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Dear Sirs

### **Sydbank's Quarterly Report – Q1 2006**

- **Doubling of pre-tax profit for the quarter**
- **Total assets now over DKK 100bn**
- **Upgrade of full-year outlook**

Sydbank recorded a pre-tax profit of DKK 475m for the first three months of 2006 – twice the amount compared to Q1 2005 and equal to a return of 37% p.a. on average shareholders' equity.

Core earnings improved by 81% – from DKK 219m to DKK 396m generated by growth in lending, a sharp rise in trading income and net recognition in the income statement of impairment of loans and advances etc. Driven by eg the continued growth in loans and advances, the Group's total assets crossed the DKK 100bn milestone at the end of March 2006.

Profit from investment portfolios rose by DKK 63m to DKK 79m.

In summary, performance and business developments are considered extremely satisfactory.

### **Upgrade of core earnings outlook for 2006**

On the basis of realized core earnings for Q1 2006 as well as current business and earnings developments, core earnings for 2006 will constitute around DKK 1,175-1,325m. As a result the previously published core earnings outlook is upgraded by DKK 300m.

### **Income statement**

Core income excl trading income represents DKK 533m – an increase of 12% compared to the same period last year. Income from interest margins etc has gone up by 19% to DKK 420m and is favourably affected by a rise of 31% in ordinary loans and advances and adversely impacted by receding interest margins as a result of increased competition and a significant rise in the volume of low interest margin products.

Income from mortgage credit is unchanged at DKK 41m. Total income from payment services has gone up by DKK 5m to DKK 30m. Remortgaging and loan fees have decreased by DKK 7m to DKK 15m. Other commission income has declined by DKK 9m to DKK 22m of which DKK 5m is ascribable to reduced property administration income from the subsidiary, DMK-Holding.

<b>Income statement – Q1 (DKKm)</b>		
	<b>2006</b>	<b>2005</b>
Core income excl trading income	533	478
Trading income	389	231
<b>Total core income</b>	<b>922</b>	<b>709</b>
Costs and depreciation	534	470
Impairment of loans and advances etc	(8)	20
<b>Core earnings</b>	<b>396</b>	<b>219</b>
Profit from investment portfolios	79	16
<b>Profit before tax</b>	<b>475</b>	<b>235</b>
Tax	133	72
<b>Profit after tax</b>	<b>342</b>	<b>163</b>

Trading income rose from DKK 231m in Q1 2005 to DKK 389m in Q1 2006 – an increase of 68%. This sharp rise in income has been sustained by high activity and increased demand not least by private banking clients as well as corporate clients' foreign exchange and interest rate hedging. Moreover a substantial rise in trading with the institutional client segment as well as prudent risk management have contributed to the impressive result. The Bank's share of equity transactions at the Copenhagen Stock Exchange represented 4.9% in Q1 2006 compared to 4.7% in Q1 2005.

Total core income amounts to DKK 922m.

Costs and depreciation recorded DKK 534m – an increase of 14%. Costs include expenses of DKK 16m (Q1 2005: DKK 14m) in connection with the Group's employee share scheme. In Q1 2006 there was an exceptional charge of DKK 8m as a result of a rise in the number of employees with 6 weeks' paid holiday entitlement. At the end of Q1 2006, staff members numbered 2,124 compared with 2,084 at the same time in 2005.

The growth rate of costs for the whole of 2006 is projected at around 6%.

In Q1 2006 impairment of loans and advances etc totalling net DKK 8m was recognised as income compared to an expense of DKK 20m in Q1 2005.

Total core earnings represent DKK 396m compared with DKK 219m in 2005, equal to an increase of 81%.

Profit from investment portfolios amounts to DKK 79m for Q1 2006 (2005: DKK 16m).

The Group's pre-tax profit makes up DKK 475m. Less a calculated tax charge of DKK 133m, profit stands at DKK 342m and book value at DKK 75 per share outstanding.

## **Balance sheet**

The Group's total assets make up DKK 103bn (31 December 2005: DKK 99bn).

Since 31 December 2005 ordinary loans and advances – loans and advances at amortised cost – have risen by DKK 3.9bn to DKK 57.4bn, ie a rise of DKK 13.6bn or 31% compared to Q1 2005.

Since year-end deposits and other debt have gone up by DKK 3.4bn to DKK 47.0bn.

## **Capital**

In Q1 2006 subordinate loan capital of EUR 15m was repaid and supplementary capital of EUR 50 will moreover be repaid in May 2006.

To strengthen the Bank's capital resources an additional amount of EUR 51m by way of hybrid core capital has been raised. This loan can be repaid on 25 April 2017 subject to the approval of the Danish FSA.

