2012 Annual Report

Sydbank

Sydbank

Contents

Financial Review

Group Financial Highlights	4
Summary	5
Performance in 2012	7
Capital Management	16
Mission Statement and Business Goals	19
Clients and Business Areas	20
Organisation, Distribution and Staff	22
Corporate Governance and Corporate Social Responsibility	24

Financial Statements	29
Income Statement	30
Statement of Comprehensive Income	30
Balance Sheet	31
Statement of Changes in Equity	32
Cash Flow Statement	34
Notes	36

Statement and Reports

Management Statement	92
Auditors' Reports	93

Management, Organisation etc

Company Announcements and Financial Calendar	96
Shareholders' Meetings 2013	97
Notice Convening the Annual General Meeting	98
Board of Directors and Group Executive Management	100
Regions	102
Organisation	103

Group Financial Highlights

	2012	2011	Index 12/11	2010	2009	2008
Income statement (DKKm)						
Core income	4,229	4,080	104	4,150	3,999	3,952
Trading income	323	167	193	444	587	273
Total income	**4,552**	**4,247**	**107**	**4,594**	**4,586**	**4,225**
Costs, core earnings	2,482	2,463	101	2,479	2,466	2,484
Core earnings before impairment	**2,070**	**1,784**	**116**	**2,115**	**2,120**	**1,741**
Impairment of loans and advances etc	1,748	1,195	146	1,400	1,195	544
Core earnings	**322**	**589**	**55**	**715**	**925**	**1,197**
Investment portfolio earnings	397	(15)	-	227	430	(385)
Profit before non-recurring items and industry solutions	**719**	**574**	**125**	**942**	**1,355**	**812**
Non-recurring items, net	(82)	(171)	-	-	86	162
Contributions to industry solutions	13	102	13	384	443	163
Profit before tax	**624**	**301**	**207**	**558**	**998**	**811**
Tax	157	113	139	147	217	205
Profit for the year	**467**	**188**	**248**	**411**	**781**	**606**
Balance sheet highlights (DKKbn)						
Loans and advances at amortised cost	68.2	68.8	99	73.0	74.5	82.5
Loans and advances at fair value	6.1	7.7	80	10.7	12.9	13.3
Deposits and other debt	65.7	66.7	98	64.2	68.8	75.0
Bonds issued at amortised cost	4.0	7.5	53	11.2	8.6	10.1
Subordinated capital	1.4	2.1	66	2.3	3.1	4.2
Shareholders' equity	10.0	9.6	105	9.6	9.1	7.1
Total assets	152.7	153.4	100	150.8	157.8	156.0
Financial ratios per share (DKK per share of DKK 10)						
EPS Basic	6.4	2.6		5.6	11.7	9.5
EPS Diluted	6.4	2.6		5.6	11.7	9.5
Share price at year-end	99.7	90.1		151.3	133.8	64.3
Book value	137.6	131.1		129.8	124.1	112.5
Share price/book value	0.72	0.69		1.17	1.08	0.57
Average number of shares outstanding (in millions)	73.1	73.2		73.5	66.9	63.4
Proposed dividend	-	-		1.0	-	-
Other financial ratios and key figures						
Solvency ratio	15.9	16.1		15.4	15.2	14.7
Core capital ratio	15.6	15.2		14.3	13.1	10.8
Pre-tax profit as % of average shareholders' equity	6.4	3.1		6.0	12.3	11.8
Post-tax profit as % of average shareholders' equity	4.8	2.0		4.4	9.6	8.8
Costs (core earnings) as % of total income	54.5	58.0		54.0	53.8	58.8
Interest rate risk	1.8	0.9		1.5	1.0	1.4
Foreign exchange position	0.9	1.6		1.2	1.1	11.4
Foreign exchange risk	0.0	0.1		0.0	0.0	0.0
Loans and advances relative to deposits	0.9	0.9		1.0	1.0	1.0
Loans and advances relative to shareholders' equity	6.8	7.2		7.6	8.2	11.6
Growth in loans and advances for the year	(1.0)	(5.7)		(2.0)	(9.6)	10.7
Excess cover relative to statutory liquidity requirements	127.4	148.7		106.3	94.4	89.4
Total large exposures	21.6	26.3		54.4	17.2	23.8
Accumulated impairment ratio excl PCA	3.8	2.3		2.0	1.7	1.0
Impairment ratio for the year excl PCA	2.2	1.5		1.7	1.3	0.6
Number of full-time staff at year-end	2,132	2,152	99	2,284	2,369	2,479

Financial ratio definitions on page 76.

Summary

The Sydbank Group has generated a profit before tax for 2012 of DKK 624m, equalling a return of 6.4% on average shareholders' equity. The result is considered to be satisfactory in light of the new tightened impairment rules and weak growth in the economy. As a consequence of considerable impairment charges pre-tax profit is below expectations at the beginning of 2012.

On 2 November 2012 Sydbank took over all activities from Tønder Bank, including employees, clients, branches and all assets and liabilities apart from hybrid capital and supplementary capital.

2012

- 3.7% rise in core income.
- DKK 156m growth in trading income to DKK 323m.
- Unchanged level of costs (core earnings) for the fifth consecutive year.
- Rise in impairment charges for loans and advances of DKK 553m to DKK 1,748m.
- Investment portfolio earnings of DKK 397m.
- Non-recurring items of minus DKK 82m.
- Contributions to industry solutions of DKK 13m.
- 1% reduction in bank loans and advances to DKK 68.2bn.
- 1.6% decline in deposits to DKK 65.7bn.
- Increase in core capital ratio to 15.6%.
- Good liquidity.
- Substantial influx of clients, including via the takeover of Tønder Bank clients.
- Distribution of dividend to shareholders for 2012 will not be recommended.

Q4 2012

- Profit before tax of DKK 60m.

In terms of the expectations announced during 2012, core income, costs and impairment charges for loans and advances are in line with expectations whereas trading income is significantly higher.

Core earnings before impairment charges represent DKK 2,070m compared with DKK 1,784m in 2011. The increase of DKK 286m is ascribable to a rise in core income of DKK 149m, growth in trading income of DKK 156m and an increase in costs (core earnings) of DKK 19m.

Summary income statement

Group (DKKm)	2012	2011
Core income	4,229	4,080
Trading income	323	167
Total income	**4,552**	**4,247**
Costs, core earnings	2,482	2,463
Core earnings before impairment	**2,070**	**1,784**
Impairment of loans and advances etc	1,748	1,195
Core earnings	**322**	**589**
Investment portfolio earnings	397	(15)
Profit before non-recurring items and industry solutions	**719**	**574**
Non-recurring items, net	(82)	(171)
Contributions to industry solutions	13	102
Profit before tax	**624**	**301**
Tax	157	113
Profit for the year	**467**	**188**

Impairment charges for loans and advances etc represent DKK 1,748m (2011: DKK 1,195m). The increase is a result of the Group's implementation of the Danish FSA's new tightened impairment rules, especially as regards bank loans and advances secured on real property. The new rules are more cautious than the previous rules.

As a consequence of the new tightened impairment rules the Group has recorded considerable additional impairment charges for bank loans and advances to corporate clients secured on real property and reserved substantial amounts in the individual solvency need as regards bank loans and advances to retail clients secured on real property in 1H 2012.

The Bank has subsequently reviewed its portfolio of bank loans and advances to retail clients. In quite a few cases the financial situation of clients is very tight. It is estimated that the disposable amount of these clients will be insufficient if their loans are converted from floating-rate, interest-only loans to fixed-rate loans with repayment.

Consequently further impairment charges for bank loans and advances to retail clients of around DKK 325m were recorded in Q4 2012.

Summary

The Group has generated very satisfactory investment portfolio earnings of DKK 397m (2011: minus DKK 15m).

Profit before non-recurring items and industry solutions represents DKK 719m (2011: DKK 574m).

Non-recurring items, net, total minus DKK 82m and mainly relate to integration costs in connection with the takeover of activities from Tønder Bank. Contributions to industry solutions represent DKK 13m.

Profit before tax amounts to DKK 624m (2011: DKK 301m). Less a calculated tax charge of DKK 157m (2011: DKK 113m), the Group's profit stands at DKK 467m compared with DKK 188m in 2011.

Return on shareholders' equity before and after tax constitutes 6.4% and 4.8%, respectively, against 3.1% and 2.0% in 2011. Earnings per share has increased from DKK 2.6 to DKK 6.4.

During the year shareholders' equity grew by DKK 438m to DKK 10,033m.

Since year-end 2011 risk-weighted assets have increased by DKK 0.5bn to DKK 71.2bn. The development consists of an increase in credit risk of DKK 1.6bn – which is exclusively attributable to the takeover of risk-weighted assets from Tønder Bank – as well as an increase in operational risk of DKK 0.3bn and a decrease in market risk of DKK 1.4bn.

At year-end 2012 the solvency ratio stands at 15.9%, of which 15.6 percentage points are ascribable to core capital, compared with 16.1% and 15.2%, respectively, at end-2011. The core capital ratio excluding hybrid core capital has increased from 13.4% to 13.8%.

The Group's internal capital target continues to represent DKK 9,900m, equal to 13.9% of risk-weighted assets (end-2011: 14.0%).

The Group's liquidity is good and constitutes 22.7% at year-end 2012 measured under the 10% statutory requirement. 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.

Distribution of dividend to shareholders for 2012 will not be recommended.

In 2012 Sydbank saw a substantial influx of retail clients as well as corporate clients, partly due to acquisitions. Consequently the foundation for future earnings has been enhanced.

The Group's expectations for 2013:

- Slight decline in core income – primarily as a result of projected increased competition for the best clients and secondarily as a result of an unchanged or slightly decreasing lending volume.
- Unchanged or slight decline in trading income – however highly dependent on financial market developments.
- Modest growth in costs.
- Significantly lower impairment charges for loans and advances albeit still at a high level.

Performance in 2012

Core income

Total core income has increased by DKK 149m to DKK 4,229m.

Core income

Group (DKKm)	2012	2011
Interest margins etc	2,768	2,799
Mortgage credit	269	188
Payment services	170	156
Remortgaging and loan fees	113	86
Commission and brokerage	308	354
Commission etc investment funds and pooled pension plans	288	234
Asset management	163	143
Custody account fees	70	69
Other operating income	80	51
Total	**4,229**	**4,080**

During the year bank loans and advances have decreased by 1% and deposits by 2%. The actual reduction in bank loans and advances is a few per cent higher when adjusted for the influx of bank loans and advances from Tønder Bank in November 2012. In spite of a positive contribution from the interest rate increases implemented since August 2011, this development has caused a reduction in net interest of DKK 31m.

Net income from the cooperation with Totalkredit represents DKK 206m (2011: DKK 150m) after a set-off of loss of DKK 18m (2011: DKK 20m). The cooperation with DLR Kredit has generated an income of DKK 59m (2011: DKK 34m). Total mortgage credit income amounts to DKK 269m (2011: DKK 188m).

The rise in mortgage credit income as well as income from remortgaging and loan fees is ascribable to growing remortgaging activity and increased prices compared to 2011.

Foreign exchange and securities trading by retail clients has declined partly due to an increased use of management agreements. This change in customer behaviour has contributed to rising income from commission etc in relation to investment funds and pooled pension plans.

Consequently commission and brokerage income has declined by DKK 46m compared with 2011. Income from commission etc concerning investment funds and pooled pension plans has increased by DKK 54m compared with 2011.

The remaining income components have increased by a total of DKK 64m, equal to 15% compared with 2011.

Trading income

Compared with 2011 trading income has climbed by DKK 156m to DKK 323m and is composed as follows in terms of business units:

Trading income

Group (DKKm)	2012	2011
Fixed Income	197	129
Equities	56	43
Money Market and Foreign Exchange	70	(5)
Total	**323**	**167**

As a result Sydbank Markets has seen a very positive development in 2012 with a near-doubling of trading income compared with 2011.

Fixed Income has recordet a rise in performance of 53% as a result of increased remortgaging activity and considerable corporate bond trading. The positive trend in trading with institutional clients has continued with a rise in turnover of 30%.

Equities has delivered a sharp increase in income of 30% in a market where turnover is declining. The impressive performance is a result of excellent risk handling.

Money Market and Foreign Exchange has turned a small negative income in 2011 into a significant positive income in 2012. The level of trading activity with clients is still moderate. In 2H the department saw increased interest in hedging.

Costs and depreciation

The Group's total costs and depreciation recorded DKK 2,571m against DKK 2,687m in 2011. In 2012 DKK 7m can be attributed to investment portfolio earnings.

Costs included in non-recurring items constitute DKK 69m, comprising DKK 78m relating to the integration of Tønder Bank and DKK 9m concerning reversed costs in connection with the winding-up of the subsidiary bank in Switzerland. Costs in connection with the integration of Tønder Bank include an extraordinary payment of DKK 30m in 2012 to clients who had invested in hybrid core capital offered by Tønder Bank in September 2012 as well as salaries of DKK 24m to dismissed employees.

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

Costs and depreciation

Group (DKKm)	2012	2011
Staff costs	1,407	1,527
Other administrative expenses	973	936
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment	108	122
Other operating expenses	83	102
Total	**2,571**	**2,687**
Distributed as follows:		
Costs, core earnings	2,482	2,463
Costs, investment portfolio earnings	7	10
Costs, non-recurring items	69	114
Costs, industry solutions	13	100

Costs (core earnings) as a percentage of total income represent 54.5% (2011: 58.0%).

At year-end 2012 the Group's staff numbered 2,132 (full-time equivalent), including 56 employees taken over from Tønder Bank, compared with 2,152 in 2011.

10 branches have been taken over from Tønder Bank. In connection with the integration eight branches have been closed. In addition nine small branches were closed during 2012 as a consequence of the Bank's ongoing adjustment of its service concept. At year-end 2012 the number of branches totals 95 in Denmark and unchanged five in Germany.

Furthermore net costs to the credit institution department of the Deposit Guarantee Fund represent DKK 69m (2011: DKK 0).

Core earnings before impairment of loans and advances
Core earnings before impairment of loans and advances have increased by DKK 286m and represent DKK 2,070m (2011: DKK 1,784m).

Impairment of loans and advances etc
Impairment charges for loans and advances represent DKK 1,748m compared with DKK 1,195m in 2011. The increase is a result of the Group's implementation of the Danish FSA's new tightened impairment rules, especially as regards bank loans and advances secured on real property. The new rules are more cautious than the previous rules.

As a consequence the Group recorded considerable additional impairment charges for bank loans and advances to corporate clients secured on real property and reserved substantial amounts in the individual solvency need as regards bank loans and advances to retail clients secured on real property in 1H 2012.

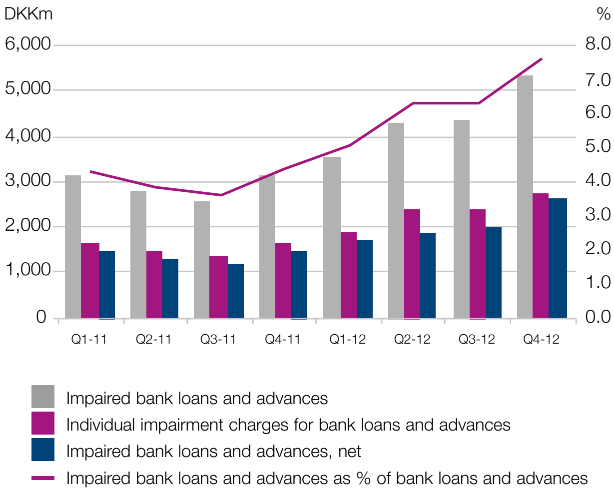
The Bank has subsequently reviewed its portfolio of bank loans and advances to retail clients. In quite a few cases the financial situation of clients is very tight. It is estimated that the disposable amount of these clients will be insufficient if their loans are converted from floating-rate, interest-only loans to fixed-rate loans with repayment.

Consequently further impairment charges for bank loans and advances to retail clients of around DKK 325m were recorded in Q4 2012.

At year-end 2012 the impairment ratio for the year represents 2.40% (2011: 1.70%) relative to bank loans and advances and 2.19% (2011: 1.52%) relative to bank loans and advances and guarantees. At year-end 2012 accumulated impairment and provisions amount to DKK 3,018m (2011: DKK 1,836m).

The impairment charges for the year for bank loans and advances of DKK 1,748m comprise DKK 469m regarding real property, DKK 256m regarding finance and insurance, DKK 574m regarding other corporate clients and DKK 449m regarding retail clients. Reference is made to the separate publication "Credit Risk 2012" for further elaboration.

Individually impaired bank loans and advances



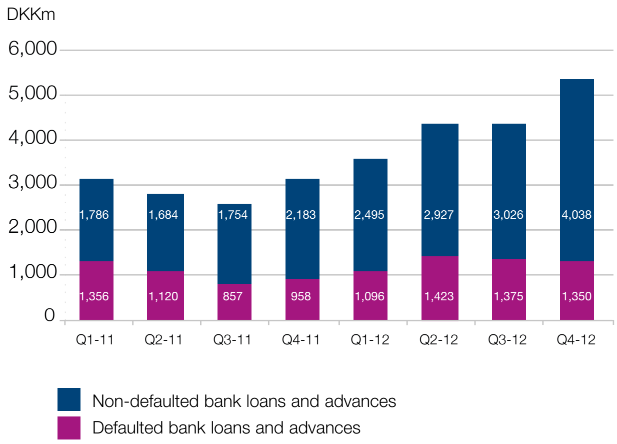
Compared with 2011 impaired bank loans and advances before impairment charges have increased by DKK 2,247m to DKK 5,388m, equal to 72%. DKK 1,855m of the increase concerns non-defaulted bank loans and advances and DKK 392m concerns defaulted bank loans and advances. During the same period individually impaired bank loans and advances after impairment charges have increased by DKK 1,122m, equal to 75%. Impairment charges for bank loans and advances subject to individual impairment represent 51.4% (2011: 52.3%).

Individually impaired bank loans and advances

Group (DKKm)	2012	2011
Non-defaulted bank loans and advances	4,038	2,183
Defaulted bank loans and advances	1,350	958
Impaired bank loans and advances	5,388	3,141
Impairment charges for bank loans and advances subject to individual impairment	2,769	1,644
Impaired bank loans and advances after impairment charges	2,619	1,497
Impaired bank loans and advances as % of bank loans and advances before impairment charges	7.6	4.4
Impairment charges as % of bank loans and advances before impairment charges	3.9	2.3
Impaired as % of impaired bank loans and advances	51.4	52.3
Impairment charges as % of defaulted bank loans and advances	205.1	171.6

The following chart shows the quarterly developments in impaired bank loans and advances broken down into defaulted bank loans and advances and non-defaulted bank loans and advances in 2011 and 2012. The quarterly development in defaulted bank loans and advances are relatively constant whereas the corresponding development in non-defaulted bank loans and advances show a rising trend in the most recent five quarters.

Breakdown of impaired bank loans and advances



Core earnings

Core earnings have decreased by 45% and represent DKK 322m compared with DKK 589m in 2011.

