managed and measured at fair value. The fair value is the amount for which a financial asset can be exchanged between knowledgeable, willing parties.

In an active market, fair value is expressed by a quoted price alternatively by a model value based on accepted models and observable market data.

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In a less active or inactive market, fair value is a model value based on accepted models and observable market data for similar assets.

A limited number of bonds and shares are measured on the basis of models and available data that only to a limited extent are observable market data.

Determination of fair value of unlisted shares and other holdings is based on available information about trades etc or alternatively based on expected cash flows. If a reliable fair value cannot be determined, measurement will be at cost less any impairment charges. Purchase and sale of securities are recognised on the settlement date.

#### **Holdings in subsidiaries**

Subsidiaries are entities, in which the parent has control.

Holdings in subsidiaries are measured at the equity value of the entities in the financial statements of the parent. The proportionate share of the profit or loss after tax of the entities is recognised under "Profit/(Loss) on holdings in associates and subsidiaries".

#### **Holdings in associates**

Associates are entities, other than subsidiaries, in which the Group has holdings and significant influence but not control.

Holdings in associates are recognised at cost at the date of acquisition and subsequent measurement is at the proportionate share of the equity value of the entities plus acquired goodwill and other balances in connection with the acquisition. The proportionate share of the profit or loss after tax of the entities is recognised under "Profit/(Loss) on holdings in associates and subsidiaries".

#### **Derivatives and hedge accounting**

Derivatives are recognised and measured at fair value. Positive market values are recognised under "Other assets". Negative market values are recognised under "Other liabilities".

Market value adjustment of derivatives concluded for the purpose of hedging the interest rate risk of fixed-rate loans and advances generates immediate asymmetry in the financial statements as fixed-rate loans and advances are measured at amortised cost. The macro hedging rules of IFRS eliminate this asymmetry. The calculated change in the fair value of the loans and advances effectively hedged is recognised in the balance sheet under "Other assets" or under "Other liabilities" and is recognised in the income statement under "Market value adjustments".

#### **Pooled plans**

All pooled assets and deposits are recognised in separate balance sheet items. Return on pooled assets and distribution to holders of pooled assets are recognised under "Market value adjustments".

#### **Intangible assets**

Intangible assets concern the value of customer relations acquired in connection with the acquisition of bankTrelleborg. The value of the customer relations acquired is measured at cost less accumulated amortisation and impairment charges. The value of customer relations acquired is amortised over the expected useful life of 15 years.

#### **Investment property**

Investment property is property mainly held to earn rental income and/or for capital appreciation.

Investment property is recognised on acquisition at cost and subsequent measurement is at fair value. Fair value adjustments as well as rental income are recognised in the income statement under "Market value adjustments" and "Other operating income", respectively. The fair value of investment property is determined on the basis of a systematic assessment of the expected return on the property. Investment property is not depreciated.

# Notes

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## Note 1 Accounting policies – continued

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### Owner-occupied property

Owner-occupied property is property mainly used by the Group to operate its banking business.

Owner-occupied property is recognised on acquisition at cost and subsequently carried at a revalued amount corresponding to the fair value at the date of the revaluation less depreciation and impairment charges. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Any decrease in the carrying amount as a result of the revaluation of owner-occupied property is charged to the income statement except where the decrease reverses previously recognised increases. Any increase as a result of the revaluation of owner-occupied property is recognised in the revaluation reserves except where the increase reverses previously recognised impairment charges as regards the property in question. Owner-occupied property is depreciated on a straight-line basis over the expected useful life of 50 years, taking into account the expected residual value at the expiry of the useful life.

As regards ongoing measurement of land and buildings, the value of the individual property is measured on the basis of the return method. The underlying assumptions, return, and return percentage are assessed by external property valuers.

As regards small properties, fair value measurement is based on the public land assessment.

Depreciation and impairment charges are recognised in the income statement under “Depreciation and impairment of property, plant and equipment”.

### Other property, plant and equipment

Other property, plant and equipment is measured at cost less depreciation and impairment charges. Depreciation is provided on a straight-line basis over the expected useful life, typically

3-5 years. Leasehold improvements are depreciated over the term of the lease.

Depreciation and impairment charges are recognised in the income statement under “Depreciation and impairment of property, plant and equipment”.

### Other assets

This item includes assets not recognised under other asset items, eg positive market values of spot transactions and derivatives, cash collateral provided in connection with CSA agreements as well as interest receivable.

### Dividends

Proposed dividend is recognised as a liability at the date of adoption by the AGM. Proposed dividend for the year is recognised as a separate item in equity until adoption.

### Own shares

Consideration paid or received in connection with the Group's purchase and sale of Sydbank shares is recognised directly in equity.

### Other liabilities

This item includes negative market values of spot transactions and derivatives, cash collateral received in connection with CSA agreements, negative portfolios in connection with reverse transactions, interest payable and provisions for employee benefits.

Negative portfolios in connection with reverse transactions arise when the Group resells assets received as collateral in connection with reverse transactions. The securities received are not recognised in the balance sheet and any resale will therefore result in a negative portfolio.

Wages and salaries, payroll tax, social security contributions and compensated absence are recognised in the financial year in which the associated service has been rendered by the

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Group's employees. Costs relating to the Group's long-term employee benefits are accrued and follow the service rendered by the employees in question. Pension contributions are paid into the employees' pension plans on a continuing basis and are charged to the income statement – with the exception of two contracts where the capitalised value of the pension obligations has been provided for. Changes in the capitalised value of pension obligations are recognised in the income statement on an ongoing basis.

#### **Provisions**

Provisions include provisions for guarantees, provisions for onerous contracts and legal actions etc. Initial recognition of financial guarantees is at fair value which is often equal to the guarantee premium received. Subsequent measurement of guarantees is at the higher of the guarantee premium received amortised over the guarantee period and any provision made.

A provision for a guarantee or an onerous contract is recognised if claims for payment under the guarantee or contract are probable and the size of the liability can be measured reliably. Provisions are based on management's best estimates of the size of the liabilities. Measurement of provisions includes discounting when significant.

#### **Financial liabilities**

Deposits, bonds issued, subordinated capital and amounts owed to credit institutions etc are recognised initially at the proceeds received net of transaction costs incurred.

Subsequent measurement of deposits, bonds issued, subordinated capital and amounts owed to credit institutions etc that are not repo transactions is at amortised cost using the effective interest rate method whereby the difference between net proceeds and nominal value is recognised in the income statement under "Interest expense" over the loan period.

Other liabilities are measured at the net realisable value.

#### **Assets in temporary possession**

Assets in temporary possession include property, plant and equipment and disposal groups held for sale. Assets are classified as being in temporary possession when their carrying amount will be recovered principally through a sale transaction within 12 months in accordance with a formal plan. Assets or disposal groups in temporary possession are measured at the lower of the carrying amount and fair value less costs to sell. Assets are not depreciated or amortised from the time when they are classified as being in temporary possession.

Impairment losses arising at initial classification as assets being in temporary possession and gains or losses at subsequent measurement at the lower of the carrying amount and fair value less costs to sell are recognised in the income statement under the items they concern.

#### **Tax**

Danish consolidated entities are subject to compulsory joint taxation. The Group has not opted for international joint taxation. Sydbank A/S has been appointed the management company of the joint taxation entity. Corporation tax on income subject to joint taxation is fully distributed on payment of joint taxation contributions between the Danish consolidated entities. Tax for the year includes tax on taxable income for the year, adjustment of deferred tax as well as adjustment of prior year tax charges. Tax for the year is recognised in the income statement as regards the elements attributable to profit for the year and directly in equity as regards the elements attributable to items recognised directly in equity.

Current tax liabilities and current tax assets are recognised in the balance sheet as calculated tax on taxable income for the year adjusted for tax on taxable income of previous years as well as of tax paid on account.

Provisions for deferred tax are based on the balance sheet liability method and include temporary differences between the

# Notes

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## Note 1 Accounting policies – continued

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carrying amounts and the tax base of the balance sheets of each consolidated entity as well as tax loss carryforwards that are expected to be realised. In addition provisions for deferred tax are made to cover retaxation of previously deducted tax losses in the foreign subsidiary which has withdrawn from joint taxation. Calculation of deferred tax is based on current tax law and tax rates at the balance sheet date.

Changes in deferred tax due to changes in the tax rates are recognised in the income statement.

### Cash flow statement

The cash flow statement presents the cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year. The cash flow statement is presented using the indirect method based on profit before tax.

The cash flow effect of the acquisition and disposal of entities is shown separately under cash flows from investing activities. The cash flow statement recognises cash flows concerning enterprises acquired from the date of acquisition and cash flows concerning divested enterprises until the transfer date.

Cash flows from operating activities are determined as profit before tax for the year adjusted for non-cash operating items, taxes paid as well as changes in working capital.

Cash flows from investing activities include purchase and sale of property, plant and equipment, intangible assets as well as holdings in associates.

Cash flows from financing activities include dividends paid as well as changes in equity, subordinated capital and bonds issued.

Cash and cash equivalents comprise cash and balances on demand with central banks, fully secured cash and cash equivalent balances on demand at credit institutions and insurance companies as well as unencumbered certificates of deposit.

### Segment reporting

The Group consists of a number of business units and central joint functions. The business units are segmented according to product and services characteristics. Segment reporting complies with the Group's accounting policies as regards recognition and measurement. Inter-segment transactions are settled on an arm's length basis. Expenses incurred centrally are charged to the business units in accordance with their estimated proportionate share of overall activities.

The performance measures below are applied in the Group's internal financial management, see "Segment reporting" in note 4.

### Core income

Core income is defined as net income before costs and impairment charges excluding investment portfolio income. Core income comprises core income excluding trading income, and trading income. Trading income derives from trading in financial instruments as well as gains/losses on the related trading portfolio. Trading income also comprises income relating to asset management and advisory services, including commission and fees from investment funds and the Bank's pooled plans as well as custody fees.

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

Core earnings before impairment of loans and advances etc represent core income less costs relating to core income.

### Core earnings

Core earnings represent core income less costs and impairment charges for loans and advances etc relating to core income.

### Investment portfolio earnings

Investment portfolio earnings represent the return on the portfolios of shares, bonds, derivatives and holdings managed by the Treasury department within Sydbank Markets. Investment portfolio earnings are less funding charges and costs.

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### **Forthcoming standards and interpretations**

The International Accounting Standards Board (IASB) has issued the following new International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations (IFRIC) which are not mandatory for the Group in connection with the preparation of the 2011 financial statements: IFRS 9, 10, 11, 12 and 13, amendments to IFRS 1 and IFRS 7, amendments to IAS 1, 12, 19, 27, 28 as well as improvements to IFRS (2011). None of these have been adopted by the EU. The Group does not plan to implement the new standards and interpretations until they become mandatory. None of the new adopted standards or interpretations are expected to have any significant impact on the Group's financial reporting.

IFRS 9 (Phase 1) changes the classification and measurement requirements for financial assets (current IAS 39). In future the main categories for measuring financial assets will be amortised cost and fair value either through profit or loss or other comprehensive income. The existing categories are fair value through profit or loss, available for sale, held to maturity as well as loans and advances and amounts owed. In relation to the Group this is predominantly a matter of new terminology. The Group does not expect that the standard will have any significant impact on the Group, but the effect has not been determined yet. The standard will apply to financial years beginning on or after 1 January 2013.

IFRS 10 changes the consolidation requirements for an entity. The standard provides that an entity must be consolidated when an investor has de facto control over it although the investor does not hold the majority of shares or voting rights. Moreover potential voting rights and conversion rights must be assessed as combined with other rights they may lead to requirements for consolidation before they are exercisable. The Group does not expect that the standard will have any significant impact on the Group, but the effect has not been determined yet. The standard will apply to financial years beginning on or after 1 January 2013.

IFRS 11 concerning joint ventures and similar arrangements replaces IAS 31: Interests in Joint Ventures. In future there is no longer a free choice between proportionate consolidation and the equity method as regards jointly controlled entities. IFRS 11 classifies joint arrangements as either joint ventures (equity method) or joint operations (proportionate recognition) based on formal as well as substantive requirements. The Group does not expect that the standard will have any significant impact on the Group, but the effect has not been determined yet. The standard will apply to financial years beginning on or after 1 January 2013.

IFRS 12 contains disclosure requirements concerning subsidiaries, unconsolidated structured entities, joint ventures and associates. The objective is to disclose information that enables financial statement users to evaluate the basis of control, risks associated with interests in unconsolidated structured entities, any restrictions on consolidated assets and liabilities as well as non-controlling interest holders' involvement in the Group's activities. The standard will only affect the disclosure requirements of Sydbank. The standard will apply to financial years beginning on or after 1 January 2013.

IFRS 13 replaces the guidance on fair value measurement of individual IFRSs by a single fair value definition and extensive instructions in its use. Moreover disclosure requirements concerning fair value calculation have been added. The standard is expected solely to influence the Group's disclosures in notes. The standard will apply to financial years beginning on or after 1 January 2013.

In connection with the above the IASB is in the process of fully replacing the rules of recognition and measurement of financial assets and liabilities (IAS 39 and IAS 32). The amendments which have not yet been adopted to the rules on impairment charges for loans and advances and amounts owed at amortised cost as well as hedging of fixed-rate assets may have a significant impact on the Group's financial reporting. However it is not possible to estimate the possible impact yet.



# Notes

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## Note 2 Accounting estimates and judgements

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Determination of the carrying amount of certain assets and liabilities requires that management estimates and assesses future events with a significant impact on the carrying amount of assets and liabilities.

Management's estimates and assessments are based on assumptions considered reasonable by management but which by their nature are uncertain and unpredictable. These assumptions may be incomplete or inaccurate and unexpected future events or circumstances may occur. Consequently it is by nature difficult to make estimates and assessments and since they also involve customer relationships and other counterparties they will be subject to uncertainty. It may be necessary to change previous estimates as a result of changes in the basis of previous estimates or because of new knowledge or subsequent events.

The areas where critical estimates and assessments have the most significant effect on the financial statements are:

- Fair value of financial instruments.
- Measurement of loans and advances.
- Fair value of owner-occupied property.
- Liability towards the Deposit Guarantee Fund.

### Fair value of financial instruments

Measurement of financial instruments for which prices are quoted in an active market or which are based on generally accepted valuation models with observable market data are not subject to significant estimates. As regards financial instruments where measurement only to a limited extent is based on observable market data, such as unlisted shares and certain bonds, including CDOs, for which there is no longer an active market, measurement is affected by estimates. Reference is made to note 38 for a detailed description and sensitivity analysis. At year-end 2011 these financial instruments represent approx 0.7% of the Group's assets.

### Measurement of loans and advances

Impairment charges for loans and advances are made to take into account any impairment after initial recognition. Impairment charges are made as a combination of individual and collective impairment charges and are subject to a number of estimates, including which loans and advances or portfolios of loans and

advances are subject to objective evidence of impairment, expected future cash flows, and the value of collateral. Reference is made to the notes on risk management for a detailed description of impairment charges for loans and advances. Loans and advances constitute approx 50% of the Group's assets at year-end 2011.

### Fair value of owner-occupied property

The return method is used to measure owner-occupied property at fair value.

Future cash flows are based on the Group's best estimate of future income or loss from ordinary activities and required rate of return as regards each property taking into account factors such as location and condition. An external assessment supporting of this estimate has been obtained. A number of these assumptions and estimates have a significant impact on calculations and include parameters such as inflation, developments in rent, costs, and required rate of return. Changes in these parameters as a result of changed market conditions affect the expected returns and consequently the fair value of owner-occupied property.

Reference is made to note 24, "Owner-occupied property".

### Liability towards the Deposit Guarantee Fund

Like all other Danish banks, Sydbank is a member of the Deposit Guarantee Fund and as such is under an obligation, jointly with other banks, to cover any loss as regards balances etc of depositors of up to EUR 100,000 held with banks in winding-up or bankruptcy proceedings.

The Bank recognises a liability to cover its share of the liability towards the Deposit Guarantee Fund at the time when it obtains knowledge about banks in winding-up or bankruptcy proceedings and where the Bank has sufficient information to measure the liability reliably.

As a result of the uncertainty surrounding determination of dividend percentage and the balance covered with banks in winding-up or bankruptcy proceedings the liabilities recognised may be subject to uncertainty.

### Note 3 Solvency

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The Group has adopted the following methods and approaches to calculate solvency:

Credit risk outside trading portfolio, retail clients	Advanced IRB
Credit risk outside trading portfolio, corporate clients	Foundation IRB
Credit risk outside trading portfolio, financial counterparties	Standardised Approach
Counterparty risk	Mark-to-Market Method
Valuation of collateral	Financial Collateral Comprehensive Method
Market risk	Standardised Approach
Operational risk	Standardised Approach

A small proportion of exposures to retail and corporate clients is not yet comprised by internal methods or approaches, see page 80.

The Group's portfolio of equity investments includes strategic sector shares etc and is included under credit risk outside the trading portfolio in the Group's solvency calculation.

