

## Sydbank's Interim Report – Q1 2014

### Improved profitability and continued client satisfaction at Sydbank

Sydbank's financial statements for Q1 show that the Bank has had a reasonable start to 2014. Today the Bank presents a plan to improve profitability by the beginning of 2016. Profitability is to be improved while Sydbank continues to build on its high client satisfaction.

Karen Frøsig, CEO:

"We have had a reasonable start to the year with growth in our business volume, a continued inflow of new clients and rising income. Income has gone up by 9% since the turn of the year in a market with fierce competition."

She adds:

"Sydbank is on the right track but there is still room for improvement. This is why today we present a plan to improve profitability by increasing income, reducing costs and lowering impairment charges – while maintaining the high level of satisfaction among our clients."

#### Q1 performance

*(Comparative figures for Q1 2013 are shown in brackets)*

Profit before tax amounted to DKK 331m (DKK 184m). This includes an income of DKK 148m concerning the sale of Nets.

- ▶ Income rose to DKK 1,141m – an increase of 2% compared to Q1 2013 and 9% compared to Q4 2013. Deposits and loans and advances have gone up since the turn of the year and the Bank is experiencing a continued inflow of new clients.
- ▶ Costs (core earnings) rose to DKK 704m (DKK 661m) as a result of the acquisition of DiBa Bank.
- ▶ Impairment charges fell to DKK 319m (DKK 349m) after an extraordinary review of small exposures.

#### New plan to improve Sydbank's profitability

- ▶ Income is to be strengthened by DKK 200m compared to the level at the end of 2013.
- ▶ Costs (core earnings) are to be reduced by DKK 200m compared to the level at the end of 2013. DKK 50m of the savings will be allocated to supplementary training, product development and IT investments.
- ▶ Lower impairment charges through focus on credit quality and development of systems and procedures.

#### Outlook for 2014

Sydbank continues to project rising core income and trading income. A continued rise in costs (core earnings) is projected – partly as a result of the acquisition of DiBa Bank, and partly as a consequence of the activities implemented; however the growth rate will be lower than in Q1. Expectations for impairment charges are narrowed to DKK 950-1,100m where the previously announced expectation was "lower" than the realised DKK 1,861m in 2013. Integration and restructuring costs are forecast to total around DKK 75m. This includes the formerly expected DKK 50m for the integration of DiBa Bank as well as DKK 25m for restructuring in accordance with Sydbank's new profitability improvement plan.

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*Karen Frøsig, CEO, Bjarne Larsen, Deputy Group Chief Executive, and Jan Svarre, Deputy Group Chief Executive, will review the Q1 Report today at 10.30 (CET) at a teleconference for analysts, investors and journalists. The teleconference will be held in Danish and may be followed via [www.sydbank.dk/audiocast](http://www.sydbank.dk/audiocast).*

*To participate in the teleconference, please place your call by 10.25 (CET).*

*Participants from Denmark: 70 25 23 00 or 70 25 67 00.*

*Participants outside Denmark: +44 208 817 93 11.*

*Use the following code to log in: 7834 4671#*

# Interim Report – Q1 2014

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## Group Financial Highlights

	Q1 2014	Q1 2013	Index 14/13	Full year 2013
<b>Income statement (DKK m)</b>				
Core income	1,055	1,036	102	4,058
Trading income	86	86	100	229
<b>Total income</b>	<b>1,141</b>	<b>1,122</b>	<b>102</b>	<b>4,287</b>
Costs, core earnings	704	661	107	2,514
<b>Core earnings before impairment</b>	<b>437</b>	<b>461</b>	<b>95</b>	<b>1,773</b>
Impairment of loans and advances etc	319	349	91	1,861
<b>Core earnings</b>	<b>118</b>	<b>112</b>	<b>105</b>	<b>(88)</b>
Investment portfolio earnings	84	87	97	319
<b>Profit before non-recurring items and industry solutions</b>	<b>202</b>	<b>199</b>	<b>102</b>	<b>231</b>
Non-recurring items, net	129	-	-	(43)
Contributions to industry solutions	0	15	-	17
<b>Profit before tax</b>	<b>331</b>	<b>184</b>	<b>180</b>	<b>171</b>
Tax	45	47	96	(16)
<b>Profit for the period</b>	<b>286</b>	<b>137</b>	<b>209</b>	<b>187</b>
<b>Balance sheet highlights (DKK bn)</b>				
Loans and advances at amortised cost	67.2	67.9	99	66.6
Loans and advances at fair value	6.1	5.8	105	4.9
Deposits and other debt	72.0	66.7	108	70.0
Bonds issued at amortised cost	3.7	3.8	97	6.5
Subordinated capital	1.5	1.4	107	1.8
Shareholders' equity	10.5	10.2	103	10.2
Total assets	143.4	155.4	92	147.9
<b>Financial ratios per share (DKK per share of DKK 10)</b>				
EPS Basic **	3.9	1.9		2.5
EPS Diluted **	3.9	1.9		2.5
Share price at end of period	138.7	119.1		144.0
Book value	143.5	139.3		139.7
Share price/book value	0.97	0.86		1.03
Average number of shares outstanding (in millions)	73.3	73.0		73.4
Dividend per share	-	-		-
<b>Other financial ratios and key figures</b>				
Solvency ratio	15.8	15.7		15.7
Core capital (incl hybrid core capital) ratio	15.3	15.3		15.3
Common equity Tier 1 capital ratio	13.8	13.7		13.4
Pre-tax profit as % of average shareholders' equity **	3.2	1.8		1.7
Post-tax profit as % of average shareholders' equity **	2.7	1.4		1.8
Costs (core earnings) as % of total income	61.7	58.9		58.6
Interest rate risk	0.6	1.7		0.6
Foreign exchange position	9.2	4.6		2.1
Foreign exchange risk	0.2	0.1		0.0
Loans and advances relative to deposits *	0.8	0.9		0.8
Loans and advances relative to shareholders' equity *	6.4	6.7		6.5
Growth in loans and advances for the period *	0.9	(0.4)		(2.3)
Excess cover relative to statutory liquidity requirements	182.9	147.6		179.8
Total large exposures	35.5	10.4		25.8
Accumulated impairment ratio	5.2	3.9		5.1
Impairment ratio for the period **	0.36	0.45		2.20
Number of full-time staff at end of period	2,201	2,106	105	2,231

\* Financial ratios are calculated on the basis of loans and advances at amortised cost.

\*\* Ratios have not been converted to a full-year basis.

## Highlights

### Improved profitability and continued client satisfaction at Sydbank

Sydbank's financial statements for Q1 show a pre-tax profit of DKK 331m compared with DKK 184m in Q1 2013. Of the improved profit DKK 144m is attributable to non-recurring items and industry solutions. The result is in line with the expectations presented in the 2013 Annual Report.

Using Sydbank's high client satisfaction as a starting point, the Bank will take steps to increase profitability. Consequently the Bank presents a plan today to improve core income by DKK 200m and at the same time reduce costs (core earnings) by DKK 200m by the beginning of 2016 in addition to the expected reduction of the Bank's impairment charges for loans and advances.

### Q1 performance

Profit before tax in Q1 2014 has improved since the same period one year ago. Pre-tax profit represents DKK 331m compared to DKK 184m in Q1 2013. The Q1 financial statements include extraordinary income from the sale of Sydbank's ownership interest in Nets, equal to an income of DKK 148m.

The sector continues to experience considerable competition, which has put pressure on the Bank's core income. The trend towards falling core income throughout 2013 has stopped during the quarter and the Bank's core income has risen by DKK 19m. Trading income is at a stable level compared with the same period in 2013.

During the quarter Sydbank recorded an increase in loans and advances of DKK 0.6bn compared to the level at the turn of the year. This is satisfactory given the highly competitive market. Growth in deposits amounted to DKK 1.9bn in the same period.

Costs (core earnings) are a constant area of focus at Sydbank. As a result the Bank maintained tight control of costs (core earnings) during the quarter which excluding DiBa Bank remain at an unchanged level.

The integration of DiBa Bank is progressing as planned. During the quarter three branches were merged, the IT conversion between Sydbank and DiBa Bank was moved forward to Q3 2014 and 11 employees were laid off as previously announced. Furthermore 29 employees have left the Group for other reasons. There has been no appreciable decrease in clients.

Sydbank continues to see an influx of new clients. In Q1 2014 Sydbank recorded a net client inflow of about 7,000 and as a result the Bank's clients number approximately 462,000 at the end of Q1 2014. Moreover Sydbank is very satisfied to note that client satisfaction continues to be very high.

### Continued strengthening of Sydbank's credit book

As a natural consequence of the inspection by the Danish FSA in Q4 2013 regarding exposures starting at DKK 10m, the Bank has continued the process with an extraordinary review of the remaining exposures. Moreover systems and procedures are being developed on an ongoing basis to ensure good credit management and credit quality. Specifically Sydbank has increased its focus on for instance data quality and error control and has implemented a new concept for this.

In Q1 2014 Sydbank's impairment charges for loans and advances represent DKK 319m, which is DKK 30m less than one year ago. Sydbank projects impairment charges for loans and advances in the region of DKK 950-1,100m in 2014.