Investment portfolio earnings

Less funding charges and less related costs of DKK 7m, investment portfolio earnings constitute DKK 397m compared to minus DKK 15m in 2011 and can be specified as follows:

Investment portfolio earnings

Group (DKKm)	2012	2011
Position-taking	255	(54)
Liquidity generation and liquidity reserves	97	21
Mandates (CDO)	54	32
Winding-up portfolio	(10)	(12)
Strategic shares	8	8
Costs	(7)	(10)
Total	**397**	**(15)**

Together the Group's position-taking and liquidity handling recorded earnings of DKK 352m in 2012 compared to minus DKK 33m in 2011. The result has almost exclusively been achieved via positions in the Danish mortgage market hedged by various derivatives. During the period Treasury has undertaken very active risk handling.

Performance in 2012

Margin expenses as regards the Group's senior issues are included under liquidity generation and liquidity reserves and represent DKK 91m in 2012 compared to DKK 77m in 2011. After the redemption of one of the senior issues in September 2012 expenses have been reduced significantly and amount to DKK 12m in Q4 2012.

In view of the fact that the bond portfolio must be eligible for inclusion in the calculation of the liquidity according to the forthcoming rules, the Group reallocated large parts of its bond portfolio during 2012. At the same time a considerable part of small and illiquid bond portfolios have been sold so that the Group's position is far more transparent and liquid today. This process will continue in 2013.

Just as in 2011 the CDO portfolio has contributed positively to investment portfolio earnings, both via coupon payments and capital gains. During 2012 the CDO portfolio was reduced by DKK 35m to DKK 80m at year-end. The remaining portfolio is expected to be sold in 2013.

Profit before non-recurring items and industry solutions
Profit before non-recurring items and industry solutions has increased by DKK 145m and represents DKK 719m (2011: DKK 574m).

Non-recurring items, net
Non-recurring items, net, total minus DKK 82m (2011: minus DKK 171m).

Non-recurring items

Group (DKKm)	2012
Integration costs, Tønder Bank	78
Reversed costs, Sydbank (Schweiz) AG	(9)
Non-recurring costs	69
Interest expense, Tønder Bank	2
Reversed sales income etc, Sydbank (Schweiz) AG	11
Total	**82**

Contributions to industry solutions
In 2012 an adjustment of DKK 13m was made regarding the industry solution eg relating to Fjordbank Mors. Contributions totalled DKK 102m in 2011.

The Group's total costs relating to the Deposit Guarantee Fund and the Private Contingency Association amount to DKK 1.2bn since autumn 2008.

Profit for the year
Profit before tax represents DKK 624m (2011: DKK 301m). Less a calculated tax charge of DKK 157m (2011: DKK 113m), the Group's profit stands at DKK 467m compared with DKK 188m in 2011.

Return
Return on shareholders' equity before and after tax constitutes 6.4% and 4.8%, respectively, against 3.1% and 2.0% in 2011. Earnings per share has increased from DKK 2.6 to DKK 6.4.

Sydbank – the parent
The Bank's total income before costs and impairment charges for loans and advances represents DKK 4,944m (2011: DKK 4,072m). The income includes a profit on holdings in associates and subsidiaries of DKK 4m (2011: loss of DKK 120m), comprising a loss on subsidiaries after tax of DKK 7m (2011: loss of DKK 43m).

Total costs including non-recurring costs and costs to the Deposit Guarantee Fund of DKK 92m (2011: DKK 214m) constitute DKK 2,576m (2011: DKK 2,581m). An impairment charge of DKK 1,745m (2011: DKK 1,195m) concerning bank loans and advances has been recorded.

Profit before tax amounts to DKK 623m (2011: DKK 296m).

Subsidiaries
The subsidiary bank, Sydbank (Schweiz) AG, which has entered into solvent liquidation and which is expected to be finally wound up on 1 March 2013, recorded a loss after tax of DKK 6m (2011: loss of DKK 30m).

Ejendomsselskabet recorded a loss after tax of DKK 1m (2011: loss of DKK 13m).

As part of the Tønder Bank transaction Sydbank took over the subsidiary of Tønder Bank, TB Leasing ApS. The company posted a loss after tax for 2012 of DKK 16,000. The company's equity amounts to DKK 1m at end-2012 and the company is expected to be wound up by solvent liquidation before the end of Q1 2013.

Profit for the period

Group (DKKm)	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Core income	1,067	1,021	1,070	1,071	1,060
Trading income	71	84	59	109	49
Total income	**1,138**	**1,105**	**1,129**	**1,180**	**1,109**
Costs, core earnings	575	605	652	650	573
Core earnings before impairment	**563**	**500**	**477**	**530**	**536**
Impairment of loans and advances etc	550	223	678	297	460
Core earnings	**13**	**277**	**(201)**	**233**	**76**
Investment portfolio earnings	132	139	5	121	10
Profit before non-recurring items and industry solutions	**145**	**416**	**(196)**	**354**	**86**
Non-recurring items, net	(82)	-	-	-	(25)
Contributions to industry solutions	3	5	(9)	14	(34)
Profit before tax	**60**	**411**	**(187)**	**340**	**95**
Tax	16	103	(47)	85	43
Profit for the period	**44**	**308**	**(140)**	**255**	**52**

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

Q4 2012

Profit before tax for Q4 stands at DKK 60m, including profit on the activities taken over from Tønder Bank since 2 November 2012. Compared with Q3 2011 profit before tax reflects:

- A rise in income from interest margins of DKK 46m.
- A decline in trading income of DKK 13m.
- A fall in costs of DKK 30m.
- An increase in impairment charges for loans and advances of DKK 327m.
- Investment portfolio earnings of DKK 132m (Q3: DKK 139m).
- Net non-recurring items of minus DKK 82m (Q3: DKK 0m).
- A reduction in contributions to industry solutions of DKK 2m.

Profit for the period amounts to DKK 44m in Q4.

Performance in 2012

Balance sheet

The Group's total assets made up DKK 152.7bn at year-end 2012 against DKK 153.4bn at year-end 2011.

Assets

Group – year-end (DKKbn)	2012	2011
Amounts owed by credit institutions etc	8.4	9.5
Loans and advances at fair value (reverse transactions)	6.1	7.7
Loans and advances at amortised cost (bank loans and advances)	68.2	68.8
Securities and holdings etc	39.6	40.0
Assets related to pooled plans	9.8	8.6
Other assets etc	20.6	18.8
Total	**152.7**	**153.4**

The Group's bank loans and advances total DKK 68.2bn after taking over bank loans and advances from Tønder Bank of almost DKK 1.5bn. Compared to 2011 this is a reduction of 1.0%, which consists of a decline in corporate lending and a slight increase in retail lending.

Intangible assets include the value of customer relations acquired in connection with the takeover of the activities from Tønder Bank which amounted to DKK 57m at the date of acquisition. The value of these customer relations is amortised over 10 years.

Shareholders' equity and liabilities

Group – year-end (DKKbn)	2012	2011
Amounts owed to credit institutions etc	38.6	38.8
Deposits and other debt	65.7	66.7
Deposits in pooled plans	9.8	8.6
Bonds issued	4.0	7.5
Other liabilities etc	23.0	19.8
Provisions	0.2	0.3
Subordinated capital	1.4	2.1
Shareholders' equity	10.0	9.6
Total	**152.7**	**153.4**

The Group's deposits make up DKK 65.7bn after taking over deposits of approximately DKK 1.9bn from Tønder Bank. This is a reduction of 1.6% compared to 2011. The volume of deposits has been strengthened via an increase in demand deposits of DKK 8.8bn and a reduction in time deposits of DKK 10.1bn.

Subordinated capital

During the year the Group prepaid subordinated loan capital of EUR 100m, after which subordinated capital consists exclusively of hybrid Tier 1 capital of DKK 1,387m (2011: DKK 2,125m).

Share capital

The share capital is unchanged at DKK 742,499,990 at year-end 2012.

The Sydbank share

Number	2012	2011
Average number of shares outstanding	73,055,617	73,246,496
Number of shares outstanding at year-end	72,913,955	73,192,644
Number of shares issued at year-end	74,249,999	74,249,999

The number of shares outstanding decreased from 73,192,644 (98.58%) at the end of 2011 to 72,913,955 (98.20%) at the end of 2012. The Sydbank share's book value represents 137.6 (2011: 131.1). At year-end 2012 the closing price of the Sydbank share stood at 99.7 and the share price/book value at 0.72.

Shareholders' equity

At year-end 2012 shareholders' equity constitutes DKK 10,033m – an increase of DKK 438m since 1 January. The change comprises additions from profit for the year of DKK 467m and the adjustment of revaluation reserves of DKK 2m as well as disposals deriving from the net purchase of own shares of DKK 24m and the payment of DKK 7m to the sponsorship fund "Sydbank Fonden".

Capital

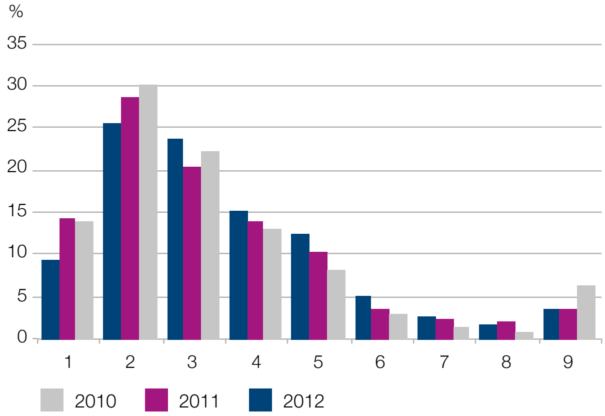
Risk-weighted assets have increased by DKK 0.5bn to DKK 71.2bn since year-end 2011. The development consists of an increase in credit risk of DKK 1.6bn – which is attributable to risk-weighted assets taken over from Tønder Bank – as well as an increase in operational risk of DKK 0.3bn and a decrease in market risk of DKK 1.4bn.

Risk-weighted assets

Group – year-end (DKKbn)	2012	2011
Credit risk	53.9	52.3
Market risk	8.9	10.3
Operational risk	8.4	8.1
Total	**71.2**	**70.7**

The development in the breakdown by rating category from 2010 to 2012 appears below.

Gross exposure 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 three best rating categories. The tightened impairment rules have generated a rise in the number of clients with objective evidence of impairment (OEI). The Group assigns all exposures to clients with OEI to rating category 9 and consequently exposures in this rating category have risen. Migration has predominantly taken place from rating categories 5-8.

At year-end 2012 the Group changed its PD scale as regards the assignment of retail clients to rating categories. The breakdown by rating for 2010 and 2011 has been adjusted in accordance with this scale.

Reference is made to the note on credit risk on page 83 and the separate publication "Credit Risk 2012".

The capital structure was strengthened during the year and core capital currently accounts for 98% of the total capital base against 94% at the beginning of the year.

Solvency

Group (DKKm)	2012	2011
Risk-weighted assets	71,170	70,659
Core capital (excl hybrid core capital)	9,854	9,476
Core capital	11,080	10,706
Capital base	11,305	11,392
Core capital ratio (excl hybrid core capital)	13.8	13.4
Core capital ratio	15.6	15.2
Solvency ratio	15.9	16.1

At year-end 2012 the solvency ratio stands at 15.9%, including a core capital ratio of 15.6 percentage points, compared to 16.1% and 15.2%, respectively, at year-end 2011. The core capital ratio excluding hybrid core capital has increased from 13.4% to 13.8%.

At 31 December 2012 the individual solvency need constitutes 8.9% (2011: 9.4%).

The Group's internal capital target continues to represent DKK 9,900m, equal to 13.9% of risk-weighted assets (end-2011: 14.0%).

Reference is made to "Capital Management" on page 16.

In Q3 2012 Sydbank and other major banks from EU countries participated in the EU-wide capital test conducted at the request of the European Banking Authority (EBA). The purpose of the capital test was to establish the European banking sector's potential need for recapitalisation.

In order to pass the test banks had to post a core Tier 1 capital ratio of a minimum of 9% fixed by the EBA. According to the test Sydbank's core Tier 1 capital ratio represented 12.8% at 30 June 2012. Sydbank was therefore 3.8 percentage points above the EBA's minimum requirement.

Performance in 2012

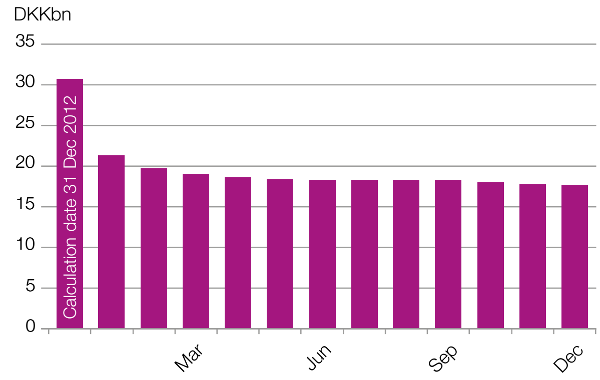
Solvency of the parent
At end-2012 the solvency ratio represented 15.8% of which 15.5 percentage points are attributable to core capital.

Interest rate risk etc
The Group's interest rate risk comprises minus DKK 198m at 31 December 2012 (2011: minus DKK 95m). 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 22.7% at year-end 2012.

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.

Moody's 12-month liquidity curve



In February 2012 the Group issued a 2-yr senior loan of EUR 0.5bn and in 2012 the Group redeemed senior loans of EUR 1.0bn.

During 1H 2013 the Group will decide whether to issue senior loans with longer maturities. The considerations will be based on the Group's satisfactory liquidity situation, developments in loans and advances and deposits as well as its expectations for the coming period.

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 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.

Rating
At end-May 2012 Moody's lowered Sydbank's ratings as follows:
- Long-term debt: Baa1
- Short-term debt: P-2
- Bank financial strength: C-

with stable outlook.

Shareholders
In 2012 the Sydbank share yielded a return of 11% (2011: minus 40%) as a result of the share price increase 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 "Sydbank Fonden".

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

The Group's calculations of the benchmarks of the Supervisory Diamond at year-end 2012 are shown below:

Supervisory Diamond benchmarks

Group	2012	2011
Sum of large exposures < 125%	22%	26%
Funding ratio < 1	0.84	0.88
Commercial property exposure < 25%	12%	11%
Growth in loans and advances < 20%	(1%)	(6%)
Excess liquidity cover relative to 10% requirement > 50%	127%	149%

As at 31 December 2012 the Group as well as the parent comply with all the benchmarks of the Supervisory Diamond.

Regulation

The awaited amendment of the Capital Requirements Directive (CRD IV), which will implement Basel III, has not yet been adopted by the EU.

In the beginning of 2013 the Basel III requirements as regards liquidity were reassessed and revised significantly. The size of the necessary liquidity has been reduced via lower requirements as to the run-off rates of certain types of liabilities, and the range of assets eligible for inclusion in Level 2 assets has been expanded to include eg rated corporate bonds, for instance Junior Covered Bonds. Moreover transitional rules have been introduced which require 60% compliance in 2015. Full implementation will take place in 2019. Overall the requirements have been relaxed considerably.

Basel III still divides liquid assets into Level 1 assets and Level 2 assets with a Level 2 cap of 40%. According to the latest amended version Danish mortgage products may only be includet in Level 2 assets, which will constitute a problem for the Danish mortgage model.

The most recent proposals for CRD IV do not include requirements for a division of liquid assets and consequently there are no requirements as regards the maximum share of Danish mortgage products. The latest proposal was presented before the amended Basel III requirements were published but expectations are that Danish mortgage products will be accommodated.

CRD IV will include new regulatory solvency requirements to risk-weighted assets (RWA) and capital alike. It is projected that the new requirements to RWA will affect the calculation of the Group's solvency whereas the new capital requirements will not have any significant impact on the calculation. However the uncertainty surrounding the coming rules is so great that it is impossible to state conclusively what the effects will be. This uncertainty has been provided for in the Group's capital planning.

Outlook for 2013

The outlook for economic growth in 2013 remains very uncertain and increasingly suggests zero growth or perhaps even continued negative growth. The Danish economy is not expected to grow again before 2014. Moreover Denmark will continue to be affected by the debt crisis in Southern Europe, which is reflected in lacking confidence among businesses and consumers alike.

Core income is expected to decline slightly – primarily as a result of projected increased competition for the best clients and secondarily as a result of an unchanged or slightly decreasing lending volume.

Trading income is expected to remain unchanged or decline slightly relative to income for 2012 but is highly dependent on financial market developments.

In spite of expectations of reduced IT costs and a continued reduction in staff, costs are expected to rise slightly as a result of the takeover of activities from Tønder Bank, growing contributions to the Deposit Guarantee Fund and increasing payroll tax.

The continued bleak prospects for the Danish and international economy will involve a continued large need for impairment charges as regards the Group's lending portfolio. The Group's impairment level for 2012 has been influenced by the Danish FSA's new tightened impairment rules, for instance as regards bank loans and advances secured on real property. Given the current economic prospects the Group projects considerably lower impairment charges in 2013 albeit still at a high level.

Investment portfolio earnings will depend on financial market developments. At the beginning of 2013 the Bank's position-taking is characterised by positions in Danish mortgage bonds and a limited negative interest rate risk.

The Group's tax is expected to constitute 25%.

Capital Management

The Group's capital management ensures efficient deployment of capital relative to the Group's overall capital targets. The Group's risk profile is determined on the basis of the capital targets which ensure first and foremost that there is 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. To determine the Group's capital requirements, the Group applies the advanced IRB approach as regards retail clients and the foundation IRB approach as regards corporate clients.

The Group applies the Standardised Approach to credit risk in relation to exposures to governments and credit institutions.

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 Danish executive order on capital adequacy and the adequate capital base is the Group's own determination of the 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.

The risk committees of the Group's risk organisation 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 risks. The committees ensure that the Bank's business units proactively carry out their operations and analyse identified risks. The Group's Chief Risk Officer is a member of all risk committees, for further details see Risk Management on page 82.

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

The determination of the adequate capital base incorporates the Danish FSA approach (8+). The proposal for the determination of the adequate capital base is prepared by Accounting & Risk Management and is presented to the Group Executive Management. The Board of Directors discusses and determines the adequate capital base on the basis of this proposal which includes a calculation in terms of Pillar I (solvency), Pillar II (internal) and 8+.

The Pillar I calculation complies with the capital adequacy rules.

The Pillar II calculation as regards credit risk is based on an economic capital model and a buffer is added to allow for uncertainty as well as additional credits risks, particularly in respect of weak exposures and industries with special challenges.

The models used to calculate Pillar II as regards market risk and operational risk are unchanged and are based on the models used to calculate Pillar I. The models have been reviewed to determine whether the Group's risks are adequately covered or whether the calculation must be adjusted. The models used to calculate Pillar I are described in detail in note 3.

The 8+ calculation complies with the Danish guidance on the adequate capital base and solvency need of credit institutions.

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

Adequate capital base/solvency need

	DKKm	% of RWA
Credit risk	4,573	6.4
Market risk	900	1.3
Operational risk	670	0.9
Other circumstances	207	0.3
Adequate capital base/solvency need	6,350	8.9

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

	DKKm	% of RWA
Adequate capital base/solvency need	6,350	8.9
Buffer capital	3,550	5.0
Internal capital target	9,900	13.9
Free capital	1,405	2.0
Capital base	11,305	15.9

The difference between the adequate capital base and the internal capital target – the buffer capital – represents DKK 3.6bn or 35.9% 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 1.4bn at year-end 2012.

