
Sydbank's CSR Report for 2016

Corporate social responsibility

– Preface

Corporate social responsibility and sustainability are closely related. At Sydbank we are naturally especially focused on the financial side of sustainability in our daily work. And we are very conscious of the responsibility resting on us to create sustainable finances for our customers and our shareholders but also at a societal level where the term used is “financial stability”, but the meaning is the same: a financial system that works and is sustainable in the long term.

However sustainability is not just about finance – nor for banks. It also concerns people and our use of environmental resources. Also here, what matters is to find the methods and strategies that are sustainable in the long term. Our resources – human resources, environmental resources as well as financial resources – must be well-balanced.

Sydbank’s CSR policy was revised and approved by the Board of Directors in 2016. The purpose of the changes was to simplify and update the wording as well as to expand reporting on the bank’s corporate social responsibility in relation to these three areas – people, the environment and finance.

Sydbank’s CSR report offers an overall perspective of where we currently stand and how we balance our resources at Sydbank as well as how we strive to create a sustainable bank. Sydbank has a strong financial foundation – but being “sustainable” in its broadest sense involves more than this. This report looks beyond the financial ratios and addresses the people-related and social obligations involved in running a bank.

Karen Frøsig
CEO

Corporate social responsibility

– CSR at Sydbank

This statutory CSR report for Sydbank is part of the annual report and covers the accounting period from 1 January 2016 to 31 December 2016.

As a nationwide advisory bank, Sydbank has a significant presence in all parts of Denmark as well as in Northern Germany. Sydbank is a bank for most people but not the same bank for everyone. At Sydbank our organisational structure ensures high accessibility and easy access to decisions so we can act quickly.

Sydbank has a solid financial foundation that offers room for more business with new customers as well as existing customers. Our growth must be built on a strong and sound foundation. We grow through long-term and close relationships with customers and see acquisitions as an opportunity. Sydbank wishes to remain a bank operating on its own terms and with strong partnerships.

We have a clear goal to carry out our role as a bank as effectively and responsibly as possible.

We are conscious of the social responsibility that comes with being one of Denmark's leading banks. For instance we help to ensure that businesses and individuals have flexible cash man-

agement solutions and we support the housing market by providing financing options. We also ensure that individuals as well as businesses have easy access to make financial transactions using the latest technology. And by providing advice we seek to contribute to the healthy growth and development in people's finances on the basis of balanced risks. In this way Sydbank, along with the rest of the financial sector, contributes to financial stability and cohesion in society.

The long-standing customer relationships are a yardstick of how we do business. As an advisory bank, we focus our efforts on establishing and nurturing value-creating relationships, and this carries obligations – because relationships can only endure when we are perceived as a trustworthy and reliable banking partner. Our core values – excellence, relationships and value – guide us in everything we do. Sydbank seeks in all contexts to create value for all our stakeholders and society at large through excellence and the ability to create relationships.

No matter how customers use Sydbank, the customer experience must be simple and seamless. We strive for simplicity and work toward eliminating complexity. We want to be a bank – pure and simple. Nothing more.



Corporate social responsibility

– CSR at Sydbank

Sydbank's stakeholders

As a listed company and bank, Sydbank's first obligation is to its shareholders. But we are conscious that Sydbank's growth and existence also depend on an ongoing dialogue and interaction with a number of other stakeholders in:

- our own organisation
- the marketplace
- society at large.

At the end of 2016 Sydbank employed a total of 2,215 people. 13.5% held management positions and the rest were employed in various specialist functions, advisory functions and support functions.

In the marketplace Sydbank's principal stakeholders are its investors as well as customers and their interest organisations. The bank's customers are divided into three main segments: Corporate, Retail and Private Banking. High priority is placed on being close to customers through local engagement, for instance in local association activities and sports activities.