Shareholders' equity (Tier 1) has grown by DKK 193m since year-end and constitutes DKK 5,179m at 31 March 2006. The changes are ascribable to dividend distribution etc of net DKK 214m, net sale of own shares of DKK 78m, tax on equity items of DKK 13m and profit for the period of DKK 342m.

The Group's solvency (total capital) ratio stands at 10.0% (year-end 2005: 11.1%) and core capital (Tier 1) ratio at 7.6% (year-end 2005: 8.1%). Following the raising of new hybrid core capital of EUR 51m, the Group's solvency (total capital) ratio stands at 10.6% and core capital (Tier 1) ratio at 8.1%. Incorporating profit for the three months, solvency and core capital ratios amount to 11.0% and 8.6%, respectively.

Moody's ratings remain unchanged: A2 (long-term), P-1 (short-term) and C+ (financial strength).

Sydbank's Quarterly Report – Q1 2006 has not been audited.

## **Outlook for 2006**

Performance and customer development was satisfactory in the first three months of 2006.

As a consequence of continued high core income, including trading income in particular, Group core earnings for Q1 2006 outperform the expectations for the year which were published in the 2005 Annual Report. As a result the 2006 core earnings outlook is upgraded by DKK 300m to DKK 1,175-1,325m. All other expectations remain unchanged.

Sydbank's 2006 Interim Report is scheduled for 14 August.

Yours faithfully



Carsten Andersen  
Group Chief Executive

## GROUP FINANCIAL HIGHLIGHTS

	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Full year 2005
<b>Income statement (DKKm)</b>						
Core income excl trading income	533	545	506	483	478	2,013
Trading income	389	269	282	298	231	1,079
<b>Total core income</b>	<b>922</b>	<b>814</b>	<b>788</b>	<b>781</b>	<b>709</b>	<b>3,092</b>
Costs and depreciation	534	507	421	455	470	1,853
Impairment of loans and advances etc	(8)	7	9	29	20	65
<b>Core earnings</b>	<b>396</b>	<b>300</b>	<b>358</b>	<b>297</b>	<b>219</b>	<b>1,174</b>
Profit from investment portfolios	79	26	38	59	16	139
<b>Profit before tax</b>	<b>475</b>	<b>326</b>	<b>396</b>	<b>356</b>	<b>235</b>	<b>1,313</b>
Tax	133	94	112	99	72	377
<b>Profit after tax</b>	<b>342</b>	<b>232</b>	<b>284</b>	<b>257</b>	<b>163</b>	<b>936</b>
<b>Balance sheet highlights (DKKbn)</b>						
Loans and advances at amortised cost	57.4	53.5	50.0	47.5	43.8	53.5
Loans and advances at fair value	7.3	7.2	8.1	7.9	6.2	7.2
Deposits and other debt	47.0	43.6	41.8	42.3	38.0	43.6
Bonds issued at amortised cost	6.7	6.7	1.9	1.9	1.9	6.7
Subordinated capital (Tier 2)	2.7	2.8	2.1	2.1	1.4	2.8
Shareholders' equity (Tier 1)	5.2	5.0	4.8	4.5	4.2	5.0
Total assets	103.5	98.9	89.6	88.6	77.6	98.9
<b>Financial ratios per share (DKK per share of DKK 10)</b>						
EPS Basic *	5.0	3.4	4.1	3.7	2.4	13.7
EPS Diluted *	5.0	3.4	4.1	3.7	2.4	13.7
Share price at year-end	193.0	151.0	149.2	137.8	116.0	151.0
Book value **	75.2	72.9	69.5	66.0	62.0	72.9
Share price/book value **	2.57	2.07	2.15	2.09	1.87	2.07
Average number of shares outstanding (in millions)	68.3	68.3	68.7	68.6	69.1	68.6
<b>Other financial ratios and key figures</b>						
Solvency (total capital) ratio	10.0	11.1	9.2	10.0	9.7	11.1
Core capital (Tier 1) ratio	7.6	8.1	7.3	7.8	8.7	8.1
Pre-tax profit as % of avg shareholders' equity	9.3	6.7	8.5	8.1	5.4	27.9
Post-tax profit as % of avg shareholders' equity	6.7	4.8	6.1	5.9	3.7	19.9
Income/cost ratio (DKK)	1.90	1.63	1.92	1.73	1.48	1.68
Interest rate risk	1.0	2.3	2.2	3.4	2.4	2.3
Foreign exchange position	28.5	2.8	6.6	12.0	5.4	2.8
Foreign exchange risk	0.1	0.1	0.1	0.1	0.0	0.1
Loans and advances relative to deposits ***	1.1	1.1	1.2	1.1	1.2	1.1
Loans and advances relative to shareholders' equity ***	11.1	10.7	10.5	10.5	10.3	10.7
Growth in loans and advances for the period ***	7.2	7.2	5.0	8.5	4.7	28.0
Excess cover relative to statutory liquidity requirements	53.5	95.1	40.3	74.9	80.6	95.1
Total large exposures	121.4	93.9	142.5	102.2	71.9	93.9
Accumulated impairment ratio	2.0	2.1	2.1	2.2	2.4	2.1
Impairment ratio for the period	(0.01)	0.01	0.01	0.04	0.03	0.09
Number of full-time staff at end of period	2,124	2,123	2,117	2,092	2,084	2,123