Various types of collateral are used to reduce the risk of the Group's lending portfolio. The most significant types of collateral comprise charges and guarantees.

Charges include deposit accounts and financial assets in the form of bonds and shares. The Group ensures that the items charged are separate from clients' right of disposal and that the charge is of legal validity. Valuation is ensured via the requirements of the Financial Collateral Comprehensive Method according to the executive order on capital adequacy which reduces the value of collateral on the basis of issuer, maturity and liquidity.

The Group has concluded netting agreements with all significant counterparties.

## Notes

<b>Note 3 Solvency – continued</b>	<b>Sydbank Group</b>	
DKKm	2011	2010
Solvency ratio	16.1	15.4
Core capital ratio	15.2	14.3
<b>Capital base after deductions</b>		
Shareholders' equity	9,595	9,554
Revaluation reserves	(95)	(110)
Proposed dividend	(7)	(84)
Intangible assets and capitalised tax assets	(17)	(24)
Core capital (excl hybrid core capital)	9,476	9,336
Hybrid core capital	1,382	1,384
50% of holdings in associates	(4)	-
50% of holdings > 10%	(148)	(161)
Core capital (incl hybrid core capital) after deductions	10,706	10,559
Subordinated loan capital	743	945
Revaluation reserves	95	110
Capital base before deductions	11,544	11,614
50% of holdings in associates	(4)	-
50% of holdings > 10%	(148)	(161)
Holdings in associates	-	(124)
<b>Capital base after deductions</b>	<b>11,392</b>	<b>11,329</b>
Credit risk	52,303	58,040
Market risk	10,288	8,298
Operational risk	8,068	7,378
<b>Risk-weighted assets</b>	<b>70,659</b>	<b>73,716</b>
<b>Capital requirement under Pillar I</b>	<b>5,653</b>	<b>5,897</b>

## Note 4 Segment reporting

### Business segments

The Group consists of a number of business units and central joint functions. The business units are segmented according to product and services characteristics.

**Banking** serves all types of retail and corporate clients. Wealthy clients are served via investment centres and departments.

**Sydbank Markets** is responsible for the Group's activities in the financial markets. Activities include trading in interest rate products, foreign exchange and shares as well as derived necessary position-taking.

**Treasury** manages the Group's strategic interest rate, foreign exchange and equity positions (treasury positions).

**Other** includes non-recurring items, contribution to the Private Contingency Association, costs to the Group Executive Management etc as well as return on strategic shareholdings that cannot be allocated to Banking or Sydbank Markets.

Inter-segment transactions are settled on an arm's length basis. Costs incurred centrally are charged to the business units in accordance with their estimated proportionate share of overall activities.

Surplus liquidity is settled primarily at short-term money market rates, whereas other balances are settled on an arm's length basis.

DKKm	Banking	Sydbank Markets	Treasury	Other	Total
<b>Business segments 2011</b>					
Core income excl trading income	3,296	24	-	-	3,320
Trading income	720	207	-	-	927
<b>Total core income</b>	<b>4,016</b>	<b>231</b>	<b>-</b>	<b>-</b>	<b>4,247</b>
Costs, core earnings	2,120	290	10	53	2,473
Impairment of loans and advances etc	1,197	(2)	-	-	1,195
<b>Core earnings</b>	<b>699</b>	<b>(57)</b>	<b>(10)</b>	<b>(53)</b>	<b>579</b>
Investment portfolio earnings	-	-	(13)	8	(5)
<b>Profit before non-recurring items</b>	<b>699</b>	<b>(57)</b>	<b>(23)</b>	<b>(45)</b>	<b>574</b>
Non-recurring items, net	-	-	-	(171)	(171)
<b>Profit before contributions to the Deposit Guarantee Fund and PCA</b>	<b>699</b>	<b>(57)</b>	<b>(23)</b>	<b>(216)</b>	<b>403</b>
Contributions to the Deposit Guarantee Fund and PCA	-	-	-	102	102
<b>Profit before tax</b>	<b>699</b>	<b>(57)</b>	<b>(23)</b>	<b>(318)</b>	<b>301</b>
Depreciation and impairment of property, plant and equipment	109	10	-	3	122
Full-time staff at 31 Dec	1,933	161	6	52	2,152

## Notes

### Note 4 Segment reporting – continued

DKKkM	Banking	Sydbank Markets	Treasury	Other	Total
<b>Business segments 2010</b>					
Core income excl trading income	3,318	(17)	-	3	3,304
Trading income	782	508	-	-	1,290
<b>Total core income</b>	<b>4,100</b>	<b>491</b>	<b>-</b>	<b>3</b>	<b>4,594</b>
Costs, core earnings	2,128	292	10	59	2,489
Impairment of loans and advances etc	1,399	1	-	-	1,400
<b>Core earnings</b>	<b>573</b>	<b>198</b>	<b>(10)</b>	<b>(56)</b>	<b>705</b>
Investment portfolio earnings	-	-	226	11	237
<b>Profit before non-recurring items</b>	<b>573</b>	<b>198</b>	<b>216</b>	<b>(45)</b>	<b>942</b>
Non-recurring items, net	-	-	-	-	-
<b>Profit before contributions to the Deposit Guarantee Fund and PCA</b>	<b>573</b>	<b>198</b>	<b>216</b>	<b>(45)</b>	<b>942</b>
Contributions to the Deposit Guarantee Fund and PCA	-	-	-	384	384
<b>Profit before tax</b>	<b>573</b>	<b>198</b>	<b>216</b>	<b>(429)</b>	<b>558</b>
Depreciation and impairment of property, plant and equipment					
	138	12	-	3	153
Full-time staff at 31 Dec	2,055	174	6	49	2,284

Under IFRS, revenues from transactions with a single client exceeding 10% must be disclosed. The Sydbank Group has no such clients.

The Sydbank Group's internal financial reporting is not made on the basis of products and services. Reference is made to notes 5 and 8 for the distribution of interest income as well as fee and commission income.

DKKkM	Core income	2011 Assets	Core income	2010 Assets
<b>Geographical segments</b>				
Denmark	4,058	1,159	4,402	1,404
Abroad	189	60	192	66
<b>Total</b>	<b>4,247</b>	<b>1,219</b>	<b>4,594</b>	<b>1,470</b>

Income from external clients is broken down by organisational affiliation within the Sydbank Group. Assets, comprising only intangible assets, land and buildings, other property, plant and equipment as well as holdings in associates, are broken down by location.

Geographical segmentation of Group income and assets is disclosed in compliance with IFRS and does not reflect the Group's management structure. Management is of the opinion that business segmentation provides a more informative description of the Group's activities.

Note 5 Interest income	Sydbank Group		Sydbank A/S	
	2011	2010	2011	2010
DKKm				
Reverse transactions with credit institutions and central banks	26	23	26	23
Amounts owed by credit institutions and central banks	85	96	90	100
Reverse loans and advances	89	79	89	79
Loans and advances and other amounts owed	3,274	3,157	3,258	3,142
Bonds	858	752	858	752
Total derivatives	26	68	26	69
comprising				
Foreign exchange contracts	122	157	122	158
Interest rate contracts	(99)	(91)	(99)	(91)
Other contracts	3	2	3	2
Other interest income	5	14	5	14
<b>Total</b>	<b>4,363</b>	<b>4,189</b>	<b>4,352</b>	<b>4,179</b>
Fair value, designated at initial recognition	115	102	115	102
Fair value, held for trading	884	820	884	821
Assets recognised at amortised cost	3,364	3,267	3,353	3,256
<b>Total</b>	<b>4,363</b>	<b>4,189</b>	<b>4,352</b>	<b>4,179</b>

#### Note 6 Interest expense

Repo transactions with credit institutions and central banks	136	110	136	110
Credit institutions and central banks	199	191	200	193
Repo deposits	2	2	2	2
Deposits and other debt	633	481	633	481
Bonds issued	201	125	201	125
Subordinated capital	62	61	62	61
Other interest expense	2	1	2	1
<b>Total</b>	<b>1,235</b>	<b>971</b>	<b>1,236</b>	<b>973</b>
Fair value, designated at initial recognition	138	112	138	112
Liabilities recognised at amortised cost	1,097	859	1,098	861
<b>Total</b>	<b>1,235</b>	<b>971</b>	<b>1,236</b>	<b>973</b>

## Notes

Note 7 Dividends on shares	Sydbank Group		Sydbank A/S	
	DKKm	2011	2010	2011
Fair value, designated at initial recognition	15	18	15	18
Fair value, held for trading	13	4	13	4
<b>Total</b>	<b>28</b>	<b>22</b>	<b>28</b>	<b>22</b>

### Note 8 Fee and commission income

Securities trading and custody accounts	721	748	700	719
Payment services	217	199	217	199
Loan fees	85	95	85	95
Guarantee commission	107	116	107	116
Other fees and commission	174	172	170	164
Total fee and commission income	1,304	1,330	1,279	1,293
Total fee and commission expense	219	184	221	184
<b>Net fee and commission income</b>	<b>1,085</b>	<b>1,146</b>	<b>1,058</b>	<b>1,109</b>
Fees and commission concerning financial assets and liabilities	178	197	178	197
Fees and commission from management activities	334	324	326	315
Other fees and commission	573	625	554	597
<b>Net fee and commission income</b>	<b>1,085</b>	<b>1,146</b>	<b>1,058</b>	<b>1,109</b>

### Note 9 Market value adjustments

Other loans and advances and amounts owed at fair value	2	0	2	0
Bonds	336	302	336	302
Shares etc	(129)	81	(129)	81
Investment property	0	0	0	0
Foreign exchange	205	238	198	228
Derivatives	(441)	(207)	(441)	(207)
Assets related to pooled plans	(63)	459	(63)	459
Deposits in pooled plans	65	(459)	65	(459)
Other assets/liabilities	(1)	6	(1)	6
<b>Total</b>	<b>(26)</b>	<b>420</b>	<b>(33)</b>	<b>410</b>
Fair value, held for trading, trading portfolio	(42)	394	(49)	384
Fair value, designated at initial recognition, equity investments	16	26	16	26
<b>Total</b>	<b>(26)</b>	<b>420</b>	<b>(33)</b>	<b>410</b>

### Note 10 Other operating income

Rental income – real property	12	12	12	12
Goodwill from sale of Sydbank (Schweiz) AG's activities	24	-	-	-
Other operating income	12	11	11	10
<b>Total</b>	<b>48</b>	<b>23</b>	<b>23</b>	<b>22</b>

Note 11 Staff costs and administrative expenses DKKm	Sydbank Group		Sydbank A/S	
	2011	2010	2011	2010
<b>Salaries and remuneration</b>				
Group Executive Management	17	21	17	21
Board of Directors	4	4	4	4
Shareholders' Committee	2	2	2	2
<b>Total</b>	<b>23</b>	<b>27</b>	<b>23</b>	<b>27</b>
<b>Staff costs</b>				
Wages and salaries	1,249	1,187	1,206	1,161
Pensions	139	131	136	127
Social security contributions	17	15	15	13
Payroll tax	99	93	99	93
<b>Total</b>	<b>1,504</b>	<b>1,426</b>	<b>1,456</b>	<b>1,394</b>
<b>Other administrative expenses</b>				
IT	526	513	508	505
Rent etc	165	145	165	147
Marketing and entertainment expenses	85	84	83	81
Other costs	160	158	145	147
<b>Total</b>	<b>936</b>	<b>900</b>	<b>901</b>	<b>880</b>
<b>Total</b>	<b>2,463</b>	<b>2,353</b>	<b>2,380</b>	<b>2,301</b>
<b>Audit fees</b>				
Statutory audit	1	1	1	1
Assurance engagements	0	0	0	0
Tax consultancy	0	0	0	0
Fees for other services	-	-	-	-
Audit fees in foreign entities	1	1	1	1
<b>Total</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>

In addition to fees paid to the independent auditor, expenses have been incurred to operate the Group's Internal Audit.

#### Staff

Average number of staff (full-time equivalent)	2,294	2,364	2,267	2,334
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#### Remuneration for material risk takers and control functions

Contractual remuneration	27.3	-	27.3	-
Pension	-	-	-	-
Bonus (2010)	6.3	-	6.3	-
<b>Total</b>	<b>33.6</b>	<b>-</b>	<b>33.6</b>	<b>-</b>

Number of full-time staff (average)	20.5	-	20.5	-
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As from 1 January 2011 material risk takers and control functions receive fixed remuneration.

Comparative figures are excluded as the group of material risk takers and control functions was not identified until early 2011. Figures are determined on payment.



## Notes

<b>Note 11 Staff costs and administrative expenses – continued</b>		<b>Sydbank Group</b>	
DKK thousand		2011	2010
<b>Directors' remuneration</b>			
Anders Thoustrup		632	463
Hanni Toosbuy Kasprzak		416	247
Svend Erik Busk		330	325
Claus Christensen (member as of 10 March 2011)		189	-
Otto Christensen (resigned as of 30 November 2010)		-	247
Peder Damgaard		311	247
Harry Max Friedrichsen		252	247
Peter Gæmelke (resigned as of 7 October 2010)		-	247
Erik Bank Lauridsen (member as of 10 March 2011)		189	-
Per Olesen (resigned as of 4 March 2010)		-	61
Sven Rosenmeyer Paulsen		330	247
Kresten Philippsen (resigned as of 10 March 2011)		163	573
Steen Tophøj (member as of 4 March 2010)		252	187
Jan Uldahl-Jensen		252	247
Margrethe Weber		252	247
<b>Total</b>		<b>3,568</b>	<b>3,585</b>
Of which committee fees			
Audit Committee (3 members)		235	231
Remuneration Committee (3 members)		235	-
Sydbank's Board of Directors receive a fixed fee in addition to which the Board committee members receive a fixed committee fee.			

DKKkm	Karen Frøsig	Preben L. Hansen	Allan Nørholm	Carsten Andersen
<b>Remuneration of the Group Executive Management</b>				
<b>2011</b>				
Contractual remuneration	4.4	3.7	1.9	-
Pension	-	-	-	-
Severance pay etc	-	-	5.7	-
Bonus (2010)	1.0	0.6	-	-
<b>Total</b>	<b>5.4</b>	<b>4.3</b>	<b>7.6</b>	<b>-</b>
<b>2010</b>				
Contractual remuneration	3.1	3.2	2.6	2.1
Pension	-	-	-	-
Severance pay etc	-	-	-	8.4
Bonus (2009)	0.3	0.4	0.3	0.5
<b>Total</b>	<b>3.4</b>	<b>3.6</b>	<b>2.9</b>	<b>11.0</b>

As from 1 January 2011 the Group Executive Management receives fixed remuneration. Resigned  
16 August 2011 Resigned  
31 May 2010

### Group Executive Management – severance terms

#### Karen Frøsig and Preben Lund Hansen

The notice of termination is 6 and 12 months for the Group Executive Management member and the Bank, respectively. In respect of dismissal by the Bank, the Group Executive Management member is entitled to receive severance pay equal to 12 months' salary.

Note 12 Impairment of loans and advances etc DKK m	Sydbank Group		Sydbank A/S	
	2011	2010	2011	2010
<b>Impairment of loans and advances recognised in the income statement</b>				
Impairment and provisions	681	709	678	709
Write-offs	559	880	559	880
Recovered from debt previously written off	42	33	42	33
<b>Impairment of loans and advances etc</b>	<b>1,198</b>	<b>1,556</b>	<b>1,195</b>	<b>1,556</b>
<b>Impairment and provisions at 31 Dec (allowance account)</b>				
Individual impairment and provisions	1,669	1,597	1,666	1,597
Collective impairment and provisions	167	166	167	166
<b>Impairment and provisions at 31 Dec</b>	<b>1,836</b>	<b>1,763</b>	<b>1,833</b>	<b>1,763</b>
<b>Individual impairment of loans and advances and provisions for guarantees</b>				
Impairment and provisions at 1 Jan	1,597	1,637	1,597	1,605
Exchange rate adjustment	0	7	0	0
Impairment and provisions during the year	709	705	706	705
Other movements	0	94	0	94
Write-offs covered by impairment and provisions	637	846	637	807
<b>Impairment and provisions at 31 Dec</b>	<b>1,669</b>	<b>1,597</b>	<b>1,666</b>	<b>1,597</b>
Individual impairment of loans and advances	1,644	1,565	1,644	1,565
Individual provisions for guarantees	25	32	22	32
<b>Impairment and provisions at 31 Dec</b>	<b>1,669</b>	<b>1,597</b>	<b>1,666</b>	<b>1,597</b>
<b>Collective impairment of loans and advances and provisions for guarantees</b>				
Impairment and provisions at 1 Jan	166	141	166	141
Impairment and provisions during the year	1	25	1	25
<b>Impairment and provisions at 31 Dec</b>	<b>167</b>	<b>166</b>	<b>167</b>	<b>166</b>
Sum of loans and advances and amounts owed subject to collective impairment and provisions	14,504	12,231	14,504	12,231
Collective impairment and provisions	167	166	167	166
<b>Loans and advances and amounts owed after collective impairment and provisions</b>	<b>14,337</b>	<b>12,065</b>	<b>14,337</b>	<b>12,065</b>
<b>Individual impairment of loans and advances subject to objective evidence of impairment</b>				
Balance before impairment of individually impaired loans and advances	3,141	3,020	3,141	3,019
Impairment of individually impaired loans and advances	1,644	1,565	1,644	1,565
<b>Balance after impairment of individually impaired loans and advances</b>	<b>1,497</b>	<b>1,455</b>	<b>1,497</b>	<b>1,454</b>

Accrued interest concerning individually and collectively impaired loans and advances represents DKK 881m for 2011 (2010: DKK 767m).