In society at large Sydbank's key stakeholders include authorities, the media and policymakers. The bank's dialogue with the



latter group takes place mainly through the sector's interest organisations. Sydbank is a member of the following interest organisations:

- FinanceDenmark (formerly the Danish Bankers Association and the Association of Danish Mortgage Banks)
- National Banks in Denmark (formerly Regional Bankers' Association)
- Employers' Association for the Financial Sector.



CSR

– CSR at Sydbank

Updated CSR policy

Sydbank's focus on enhancing its CSR efforts continued in 2016. One of the results of this work was the updating of the bank's CSR policy. The revised version of the policy was submitted and approved at the Board of Directors' meeting on 15 December 2016. The overall aim of the changes was to simplify and update the wording as well as to expand reporting on the bank's corporate social responsibility in relation to three areas:

- people
- the environment
- finance.

The bank aims to expand its reporting and improve the basis of reporting in these three areas during 2017. This task along with reporting will be carried out by Group Executive Management Secretariat & Communications in close collaboration with the bank's business units.

Activity 2016:

Balanced growth in Denmark

In 2016 Sydbank contributed to the debate concerning issues facing the more sparsely populated, peripheral areas of Denmark by way of two well-attended debates and an economic analysis of business growth and development in outlying areas. The purpose was to focus attention on the local framework conditions for business growth across the entire country. As a nationwide bank with a significant number of corporate clients, Sydbank is conscious of its responsibility to stay focused on this issue.

Sydbank's analysis showed that while an increasing number of people choose to settle in urban areas, businesses are more evenly dispersed across the country.

In other words businesses, which are pivotal to the economy, are defying all talk about 'peripheral Denmark' and consequently there is every reason for policymakers not to focus exclusively on urban growth. Going forward, Sydbank will work to keep this issue on the public agenda by means of concrete initiatives and analyses.



CSR

– People

Sydbank strives to be a workplace characterised by high customer satisfaction and employees known for their deep commitment and professional skills. We measure our efforts and we also have systematic follow-up procedures.

Employee satisfaction surveys are carried out every two years, most recently in 2016, by an independent institute, Rambøll Management Consulting, which ensures anonymity in responses.

Sydbank wants its organisation to reflect the diversity of today's society. We are also sensitive to the needs of employees facing special challenges such as serious illness or personal difficulties and wherever possible we will help to find a solution. In 2016 special flex job and vocational rehabilitation schemes for employees at Sydbank corresponded to 14 full-time positions.

In 2016 Sydbank worked on developing a new staff induction programme that will be implemented in 2017. The programme aims to ensure a more uniform introduction to Sydbank for new employees.

Equality and non-discrimination

Sydbank wants to ensure that in general all employees have equal access to participation and promotion in the organisation regardless of age, gender, ethnic background or culture. This is the main reason why we monitor the gender balance at Sydbank. However Sydbank has not set a specific gender composition target as in practice it also depends on the free choice

of employees and their personal priorities, and Sydbank also wishes to take into consideration and support the freedom of choice of each individual employee.

Sydbank has a responsibility to ensure that there is always an open and unbiased selection process in the organisation without any form of discrimination – and that the organisation aptly reflects the labour market's composition in terms of gender and other differences such as age, ethnic background and culture. Diversity in all its forms creates the best and most dynamic work climate and this is what we want to focus on at Sydbank.

When recruiting people, a guiding point at Sydbank is however that both genders are represented among the final three candidates. The overall gender distribution at Sydbank was 53% female and 47% male in 2016. In recent years Sydbank's Board of Directors has consisted predominantly of men and consequently Sydbank's current target is to have two women shareholder-elected board members by 2019 to ensure diversity. The female representation on the Board of Directors was increased by one shareholder-elected member in 2016, which means that one of the bank's eight shareholder-elected board members is a woman.

The share of women in management positions (managers with staff responsibilities) at Sydbank was 32% in 2016.



CSR

– People

Customer satisfaction

Sydbank measures customer satisfaction systematically by means of two different surveys carried out by external market research companies. Customer satisfaction in the corporate segment is measured by Aalund and EPSI covers the retail segment.