## **Plan to improve Sydbank's profitability**

Based on the Bank's high client satisfaction Sydbank will take steps to increase profitability. Consequently the Bank has initiated a plan with three main focus areas: continued strengthening of core income, a reduction of costs (core earnings) as well as lower impairment charges.

*First* Sydbank will strengthen core income by DKK 200m by the beginning of 2016 compared to the level at the end of 2013 given unchanged economic conditions and competition through:

- Establishment of a new client-oriented organisation with targeted focus on the three segments: Retail, Corporate and Private Banking.
- Increased business volume as regards new as well as existing clients.
- Overall increase in the level of activity and focused efforts to arrange more value adding advisory meetings with existing and new clients.

*Second* Sydbank will reduce costs (core earnings) by DKK 200m by the beginning of 2016 compared to the total level for Sydbank and the DiBa Group of DKK 2.7bn in 2013. This is a reduction in total costs of approximately 7% which will be achieved by:

- Eliminating or reducing costs from parts of the Bank that do not add value for the client or are not specifically requested by clients.
- Reducing the number of employees by approximately 200 during this period. The majority of this reduction will to the widest extent possible take place via natural turnover.
- Continuing to enhance efficiency of procedures and systems as well as adjustment of the Bank's branch network.

DKK 50m of the savings achieved will be allocated to investments in supplementary training of employees, product development as well as development of IT systems and automated procedures to produce further efficiency gains as well as cost savings in the Bank's support functions.

*Third* Sydbank will continue its efforts to ensure lower impairment charges via focus on credit-related measures and further development of systems and procedures, cf the 2013 Annual Report, page 8.

## **Outlook for 2014**

Sydbank continues to project a rise in core income in 2014 – partly as a result of the acquisition of DiBa Bank, and partly as a consequence of the activities initiated despite continued fierce competition in the sector.

Trading income is projected to increase relative to 2013 as a consequence of the acquisition of DiBa Bank among other factors. Much will however depend on financial market developments.

Despite the activities initiated costs (core earnings) are expected to continue to rise in 2014 as a result of the acquisition of DiBa Bank. The cost-saving measures implemented are projected to take full effect by the beginning of 2016.

Sydbank projects impairment charges for loans and advances in the region of DKK 950-1,100m in 2014.

Integration and restructuring costs are expected to total around DKK 75m.

## Financial Review – Profit for Q1 2014

The Sydbank Group has recorded a profit before tax of DKK 331m (Q1 2013: DKK 184m). Of the improved profit DKK 144m is attributable to non-recurring items and industry solutions. The performance after non-recurring items and industry solutions meets the expectations at the beginning of the year. Profit before tax equals a return of 12.8% p.a. on average shareholders' equity. The result is characterised by:

- 2% rise in core income but 7% fall in net interest etc
- Unchanged trading income of DKK 86m
- Increase in costs (core earnings) as a result of the acquisition of DiBa
- DKK 30m decline in impairment charges for loans and advances
- Investment portfolio earnings of DKK 84m
- Non-recurring items, net – income of DKK 129m
- Bank loans and advances of DKK 67.2bn (year-end 2013: DKK 66.6bn)
- Bank deposits of DKK 72.0bn (year-end 2013: DKK 70.0bn)
- Solvency ratio of 15.8%, including a common equity Tier 1 capital ratio of 13.8%
- Individual solvency need of 10.0% (year-end 2013: 10.0%).

Income statement – Q1 (DKKm)	2014	2013
Core income	1,055	1,036
Trading income	86	86
<b>Total income</b>	<b>1,141</b>	<b>1,122</b>
Costs, core earnings	704	661
<b>Core earnings before impairment</b>	<b>437</b>	<b>461</b>
Impairment of loans and advances etc	319	349
<b>Core earnings</b>	<b>118</b>	<b>112</b>
Investment portfolio earnings	84	87
<b>Profit before non-recurring items and industry solutions</b>	<b>202</b>	<b>199</b>
Non-recurring items, net	129	-
Contributions to industry solutions	0	15
<b>Profit before tax</b>	<b>331</b>	<b>184</b>
Tax	45	47
<b>Profit for the period</b>	<b>286</b>	<b>137</b>

### Core income

Total core income has increased by DKK 19m to DKK 1,055m.

Net interest has decreased by DKK 47m to DKK 615m due in part to a decline in interest margins.

Net income from the cooperation with Totalkredit represents DKK 58m (2013: DKK 51m) after a set-off of loss of DKK 9m (2013: DKK 5m). The cooperation with DLR Kredit has generated an income of DKK 16m (2013: DKK 15m). Mortgage credit income totals DKK 78m (2013: DKK 66m).

Income from payment services has gone up by DKK 20m to DKK 58m compared with 2013. The increase includes dividend from Nets Holding of DKK 12m which was distributed in Q2 2013.

Commission and brokerage income amounts to DKK 92m and has risen by DKK 10m compared with 2013. The increase is attributable to growth in equities trading.

The remaining income components have risen by DKK 24m compared to 2013.



Core income – Q1 (DKKm)	2014	2013
Net interest etc	615	662
Mortgage credit	78	66
Payment services	58	38
Remortgaging and loan fees	26	23
Commission and brokerage	92	82
Commission etc investment funds and pooled pension plans	85	83
Asset management	41	42
Custody account fees	20	18
Other income	40	22
<b>Total</b>	<b>1,055</b>	<b>1,036</b>

### Trading income

Trading income remains unchanged at DKK 86m. Developments are characterised by increasing equities turnover with clients and declining trading in mortgage bonds, among other factors as a consequence of uncertainty surrounding the new liquidity requirements.

### Costs and depreciation

The Group's costs and depreciation totalled DKK 722m, equal to an increase of DKK 45m compared with 2013.

Costs and depreciation – Q1 (DKKm)	2014	2013
Staff costs	400	365
Other administrative expenses	268	248
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	25	23
Other operating expenses	29	41
<b>Total costs and depreciation</b>	<b>722</b>	<b>677</b>
Distributed as follows:		
Costs, core earnings	704	661
Costs, investment portfolio earnings	2	2
Costs, non-recurring items	16	-
Costs, industry solutions	-	15

Costs (core earnings) represent DKK 704m compared to DKK 661m in Q1 2013. This development can be ascribed to the acquisition of DiBa.

At end-Q1 2014 the Group's staff numbered 2,201 (full-time equivalent) compared with 2,106 at 31 March 2013.

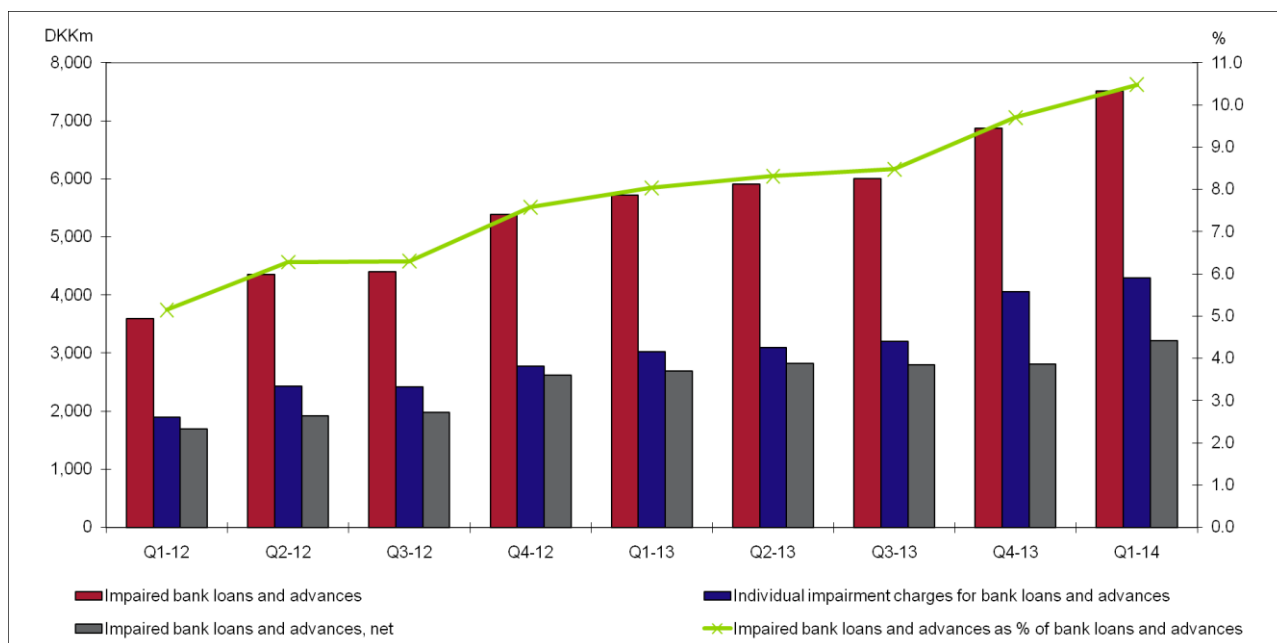
Three small branches were closed during the first quarter of 2014 as a consequence of the Bank's ongoing adjustment of its service concept. This brings the number of branches to 94 in Denmark and unchanged five in Germany.