## Notes

### Note 12 Impairment of loans and advances etc – continued

Sydbank Group

DKKm	Allowance account		Impairment of loans and advances etc	
	2011	2010	2011	2010
<b>Industry breakdown of the Group's allowance account and impairment of loans and advances recognised in the income statement</b>				
<b>Corporate</b>				
Agriculture, hunting, forestry and fisheries	475	149	356	148
Manufacturing and extraction of raw materials	119	134	38	69
Energy supply	0	14	(13)	14
Building and construction	40	58	64	64
Trade	158	157	103	115
Transportation, hotels and restaurants	48	36	51	26
Information and communication	0	0	1	0
Finance and insurance	272	428	205	510
Real property	145	205	209	160
Other industries	47	74	26	92
<b>Total corporate</b>	<b>1,304</b>	<b>1,255</b>	<b>1,040</b>	<b>1,198</b>
Public authorities	0	0	0	0
Retail	340	310	154	177
Collective impairment charges	167	166	1	25
Provisions for guarantees	25	32	-	-
The Private Contingency Association	-	-	3	156
<b>Total</b>	<b>1,836</b>	<b>1,763</b>	<b>1,198</b>	<b>1,556</b>

### Note 13 Profit/(Loss) on holdings in associates and subsidiaries

Sydbank Group

Sydbank A/S

DKKm	2011	2010	2011	2010
Profit/(Loss) on holdings in associates etc	(77)	2	(77)	2
Profit/(Loss) on holdings in subsidiaries	-	-	(43)	(8)
<b>Total</b>	<b>(77)</b>	<b>2</b>	<b>(120)</b>	<b>(6)</b>

Note 14 Tax DKK <sup>m</sup>	Sydbank Group		Sydbank A/S	
	2011	2010	2011	2010
Tax calculated on profit for the year	126	135	125	134
Deferred tax	(17)	17	(21)	17
Adjustment of prior year tax charges	4	(5)	4	(5)
<b>Total</b>	<b>113</b>	<b>147</b>	<b>108</b>	<b>146</b>
<b>Effective tax rate</b>				
Current tax rate of Sydbank	25.0	25.0	25.0	25.0
Permanent differences	11.2	2.3	10.1	2.1
Adjustment of prior year tax charges	1.3	(0.9)	1.3	(0.9)
<b>Effective tax rate</b>	<b>37.5</b>	<b>26.4</b>	<b>36.4</b>	<b>26.2</b>
<b>Deferred tax</b>				
Deferred tax at 1 Jan	214	197	218	201
Deferred tax for the year	(17)	17	(21)	17
<b>Deferred tax at 31 Dec, net</b>	<b>197</b>	<b>214</b>	<b>197</b>	<b>218</b>
Deferred tax assets	5	11	5	7
Deferred tax liabilities	202	225	202	225
<b>Deferred tax at 31 Dec, net</b>	<b>197</b>	<b>214</b>	<b>197</b>	<b>218</b>

DKK <sup>m</sup>	Sydbank Group					
	2011			2010		
	1 Jan	Recognised in profit for the year	31 Dec	1 Jan	Recognised in profit for the year	31 Dec
<b>Deferred tax</b>						
Loans and advances at amortised cost	197	(18)	179	189	8	197
Land and buildings	1	0	1	1	0	1
Property, plant and equipment	(30)	3	(27)	(30)	0	(30)
Intangible assets	3	0	3	4	(1)	3
Other assets	75	(9)	66	67	8	75
Provisions	(1)	(1)	(2)	(2)	1	(1)
Other liabilities	(28)	5	(23)	(30)	2	(28)
Capitalised losses, foreign entities	(4)	4	0	(4)	0	(4)
Retaxation balance	1	(1)	0	2	(1)	1
<b>Deferred tax at 31 Dec, net</b>	<b>214</b>	<b>(17)</b>	<b>197</b>	<b>197</b>	<b>17</b>	<b>214</b>

## Notes

Note 15 Amounts owed by credit institutions and central banks DKK m	Sydbank Group		Sydbank A/S	
	2011	2010	2011	2010
Amounts owed at notice by central banks	2,992	215	2,992	215
Amounts owed by credit institutions	5,534	7,312	5,816	7,802
<b>Total</b>	<b>8,526</b>	<b>7,527</b>	<b>8,808</b>	<b>8,017</b>
On demand	1,610	2,077	1,892	2,023
3 months or less	6,675	2,572	6,675	3,116
Over 3 months not exceeding 1 year	206	465	206	465
Over 1 year not exceeding 5 years	34	2,394	34	2,394
Over 5 years	1	19	1	19
<b>Total</b>	<b>8,526</b>	<b>7,527</b>	<b>8,808</b>	<b>8,017</b>
Of which reverse transactions	3,540	2,249	3,540	2,249

### Note 16 Loans and advances

On demand	17,416	19,859	16,738	19,059
3 months or less	10,496	13,930	10,496	13,930
Over 3 months not exceeding 1 year	26,490	25,406	26,490	25,406
Over 1 year not exceeding 5 years	13,077	14,923	13,077	14,923
Over 5 years	9,026	9,634	9,026	9,634
<b>Total</b>	<b>76,505</b>	<b>83,752</b>	<b>75,827</b>	<b>82,952</b>
Of which reverse transactions	7,658	10,724	7,658	10,724

### Loans and advances and guarantees by sector and industry (%)

Agriculture, hunting, forestry and fisheries	7.7	6.9	7.8	6.9
Manufacturing and extraction of raw materials	6.9	5.6	6.9	5.7
Energy supply	1.8	1.9	1.9	1.9
Building and construction	3.1	2.8	3.1	2.8
Trade	10.4	8.6	10.5	8.7
Transportation, hotels and restaurants	2.5	2.2	2.5	2.2
Information and communication	0.3	0.7	0.3	0.7
Finance and insurance	20.5	17.3	20.6	17.5
Real property	9.8	10.1	10.1	10.5
Other industries	4.3	9.2	4.4	9.2
Total corporate	67.3	65.3	68.1	66.1
Public authorities	0.7	1.1	0.7	1.2
Retail	32.0	33.6	31.2	32.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Distribution by industry for 2011 is based on Sydbank's registrations. In 2010 it was based on Statistics Denmark's registrations.

**Note 16 Loans and advances – continued**
**Sydbank Group**

DKK m	2011				2010			
	Retail	SME	Corporate	Total	Retail	SME	Corporate	Total
<b>Past due amounts not impaired*</b>								
0-30 days	42	9	76	127	38	4	42	84
31-60 days	2	0	1	3	2	1	6	9
61-90 days	1	0	1	2	0	0	0	0
<b>Total</b>	<b>45</b>	<b>9</b>	<b>78</b>	<b>132</b>	<b>40</b>	<b>5</b>	<b>48</b>	<b>93</b>

**Rating category**

1	14	0	0	14	9	0	0	9
2	15	1	4	20	12	0	7	19
3	7	6	29	42	7	2	8	17
4	3	1	7	11	6	1	11	18
5	3	1	8	12	4	1	11	16
6	1	0	6	7	2	1	3	6
7	0	0	11	11	0	0	2	2
8	0	0	7	7	0	0	2	2
9	2	0	5	7	0	0	3	3
Not rated (NR)	0	0	1	1	0	0	1	1
<b>Total</b>	<b>45</b>	<b>9</b>	<b>78</b>	<b>132</b>	<b>40</b>	<b>5</b>	<b>48</b>	<b>93</b>

\* Past due amounts concerning loans and advances etc which have not been subject to individual impairment. Loans and advances and amounts owed payable beyond 90 days are treated as impaired.

As shown above a limited share of past due amounts concerns high credit risk clients.

DKK m	2011			2010		
	Gross investments	Unearned interest	Net investments	Gross investments	Unearned interest	Net investments
<b>Lease payment receivables</b>						
<b>– finance leases</b>						
1 year or less	1,135	93	1,042	1,182	90	1,092
Over 1 year not exceeding 5 years	2,266	173	2,093	2,283	171	2,112
Over 5 years	180	8	172	228	11	217
<b>Total</b>	<b>3,581</b>	<b>274</b>	<b>3,307</b>	<b>3,693</b>	<b>272</b>	<b>3,421</b>

Lease payment receivables comprise receivables on leasing of various operating equipment under non-cancellable leases. The leases are fixed-rate and floating-rate leases in foreign and Danish currencies.

Loans and advances at amortised cost include finance lease payment receivables of DKK 3,307m at year-end 2011 (2010: DKK 3,421m).

Impairment charges for uncollectible lease payment receivables total less than DKK 3m (2010: DKK 2m).

## Notes

Note 17 Bonds at fair value	Sydbank Group		Sydbank A/S	
	DKK	DKK	DKK	DKK
DKKm	2011	2010	2011	2010
Mortgage bonds	37,465	32,135	37,464	32,135
Government bonds	715	452	715	452
Other bonds	442	2,434	442	2,434
<b>Total</b>	<b>38,622</b>	<b>35,021</b>	<b>38,621</b>	<b>35,021</b>

### Government bonds – by country

Denmark	712	439	712	439
Sweden	3	0	3	0
Germany	0	2	0	2
Indonesia	-	7	-	7
Finland	-	2	-	2
Venezuela	-	1	-	1
Australia	-	1	-	1
<b>Total</b>	<b>715</b>	<b>452</b>	<b>715</b>	<b>452</b>

### Note 18 Shares etc

Listed on NASDAQ OMX Copenhagen A/S	164	409	164	409
Listed on other exchanges	1	358	1	358
Unlisted shares recognised at fair value	1,116	1,127	1,116	1,127
<b>Total</b>	<b>1,281</b>	<b>1,894</b>	<b>1,281</b>	<b>1,894</b>
Trading portfolio	295	943	295	943
Portfolio of equity investments	986	951	986	951
<b>Total</b>	<b>1,281</b>	<b>1,894</b>	<b>1,281</b>	<b>1,894</b>

### Note 19 Holdings in associates etc

Carrying amount at 1 Jan	307	310	307	310
of which credit institutions	-	-	-	-
Total cost at 1 Jan	283	279	283	279
Exchange rate adjustment	0	0	0	0
Additions	-	4	-	4
Disposals	61	0	61	0
Total cost at 31 Dec	222	283	222	283
Revaluations and impairment charges at 1 Jan	24	31	24	31
Dividend	(3)	(9)	(3)	(9)
Revaluations and impairment charges for the year	(51)	2	(51)	2
Reversal of revaluations and impairment charges	-	-	-	-
Revaluations and impairment charges at 31 Dec	(30)	24	(30)	24
<b>Carrying amount at 31 Dec</b>	<b>192</b>	<b>307</b>	<b>192</b>	<b>307</b>
of which credit institutions	-	-	-	-

**Note 19 Holdings in associates etc – continued**
**Sydbank Group**

	Activity	Owner- ship share (%)	Share- holders' equity (DKKm)	Total assets	Total liabilities	Income	Result
<b>Holdings in associates</b>							
Foreningen Bankdata, Fredericia	IT	31	373	460	87	668	1
Value-Call S.A., Luxembourg	Investment and finance	25	31	39	8	26	16
Core Property Management A/S, Copenhagen	Real property	20	30	32	2	21	5

**Other enterprises in which the Group owns more than 10% of the share capital**

PRAS A/S, Copenhagen	Investment and finance	11	1,782	1,782	0	134	133
Scandinavian Private Equity Partners A/S, Copenhagen	Investment and finance	17	10	11	1	4	1
SI Hedge Virksomhedslån, Aabenraa	Investment and finance	30	230	236	6	25	24
BI Holding A/S, Copenhagen	Investment and finance	12	290	358	68	134	37

Financial information according to the most recently published annual report of the companies.

**Note 20 Holdings in subsidiaries**
**Sydbank Group**
**Sydbank A/S**

DKKm	2011	2010	2011	2010
Carrying amount at 1 Jan	-	-	257	225
of which credit institutions	-	-	250	207
Cost at 1 Jan	-	-	681	622
Exchange rate adjustment	-	-	8	59
Additions	-	-	10	-
Disposals	-	-	-	-
Cost at 31 Dec	-	-	699	681
Revaluations and impairment charges at 1 Jan	-	-	(424)	(397)
Exchange rate adjustment	-	-	(3)	(19)
Profit/(Loss)	-	-	(42)	(7)
Dividend	-	-	-	-
Other capital movements	-	-	(1)	(1)
Revaluations and impairment charges for the year	-	-	-	-
Reversal of revaluations and impairment charges	-	-	-	-
Revaluations and impairment charges at 31 Dec	-	-	(470)	(424)
<b>Carrying amount at 31 Dec</b>	<b>-</b>	<b>-</b>	<b>229</b>	<b>257</b>
of which credit institutions	-	-	226	250



## Notes

Note 21 Assets related to pooled plans	Sydbank Group		Sydbank A/S		
	DKKm	2011	2010	2011	2010
Cash deposits		253	398	253	398
Indexed bonds		596	515	596	515
Other bonds		5,259	4,541	5,259	4,541
Other shares etc		2,340	2,259	2,340	2,259
Units		138	216	138	216
Other assets		(33)	(6)	(33)	(6)
<b>Total</b>		<b>8,553</b>	<b>7,923</b>	<b>8,553</b>	<b>7,923</b>

### Note 22 Intangible assets

Carrying amount at 1 Jan	13	14	13	14
Purchase price at 1 Jan	16	16	16	16
Additions	-	-	-	-
Total purchase price at 31 Dec	16	16	16	16
Amortisation and impairment charges at 1 Jan	3	2	3	2
Revaluations and impairment charges for the year	1	1	1	1
Amortisation and impairment charges at 31 Dec	4	3	4	3
<b>Carrying amount at 31 Dec</b>	<b>12</b>	<b>13</b>	<b>12</b>	<b>13</b>

### Note 23 Investment property

Fair value at 1 Jan	-	2	-	2
Disposals	-	2	-	2
<b>Fair value at 31 Dec</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Rental income recognised in the income statement	-	0	-	0
Operating expenses	-	0	-	0

### Note 24 Owner-occupied property

Carrying amount at 1 Jan	1,045	1,044	840	826
Exchange rate adjustment	0	0	0	0
Additions, including improvements	44	72	42	72
Disposals	7	3	6	3
Depreciation for the year	7	7	6	5
Value adjustment recognised directly in equity	(13)	(1)	(11)	0
Value adjustment recognised in the income statement	(47)	(60)	(33)	(50)
<b>Carrying amount at 31 Dec</b>	<b>1,015</b>	<b>1,045</b>	<b>826</b>	<b>840</b>
Required rate of return applied in calculation of fair value (%)	5.0-9.5	5.0-9.5	5.0-9.5	5.0-9.5

Note 25 Other property, plant and equipment DKKm	Sydbank Group		Sydbank A/S	
	2011	2010	2011	2010
Carrying amount at 1 Jan	105	139	99	132
Total cost at 1 Jan	525	518	502	499
Exchange rate adjustment	0	3	0	0
Additions	49	52	49	51
Disposals	48	48	48	48
Total cost at 31 Dec	526	525	503	502
Depreciation and impairment charges at 1 Jan	420	379	403	367
Exchange rate adjustment	0	2	0	0
Depreciation for the year	66	84	60	81
Reversal of depreciation and impairment charges	45	45	45	45
Depreciation and impairment charges at 31 Dec	441	420	418	403
<b>Carrying amount at 31 Dec</b>	<b>85</b>	<b>105</b>	<b>85</b>	<b>99</b>

#### Note 26 Other assets

Positive market value of derivatives etc	13,875	9,363	13,875	9,363
Sundry debtors	272	263	245	260
Interest and commission receivable	582	563	582	563
Cash collateral provided, CSA agreements	2,912	2,066	2,912	2,066
Other assets	0	1	0	1
<b>Total</b>	<b>17,641</b>	<b>12,256</b>	<b>17,614</b>	<b>12,253</b>