The total capital buffer represents DKK 5.0bn, equal to 78.0% of 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 2012:

Capital base

	DKKm	%
Core capital (excl hybrid core capital)	9,854	87.2
Hybrid core capital after deductions	1,226	10.8
Supplementary capital after deductions	225	2.0
Capital base	11,305	100.0

The Group's capital targets will be reviewed when the requirements of SIFI institutions as well as the CRD IV requirements have been determined.

Capital Management

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 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 2012 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 2013 and 2014. Unemployment will rise slightly in 2013 and 2014.

Global crisis which reflects that the Danish economy will be hit by two blows. A domestic blow where confidence among Danish consumers and businesses alike will weaken significantly. A foreign blow where the international economy will be hit by a new economic recession. This 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 2013 and 2014 and house prices will drop sharply during the same period.

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

Moderate recession which reflects that confidence among consumers and businesses alike will remain low in Denmark as well as abroad, however without any further negative blows. The average bond yield will remain very low throughout the period and unemployment will increase considerably. GDP developments will be negative in 2013 and developments will be flat in 2014. House prices will decline during the same period.

Deflation which reflects that the crisis in Denmark and the euro area will lead to deflation and the overall level of prices will drop. 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 global crisis scenario but the decline in house prices will be slightly larger. Unemployment is also expected to develop significantly worse than in the global crisis 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 are included in the assessment of the adequate capital base. The stress tests show that the Group is adequately capitalised.

Throughout 2012 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 become a nationwide player through mergers, acquisitions and branch openings.

Today 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.

Business goals

Sydbank's business model can be outlined as follows:

- Sydbank will remain an independent bank operating on its own terms.
- Sydbank is an advisory bank that wishes to be perceived as a competent, dynamic and obliging bank.
- Sydbank wishes its image to reflect that the Bank treats its clients with respect.
- Sydbank aims to do business with its clients on the basis of long-term customer relationships.

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 four 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 continues to expand 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.

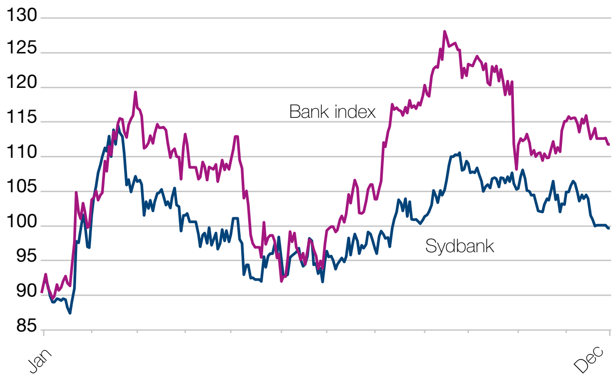
Overall financial goals

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 one-off events.

The Sydbank share

At year-end 2012 Sydbank's shareholders numbered 143,000. The share price (DKK 10 each) stood at 99.7 at year-end 2012 against 90.1 at year-end 2011.

Share price developments 2012



1 January 2012 = index 90.1, ie Sydbank's share price

Clients and Business Areas

Clients
Sydbank continues to see a very good influx of new clients. At year-end 2012 the Bank's clients numbered 426,500, including 37,000 corporate clients. This trend is satisfactory and reflects Sydbank's ability to attract and retain clients – despite a sense of economic crisis and a highly competitive market.

Business areas
Sydbank offers a competitive product range, an extensive payment card programme and supply channels that 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. 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.

Investments
Sydbank has targeted the business area investments for quite a few years combining high professional expertise and geographical proximity to the client. With 11 Danish investment centres – as well as 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.

Private banking
Sydbank has successfully offered its private banking concept to the Bank's retail clients for a number of years. A personal adviser and a competent team of experts provide high quality advisory services based on private banking clients' individual needs for eg wealth, investment and debt advisory services.

Outside Denmark Sydbank's Private Banking International department in Flensburg, Germany, offers wealth management and investment solutions to Danish clients residing abroad as well as foreign clients.

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 involve emerging market shares and bonds, which is an area where the Bank has built a strong expertise over the years. Overall, asset management is a growth area. Nearly all asset classes posted gains in 2012 and combined with a moderate level of new sales this has increased assets under management by about 18% at year-end 2012 compared with a year ago.

Asset management

DKKbn	2012	2011
Pooled pension plans	10	8
Portfolio management mandates	11	9
Management agreements	3	3
Investment funds and hedge funds	48	41
Total	**72**	**61**

Custody account volume

DKKbn	2012	2011
Retail and corporate clients	103	93
Pooled pension plans	9	8
Financial institutions	5	6
Investment funds and hedge funds	43	37
Total	**160**	**144**

Custody account volume – retail and corporate clients

DKKbn	2012	2011
Danish bonds	24	24
Foreign bonds	6	5
Danish shares	21	18
Foreign shares	8	7
Investment funds and hedge funds	44	39
Total	**103**	**93**

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 offered payments and accounts in Chinese yuan (CNY) just as the Bank's clients can now receive local banking services in approximately 60 Chinese bank branches.

Sydbank 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. Moreover Sydbank provides leasing of for instance machinery and cars to corporate clients via Sydleasing.

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.

Advice and settlement in connection with documentary credit, debt collection and guarantee transactions as well as export finance are fields of special expertise at Sydbank. As a result the Bank's corporate clients have access to efficient international commercial banking services.

A new offer to corporate clients is Sydbank's business report which is a dialogue tool that provides an overview and gives optimisation and development proposals as regards for instance financing, liquidity, working capital and debt ratios.

Moreover 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 how satisfied enterprises with 10-499 employees are with their bank. The 2012 survey shows that Sydbank is again number one among Denmark's four largest corporate banks. Sydbank's client satisfaction is increasing and on a scale from 1 to 10 Sydbank achieved a top score of 8.3 on Aalund's satisfaction barometer. 9 in 10 corporate clients would recommend Sydbank to others.

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. During 2012 the branches in Hamburg and Berlin relocated to new premises.

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

Organisation, Distribution and Staff

Contact between clients and Sydbank takes place via the branches in the Bank's 10 Danish regions, its branches in Germany, the expert functions at the head office, increasingly via Sydbank NetBank and MobilBank and most recently via the Bank's remote service concept at Customer Services.

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 95 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 e-banking solutions provided by Sydbank to its clients are further developed on an ongoing basis. Sydbank MobilBank was launched as a supplement to Sydbank NetBank in 2011 and enables clients to pay bills, trade securities and much more via their iPhones and Android phones. The use of NetBank and MobilBank is increasing sharply and at year-end 2012 users numbered approximately 170,000 and 60,000, respectively.

The e-banking solutions provided by Sydbank to its clients were further enhanced also in 2012. In January Sydbank and the banking sector launched Mobilpenge, which allows clients with a Mobilpenge agreement to make purchases of up to DKK 1,500 per day via SMS at merchants and service providers offering Mobilpenge now or in the future. Moreover since October Windows Phone users have been able to access MobilBank.

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 2012 the hotline assisted more than 120,000 clients.

Sydbank will continue to focus on developing digital solutions to the benefit of the Bank's clients also in 2013.

In all the Bank's branches – as well as in about 40 selected locations, for instance shopping centres – Sydbank has installed ATMs of which most are open 22 hours every day of the year. In 2012 the Bank's ATMs handled more than 5.3 million cash withdrawals. In summer 2012 Sydbank was the first bank in Denmark to introduce the option of buying EUR in 115 of the Bank's ATMs.

Customer service

In September 2012 Sydbank's three customer service centres – in Slagelse, Vejle and Aabenraa – introduced extended banking hours and clients can now "go to the bank" until 8:00pm Monday-Thursday and until 6:00pm Friday.

Staff

In 2012 the Group's staff fell by 20 to 2,132 (full-time equivalent). The moderate decrease reflects Sydbank's taking over of employees from Tønder Bank. Other things being equal a minor reduction in staff is expected for 2013 – especially as a result of a series of new productivity enhancing systems as well as clients' increasing use of digital solutions.

Every second year Sydbank conducts a job satisfaction survey among all employees and the 2012 survey shows that employees' job satisfaction continues to be high.

IT

Sydbank's primary IT supplier is Bankdata, which also provides systems solutions to 14 other Danish banks. Bankdata has an operating agreement with JN Data in Silkeborg.

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

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 Group has chosen to publish the statutory corporate governance report on the Bank's website. Accordingly 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.

It should be noted in particular that 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 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 must vacate office no later than at the next Annual General Meeting.

Proposals put before the Annual General Meeting in March 2013 will include:

- Increase of the age limit from currently 65 to 70.
- Change of the term of office from currently four years to three years.
- Maximum term of office of 12 years for board members as a main rule.
- In exceptional cases option of electing board members who are not members of the Shareholders' Committee.

The aim is that women will represent 25% of the shareholder-elected board members by 2015. At present Sydbank's Board of Directors has six shareholder-elected members of which one is a woman. Consequently the composition of the Board of Directors does not currently meet the target of 25%. As a rule prospective board members are recruited from the Shareholders' Committee. The Nomination Committee and the Board of Directors will seek to ensure that new women board members can be recruited from the Shareholders' Committee to fulfil the defined target.

Resolutions to amend the Articles of Association and 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 is represented at the general meeting and the resolution is carried by two-thirds of votes cast and of the voting share capital represented at the general meeting. If two-thirds of the voting share capital is 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 its members.

Directorships held by board members can be seen on pp 100-101.

Sydbank's Articles of Association can be read in their entirety at 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 units comply with legislation and internal rules. In addition Compliance provides assistance and counselling to the business units. 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 number of risk committees and a Chief Risk Officer reporting directly to the Bank's Group Executive Management. The Chief Risk Officer is responsible for prudent risk management within the Group and compliance with the requirements of the Danish executive order on management and control of banks etc. The risk committees are headed 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 units 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 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 five meetings in 2012.

The Board of Directors has appointed Svend Erik Busk, General Manager, as the independent and qualified board member who possess special qualifications. Svend Erik Busk's competence is based on 35 years of accounting experience, the last 22 years as a partner of KPMG. Moreover, in a legal sense Svend Erik Busk is an independent board member. In other words, he has no commercial, family or other ties to the Bank, significant shareholders or their managements which may cause any conflict of interest that might affect his judgement.

In the opinion of the Board of Directors, Svend Erik Busk will be able to make an independent assessment of whether Sydbank's financial reporting, internal controls, risk management and statutory audit are appropriately planned and performed in relation to the Bank's size and complexity.

The Committee consists of Svend Erik Busk (Chairman), General Manager, Anders Thoustrup, General Manager, Hanni Toosbuy Kasprzak, Board Chairman, and Claus Christensen, Managing Director.

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.

The Committee consists of Anders Thoustrup (Chairman), General Manager, Peder Damgaard, General Manager and former Principal, and Erik Bank Lauridsen, General Manager.

Reference is made to sydbank.com for further information.

Nomination Committee
In 2012 the Board of Directors decided to establish a Nomination Committee. The Nomination Committee has no independent decision-making authority but reports to the Board of Directors.The Nomination Committee identifies and describes the qualifications required in the Bank's Board of Directors and assesses whether they are present. Moreover the Committee must suggest new candidates for the Advisory Boards and the Shareholders' Committee so that new members to the Board of Directors may be recruited from the Shareholders' Committee to the widest extent possible.

The Nomination Committee consists of three members from the Board of Directors and three members from the Shareholders' Committee. The Committee consists of Anders Thoustrup (Chairman), General Manager, Hanni Toosbuy Kasprzak, Board Chairman, Claus Christensen, Managing Director, Peter Erik Hansen, Managing Director, Jens Iwer Petersen, General Manager, and Orla Dahl Jepsen, General Manager.

Reference is made to sydbank.com for further information.

Internal Audit
To gain an objective and independent assessment of the adequacy, effectiveness and quality of the Group's internal controls,

Sydbank has established an internal audit function reporting to the Bank's Board of Directors.

Internal Audit performs audits focusing on the most significant areas of the Bank's risk management. In addition Internal Audit oversees that:

- The Group has good administrative and accounting practices.
- There are written business procedures for all important areas of activity.
- Management's instructions on security and controls are incorporated into business procedures and are observed.
- There are prudent control and security measures within IT.

Corporate social responsibility

Sydbank has not formulated a general 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 sponsorship funds give small and large donations for cultural and social purposes.

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 proximity 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). The Bank collaborates with GES Investment Services in this area.

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.

Every year the Bank hires a number of newly qualified young employees – primarily financial economists and bachelor of finance graduates. On employment the new graduates typically receive one year's further training in the Bank.

In terms of energy, continuing efforts seek to reduce the energy consumption associated with the Bank's activities. Sydbank aims to be among the best in this area within the industry. The first solar cell system was established in 2012 in connection with the construction of a new regional head office in Slagelse. In 2013 Sydbank plans to establish more solar cell systems to cover part of the Bank's energy consumption.

As opposed to the majority of businesses, banks must pay a payroll tax in addition to corporation tax. The payroll tax is calculated on the basis of salaries, pensions etc paid. Moreover banks carry the additional burden of only being entitled to a partial VAT deduction on purchases, services etc.

Taxes paid by the Bank/non-deductible VAT in 2012

DKKm	2012
Corporation tax	228
Payroll tax	93
Non-deductible VAT	102
Total	**423**

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.

Financial Statements

Income Statement	30
Statement of Comprehensive Income	30
Balance Sheet	31
Statement of Changes in Equity	32
Cash Flow Statement	34

Notes

1	Accounting policies	36
2	Accounting estimates and judgements	44
3	Solvency	45
4	Segment reporting	47
5	Interest Income	49
6	Interest expense	49
7	Dividends on shares	49
8	Fee and commission income	50
9	Market value adjustments	50
10	Other operating income	50
11	Staff costs and administrative expenses	51
12	Impairment of loans and advances etc	53
13	Profit/(Loss) on holdings in associates and subsidiaries	54
14	Tax	55
15	Amounts owed by credit institutions and central banks	56
16	Loans and advances	56
17	Bonds at fair value	58
18	Shares etc	58
19	Holdings in associates etc	58
20	Holdings in subsidiaries	59
21	Assets related to pooled plans	60
22	Intangible assets	60
23	Investment property	60
24	Owner-occupied property	60
25	Other property, plant and equipment	61
26	Other assets	61
27	Amounts owed to credit institutions and central banks	61
28	Deposits and other debt	62
29	Bonds issued at amortised cost	62
30	Other liabilities	62
31	Provisions	62
32	Subordinated capital	63
33	Own holdings	64
34	Contingent liabilities and other obligating agreements	64
35	Fair value hedging of interest rate risks (macro hedge)	65
36	Collateral	66
37	Related parties	66
38	Fair value disclosure	68
39	Financial liabilities – contractual maturities	71
40	Financial highlights	72
41	Reporting events occurring after the balance sheet date	74
42	Group holdings and enterprises	74
43	Large shareholders	74
44	Business combinations	75
	Financial Ratio Definitions	76
	Derivatives	78
	Risk Management	82
	Credit risk	83
	Market risk	86
	Liquidity risk	88
	Operational risk	90
	IT security	90
	Capital base	91

Income Statement

		Sydbank Group		Sydbank A/S	
DKKm	Note	2012	2011	2012	2011
Interest income	5	3,949	4,363	3,950	4,352
Interest expense	6	841	1,235	842	1,236
Net interest income		**3,108**	**3,128**	**3,108**	**3,116**
Dividends on shares	7	23	28	23	28
Fee and commission income	8	1,443	1,304	1,440	1,279
Fee and commission expense	8	213	219	210	221
Net interest and fee income		**4,361**	**4,241**	**4,361**	**4,202**
Market value adjustments	9	558	(26)	557	(33)
Other operating income	10	14	48	22	23
Staff costs and administrative expenses	11	2,379	2,463	2,390	2,380
Amortisation, depreciation and impairment of intangible assets and property, plant and equipment		108	122	102	100
Other operating expenses		84	102	84	101
Impairment of loans and advances etc	12	1,748	1,198	1,745	1,195
Profit/(Loss) on holdings in associates and subsidiaries	13	10	(77)	4	(120)
Profit before tax		**624**	**301**	**623**	**296**
Tax	14	157	113	156	108
Profit for the year		**467**	**188**	**467**	**188**
Distribution of profit for the year					
Profit for the year				467	188
Total amount to be allocated				**467**	**188**
Proposed dividend				-	-
Proposal for allocation for other purposes				7	7
Transfer to shareholders' equity				460	181
Total amount allocated				**467**	**188**
EPS Basic (DKK)*				6.4	2.6
EPS Diluted (DKK)*				6.4	2.6
Proposed dividend per share (DKK)				-	-

* Calculated on the basis of average number of shares outstanding, see page 12.

