



Sydbank's Business Model

Sydbank



Banking – pure and simple

Sydbank is a nationwide, full-service corporate and advisory bank building on relationships between people. We find solutions where they are – quickly and efficiently and close to our customers.

This is the basis of the day-to-day work at Sydbank, which was established in 1970 as a result of a merger of four local banks in Southern Jutland and since then has grown through mergers and acquisitions into one of Denmark's largest banks.

Sydbank's deep roots coupled with its core story, its underlying philosophy and its 10 rules to live by constitute Sydbank's framework as an independent bank operating on its own terms.

Decent and responsible bank

Sydbank's way of banking is decent and responsible and we do not compromise on procedures or the quality of our banking skills.

We deliberately do not recommend products that may be problematic for our customers. It would be neither decent nor responsible. Instead we seek to build long-term relationships, particularly with the groups of customers where our expertise lies.

That is why we say that Sydbank is a bank for most people but not the same bank for everyone.

A part of and for the benefit of society

Banks are part of society's financial infrastructure and as a result for instance companies can finance their day-to-day operations and make investments, wage earners can receive their pay and liquid funds can be placed in investment products and savings products.

Sydbank has been a SIFI since 2014, which is a signal of the Bank's importance to the financial infrastructure of the Danish society. It also implies that the authorities impose stricter requirements as regards the Bank's resilience. We are conscious of our significance to society and of the importance that the Bank is strong and can be relied on – during times of prosperity and times of recession.

Also Sydbank distinguishes itself by having a Moody's A1 rating and consequently being among the best rated banks in Europe. This creates not only reassurance but also security for our customers and society.

Sydbank's three promises

Our bank makes three promises:

- You will know us for the value we create for our customers.
- You will know us for our belief that excellent and committed employees are our most important asset.
- And you will know us for always having a level of profitability that will enable us to remain an independent and resourceful bank.

This drives us to make a difference every day.

Sydbank – our way of working

The classic business model for banks is basically concerned with optimising risk management when short-term deposits are converted to long-term loans. This remains the cornerstone of Sydbank's – as well as other banks' – business model. And banks have an exclusive licence to accept deposits and arrange loans.

In addition to deposit and loan products produced in-house, Sydbank's business model comprises activities within payment services, securities trading and asset management as well as arranging mortgage credit products, investment management products and insurance products via business partners and is similar to the rings of an onion, see figure.

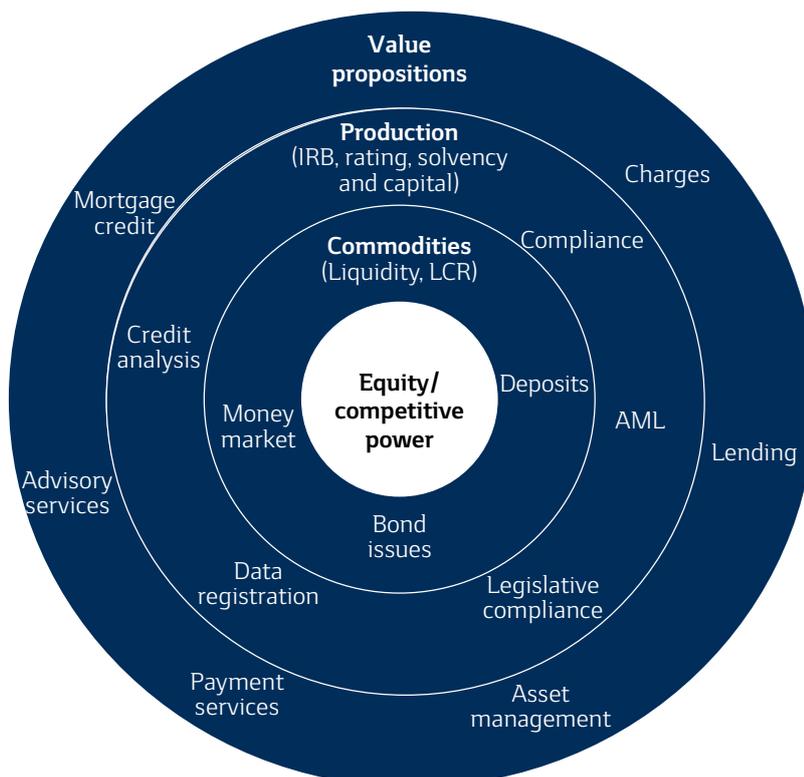
The centre of the business model is the Bank's equity. It gives the Bank its competitive strength. At Sydbank we promise to ensure attractive profitability to the benefit of shareholders and that is why we strive to have a return on equity that covers the cost of capital.

The next layer shows the Bank's commodities: the Bank's liquidity is used to produce in-house lending products and is mainly made up of deposits but it also comprises liquidity generated via the money market or bond issues. Being able to procure competitively priced

liquidity is decisive for the Bank's competitive strength and therefore the Bank strives to be strongly capitalised and to have a healthy lending portfolio.