#### Note 27 Amounts owed to credit institutions and central banks

Amounts owed to central banks	3,164	2,700	3,164	2,700
Amounts owed to credit institutions	35,603	37,550	35,968	37,627
<b>Total</b>	<b>38,767</b>	<b>40,250</b>	<b>39,132</b>	<b>40,327</b>
On demand	5,532	7,089	5,897	7,166
3 months or less	31,690	31,521	31,690	31,521
Over 3 months not exceeding 1 year	1,124	871	1,124	871
Over 1 year not exceeding 5 years	112	485	112	485
Over 5 years	309	284	309	284
<b>Total</b>	<b>38,767</b>	<b>40,250</b>	<b>39,132</b>	<b>40,327</b>
Of which repo transactions	20,391	18,686	20,391	18,686

## Notes

Note 28 Deposits and other debt DKK m	Sydbank Group		Sydbank A/S	
	2011	2010	2011	2010
On demand	40,499	38,357	39,785	38,012
At notice	442	603	442	603
Time deposits	20,360	19,923	20,360	19,922
Special categories of deposits	5,423	5,278	5,423	5,278
<b>Total</b>	<b>66,724</b>	<b>64,161</b>	<b>66,010</b>	<b>63,815</b>
On demand	40,997	39,085	40,283	38,739
3 months or less	18,837	18,514	18,837	18,514
Over 3 months not exceeding 1 year	2,316	2,149	2,316	2,149
Over 1 year not exceeding 5 years	679	631	679	631
Over 5 years	3,895	3,782	3,895	3,782
<b>Total</b>	<b>66,724</b>	<b>64,161</b>	<b>66,010</b>	<b>63,815</b>

### Note 29 Bonds issued at amortised cost

Over 3 months not exceeding 1 year	7,431	3,726	7,431	3,726
Over 1 year not exceeding 5 years	69	7,516	69	7,516
Over 5 years	-	-	-	-
<b>Total</b>	<b>7,500</b>	<b>11,242</b>	<b>7,500</b>	<b>11,242</b>

### Note 30 Other liabilities

Negative market value of derivatives etc	14,110	9,138	14,110	9,138
Sundry creditors	1,421	1,886	1,389	1,879
Negative portfolio, reverse transactions	3,847	3,437	3,847	3,437
Interest and commission etc	103	97	103	97
Cash collateral received, CSA agreements	429	520	429	520
Other liabilities	1	6	0	0
<b>Total</b>	<b>19,911</b>	<b>15,084</b>	<b>19,878</b>	<b>15,071</b>

### Note 31 Provisions

Provisions for pensions and similar obligations	3	4	3	4
Provisions for deferred tax	202	225	202	225
Provisions for guarantees	25	32	23	32
Other provisions	26	20	8	17
<b>Total provisions</b>	<b>256</b>	<b>281</b>	<b>236</b>	<b>278</b>

**Note 31 Provisions – continued**
**Sydbank Group**

DKKm					2011
	Provisions for pensions and similar obligations	Provisions for deferred tax	Provisions for guarantees	Other provisions	Total provisions
Carrying amount at 1 Jan	4	225	32	20	281
Additions	0	0	20	6	26
Disposals	1	23	27	0	51
<b>Carrying amount at 31 Dec</b>	<b>3</b>	<b>202</b>	<b>25</b>	<b>26</b>	<b>256</b>

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

**Note 32 Subordinated capital**
**Sydbank Group**
**Sydbank A/S**

Interest rate	Note	Nominal (m)	Maturity	DKKm		DKKm		
				2011	2010	2011	2010	
Redeemed loans				-	200	-	200	
1.90 (floating)	<sup>1)</sup>	Bond loan	EUR 100	04.04.15	743	745	743	745
Total supplementary capital				743	945	743	945	
2.69 (floating)	<sup>2)</sup>	Bond loan	EUR 100	Perpetual	739	740	739	740
2.81 (floating)	<sup>3)</sup>	Bond loan	EUR 75	Perpetual	558	559	558	559
6.36 (fixed)	<sup>4)</sup>	Bond loan	DKK 85	Perpetual	85	85	85	85
Total hybrid core capital				1,382	1,384	1,382	1,384	
<b>Total subordinated capital</b>				<b>2,125</b>	<b>2,329</b>	<b>2,125</b>	<b>2,329</b>	
Costs relating to the raising and redemption of subordinated capital				0	0	0	0	
Over 1 year not exceeding 5 years				743	945	743	945	
Over 5 years				1,382	1,384	1,382	1,384	
<b>Total</b>				<b>2,125</b>	<b>2,329</b>	<b>2,125</b>	<b>2,329</b>	

<sup>1)</sup> Optional redemption from 4 April 2012 after which the interest rate will be fixed at 1.85% above 3-month EURIBOR.

<sup>2)</sup> Optional redemption from 25 April 2017 after which the interest rate will be fixed at 2.10% above 3-month EURIBOR.

<sup>3)</sup> Optional redemption from 24 November 2014 after which the interest rate will remain unchanged.

<sup>4)</sup> Optional redemption from 14 May 2017 after which the interest rate will be fixed at 1.75% above 3-month CIBOR.

## Notes

Note 33 Own holdings	Sydbank Group		Sydbank A/S	
	DKKm	2011	2010	2011
Nominal portfolio of own holdings	11	7	11	7
Nominal portfolio of own holdings as % of share capital	1.4	0.9	1.4	0.9
Shares outstanding (number)	73,192,644	73,588,089	73,192,644	73,588,089
Holding of own shares (number)	1,057,335	661,910	1,057,335	661,910
<b>Total share capital (number)</b>	<b>74,249,999</b>	<b>74,249,999</b>	<b>74,249,999</b>	<b>74,249,999</b>
<b>Own holdings purchased during the year</b>				
Number of shares	16,384,324	18,295,691	16,384,324	18,295,691
Nominal value	164	183	164	183
Consideration paid	2,030	2,464	2,030	2,464
Number of shares as % of share capital	22.1	24.6	22.1	24.6
<b>Own holdings sold during the year</b>				
Number of shares	15,988,879	18,412,144	15,988,879	18,412,144
Nominal value	160	184	160	184
Consideration received	1,976	2,490	1,976	2,490
Number of shares as % of share capital	21.6	24.8	21.6	24.8
Own holdings have been purchased and sold as part of the ordinary banking transactions/employee share scheme of Sydbank A/S.				
<b>Note 34 Contingent liabilities and other obligating agreements</b>				
<b>Contingent liabilities</b>				
Financial guarantees	2,937	3,037	2,780	2,932
Mortgage finance guarantees	1,514	1,628	1,514	1,628
Registration and remortgaging guarantees	2,639	3,643	2,639	3,643
Other contingent liabilities	1,181	1,443	1,181	1,443
<b>Total</b>	<b>8,271</b>	<b>9,751</b>	<b>8,114</b>	<b>9,646</b>
<b>Other obligating agreements</b>				
Irrevocable credit commitments	490	99	490	99
Other liabilities*	68	51	111	104
<b>Total</b>	<b>558</b>	<b>150</b>	<b>601</b>	<b>203</b>
* Including intra-group liabilities in relation to rented premises	-	-	45	56

In February 2008 a group of minority shareholders ("Foreningen af Minoritetsaktionærer i bankTrelleborg") filed a class action against Fonden for bankTrelleborg, Sydbank and the Danish FSA. The lawsuit concerns the legality of the compulsory redemption in accordance with section 144 of the Danish Financial Business Act and the pricing of the shares in connection with the compulsory redemption. In December 2010 the Eastern High Court ruled that the compulsory redemption was not legal as the conditions (70% requirement of section 144 of the Danish Financial Business Act) had not been met. However the Eastern High Court did not find that the minority shareholders had suffered a loss exceeding the consideration they had already received in connection with the compulsory redemption. This judgment was upheld by the Supreme Court on 27 January 2012.

In 2009 the group of minority shareholders – by three named shareholders – filed an action against bankTrelleborg, now Sydbank, regarding an inadequate prospectus in connection with the conversion of sparTrelleborg to bankTrelleborg in Q2 2007. Oral proceedings have been scheduled for end-February 2012.

### Note 34 Contingent liabilities and other obligating agreements – continued

On 21 January 2011 two class action claims were filed with the City Court of Copenhagen against Sydbank A/S regarding the acquisition of bankTrelleborg. Both claims concern a potential prospectus liability regarding bankTrelleborg, now Sydbank A/S, in connection with the conversion of sparTrelleborg to bankTrelleborg in Q2 2007, ie before the acquisition by Sydbank.

In addition, 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 35 Fair value hedging of interest rate risks (macro hedge)

Sydbank adopts a cash flow model for managing interest rate risk on all positions other than Danish callable mortgage bonds. The model is updated daily with all the Bank's positions. These are distributed into portfolios according to responsibility and product.

One of these portfolios consists of the Bank's positions in fixed-rate loans and advances, including leasing, fixed-rate deposits, and related hedging transactions. To ensure interest rate risk management of this portfolio, the model generates a synthetic cash flow to describe the Bank's risk position in selected interest rate points.

The Bank's basis for concluding hedging transactions – primarily interest rate swaps – is thus a synthetic net cash flow, based on the actual cash flow of loans and advances, deposits and previously concluded hedging transactions in the relevant portfolio. The aim is to keep the interest rate risk in this portfolio at a minimum as the Bank wishes to place its interest rate risk in other portfolios containing bonds and other cash equivalent positions.

The Group applies the rules on macro hedge, which aim to ensure symmetry between income and expense in the statements.

Symmetry is achieved by making a hedge adjustment corresponding to the part of the market value adjustment of derivatives which concerns future periods. This hedge adjustment is recorded under "Other assets" and represents DKK 0m as at 31 December 2011.

During the year a net loss on hedging transactions of DKK 20m has been recorded. The loss eliminates the equivalent net gain on the hedged items.

DKKm	Sydbank Group		Sydbank A/S	
	2011	2010	2011	2010
<b>Fixed-rate loans and advances</b>				
Carrying amount	1,200	1,491	1,200	1,491
<b>Fixed-rate deposits</b>				
Carrying amount	4,534	3,607	4,534	3,607
The following derivatives are used to hedge the above:				
<b>Swaps</b>				
Principal	745	1,092	745	1,092
Fair value	(12)	(44)	(12)	(44)

## Notes

### Note 36 Collateral

At the end of 2011, the Group had deposited as collateral securities at a market value of DKK 3,085m with Danish and foreign exchanges and clearing centres etc in connection with margin calls and securities settlements etc.

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. Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

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".

DKKm	Sydbank Group		Sydbank A/S	
	2011	2010	2011	2010
<b>Assets sold as part of repo transactions</b>				
Bonds at fair value	20,311	18,609	20,311	18,609
<b>Assets purchased as part of reverse transactions</b>				
Bonds at fair value	11,218	12,857	11,218	12,857

### Note 37 Related parties

DKKm	2011 Group			2010 Group		
	Associates	Board of Directors	Executive Management	Associates	Board of Directors	Executive Management
Loans and advances and loan commitments	2	13	0	1	5	0
Deposits and other debt	72	112	9	61	20	7
Guarantees issued	-	-	-	-	-	-
Collateral received	-	0	0	-	1	0
Interest income	0	0	0	0	0	0
Interest expense	0	1	0	0	0	0
Fee and commission income	0	0	0	0	0	0
Other expenses	382	-	-	374	-	-

### Interest rates 2011, loans and advances

Group Executive Management: 4.15% p.a. Board of Directors: 1.50-7.50% p.a.\*

\* Interest rates concern loans in different currencies.

There are no parties with significant influence in Sydbank A/S (ownership share of at least 20%). Note 19 specifies associates. The Board of Directors and the Group Executive Management columns comprise the Group's exposures to and transactions with members of the Board of Directors and the Group Executive Management as well as their dependants. Note 11 specifies the remuneration of management.

Other expenses include primarily IT costs to Bankdata. Transactions with related parties are settled on an arm's length basis and are subject to the terms and conditions in force. No unusual transactions took place with related parties in 2011.

Note 37 Related parties – continued	Sydbank Group		Sydbank A/S	
	2011	2010	2011	2010
DKKkm				
<b>Amounts owed by and to subsidiaries etc</b>				
Amounts owed by credit institutions and central banks	-	-	526	544
Loans and advances at amortised cost	-	-	185	197
<b>Total asset items</b>	<b>-</b>	<b>-</b>	<b>711</b>	<b>741</b>
<b>Amounts owed to credit institutions</b>				
Deposits and other debt	-	-	-	-
<b>Total liability items</b>	<b>-</b>	<b>-</b>	<b>365</b>	<b>77</b>

Number	Sydbank Group				
	1 Jan 2011	On appointment/ resignation	Additions	Disposals	31 Dec 2011
<b>Sydbank A/S shares held by*</b>					
<b>Board of Directors</b>					
Anders Thoustrup	2,116				2,116
Hanni Toosbuy Kasprzak	192,660		100,000		292,660
Svend Erik Busk	1,200		300		1,500
Claus Christensen	0	500			500
Peder Damgaard	551		465		1,016
Harry Max Friedrichsen	899		122		1,021
Erik Bank Lauridsen	0	13,785			13,785
Sven Rosenmeyer Paulsen	4,100				4,100
Kresten Philipsen	18,491	(18,491)			0
Steen Tophøj	1,419		122		1,541
Jan Uldahl-Jensen	975				975
Margrethe Weber	1,839		233		2,072
<b>Total</b>	<b>224,250</b>	<b>(4,206)</b>	<b>101,242</b>		<b>321,286</b>
<b>Group Executive Management</b>					
Karen Frøsig	3,378		253		3,631
Preben L. Hansen	2,703				2,703
Allan Nørholm	873	(873)			0
<b>Total</b>	<b>6,954</b>	<b>(873)</b>	<b>253</b>		<b>6,334</b>
<b>Total</b>	<b>231,204</b>	<b>(5,079)</b>	<b>101,495</b>		<b>327,620</b>

\* Own holdings and holdings by dependants.



## Notes

### Note 38 Fair value disclosure

Sydbank Group

Financial instruments are included in the balance sheet either at fair value or at amortised cost. The table below breaks down the financial instruments by valuation method.

DKKm	2011		2010	
	Fair value	Amortised cost	Fair value	Amortised cost
<b>Financial assets</b>				
Cash and balances on demand at central banks	-	939	-	855
Amounts owed by credit institutions and central banks	3,540	4,986	4,545	2,982
Loans and advances at fair value	7,658	-	10,724	-
Loans and advances at amortised cost	-	68,847	-	73,028
Bonds at fair value	38,622	-	35,021	-
Shares etc	1,281	-	1,894	-
Assets related to pooled plans	8,553	-	7,923	-
Other assets	14,291	3,078	9,644	2,348
<b>Total</b>	<b>73,945</b>	<b>77,850</b>	<b>69,751</b>	<b>79,213</b>
Undrawn credit facilities	-	31,121	-	30,651
<b>Maximum credit risk, collateral not considered</b>	<b>73,945</b>	<b>108,971</b>	<b>69,751</b>	<b>109,864</b>
<b>Financial liabilities</b>				
Amounts owed to credit institutions and central banks	20,391	18,376	18,686	21,564
Deposits and other debt	-	66,724	-	64,161
Deposits in pooled plans	8,557	-	7,923	-
Bonds issued at amortised cost	-	7,500	-	11,242
Other liabilities	17,962	527	12,576	617
Subordinated capital	-	2,125	-	2,329
<b>Total</b>	<b>46,910</b>	<b>95,252</b>	<b>39,185</b>	<b>99,913</b>

#### Financial instruments recognised at fair value

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

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

Note 38 Fair value disclosure – continued

Sydbank Group

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 non-observable input below and include unlisted shares and certain bonds, including CDOs, for which there is no longer an active market.

A 10% change in the calculated market value of financial assets measured on the basis of non-observable input will affect profit before tax by DKK 113m.

