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Dear Sirs

The Danish National Tax Tribunal's decision concerning Sydbank

On 16 March 2005 the Danish National Tax Tribunal decided that Sydbank's losses on the cancellation of own shares in the income years 1999-2001 were not deductible. The total non-deductible amount represents DKK 368m, equal to a tax liability of around DKK 115m.

Sydbank will now assess the decision and its premises with a view to a possible appeal of the case to the courts.

The issue

Since 1999 Sydbank has adjusted its capital structure five times by repurchasing and subsequently cancelling own shares. Consequently, during this period the Bank's share capital has been reduced by a total of DKK 171m to presently DKK 700m nominal. The first three capital reductions took place in the years 1999-2001. At that point in time realized losses on such cancellations were under certain circumstances deductible in accordance with tax legislation. However this was not a motivating factor behind the Bank's capital adjustments. Rather they aimed at optimizing the capital structure and at honouring the shareholders as capital reductions, other things being equal, boost prices. In accordance with current tax legislation however the Bank naturally effected the deductions.

The deductions were not allowed by the Central Customs and Tax Administration and as a result Sydbank referred the matter to the Danish National Tax Tribunal. The amount in dispute – DKK 115m – was paid by the Bank in 2003 and is reclaimed following the decision of the Tribunal.

Different arguments from the Tax Authorities and the Attorney to the Government

The tax authorities increased the Bank's taxable income on the grounds that the loss was a non-deductible loss in terms of tax. They have however acknowledged that the acquired own shares are shares held in the ordinary course of business.

During the consideration of the case by the Danish National Tax Tribunal, the arguments of the Attorney to the Government have differed from those of the tax authorities. The Attorney to the Government claims that the nature of the shares changes from being shares held in the ordinary course of business to being investment shares no later than at the time of the decision to reduce the capital.

The Danish National Tax Tribunal has decided to uphold the claim of the Attorney to the Government. Therefore for tax purposes the shares are deemed to have changed from being shares in the portfolio of shares held in the ordinary course of business to the Bank's investment portfolio at the time when the Board of Directors resolved to implement the capital reduction. Consequently in the opinion of the Danish National Tax Tribunal the deduction in relation to the shares held in the ordinary course of business is unwarranted.

The decision's impact on Sydbank

Sydbank is still of the opinion that the cancelled shares were shares held in the ordinary course of business and therefore the Bank is entitled to the full deduction. Any decision to appeal will be made within a month's time.

Yours faithfully



Mogens Asmund
Group Executive Vice President