

Sydbank A/S / Miscellaneous

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Effective Q2 2012, the Danish FSA implemented new and stricter impairment rules for banks.

As a result, Sydbank recorded significant extraordinary impairment charges for the Bank's corporate exposures in the first six months of 2012. In addition, DKK 250m of the individual solvency need was set aside to cover the credit risk on retail client exposures.

The reason for the solvency reservations was the special risks which, in a situation of considerable interest rate increases, are associated with retail clients who have financed their properties with floating-rate loans, in particular if these clients have also opted for interest-only loans.

The Bank has subsequently reviewed its retail client lending portfolio as regards these clients. We can see that the present financial situation of some of these clients will be very tight if their budgets are strained by payments relating to fixed-rate loans with repayment if the loans are taken out after an interest rate increase. Moreover, we can see that some of these clients will not be able to sell their properties without loss given the current climate in the property market.

In general, the recent interest rate fixing of floating-rate loans has resulted in a further decline in the interest rate on floating-rate mortgage loans. Therefore, the capital payments on clients' housing loans will not result in an increased strain on their personal finances in 2013.

It is estimated that the economic outlook for 2013 will not form the basis for an interest rate increase which will have a significant impact on homeowners' disposable amounts. However, it cannot be ruled out that the interest rate increases will occur sooner than currently expected. As a result of recent years' declines in property prices, many homeowners are today technically insolvent.

Against this background, the Bank has decided to record additional impairment charges of around DKK 300-350m for its retail client loans.

Sydbank has previously announced that impairment charges are projected to stand at around DKK 1.4bn in 2012. In view of the above decision to convert the solvency reservations to impairment charges, impairment charges are now projected to represent around DKK 1,750m for 2012.

This decision does not change the Bank's overall risk scenario as the calculated individual solvency need will decrease correspondingly.

As a consequence of the increased impairment charges, which are charged to the Bank's interim financial statements for Q4 2012, a profit before tax of around DKK 600m is expected, provided that no events occur in the final days of the year which significantly change the Bank's investment portfolio earnings. For the first nine months of the year, profit before tax represented DKK 574m. In 2011, profit before tax stood at DKK 301m.

Sydbank's 2012 Annual Report is scheduled for 20 February 2013.

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