Statement of Comprehensive Income

Profit for the year	**467**	**188**	**467**	**188**
Other comprehensive income				
Translation of foreign entities	2	6	2	6
Hedge of net investment in foreign entities	(2)	(6)	(2)	(6)
Property revaluation	2	(13)	2	(13)
Other comprehensive income after tax	**2**	**(13)**	**2**	**(13)**
Comprehensive income for the year	**469**	**175**	**469**	**175**

Balance Sheet

		Sydbank Group		Sydbank A/S	
DKKm	Note	2012	2011	2012	2011
Assets					
Cash and balances on demand at central banks		1,375	939	1,375	921
Amounts owed by credit institutions and central banks	15	7,006	8,526	6,994	8,808
Loans and advances at fair value	16	6,082	7,658	6,082	7,658
Loans and advances at amortised cost	16	68,163	68,847	68,328	68,169
Bonds at fair value	17	38,087	38,622	38,087	38,621
Shares etc	18	1,392	1,281	1,392	1,281
Holdings in associates etc	19	160	192	160	192
Holdings in subsidiaries	20	-	-	240	229
Assets related to pooled plans	21	9,799	8,553	9,799	8,553
Intangible assets	22	66	12	66	12
Total land and buildings		1,061	1,015	875	826
investment property	23	28	-	28	-
owner-occupied property	24	1,033	1,015	847	826
Other property, plant and equipment	25	89	85	89	85
Current tax assets		-	13	-	14
Deferred tax assets		9	5	9	5
Assets in temporary possession		9	1	9	1
Other assets	26	19,365	17,641	19,356	17,614
Prepayments		50	51	50	50
Total assets		**152,713**	**153,441**	**152,911**	**153,039**
Shareholders' equity and liabilities					
Amounts owed to credit institutions and central banks	27	38,592	38,767	38,801	39,132
Deposits and other debt	28	65,662	66,724	65,662	66,010
Deposits in pooled plans		9,804	8,557	9,804	8,557
Bonds issued at amortised cost	29	3,986	7,500	3,986	7,500
Current tax liabilities		16	-	15	-
Other liabilities	30	23,035	19,911	23,031	19,878
Deferred income		7	6	7	6
Total liabilities		**141,102**	**141,465**	**141,306**	**141,083**
Provisions	31	191	256	185	236
Subordinated capital	32	1,387	2,125	1,387	2,125
Shareholders' equity:					
Share capital		742	742	742	742
Revaluation reserves		97	95	97	95
Other reserves:					
Reserves according to articles of association		425	425	425	425
Reserve for net revaluation according to the equity method		2	26	2	26
Retained earnings		8,760	8,300	8,760	8,300
Proposed dividend etc		7	7	7	7
Total shareholders' equity		10,033	9,595	10,033	9,595
Total shareholders' equity and liabilities		**152,713**	**153,441**	**152,911**	**153,039**

Statement of Changes in Equity

Sydbank Group

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 2012	742	95	425	26	8,300	7	9,595
Profit for the period	-	-	-	(24)	484	7	467
Other comprehensive income							
Translation of foreign entities	-	-	-	-	2	-	2
Hedge of net investment in foreign entities	-	-	-	-	(2)	-	(2)
Property revaluation	-	2	-	-	-	-	2
Adjustment concerning property sold	-	0	-	-	-	-	0
Total other comprehensive income	-	2	-	-	-	-	2
Comprehensive income for the year	**-**	**2**	**-**	**(24)**	**484**	**7**	**469**
Transactions with owners							
Purchase of own shares	-	-	-	-	(1,413)	-	(1,413)
Sale of own shares	-	-	-	-	1,389	-	1,389
Adopted dividend etc	-	-	-	-	-	(7)	(7)
Total transactions with owners	-	-	-	-	(24)	(7)	(31)
Shareholders' equity at 31 Dec 2012	**742**	**97**	**425**	**2**	**8,760**	**7**	**10,033**
Shareholders' equity at 1 Jan 2011	742	110	423	26	8,169	84	9,554
Profit for the period	-	-	2	-	179	7	188
Other comprehensive income							
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)
Comprehensive income for the year	**-**	**(15)**	**2**	**-**	**181**	**7**	**175**
Transactions with owners							
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)
Shareholders' equity at 31 Dec 2011	**742**	**95**	**425**	**26**	**8,300**	**7**	**9,595**

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 2012	742	95	425	26	8,300	7	9,595
Profit for the period	-	-	-	(24)	484	7	467
Other comprehensive income							
Translation of foreign entities	-	-	-	-	2	-	2
Hedge of net investment in foreign entities	-	-	-	-	(2)	-	(2)
Property revaluation	-	2	-	-	-	-	2
Adjustment concerning property sold	-	0	-	-	-	-	0
Total other comprehensive income	-	2	-	-	-	-	2
Comprehensive income for the year	**-**	**2**	**-**	**(24)**	**484**	**7**	**469**
Transactions with owners							
Purchase of own shares	-	-	-	-	(1,413)	-	(1,413)
Sale of own shares	-	-	-	-	1,389	-	1,389
Adopted dividend etc	-	-	-	-	-	(7)	(7)
Total transactions with owners	-	-	-	-	(24)	(7)	(31)
Shareholders' equity at 31 Dec 2012	**742**	**97**	**425**	**2**	**8,760**	**7**	**10,033**
Shareholders' equity at 1 Jan 2011	742	110	423	26	8,169	84	9,554
Profit for the period	-	-	2	-	179	7	188
Other comprehensive income							
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)
Comprehensive income for the year	**-**	**(15)**	**2**	**-**	**181**	**7**	**175**
Transactions with owners							
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)
Shareholders' equity at 31 Dec 2011	**742**	**95**	**425**	**26**	**8,300**	**7**	**9,595**

* 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

	Sydbank Group	
DKKm	2012	2011
Operating activities		
Pre-tax profit for the year	624	301
Taxes paid	(228)	(60)
Adjustment of non-cash operating items:		
Profit/(Loss) on holdings in associates	(10)	77
Amortisation and depreciation of intangible assets and property, plant and equipment	108	122
Impairment of loans and advances/guarantees	1,748	1,198
Other non-cash operating items	(30)	(17)
Total	2,212	1,621
Changes in working capital:		
Credit institutions and central banks	(1,806)	59
Trading portfolio	423	(2,988)
Other financial instruments at fair value	(64)	443
Loans and advances	512	6,049
Deposits	(1,062)	2,563
Other assets/liabilities	1,557	(997)
Cash flows from operating activities	1,772	6,750
Investing activities		
Purchase of holdings in associates	(3)	0
Sale of holdings in associates	8	35
Purchase of intangible assets	(67)	-
Purchase of property, plant and equipment	(157)	(93)
Sale of property, plant and equipment	16	10
Cash flows from investing activities	(203)	(48)
Financing activities		
Purchase and sale of own holdings	(25)	(47)
Dividend	(7)	(84)
Raising/redemption of subordinated capital	(738)	(204)
Issue/redemption of bonds	(3,514)	(3,742)
Cash flows from financing activities	(4,284)	(4,077)
Cash flows for the year	**(2,715)**	**2,625**
Cash and cash equivalents at 1 Jan	5,320	2,695
Cash flows for the year (changes during the year)	(2,715)	2,625
Cash and cash equivalents at 31 Dec	**2,605**	**5,320**
Cash and cash equivalents at 31 Dec		
Cash and balances on demand at central banks	1,375	939
Fully secured and cash equivalent balances on demand at credit institutions and insurance companies	1,230	1,881
Unencumbered certificates of deposit	-	2,500
Cash and cash equivalents at 31 Dec	**2,605**	**5,320**

Note 1 Accounting policies

Basis of preparation

The consolidated financial statements of Sydbank 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 under the equity method.

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

On 20 February 2013 the Board of Directors and the Group Executive Management have reviewed and approved the 2012 Annual Report of Sydbank A/S. The Annual Report will be submitted for adoption by the AGM on 14 March 2013.

New accounting policies

The following amendments to IFRS have been implemented effective as from 1 January 2012:

- Amendment to IFRS 7: Financial Instruments: Disclosures. The amendment increases the disclosure requirements of IFRS 7 in respect of transactions involving the transfer of financial assets to obtain greater transparency as regards the risk exposure of transactions in which the transferor of a financial asset retains a certain degree of "continuing involvement" in the financial asset transferred.
- Amendment to IAS 12: Income Taxes. As a principal rule deferred tax on investment properties measured at fair value must be determined on the basis of an intention to sell.

Sydbank's implementation of the amended standards has not had any effect on recognition and measurement in the consolidated financial statements for 2012 and consequently it has no impact on EPS Basic and EPS Diluted. The amended standards have resulted in a few changes in disclosures in the notes.

The Group has changed the components of the performance measures applied in its internal financial management and described in note 4 "Segment reporting" as well as the management's review.

Previously income was split into core income excluding trading income and trading income on the basis of products and activities.

The new performance measures, core income and trading income, are mainly based on client affiliation and as a consequence trading income only comprises income from clients affiliated with Sydbank Markets as well as income from flows, market-making and related position-taking.

Core income comprises income from clients serviced by the Group's branch network and investment centres, including commission, investment fund commission, custody account fees and asset management.

The Bank's segment statements are divided into the following: Banking, Asset Management, Sydbank Markets, Treasury and Other. Formerly they were divided into Banking, Sydbank Markets, Treasury and Other.

Comparative figures have been restated accordingly.

Apart from the above 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. Note 42 lists "Group holdings and enterprises".

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.

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. Costs in connection with acquisition are recognised in the income statement when incurred.

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

Contributions to the Deposit Guarantee Fund, for instance to cover losses related to the winding-up or bankruptcy of banks, 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 of the security as interest in the income statement. Return on securities is recognised in the income statement.

Note 1 Accounting policies – continued

Securities bought under agreements to resell the same are not recognised in the balance sheet and return on securities is 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 of the security 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.

Amounts owed by credit institutions etc and loans and advances at amortised cost are all assessed to determine whether objective evidence of impairment exists. Amounts owed and loans and advances of a significant size are all assessed individually 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 approach are supplemented by management's estimates and 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 future 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 recognised models and observable market data.

In a less active or inactive market, fair value is a model value based on recognised 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 future 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 recognised and measured in the financial statements of the parent under the equity method. 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 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 differences in connection with the acquisition (the equity method). 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”. The assets in which holders’ savings are placed are measured at fair value.

The portfolio of shares and bonds issued by the Group has been reduced in equity. Consequently "Deposits in pooled plans" exceed "Assets related to pooled plans".

Intangible assets

Intangible assets concern the value of customer relations acquired in connection with acquisitions. 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 10-15 years.

Note 1 Accounting policies – continued

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.

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 as well as 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 as well as compensated absence are recognised in the financial year in which the associated service has been rendered by the 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 as well as 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 prior year taxable income as well as for tax paid on account.

Provisions for deferred tax are based on the balance sheet liability method and include temporary differences between the 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. Provisions for deferred tax are made to cover retaxation of previously deducted tax losses in

Note 1 Accounting policies – continued

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 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 service characteristics and comprise Banking, Asset Management, Sydbank Markets, Treasury and Other. Further details of the business units are provided in note 4.

Segment reporting as regards the business units complies with the Group's accounting policies as regards recognition and measurement. 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.

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

Core income

Core income comprises income from clients serviced by the Group's branch network and investment centres, including commission, investment fund commission, custody account fees and asset management.

Trading income

Trading income only comprises income from clients affiliated with Sydbank Markets as well as income from flows, market-making and related position-taking.

Core earnings before impairment

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

Core earnings

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

Investment portfolio earnings

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

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 2012 financial statements: IFRS 9-13, amendments to IFRS 1 and 7, amendments to IAS 1, 19, 27, 28 and 32 as well as improvements to IFRS (2009-2011). IFRS 9 as well as the amendments to IFRS 7 and IAS 32 have not yet 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 2015. The EU effective date has not yet been determined.

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 even though the investor does not hold the majority of shares or voting rights. The Group expects that the standard will be of minor significance to the Group. The standard will apply to financial years beginning on or after 1 January 2014.

IFRS 11 concerning joint ventures and similar arrangements replaces IAS 31: Interests in Joint Ventures. In future there will no longer be 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 impact on the Group. The standard will apply to financial years beginning on or after 1 January 2014.

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 2014.

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

In connection with the above the IASB is currently working on a complete replacement of the other rules of recognition and measurement of financial assets and liabilities (IAS 39 and IAS 32). The presently unadopted amendments 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 yet possible to estimate the impact.

Note 2 Accounting estimates and judgements

Determination of the carrying amount of certain assets and liabilities requires that management makes a number of estimates and judgements 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.
- Acquisitions.

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 models with observable market data is not subject to significant estimates. As regards financial instruments where measurement is only to a limited extent 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 2012 these financial instruments represent 0.8% 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 as well as 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 49% of the Group's assets at the end of 2012.

In spring 2012 the Danish FSA issued stricter guidelines and clarifications regarding impairment of loans and advances. These guidelines and clarifications have had a significant impact on impairment charges for the year.

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 which supports 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 rates of return (return rate). 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 as regards banks in winding-up or bankruptcy proceedings the liabilities recognised may be subject to uncertainty.

Acquisitions

All identifiable assets and liabilities are measured at fair value at the date of acquisition. Determination of fair value of assets and liabilities in connection with acquisitions is subject to a number of significant estimates. Future cash flows from the enterprise acquired are estimated. The present value of future cash flows is affected by several factors including the discounting rate, real economic developments, customer developments and behaviour. Fair value is determined on the basis of for instance market value, present value, estimates or the consideration that an independent third party would pay or demand.

Note 3 Solvency

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

Exposures to retail and corporate clients taken over from Tønder Bank are comprised by the Standardised Approach.

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 Danish 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.

Note 3 Solvency – continued

DKKm	Sydbank Group 2012	2011
Solvency ratio	15.9	16.1
Core capital ratio	15.6	15.2
Capital base after deductions		
Shareholders' equity	10,033	9,595
Revaluation reserves	(97)	(95)
Proposed dividend	(7)	(7)
Intangible assets and capitalised tax assets	(75)	(17)
Core capital (excl hybrid core capital)	9,854	9,476
Hybrid core capital	1,387	1,382
50% of holdings in associates	-	(4)
50% of holdings > 10%	(161)	(148)
Core capital (incl hybrid core capital) after deductions	11,080	10,706
Subordinated loan capital	-	743
Revaluation reserves	97	95
Difference between expected loss and accounting impairment charges	289	-
Capital base before deductions	11,466	11,544
50% of holdings in associates	-	(4)
50% of holdings > 10%	(161)	(148)
Capital base after deductions	**11,305**	**11,392**
Credit risk	53,906	52,303
Market risk	8,877	10,288
Operational risk	8,387	8,068
Risk-weighted assets	**71,170**	**70,659**
Capital requirement under Pillar I	**5,694**	**5,653**

Note 4 Segment reporting

Business segments
The Group's segment statements are divided into the following: Banking, Asset Management, Sydbank Markets, Treasury and Other.

Banking serves all types of retail and corporate clients.

Asset Management primarily comprises the Bank's advisory-related income from clients and investment funds.

Sydbank Markets comprises trading income as well as a share of the income from clients with decentral affiliation calculated on the basis of the market price thereof. The share represents the payment by Banking for Sydbank Markets facilities, including advisory services and administration.

Treasury comprises the Groups's return on positions handled by Treasury, including liquidity allocation.

Other includes non-recurring items, contributions 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	Asset Management	Sydbank Markets	Treasury	Other	Total
Business segments 2012						
Core income	3,982	162	85	-	-	4,229
Trading income	-	-	323	-	-	323
Total income	**3,982**	**162**	**408**	**-**	**-**	**4,552**
Costs, core earnings	2,219	55	157	-	51	2,482
Impairment of loans and advances etc	1,748	-	-	-	-	1,748
Core earnings	**15**	**107**	**251**	**-**	**(51)**	**322**
Investment portfolio earnings	-	-	-	390	7	397
Profit before non-recurring items and industry solutions	**15**	**107**	**251**	**390**	**(44)**	**719**
Non-recurring items, net	-	-	-	-	(82)	(82)
Contributions to industry solutions	-	-	-	-	13	13
Profit before tax	**15**	**107**	**251**	**390**	**(139)**	**624**
Depreciation and impairment of property, plant and equipment	98	2	6	-	2	108
Full-time staff at 31 Dec	1,935	36	119	6	36	2,132

Note 4 Segment reporting – continued

DKKm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
Business segments 2012						
Core income	3,833	143	104	-	-	4,080
Trading income	-	-	167	-	-	167
Total income	**3,833**	**143**	**271**	**-**	**-**	**4,247**
Costs, core earnings	2,186	56	168	-	53	2,463
Impairment of loans and advances etc	1,196	-	(1)	-	-	1,195
Core earnings	**451**	**87**	**104**	**-**	**(53)**	**589**
Investment portfolio earnings	-	-	-	(23)	8	(15)
Profit before non-recurring items and industry solutions	**451**	**87**	**104**	**(23)**	**(45)**	**574**
Non-recurring items, net	-	-	-	-	(171)	(171)
Contributions to industry solutions	-	-	-	-	102	102
Profit before tax	**451**	**87**	**104**	**(23)**	**(318)**	**301**
Depreciation and impairment of property, plant and equipment	109	2	8	-	3	122
Full-time staff at 31 Dec	1,933	38	123	6	52	2,152

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.

DKKm	2012		2011	
	Total income	Assets	Total income	Assets
Geographical segments				
Denmark	4,375	1,311	4,058	1,159
Abroad	177	65	189	60
Total	**4,552**	**1,376**	**4,247**	**1,219**

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	
DKKm	2012	2011	2012	2011
Reverse transactions with credit institutions and central banks	2	26	2	26
Amounts owed by credit institutions and central banks	49	85	49	90
Reverse loans and advances	20	89	20	89
Loans and advances and other amounts owed	3,203	3,274	3,204	3,258
Bonds	722	858	722	858
Total derivatives	(49)	26	(49)	26
comprising				
Foreign exchange contracts	78	122	78	122
Interest rate contracts	(128)	(99)	(128)	(99)
Other contracts	1	3	1	3
Other interest income	2	5	2	5
Total	**3,949**	**4,363**	**3,950**	**4,352**
Fair value, designated at initial recognition	22	115	22	115
Fair value, held for trading	673	884	673	884
Assets recognised at amortised cost	3,254	3,364	3,255	3,353
Total	**3,949**	**4,363**	**3,950**	**4,352**

The Group's cash resources are primarily placed in Danish mortgage bonds. The interest rate risk concerning these positions has been reduced via derivatives. As a result the Bank's external income statement is affected in terms of interest income and market value adjustment of bonds and derivatives. The same applies to the Bank's position-taking as regards bonds as well as shares. The breakdown by income statement item does not disclose income independently and consequently these items must be regarded as one as they are in the Group's financial review which also takes funding of the positions into account.

Note 6 Interest expense				
Repo transactions with credit institutions and central banks	37	136	37	136
Credit institutions and central banks	109	199	110	200
Repo deposits	0	2	0	2
Deposits and other debt	484	633	484	633
Bonds issued	172	201	172	201
Subordinated capital	38	62	38	62
Other interest expense	1	2	1	2
Total	**841**	**1,235**	**842**	**1,236**
Fair value, designated at initial recognition	37	138	37	138
Liabilities recognised at amortised cost	804	1,097	805	1,098
Total	**841**	**1,235**	**842**	**1,236**

Note 7 Dividends on shares				
Fair value, designated at initial recognition	16	15	16	15
Fair value, held for trading	7	13	7	13
Total	**23**	**28**	**23**	**28**

Note 8 Fee and commission income	Sydbank Group		Sydbank A/S	
DKKm	2012	2011	2012	2011
Securities trading and custody accounts	770	721	768	700
Payment services	229	217	229	217
Loan fees	113	85	113	85
Guarantee commission	114	107	114	107
Other fees and commission	217	174	216	170
Total fee and commission income	1,443	1,304	1,440	1,279
Total fee and commission expense	213	219	210	221
Net fee and commission income	**1,230**	**1,085**	**1,230**	**1,058**
Fees and commission concerning financial assets and liabilities	208	178	208	178
Fees and commission from management activities	328	334	327	326
Other fees and commission	694	573	695	554
Net fee and commission income	**1,230**	**1,085**	**1,230**	**1,058**

Note 9 Market value adjustments				
Other loans and advances and amounts owed at fair value	0	2	0	2
Bonds	548	336	548	336
Shares etc	88	(129)	88	(129)
Investment property	0	0	0	0
Foreign exchange	172	205	171	198
Derivatives	(250)	(441)	(250)	(441)
Assets related to pooled plans	505	(63)	505	(63)
Deposits in pooled plans	(505)	65	(505)	65
Other assets/liabilities	0	(1)	0	(1)
Total	**558**	**(26)**	**557**	**(33)**
Fair value, held for trading, trading portfolio	523	(42)	522	(49)
Fair value, designated at initial recognition, equity investments	35	16	35	16
Total	**558**	**(26)**	**557**	**(33)**

The Group's cash resources are primarily placed in Danish mortgage bonds. The interest rate risk concerning these positions has been reduced via derivatives. As a result the Bank's external income statement is affected in terms of interest income and market value adjustment of bonds and derivatives. The same applies to the Bank's position-taking as regards bonds as well as shares. The breakdown by income statement item does not disclose income independently and consequently these items must be regarded as one as they are in the Group's financial review which also takes funding of the positions into account.