DKKm	Quoted prices	Observable input	Non-observable input	Total fair value
2011				
<b>Financial assets</b>				
Amounts owed by credit institutions and central banks	-	3,540	-	3,540
Loans and advances at fair value	-	7,658	-	7,658
Bonds at fair value	-	38,493	129	38,622
Shares etc	165	112	1,004	1,282
Assets related to pooled plans	2,478	6,075	-	8,553
Other assets	25	14,266	-	14,291
<b>Total</b>	<b>2,668</b>	<b>70,144</b>	<b>1,133</b>	<b>73,945</b>
<b>Financial liabilities</b>				
Amounts owed to credit institutions and central banks	-	20,391	-	20,391
Deposits in pooled plans	-	8,557	-	8,557
Other liabilities	35	17,927	-	17,962
<b>Total</b>	<b>35</b>	<b>46,875</b>	<b>-</b>	<b>46,910</b>

DKKm	Quoted prices	Observable input	Non-observable input	Total fair value
2010				
<b>Financial assets</b>				
Amounts owed by credit institutions and central banks	-	4,545	-	4,545
Loans and advances at fair value	-	10,724	-	10,724
Bonds at fair value	-	34,882	139	35,021
Shares etc	767	139	988	1,894
Assets related to pooled plans	2,475	5,448	-	7,923
Other assets	20	9,624	-	9,644
<b>Total</b>	<b>3,262</b>	<b>65,362</b>	<b>1,127</b>	<b>69,751</b>
<b>Financial liabilities</b>				
Amounts owed to credit institutions and central banks	-	18,686	-	18,686
Deposits in pooled plans	-	7,923	-	7,923
Other liabilities	46	12,530	-	12,576
<b>Total</b>	<b>46</b>	<b>39,139</b>	<b>-</b>	<b>39,185</b>

## Notes

<b>Note 38 Fair value disclosure – continued</b>		<b>Sydbank Group</b>	
DKKm		2011	2010
<b>Assets measured on the basis of non-observable input</b>			
Carrying amount at 1 Jan		1,127	1,006
Additions		31	28
Disposals		34	9
Market value adjustment for the year		9	102
<b>Value at 31 Dec</b>		<b>1,133</b>	<b>1,127</b>
<b>Recognised in profit for the year</b>			
Interest income		50	27
Dividend		15	18
Market value adjustment		9	102
<b>Total</b>		<b>74</b>	<b>147</b>

### Financial instruments recognised at amortised cost

The vast majority of the Group's amounts owed, loans and advances and deposits cannot be transferred without the prior consent of the clients and no active market exists for trading in such financial instruments. Consequently fair value disclosures are solely based on circumstances where market conditions have changed after the initial recognition of the instrument, including in particular changes in interest rates. Fair value disclosures on financial instruments recognised at amortised cost are based on the assumptions below:

- As regards financial instruments for which a price exists in the market, such a price is applied. This applies to bonds issued and subordinated capital. In the absence of a market price, the value is determined on the basis of estimates of the market's existing required rate of return.
- As regards loans and advances, impairment charges are presumed to equal the fair value of the credit risk.
- As regards financial instruments with a maturity of less than six months, amortised cost is presumed to equal fair value.
- As a rule the interest rate risk of fixed-rate deposits and loans and advances with a maturity exceeding six months is hedged by using derivatives, primarily interest rate swaps. The hedge is treated as a fair value hedge for accounting purposes. As a result of the application of these rules this portfolio has been recognised at fair value in the balance sheet. The portfolio comprises loans and advances, deposits and swaps, see note 35.

Based on the above the overall assessment is that the fair value of loans and advances and deposits corresponds to the carrying amount at 31 December 2011 in all material respects.

DKKm		<b>Sydbank Group</b>	
	2011		2010
	Carrying amount	Fair value	Carrying amount
			Fair value
Bonds issued at amortised cost	7,500	7,448	11,242
Subordinated capital	2,125	1,388	2,329
			1,590

**Note 39 Financial liabilities – contractual maturities**

**Sydbank Group**

DKKm	On demand	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years
<b>2011</b>					
Amounts owed to credit institutions and central banks	5,532	31,690	1,124	112	309
Deposits and other debt	40,997	18,837	2,316	679	3,895
Bonds issued at amortised cost	-	-	7,431	69	-
Subordinated capital	-	-	-	743	1,382
<b>Total</b>	<b>46,529</b>	<b>50,527</b>	<b>10,871</b>	<b>1,603</b>	<b>5,586</b>
<b>2010</b>					
Amounts owed to credit institutions and central banks	7,089	31,521	871	485	284
Deposits and other debt	39,085	18,514	2,149	631	3,782
Bonds issued at amortised cost	-	-	3,726	7,516	-
Subordinated capital	-	-	-	945	1,384
<b>Total</b>	<b>46,174</b>	<b>50,035</b>	<b>6,746</b>	<b>9,577</b>	<b>5,450</b>

## Notes

Note 40 Financial highlights	Sydbank Group				
	2011	2010	2009	2008	2007
<b>Income statement highlights (DKKm)</b>					
Net interest and fee income	4,241	4,386	4,399	3,880	3,433
Market value adjustments	(26)	420	667	115	400
Staff costs and administrative expenses	2,463	2,353	2,341	2,449	2,067
Impairment of loans and advances etc	1,198	1,556	1,368	622	(568)
Profit/(Loss) on holdings in associates etc	(77)	2	23	17	11
Profit for the year	188	411	781	606	1,710
<b>Balance sheet highlights (DKKbn)</b>					
Loans and advances	76.5	83.7	87.5	95.8	83.0
Shareholders' equity	9.6	9.5	9.1	7.1	6.7
Total assets	153.4	150.8	157.8	156.0	132.3
<b>Financial ratios per share (DKK per share of DKK 10)</b>					
EPS Basic	2.6	5.6	11.0	9.0	25.6
Book value	131.1	129.8	124.1	105.0	104.6
Dividend	-	1.0	-	-	3.0
Share price/EPS	35.5	27.1	12.1	7.1	8.6
Share price/book value	0.69	1.17	1.08	0.61	2.10
<b>Other financial ratios and key figures</b>					
Solvency ratio	16.1	15.4	15.2	14.7	11.9
Core capital ratio	15.2	14.3	13.1	10.8	8.9
Pre-tax profit as % of average shareholders' equity	3.1	6.0	12.3	11.8	34.6
Post-tax profit as % of average shareholders' equity	2.0	4.4	9.6	8.8	26.2
Income/cost ratio (DKK)	1.08	1.13	1.24	1.24	2.37
Interest rate risk	0.9	1.5	1.0	1.4	2.6
Foreign exchange position	1.6	1.2	1.1	11.4	1.7
Foreign exchange risk	0.1	0.0	0.0	0.0	0.0
Loans and advances relative to deposits	1.0	1.2	1.2	1.2	1.2
Loans and advances relative to shareholders' equity	8.0	8.8	9.6	13.5	12.4
Growth in loans and advances for the year	(8.7)	(4.3)	(8.7)	15.4	13.5
Excess cover relative to statutory liquidity requirements	148.7	106.3	94.4	89.4	103.1
Total large exposures	26.3	54.4	17.2	23.8	46.4
Impairment ratio for the year	1.5	1.7	1.4	0.6	(0.6)

Financial highlights and financial ratios are determined by the Danish FSA's executive order on financial reporting of credit institutions etc.

**Note 40 Financial highlights – continued**
**Sydbank A/S**

	2011	2010	2009	2008	2007
<b>Income statement highlights (DKKm)</b>					
Net interest and fee income	4,202	4,337	4,363	3,856	3,374
Market value adjustments	(33)	410	663	109	393
Staff costs and administrative expenses	2,380	2,301	2,302	2,402	2,023
Impairment of loans and advances etc	1,195	1,556	1,369	619	(611)
Profit/(Loss) on holdings in associates etc	(120)	(6)	25	(42)	21
Profit for the year	188	411	781	606	1,710
<b>Balance sheet highlights (DKKbn)</b>					
Loans and advances	75.8	83.0	86.9	95.6	82.4
Shareholders' equity	9.6	9.6	9.1	7.1	6.7
Total assets	153.0	150.6	157.6	155.8	132.1
<b>Financial ratios per share (DKK per share of DKK 10)</b>					
EPS Basic	2.6	5.6	11.0	9.0	25.6
Book value	131.1	129.8	124.1	105.0	104.6
Dividend	-	1.0	-	-	3.0
Share price/EPS	35.5	27.1	12.1	7.1	8.6
Share price/book value	0.69	1.17	1.08	0.61	2.10
<b>Other financial ratios and key figures</b>					
Solvency ratio	16.3	15.6	15.3	14.8	12.1
Core capital ratio	15.3	14.5	13.2	10.9	9.0
Pre-tax profit as % of average shareholders' equity	3.1	6.0	12.3	11.6	34.8
Post-tax profit as % of average shareholders' equity	2.0	4.4	9.6	8.8	26.2
Income/cost ratio (DKK)	1.08	1.13	1.25	1.24	2.46
Interest rate risk	0.9	1.5	1.0	1.4	2.6
Foreign exchange position	1.6	1.2	1.1	11.4	1.6
Foreign exchange risk	0.1	0.0	0.0	0.0	0.0
Loans and advances relative to deposits	1.0	1.2	1.2	1.2	1.1
Loans and advances relative to shareholders' equity	7.9	8.7	9.5	13.5	12.3
Growth in loans and advances for the year	(8.6)	(4.6)	(9.1)	16.0	14.1
Excess cover relative to statutory liquidity requirements	151.4	110.0	96.7	89.8	103.1
Total large exposures	26.3	54.4	17.2	23.7	46.3
Impairment ratio for the year	1.5	1.7	1.4	0.6	(0.7)

Financial highlights and financial ratios are determined by the Danish FSA's executive order on financial reporting of credit institutions etc.

## Notes

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### Note 41 Reporting events occurring after the balance sheet date

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No matters of significant impact on the financial position of the Sydbank Group have occurred after the expiry of the financial year.

### Note 42 Group holdings and enterprises

		Sydbank Group				
31 December 2011	Activity	Share capital (m)	Shareholders' equity (DKKm)	Result (DKKm)	Ownership share (%)	
<b>Sydbank A/S</b>		DKK	742			
<b>Consolidated subsidiaries</b>						
Sydbank (Schweiz) AG, St. Gallen, Switzerland		CHF	40	226	(30)	100
Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa		DKK	9	3	(13)	100

### Note 43 Large shareholders

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Two shareholders have announced that they own at least 5% of Sydbank's share capital:

Nykredit A/S, Copenhagen  
Silchester International Investors LLP

## Notes – Financial Ratio Definitions

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Financial ratios	Definition
EPS Basic (DKK)	Profit for the year divided by average number of shares outstanding.
EPS Diluted (DKK)	Profit for the year divided by average number of shares outstanding, including dilutive effect of share options and conditional shares.
Share price at year-end	Closing price of the Sydbank share at year-end.
Book value per share (DKK)	Shareholders' equity at year-end divided by number of shares outstanding at year-end.
Solvency ratio	Capital base after deductions divided by risk-weighted assets.
Core capital ratio	Core capital including hybrid core capital after deductions divided by risk-weighted assets.
Pre-tax profit as % of average shareholders' equity	Pre-tax profit divided by average shareholders' equity during the year.
Post-tax profit as % of average shareholders' equity	Post-tax profit divided by average shareholders' equity during the year.
Loans and advances relative to deposits	Loans and advances at amortised cost divided by deposits (deposits and other debt as well as deposits in pooled plans).
Loans and advances relative to shareholders' equity	Loans and advances at amortised cost divided by shareholders' equity.
Growth in loans and advances for the year	Calculated on the basis of loans and advances at amortised cost.
Number of full-time staff at year-end	Number of full-time equivalent staff (part-time staff translated into full-time staff) at year-end.

The financial ratios are prepared according to "Recommendations & Financial Ratios 2010" published by the Danish Society of Financial Analysts.



## Notes – Derivatives

DKKm	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years	2011 Total	2010 Total
<b>Nominal values</b>						
Foreign exchange contracts:						
Spot, bought	8,253	-	-	-	8,253	5,476
Spot, sold	10,398	-	-	-	10,398	4,667
Forwards/futures, bought	31,984	8,091	2,103	-	42,178	50,223
Forwards/futures, sold	29,459	3,456	1,311	-	34,226	45,615
Swaps	926	4,916	6,216	626	12,684	16,123
Options, acquired	4,135	2,594	193	-	6,922	5,750
Options, written	4,623	3,189	79	-	7,891	7,341
Interest rate contracts:						
Spot, bought	5,945	-	-	-	5,945	5,022
Spot, sold	3,247	-	-	-	3,247	3,216
Forwards/futures, bought	9,989	4,591	186	-	14,766	5,563
Forwards/futures, sold	1,631	4,579	1,859	-	8,069	16,897
Forward Rate Agreements, bought	16,919	25,056	4,043	-	46,018	33,390
Forward Rate Agreements, sold	16,246	25,442	4,043	-	45,731	39,237
Swaps	27,406	40,641	72,679	113,779	254,505	280,172
Options, acquired	6,241	196	6,942	3,155	16,534	23,112
Options, written	3,717	421	6,191	3,773	14,102	24,014
Equity contracts:						
Spot, bought	134	-	-	-	134	173
Spot, sold	135	-	-	-	135	210
Forwards/futures, bought	0	-	-	-	0	10
Forwards/futures, sold	0	0	-	-	0	22
Options, acquired	0	1	0	-	1	0
Options, written	0	1	0	-	1	0
Other derivative contracts:						
Futures commodities, bought	26	80	-	-	106	65
Futures commodities, sold	26	80	-	-	106	65
Options, acquired	-	-	-	-	-	0
Options, written	-	-	-	-	-	0
Credit Default Swaps	-	707	2,181	-	2,888	4,324

DKKm	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years	2011 Total	2010 Total
Distribution by maturity						
<b>Net market values</b>						
Foreign exchange contracts:						
Spot, bought	(5)	-	-	-	(5)	(17)
Spot, sold	(5)	-	-	-	(5)	(13)
Forwards/futures, bought	486	88	(62)	-	512	(287)
Forwards/futures, sold	(350)	(10)	63	-	(297)	394
Swaps	11	97	11	110	229	557
Options, acquired	26	35	4	-	65	44
Options, written	(25)	(30)	(2)	-	(57)	(32)
Interest rate contracts:						
Spot, bought	33	-	-	-	33	3
Spot, sold	(20)	-	-	-	(20)	(5)
Forwards/futures, bought	5	0	0	-	5	(6)
Forwards/futures, sold	12	0	0	-	12	(1)
Forward Rate Agreements, bought	(59)	(69)	(7)	-	(135)	(43)
Forward Rate Agreements, sold	69	72	8	-	149	49
Swaps	(19)	(80)	(64)	(568)	(731)	(458)
Options, acquired	4	25	308	212	549	374
Options, written	-	(54)	(306)	(183)	(543)	(362)
Equity contracts:						
Spot, bought	2	-	-	-	2	0
Spot, sold	(2)	-	-	-	(2)	0
Forwards/futures, bought	1	0	-	-	1	(4)
Forwards/futures, sold	(1)	0	-	-	(1)	30
Options, acquired	1	0	0	-	1	1
Options, written	(1)	0	0	-	(1)	(1)
Other derivative contracts:						
Futures commodities, bought	0	(1)	-	-	(1)	0
Futures commodities, sold	0	1	-	-	1	0
Options, acquired	-	-	-	-	-	0
Options, written	-	-	-	-	-	0
Credit Default Swaps	-	1	3	0	4	2
<b>Total net market values</b>					<b>(235)</b>	<b>225</b>

## Notes – Derivatives

DKKkm	Total contracts 2011*			Total contracts 2010*		
	Positive	Negative	Net	Positive	Negative	Net
<b>Market values</b>						
Foreign exchange contracts:						
Spot, bought	7	(12)	(5)	4	(21)	(17)
Spot, sold	12	(17)	(5)	3	(16)	(13)
Forwards/futures, bought	875	(363)	512	676	(963)	(287)
Forwards/futures, sold	534	(831)	(297)	741	(347)	394
Swaps	681	(452)	229	924	(367)	557
Options, acquired	65	0	65	44	0	44
Options, written	0	(57)	(57)	0	(32)	(32)
Interest rate contracts:						
Spot, bought	45	(12)	33	7	(4)	3
Spot, sold	1	(21)	(20)	1	(6)	(5)
Forwards/futures, bought	6	(1)	5	3	(9)	(6)
Forwards/futures, sold	14	(2)	12	8	(9)	(1)
Forward Rate Agreements, bought	0	(135)	(135)	2	(45)	(43)
Forward Rate Agreements, sold	149	0	149	52	(3)	49
Swaps	10,840	(11,571)	(731)	6,380	(6,838)	(458)
Options, acquired	549	0	549	374	0	374
Options, written	0	(543)	(543)	23	(385)	(362)
Equity contracts:						
Spot, bought	2	0	2	2	(2)	0
Spot, sold	0	(2)	(2)	2	(2)	0
Forwards/futures, bought	2	(1)	1	1	(5)	(4)
Forwards/futures, sold	0	(1)	(1)	43	(13)	30
Options, acquired	1	0	1	1	0	1
Options, written	0	(1)	(1)	0	(1)	(1)
Other derivative contracts:						
Futures commodities, bought	0	(1)	(1)	0	0	0
Futures commodities, sold	1	0	1	0	0	0
Options, acquired	0	-	0	0	0	0
Options, written	-	0	0	0	0	0
Credit Default Swaps	91	(87)	4	72	(70)	2
<b>Total market values</b>	<b>13,875</b>	<b>(14,110)</b>	<b>(235)</b>	<b>9,363</b>	<b>(9,138)</b>	<b>225</b>

\* All contracts are non-guaranteed.

DKKkm 2011	Market values		Collateral		Exposure by counterparty	
	Positive	Negative	Provided	Received*	Amount due	Amount owed
<b>Exposure</b>						
Counterparties with CSA agreements	10,929	13,272	2,912	628	243	302
Counterparties without CSA agreements	2,946	838	-	-	2,450	342
<b>Total</b>	<b>13,875</b>	<b>14,110</b>	<b>2,912</b>	<b>628</b>	<b>2,693</b>	<b>644</b>

\* Cash and securities received.