Sydbank's ambition is to achieve a top three ranking among the six largest banks in Denmark in both categories. This encourag-

es the bank to maintain its dialogue-oriented approach to all customers.

In 2016 Sydbank achieved a third place in Aalund's survey of customer satisfaction in the corporate segment and came in fifth in EPSI's survey of customer satisfaction in the retail segment.

Activity 2016:

Agriculture package

The Danish agricultural sector has struggled since the financial crisis. Falling settlement prices for milk in particular have not helped the situation. The government's agriculture package, which was introduced in spring 2016, opened up new possibilities for debt conversion for debt-ridden farmers and Sydbank decided to lead the way with an innovative model. The model involves converting selected farmers' bank debt to subordinated loan capital that, subject to certain conditions, may be redeemed by the farmer at a price to be agreed after a number of years. The subordinated loan is free of interest during this period.

When the bank debt has been converted, the assessment should be that the farm in question offers perspectives from the point of view of the farmer as well as Sydbank.

The underlying basis for the model is that some farms are efficiently run and well managed despite burdensome debt.

Sydbank's agricultural initiative should be seen as a strong example of how corporate responsibility from the bank's perspective can go hand in hand with broader social responsibility and customer-oriented solutions.



The selected farms are characterised by eg:

- negative equity
- high efficiency

CSR

- Environment

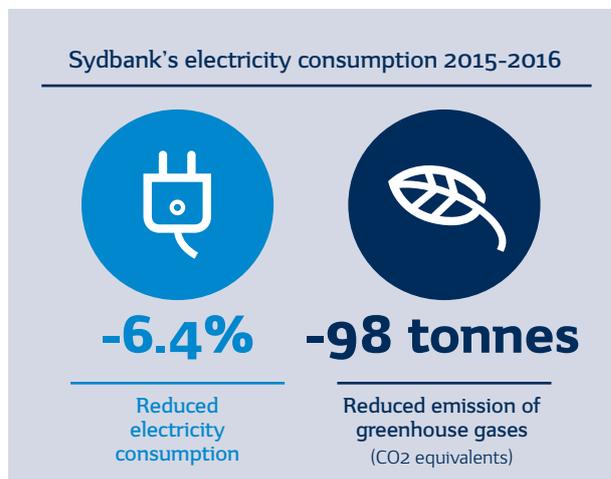
Sydbank works systematically to minimise the environmental footprint of its business operations. This applies in particular to its buildings where the ambition is to provide the best possible working environment and level of comfort for employees while having the lowest possible energy consumption as regards heating, cooling and electricity.

In 2016 Sydbank's premises had a total floor area of 105,784m². The buildings are located all over the country and vary greatly in terms of size, age, use and requirements.

Electricity accounts for the largest part of the energy used in the bank's operations. In 2016 Sydbank's electricity consumption totalled 6.98 million kWh, which is 6.4% lower than the year before. Since Sydbank's total floor area declined by 3.6% during the same period, the actual reduction in Sydbank's electricity consumption was 2.9% per square metre. In terms of environmental impact, the decline in Sydbank's electricity consumption from 2015 to 2016 has reduced the emission of greenhouse gases (CO₂ equivalents) by a total of 98.4 tonnes.¹