### Core earnings before impairment

Core earnings before impairment of loans and advances represent DKK 437m – a decrease of DKK 24m or 5% compared with one year ago.

### Impairment of loans and advances etc

Impairment charges for loans and advances constitute DKK 319m (2013: DKK 349m). The impairment ratio represents 0.46% relative to bank loans and advances and 0.39% relative to bank loans and advances and guarantees at 31 March 2014. Accumulated impairment and provisions amount to DKK 4,516m at 31 March 2014, a rise of DKK 215m compared with the beginning of the year.



Compared with 31 March 2013, impaired bank loans and advances before impairment charges have increased by DKK 1,793m to DKK 7,506m, equal to 31%. DKK 1,256m of the increase is attributable to non-defaulted bank loans and advances and DKK 537m is attributable to defaulted bank loans and advances. During the same period individually impaired bank loans and advances after impairment charges rose by DKK 532m, equal to 20%. Individual impairment charges for impaired bank loans and advances represent 57.1% (end-March 2013: 53.0% and year-end 2013: 59.1%).

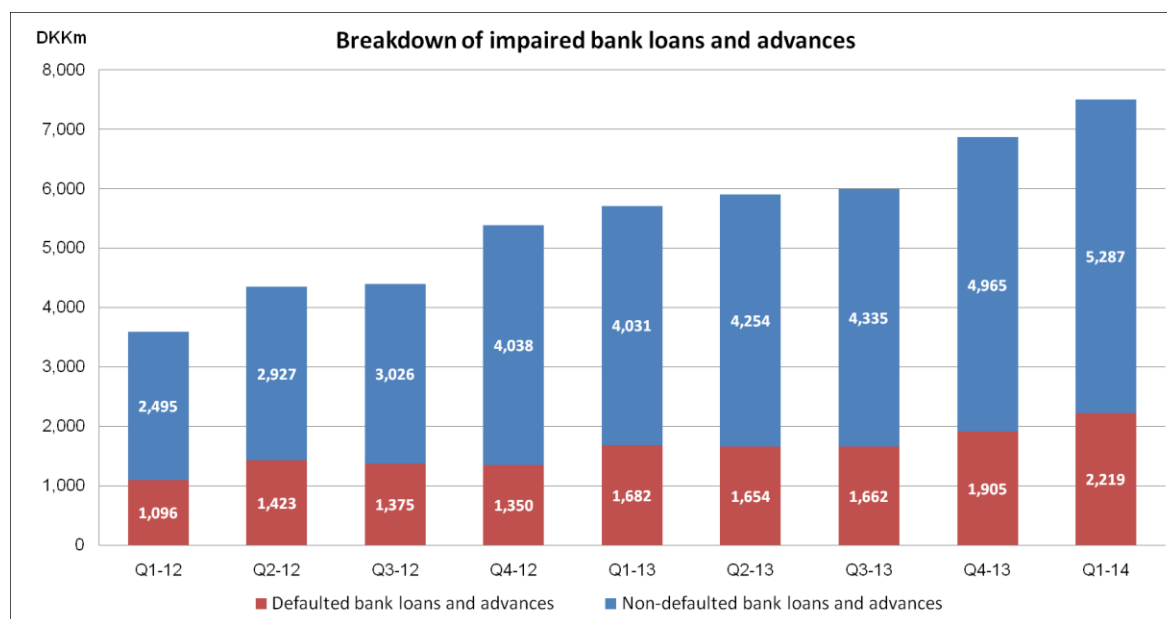
In Q1 2014 reported losses amount to DKK 163m (2013: DKK 122m). Of the reported losses DKK 150m has previously been written down.

Individually impaired bank loans and advances (DKKm)	31 Mar 2014	31 Dec 2013	31 Mar 2013
Non-defaulted bank loans and advances	5,287	4,965	4,031
Defaulted bank loans and advances	2,219	1,905	1,682
Impaired bank loans and advances	7,506	6,870	5,713
Individual impairment charges for bank loans and advances	4,288	4,058	3,027
Impaired bank loans and advances after impairment charges	3,218	2,812	2,686
Impaired bank loans and advances as %			
of bank loans and advances before impairment charges	10.5	9.7	8.0
Individual impairment charges as % of bank loans and advances before impairment charges	6.0	5.7	4.3
Individual impairment charges as % of impaired bank loans and advances	57.1	59.1	53.0
Individual impairment charges as % of defaulted bank loans and advances	193.2	213.0	179.9

As shown above, impairment charges as a percentage of defaulted bank loans and advances at 31 March 2014 stands at 193.2.

The figure below shows the breakdown of impaired bank loans and advances as regards defaulted bank loans and advances and non-defaulted bank loans and advances. The bulk of impaired bank loans and advances concern non-defaulted bank loans and advances.

Defaulted bank loans and advances have risen by DKK 1,123m since Q1 2012 whereas non-defaulted bank loans and advances have gone up by DKK 2,792m.



## Core earnings

Core earnings represent DKK 118m compared with DKK 112m in 2013.

## Investment portfolio earnings

Together the Group's position-taking and liquidity handling generated earnings of DKK 84m in Q1 2014 compared to DKK 87m a year ago.

The portfolio has continued to consist primarily of Danish mortgage bonds partially hedged by derivatives. The position was reduced in April 2014.

Investment portfolio earnings – Q1 (DKKm)	2014	2013
Position-taking	62	53
Liquidity generation and liquidity reserves	24	26
Strategic shares etc	0	10
Costs	(2)	(2)
<b>Total</b>	<b>84</b>	<b>87</b>

Margin expenses as regards the Group's senior issues are included under liquidity generation and liquidity reserves and represent DKK 22m in Q1 2014 compared to DKK 12m in Q1 2013. At the end of February 2014 the Group redeemed one of the issues and the expense is expected to represent DKK 7-8m per quarter in the future.

## Non-recurring items, net

Non-recurring items total a net income of DKK 129m. This item includes one-off income of DKK 148m from the sale of the Group's shares in Nets Holding as well as net integration items concerning DiBa consisting of an additional interest charge of DKK 4m as regards subordinated capital, costs of DKK 16m and income of DKK 1m from the sale of subsidiaries.

## Profit for the period

Profit before tax amounts to DKK 331m (2013: DKK 184m). Tax represents DKK 45m, equivalent to an effective tax rate of 13.8%. The low level is due to the fact that the income of DKK 148m concerning the sale of Nets is not taxable. Profit for the period amounts to DKK 286m compared with DKK 137m in 2013.

## Return

Profit for the period equals a return on average shareholders' equity of 11.0% p.a. against 5.4% p.a. in 2013. Earnings per share stands at DKK 3.9 compared with DKK 1.9 in 2013.

## Q1 2014

Profit before tax for the quarter represents DKK 331m. Compared with Q4 2013 profit before tax reflects:

- A rise in core income of DKK 44m
- A rise in trading income of DKK 49m
- A rise in costs (core earnings) of DKK 104m
- A decrease in impairment charges for loans and advances of DKK 567m
- Investment portfolio earnings of DKK 84m (Q4 2013: DKK 42m)
- Non-recurring items, net – income of DKK 129m (Q4 2013: minus DKK 43m)
- An expense of DKK 0m concerning industry solutions (Q4 2013: DKK 4m).

Profit for the period amounts to DKK 286m.

Profit for the period (DKK m)	2014	2013			
	Q1	Q4	Q3	Q2	Q1
Core income	1,055	1,011	995	1,016	1,036
Trading income	86	37	31	75	86
<b>Total income</b>	<b>1,141</b>	<b>1,048</b>	<b>1,026</b>	<b>1,091</b>	<b>1,122</b>
Costs, core earnings	704	600	604	649	661
<b>Core earnings before impairment</b>	<b>437</b>	<b>448</b>	<b>422</b>	<b>442</b>	<b>461</b>
Impairment of loans and advances etc	319	888	299	325	349
<b>Core earnings</b>	<b>118</b>	<b>(440)</b>	<b>123</b>	<b>117</b>	<b>112</b>
Investment portfolio earnings	84	42	(7)	197	87
<b>Profit before non-recurring items and industry solutions</b>	<b>202</b>	<b>(398)</b>	<b>116</b>	<b>314</b>	<b>199</b>
Non-recurring items, net	129	(43)	-	-	-
Contributions to industry solutions	0	4	2	(4)	15
<b>Profit before tax</b>	<b>331</b>	<b>(445)</b>	<b>114</b>	<b>318</b>	<b>184</b>
Tax	45	(163)	29	71	47
<b>Profit for the period</b>	<b>286</b>	<b>(282)</b>	<b>85</b>	<b>247</b>	<b>137</b>

## Subsidiaries

Ejendomsselskabet has recorded an unchanged profit after tax of DKK 1m compared with 2013. The consolidated profit after tax of DiBa A/S (previously DiBa Bank A/S) and Heering Huse ApS represents minus DKK 3m and DKK 0m, respectively. The subsidiary bank Sydbank (Schweiz) AG in Liquidation is expected to be finally deregistered in Q2 2014.

## Total assets

The Group's total assets made up DKK 143.4bn at 31 March 2014 against DKK 147.9bn at year-end 2013.