Note 10 Other operating income				
Rental income – real property	12	12	12	12
Goodwill from sale of Sydbank (Schweiz) AG's activities	(9)	24	-	-
Other operating income	11	12	10	11
Total	**14**	**48**	**22**	**23**

Note 11 Staff costs and administrative expenses	Sydbank Group		Sydbank A/S	
DKKm	2012	2011	2012	2011
Salaries and remuneration				
Group Executive Management	11	17	11	17
Board of Directors	4	4	4	4
Shareholders' Committee	2	2	2	2
Total	17	23	17	23
Staff costs				
Wages and salaries	1,154	1,249	1,157	1,206
Pensions	125	139	124	136
Social security contributions	17	17	16	15
Payroll tax	93	99	93	99
Total	1,389	1,504	1,390	1,456
Other administrative expenses				
IT	564	537	568	519
Rent etc	156	165	165	165
Marketing and entertainment expenses	83	85	83	83
Other costs	170	149	167	134
Total	973	936	983	901
Total	**2,379**	**2,463**	**2,390**	**2,380**
Audit fees				
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
Total	2	2	2	2

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)	2,166	2,294	2,157	2,267

Remuneration for material risk takers and control functions				
Fixed remuneration	25.3	27.3	25.3	27.3
Bonus (2010)	-	6.3	-	6.3
Total	**25.3**	**33.6**	**25.3**	**33.6**
Number of full-time staff (average)	18.5	20.5	18.5	20.5

As from 1 January 2011 material risk takers and control functions receive fixed remuneration.

Note 11 Staff costs and administrative expenses – continued — **Sydbank Group**

DKK thousand	2012	2011
Directors' remuneration		
Anders Thoustrup	652	632
Hanni Toosbuy Kasprzak	482	416
Svend Erik Busk	363	330
Claus Christensen (member as of 10 March 2011)	322	189
Peder Damgaard	311	311
Harry Max Friedrichsen	254	252
Erik Bank Lauridsen (member as of 10 March 2011)	291	189
Sven Rosenmeyer Paulsen (resigned as of 15 March 2012)	83	330
Kresten Philipsen (resigned as of 10 March 2011)	-	163
Steen Tophøj	254	252
Jan Uldahl-Jensen	254	252
Margrethe Weber	254	252
Total	3,520	3,568
Of which committee fees		
Audit Committee (enlarged from 3 to 4 members as of 15 March 2012)	353	235
Remuneration Committee (3 members)	172	235

Sydbank's Board of Directors receive a fixed fee in addition to which the Board committee members receive a fixed committee fee.

DKKm	Karen Frøsig	Preben L. Hansen	Finn Boel Pedersen	Allan Nørholm
Remuneration of the Group Executive Management				
2012				
Fixed remuneration	5.0	4.0	0.5	-
Pension	-	-	-	-
Remuneration during severance period	-	-	1.6	-
Total	5.0	4.0	2.1	-
2011				
Fixed remuneration	4.4	3.7	-	1.9
Pension	-	-	-	-
Severance pay etc	-	-	-	5.7
Bonus (2010)	1.0	0.6	-	-
Total	5.4	4.3	-	7.6
As from 1 January 2011 the Group Executive Management receives fixed remuneration.			Appointed 1 February 2012 Resigned 7 May 2012	Resigned 16 August 2011

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 the resignation of Preben Lund Hansen, at his request after he has attained the age of 64, Preben Lund Hansen is entitled to receive severance pay equal to 12 months' salary. 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

DKKm	Sydbank Group 2012	Sydbank Group 2011	Sydbank A/S 2012	Sydbank A/S 2011
Impairment of loans and advances recognised in the income statement				
Impairment and provisions	1,387	681	1,387	678
Write-offs	433	559	430	559
Recovered from debt previously written off	72	42	72	42
Impairment of loans and advances etc	**1,748**	**1,198**	**1,745**	**1,195**
Impairment and provisions at 31 Dec (allowance account)				
Individual impairment and provisions	2,834	1,669	2,833	1,666
Collective impairment and provisions	184	167	184	167
Impairment and provisions at 31 Dec	**3,018**	**1,836**	**3,017**	**1,833**
Individual impairment of loans and advances and provisions for guarantees				
Impairment and provisions at 1 Jan	1,669	1,597	1,666	1,597
Exchange rate adjustment	0	0	0	0
Impairment and provisions during the year	1,441	709	1,441	706
Write-offs covered by impairment and provisions	276	637	274	637
Impairment and provisions at 31 Dec	**2,834**	**1,669**	**2,833**	**1,666**
Individual impairment of loans and advances	2,769	1,644	2,769	1,644
Individual provisions for guarantees	65	25	64	22
Impairment and provisions at 31 Dec	**2,834**	**1,669**	**2,833**	**1,666**
Collective impairment of loans and advances and provisions for guarantees				
Impairment and provisions at 1 Jan	167	166	167	166
Impairment and provisions during the year	17	1	17	1
Impairment and provisions at 31 Dec	**184**	**167**	**184**	**167**
Sum of loans and advances and amounts owed subject to collective impairment and provisions	6,369	14,504	6,369	14,504
Collective impairment and provisions	184	167	184	167
Loans and advances and amounts owed after collective impairment and provisions	**6,185**	**14,337**	**6,185**	**14,337**
Individual impairment of loans and advances subject to objective evidence of impairment				
Balance before impairment of individually impaired loans and advances	5,388	3,141	5,388	3,141
Impairment of individually impaired loans and advances	2,769	1,644	2,769	1,644
Balance after impairment of individually impaired loans and advances	**2,619**	**1,497**	**2,619**	**1,497**

Accrued interest concerning individually and collectively impaired loans and advances represents DKK 682m for 2012 (2011: DKK 881m).

Note 12 Impairment of loans and advances etc – continued | **Sydbank Group**

DKKm	Allowance account		Impairment of loans/ advances etc	
	2012	2011	2012	2011
Industry breakdown of the Group's allowance account and impairment of loans and advances recognised in the income statement				
Corporate lending				
Agriculture, hunting, forestry and fisheries	567	475	129	356
Manufacturing and extraction of raw materials	153	119	92	38
Energy supply etc	19	0	18	(13)
Building and construction	118	40	91	64
Trade	234	158	143	103
Transportation, hotels and restaurants	50	48	19	51
Information and communication	2	0	1	1
Finance and insurance	451	272	256	205
Real property	392	145	469	209
Other industries	91	47	81	26
Total corporate lending	**2,077**	**1,304**	**1,299**	**1,040**
Public authorities	0	0	0	0
Retail clients	692	340	449	155
Collective impairment charges	184	167	-	1
Provisions for guarantees	65	25	-	-
The Private Contingency Association	-	-	0	3
Total	**3,018**	**1,836**	**1,748**	**1,198**

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

	Sydbank Group		**Sydbank A/S**	
DKKm	2012	2011	2012	2011
Profit/(Loss) on holdings in associates etc	10	(77)	10	(77)
Profit/(Loss) on holdings in subsidiaries	-	-	(6)	(43)
Total	**10**	**(77)**	**4**	**(120)**

Note 14 Tax	Sydbank Group		Sydbank A/S	
DKKm	2012	2011	2012	2011
Tax calculated on profit for the year	262	126	261	125
Deferred tax	(102)	(17)	(102)	(21)
Adjustment of prior year tax charges	(3)	4	(3)	4
Total	**157**	**113**	**156**	**108**
Effective tax rate				
Current tax rate of Sydbank	25.0	25.0	25.0	25.0
Permanent differences	0.7	11.2	0.6	10.1
Adjustment of prior year tax charges	(0.5)	1.3	(0.5)	1.3
Effective tax rate	**25.2**	**37.5**	**25.1**	**36.4**
Deferred tax				
Deferred tax at 1 Jan	197	214	197	218
Deferred tax, acquired activities	(2)	-	(2)	-
Deferred tax for the year	(102)	(17)	(102)	(21)
Deferred tax at 31 Dec, net	**93**	**197**	**93**	**197**
Deferred tax assets	9	5	9	5
Deferred tax liabilities	102	202	102	202
Deferred tax at 31 Dec, net	**93**	**197**	**93**	**197**

							Sydbank Group
DKKm				2012			2011
	1 Jan	Adjustment acquired activities	Recognised in profit for the year	31 Dec	1 Jan	Recognised in profit for the year	31 Dec
Deferred tax							
Loans and advances at amortised cost	179	(2)	(24)	153	197	(18)	179
Land and buildings	1	-	0	1	1	0	1
Property, plant and equipment	(27)	-	2	(25)	(30)	3	(27)
Intangible assets	3	-	(7)	(4)	3	0	3
Other assets	66	-	(63)	3	75	(9)	66
Provisions	(2)	-	0	(2)	(1)	(1)	(2)
Other liabilities	(23)	-	(10)	(33)	(28)	5	(23)
Capitalised losses, foreign entities	-	-	-	-	(4)	4	-
Retaxation balance	-	-	-	-	1	(1)	-
Deferred tax at 31 Dec, net	**197**	**(2)**	**(102)**	**93**	**214**	**(17)**	**197**

Note 15 Amounts owed by credit institutions and central banks	Sydbank Group		Sydbank A/S	
DKKm	2012	2011	2012	2011
Amounts owed at notice by central banks	-	2,992	-	2,992
Amounts owed by credit institutions	7,006	5,534	6,994	5,816
Total	**7,006**	**8,526**	**6,994**	**8,808**
On demand	1,076	1,610	1,064	1,892
3 months or less	5,805	6,675	5,805	6,675
Over 3 months not exceeding 1 year	111	206	111	206
Over 1 year not exceeding 5 years	-	34	-	34
Over 5 years	14	1	14	1
Total	**7,006**	**8,526**	**6,994**	**8,808**
Of which reverse transactions	5,582	3,540	5,582	3,540

Note 16 Loans and advances				
On demand	17,051	17,416	17,216	16,738
3 months or less	8,589	10,496	8,589	10,496
Over 3 months not exceeding 1 year	26,316	26,490	26,316	26,490
Over 1 year not exceeding 5 years	13,066	13,077	13,066	13,077
Over 5 years	9,223	9,026	9,223	9,026
Total	**74,245**	**76,505**	**74,410**	**75,827**
Of which reverse transactions	6,082	7,658	6,082	7,658
Loans and advances and guarantees by sector and industry (%)				
Agriculture, hunting, forestry and fisheries	7.4	7.7	7.4	7.8
Manufacturing and extraction of raw materials	7.3	6.9	7.3	6.9
Energy supply etc	3.3	1.8	3.3	1.9
Building and construction	3.5	3.1	3.5	3.1
Trade	12.7	10.4	12.7	10.5
Transportation, hotels and restaurants	2.9	2.5	2.8	2.5
Information and communication	0.5	0.3	0.5	0.3
Finance and insurance	16.5	20.5	16.5	20.6
Real property	10.6	9.8	10.7	10.1
Other corporate lending	3.5	4.3	3.5	4.4
Total corporate lending	68.2	67.3	68.2	68.1
Public authorities	0.8	0.7	0.8	0.7
Retail clients	31.0	32.0	31.0	31.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

Industry breakdown based on Sydbank's registrations.

Note 16 Loans and advances – continued

Sydbank Group

DKKm				2012				2011
	Retail	SME	Corporate	Total	Retail	SME	Corporate	Total
Past due amounts not impaired*								
0-30 days	40	8	43	91	42	9	76	127
31-60 days	2	0	2	4	2	0	1	3
61-90 days	1	0	1	2	1	0	1	2
Total	**43**	**8**	**46**	**97**	**45**	**9**	**78**	**132**

Rating category								
1	9	0	1	10	14	0	0	14
2	8	0	3	11	15	1	4	20
3	9	1	10	20	7	6	29	42
4	5	1	6	12	3	1	7	11
5	3	2	7	12	3	1	8	12
6	2	3	2	7	1	0	6	7
7	3	1	1	5	0	0	11	11
8	1	0	2	3	0	0	7	7
9	3	0	12	15	2	0	5	7
Not rated (NR)	0	0	2	2	0	0	1	1
Total	**43**	**8**	**46**	**97**	**45**	**9**	**78**	**132**

* 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.

DKKm	Gross investments	Unearned interest	2012 Net investments	Gross investments	Unearned interest	2011 Net investments
Lease payment receivables – finance leases						
1 year or less	1,125	102	1,023	1,135	93	1,042
Over 1 year not exceeding 5 years	2,309	158	2,151	2,266	173	2,093
Over 5 years	171	6	165	180	8	172
Total	**3,605**	**266**	**3,339**	**3,581**	**274**	**3,307**

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 3,339m at year-end 2012 (2011: DKK 3,307m).

Impairment charges for uncollectible lease payment receivables total less than DKK 1m (2011: DKK 3m).

Notes

Note 17 Bonds at fair value	Sydbank Group		Sydbank A/S	
DKKm	2012	2011	2012	2011
Mortgage bonds	36,030	37,465	36,030	37,464
Government bonds	793	715	793	715
Other bonds	1,264	442	1,264	442
Total	**38,087**	**38,622**	**38,087**	**38,621**
Government bonds – by country				
Denmark	792	712	792	712
Norway	1	-	1	-
Sweden	-	3	-	3
Total	**793**	**715**	**793**	**715**

Note 18 Shares etc				
Listed on NASDAQ OMX Copenhagen A/S	194	164	194	164
Listed on other exchanges	12	1	12	1
Unlisted shares recognised at fair value	1,186	1,116	1,186	1,116
Total	**1,392**	**1,281**	**1,392**	**1,281**
Trading portfolio	269	295	269	295
Portfolio of equity investments	1,123	986	1,123	986
Total	**1,392**	**1,281**	**1,392**	**1,281**

Note 19 Holdings in associates etc				
Carrying amount at 1 Jan	192	307	192	307
of which credit institutions	-	-	-	-
Cost at 1 Jan	216	277	216	277
Exchange rate adjustment	0	0	0	0
Additions	6	0	6	0
Disposals	61	61	61	61
Cost at 31 Dec	161	216	161	216
Revaluations and impairment charges at 1 Jan	(24)	30	(24)	30
Dividend	(38)	(3)	(38)	(3)
Other capital movements	2	0	2	0
Revaluations and impairment charges for the year	5	(51)	5	(51)
Reversal of revaluations and impairment charges	54	0	54	0
Revaluations and impairment charges at 31 Dec	(1)	(24)	(1)	(24)
Carrying amount at 31 Dec	**160**	**192**	**160**	**192**
of which credit institutions	-	-	-	-

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

	Activity	Ownership share (%)	Shareholders' equity (DKKm)	Total assets	Total liabilities	Income	Result
Holdings in associates							
Foreningen Bankdata, Fredericia	IT	32	562	652	90	703	0
Core Property Management A/S, Copenhagen	Real property	20	24	27	3	23	8
Other enterprises in which the Group owns more than 10% of the share capital							
D.A.R.T. Limited, Cayman Islands	Investment and finance	42	122	130	8	1	(22)
Scandinavian Private Equity Partners A/S, Copenhagen	Investment and finance	17	12	13	1	9	5
PRAS A/S, Copenhagen	Investment and finance	12	1,797	1,797	0	15	15
BI Holding A/S, Copenhagen	Investment and finance	12	334	368	34	84	5

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

Note 20 Holdings in subsidiaries

	Sydbank Group		Sydbank A/S	
DKKm	2012	2011	2012	2011
Carrying amount at 1 Jan	-	-	229	257
of which credit institutions	-	-	226	250
Cost at 1 Jan	-	-	699	681
Exchange rate adjustment	-	-	4	8
Additions	-	-	16	10
Disposals	-	-	-	-
Cost at 31 Dec	-	-	719	699
Revaluations and impairment charges at 1 Jan	-	-	(470)	(424)
Exchange rate adjustment	-	-	(2)	(3)
Profit/(Loss)	-	-	(7)	(42)
Dividend	-	-	-	-
Other capital movements	-	-	0	(1)
Revaluations and impairment charges for the year	-	-	-	-
Reversal of revaluations and impairment charges	-	-	-	-
Revaluations and impairment charges at 31 Dec	-	-	(479)	(470)
Carrying amount at 31 Dec	**-**	**-**	**240**	**229**
of which credit institutions	-	-	222	226

Note 21 Assets related to pooled plans

DKKm	Sydbank Group 2012	Sydbank Group 2011	Sydbank A/S 2012	Sydbank A/S 2011
Cash deposits	769	253	769	253
Indexed bonds	649	596	649	596
Other bonds	5,456	5,259	5,456	5,259
Other shares etc	2,901	2,340	2,901	2,340
Units	7	138	7	138
Other assets	17	(33)	17	(33)
Total	**9,799**	**8,553**	**9,799**	**8,553**

Note 22 Intangible assets

Carrying amount at 1 Jan	12	13	12	13
Cost at 1 Jan	16	16	16	16
Additions	67	-	67	-
Cost at 31 Dec	83	16	83	16
Amortisation and impairment charges at 1 Jan	4	3	4	3
Revaluations and impairment charges for the year	13	1	13	1
Amortisation and impairment charges at 31 Dec	17	4	17	4
Carrying amount at 31 Dec	**66**	**12**	**66**	**12**

Note 23 Investment property

Fair value at 1 Jan	-	-	-	-
Additions	30	-	30	-
Disposals	2	-	2	-
Fair value at 31 Dec	**28**	**-**	**28**	**-**
Rental income recognised in the income statement	0	-	0	-
Operating expenses	0	-	0	-

Note 24 Owner-occupied property

Carrying amount at 1 Jan	1,015	1,045	826	840
Exchange rate adjustment	0	0	0	0
Additions, including improvements	58	44	55	42
Disposals	12	7	12	6
Depreciation for the year	7	7	5	6
Value adjustment recognised directly in equity	3	(13)	3	(11)
Value adjustment recognised in the income statement	(24)	(47)	(20)	(33)
Carrying amount at 31 Dec	**1,033**	**1,015**	**847**	**826**
Required rate of return applied in calculation of fair value (%)	5.0-10.0	5.0-9.5	5.0-10.0	5.0-9.5

Note 25 Other property, plant and equipment

DKKm	Sydbank Group 2012	Sydbank Group 2011	Sydbank A/S 2012	Sydbank A/S 2011
Carrying amount at 1 Jan	85	105	85	99
Cost at 1 Jan	526	525	503	502
Exchange rate adjustment	0	0	0	0
Additions	70	49	70	49
Disposals	88	48	65	48
Cost at 31 Dec	508	526	508	503
Depreciation and impairment charges at 1 Jan	441	420	418	403
Exchange rate adjustment	0	0	0	0
Depreciation for the year	64	66	64	60
Reversal of depreciation and impairment charges	86	45	63	45
Depreciation and impairment charges at 31 Dec	419	441	419	418
Carrying amount at 31 Dec	**89**	**85**	**89**	**85**

Note 26 Other assets

Positive market value of derivatives etc	15,794	13,875	15,794	13,875
Sundry debtors	263	272	254	245
Interest and commission receivable	434	582	434	582
Cash collateral provided, CSA agreements	2,874	2,912	2,874	2,912
Other assets	0	0	0	0
Total	**19,365**	**17,641**	**19,356**	**17,614**