DKKm	Total contracts 2011			Total contracts 2010		
	Positive	Negative	Net	Positive	Negative	Net
<b>Average market values</b>						
Foreign exchange contracts:						
Spot, bought	25	(28)	(3)	25	(39)	(14)
Spot, sold	26	(33)	(7)	30	(40)	(10)
Forwards/futures, bought	590	(540)	50	955	(793)	162
Forwards/futures, sold	649	(344)	305	679	(412)	267
Swaps	869	(363)	506	1,054	(380)	674
Options, acquired	61	0	61	57	0	57
Options, written	0	(50)	(50)	0	(50)	(50)
Interest rate contracts:						
Spot, bought	40	(38)	2	20	(31)	(11)
Spot, sold	36	(34)	2	15	(4)	11
Forwards/futures, bought	12	(9)	3	9	(17)	(8)
Forwards/futures, sold	10	(19)	(9)	17	(13)	4
Forward Rate Agreements, bought	12	(72)	(60)	1	(67)	(66)
Forward Rate Agreements, sold	75	(13)	62	70	(1)	69
Swaps	7,047	(7,501)	(454)	7,951	(8,376)	(425)
Options, acquired	440	0	440	364	0	364
Options, written	3	(434)	(431)	8	(355)	(347)
Equity contracts:						
Spot, bought	5	(7)	(2)	13	(28)	(15)
Spot, sold	9	(7)	2	34	(13)	21
Forwards/futures, bought	11	(1)	10	1	(73)	(72)
Forwards/futures, sold	39	(30)	9	113	(16)	97
Options, acquired	1	0	1	2	0	2
Options, written	0	(2)	(2)	0	(2)	(2)
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	0	0
Futures commodities, sold	0	0	0	0	0	0
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	(1)	(1)
Credit Default Swaps	72	(68)	4	104	(102)	2
<b>Total average market values</b>	<b>10,032</b>	<b>(9,593)</b>	<b>439</b>	<b>11,522</b>	<b>(10,813)</b>	<b>709</b>

Average market value calculations are based on monthly statements.

## Notes – Risk Management

It has been assessed that the Group's organisation does not necessitate an independent risk management function or the appointment of an employee with no other areas of responsibility than risk management.

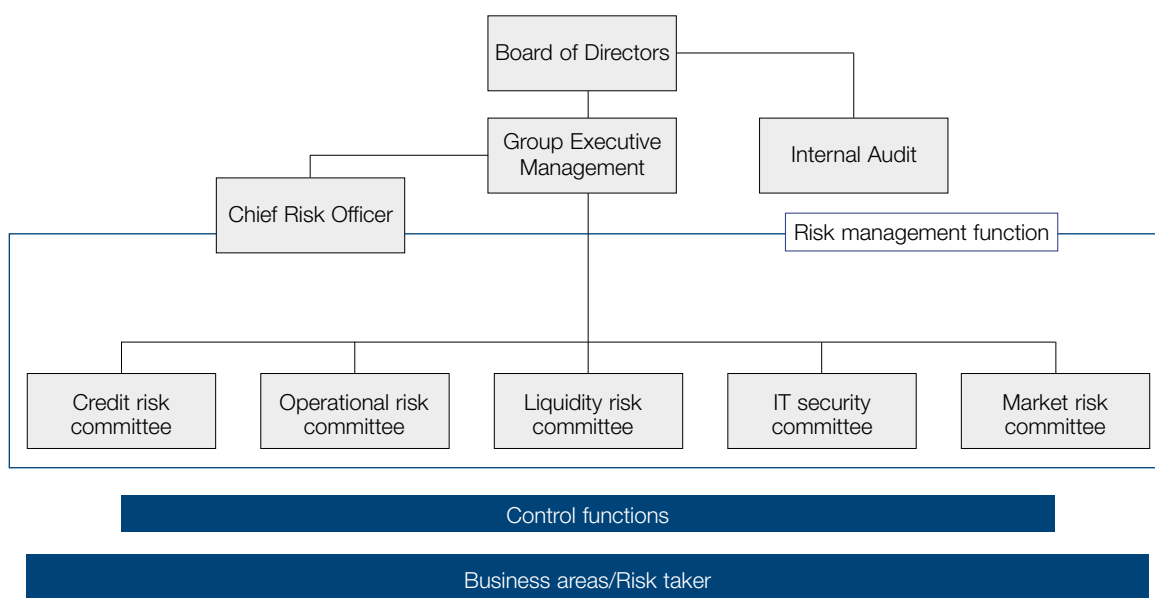
Mogens Sandbæk, CFO, has been appointed Chief Risk Officer (CRO); he has the knowledge and independence to assess the Group's risks. The appointment is a logical step since a significant number of tasks falling under the responsibility of the CRO are already carried out in Accounting & Risk Management. It is therefore assessed that the CRO meets the object of the executive order on management and control of banks etc even though he has other areas of responsibility than risk management.

The CRO and a number of risk committees form part of the Group's risk organisation, see the chart below.

Committees have been set up for each of the risk areas: credit risk, liquidity risk, market risk and operational risk as well as IT security. The committees consist of a Group Executive Management member (chairman), the CRO and a broad composition of other members.

It is the responsibility of the risk committees to identify and assess the Group's risks within their respective risk areas. The committees must analyse and monitor the Group's risks including the principles for determining risk, the models applied as well as whether exposures are in accordance with the Group's company profile and risk policy.

At least once a year each committee prepares a risk analysis which is used in connection with an overall risk assessment.



## Credit risk

Credit risk is the risk of loss as a result of a debtor's default on his payment obligations to the Group.

The Group's overall credit risk is managed according to policies and limits determined and adopted by the Bank's Board of Directors.

The Group's credit activities are planned in accordance with the Group's visions and strategies and must be:

- Competent.
- Competitive.
- Reliable.
- Obliging.

The Board of Directors lays down the general framework for credit granting and the largest exposures are submitted for approval or information.

Employees with a written lending authority may grant approvals. Such authority is adjusted to the employee's experience, education and training as well as to the employee's client portfolio and the individual client's rating. In connection with new clients employees have limited lending authority.

Credit activities are conducted partly in the retail and corporate departments and partly centrally in Credits.

The Group has an extensive and competent credit organisation which – together with the rating models – ensures focus on the Group's credit risks in the approval process as well as the follow-up process.

The credit organisation is adjusted on an ongoing basis to ensure that the credit rating capacity reflects the Group's development as well as economic conditions.

The Group applies the options available to mitigate the risk on individual transactions in the form of charges on assets, netting agreements, guarantees etc. The most frequent types of charges include mortgages and charges on financial assets (shares, bonds and units).

The Group assesses on an ongoing basis the value of collateral provided. The value is determined as the expected net proceeds on realisation. As regards the most frequent types of collateral, the Group has established models that estimate the value of the assets in question.

### Targets for credit risk

In accordance with its credit policy, the Group does not wish to have exposures to large single clients, which implies among other factors that:

- The 10 largest exposures (consolidated according to section 145 of the Danish Financial Business Act) may not, as a rule, exceed 10% of the Group's total credit portfolio (however excluding exposures to credit institutions, investment funds and public enterprises). The figure stood at 4.7% at 31 December 2011.
- After deduction of the loan value of any collateral, the 10 largest exposures (consolidated according to the Group's rules for BIS groups\*) may not exceed 5% of the total credit portfolio (however excluding exposures to credit institutions, investment funds and public enterprises). The figure stood at 4.1% at 31 December 2011.
- As a main rule no exposure to a single client (consolidated according to the Group's rules for BIS groups) may exceed 10% of the Group's core capital (however excluding exposures to credit institutions, investment funds and public enterprises). The Group does not have any exposures exceeding 10% at 31 December 2011.

According to the Group's credit policy, loans and advances and guarantees to exposures in the property sector and the building and construction sector may not exceed 20% of the Group's total lending and guarantee portfolio. The figure stood at 12.9% at 31 December 2011.

According to the Group's credit policy, loans and advances and guarantees to exposures in the agricultural sector may not exceed 10% of the Group's total lending and guarantee portfolio. The figure stood at 7.7% at 31 December 2011.

### Credit risk to financial counterparties

Trading in securities, currencies and derivatives, as well as payment services etc involve exposure to financial counterparties in the form of delivery risk or credit risk.

\* In addition to calculating exposures according to section 145 of the Danish Financial Business Act, Sydbank uses an internal exposure concept – BIS group – that consolidates clients that are interconnected as a result of any knock-on effect. Consequently a section 145 group may consist of several BIS groups but a BIS group cannot form part of several section 145 groups.

## Notes – Risk Management

Delivery risk is the risk that the Group does not receive payments or securities in connection with the settlement of securities or currency transactions equalling the securities or payments delivered by the Group.

Management grants delivery risk lines and credit risk lines to financial counterparties based on the risk profile, rating, size and financial standing of the counterparty. Risks and lines to financial counterparties are monitored continuously, also intra-day.

The Group participates in an international foreign exchange settlement system, CLS<sup>®</sup>, which aims to reduce delivery risk. In CLS<sup>®</sup> payment is made on the net position for each currency, and only one amount for each currency is paid or received. In addition this net exposure is only to one counterparty, who is the Group's partner in the system.

The Group aims to mitigate credit risk to financial counterparties in many ways, eg by concluding netting agreements. Moreover the Group has entered into agreements with all significant counterparties to ensure credit risk mitigation of derivatives. Exposures are calculated on a daily basis after which the parties settle collateral. Consequently exposures are reset in all material respects on a daily basis. The agreements are managed by Operations.

The gross exposure to financial counterparties constitutes DKK 36,457m (2010: DKK 32,835m) and the net exposure to financial counterparties represents DKK 10,610m (2010: DKK 8,940m).

### Financial counterparties by counterparty type

DKKm	Gross exposure*		Net exposure*	
	2011	2010	2011	2010
Governments etc	6,472	3,347	4,175	1,697
Institutions, repo/reverse	23,023	20,672	1,029	952
Institutions, other	6,962	8,816	5,406	6,291
<b>Total</b>	<b>36,457</b>	<b>32,835</b>	<b>10,610</b>	<b>8,940</b>

\* Gross exposure and net exposure are defined in "Credit Risk 2011" which is available at sydbank.com. Gross exposure determination takes undrawn credit commitments into account. Net exposure determination takes undrawn credit commitments, collateral and conversion factors (CF) into account.

### Credit risk to non-financial counterparties

The Group has developed rating models to manage credit risks to retail and corporate clients. The overriding objective is to identify any deterioration in the client's financial circumstances as early as possible – in order to work out a plan of action in cooperation with the client.

The models are used in connection with credit approval, pricing, profitability calculation and calculation of collective impairment charges as well as in connection with assessment of concentration risks.

Clients are rated in four partially independent models: investment clients, corporate clients, SMEs and retail clients. All models are based on statistical processing of client data for the purpose of classifying clients according to their probability of default (PD) within the next 12 months. The corporate rating model also contains a qualitative element in the form of an industry profile and a strength profile which in aggregate can affect clients' classification. Clients are classified in three groups: corporate, SME and retail.

Model development is based on the recommendations submitted by the Basel Committee. Through dialogue with other interested parties in the market, including credit institutions, supervisory authorities and rating agencies, the Group has ensured that the models comply with market standards.

The Group applies the models to determine the regulatory solvency requirement. As regards retail clients the Group applies the advanced IRB approach, ie the Group estimates probability of default (PD), loss given default (LGD) and the utilisation of credit facilities (CF). As regards corporate clients the Group applies the foundation IRB approach, ie the Group only estimates PD and not LGD or CF.

### Exposures outside rating models

A small part of the exposures to non-financial counterparties is not yet comprised by the rating models.

During 2011 exposures via Sydbank in Germany have been implemented in the rating models. The exposures not included in the rating models consist mainly of exposures via Sydbank (Schweiz) AG which is being wound up and will not be implemented in the rating models.

## Retail clients

The objective is that more than 90% of retail client exposures are approved by the client's branch and that the remaining client exposures are approved by the regional head office. Major retail client exposures are approved centrally by Credits.

Credit granting to retail clients is based on the client's disposable amount, assets and gearing (defined as the household's total debt divided by the household's personal income) as well as knowledge of the client.

The retail client model is based primarily on account behaviour. On the basis of this data and inherent statistical correlations, retail clients are rated according to their probability of default (PD) vis-à-vis the Group within the next 12 months.

The gross exposure to retail clients constitutes DKK 32,852m (2010: DKK 35,298m) and the net exposure to retail clients represents DKK 25,989m (2010: DKK 24,264m).

### Retail clients by rating category and approach

DKKm	Gross exposure		Net exposure	
	2011	2010	2011	2010
Rating category 1	14,995	11,480	11,489	6,842
Rating category 2	9,029	10,216	7,155	7,163
Rating category 3	3,974	6,410	3,288	4,813
Rating category 4	1,461	3,219	1,175	2,479
Rating category 5	1,717	1,902	1,453	1,456
Rating category 6	299	497	235	368
Rating category 7	116	80	96	63
Rating category 8	162	47	126	38
Rating category 9	702	411	614	335
Default	238	222	203	165
<b>Total IRB</b>	<b>32,693</b>	<b>34,484</b>	<b>25,834</b>	<b>23,722</b>
Standardised Approach	159	814	155	542
<b>Total</b>	<b>32,852</b>	<b>35,298</b>	<b>25,989</b>	<b>24,264</b>

In 2011 an improved rating system was established for retail clients. The new system involves a greater coefficient of determination than the system used so far meaning that more clients are assigned to either the better or the poorer rating categories.

## Corporate clients

As a rule corporate clients are served by the regional head office or by special corporate departments. The objective is that all small corporate exposures are approved decentrally by the regional head office. Medium-size and major exposures are approved centrally by Credits, the Group Executive Management or the Board of Directors.

The Group's credit-related decisions are based on a systematic and structured review of the client's circumstances and industry affiliation. The review is based on all accessible information, including industry analyses and financial statements, and also comprises an assessment of the client's forward-looking business plan and the feasibility of this plan.

The corporate rating model is based on the client's accounting data supplemented by appraisals made by the credit officer and/or account manager of the corporate client's current circumstances.

The gross exposure to corporate clients constitutes DKK 84,458m (2010: DKK 89,430m) and the net exposure to corporate clients represents DKK 49,324m (2010: DKK 52,964m).

### Corporate clients by rating category and approach

DKKm	Gross exposure		Net exposure	
	2011	2010	2011	2010
Rating category 1	6,501	5,034	2,796	2,064
Rating category 2	24,201	22,243	8,337	6,989
Rating category 3	16,632	18,280	9,978	10,826
Rating category 4	12,809	12,857	8,827	8,368
Rating category 5	9,540	11,056	6,943	8,343
Rating category 6	3,344	4,199	2,630	3,281
Rating category 7	2,302	2,636	1,921	2,230
Rating category 8	2,021	1,882	1,702	1,723
Rating category 9	3,687	3,999	3,158	3,491
Default	1,847	1,999	1,669	1,888
<b>Total IRB</b>	<b>82,884</b>	<b>84,185</b>	<b>47,961</b>	<b>49,203</b>
Standardised Approach	1,574	5,245	1,363	3,761
<b>Total</b>	<b>84,458</b>	<b>89,430</b>	<b>49,324</b>	<b>52,964</b>

## Further information on credit risk

For further information on the Group's credit risk reference is made to notes 12 and 16 as well as "Credit Risk 2011" (unaudited) which is available at [sydbank.com](http://sydbank.com).



## Notes – Risk Management

### Market risk

Market risk is the risk that the market value of the Group's assets and liabilities will be affected as a result of changes in market conditions.

Assuming market risk is considered a natural and integral part of all-round banking. Assuming risk must be on a conscious and well-documented basis. To the extent possible, risk should be assumed in products which offer a possibility of eliminating or mitigating risk at short notice.

Interest rate and foreign exchange risks deriving from deposits by and loans and advances to the Group's clients are hedged on an ongoing basis and are consequently not used for position-taking.

The Group has the following types of market risk:

- Interest rate risk.
- Equity risk.
- Foreign exchange risk.
- Other market risks.

For security and control reasons, the Board of Directors emphasises that the Group's market risk is subject to central decision-making and management. Consequently the Group's most significant interest rate, foreign exchange and equity risks must be assumed by the parent.

The Board of Directors has determined the Group's risk tolerance as follows: medium as regards interest rate risk and low as regards the other types of market risk.

Market risk is managed by the Treasury department in Sydbank Markets in accordance with the policies and limits determined and adopted by the Bank's Board of Directors.

Middle Office in Operations and Risk Management in Accounting & Risk Management continuously monitor the individual risk areas and provide management with extensive reporting on a regular basis.

### Interest rate risk

Interest rate risk comprises the Group's total risk of loss resulting from interest rate changes in the financial markets.