Assets (DKKbn)	31 Mar 2014	31 Dec 2013
Amounts owed by credit institutions etc	7.3	11.7
Loans and advances at fair value (reverse transactions)	6.1	4.9
Loans and advances at amortised cost (bank loans and advances)	67.2	66.6
Securities and holdings etc	38.1	40.6
Assets related to pooled plans	10.4	10.2
Other assets etc	14.3	13.9
<b>Total</b>	<b>143.4</b>	<b>147.9</b>

The Group's bank loans and advances make up DKK 67.2bn at end-March 2014 against DKK 66.6bn at year-end 2013 and DKK 67.9bn at end-March 2013. The development compared with end-March 2013 includes bank loans and advances of almost DKK 2.3bn taken over from DiBa Bank in mid-December 2013.

Shareholders' equity and liabilities (DKKbn)	31 Mar 2014	31 Dec 2013
Amounts owed to credit institutions etc	28.6	31.0
Deposits and other debt	72.0	70.0
Deposits in pooled plans	10.4	10.2
Bonds issued	3.7	6.5
Other liabilities etc	16.5	18.0
Provisions	0.2	0.2
Subordinated capital	1.5	1.8
Shareholders' equity	10.5	10.2
<b>Total</b>	<b>143.4</b>	<b>147.9</b>

The Group's deposits make up DKK 72.0bn (year-end 2013: DKK 70.0bn). Compared to 31 March 2013, deposits – including deposits of DKK 3.9bn taken over from DiBa Bank in mid-December 2013 – have risen by DKK 5.3bn from DKK 66.7bn.

At end-February 2014 Sydbank redeemed a senior loan of EUR 500m. Finally DiBa redeemed supplementary capital amounting to DKK 100m and government hybrid capital of DKK 160m in February 2014. The remaining supplementary capital in DiBa of DKK 150m will be redeemed on 15 May 2014.

## Capital

At 31 March 2014 shareholders' equity constitutes DKK 10,528m – an increase of DKK 291m since year-end 2013. The change comprises additions from profit for the period of DKK 286m as well as disposals deriving from distribution of DKK 4m and net sales of own shares of DKK 9m.

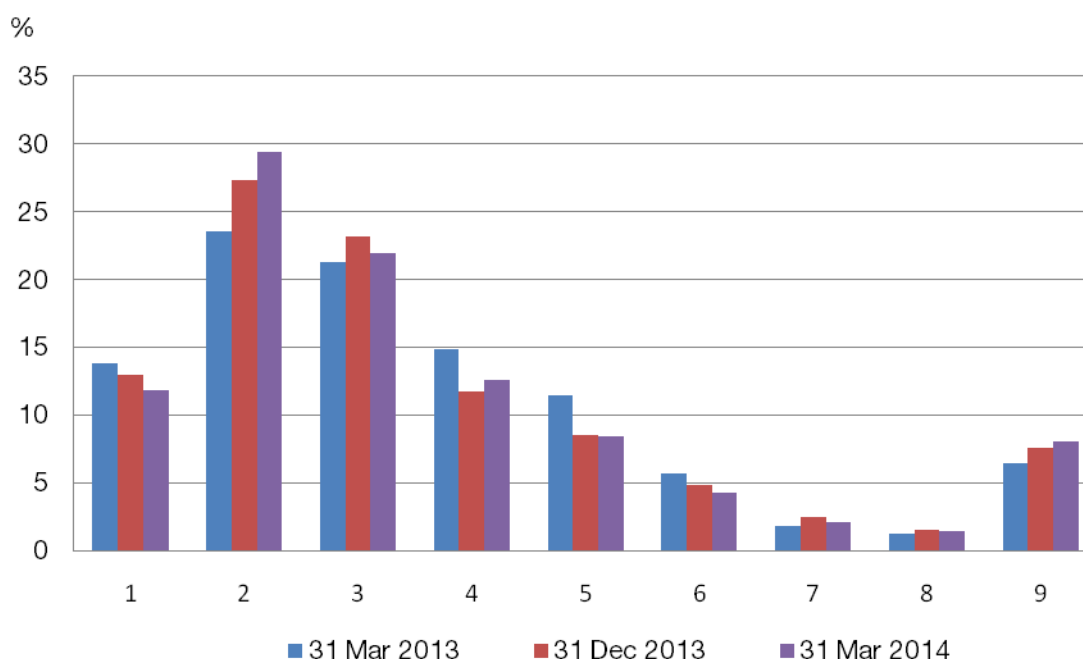
Risk-weighted assets (DKKbn)	31 Mar 2014	31 Dec 2013
Credit risk	53.5	54.2
Market risk	10.4	10.2
Operational risk	8.3	8.3
<b>Total</b>	<b>72.2</b>	<b>72.7</b>

Risk-weighted assets represent DKK 72.2bn (year-end 2013: DKK 72.7bn). The decrease consists of a fall in credit risk of DKK 0.7bn and a rise in market risk of DKK 0.2bn.

The DKK 0.7bn decline in risk-weighted assets as regards credit risk is the net effect of increasing exposure, a reduced weighting of SME exposures, an amended treatment of significant investments in financial institutions as well as a new requirement for financial instruments – CVA.

The development in gross exposures by rating category at 31 March 2013, 31 December 2013 and 31 March 2014 appears below.

## Gross exposures by rating category



Gross exposures consist of loans and advances, undrawn credit commitments, interest receivable, guarantees and counterparty risk on derivatives. The graph comprises exposures treated according to IRB. Exposures relating to clients in default are not included in the breakdown by rating category. Impairment charges for exposures have not been deducted from the exposures.

Gross exposures by rating category show a positive development and overall account for an increasing share of the four best rating categories. The tightened impairment charges 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.

In Q1 2014 risk-weighted assets concerning retail clients and small corporate clients taken over from the former Tønder Bank were recognised according to IRB.

The Group's solvency ratio stands at 15.8%, of which 15.3 percentage points are attributable to core capital including hybrid core capital, compared with 15.7% and 15.3 percentage points, respectively, at year-end 2013. The common equity Tier 1 capital ratio stands at 13.8% (31 Dec 2013: 13.4%). At 31 March 2014 the individual solvency need represented unchanged 10.0% compared with 1 January 2014.

Seen in isolation the new CRD IV requirements have prompted a net improvement from 15.7% to 16.2% compared with the solvency ratio at year-end 2013. The increase consists partly of a rise of 1.0 percentage point as a result of a reduced weighting of SMEs as well as amended rules concerning previous deductions for holdings in financial institutions, and partly of a decline of 0.5 percentage point as a consequence of CVA charges when calculating counterparty risk as regards financial clients as well as tightened rules for the use of hybrid capital and supplementary capital. At 31 March 2014 the solvency ratio represents 15.8% as a combined result of a decline in credit risk and a rise in market risk as well as the redemption of hybrid capital and supplementary capital in DiBa in Q1 2014.

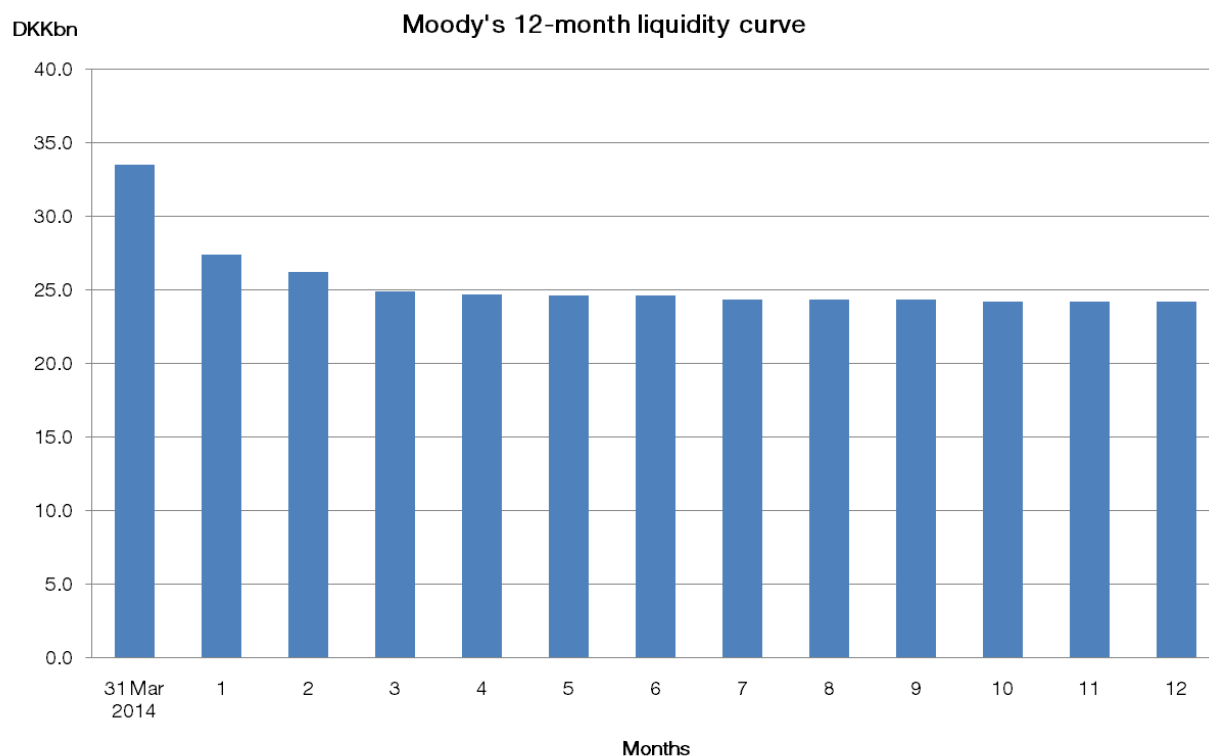
### Market risk

At 31 March 2014 the Group's interest rate risk stands at minus DKK 64m. The Group's exchange rate risk continues to be very low and its equity position modest.