Note 27 Amounts owed to credit institutions and central banks

Amounts owed to central banks	99	3,164	99	3,164
Amounts owed to credit institutions	38,493	35,603	38,702	35,968
Total	**38,592**	**38,767**	**38,801**	**39,132**
On demand	6,171	5,532	6,380	5,897
3 months or less	30,882	31,690	30,882	31,690
Over 3 months not exceeding 1 year	1,204	1,124	1,204	1,124
Over 1 year not exceeding 5 years	28	112	28	112
Over 5 years	307	309	307	309
Total	**38,592**	**38,767**	**38,801**	**39,132**
Of which repo transactions	22,723	20,391	22,723	20,391

Note 28 Deposits and other debt

DKKm	Sydbank Group 2012	Sydbank Group 2011	Sydbank A/S 2012	Sydbank A/S 2011
On demand	48,534	40,499	48,534	39,785
At notice	538	442	538	442
Time deposits	10,389	20,360	10,389	20,360
Special categories of deposits	6,201	5,423	6,201	5,423
Total	**65,662**	**66,724**	**65,662**	**66,010**
On demand	49,171	40,997	49,171	40,283
3 months or less	9,134	18,837	9,134	18,837
Over 3 months not exceeding 1 year	2,042	2,316	2,042	2,316
Over 1 year not exceeding 5 years	886	679	886	679
Over 5 years	4,429	3,895	4,429	3,895
Total	**65,662**	**66,724**	**65,662**	**66,010**
Of which repo transactions	178	-	178	-

Note 29 Bonds issued at amortised cost

3 months or less	215	-	215	-
Over 3 months not exceeding 1 year	-	7,431	-	7,431
Over 1 year not exceeding 5 years	3,771	69	3,771	69
Total	**3,986**	**7,500**	**3,986**	**7,500**

Note 30 Other liabilities

Negative market value of derivatives etc	15,949	14,110	15,949	14,110
Sundry creditors	1,493	1,421	1,489	1,389
Negative portfolio, reverse transactions	4,772	3,847	4,772	3,847
Interest and commission etc	67	103	67	103
Cash collateral received, CSA agreements	754	429	754	429
Other liabilities	0	1	0	0
Total	**23,035**	**19,911**	**23,031**	**19,878**

Note 31 Provisions

Provisions for pensions and similar obligations	4	3	4	3
Provisions for deferred tax	102	202	102	202
Provisions for guarantees	65	25	65	23
Other provisions	20	26	14	8
Total provisions	**191**	**256**	**185**	**236**

Note 31 Provisions – continued **Sydbank Group**

DKKm	Provisions for pensions and similar obligations	Provisions for deferred tax	Provisions for guarantees	Other provisions	Total provisions 2012
Carrying amount at 1 Jan	3	202	25	26	256
Additions	1	0	60	9	70
Disposals	0	102	20	15	135
Carrying amount at 31 Dec	**4**	**102**	**65**	**20**	**191**

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

Note 32 Subordinated capital

Interest rate	Note		Nominal (m)		Maturity	Sydbank Group DKKm 2012	Sydbank Group DKKm 2011	Sydbank A/S DKKm 2012	Sydbank A/S DKKm 2011
Redeemed loans						-	743	-	743
Total subordinated loan capital						-	743	-	743
1.30 (floating)	1)	Bond loan	EUR	100	Perpetual	743	739	743	739
1.94 (floating)	2)	Bond loan	EUR	75	Perpetual	559	558	559	558
6.36 (fixed)	3)	Bond loan	DKK	85	Perpetual	85	85	85	85
Total hybrid core capital						1,387	1,382	1,387	1,382
Total subordinated capital						**1,387**	**2,125**	**1,387**	**2,125**

1) Optional redemption from 25 April 2017 after which the interest rate will be fixed at 2.10% above 3-month EURIBOR.
2) Optional redemption from 24 November 2014 after which the interest rate will remain unchanged.
3) Optional redemption from 14 May 2017 after which the interest rate will be fixed at 1.75% above 3-month CIBOR.

	Sydbank Group 2012	Sydbank Group 2011	Sydbank A/S 2012	Sydbank A/S 2011
Costs relating to the raising and redemption of subordinated capital	0	0	0	0
Over 1 year not exceeding 5 years	-	743	-	743
Over 5 years	1,387	1,382	1,387	1,382
Total	**1,387**	**2,125**	**1,387**	**2,125**

Notes

Note 33 Own holdings	Sydbank Group		Sydbank A/S	
DKKm	2012	2011	2012	2011
Nominal portfolio of own holdings	13	11	13	11
Nominal portfolio of own holdings as % of share capital	1.8	1.4	1.8	1.4
Shares outstanding (number)	72,913,955	73,192,644	72,913,955	73,192,644
Holding of own shares (number)	1,336,044	1,057,355	1,336,044	1,057,355
Total share capital (number)	**74,249,999**	**74,249,999**	**74,249,999**	**74,249,999**
Own holdings purchased during the year				
Number of shares	14,044,740	16,384,324	14,044,740	16,384,324
Nominal value	140	164	140	164
Consideration paid	1,413	2,030	1,413	2,030
Number of shares as % of share capital	18.9	22.1	18.9	22.1
Own holdings sold during the year				
Number of shares	13,776,051	15,988,879	13,776,051	15,988,879
Nominal value	138	160	138	160
Consideration received	1,389	1,976	1,389	1,976
Number of shares as % of share capital	18.5	21.6	18.5	21.6

Own holdings have been purchased and sold as part of the ordinary banking transactions/employee share scheme of Sydbank A/S.

Note 34 Contingent liabilities and other obligating agreements				
Contingent liabilities				
Financial guarantees	2,996	2,937	2,996	2,780
Mortgage finance guarantees	1,697	1,514	1,697	1,514
Registration and remortgaging guarantees	2,600	2,639	2,600	2,639
Other contingent liabilities	1,413	1,181	1,413	1,181
Total	**8,706**	**8,271**	**8,706**	**8,114**
Other obligating agreements				
Irrevocable credit commitments	350	490	350	490
Other liabilities*	71	68	105	111
Total	**421**	**558**	**455**	**601**
* Including intra-group liabilities in relation to rented premises	-	-	34	43

Totalkredit loans arranged by Sydbank are comprised by an agreed right of set-off against future commission which Totalkredit may invoke in case of losses on the loans arranged. Sydbank does not expect that this set-off will have a significant impact on the Group's financial position.

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

On 18 January 2013 the Danish Supreme Court gave its ruling in an action filed by a group of minority shareholders ("Foreningen af Minoritetsaktionærer i bankTrelleborg") on behalf of three former shareholders of bankTrelleborg. Sydbank, which acquired bankTrelleborg in 2008, was ordered to pay damages due to an inadequate prospectus which was prepared in 2007 in connection with the conversion of sparTrelleborg to bankTrelleborg A/S. Thus the Supreme Court overruled the high court judgment which had ruled in favour of Sydbank.

Note 34 Contingent liabilities and other obligating agreements – continued

This Supreme Court judgment is of significant importance to two class action claims filed against Sydbank on 21 January 2011 of which the Danish Eastern High Court accepted one and rejected the other as a class action. Both decisions have been brought before the Supreme Court.

The prospectus was prepared with the assistance of professional advisers and prospectus liability insurance had been taken out. Sydbank has reported a claim to the insurance company and has made reservations regarding claims for contribution to the professional advisers and to Fonden for bankTrelleborg which sold the shares of bankTrelleborg to Sydbank.

Against this background Sydbank's assessment of its legal position is that the Bank will be covered by the insurance claim and the claims for contribution mentioned to the extent that it is ordered to pay damages in the two class actions.

Moreover 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 financial 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 liabilities" and represents DKK 14m as at 31 December 2012.

During the year a net gain on hedging transactions of DKK 4m has been recorded. The gain eliminates the equivalent net loss on the hedged items.

	Sydbank Group		Sydbank A/S	
DKKm	2012	2011	2012	2011
Fixed-rate loans and advances				
Carrying amount	1,295	1,200	1,295	1,200
Fixed-rate deposits				
Carrying amount	4,881	4,534	4,881	4,534
The following derivatives are used to hedge the above:				
Swaps				
Principal	179	745	179	745
Fair value	8	(12)	8	(12)

Note 36 Collateral

At the end of 2012, the Group had deposited as collateral securities at a market value of DKK 732m 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".

	Sydbank Group		Sydbank A/S	
DKKm	2012	2011	2012	2011
Assets sold as part of repo transactions				
Bonds at fair value	22,816	20,311	22,816	20,311
Assets purchased as part of reverse transactions				
Bonds at fair value	11,596	11,218	11,596	11,218

Note 37 Related parties

DKKm			2012			2011
	Associates	Board of Directors	Group Executive Management	Associates	Board of Directors	Group Executive Management
Loans and advances and loan commitments	2	12	-	2	13	0
Deposits and other debt	138	56	11	72	112	9
Guarantees issued	-	-	-	-	-	-
Collateral received	-	0	0	-	0	0
Interest income	0	0	0	0	0	0
Interest expense	0	1	0	0	1	0
Fee and commission income	0	0	0	0	0	0
Other expenses	412	-	-	382	-	-

Interest rates 2012, loans and advances

Group Executive Management: No loans and advances

Board of Directors: 0.84-8.50% p.a.*

* Interest rates concern loans in different currencies.

There are no parties with significant influence on 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 2012.

Note 37 Related parties – continued

DKKm	Sydbank Group 2012	Sydbank Group 2011	Sydbank A/S 2012	Sydbank A/S 2011
Amounts owed by and to subsidiaries etc				
Amounts owed by credit institutions and central banks	-	-	0	526
Loans and advances at amortised cost	-	-	165	185
Total asset items	**-**	**-**	**165**	**711**
Amounts owed to credit institutions	-	-	208	365
Deposits and other debt	-	-	-	-
Total liability items	**-**	**-**	**208**	**365**

Sydbank Group

Number	1 Jan 2012	On appointment/ resignation	Additions	Disposals	31 Dec 2012
Sydbank A/S shares held by*					
Board of Directors					
Anders Thoustrup	2,116				2,116
Hanni Toosbuy Kasprzak	292,660				292,660
Svend Erik Busk	1,500				1,500
Claus Christensen	500				500
Peder Damgaard	1,016				1,016
Harry Max Friedrichsen	1,021				1,021
Erik Bank Lauridsen	13,785				13,785
Sven Rosenmeyer Paulsen	4,100	(4,100)			0
Steen Tophøj	1,541		113		1,654
Jan Uldahl-Jensen	975				975
Margrethe Weber	2,072		215		2,287
Total	321,286	(4,100)	328		317,514
Group Executive Management					
Karen Frøsig	3,631		135		3,766
Preben L. Hansen	2,703				2,703
Total	6,334		135		6,469
Total	**327,620**	**(4,100)**	**463**		**323,983**

* Own holdings and holdings by dependants.

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	2012 Fair value	2012 Amortised cost	2011 Fair value	2011 Amortised cost
Financial assets				
Cash and balances on demand at central banks	-	1,375	-	939
Amounts owed by credit institutions and central banks	5,582	1,424	3,540	4,986
Loans and advances at fair value	6,082	-	7,658	-
Loans and advances at amortised cost	-	68,163	-	68,847
Bonds at fair value	38,087	-	38,622	-
Shares etc	1,392	-	1,281	-
Assets related to pooled plans	9,799	-	8,553	-
Other assets	16,057	3,046	14,291	3,078
Total	**76,999**	**74,008**	**73,945**	**77,850**
Undrawn credit facilities	-	35,552	-	31,121
Maximum credit risk, collateral not considered	**76,999**	**109,560**	**73,945**	**108,971**
Financial liabilities				
Amounts owed to credit institutions and central banks	22,723	15,869	20,391	18,376
Deposits and other debt	178	65,484	-	66,724
Deposits in pooled plans	9,804	-	8,557	-
Bonds issued at amortised cost	-	3,986	-	7,500
Other liabilities	20,721	821	17,962	527
Subordinated capital	-	1,387	-	2,125
Total	**53,426**	**87,547**	**46,910**	**95,252**

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

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

As regards financial instruments where measurement is based on available data that only to a limited extent are observable market data, measurement is subject to estimates. Such financial instruments appear from the column 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 122m.

DKKm 2012	Quoted prices	Observable input	Non-observable input	Total fair value
Financial assets				
Amounts owed by credit institutions and central banks	-	5,582	-	5,582
Loans and advances at fair value	-	6,082	-	6,082
Bonds at fair value	-	38,008	79	38,087
Shares etc	206	44	1,142	1,392
Assets related to pooled plans	2,908	6,891	-	9,799
Other assets	40	16,017	-	16,057
Total	**3,154**	**72,624**	**1,221**	**76,999**
Financial liabilities				
Amounts owed to credit institutions and central banks	-	22,723	-	22,723
Deposits and other debs	-	178	-	178
Deposits in pooled plans	-	9,804	-	9,804
Other liabilities	36	20,685	-	20,721
Total	**36**	**53,390**	**-**	**53,426**

DKKm 2011	Quoted prices	Observable input	Non-observable input	Total fair value
Financial assets				
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	1,281
Assets related to pooled plans	2,478	6,075	-	8,553
Other assets	25	14,266	-	14,291
Total	**2,668**	**70,144**	**1,133**	**73,945**
Financial liabilities				
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
Total	**35**	**46,875**	**-**	**46,910**

Note 38 Fair value disclosure – continued **Sydbank Group**

DKKm	2012	2011
Assets measured on the basis of non-observable input		
Carrying amount at 1 Jan	1,133	1,127
Additions	101	31
Disposals	78	34
Market value adjustment	65	9
Value at 31 Dec	**1,221**	**1,133**
Recognised in profit for the year		
Interest income	32	50
Dividend	16	15
Market value adjustment	65	9
Total	**113**	**74**

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 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 it is the overall assessment that the fair value of loans and advances and deposits corresponds to the carrying amount at 31 December 2012 in all material respects.

Sydbank Group

DKKm		2012		2011
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds issued at amortised cost	3,986	3,923	7,500	7,448
Subordinated capital	1,387	975	2,125	1,388

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
2012					
Amounts owed to credit institutions and central banks	6,171	30,882	1,204	28	307
Deposits and other debt	49,171	9,134	2,042	886	4,429
Bonds issued at amortised cost	-	215	-	3,771	-
Subordinated capital	-	-	-	-	1,387
Total	**55,342**	**40,231**	**3,246**	**4,685**	**6,123**
2011					
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
Total	**46,529**	**50,527**	**10,871**	**1,603**	**5,586**

Note 40 Financial highlights — **Sydbank Group**

	2012	2011	2010	2009	2008
Income statement highlights (DKKm)					
Net interest and fee income	4,361	4,241	4,386	4,399	3,880
Market value adjustments	558	(26)	420	667	115
Staff costs and administrative expenses	2,380	2,463	2,353	2,341	2,449
Impairment of loans and advances etc	1,748	1,198	1,556	1,368	622
Profit/(Loss) on holdings in associates etc	10	(77)	2	23	17
Profit for the year	467	188	411	781	606
Balance sheet highlights (DKKbn)					
Loans and advances	74.2	76.5	83.7	87.5	95.8
Shareholders' equity	10.0	9.6	9.5	9.1	7.1
Total assets	152.7	153.4	150.8	157.8	156.0
Financial ratios per share (DKK per share of DKK 10)					
EPS Basic	6.4	2.6	5.6	11.0	9.0
Book value	137.6	131.1	129.8	124.1	105.0
Dividend	-	-	1.0	-	-
Share price/EPS	15.6	35.5	27.1	12.1	7.1
Share price/book value	0.72	0.69	1.17	1.08	0.61
Other financial ratios and key figures					
Solvency ratio	15.9	16.1	15.4	15.2	14.7
Core capital ratio	15.6	15.2	14.3	13.1	10.8
Pre-tax profit as % of average shareholders' equity	6.4	3.1	6.0	12.3	11.8
Post-tax profit as % of average shareholders' equity	4.8	2.0	4.4	9.6	8.8
Income/cost ratio (DKK)	1.14	1.08	1.13	1.24	1.24
Interest rate risk	1.8	0.9	1.5	1.0	1.4
Foreign exchange position	0.9	1.6	1.2	1.1	11.4
Foreign exchange risk	0.0	0.1	0.0	0.0	0.0
Loans and advances relative to deposits	1.0	1.0	1.2	1.2	1.2
Loans and advances relative to shareholders' equity	7.4	8.0	8.8	9.6	13.5
Growth in loans and advances for the year	(3.0)	(8.7)	(4.3)	(8.7)	15.4
Excess cover relative to statutory liquidity requirements	127.4	148.7	106.3	94.4	89.4
Total large exposures	21.6	26.3	54.4	17.2	23.8
Impairment ratio for the year	2.0	1.5	1.7	1.4	0.6

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

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

	2012	2011	2010	2009	2008
Income statement highlights (DKKm)					
Net interest and fee income	4,361	4,202	4,337	4,363	3,856
Market value adjustments	557	(33)	410	663	109
Staff costs and administrative expenses	2,390	2,380	2,301	2,302	2,402
Impairment of loans and advances etc	1,745	1,195	1,556	1,369	619
Profit/(Loss) on holdings in associates etc	4	(120)	(6)	25	(42)
Profit for the year	467	188	411	781	606
Balance sheet highlights (DKKbn)					
Loans and advances	74.4	75.8	83.0	86.9	95.6
Shareholders' equity	10.0	9.6	9.6	9.1	7.1
Total assets	152.9	153.0	150.6	157.6	155.8
Financial ratios per share (DKK per share of DKK 10)					
EPS Basic	6.4	2.6	5.6	11.0	9.0
Book value	137.6	131.1	129.8	124.1	105.0
Dividend	-	-	1.0	-	-
Share price/EPS	15.6	35.5	27.1	12.1	7.1
Share price/book value	0.72	0.69	1.17	1.08	0.61
Other financial ratios and key figures					
Solvency ratio	15.8	16.3	15.6	15.3	14.8
Core capital ratio	15.5	15.3	14.5	13.2	10.9
Pre-tax profit as % of average shareholders' equity	6.4	3.1	6.0	12.3	11.6
Post-tax profit as % of average shareholders' equity	4.8	2.0	4.4	9.6	8.8
Income/cost ratio (DKK)	1.14	1.08	1.13	1.25	1.24
Interest rate risk	1.8	0.9	1.5	1.0	1.4
Foreign exchange position	0.9	1.6	1.2	1.1	11.4
Foreign exchange risk	0.0	0.1	0.0	0.0	0.0
Loans and advances relative to deposits	1.0	1.0	1.2	1.2	1.2
Loans and advances relative to shareholders' equity	7.4	7.9	8.7	9.5	13.5
Growth in loans and advances for the year	(1.9)	(8.6)	(4.6)	(9.1)	16.0
Excess cover relative to statutory liquidity requirements	127.0	151.4	110.0	96.7	89.8
Total large exposures	21.6	26.3	54.4	17.2	23.7
Impairment ratio for the year	2.0	1.5	1.7	1.4	0.6

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

Notes

Note 41 Reporting events occurring after the balance sheet date

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

Note 42 Group holdings and enterprises

Sydbank Group

31 December 2012	Activity		Share capital (m)	Shareholders' equity (DKKm)	Result (DKKm)	Ownership share (%)
Sydbank A/S		DKK	742			
Consolidated subsidiaries						
Sydbank (Schweiz) AG in Liquidation, St. Gallen, Switzerland	Banking	CHF	40	222	(6)	100
Ejendomsselskabet af 1. juni 1986 A/S, Aabenraa	Real property	DKK	10	17	(1)	100
TB Leasing ApS, Tønder	Leasing	DKK	0	1	0	100

Note 43 Large shareholders

Silchester International Investors LLP owns more than 10% of Sydbank's share capital.