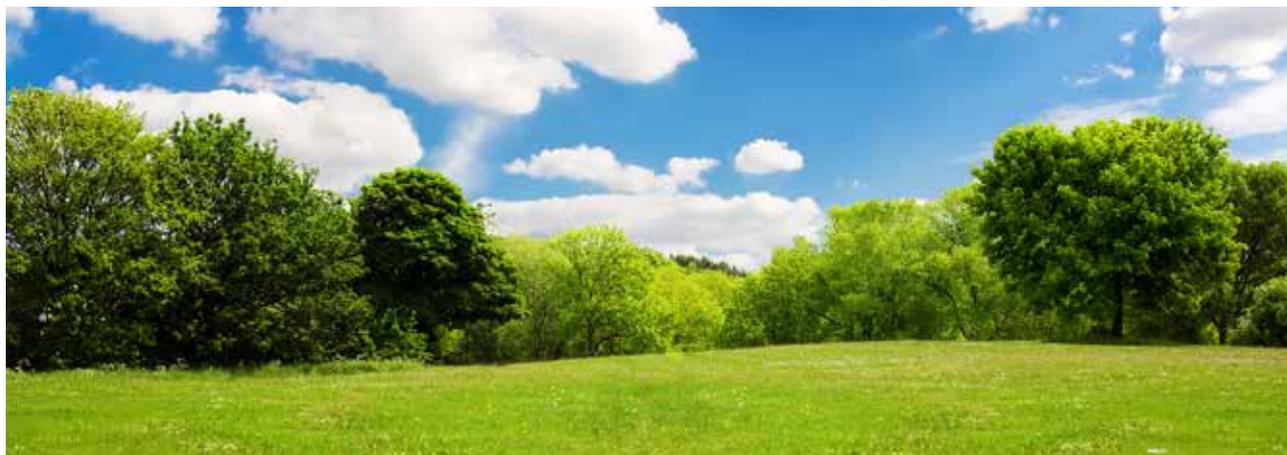
Sydbank expects to further reduce its electricity consumption by 2 kWh per floor square metre in 2017.

Sydbank's head office in Aabenraa uses considerably more electricity per square metre than the bank's other buildings. One of the reasons is that the costs for energy used by the bank for instance to cool and ventilate server rooms are paid via the head office.



The reliability of critical servers and IT also requires a UPS system to ensure a stable power supply in case of irregularities or breakdowns in the electricity grid. Sydbank's UPS system was upgraded in 2015. The investment in the latest technology has resulted in less noise, a reduced need for cooling and a significant decrease in energy consumption. Overall the system is expected to reduce electricity consumption and generate savings of DKK 500,000-600,000 a year and at the same time it guarantees 100% reliability. Some of the savings were achieved already in 2016 but further visible gains are expected in 2017.

Sydbank has installed central real-time monitoring of electricity consumed in buildings corresponding to 88% of the bank's total floor space, which is why the figures for electricity consumed are reliable and valid. The figures in this report have not been adjusted for weather conditions and climate variations. During 2017 Sydbank will work on refining reporting on energy consumption.



¹ CO₂ emissions based on the 125% method and an estimated transmission loss of 5%, cf Energinet.dk's calculator.

Corporate social responsibility

– Finance

As one of Denmark's systemically important financial institutions (SIFI), Sydbank complies with more stringent capital requirements and is also in close dialogue with supervisory authorities regarding statutory requirements and compliance.

Revised credit policy

The bank's guidelines regarding lending are set out in its credit policy, which was revised in 2016. Sydbank's credit policy forms the basis of lending to customers. The solutions offered must at all times be on an informed and well-founded basis and ensure that customers have healthy and sustainable finances.

The most important new elements in the credit policy are as follows:

- More specific guidelines concerning the bank's requirements relating to retail customers as regards assets, disposable amount and leverage (debt relative to household income) in order to ensure that a customer's financial situation is sustainable in the long term.
- Guidelines on requirements regarding the interest rate sensitivity that a customer must be able to manage for the customer's finances to be considered sufficiently robust. This applies to both retail clients and corporate clients. As regards retail clients with home financing, the new best practice rules issued by the Danish FSA have been included in the credit policy.

- The scope of reporting to the Board of Directors has been widened to include reports on credit approvals deviating from the credit policy.
- Only Credits, the Executive Group Management and the Board of Directors can approve deviations from the credit policy. Credits is responsible for collection and reporting to the Board of Directors.
- In addition the section on controls has been expanded and clarified in some areas.