### Liquidity

The Group's liquidity measured under the 10% statutory requirement constitutes 28.3% at 31 March 2014.

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



## Rating

Moody's rating of Sydbank as of November 2013:

- Outlook: Stable
- Long-term debt: Baa1
- Short-term debt: P-2
- Bank financial strength: C-

## Supervisory Diamond

The Supervisory Diamond sets specific limit values for a number of special risk areas which banks should generally observe.

Supervisory Diamond (%)	31 Mar 2014	31 Dec 2013	31 Mar 2013
Sum of large exposures < 125% of the capital base	35	26	10
Growth in loans and advances < 20% annually	1	(2)	(1)
Commercial property exposure < 25%	12	11	12
Funding ratio < 1	0.77	0.78	0.87
Excess cover relative to statutory liquidity requirements > 50%	183	180	148

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

## Income Statement – Sydbank Group

DKKm	Note	Q1 2014	Q1 2013	Full year 2013
Interest income	2	827	903	3,487
Interest expense	3	167	155	625
<b>Net interest income</b>		<b>660</b>	<b>748</b>	<b>2,862</b>
Dividends on shares		16	2	40
Fee and commission income	4	422	376	1,481
Fee and commission expense		61	59	218
<b>Net interest and fee income</b>		<b>1,037</b>	<b>1,067</b>	<b>4,165</b>
Market value adjustments	5	314	136	474
Other operating income		9	6	26
Staff costs and administrative expenses	6	668	613	2,314
Depreciation and impairment of property, plant and equipment		25	23	99
Other operating expenses	8	29	41	222
Impairment of loans and advances etc	9	315	349	1,861
Profit on holdings in associates and subsidiaries	10	8	1	2
<b>Profit before tax</b>		<b>331</b>	<b>184</b>	<b>171</b>
Tax	11	45	47	(16)
<b>Profit for the period</b>		<b>286</b>	<b>137</b>	<b>187</b>
EPS Basic (DKK) *		3.9	1.9	2.5
EPS Diluted (DKK) *		3.9	1.9	2.5
Proposed dividend per share (DKK)		-	-	-

\* Calculated on the basis of average number of shares outstanding, see page 17.

## Statement of Comprehensive Income – Sydbank Group

<b>Profit for the period</b>	<b>286</b>	<b>137</b>	<b>187</b>
<b>Other comprehensive income</b>			
Items that may be reclassified to the income statement:			
Translation of foreign entities	1	2	(3)
Hedge of net investment in foreign entities	(1)	(2)	3
Property revaluation	-	0	(20)
<b>Other comprehensive income after tax</b>	<b>0</b>	<b>0</b>	<b>(20)</b>
<b>Comprehensive income for the period</b>	<b>286</b>	<b>137</b>	<b>167</b>



## Balance Sheet – Sydbank Group

DKKm	Note	31 Mar 2014	31 Dec 2013	31 Mar 2013
<b>Assets</b>				
Cash and balances on demand at central banks		1,294	2,850	3,148
Amounts owed by credit institutions and central banks	12	6,063	8,800	7,780
Loans and advances at fair value		6,111	4,885	5,771
Loans and advances at amortised cost		67,201	66,592	67,873
Bonds at fair value		36,073	38,819	39,445
Shares etc		1,833	1,669	1,439
Holdings in associates etc		170	162	161
Assets related to pooled plans		10,366	10,162	9,930
Intangible assets		348	355	65
Total land and buildings		1,125	1,122	1,051
investment property		17	20	25
owner-occupied property		1,108	1,102	1,026
Other property, plant and equipment		76	86	75
Current tax assets		180	182	7
Deferred tax assets		107	79	9
Assets in temporary possession		10	19	9
Other assets	13	12,332	12,049	18,564
Prepayments		73	61	58
<b>Total assets</b>		<b>143,362</b>	<b>147,892</b>	<b>155,385</b>
<b>Shareholders' equity and liabilities</b>				
Amounts owed to credit institutions and central banks	14	28,618	31,019	40,034
Deposits and other debt	15	71,965	70,027	66,693
Deposits in pooled plans		10,371	10,167	9,935
Bonds issued at amortised cost		3,747	6,462	3,769
Current tax liabilities		5	5	34
Other liabilities	16	16,417	18,022	23,111
Deferred income		5	6	6
<b>Total debt</b>		<b>131,128</b>	<b>135,708</b>	<b>143,582</b>
Provisions	17	172	150	209
Subordinated capital	18	1,534	1,797	1,386
Shareholders' equity:				
Share capital		742	742	742
Revaluation reserves		77	77	97
Other reserves:				
Reserves according to articles of association		425	425	425
Other reserves		3	3	2
Retained earnings		9,281	8,986	8,942
Proposed dividend etc		-	4	-
<b>Total shareholders' equity</b>		<b>10,528</b>	<b>10,237</b>	<b>10,208</b>
<b>Total shareholders' equity and liabilities</b>		<b>143,362</b>	<b>147,892</b>	<b>155,385</b>

## Group Financial Highlights – Quarterly

	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
<b>Income statement (DKKm)</b>					
Core income	1,055	1,011	995	1,016	1,036
Trading income	86	37	31	75	86
<b>Total income</b>	<b>1,141</b>	<b>1,048</b>	<b>1,026</b>	<b>1,091</b>	<b>1,122</b>
Costs, core earnings	704	600	604	649	661
<b>Core earnings before impairment</b>	<b>437</b>	<b>448</b>	<b>422</b>	<b>442</b>	<b>461</b>
Impairment of loans and advances etc	319	888	299	325	349
<b>Core earnings</b>	<b>118</b>	<b>(440)</b>	<b>123</b>	<b>117</b>	<b>112</b>
Investment portfolio earnings	84	42	(7)	197	87
<b>Profit before non-recurring items and industry solutions</b>	<b>202</b>	<b>(398)</b>	<b>116</b>	<b>314</b>	<b>199</b>
Non-recurring items, net	129	(43)	-	-	-
Contributions to industry solutions	0	4	2	(4)	15
<b>Profit before tax</b>	<b>331</b>	<b>(445)</b>	<b>114</b>	<b>318</b>	<b>184</b>
Tax	45	(163)	29	71	47
<b>Profit for the period</b>	<b>286</b>	<b>(282)</b>	<b>85</b>	<b>247</b>	<b>137</b>
<b>Balance sheet highlights (DKKbn)</b>					
Loans and advances at amortised cost	67.2	66.6	67.4	67.8	67.9
Loans and advances at fair value	6.1	4.9	4.6	4.5	5.8
Deposits and other debt	72.0	70.0	68.1	65.9	66.7
Bonds issued at amortised cost	3.7	6.5	3.8	3.8	3.8
Subordinated capital	1.5	1.8	1.4	1.4	1.4
Shareholders' equity	10.5	10.2	10.6	10.5	10.2
Total assets	143.4	147.9	144.5	141.4	155.4
<b>Financial ratios per share (DKK per share of DKK 10)</b>					
EPS Basic **	3.9	(3.8)	1.2	3.4	1.9
EPS Diluted **	3.9	(3.8)	1.2	3.4	1.9
Share price at end of period	138.7	144.0	143.8	114.0	119.1
Book value	143.5	139.7	143.8	142.6	139.3
Share price/book value	0.97	1.03	1.00	0.80	0.86
Average number of shares outstanding (in millions)	73.3	73.6	73.6	73.5	73.0
Dividend per share	-	-	-	-	-
<b>Other financial ratios and key figures</b>					
Solvency ratio	15.8	15.7	16.9	16.5	15.7
Core capital (incl hybrid core capital) ratio	15.3	15.3	16.5	16.2	15.3
Common equity Tier 1 capital ratio	13.8	13.4	14.8	14.4	13.7
Pre-tax profit as % of average shareholders' equity **	3.2	(4.3)	1.1	3.1	1.8
Post-tax profit as % of average shareholders' equity **	2.7	(2.7)	0.8	2.4	1.4
Costs (core earnings) as % of total income	61.7	57.3	58.9	59.5	58.9
Interest rate risk	0.6	0.6	0.0	0.2	1.7
Foreign exchange position	9.2	2.1	2.9	2.3	4.6
Foreign exchange risk	0.2	0.0	0.1	0.1	0.1
Loans and advances relative to deposits *	0.8	0.8	0.9	0.9	0.9
Loans and advances relative to shareholders' equity *	6.4	6.5	6.4	6.5	6.7
Growth in loans and advances for the period *	0.9	(1.2)	(0.6)	(0.1)	(0.4)
Excess cover relative to statutory liquidity requirements	182.9	179.8	200.3	167.4	147.6
Total large exposures	35.5	25.8	22.2	30.5	10.4
Accumulated impairment ratio	5.2	5.1	4.2	4.0	3.9
Impairment ratio for the period **	0.36	1.05	0.36	0.39	0.45
Number of full-time staff at end of period	2,201	2,231	2,078	2,087	2,106

\* Financial ratios are calculated on the basis of loans and advances at amortised cost.