The Group adopts a cash flow model to determine the interest rate risk of fixed-rate positions. A duration model is used to calculate the interest rate risk of Danish callable mortgage bonds. Interest rate risk makes up the bulk of overall Group market risk.

In accordance with the method of calculation of the Danish FSA, interest rate risk is calculated as the risk of a parallel shift in the interest rate level of plus 1 percentage point in all currencies and totals minus DKK 95m or 0.9% at year-end (2010: 1.5%) of Group core capital (incl hybrid core capital) after deductions. A calculated loss of DKK 178m (2010: DKK 249m) derives from positions in DKK. Such a parallel shift of plus 1 percentage point affects profit before tax by DKK 95m.

#### Interest rate risk by duration and currency

DKKm	0-1 yr	1-2 yrs	2-3 yrs	> 3 yrs	Total 2011	Total 2010
DKK	(22)	(7)	208	(1)	178	249
EUR	2	(44)	(7)	(188)	(237)	(92)
USD	36	(1)	(1)	(59)	(25)	(4)
CHF	(13)	0	(1)	2	(12)	3
NOK	0	0	1	0	1	2
Other currencies (1)		1	0	0	0	(2)
<b>Total 2011</b>	<b>2</b>	<b>(51)</b>	<b>200</b>	<b>(246)</b>	<b>(95)</b>	
<b>Total 2010</b>	<b>7</b>	<b>(35)</b>	<b>69</b>	<b>115</b>		<b>156</b>

The method of calculation of the Danish FSA allows full set-off between different currencies, maturities and yield curves. The Group is aware of the risk of these assumptions and monitors these risks separately on an ongoing basis.

The Group has established an internal interest rate risk scenario where set-off between currencies is not allowed – apart from EUR and DKK. The net curve risk cannot be lower than the risk on the highest of the three individual curves (government curve, Danish mortgage curve and swap curve). The risk on options recognised includes a premium.

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**Equity risk**

The Group's portfolio of shares and holdings in associates represents DKK 1,473m at year-end (2010: DKK 2,201m), including equity investments totalling DKK 1,178m (2010: DKK 1,258m).

In the event of a 10% share price change, profit before tax will be affected by DKK 147m (2010: DKK 220m), including equity investments totalling DKK 118m (2010: DKK 126m).

**Foreign exchange risk**

As in previous years the Group's foreign exchange risk was insignificant in 2011 and consequently a 10% change in foreign exchange rates against DKK will not affect profit before tax significantly.

## Notes – Risk Management

### Liquidity risk

Liquidity risk is the risk that the Group either cannot meet its payment obligations as they mature or is only able to do so via disproportionately large funding costs.

The Bank's Board of Directors has adopted a liquidity policy which sets out the framework for the Group's liquidity management, including targets and policies, operational targets, distribution of responsibilities, stress test scenarios, requirements for reporting and contingency plans, requirements for involvement of the Board of Directors, requirements for employee competencies as well as requirements for funding sources.

#### Targets and policies:

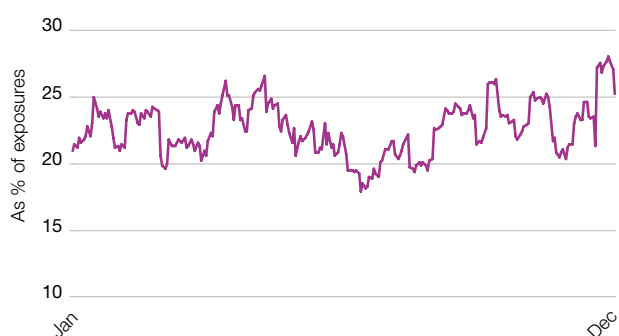
- Consistently strong and stable deposit base which ensures stability in the long-term funding of the Group's lending activities.
- Maintenance of a high level of ratings with Moody's.
- Active participation in the international money markets as well as access to the international capital markets through the application of loan programmes. Coupled with a high rating this ensures that the Group has uninterrupted access to a diversified and competitive funding basis.
- Maintenance of a liquidity buffer which together with prudent management of the run-off profile of capital market funding ensures that the Group's operating activities do not depend on capital market funding. In other words the liquidity buffer may in the short and medium term counterbalance the effects of an adverse liquidity situation.

The Bank's Board of Directors determines the Group's risk tolerance as regards liquidity risk. The operational targets for the Group's risk tolerance comprise:

- Cash and cash equivalents relative to debt and guarantee exposures (section 152(1)2 of the Danish Financial Business Act).
- Cash and cash equivalents relative to short-term debt and guarantee exposures (section 152(1)1 of the Danish Financial Business Act).
- Deposit/loan ratio (excl repo/reverse transactions).
- Liquidity targets under a mild stress scenario, see below.

Liquidity for 2011, measured in relation to the 10% requirement as specified in section 152 of the Danish Financial Business Act, appears from the chart below.

Liquidity in 2011

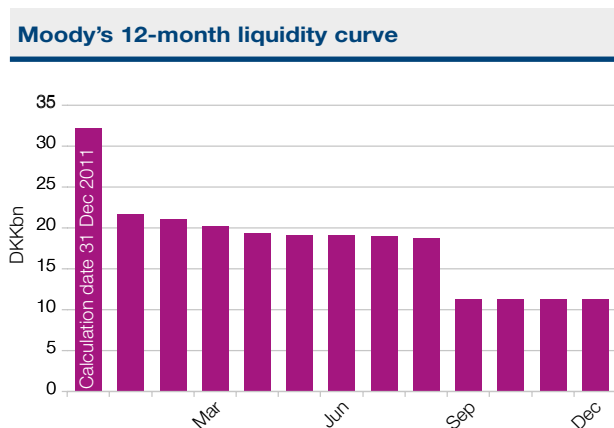


The size of liquidity is adjusted to the maturity profile of exposures to enable the Group to honour debt and guarantee exposures as they mature. Reference is made to note 39 for the maturity profiles of the Group's debt exposures.

In addition the Board of Directors has set requirements concerning the Group's ability to withstand a run-off of capital market funding, defined in terms of the interbank market and Global MTN issues, and at the same time finance a normal growth in loans and advances.

The time frame is 12 months and is based on a calculation of the Group's liquidity buffer, which is determined while taking into account the liquidity value of the Group's assets. Fully liquid deposits with Danmarks Nationalbank and certificates of deposit are included at full value in contrast to for instance unlisted shares which do not carry any value. Consequently the assets are recognised at a conservatively determined realisable value or loan value when calculating the liquidity buffer.

The run-off profile as of 31 December 2011 expressed by Moody's 12-month liquidity curve is shown below.



In accordance with a change in the Group's accounting policies in 2011 pooled assets are recognised under liquidity as regards calculation of section 152 and Moody's 12-month liquidity curve.

The Bank's Board of Directors has imposed the following demands on the Group's funding sources:

- The Group's funding must be diversified so as to reduce to the extent possible reliance on individual sources.
- The Group's funding must be composed so that illiquid assets such as loans and advances are financed predominantly via stable funding, primarily shareholders' equity, bonds issued and deposits.
- Liquid assets, eg bonds which are eligible as collateral with Danmarks Nationalbank, may be funded via more volatile sources such as the interbank market. Consequently alternative funding must be available or the possibilities of selling the asset must be good.

Moreover the Group must have a liquidity buffer that ensures cash and cash equivalents to cover a run-off of all volatile funding sources as well as a certain part of the more stable funding sources.

The Group is aware of the fact that its only remaining bond issue expires in September 2012 as illustrated in the run-off profile above. The Group's satisfactory liquidity situation com-

binated with declining loans and advances and increasing deposits enables the Group to adopt a wait-and-see stance as regards new issues. In the Group's opinion it has not been possible to issue senior debt at a satisfactory price level in 2011 given the Group's satisfactory liquidity situation, declining loans and advances and rising deposits. Consequently the Group is awaiting changes in market conditions and/or changes in circumstances before making a new issue.

Nationally as well as internationally, new regulations are under way posing further requirements in terms of liquidity. During 2012 it is expected that a new capital requirements directive (CRD IV) will be adopted imposing new requirements on liquidity management including requirements as to liquidity buffer size and composition in the context of a stress scenario of 30 days' duration (LCR – Liquidity Coverage Ratio).

CRD IV is based on the recommendations of the Basel Committee (Basel III). The Group has followed the developments in the drafting of CRD IV on an ongoing basis and has made the relevant preparations.

In autumn 2011 Danmarks Nationalbank expanded its credit facilities considerably, both as regards which assets are eligible as collateral and as regards maturities.

The collateral basis has been expanded to include good quality credit claims in DKK and EUR to Danish clients and normal credit facilities – also with securities as collateral – have been expanded to include loans with a maturity of three years, which is an alternative to senior debt given the current market conditions.

The Group does not expect to make use of the facilities and therefore it has neither included the facility in the Group's liquidity under section 152 nor in the "Moody's curve".

Danmarks Nationalbank's credit facilities are included as an element in the Group's contingency resources.

## Notes – Risk Management

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### Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

The Group classifies its operational losses in three main groups according to frequency and severity:

- High-frequency, low-severity losses.
- Medium-frequency, medium-severity losses.
- Low-frequency, high-severity losses.

High-frequency, low-severity losses are handled via the Group's budget and accounting systems. The extent is budgeted on an annual basis and assessed regularly via accounting follow-up at branch and regional level.

Medium-frequency, medium-severity losses are handled via an internally developed system which collects loss data on an ongoing basis. Collection is electronic and loss data is classified according to event type and business line. Moreover the system ensures compliance with the Group's business procedures for approval, information, accounting and payment, if any.

Low-frequency, high-severity losses are handled manually, both when reporting the event and when reporting to management.

Management receives ongoing reporting as regards all medium-severity and high-severity losses, including distribution by event type and business line as well as developments concerning frequency and size.

Collection and storage of loss data is a significant condition of any subsequent application of internal models to calculate the capital requirement.

On the basis of reported events and trends in other observable data business procedures and routines are continuously improved in order to minimise the number of errors and events involving a risk of loss.

The Group reviews all business lines annually with the aim of identifying, describing and analysing the largest individual risks where the Group may incur significant losses as well as the relevant business procedures and routines for the purpose of minimising such risks.

The Group applies the Standardised Approach to calculate the capital requirement in accordance with Basel II. Under this approach the capital requirement is calculated on the basis of weightings in compliance with the Capital Requirements Directive. Weightings are assigned to each of the following business lines:

- Corporate finance.
- Trading and sales.
- Retail brokerage.
- Commercial banking.
- Retail banking.
- Payment and settlement.
- Agency services.
- Asset management.

The Group's accounting ensures that gross income can be allocated to these business lines and the Group's capital requirement for operational risk is determined for each business line as gross income multiplied by the weighting assigned to the individual business line. In 2011 the Group's total capital requirement for operational risk represented DKK 646m (2010: DKK 590m).

### IT security

IT supply is a significant op risk aspect. On an ongoing basis the Group describes and reviews this area – system by system. Forming part of this description, individual event requirements have been set up regarding support, error reporting and error correction. The starting point for the activities is an IT security policy prepared on the basis of a risk analysis and approved by the Board of Directors.

In the IT security policy the Board of Directors assesses the current risk scenario and specifies requirements for eg accessibility and reliability of systems as well as data. As a result of these requirements, a significant part of the Group's use of IT has been mirrored and physically separated to minimise the risk of breakdown. The requirements apply to the internal IT organisation and Bankdata, which is the Group's primary IT supplier.

The IT security activities include regular contingency exercises at Sydbank and at Bankdata/JN Data.

## Notes – Capital Base

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### Capital base

The Bank is a licensed financial services provider and must therefore comply with the capital requirements contained in the Danish Financial Business Act. Danish capital adequacy rules are based on EU capital requirements directives and apply to both the parent and the Group.

The capital adequacy rules call for a minimum capital level of 8.0% of the risks calculated plus any additional individual capital needed. Detailed rules regulate the calculation of capital and risks (risk-weighted assets).

The capital base is made up of core capital and supplementary capital. Core capital comprises shareholders' equity and hybrid core capital.

The difference between the carrying amount of shareholders' equity and the capital base is shown in note 3.

The Group's subordinated capital, hybrid core capital and supplementary capital may, subject to certain conditions, be included in the capital base. Sections 124, 132 and 136 of the Danish Financial Business Act specify these conditions. The Group's subordinated capital is shown in note 32.

The internal capital target is the level of capital that the Group wishes to have at its disposal to protect shareholders against loss under prevailing and future economic conditions. At year-end 2011, the internal capital target represents DKK 9.9bn.

The international rating agency, Moody's, regularly assesses the Group's ability to honour its payment obligations. The rating targets are an essential part of the Group's capital targets because a good rating gives the Group easier and cheaper access to capital and liquidity from the capital markets.

In 2011 the Group has met regulatory capital requirements as well as internal capital targets.

# Management Statement

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We have reviewed and approved the 2011 Annual Report of Sydbank A/S.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the financial statements of the parent company are prepared in accordance with the Danish Financial Business Act. Furthermore, the annual report is prepared in compliance with Danish disclosure requirements for listed financial companies.

In our opinion the consolidated financial statements and the 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 December 2011 and of the results of the Group's and the parent company's operations and consolidated cash flows for the financial year 1 January – 31 December 2011. 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, respectively.

We propose that the Annual Report be submitted for adoption by the AGM.

Aabenraa, 22 February 2012

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## Group Executive Management

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	<b>Karen Frøsig</b> (CEO)	
<b>Preben Lund Hansen</b>		<b>Finn Boel Pedersen</b>

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## Board of Directors

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<b>Anders Thoustrup</b> (Chairman)	<b>Hanni Toosbuy Kasprzak</b> (Vice-Chairman)	<b>Svend Erik Busk</b>
<b>Claus Christensen</b>	<b>Peder Damgaard</b>	<b>Harry Max Friedrichsen</b>
<b>Erik Bank Lauridsen</b>	<b>Sven Rosenmeyer Paulsen</b>	<b>Steen Tophøj</b>
<b>Jan Uldahl-Jensen</b>	<b>Margrethe Weber</b>	

# Auditors' Reports

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## Internal Audit

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### To the shareholders of Sydbank A/S

#### Internal Audit's report on the consolidated financial statements and the parent company financial statements

We have audited the consolidated financial statements and the parent company financial statements of Sydbank A/S for the financial year 1 January – 31 December 2011. The consolidated financial statements and parent company financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies for the Group as well as for the parent company and consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the parent company financial statements are prepared in accordance with the Danish Financial Business Act. Further, the consolidated financial statements are prepared in accordance with Danish disclosure requirements for listed financial institutions.

#### Basis of opinion

We have conducted our audit in accordance with the Danish Financial Supervisory Authority's Executive Order on Auditing Financial Undertakings etc. as well as Financial Groups and in accordance with International Standards on Auditing. This requires that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement.

The audit has been performed in accordance with the division of work agreed with the external auditors and has included an assessment of established procedures and internal controls, including the risk management organised by Management aimed at reporting processes and significant business risks. Based on materiality and risk, we have examined, on a test basis, the basis of amounts and other disclosures in the consolidated financial statements and the parent company financial statements. Further-

more, the audit has included evaluating the appropriateness of the accounting policies applied by Management and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and the parent company financial statements.

We have participated in the audit of material and risky areas and we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

#### Opinion

In our opinion, the established procedures and internal controls, including the risk management organised by Management aimed at reporting processes and significant business risks, are working satisfactorily.

Furthermore, in our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2011 and of the results of the Group's and the parent company operations and cash flows for the financial year 1 January – 31 December 2011 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed financial institutions in respect of the consolidated financial statements and in accordance with the Danish Financial Business Act in respect of the parent company financial statements.

#### **Statement on the Management's review**

Pursuant to the Danish Financial Business Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the consolidated financial statements and the parent company financial statements.

Aabenraa, 22 February 2012

**Ole Kirkbak**

Head of Internal Audit



# Auditors' Reports

## Independent Auditors' Report

### To the shareholders of Sydbank A/S

#### **Independent auditors' report on the consolidated financial statements and the parent company financial statements**

We have audited the consolidated financial statements and the parent company financial statements of Sydbank A/S for the financial year 1 January – 31 December 2011. The consolidated financial statements and parent company financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies for the Group as well as for the parent company and consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the parent company financial statements are prepared in accordance with the Danish Financial Business Act. Further, the consolidated financial statements are prepared in accordance with Danish disclosure requirements for listed financial institutions.

#### Management's responsibility for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU (the consolidated financial statements), the Danish Financial Business Act (the parent company financial statements) and Danish disclosure requirements for listed financial institutions and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accord-

ance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent company financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of consolidated financial statements and parent company financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

#### Opinion

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at

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## Independent Auditors' Report

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31 December 2011 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2011 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed financial institutions in respect of the consolidated financial statements and in accordance with the Danish Financial Business Act in respect of the parent company financial statements.

### Statement on the Management's review

Pursuant to the Danish Financial Business Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the consolidated financial statements and the parent company financial statements.