Responsible asset management and investment advice

Sydbank manages significant portfolios in investment markets – on behalf of the bank and on behalf of its customers – and is mindful that environmental, social and corporate governance (ESG) issues are taken into account in terms of the companies invested in.

This is why Sydbank signed the UN Principles for Responsible Investment (UN PRI) in 2010 and consequently the bank incorporates ESG principles formulated in the UN Global Compact into its investment decisions.

Sydbank collaborates with GES Investment Services (GES) in order to monitor investment markets to ensure that investments made by Sydbank live up to the ESG principles for responsible investment and the UN Global Compact.



Corporate social responsibility

– Finance

Proactive engagement – responsible investment via GES in 2016



Developed markets

- Active engagement with 32 companies.
- Total of 37 different cases concerning:
 - violations of labour rights (14)
 - human rights (11)
 - environmental issues (6)
 - corruption (6).



Emerging markets

- Ongoing cases: 140
- 88 company visits
- 8 conference calls.

In 2016 GES, on behalf of Sydbank, actively engaged with 32 companies in developed countries about 37 different cases. Focus was solely on companies that have violated widely accepted international conventions and norms concerning environmental and social issues. 14 of these cases concern violations of labour rights, 11 cases concern human rights, 6 cases concern environmental issues and 6 cases concern corruption.

In emerging markets this involved 88 visits and 8 conference calls with businesses in Africa, the Middle East, the Far East and Latin America in 2016. GES has ongoing engagement cases on behalf of Sydbank involving more than 140 businesses in

emerging markets. In several cases the response was good and is improving as businesses gain confidence in the engagement process and acknowledge the value of the input provided by GES and Sydbank. Engagement activities focus primarily on companies that have violated widely accepted international conventions and norms concerning environmental and social issues as well as companies that can be associated with very high environmental and social risks and at the same time have very low readiness levels to tackle these risks.

In addition to the collaboration with GES, Sydbank has initiated an internal screening procedure of markets that are considered to be problematic in terms of ESG principles. As a result of the screening an internal list is updated every quarter.

Measures against money laundering and terrorist financing

Sydbank collaborates with the authorities to combat financial crime and money laundering as stipulated in the Danish Consolidating Act on Measures to Prevent Money Laundering and Financing of Terrorism. Sydbank acknowledges that banks' corporate social responsibility includes contributing to this important task.

The bank's contingency measures are reinforced on an ongoing basis in the form of risk assessments, identification procedures in connection with new customer relationships as well as manual and automatic screening of customers' transactions. In addition all Sydbank's advisers attend courses on anti-money laundering rules. These courses were also held in 2016.

Activity 2016:

Fantasy share trading game

For a number of years Sydbank has encouraged young people to learn more about financial markets by organising a fantasy share trading game for a target group ranging from 8th grade lower secondary school students to business academy students. Sydbank made its digital simulation platform available also in 2016, which was used by more than 2,000 students from all over the country. Each player is given DKK 1 million in demo funds and competes to generate the best return during a specific competition period.



Corporate social responsibility

– Finance

In order to prevent transactions related to terrorist financing, Sydbank has implemented an automatic screening process on the basis of sanctions lists from the EU, UN, USA, FATF etc. Sydbank will continue to focus on combating money laundering and financial crime in 2017.

Tax Governance

Since 2013 Sydbank has participated in a joint project called Tax Governance with SKAT, the Danish tax authorities, to strengthen the cooperation on a swift and efficient clarification of the Group's fiscal and tax issues. Via the cooperation – which is based on mutual openness and trust – the Group is able to learn about SKAT's position on concrete fiscal and/or tax issues including:

- prompt replies to specific questions about fiscal and tax matters concerning implemented as well as contemplated transactions
- ongoing dialogue with SKAT where Sydbank is able to discuss problems as they arise, which saves resources for Sydbank as well as the authorities in terms of a later review of the income tax return.

And this contributes to minimising future risks.