\*\* Quarterly ratios have not been converted to a full-year basis.

## Capital – Sydbank Group

DKKkm	Share capital	Re-valuation reserves	Reserves acc. to articles of association*	Reserve for net reval. acc. to equity method	Retained earnings	Proposed dividend etc	Total
Shareholders' equity at 1 Jan 2014	742	77	425	3	8,986	4	10,237
Profit for the period	-	-	-	-	286	-	286
<b>Other comprehensive income</b>							
Translation of foreign entities	-	-	-	-	1	-	1
Hedge of net investment in foreign entities	-	-	-	-	(1)	-	(1)
Property revaluation	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-
Comprehensive income for the period	-	-	-	-	286	-	286
<b>Transactions with owners</b>							
Purchase of own shares	-	-	-	-	(239)	-	(239)
Sale of own shares	-	-	-	-	248	-	248
Distributed dividend etc	-	-	-	-	-	(4)	(4)
Total transactions with owners	-	-	-	-	9	(4)	5
<b>Shareholders' equity at 31 Mar 2014</b>	<b>742</b>	<b>77</b>	<b>425</b>	<b>3</b>	<b>9,281</b>	<b>-</b>	<b>10,528</b>
Shareholders' equity at 1 Jan 2013	742	97	425	2	8,760	7	10,033
Profit for the period	-	-	-	-	137	-	137
<b>Other comprehensive income</b>							
Translation of foreign entities	-	-	-	-	(2)	-	(2)
Hedge of net investment in foreign entities	-	-	-	-	2	-	2
Total other comprehensive income	-	-	-	-	-	-	-
Comprehensive income for the period	-	-	-	-	137	-	137
<b>Transactions with owners</b>							
Purchase of own shares	-	-	-	-	(469)	-	(469)
Sale of own shares	-	-	-	-	514	-	514
Distributed dividend etc	-	-	-	-	-	(7)	(7)
Total transactions with owners	-	-	-	-	45	(7)	38
<b>Shareholders' equity at 31 Mar 2013</b>	<b>742</b>	<b>97</b>	<b>425</b>	<b>2</b>	<b>8,942</b>	<b>-</b>	<b>10,208</b>
				31 Mar	Full year	31 Mar	
The Sydbank share				2014	2013	2013	
Share capital (DKK)				742,499,990	742,499,990	742,499,990	
Shares issued (number)				74,249,999	74,249,999	74,249,999	
Shares outstanding at end of period (number)				73,343,307	73,288,716	73,306,792	
Average number of shares outstanding (number)				73,292,962	73,409,670	73,006,316	

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

## Capital – Sydbank Group

DKK m	31 Mar 2014	31 Dec 2013	31 Mar 2013
<b>Solvency</b>			
Solvency ratio	15.8	15.7	15.7
Core capital (incl hybrid core capital) ratio	15.3	15.3	15.3
Common equity Tier 1 capital ratio	13.8	13.4	13.7
<b>Capital base after deductions</b>			
Shareholders' equity	10,528	10,237	10,208
Profit – not eligible	(143)	-	-
Revaluation reserves	-	(77)	(96)
Proposed dividend etc	-	(4)	-
Intangible assets and capitalised deferred tax assets	(455)	(434)	(74)
<b>Common equity Tier 1 capital</b>	<b>9,930</b>	<b>9,722</b>	<b>10,038</b>
Hybrid core capital	1,107	1,547	1,386
50% of holdings > 10%	-	(161)	(150)
<b>Core capital incl hybrid core capital after deductions</b>	<b>11,037</b>	<b>11,108</b>	<b>11,274</b>
Subordinated loan capital	111	125	-
Revaluation reserves	-	77	96
Difference between expected loss and accounting impairment charges	268	281	294
<b>Capital base before deductions</b>	<b>11,416</b>	<b>11,591</b>	<b>11,664</b>
50% of holdings > 10%	-	(161)	(150)
<b>Capital base after deductions</b>	<b>11,416</b>	<b>11,430</b>	<b>11,514</b>
Credit risk	53,511	54,211	55,430
Market risk	10,388	10,197	9,737
Operational risk	8,306	8,341	8,341
<b>Risk-weighted assets</b>	<b>72,205</b>	<b>72,749</b>	<b>73,508</b>
<b>Capital requirement under Pillar I</b>	<b>5,776</b>	<b>5,820</b>	<b>5,881</b>

As of 1 January 2014 the Group calculates its solvency ratio and capital requirement under Pillar I according to the new capital adequacy rules (CRR and CRD IV). As a result profit for the period recognised in equity must be reduced by DKK 143m, equivalent to the maximum dividend calculated according to the Group's dividend policy.

Furthermore revaluation reserves are no longer deducted from the common equity Tier 1 capital, and holdings exceeding 10% are risk weighted and therefore not deducted from the capital base.

## Cash Flow Statement – Sydbank Group

DKKm	Q1 2014	Full year 2013	Q1 2013
<b>Operating activities</b>			
Pre-tax profit for the period	286	171	184
Taxes paid	(44)	(199)	(36)
Adjustment for non-cash operating items	320	1,943	335
Cash flows from working capital	(38)	(1,564)	2,102
Cash flows from operating activities	524	351	2,585
<b>Investing activities</b>			
Purchase and sale of holdings in associates	0	(477)	0
Purchase and sale of property, plant and equipment	(6)	(37)	(5)
Cash flows from investing activities	(6)	(514)	(5)
<b>Financing activities</b>			
Purchase and sale of own holdings	9	44	45
Dividend etc	(4)	(7)	(7)
Raising of subordinated capital	(263)	0	(1)
Issue of bonds	(2,715)	2,470	(217)
Cash flows from financing activities	(2,973)	2,507	(180)
<b>Cash flows for the period</b>	<b>(2,455)</b>	<b>2,344</b>	<b>2,400</b>
Cash and cash equivalents at 1 Jan	4,949	2,605	2,605
Cash flows for the period	(2,455)	2,344	2,400
<b>Total cash and cash equivalents at end of period</b>	<b>2,494</b>	<b>4,949</b>	<b>5,005</b>

## Segment Statements – Sydbank Group

DKKkm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
<b>Business segments – Q1 2014</b>						
Core income	989	40	26	-	-	1,055
Trading income	-	-	86	-	-	86
<b>Total income</b>	<b>989</b>	<b>40</b>	<b>112</b>	-	-	<b>1,141</b>
Costs, core earnings	647	14	30	-	13	704
Impairment of loans and advances etc	317	-	2	-	-	319
<b>Core earnings</b>	<b>25</b>	<b>26</b>	<b>80</b>	-	(13)	<b>118</b>
Investment portfolio earnings	4	-	-	80	-	84
<b>Profit before non-recurring items and industry solutions</b>	<b>29</b>	<b>26</b>	<b>80</b>	<b>80</b>	(13)	<b>202</b>
Non-recurring items	129	-	-	-	-	129
Contributions to industry solutions	-	-	-	-	0	0
<b>Profit before tax</b>	<b>158</b>	<b>26</b>	<b>80</b>	<b>80</b>	(13)	<b>331</b>

DKKkm	Banking	Asset Management	Sydbank Markets	Treasury	Other	Total
<b>Business segments – Q1 2013</b>						
Core income	971	42	23	-	-	1,036
Trading income	-	-	86	-	-	86
<b>Total income</b>	<b>971</b>	<b>42</b>	<b>109</b>	-	-	<b>1,122</b>
Costs, core earnings	599	16	34	-	12	661
Impairment of loans and advances etc	349	-	-	-	-	349
<b>Core earnings</b>	<b>23</b>	<b>26</b>	<b>75</b>	-	(12)	<b>112</b>
Investment portfolio earnings	(3)	-	-	90	-	87
<b>Profit before non-recurring items and industry solutions</b>	<b>20</b>	<b>26</b>	<b>75</b>	<b>90</b>	(12)	<b>199</b>
Non-recurring items	-	-	-	-	-	-
Contributions to industry solutions	-	-	-	-	15	15
<b>Profit before tax</b>	<b>20</b>	<b>26</b>	<b>75</b>	<b>90</b>	(27)	<b>184</b>

## Notes

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### Note 1

#### Accounting policies

The Interim Report has been prepared in compliance with IAS 34 “Interim Financial Reporting” as adopted by the EU and in compliance with additional Danish disclosure requirements for interim reports. As a result of the use of IAS 34, the presentation is less complete compared with the presentation of an annual report and the recognition and measurement principles are in compliance with IFRS.

As from 1 January 2014 the Group has implemented IFRS 10, 11 and 12.