Aabenraa, 22 February 2012

KPMG

Statsautoriseret Revisionspartnerselskab

**Jakob Nyborg**

State Authorised Public Accountant

**Jon Midtgaard**

State Authorised Public Accountant

## Company Announcements and Financial Calendar

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### Announcements to NASDAQ OMX Copenhagen A/S 2011

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No	Date	Contents
01/2011	28 January 2011	Announcement concerning large shareholders under section 29 of the Danish Securities Trading Act
02/2011	7 February 2011	Sydbank's exposure to Amagerbanken
03/2011	9 February 2011	Notice convening the Annual General Meeting of Sydbank A/S
04/2011	15 February 2011	Announcement of the 2010 financial statements
05/2011	3 March 2011	Announcement concerning instruments of proxy issued to the Board of Directors of Sydbank
06/2011	10 March 2011	Annual General Meeting of Sydbank A/S
07/2011	10 March 2011	Sydbank's Board of Directors
08/2011	26 April 2011	Interim Report – Q1 2011
09/2011	19 May 2011	Moody's changes rating but continues to regard Sydbank as systemically important
10/2011	27 June 2011	Sydbank's exposure to Fjordbank Mors
11/2011	1 July 2011	Major shareholder announcement according to section 29 of the Danish Securities Trading etc Act
12/2011	15 July 2011	2011 EU-wide stress test
13/2011	16 August 2011	Interim Report – First Half 2011
14/2011	17 August 2011	Change in Sydbank's Group Executive Management
15/2011	11 October 2011	Sydbank to adapt the organisation, its service concept and to increase the interest rate
16/2011	25 October 2011	Interim Report – Q1-Q3 2011
17/2011	27 October 2011	2011 EU-wide capital test
18/2011	8 December 2011	EU-wide capital test

### 2012 Financial Calendar

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22 February 2012	2011 Annual Report
15 March 2012	Annual General Meeting of Sydbank A/S
30 April 2012	Interim Report – Q1 2012
20 August 2012	Interim Report – First Half 2012
29 October 2012	Interim Report – Q1-Q3 2012

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## Shareholders' Meetings 2012

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Town	Date	Time	Venue
Copenhagen	Wednesday 21 March	6.30pm	The Black Diamond, The Queen's Hall
Esbjerg	Monday 19 March	6.30pm	Musikhuset
Gråsten	Wednesday 28 March	6.30pm	Ahlmannsparken
Horsens	Tuesday 20 March	6.30pm	Forum Horsens
Kolding	Wednesday 21 March	6.30pm	Kolding Teater
Nordborg	Thursday 22 March	6.30pm	Nørherredhus
Odense	Tuesday 10 April	6.30pm	Radisson SAS H.C. Andersen Hotel
Padborg	Wednesday 28 March	6.30pm	Grænsehal 3, Kruså
Svendborg	Thursday 12 April	6.30pm	Svendborg Teater
Sønderborg	Tuesday 27 March	6.30pm	Frihedshallen
Tønder	Tuesday 27 March	6.30pm	Tønderhal 2
Varde	Thursday 22 March	6.30pm	Hotel Arnbjerg
Vejle	Tuesday 20 March	6.30pm	Musikteatret
Aabenraa	Monday 19 March	6.30pm	Aabenraa Svømme- og Idrætscenter
Aarhus	Monday 26 March	6.30pm	Scandinavian Congress Center

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# Notice Convening the Annual General Meeting

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## Notice Convening the Annual General Meeting of Sydbank A/S

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**On Thursday 15 March 2012 at 3pm, Sydbank's Annual General Meeting will be held in Sønderjyllandshallen, H.P. Hanssensgade 7, 6200 Aabenraa.**

Agenda according to Article 8 of the Articles of Association:

1. Report of the Board of Directors on the Bank's activities in 2011.
2. Submission of the audited annual report for adoption.
3. Motion for the allocation of profit or cover of loss according to the adopted annual report.
4. Election of members to the Shareholders' Committee.
5. Appointment of auditor.
6. Authority to the Board of Directors to allow the Bank to acquire own shares.
7. Any other business.

The agenda, complete proposals and audited annual report will be available for inspection by the shareholders at [sydbank.com/generalmeeting](http://sydbank.com/generalmeeting) and at Sydbank's branches no later than three weeks before the General Meeting.

The Bank's share capital totals DKK 742,499,990.

As regards shareholders' voting rights, reference is made to Article 10 of the Bank's Articles of Association.

Shareholders are entitled to attend and to vote in respect of the shares of the shareholder with respect to the shares held by the shareholder on the date of registration, which is 8 March 2012.

Admission cards for the General Meeting can be ordered at any of Sydbank's branches or at [sydbank.dk/generalforsamling](http://sydbank.dk/generalforsamling) and [sydbank.com/generalmeeting](http://sydbank.com/generalmeeting) no later than Friday 9 March 2012. Admission cards will be sent by post after the date of registration.

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If a shareholder wishes to vote by postal vote or to issue an instrument of proxy to the Board of Directors or others, the necessary documents are available at the Bank's web-sites. Instruments of proxy must have been received by the Bank no later than 9 March 2012 and postal votes must have been received by the Bank no later than the day before the General Meeting, ie no later than 14 March 2012.

Aabenraa, 15 February 2012

The Board of Directors of Sydbank A/S  
Anders Thoustrup  
Chairman

# Board of Directors and Group Executive Management

## Board of Directors

Following the AGM on 10 March 2011 the Board of Directors elected its chairman Anders Thoustrup and vice-chairman Hanni Toosbuy Kasprzak.

Chairman

**Anders Thoustrup, Randers**

Born 27 February 1949.

Elected to Board of Directors in 2000.

Expiry of current term of office: 2012.

Chairman of Remuneration Committee and member of Audit Committee.

General Manager, Chairman of the Boards of Directors of B.N. Skilte Randers A/S, Randers Investeringselskab A/S, Maskinfabrikken Fornax A/S and AGLsign ApS. Member of the Boards of Directors of Fond til fordel for almenvællet i Randers og omegn, Hotel Randers A/S, Aktieselskabet af 1. August 1942, Sonja og Wilhelm Mathisens Fond, Randers Parkering & Service A/S, Somawhe Estates Ltd., Zambia, A/S Randers Maskin-, Automobil- og Tandhjulsfabrik and Vækstfonden. Member of the Board of Directors/Executive Management of Thoustrup & Overgaard A/S and Danish African Development Company A/S. Member of the Executive Management of Egevangen Invest ApS.

Vice-Chairman

**Hanni Toosbuy Kasprzak, Haderslev**

Born 21 July 1957.

Elected to Board of Directors in 2006.

Expiry of current term of office: 2014.

Member of Audit Committee.

Board Chairman, Chairman of the Boards of Directors of Ecco Sko A/S, Ecco Holding A/S, Hada Holding A/S, Ecco Asia Pacific Ltd and Ecco USA Inc. General Manager of ECCO Holding 2011 ApS. Member of the Boards of Directors of Toosbuys Fond and Dressurens venner.

**Svend Erik Busk, Aabenraa**

Born 16 January 1948.

Elected to Board of Directors in 2009.

Expiry of current term of office: 2013.

Chairman of Audit Committee – member with special qualifications.

General Manager, Chairman of the Boards of Directors of DUKAS Danmark A/S, Bjergmose A/S and Application Factory ApS. Member of the Boards of Directors of Duus A/S, ZENI Arkitekter A/S, Heinrich Callesen Holding A/S, JFJ Invest Haderslev ApS, Soenderskov ApS, Van Overbeek ApS, RC Landbrug ApS and Aabenraa Antikvitetshandel, Hans Jørgen Petersen A/S. General Manager of Slovakian Farm Invest A/S, Staudan A/S, Bravelight ApS, 2+STAU ApS and Envi-Tech ApS.

**Claus Christensen, Aalborg**

Born 6 March 1962.

Elected to Board of Directors in 2011.

Expiry of current term of office: 2015.

Managing director, Chairman of the Boards of Directors of M-Tec A/S, M-Tec Holding, Pandrup ApS, Danphone A/S and House of BI A/S. Vice-Chairman of the Boards of Directors of KPF Holding A/S, KPF Arkitekter A/S and Brøgger Arkitektfirma A/S. Member of the Boards of Directors of Inter-Data A/S, JUDEX Holding A/S, Medical Insight A/S, HC Projects A/S, Gabriel A/S, HCH A/S, Novi Innovation A/S, Judex Datasystemer A/S, Scape Technologies A/S, Gabriel Innovation A/S, Gabriel Ejendomme A/S, Gabriel Holding A/S, Strøm Hansen A/S and Novi A/S. General Manager of HC Projects A/S, CC Holding ApS, HCH A/S, B&C Holding, Aalborg ApS, Novi A/S and H C Invest ApS.

## Group Executive Management

### **Peder Damgaard, Gråsten**

Born 13 December 1956.  
Elected to Board of Directors in 2006.  
Expiry of current term of office: 2014.  
Member of Remuneration Committee.  
Principal, Gråsten Landbrugsskole.

### **Erik Bank Lauridsen, Esbjerg**

Born 31 January 1952.  
Elected to Board of Directors in 2011.  
Expiry of current term of office: 2015.  
General Manager, Chairman of the Boards of Directors of Arnbjergparken I/S, Arnbjerg Pavillonen I/S and Concern A/S. Member of the Boards of Directors of and General Manager of Holding C.L. A/S and E. Bank Lauridsen Holding A/S. Member of the Boards of Directors of Mineralvandsfabrikken FREM A/S, Kong Haralds Park 1 A/S, BC Holding af 2011 A/S, Green Force Company A/S, IAT Holding A/S, West-Coast Real Estate A/S, REKA Management A/S, West-Coast Real Estate Herlev A/S, C. Breinholt A/S, A/S TMC Transport Management Consultants Ltd, IAT A/S, CRC Holding af 2006 A/S and BPC Holding A/S. General Manager of E.B.L. III ApS and E.B.L. II ApS.

### **Sven Rosenmeyer Paulsen, Copenhagen**

Born 23 January 1947.  
Elected to Board of Directors in 2006.  
Expiry of current term of office: 2012.  
Member of Remuneration Committee.  
Supreme Court Attorney, Chairman of the Board of Directors of CS & P Wagenborg I K/S. Member of the Boards of Directors of Nordic Tankers A/S and Herning Shipping I K/S.

General Manager of Komplementarselskabet Herning Shipping I ApS.

### **Harry Max Friedrichsen, Stubbæk, Aabenraa**

Born 17 April 1951.  
Elected to Board of Directors in 1990.  
Expiry of current term of office: 2014.  
Assistant Manager, elected by the staff.

### **Steen Tophøj, Odense**

Born 2 January 1967.  
Elected to Board of Directors in 2010.  
Expiry of current term of office: 2014.  
Head of Retail Banking, elected by the staff.

### **Jan Uldahl-Jensen, Kolding**

Born 11 February 1953.  
Elected to Board of Directors in 2002.  
Expiry of current term of office: 2014.  
Assistant Manager, elected by the staff.

### **Margrethe Weber, Aabenraa**

Born 8 July 1956.  
Elected to Board of Directors in 1993.  
Expiry of current term of office: 2014.  
Bank Clerk, elected by the staff.

CEO

### **Karen Frøsig**

Born 23 September 1958.  
Group Executive Management member since 2008. CEO since 2010.  
Chairman of the Board of Directors of Ejendomsselskabet af 1. juni 1986 A/S. Vice-Chairman of Bogføringsforeningen Bankdata and Regional Bankers' Association. Member of the Boards of Directors of PRAS A/S, the Danish Bankers' Association, Totalkredit A/S, Multidata Holding A/S, Multidata A/S, BI Holding A/S and Dansk-Tysk Handelskammer.

Deputy Group Chief Executive

### **Preben Lund Hansen**

Born 21 January 1950.  
Group Executive Management member since 1992.  
Vice-Chairman of the Board of Directors of DLR Kredit A/S. Member of the Board of Directors of Ejendomsselskabet af 1. juni 1986 A/S.

Deputy Group Chief Executive

### **Finn Boel Pedersen**

Born 15 November 1958.  
Group Executive Management member since 2012.



# Regions

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## **Esbjerg Region**

Brian Knudsen  
Group Executive Vice President

### **Regional head office**

Kongensgade 62, DK-6701 Esbjerg  
Tel +45 74 37 65 00

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## **Horsens Region**

Henning Barsøe  
Group Executive Vice President

### **Regional head office**

Søndergade 18-20, DK-8700 Horsens  
Tel +45 74 37 76 00

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## **Copenhagen Region**

Henning Juhl Jessen  
Group Executive Vice President

### **Regional head office**

Kgs. Nytorv 30, DK-1050 Copenhagen K  
Tel +45 74 37 78 00

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## **Kolding Region**

Thomas Thoft Madsen  
Group Executive Vice President  
*(Takes up appointment on 1 April 2012)*

### **Regional head office**

Jernbanegade 14, DK-6000 Kolding  
Tel +45 74 37 50 00

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## **Herning Region**

Claus Brændstrup  
Group Executive Vice President

### **Regional head office**

Dalgasgade 22, DK-7400 Herning  
Tel +45 74 37 62 00

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## **Odense Region**

Claus Braad Hansen  
Group Executive Vice President  
*(Takes up appointment on 1 April 2012)*

### **Regional head office**

Vestergade 33, DK-5100 Odense C  
Tel +45 74 37 92 00

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## **Slagelse Region**

Mogens Nygaard  
Group Executive Vice President

### **Regional head office**

Nytorv 11A, DK-4200 Slagelse  
Tel +45 74 37 94 00

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## **Sønderborg Region**

Bente Holm Skylvad  
Group Executive Vice President

### **Regional head office**

Jernbanegade 35, DK-6400 Sønderborg  
Tel +45 74 37 70 00

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## **Vejle Region**

Tina Kromann Lyngsø  
Group Executive Vice President

### **Regional head office**

Kirketorvet 4, DK-7100 Vejle  
Tel +45 74 37 58 00

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## **Aabenraa Region**

Henning Danielsen Dam  
Group Executive Vice President

### **Regional head office**

Storegade 18, DK-6200 Aabenraa  
Tel +45 74 37 30 00

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## **Aarhus/Nord Region**

Torben R. Rasmussen  
Group Executive Vice President

### **Regional head office**

Store Torv 12, DK-8000 Aarhus C  
Tel +45 74 37 57 00

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## **Sydbank in Germany**

Kim Møller Nielsen  
Group Executive Vice President

### **Regional head office**

Rathausplatz 11, D-24937 Flensburg  
Tel +49 461 8602 0

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## **Sydbank (Schweiz) AG**

*(in winding-up)*  
Dr. Thomas König, CEO  
Jørn Gregersen, CIO

Poststrasse 17, CH-9000 St. Gallen  
Tel +41 71 227 81 00

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At the beginning of 2012 Sydbank changed its customer-oriented organisation from 17 to 11 Danish regions. Pages 98-99 reflect the new regions.

# Organisation

## Board of Directors

Internal Audit  
**Ole Kirkbak**

## Group Executive Management

**Karen Frøsig**

**Preben Lund Hansen**

**Finn Boel Pedersen**

## Central functions

Compliance  
**Stig Westergaard**

Corporate Banking & Finance  
**Bjarne Larsen**

Group Executive Management  
Secretariat & IT  
**Niels Møllegaard**

Wealth & Financial Advisory  
Services  
**Per Olesen**

Operations  
**Niels Skylvad**

Business Processes  
**Mogens Kristensen**

Legal Department  
**Karin Sønderbæk**

Asset Management  
**Michael Andersen**

Communications & Marketing  
**Eva Sand**

Credits  
**Per Klitt Jensen**

Retail & Corporate Clients  
**Jess Olsen**

Sydbank Markets  
**Lars Bolding**

HR  
**Else Guldager**

Accounting & Risk Management  
**Mogens Sandbæk**

## Line functions

Odense Region  
**Claus Braad Hansen\***

Horsens Region  
**Henning Barsøe**

Copenhagen Region  
**Henning Juhl Jessen**

Kolding Region  
**Thomas Thoft Madsen\***

Herning Region  
**Claus Brændstrup**

Slagelse Region  
**Mogens Nygaard**

Sønderborg Region  
**Bente Holm Skylvad**

Aabenraa Region  
**Henning Danielsen Dam**

Vejle Region  
**Tina Kromann Lyngsø**

Esbjerg Region  
**Brian Knudsen**

Aarhus/Nord Region  
**Torben R. Rasmussen**

Sydbank Agricultural Centre  
**Arne Jørgensen**

Sydbank in Germany  
**Kim Møller Nielsen**

Sydbank (Schweiz) AG  
**Thomas König**  
**Jørn Gregersen**

\* Takes up appointment  
on 1 April 2012

**Sydbank A/S**  
CVR No DK 12626509

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6200 Aabenraa  
Denmark

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# Sydbank