\* Calculation based on average number of shares outstanding.

\*\* Calculation based on number of shares outstanding at end of period.

\*\*\* Ratios calculated on the basis of loans and advances at amortised cost.

The financial ratios are prepared according to "Recommendations & Financial Ratios 2005" published by the Danish Society of Financial Analysts.

## INCOME STATEMENT

DKKm	Q1 2006	Q1 2005	Full year 2005
Interest income	841	666	2,904
Interest expense	398	252	1,192
<b>Net interest income</b>	<b>443</b>	<b>414</b>	<b>1,712</b>
Dividends on shares	7	4	16
Fee and commission income	385	252	1,132
Fee and commission expense	64	28	149
<b>Net interest and fee income</b>	<b>771</b>	<b>642</b>	<b>2,711</b>
Market value adjustments	227	82	503
Other operating income	5	4	25
Staff costs and administrative expenses	514	454	1,747
Depreciation and impairment of property, plant and equipment	23	18	105
Other operating expenses	0	0	10
Impairment of loans and advances etc	(8)	20	65
Profit on holdings in associates	1	0	(1)
Profit on assets temporarily acquired	-	(1)	2
<b>Profit before tax</b>	<b>475</b>	<b>235</b>	<b>1,313</b>
Tax	133	72	377
<b>Profit after tax</b>	<b>342</b>	<b>163</b>	<b>936</b>

## BALANCE SHEET

DKKm	Q1 2006	Q1 2005	Full year 2005
<b>Assets</b>			
Cash and balances on demand at central banks	628	679	4,037
Amounts owed by credit institutions and central banks	14,882	7,119	10,967
Loans and advances at fair value	7,308	6,172	7,174
Loans and advances at amortised cost	57,404	43,807	53,538
Bonds at fair value	12,631	9,812	12,248
Shares etc	1,019	777	1,026
Holdings in associates etc	144	146	143
Assets related to pooled plans	5,846	5,026	5,615
Total land and buildings	762	736	748
- investment property	45	47	45
- owner-occupied property	717	689	703
Other property, plant and equipment	88	86	94
Current tax assets	2	146	84
Assets temporarily acquired	-	8	-
Other assets	2,703	3,008	3,203
Prepayments	46	40	36
<b>Total assets</b>	<b>103,463</b>	<b>77,562</b>	<b>98,913</b>
<b>Shareholders' equity and liabilities</b>			
Amounts owed to credit institutions and central banks	25,478	19,438	25,692
Deposits and other debt	46,956	38,041	43,590
Deposits in pooled plans	5,846	5,026	5,615
Bonds issued at amortised cost	6,703	1,858	6,701
Current tax liabilities	66	4	20
Other liabilities	10,212	7,369	9,155
Deferred income	56	67	56
<b>Total liabilities</b>	<b>95,317</b>	<b>71,803</b>	<b>90,829</b>
Provisions	247	62	267
Subordinated capital (Tier 2)	2,720	1,449	2,831
Shareholders' equity (Tier 1) *	5,179	4,248	4,986
<b>Total shareholders' equity and liabilities</b>	<b>103,463</b>	<b>77,562</b>	<b>98,913</b>
* Including proposed dividend etc			220

## NOTES

Accounting policies:

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

DKKm	Q1 2006	Q1 2005	Full year 2005
<b>Shareholders' equity (Tier 1):</b>			
<b>Shareholders' equity at 1 January</b>	<b>4,986</b>	<b>4,431</b>	<b>4,431</b>
<b>Changes in equity:</b>			
Exchange rate adj., foreign entities	(3)	0	1
Hedge accounting of foreign entities	3	0	(1)
Tax on equity items	(13)	0	(15)
Profit for the period	342	163	936
<b>Total income</b>	<b>329</b>	<b>163</b>	<b>921</b>
Purchase/sale of own shares	62	(148)	(168)
Employee shares	16	13	13
Adopted dividend etc	(220)	(215)	(215)
Dividends, own shares	6	4	4
<b>Total changes in equity</b>	<b>193</b>	<b>(183)</b>	<b>555</b>
<b>Total shareholders' equity (Tier 1)</b>	<b>5,179</b>	<b>4,248</b>	<b>4,986</b>
Shares outstanding (number)	68,874,923	68,498,752	68,355,127
Holding of own shares (number)	1,125,077	1,501,248	1,644,873
<b>Total share capital (number)</b>	<b>70,000,000</b>	<b>70,000,000</b>	<b>70,000,000</b>
<b>Solvency (total capital) ratio and capital base (Tiers 1+2) (excl profit for the period):</b>			
<b>Solvency:</b>			
Solvency (total capital) ratio	10.0	9.7	11.1
Core capital (Tier 1) ratio	7.6	8.7	8.1
Core capital (Tier 1) ratio (excl hybrid core capital)	6.8	7.6	7.3
<b>Composition of capital and weighted items:</b>			
Shareholders' equity (Tier 1)	5,179	4,248	4,986
Profit for the period	(341)	(163)	-
<b>Core capital (Tier 1)</b>	<b>4,838</b>	<b>4,085</b>	<b>4,986</b>
Hybrid core capital (Tier 1)	560	559	560
Deductions	0	0	220
<b>Core capital (Tier 1) (incl hybrid core capital) after deductions</b>	<b>5,398</b>	<b>4,644</b>	<b>5,326</b>
Subordinated capital (Tier 2) included	2,160	890	2,271
Deductions	434	326	301
<b>Supplementary capital (Tier 2) after deductions</b>	<b>1,726</b>	<b>564</b>	<b>1,970</b>
<b>Capital base (Tiers 1+2) after deductions</b>	<b>7,124</b>	<b>5,208</b>	<b>7,296</b>
<b>Capital base requirement (solvency requirement 8%)</b>	<b>5,682</b>	<b>4,277</b>	<b>5,257</b>
Weighted assets and off-balance sheet items	62,235	48,133	58,186
Weighted items with market risk	8,796	5,333	7,532
<b>Total weighted items</b>	<b>71,031</b>	<b>53,466</b>	<b>65,718</b>

## NOTES

DKKm	Q1 2006	Q1 2005	Full year 2005
<b>Provisions:</b>			
Provisions for pensions and similar obligations	1	1	2
Provisions for deferred tax	58	17	58
Provisions for guarantees	147	22	152
Other provisions	41	22	55
<b>Total provisions</b>	<b>247</b>	<b>62</b>	<b>267</b>
<b>Contingent liabilities:</b>			
Guarantees etc	13,413	11,225	13,704
Other contingent liabilities	73	303	61
<b>Total contingent liabilities</b>	<b>13,486</b>	<b>11,528</b>	<b>13,765</b>
<b>Impairment of loans and advances and provisions for guarantees:</b>			
Impairment and provisions at 1 January	1,569	1,545	1,545
IFRS adjustment	-	(13)	(13)
Adjusted impairment and provisions at 1 January	1,569	1,532	1,532
Exchange rate adjustment	0	0	0
Impairment and provisions during the period	23	49	170
Write-offs covered by impairment and provisions	10	80	133
<b>Impairment and provisions at end of period</b>	<b>1,582</b>	<b>1,501</b>	<b>1,569</b>
Individual impairment/provisions	1,431	1,315	1,407
Collective impairment/provisions	151	186	162
<b>Impairment and provisions at end of period</b>	<b>1,582</b>	<b>1,501</b>	<b>1,569</b>
Impairment and provisions	4	30	97
Write-offs not covered by impairment and provisions	7	2	36
Recovered from debt previously written off	19	12	68
<b>Impairment of loans and advances etc (recognized in the income statement)</b>	<b>(8)</b>	<b>20</b>	<b>65</b>
<b>Core income excl trading income:</b>			
Interest margins etc	420	355	1,528
Mortgage credit	41	41	179
Payment services	30	25	114
Remortgaging and loan fees	15	22	77
Other commission	22	31	89
Other operating income	5	4	26
<b>Total</b>	<b>533</b>	<b>478</b>	<b>2,013</b>
<b>Trading income:</b>			
Bonds	66	43	175
Equities	146	60	320
Foreign exchange	65	56	233
Money market	23	11	36
Asset management	89	61	315
<b>Total</b>	<b>389</b>	<b>231</b>	<b>1,079</b>