None of the implemented amendments have had any impact on recognition or measurement.

Apart from the above the accounting policies are consistent with those adopted in the 2013 Annual Report, to which reference is made.

The 2013 Annual Report provides a comprehensive description of the accounting policies applied.

The measurement of certain assets and liabilities requires managerial estimates as to how future events will affect the value of such assets and liabilities. The significant estimates made by management in the use of the Group’s accounting policies and the inherent considerable uncertainty of such estimates used in the preparation of the condensed interim report are identical to those used in the preparation of the annual report as at 31 December 2013.

The Group’s significant risks and the external elements which may affect the Group are described in greater detail in the 2013 Annual Report.

## Notes

DKKm	Q1 2014	Q1 2013	Full year 2013
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### Note 2

#### Interest income

Reverse transactions with credit institutions and central banks	(1)	(1)	(6)
Amounts owed by credit institutions and central banks	5	5	18
Reverse loans and advances	1	3	7
Loans and advances and other amounts owed	738	773	3,015
Bonds	125	137	502
Derivatives	(40)	(14)	(48)
comprising:			
Foreign exchange contracts	33	20	79
Interest rate contracts	(73)	(34)	(128)
Other contracts	0	0	1
Other interest income	(1)	0	(1)
<b>Total</b>	<b>827</b>	<b>903</b>	<b>3,487</b>

### Note 3

#### Interest expense

Repo transactions with credit institutions and central banks	3	(3)	13
Credit institutions and central banks	13	23	60
Repo deposits	0	0	0
Deposits and other debt	111	106	422
Bonds issued	29	22	101
Subordinated capital	11	7	28
Other interest expense	0	0	1
<b>Total</b>	<b>167</b>	<b>155</b>	<b>625</b>

### Note 4

#### Fee and commission income

Securities trading and custody accounts	227	214	822
Payment services	66	57	244
Loan fees	26	22	85
Guarantee commission	26	26	102
Other fees and commission	77	57	228
<b>Total</b>	<b>422</b>	<b>376</b>	<b>1,481</b>



## Notes

DKKkm	Q1 2014	Q1 2013	Full year 2013
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### Note 5

#### Market value adjustments

Other loans and advances and amounts owed at fair value	(5)	0	1
Bonds	236	76	27
Shares etc	198	35	146
Investment property	1	0	(2)
Foreign exchange	39	33	143
Derivatives	(155)	(8)	161
Assets related to pooled plans	231	163	222
Deposits in pooled plans	(231)	(163)	(224)
Other assets/liabilities	0	0	0
<b>Total</b>	<b>314</b>	<b>136</b>	<b>474</b>

### Note 6

#### Staff costs and administrative expenses

Salaries and remuneration to:

Group Executive Management*	3	3	16
Board of Directors	1	1	4
Shareholders' Committee	0	1	3
<b>Total</b>	<b>4</b>	<b>5</b>	<b>23</b>
* including severance pay	-	-	5

#### Staff costs

Wages and salaries	323	296	1,152
Pensions	32	30	127
Social security contributions	4	4	17
Payroll tax etc	37	30	109
<b>Total</b>	<b>396</b>	<b>360</b>	<b>1,405</b>

#### Other administrative expenses

IT	145	135	529
Rent etc	33	30	152
Marketing and entertainment expenses	20	15	97
Other expenses	70	68	108
<b>Total</b>	<b>268</b>	<b>248</b>	<b>886</b>
<b>Total</b>	<b>668</b>	<b>613</b>	<b>2,314</b>

### Note 7

#### Staff

Average number of staff (full-time equivalent)	2,254	2,150	2,133
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## Notes

	Q1 2014	Q1 2013	Full year 2013
DKK m			

### Note 8

#### Other operating expenses

Contributions to the Guarantee Fund for Depositors and Investors	29	41	121
Other expenses	0	0	101
<b>Total</b>	<b>29</b>	<b>41</b>	<b>222</b>

### Note 9

#### Impairment of loans and advances recognised in the income statement

Impairment and provisions	314	349	1,641
Write-offs	13	10	279
Recovered from debt previously written off	12	10	59
<b>Impairment of loans and advances etc</b>	<b>315</b>	<b>349</b>	<b>1,861</b>

#### Impairment and provisions at end of period

Individual impairment and provisions	4,380	3,099	4,164
Collective impairment and provisions	136	181	137
<b>Impairment and provisions at end of period</b>	<b>4,516</b>	<b>3,280</b>	<b>4,301</b>

#### Individual impairment of loans and advances and provisions for guarantees

Impairment and provisions at 1 Jan	4,164	2,834	2,834
Exchange rate adjustment	0	0	0
Impairment and provisions during the period	366	377	1,829
Write-offs covered by impairment and provisions	150	112	499
<b>Impairment and provisions at end of period</b>	<b>4,380</b>	<b>3,099</b>	<b>4,164</b>

Individual impairment of loans and advances	4,288	3,027	4,058
Individual provisions for guarantees	92	72	106
<b>Impairment and provisions at end of period</b>	<b>4,380</b>	<b>3,099</b>	<b>4,164</b>

#### Collective impairment of loans and advances and provisions for guarantees

Impairment and provisions at 1 Jan	137	184	184
Impairment and provisions during the period	(1)	(3)	(47)
<b>Impairment and provisions at end of period</b>	<b>136</b>	<b>181</b>	<b>137</b>

Sum of loans and advances and amounts owed subject to collective impairment and provisions	6,505	10,254	4,312
Collective impairment and provisions	136	181	137
<b>Loans and advances and amounts owed after collective impairment and provisions</b>	<b>6,369</b>	<b>10,073</b>	<b>4,175</b>

#### Individual impairment of loans and advances subject to objective evidence of impairment

Balance before impairment of individually impaired loans and advances	7,506	5,713	6,870
Impairment of individually impaired loans and advances	4,288	3,027	4,058
<b>Balance after impairment of individually impaired loans and advances</b>	<b>3,218</b>	<b>2,686</b>	<b>2,812</b>

Accrued interest concerning individually and collectively impaired loans and advances represents	156	181	591
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## Notes

	31 Mar 2014	31 Dec 2013	31 Mar 2013
DKKm			

### Note 10

#### Profit on holdings in associates and subsidiaries

Profit on holdings in associates etc	8	1	2
<b>Total</b>	<b>8</b>	<b>1</b>	<b>2</b>

### Note 11

#### Effective tax rate

Current tax rate of Sydbank	24.5	25.0	25.0
Reduction in corporation tax rate	-	-	(5.5)
Permanent differences*	(10.7)	-	(31.3)
Adjustment of prior year tax charges	-	0.6	2.6
<b>Effective tax rate</b>	<b>13.8</b>	<b>25.6</b>	<b>(9.2)</b>

\* Permanent differences concern a tax-free gain on shares of DKK 148m relating to the sale of Nets.

### Note 12

#### Amounts owed by credit institutions and central banks

Amounts owed at notice by central banks	-	-	149
Amounts owed by credit institutions	6,063	8,800	7,631
<b>Total</b>	<b>6,063</b>	<b>8,800</b>	<b>7,780</b>
Of which reverse transactions	4,598	6,701	6,109

### Note 13

#### Other assets

Positive market value of derivatives etc	9,269	9,028	14,801
Sundry debtors	391	419	499
Interest and commission receivable	344	407	389
Cash collateral provided, CSA agreements	2,328	2,194	2,874
Other assets	0	1	1
<b>Total</b>	<b>12,332</b>	<b>12,049</b>	<b>18,564</b>

### Note 14

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

Amounts owed to central banks	-	59	149
Amounts owed to credit institutions	28,612	30,960	39,885
<b>Total</b>	<b>28,612</b>	<b>31,019</b>	<b>40,034</b>
Of which repo transactions	15,038	18,913	23,449

## Notes

	31 Mar 2014	31 Dec 2013	31 Mar 2013
DKKm			

### Note 15

#### Deposits and other debt

On demand	55,350	53,806	47,799
At notice	370	363	529
Time deposits	8,421	8,652	12,303
Special categories of deposits	7,824	7,206	6,062
<b>Total</b>	<b>71,965</b>	<b>70,027</b>	<b>66,693</b>
Of which repo transactions	-	-	-

### Note 16

#### Other liabilities

Negative market value of derivatives etc	9,508	9,340	14,900
Sundry creditors	1,368	1,863	1,438
Negative portfolio, reverse transactions	4,862	6,233	5,796
Interest and commission etc	86	73	106
Cash collateral received, CSA agreements	593	513	871
<b>Total</b>	<b>16,417</b>	<b>18,022</b>	<b>23,111</b>

### Note 17

#### Provisions

Provisions for pensions and similar obligations	4	4	4
Provisions for deferred tax	30	0	102
Provisions for guarantees	92	106	72
Other provisions *	46	40	31
<b>Total</b>	<b>172</b>	<b>150</b>	<b>209</b>

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

## Notes

	31 Mar 2014	31 Dec 2013	31 Mar 2013
DKKkm			

### Note 18

#### Subordinated capital

Interest rate	Note		Nominal (m)	Maturity			
Redeemed loans			-	-	-	100	-
3.10 (floating)	1)	Bond loan	DKK 150	29 Nov 2015	150	150	-
<b>Total supplementary capital</b>					150	250	-
Redeemed loans			-	-	-	161	-
1.40 (floating)	2)	Bond loan	EUR 100	Perpetual	743	743	742
2.23 (floating)	3)	Bond loan	EUR 75	Perpetual	556	558	559
6.36 (fixed)	4)	Bond loan	DKK 85	Perpetual	85	85	85
<b>Total hybrid core capital</b>					<b>1,384</b>	<b>1,547</b>	<b>1,386</b>
<b>Total subordinated capital (Tier 2)</b>					<b>1,534</b>	<b>1,797</b>	<b>1,386</b>

1) Loan may be called during interest rate step up period which commenced on 29 November 2012, the interest rate is fixed at 2.65% above 6-month CIBOR.