Note 44 Business combinations — **Sydbank A/S**

DKKm

On 2 November 2012 the Group took over all activities from Tønder Bank, comprising employees, clients, branches, all assets and liabilities, but not hybrid capital or supplementary capital.

Statement at fair value	
Assets	
Cash and balances on demand at central banks	204
Amounts owed by credit institutions and central banks	29
Loans and advances at amortised cost	1,467
Bonds at fair value	434
Shares etc	173
Holdings in subsidiaries	1
Intangible assets, customer relations	57
Intangible assets, other	10
Land and buildings	61
Other property, plant and equipment	3
Deferred tax assets	2
Assets in temporary possession	8
Other assets	27
Total assets	**2.476**
Liabilities	
Amounts owed to credit institutions and central banks	184
Deposits and other debt	1,945
Bonds issued	192
Other liabilities	37
Total liabilities	**2,358**
Net assets acquired	118
Purchase price	118
Difference	**0**
Contingent liabilities	
Guarantees	401

The fair value of the assets, liabilities and contingent liabilities acquired equals the cash purchase price and consequently there is no difference (goodwill).

The fair value of loans and advances is based on an assessment of the market value of the portfolio acquired. The fair value of loans and advances is determined as the present value of the cash flows which are expected to be received.

The contractual amount receivable represents gross DKK 2,022m. The net value of loans and advances before fair value adjustment represents DKK 1,883m. The fair value adjustment of loans and advances totals DKK 416m.

Transaction costs in connection with the acquisition represent DKK 1m which is recognised in the income statement under "Staff costs and administrative expenses".

Due to lacking registrations it is not possible to determine and disclose the Group's result if the date of acquisition had been 1 January 2012.

The ordinary activities of the entity acquired affect Group profit by DKK 9m for 2012.

No business combinations took place in 2011.

Notes – Financial Ratio Definitions

Financial ratio	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 restricted 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.
Accumulated impairment ratio excl PCA	Impairment charges and provisions at year-end (allowance account) divided by loans and advances at amortised cost and guarantees before impairment charges and provisions.
Impairment ratio for the year excl PCA	Impairment charges for loans and advances etc divided by loans and advances at amortised cost and guarantees before impairment charges and provisions.
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.

Notes – Derivatives

DKKm Distribution by maturity	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years	2012 Total	2011 Total
Nominal values						
Foreign exchange contracts:						
Spot, bought	7,464	-	-	-	7,464	8,253
Spot, sold	6,335	-	-	-	6,335	10,398
Forwards/futures, bought	31,211	4,231	613	-	36,055	42,178
Forwards/futures, sold	34,601	3,596	305	-	38,502	34,226
Swaps	1,226	1,460	4,034	589	7,309	12,684
Options, acquired	2,116	1,259	364	-	3,739	6,922
Options, written	2,049	1,321	329	-	3,699	7,891
Interest rate contracts:						
Spot, bought	4,414	-	-	-	4,414	5,945
Spot, sold	3,748	-	-	-	3,748	3,247
Forwards/futures, bought	5,280	2,247	1,790	-	9,317	14,766
Forwards/futures, sold	4,761	1,450	1,790	-	8,001	8,069
Forward Rate Agreements, bought	17,444	30,768	3,000	-	51,212	46,018
Forward Rate Agreements, sold	16,651	29,708	3,000	-	49,359	45,731
Swaps	23,192	27,921	76,999	98,358	226,470	254,505
Options, acquired	22,754	15,272	8,054	2,218	48,298	16,534
Options, written	22,768	17,926	6,034	2,370	49,098	14,102
Equity contracts:						
Spot, bought	199	-	-	-	199	134
Spot, sold	236	-	-	-	236	135
Forwards/futures, bought	0	0	0	-	0	0
Forwards/futures, sold	0	0	0	-	0	0
Options, acquired	0	0	0	-	0	1
Options, written	0	0	0	-	0	1
Other derivative contracts:						
Futures commodities, bought	23	60	-	-	83	106
Futures commodities, sold	23	60	-	-	83	106
Options, acquired	-	-	-	-	-	-
Options, written	-	-	-	-	-	-
Credit Default Swaps	-	18	594	-	612	2,888

DKKm Distribution by maturity	3 months or less	Over 3 months not exceeding 1 year	Over 1 year not exceeding 5 years	Over 5 years	2012 Total	2011 Total
Net market values						
Foreign exchange contracts:						
Spot, bought	(1)	-	-	-	(1)	(5)
Spot, sold	5	-	-	-	5	(5)
Forwards/futures, bought	(147)	(101)	5	-	(243)	512
Forwards/futures, sold	433	81	3	-	517	(297)
Swaps	65	(14)	53	80	184	229
Options, acquired	13	5	2	-	20	65
Options, written	(10)	(4)	(1)	-	(15)	(57)
Interest rate contracts:						
Spot, bought	9	-	-	-	9	33
Spot, sold	(9)	-	-	-	(9)	(20)
Forwards/futures, bought	4	0	0	-	4	5
Forwards/futures, sold	(5)	0	0	-	(5)	12
Forward Rate Agreements, bought	(28)	(19)	(1)	-	(48)	(135)
Forward Rate Agreements, sold	24	20	1	-	45	149
Swaps	(61)	26	(500)	(183)	(718)	(731)
Options, acquired	71	278	206	192	747	549
Options, written	(74)	(262)	(157)	(154)	(647)	(543)
Equity contracts:						
Spot, bought	(7)	-	-	-	(7)	2
Spot, sold	7	-	-	-	7	(2)
Forwards/futures, bought	0	0	0	-	0	1
Forwards/futures, sold	0	0	0	-	0	(1)
Options, acquired	0	0	0	-	1	1
Options, written	(1)	0	0	-	(1)	(1)
Other derivative contracts:						
Futures commodities, bought	0	0	-	-	0	(1)
Futures commodities, sold	0	0	-	-	0	1
Options, acquired	-	-	-	-	0	0
Options, written	-	-	-	-	0	0
Credit Default Swaps	-	0	0	-	0	4
Total net market values					**(155)**	**(235)**

Notes – Derivatives

DKKm	Total contracts 2012*			Total contracts 2011*		
	Positive	Negative	Net	Positive	Negative	Net
Market values						
Foreign exchange contracts:						
Spot, bought	18	(19)	(1)	7	(12)	(5)
Spot, sold	12	(7)	5	12	(17)	(5)
Forwards/futures, bought	256	(499)	(243)	875	(363)	512
Forwards/futures, sold	721	(204)	517	534	(831)	(297)
Swaps	361	(177)	184	681	(452)	229
Options, acquired	20	0	20	65	0	65
Options, written	0	(15)	(15)	0	(57)	(57)
Interest rate contracts:						
Spot, bought	10	(1)	9	45	(12)	33
Spot, sold	1	(10)	(9)	1	(21)	(20)
Forwards/futures, bought	4	0	4	6	(1)	5
Forwards/futures, sold	0	(5)	(5)	14	(2)	12
Forward Rate Agreements, bought	1	(49)	(48)	0	(135)	(135)
Forward Rate Agreements, sold	46	(1)	45	149	0	149
Swaps	13,572	(14,290)	(718)	10,840	(11,571)	(731)
Options, acquired	748	(1)	747	549	0	549
Options, written	8	(655)	(647)	0	(543)	(543)
Equity contracts:						
Spot, bought	1	(8)	(7)	2	0	2
Spot, sold	8	(1)	7	0	(2)	(2)
Forwards/futures, bought	0	0	0	2	(1)	1
Forwards/futures, sold	0	0	0	0	(1)	(1)
Options, acquired	1	0	1	1	0	1
Options, written	0	(1)	(1)	0	(1)	(1)
Other derivative contracts:						
Futures commodities, bought	0	0	0	0	(1)	(1)
Futures commodities, sold	0	0	0	1	0	1
Options, acquired	0	0	0	0	0	0
Options, written	0	0	0	0	0	0
Credit Default Swaps	6	(6)	0	91	(87)	4
Total market values	**15,794**	**(15,949)**	**(155)**	**13,875**	**(14,110)**	**(235)**

* All contracts are non-guaranteed.

DKKm	Market values		Collateral		Exposure by counterparty	
2012	Positive	Negative	Provided	Received*	Amount due	Amount owed
Exposure						
Counterparties with CSA agreements	13,669	15,438	2,874	977	348	220
Counterparties without CSA agreements	2,125	511	-	-	1,803	188
Total	**15,794**	**15,949**	**2,874**	**977**	**2,151**	**408**

* Cash and securities received.

DKKm		Total contracts 2012			Total contracts 2011	
	Positive	Negative	Net	Positive	Negative	Net
Average market values						
Foreign exchange contracts:						
Spot, bought	14	(22)	(8)	25	(28)	(3)
Spot, sold	15	(19)	(4)	26	(33)	(7)
Forwards/futures, bought	550	(401)	149	590	(540)	50
Forwards/futures, sold	566	(285)	281	649	(344)	305
Swaps	476	(266)	210	869	(363)	506
Options, acquired	34	0	34	61	0	61
Options, written	0	(29)	(29)	0	(50)	(50)
Interest rate contracts:						
Spot, bought	24	(34)	(10)	40	(38)	2
Spot, sold	33	(24)	9	36	(34)	2
Forwards/futures, bought	17	(44)	(27)	12	(9)	3
Forwards/futures, sold	47	(11)	36	10	(19)	(9)
Forward Rate Agreements, bought	1	(82)	(81)	12	(72)	(60)
Forward Rate Agreements, sold	81	(2)	79	75	(13)	62
Swaps	12,364	(13,024)	(660)	7,047	(7,501)	(454)
Options, acquired	592	0	592	440	0	440
Options, written	0	(700)	(700)	3	(434)	(431)
Equity contracts:						
Spot, bought	6	(10)	(4)	5	(7)	(2)
Spot, sold	18	(22)	(4)	9	(7)	2
Forwards/futures, bought	2	0	2	11	(1)	10
Forwards/futures, sold	8	(6)	2	39	(30)	9
Options, acquired	2	0	2	1	0	1
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	0	0
Credit Default Swaps	45	(42)	3	72	(68)	4
Total average market values	**14,895**	**(15,025)**	**(130)**	**10,032**	**(9,593)**	**439**

Average market value calculations are based on monthly statements.

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

* Cash and securities received.

Notes – Risk Management

On the basis of the strategic objectives for the Group, the Board of Directors has issued guidelines for the Group Executive Management and has adopted policies as regards credit risk, liquidity risk, market risk, operational risk, insurance and IT security.

Credits is responsible for the day-to-day handling of credit risk; Sydbank Markets is responsible for the day-to-day handling of liquidity and market risks. The individual areas of expertise are each responsible for the day-to-day handling of operational risk. Accounting & Risk Management is responsible for handling the Group's insurances; Group Executive Management Secretariat & IT is responsible for the Group's IT security.

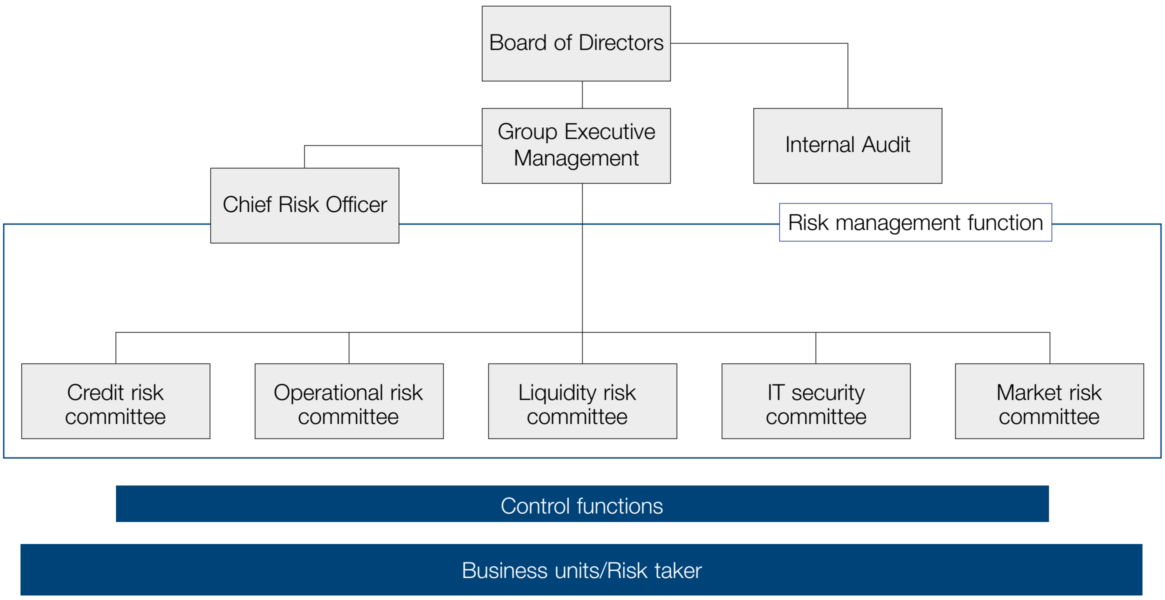
Overall risk management, including ongoing reporting to the Group Executive Management and the Board of Directors, is handled by Accounting & Risk Management and the CFO is the Chief Risk Officer (CRO) of the Sydbank Group.

Risk management is supported by the Group's risk organisation, see the chart below.

The relevant areas of expertise are represented in the committees, each headed by a Group Executive Management member. The CRO is a member of all committees.

It is the responsibility of the risk committees to identify, assess and follow up on the Group's risks within their respective risk areas, including principles to determine risk, models applied and to assess whether exposures and risks comply with the Group's intended profile and policy.

The committees meet as a minimum every quarter and prepare as a minimum once a year a risk analysis which is included as an important element in 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 on a regular basis to the Board of Directors 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 depend on or 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 5.0% at 31 December 2012.
- After the deduction of the loan value of any collateral, the 10 largest exposures (consolidated according to the Group's principles 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 4.6% at 31 December 2012.
- As a main rule no exposure to a single client (consolidated according to the Group's principles 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 2012.

According to the Group's credit policy, loans and advances and guarantees to exposures in the property sector as well as the building and construction sector may not exceed 20% of the Group's total lending and guarantee portfolio. The figure stood at 14.1% at 31 December 2012.

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 7.4% at 31 December 2012.

Credit risk to financial counterparties

Trading in securities, currencies and derivatives, as well as pay-

* In addition to calculating exposures according to section 145 of the Danish Financial Business Act, the Group 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.

ment services etc involve exposure to financial counterparties in the form of delivery risk or credit risk.

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®, which aims to reduce delivery risk. In CLS® 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 37,984m (2011: DKK 36,457m) and the net exposure to financial counterparties represents DKK 7,545m (2011: DKK 10,610m).

Financial counterparties by counterparty type

DKKm	Gross exposure*		Net exposure*	
	2012	2011	2012	2011
Governments etc	3,678	6,472	2,052	4,175
Institutions, repo/reverse	28,338	23,023	1,305	1,029
Institutions, other	5,968	6,962	4,188	5,406
Total	**37,984**	**36,457**	**7,545**	**10,610**

* Gross exposure and net exposure are defined in "Credit Risk 2012" which is available at sydbank.com. Gross exposure determination takes undrawn credit commitments etc 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 situation 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 the 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 comprised by the rating models.

These exposures mainly consist of exposures taken over from Tønder Bank.

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 32,887m (2011: DKK 32,852m) and the net exposure to retail clients represents DKK 26,783m (2011: DKK 25,989m).

Retail clients by rating category and approach

DKKm	Gross exposure		Net exposure	
	2012	2011	2012	2011
Rating category 1	10,543	9,827	8,490	7,726
Rating category 2	7,780	8,406	6,086	6,386
Rating category 3	5,835	6,557	4,856	5,175
Rating category 4	2,557	3,244	2,165	2,683
Rating category 5	1,771	2,265	1,484	1,850
Rating category 6	864	934	742	787
Rating category 7	295	342	237	269
Rating category 8	256	309	211	257
Rating category 9	1,082	571	959	498
Default	225	238	203	203
Total IRB	**31,208**	**32,693**	**25,433**	**25,834**
Standardised Approach	1,679	159	1,350	155
Total	**32,887**	**32,852**	**26,783**	**25,989**

In 2012 the Group changed its PD scale as regards the assignment of retail clients to rating categories. As a result of the transition to a new and improved rating approach in 2011, clients were predominantly assigned to the best and poorest rating categories. Reference is made to "Credit Risk 2012" (unaudited) for a detailed description.

The above table shows the rating breakdown according to the new PD scale; comparative figures have been restated accordingly.

Corporate clients

As a rule corporate clients are serviced 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 its feasibility.

The corporate client 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 87,256m (2011: DKK 84,458m) and the net exposure to corporate clients represents DKK 51,492m (2011: DKK 49,324m).

Corporate clients by rating category and approach

DKKm	Gross exposure		Net exposure	
	2012	2011	2012	2011
Rating category 1	5,774	6,501	2,998	2,796
Rating category 2	27,052	24,201	10,671	8,337
Rating category 3	19,880	16,632	11,843	9,978
Rating category 4	12,560	12,809	8,490	8,827
Rating category 5	7,609	9,540	5,347	6,943
Rating category 6	2,474	3,344	1,935	2,630
Rating category 7	1,564	2,302	1,321	1,921
Rating category 8	905	2,021	801	1,702
Rating category 9	6,146	3,687	5,336	3,158
Default	2,010	1,847	1,841	1,669
Total IRB	**85,974**	**82,884**	**50,583**	**47,961**
Standardised Approach	1,282	1,574	909	1,363
Total	**87,256**	**84,458**	**51,492**	**49,324**

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 2012" (unaudited) which is available at sydbank.com.

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 prices.

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 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 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 the Group's overall market risk.

In accordance with the method of calculation of the Danish FSA, interest rate risk is calculated as the change in market value at a parallel shift in the interest rate level of plus 1 percentage point in all currencies and represents minus DKK 198m or 1.8% of the Group's core capital incl hybrid core capital at year-end.

Interest rate risk by duration and currency

DKKm	0-1 yr	1-2 yrs	2-3 yrs	> 3 yrs	Total 2012	Total 2011
DKK	(25)	9	62	0	46	178
EUR	22	(16)	10	(202)	(186)	(237)
EUR/DKK	(3)	(7)	72	(202)	(140)	(59)
USD	(1)	0	(1)	(61)	(63)	(25)
CHF	0	0	1	1	2	(12)
Other	2	0	0	1	3	1
Total 2012	**(2)**	**(7)**	**72**	**(261)**	**(198)**	
Total 2011	**2**	**(51)**	**200**	**(246)**		**(95)**

If positions in EUR and DKK are considered as one, the Group has no significant interest rate risk in the event of changes in short-term interest rates (< 2 years). Apart from EUR/DKK the Group has a significant interest rate risk only in USD.