As a financial undertaking, Sydbank carries out an important social task by reporting information to SKAT which forms the basis of the automatic issue of annual statements for a significant number of Danish taxpayers. Via Tax Governance contributions are made on an ongoing basis to enhance the general quality of reporting, which makes tax collection efficient and simple for the authorities as well as customers.

Sydbank does not wish to take part in any financial transaction where motives or business practices may be called into question, regardless of its legality.

IT security – externally and internally

In our everyday life where for instance banking transactions and purchases are made digitally, it is especially important to focus on security and safety issues. In collaboration with other players in the financial sector we regularly discuss the implementation of IT security legislation and how we can further improve IT security.

Via our policy regarding safety issues and IT security, all employees are encouraged to comply with the bank's guidelines for the safe use of the internet, email and systems and software. In addition monitoring by means of internet filters is carried out to avoid viruses so that our systems remain safe for our sake and for the sake of our customers.

Security controls are made available to our customers. We support FinanceDenmark's campaigns and use social media as an additional tool to tell customers about IT security and IT threats. This information and advice is also available at sydbank.dk and via Sydbank Hotline.

Sydbank Hotline helps customers who need technical assistance in connection with using our electronic applications and sydbank.dk. Sydbank Hotline can for instance help customers check their computers for viruses and help them with updates that are necessary to increase security.

Activity 2016:

Money Week

Sydbank participates in Money Week, organised by FinanceDenmark, which targets 7th and 8th grade lower secondary school students, by visiting schools and giving talks to students. The aim of Money Week is to improve students' financial literacy. More than 21,000 students from 1,035 classes at 660 schools took part in Money Week in 2016. Sydbank held 1.7 guest talks in each of the bank's nine regions in 2016 and expects to increase its participation to at least three guest talks per region in 2017.



Corporate social responsibility

– Sponsorships and local engagement

Sydbank's approach to sponsorships is influenced by the bank's commitment to local relationships and dialogue. Our primary focus is on contributing locally and supporting projects that help create local value and relationships. Sydbank helps to support and develop local association activities and sports activities in particular via its sponsorships, most of which are given locally via Sydbank's nine regions.

Sydbank Summer Camp

In addition to the many local sponsorships we help to make a difference to the many people who are interested in horse riding via our main sponsorship of the Danish Equestrian Association.

In collaboration with the Danish Equestrian Association, Sydbank has established a summer camp for young horse riding enthusiasts. The camp has room for 26 young people and during an extended weekend in late summer they are trained by some of the top equestrian names and have an unforgettable experience with lots of social activities with other horse riding enthusiasts.

The initiative was developed to promote the interest for riding – at an elite level and an amateur level – and many more than just the 26 participants are engaged in connection with the event. To enter the competition interested young people upload a nomination video to the summer camp's website. A couple of places are

given to the contestants who receive the largest support for their nomination and the rest are chosen by a jury on the basis of their videos.

2016 was the second year that the summer camp was held. 461 young riding enthusiasts entered the competition and around 91,000 votes were given by visitors to the site. The riding camp also got tremendous exposure on social media – 350,000 views on Instagram and as many as 16 million views on Facebook. The goal to create interest in horse riding was achieved and the initiative will be repeated in 2017.

Handball camps

Based on a similar objective to support the interest for sports, Sydbank also collaborates with the Danish Handball Association to organise handball camps during the summer and half-term school holidays.

Every year around 10,000 children aged from 5 to 15 take part in the handball camps. Aside from the financial contribution, Sydbank is actively involved in a number of related activities before, during and after the camps, for instance training coaches, distributing drinking bottles and other equipment as well as activities on social media.



Corporate social responsibility

– Sponsorships and local engagement

Sydbank's funds

In 2016 Sydbank's funds, Sydbank Fonden and Sydbank Sønderjyllands Fond, gave DKK 6.3 million to 426 recipients with dreams of carrying out cultural or other general interest projects.