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

3) Optional redemption on 24 November 2014 after which the interest rate will remain unchanged.

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

### Note 19

#### Contingent liabilities and other obligating agreements

##### Contingent liabilities

Financial guarantees	3,884	3,548	2,886
Mortgage finance guarantees	1,662	1,701	1,837
Registration and remortgaging guarantees	1,641	1,838	1,905
Other contingent liabilities	1,704	1,630	1,345
<b>Total</b>	<b>8,891</b>	<b>8,717</b>	<b>7,973</b>

##### Other obligating agreements

Irrevocable credit commitments	433	447	406
Other liabilities	59	61	67
<b>Total</b>	<b>492</b>	<b>508</b>	<b>473</b>

Totalkredit loans arranged by Sydbank are comprised by an agreed right of set-off against future current commission which Totalkredit may invoke in the event of losses on the loans arranged.

Sydbank does not expect that such set-off will have any significant impact on Sydbank's financial position.

The Bank's membership of Bankdata implies that the Bank will be obliged to pay a charge in case of exit.

As a result of participation in the statutory depositors' guarantee scheme the industry pays an annual contribution of 2.55‰ of the covered net deposits. Payment to the Banking Department will continue until the department's assets exceed 1% of total covered net deposits. The Banking Department will cover the direct losses in connection with the winding-up of distressed financial institutions under Bank Package III and Bank Package IV which can be ascribed to covered net deposits.

## Notes

	31 Mar 2014	31 Dec 2013	31 Mar 2013
DKK m			

### Note 19 – continued

#### Contingent liabilities and other obligating agreements

Any losses as a result of final winding-up will be covered by the Deposit Guarantee Fund via the Winding-up and Restructuring Department as regards which Sydbank is currently liable for 5.2% of any losses.

Sydbank has paid damages to former minority shareholders of bankTrelleborg. This settlement finally decides the claims raised against Sydbank as a result of Sydbank's acquisition of bankTrelleborg in 2008. Sydbank has made a settlement with Fonden for bankTrelleborg which has paid DKK 94.5m to Sydbank. This finally settles the fund's liability to Sydbank as a result of inadequacies in the prospectus of bankTrelleborg.

Professional advisers assisted in the preparation of the prospectus of bankTrelleborg and prospectus liability insurance had been taken out for DKK 50m. Sydbank has set up a claim against these parties. The claim against the insurance company has been brought before the arbitration tribunal. It is Sydbank's assessment of its legal position that the Bank will recover the full amount of damages which it has paid in accordance with the settlement with the minority shareholders.

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 20

#### Repo and reverse transactions

In connection with repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet, and consideration received is recognised as a deposit. Repo transaction securities are treated as assets provided as collateral for liabilities.

In connection with reverse transactions, which involve buying securities to be resold at a later date, the Group is entitled to sell the securities or deposit them as collateral for other loans.

The securities are not recognised in the balance sheet and consideration paid is recognised as a receivable.

Assets received as collateral in connection with reverse transactions may be sold to a third party. In such cases a negative portfolio may arise as a result of the accounting rules. This is recognised under "Other liabilities".

#### Assets sold as part of repo transactions

Bonds at fair value	15,737	19,200	23,418
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#### Assets purchased as part of reverse transactions

Bonds at fair value	10,751	11,450	11,845
Shares etc	1	2	-

### Note 21

#### Collateral

As of 31 March 2014 the Group had deposited as collateral securities at a market value of DKK 290m with Danish and foreign exchanges and clearing centres etc in connection with margin calls and securities settlements etc.

### Note 22

#### Related parties

Sydbank is the bank of a number of related parties. Transactions with related parties are settled on an arm's length basis.

No unusual transactions took place with related parties in Q1 2014. Reference is made to the Group's 2013 Annual Report for a detailed description of related party transactions.

## Notes

DKKkm	Q1 2014	Q1 2013	Index 14/13	Full year 2013
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### Note 23

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

After the expiry of Q1 no matters of significant impact on the financial position of the Sydbank Group have occurred.

### Note 24

#### Large shareholders

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

### Note 25

#### Core income

Net interest etc	615	662	93	2,568
Mortgage credit *	78	66	118	264
Payment services	58	38	153	167
Remortgaging and loan fees	26	23	113	88
Commission and brokerage	92	82	112	320
Commission etc investment funds and pooled pension plans	85	83	102	322
Asset management	41	42	98	164
Custody account fees	20	18	111	79
Other income	40	22	182	86
<b>Total</b>	<b>1,055</b>	<b>1,036</b>	<b>102</b>	<b>4,058</b>

#### \* Mortgage credit

Totalkredit cooperation	67	56	120	237
Totalkredit, set-off of loss	9	5	180	28
Totalkredit cooperation, net	58	51	114	209
DLR Kredit	16	15	107	51
Other mortgage credit income	4	0	-	4
<b>Total</b>	<b>78</b>	<b>66</b>	<b>118</b>	<b>264</b>

### Note 26

#### Financial instruments recognised at fair value

Measurement of financial instruments is based on quoted prices from an active market, on generally accepted valuation models with observable market data or on available data which 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.

Notes

Note 26 – continued

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 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 155m.

					Sydbank Group	
DKKm	Quoted prices	Observable input	Non-observable input	Total fair value	Recognised value	
31 Mar 2014						
<b>Financial assets</b>						
Amounts owed by credit institutions and central banks	-	4,598	-	4,598	4,598	
Loans and advances at fair value	-	6,111	-	6,111	6,111	
Bonds at fair value	-	36,072	1	36,073	36,073	
Shares etc	237	53	1,544	1,834	1,834	
Assets related to pooled plans	3,572	6,799	-	10,371	10,371	
Other assets	74	9,483	-	9,557	9,557	
<b>Total</b>	<b>3,883</b>	<b>63,116</b>	<b>1,545</b>	<b>68,544</b>	<b>68,544</b>	
<b>Financial liabilities</b>						
Amounts owed to credit institutions and central banks	-	15,038	-	15,038	15,038	
Deposits and other debt	-	473	-	473	473	
Deposits in pooled plans	-	10,371	-	10,371	10,371	
Other liabilities	83	14,287	-	14,370	14,370	
<b>Total</b>	<b>83</b>	<b>40,169</b>	<b>-</b>	<b>40,252</b>	<b>40,252</b>	

DKKm	31 March 2014
<b>Assets measured on the basis of non-observable input</b>	
Carrying amount at 1 Jan	1,357
Additions	25
Disposals	0
Market value adjustment	163
<b>Value at end of period</b>	<b>1,545</b>
<b>Recognised in profit for the period</b>	
Interest income	-
Dividends	12
Market value adjustment	163
<b>Total</b>	<b>175</b>



## Management Statement

We have reviewed and approved the Interim Report – Q1 2014 of Sydbank A/S.

The consolidated interim financial statements are prepared in accordance with IAS 34 “Interim Financial Reporting” as approved by the EU. Furthermore the interim financial statements of the parent company are prepared in compliance with Danish disclosure requirements for interim reports of listed financial companies.

The Interim Report has not been audited or reviewed.

In our opinion the interim financial statements give a true and fair view of the Group’s and the parent company’s assets, shareholders’ equity and liabilities and financial position at 31 March 2014 and of the results of the Group’s and the parent company’s operations and consolidated cash flows for the period 1 January – 31 March 2014. Moreover it is our opinion that the management’s review includes a fair review of the developments in the Group’s and the parent company’s operations and financial position as well as a description of the most significant risks and elements of uncertainty which may affect the Group and the parent company.

Aabenraa, 30 April 2014

### Group Executive Management

Karen Frøsig  
CEO

Bjarne Larsen

Jan Svarre

### Board of Directors

Anders Thoustrup  
Chairman

Torben Nielsen  
Vice-Chairman

Svend Erik Busk

Peder Damgaard

Alex Slot Hansen

Erik Bank Lauridsen

Jacob Chr. Nielsen

Susanne Beck Nielsen

Jarl Oxlund

Margrethe Weber

## Supplementary Information

### Financial calendar

In 2014 the Group's preliminary announcement of financial statements will be released as follows:

- Interim Report – First Half 2014  
20 August 2014
- Interim Report – Q1-Q3 2014  
28 October 2014

### Sydbank contacts

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### Relevant links

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

For further information reference is made to Sydbank's 2013 Annual Report at [sydbank.com](http://sydbank.com).