The Group's interest rate risk is negative, ie the Group's profit will be favourably affected by an interest rate increase, in this case particularly in the event of a rise in long-term interest rates (> 2 years).

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. Moreover the scenario allocates the interest rate risk to underlying curves (the government curve, the Danish mortgage curve and the swap curve) and the scenario risk cannot be lower than the numerically highest risk of the individual curves. In addition a premium is recognised for options. As at 31 December 2012 this risk measure constitutes DKK 277m.

The scenario is used eg in connection with the calculation of the Group's solvency need.

Equity risk
The Group's portfolio of shares and holdings in associates represents DKK 1,552m at year-end (2011: DKK 1,473m), including equity investments totalling DKK 1,283m (2011: 1,178m).

In the event of a 10% change in share prices, profit before tax will be affected by DKK 155m (2011: DKK 147m), including equity investments totalling DKK 128m (2011: DKK 118m).

Foreign exchange risk
As in previous years the Group's foreign exchange risk was insignificant in 2012 and consequently a 10% change in foreign exchange rates against DKK as at 31 December 2012 will not affect profit before tax significantly.

Other market risks
The Group does not have any other significant market risks as at 31 December 2012.

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 risk 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:

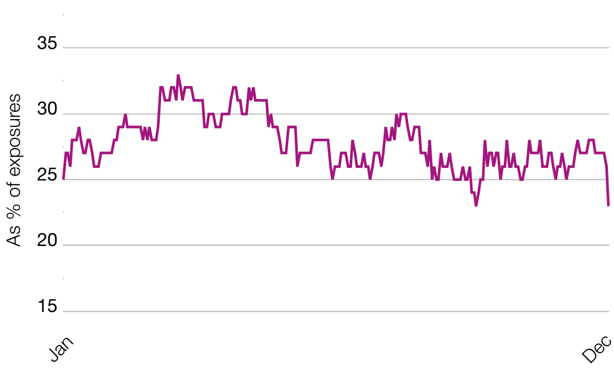
- Consistently strong and stable deposit base which ensures stability in the long-term funding of the Group's lending activities.
- Maintenance of a relatively high level of ratings with Moody's.
- Active participation in the international money markets as well as access to the international capital markets through the application of loan programmes. Coupled with a relatively 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 (the 10% requirement)).
- 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 2012, measured in relation to the 10% requirement, appears from the chart below.

Liquidity in 2012



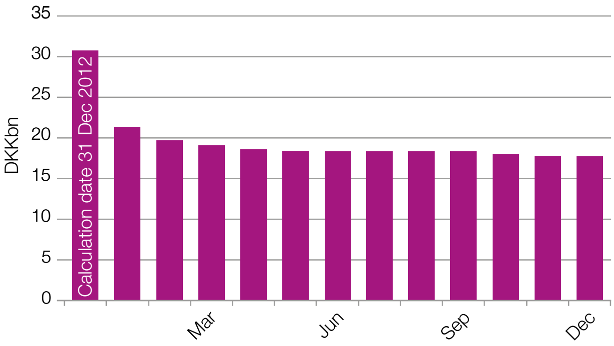
The size of liquidity is adjusted to the maturity profile of exposures to enable the Group to honour debt and guarantee exposures as they mature. Reference is made to note 39 for the maturity profiles of the Group's debt exposures.

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 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 2012 expressed by

Moody's 12-month liquidity curve



Moody's 12-month liquidity curve is shown below.
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, eg 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.

During 1H 2013 the Group will decide whether to issue senior loans with longer maturities. The considerations will be based on the Group's satisfactory liquidity situation, developments in loans and advances and deposits as well as its expectations in the period ahead. For several years the Group's loans and advances have fallen while deposits have risen. Moreover, deposits are now of a more stable nature and overall this means a reduced need for the relatively expensive funding via bond issues.

The existing bond issue of EUR 0.5bn (DKK 3.7bn) will mature at the beginning of 2014.

New regulations are under way, nationally and internationally, which pose further requirements in terms of liquidity. Contrary to expectations a new capital requirements directive (CRD IV) was not adopted in 2012 but it is expected to be adopted during the first six months of 2013.

CRD IV is based on the recommendations of the Basel Committee (Basel III) and imposes requirements for liquidity buffer size and composition in the context of a stress scenario of 30 days' duration (LCR – Liquidity Coverage Ratio). It is of vital importance to the Group as well as the Danish banking and mortgage industry that Danish mortgage bonds may be included in the liquidity buffer, which the most recent CRD IV drafts allow for.

The Group has followed developments in the drafting of CRD IV and has made the relevant preparations, eg over a long period of time the Group has reallocated the treasury portfolio to assets which are expected to be eligible for inclusion in LCR. On the basis of the most recent draft CRD IV, the Group meets the LCR requirements.

The Group does not include the credit facilities of Danmarks Nationalbank in its calculation of the Group's liquidity under section 152 of the Danish Financial Business Act or as regards the calculation of the Moody's curve.

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

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 2012 the Group's total capital requirement for operational risk represented DKK 670m (2011: DKK 646m).

IT security

IT supply is a significant operational 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.

A growing share of the transactions at the Bank is initiated via clients' use of the net banks that have been made available. Some of these payments are subject to control before being executed.

Notes – Capital Base

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% of risk-weighted assets plus any additional individual capital needed. Detailed rules regulate the calculation of capital and 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. The Danish executive order on the calculation of capital base specifies 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 2012, 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 2012 the Group has met regulatory capital requirements as well as internal capital targets.

Management Statement

We have reviewed and approved the 2012 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 2012 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 2012. 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, 20 February 2013

Group Executive Management

Karen Frøsig
(CEO)

Preben Lund Hansen

Board of Directors

Anders Thoustrup
(Chairman)

Hanni Toosbuy Kasprzak
(Vice-Chairman)

Svend Erik Busk

Claus Christensen

Peder Damgaard

Harry Max Friedrichsen

Erik Bank Lauridsen

Steen Tophøj

Jan Uldahl-Jensen

Margrethe Weber

Auditors' Reports

Internal Audit

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 2012. 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. Furthermore, 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 2012 and of the results of the Group's and the parent company operations and cash flows for the financial year 1 January – 31 December 2012 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, 20 February 2013

Ole Kirkbak
Head of Internal Audit

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 2012. 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 accordance 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 effective-ness 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

31 December 2012 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 2012 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, 20 February 2013

KPMG
Statsautoriseret Revisionspartnerselskab

Jakob Nyborg
State Authorised Public Accountant

Jon Midtgaard
State Authorised Public Accountant

Company Announcements and Financial Calendar

Announcements to NASDAQ OMX Copenhagen A/S 2012

No	Date	Contents
01/2012	31 January 2012	New Group Executive Management member
02/2012	7 February 2012	Sydbank and BRFkredit to make agreement on joint funding of the Bank's housing loans
03/2012	15 February 2012	Notice convening the Annual General Meeting of Sydbank A/S
04/2012	22 February 2012	Announcement of the 2011 Financial Statements
05/2012	23 February 2012	Issue of new 2-year senior debt and purchase offer of existing senior debt
06/2012	23 February 2012	Early repayment of subordinated loan
07/2012	15 March 2012	Annual General Meeting of Sydbank A/S
08/2012	16 March 2012	Sydbank's Board of Directors
09/2012	21 March 2012	Major shareholder announcement according to section 29 of the Danish Securities Trading etc Act
10/2012	29 March 2012	Financial calendar Sydbank 2012
11/2012	2 May 2012	Interim Report – Q1 2012
12/2012	7 May 2012	Sydbank's Group Executive Management
13/2012	31 May 2012	Moody's has lowered Sydbank's rating
14/2012	22 August 2012	Interim Report – First Half 2012
15/2012	1 October 2012	Major shareholder announcement according to section 29 of the Danish Securities Trading Act
16/2012	3 October 2012	EU-wide capital test
17/2012	30 October 2012	Interim Report – Q1-Q3 2012
18/2012	2 November 2012	Sydbank to take over the banking activities from Tønder Bank
19/2012	18 December 2012	Sydbank to record additional impairment charges in 2012. Profit for the year is projected to represent around DKK 600m before tax

2013 Financial Calendar

20 February 2013	Announcement of the 2012 Financial Statements
14 March 2013	Annual General Meeting of Sydbank A/S
1 May 2013	Interim Report – Q1 2013
21 August 2013	Interim Report – First Half 2013
29 October 2013	Interim Report – Q1-Q3 2013

Shareholders' Meetings 2013

Town	Date	Time	Venue
Copenhagen	Thursday 21 March	6.30pm	The Black Diamond, The Queen's Hall
Esbjerg	Thursday 21 March	6.30pm	Musikhuset
Gråsten	Monday 8 April	6.30pm	Ahlmannsparken
Horsens	Wednesday 3 April	6.30pm	Forum Horsens
Kolding	Thursday 4 April	6.30pm	Kolding Teater
Nordborg	Monday 18 March	6.30pm	Nørherredhus
Odense	Monday 8 April	6.30pm	Odense Congress Center
Padborg	Tuesday 19 March	6.30pm	Grænsehal 3, Kruså
Svendborg	Thursday 4 April	6.30pm	Svendborg Teater
Sønderborg	Tuesday 19 March	6.30pm	Frihedshallen
Tønder	Wednesday 3 April	6.30pm	Tønderhal 2
Varde	Tuesday 2 April	6.30pm	Hotel Arnbjerg
Vejle	Wednesday 20 March	6.30pm	Musikteatret
Aabenraa	Monday 18 March	6.30pm	Aabenraa Svømme- og Idrætscenter
Aarhus	Wednesday 20 March	6.30pm	Scandinavian Congress Center

Notice Convening the Annual General Meeting

Notice Convening the Annual General Meeting of Sydbank A/S

Sydbank's Annual General Meeting will be held on Thursday 14 March 2013 at 3:00pm in Sønderjyllandshallen, H.P. Hanssensgade 7, 6200 Aabenraa, Denmark.

Agenda according to Article 8 of the Articles of Association:

1. Report of the Board of Directors on the Bank's activities in 2012.
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. Proposals to amend the Articles of Association as follows:
   a. In Article 2 (2) to replace "VP Securities" with "VP Securities A/S".
   b. In Article 8 (2) to delete item 6: "Authorisation to the Board of Directors to allow the Bank to acquire own shares". Item 7 will be item 6 and item 8 will be item 7.
   c. In Article 12 (1) to delete the word "shareholders".
   d. To amend Article 12 (2) to: "The composition of the Shareholders' Committee shall be geographically representative of the regional division of the Bank. A number of members for each region shall be elected to the Shareholders' Committee. The number shall be determined by the General Meeting on the recommendation of the Board of Directors. The distribution aims to reflect the relative composition of shareholders as well as the Bank's historical and business structure."
   e. To amend Article 12 (3) to: "Personal shareholders of the Bank who meet the statutory requirements regarding suitability and integrity of members of a bank's board of directors and who at the time of election have not yet attained the age of 70 shall be eligible for election to the Shareholders' Committee. A candidate for the Shareholders' Committee may at the same General Meeting only offer himself as a candidate for one region."
   f. To amend Article 12 (4) to: "Shareholders' Committee members shall be elected for a term of 3 years at a time. Members shall be eligible for re-election. When a member of the Shareholders' Committee attains the age of 70, he shall vacate office at the next Annual General Meeting."
   g. To amend Article 12 (6) to: "Each year the Shareholders' Committee shall elect from among its number a chairman and a vice-chairman."
   h. In Article 16 (1) to add after the first sentence the following: "In exceptional cases Board members may be elected from outside the Shareholders' Committee, in particular with a view to ensuring specific qualifications within the Board of Directors. Board members elected from outside the Shareholders' Committee shall meet the statutory requirements regarding suitability and integrity of members of a bank's board of directors and shall not yet have attained the age of 70 at the time of election."
   i. To delete Article 16 (2). Article 16 (3) will be Article 16 (2).
   j. To insert as a new Article 16 (3) the following: "Board members elected by the Shareholders' Committee shall be elected for a term of 3 years at a time. Members shall be eligible for re-election. When a member of the Board of Directors attains the age of 70, he shall vacate office no later than at the next Annual General Meeting."
   k. To insert as a new Article 16 (4) the following: "No member may serve on the Board of Directors for more than 12 years. The Shareholders' Committee may in exceptional cases grant an exemption from the 12-year limit, in particular with a view to ensuring specific qualifications or experience within the Board of Directors."

l. In Article 16 (5) to alter "another" to "competing".
m. To insert as a new Article 16 (6) the following: "If the number of members of the Board of Directors is reduced to less than 6 by vacancy, the Shareholders' Committee shall add to the number of Board members as soon as possible in order to increase the number of members to at least 6."
n. To insert as a new Article 22 the following: "The amendments adopted by the General Meeting on 14 March 2013 concerning terms of office in Article 12 (4) and Article 16 (3) shall apply to all already elected members of the Shareholders' Committee and the Board of Directors, always provided that a shortening of the term of office shall not take effect before the Bank's Annual General Meeting in 2014. The adopted amendment to Article 16 (4) concerning the limitation on the term of Board members shall not take effect with respect to already elected Board members until their term of office ends."

5. Election of members to the Shareholders' Committee.
6. Appointment of auditor.
7. Authorisation to 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. This authorisation shall apply for 5 years.
8. Any other business.

The agenda, complete proposals and audited annual report will be available for in-spection by the shareholders at sydbank.dk/generalforsamling and 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 raise questions at the General Meeting and to vote according to the number of shares held by a shareholder on the date of registration, which is 7 March 2013.

Admission cards for the General Meeting can be ordered at any of Sydbank's branches or at sydbank.dk/generalforsamling and sydbank.com/generalmeeting no later than Friday 8 March 2013.

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 8 March 2013 and postal votes must have been received by the Bank no later than 12 March 2013.

Aabenraa, 13 February 2013

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 15 March 2012 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: 2016.
Chairman of Remuneration Committee, Chairman of Nomination Committee and member of Audit Committee.

General Manager, Chairman of the Boards of Directors of B.N. Skilte Randers A/S, Randers Investeringsselskab A/S, Maskinfabrikken Fornax A/S and AGLsign ApS. Member of the Boards of Directors of Fond til fordel for almenvellet i Randers og omegn, Vækstfonden, Hotel Randers A/S, Aktieselskabet af 1. august 1942, Sonja og Wilhelm Mathisens Fond, Randers Parkering & Service A/S, Somawhe Estates Ltd., Zambia and A/S Randers Maskin-, Automobil- og Tandhjulsfabrik. Member of the Boards 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 and Nomination 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, ECCO USA Inc., ECCO Europe, Middle East & Africa B.V. and Toosbuys Fond. General Manager of Anpartsselskabet af 1. oktober 2011. Vice-Chairman of the Board of Directors of 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.

General Manager, Chairman of the Boards of Directors of 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 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.
Member of Audit Committee and Nomination Committee.

Managing Director, Chairman of the Boards of Directors of M-Tec Holding, Pandrup ApS, M-Tec TrackUnit A/S, M-Tec Production A/S, Danphone A/S, House of BI A/S, Strøm Hansen A/S, Hesa Holding A/S, Hesa Ejendomme A/S and Scape Technologies A/S. Vice-Chairman of the Board of Directors of KPF Arkitekter A/S. Member of the Boards of Directors of Judex Holding A/S, Medical Insight A/S, Novi Innovation A/S, Judex A/S and Aalborg Energie Technik A/S. Member of the Boards of Directors of and General Manager of IVON A/S, HC Projects A/S and HCH A/S. General Manager of CC Holding ApS, B&C Holding, Aalborg ApS and HC Invest ApS.

Peder Damgaard
Kruså
Born 13 December 1956.
Elected to Board of Directors in 2006.
Expiry of current term of office: 2014.
Member of Remuneration Committee.

General Manager, former Principal, Chairman of the Board of Directors of BHJ Fonden. Member of the Board of Directors of Rødding Højskole. General Manager of Gråsten Andelsboligforening.

Erik Bank Lauridsen
Esbjerg
Born 31 January 1952.
Elected to Board of Directors in 2011.
Expiry of current term of office: 2015.
Member of Remuneration Committee.

General Manager, Chairman of the Boards of Directors of Arnbjergparken I/S, Arnbjerg Pavillonen I/S, Concens A/S and Green Force Company 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, West-Coast Real Estate A/S, REKA Management A/S, West-Coast Real Estate Herlev A/S, BROMBÆRPARKEN BYGN. A A/S and BROMBÆRPARKEN BYGN. B A/S. General Manager of E.B.L. III ApS and E.B.L. II 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. Chairman of Bogføringsforeningen Bankdata. Chairman of Regional Bankers' Association. Member of the Boards of Directors of PRAS A/S, The Danish Bankers Association, Totalkredit A/S and BI Holding A/S.

Deputy Group Chief Executive
Preben Lund Hansen
Born 21 January 1950.
Group Executive Management member since 1992.
Member of the Boards of Directors of DLR Kredit A/S and Ejendomsselskabet af 1. juni 1986 A/S.

Regions

Esbjerg Region
Brian Knudsen
Group Executive Vice President

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

Odense Region
Claus Braad Hansen
Group Executive Vice President

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

Aabenraa Region
Henning Danielsen Dam
Group Executive Vice President

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

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

Slagelse Region
Mogens Nygaard
Group Executive Vice President

Regional head office
Schweizerpladsen 1A, DK-4200 Slagelse
Tel +45 74 37 94 00

Aarhus Region
Torben R. Rasmussen
Group Executive Vice President

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

Kolding Region
Thomas Thoft Madsen
Group Executive Vice President

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

Sønderborg Region
Bente Holm Skylvad
Group Executive Vice President

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

Sydbank in Germany
Kim Møller Nielsen
Group Executive Vice President

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

Herning Region
Claus Brændstrup
Group Executive Vice President

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

Vejle Region
Tina Kromann Lyngsø
Group Executive Vice President

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

Sydbank Agriculture
Arne Jørgensen
Group Executive Vice President

Sydbank Agricultural Centre
Hærvejen 41, DK-6230 Rødekro
Tel +45 74 37 42 90

Organisation

Board of Directors

Internal Audit
Ole Kirkbak

Group Executive Management

Karen Frøsig

Preben Lund Hansen

Central functions

Corporate Banking & Finance
Bjarne Larsen

Group Executive Management Secretariat & IT
Niels Møllegaard

Operations
Niels Skylvad

Business Processes
Mogens Kristensen

Legal Department & Compliance
Stig Westergaard

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

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

Sydbank in Germany
Kim Møller Nielsen

Esbjerg Region
Brian Knudsen

Vejle Region
Tina Kromann Lyngsø

Aarhus/Aalborg Region
Torben R. Rasmussen

Sydbank Agriculture
Arne Jørgensen

Sydbank A/S
CVR No DK 12626509

Peberlyk 4
6200 Aabenraa
Denmark

Tel +45 74 37 37 37

info@sydbank.dk
sydbank.com

Sydbank