A contribution to improve the acoustics in the main room of the village hall in Aarø is an example of a typical donation made by Sydbank Fonden. The acoustics were so poor that ordinary conversation was almost impossible when there were large gatherings. With a concrete contribution for the renovation, Sydbank Fonden has helped – quite literally – to promote dialogue and conversation in a small local community in what is often referred to as peripheral Denmark.

This kind of local support and the purpose of the project are characteristic of a large number of the donations made by Sydbank's two funds.

In 2016 Sydbank Fonden also awarded 60 travel grants of DKK 10,000 to young students at some of the country's business colleges, upper secondary schools and vocational colleges representing a wide cross-section of Sydbank's area of operations.



Corporate social responsibility

– Key figures

Table 1

Employees – key figures 2016		
Number of employees ¹		2,215
Number of employees, full-time equivalent (FTE) ¹		2,037
Gender balance, all employees	F: 53%	M: 47%
Percentage of employees in management positions ²		13.5
Gender balance, management staff ²	F: 32%	M: 68%
Flex jobs (FTE) ³		14
Average employee satisfaction 2016 ⁴		3.9

¹ At year-end.

² Employees with staff responsibilities for one or more employees.

³ Employment involving various public subsidy schemes (full-time equivalent).

⁴ Analysis by Rambøll Management Consulting. Employee satisfaction is measured on a scale from 1 to 5, where 5 is best. All the survey's questions carry an equal weight from which the average is calculated. The 2016 survey consisted of 63 questions.

Table 2

Corporate governance – key figures 2016	
Number of board meetings held ¹	12
Attendance rate at board meetings ²	95%
Percentage of women board members elected by the Shareholders' Committee ³	12.5
Average age of board members elected by the Shareholders' Committee ⁴	57

¹ Includes physical meetings only. In addition the Board of Directors holds conference calls, takes part in training days and a strategy seminar.

² Includes members elected by the Shareholders' Committee and members elected by the employees.

³ Equivalent to 1 in 8.

⁴ At year-end.

Table 3

Donations (DKKm)	2016
Nationwide sponsorships	2.4
Regional/local sponsorships	8.0
Sydbank Fonden	4.41
Sydbank Sønderjyllands Fond	1.93
Trelleborg Fonden	2.11
Student travel grants	0.6

Corporate social responsibility

– Key figures

Table 4

Electricity consumption	2016	2015	2014	2013
Sydbank – total m ² *	105,784	109,728	116,300	118,136
Total – electricity kWh/m ²	66	68	72	73
KPI departments m ² **	71,991	75,466	78,729	81,585
KPI departments – electricity kWh/m ²	54	53	56	57
Head office m ²	21,274	21,274	21,274	21,274
Head office – electricity kWh/m ²	135	137	156	135

* Includes all floor space, including unused floor space, basements, storage rooms etc.

** Staffed buildings with automatic reading – excluding head office in Aabenraa.

Table 5

CO2 accounts – electricity consumption	2016	2015	2014	2013
Total emissions of CO ₂ and CO ₂ equivalents (tonnes)*	1,432	1,531	2,577	3,249

* Emissions based on the 125% method and an estimated transmission loss of 5% using Energinet.dk's calculator. Part of the reduction is attributable to the transition to more climate friendly production methods at the source. The environmental declaration from 2015 was used for 2016 as the 2016 declaration was not available at the time of going to press.

Table 6

Water – m ² and consumption per m ²	2016	2015	2014	2013
Sydbank – total m ²	100,398	103,691	109,028	111,514
Total – water l/m ²	137	143	147	143
Head office – m ²	21,274	21,274	21,274	21,274
Head office – water l/m ²	212	204	214	212

Table 7

Heat – m ² and consumption per m ² *	2016	2015	2014	2013
Sydbank – total m ²	95,562	98,779	105,456	107,296
Total – heat kWh/m ²	69	68	63	79
Head office – m ²	21,274	21,274	21,274	21,274
Head office – heat kWh/m ²	47	52	47	59

* Not adjusted for climate variations.