The second layer holds the Bank's production, classic and sound banking, involving credit evaluation of customers based on credit analyses and ratings. Credit evaluation of customers is key to the Bank's capital consumption, ie its commodities, and consequently also decisive for the Bank's charges. In addition to classic and sound banking, compliance with legislation and regulation forms a substantial part of production activities, including prevention of money laundering. A significant share of the Bank's costs is tied to its production and as a result continuous efficiency improvements are crucial in order to lower its operating costs.

The outer layer is where the Bank's value propositions to customers are generated via value-creating advisory services, the creation of long-term relationships and offerings of relevant products and services at competitive prices. Sydbank seeks to offer its products and services at prices ensuring that customers are profitable, ie that prices exceed capital costs and production costs.



Sydbank – what can we do for you

The Bank's value propositions

Sydbank is a nationwide, full-service corporate and advisory bank. Its value propositions focus on value-creating advisory services based on customer needs. Therefore we ask “what can we do for you” and provide advice tailored to the individual customer's specific needs and demand for the Bank's products and services.

The value propositions, including providing correct advice, emanate from the statement: “Excellence and relationships create value”. The Bank's highly skilled employees are close to the customers and understand their needs.

The Bank's organisation ensures high accessibility and easy access to decisions so we can act quickly. By being seamless and direct in its cooperation the Bank creates value for its customers.

Sydbank's enjoys a unique position in the Danish banking sector as it is both close to its customers and can benefit from economies of scale. Sydbank aims to conduct banking transactions that are advantageous to the Bank as well as its customers – this is sound business practice to us.

The Bank's customers

The Bank aims to have a diversified customer portfolio with only few large exposures and diversification across industries corresponding as much as possible to the Danish corporate structure. The Bank's customer portfolio can be divided into three segments: corporate clients, retail clients and Private Banking clients, and institutional clients.

Sydbank has succeeded in building relationships in particular as regards the backbone of the Danish corporate sector – medium-sized and large businesses – and by developing expertise among employees the Bank has secured a strong position as a full-service corporate and advisory bank offering a wide variety of professional financing solutions tailored to the requirements of the individual business.

Retail clients and Private Banking clients are segmented in accordance with the Bank's customer concepts and are offered advisory services and products tailored to their specific needs.

The Bank strives to have a continued increase in customers with the following profiles:

- Medium-sized or large businesses within the SME segment with growth potential
- Retail clients engaged in active employment with healthy finances
- Young customers undergoing education and training and with a foreseeable potential
- Wealthy retail clients.

Sydbank's ambition is to continue to expand its offerings to these customers while less focus is given to customer groups where we have no experience. That is why we say that Sydbank is a bank for most people but not the same bank for everyone.

Customer relationships and sales channels

Sydbank uses an omni-channel model that combines long-term strong customer relationships with the production and procurement of competitive products.

The Bank aims to build long-term relationships with customers and grow with their needs. This holds true regardless of customer preferences: getting advice at the traditional local bank branch, banking at the Bank's digital branch, Sydbank Direct, or almost full self-service via digital solutions.

Decentralised customer service

Sydbank's decentralised customer service is organised in 12 Danish regions. Moreover Sydbank is present in Northern Germany with three branches.

As a rule the Bank serves its customers via the decentralised regions because we wish to be close to our customers. Our local presence and the possibility of making decisions locally and fast is an inherent element of the Bank's business model.

The Bank's corporate clients are served by a personal adviser who knows the circumstances of the business and its plans for the future. As and when needed the personal adviser will select a team of highly skilled specialists to provide the best possible advice.

Private Banking clients are advised by dedicated Private Bankers with roots in the local community. And when needed the Private Banker can select a team of highly skilled specialists to provide the best possible advice.

As a rule the Bank's retail clients are offered personal service at their local branch, alternatively at the Bank's digital branch, Sydbank Direct.

Digital customer service

The Bank has a large number of digital solutions, including mobile banking and online banking, which are offered to the Bank's customers alongside the personal advice at the branches. This ensures high accessibility as customers can make use of self-service virtually 24/7. Moreover at their convenience customers can contact the Bank's digital customer centre, Sydbank Direct.

Sydbank Direct Advisory is the Bank's take on the digital bank branch of the future. Retail clients not requesting service at the classic bank branch can be assigned to Sydbank Direct Advisory and benefit from advice, products and services to the same extent as a local branch – only digitally.

Furthermore with Diba Billån (car loans) Sydbank has a digital sales channel offering car loans via a pure internet based platform.

Centralised customer service

Selected corporate clients with large and complex business volumes are served centrally. This includes agricultural clients. In addition the most wealthy retail clients who are served by Private Banking Elite are also offered the option of being served by the Bank's head office.

Sydbank offers advice and asset management for instance to investment funds, pension pools, foundations and institutional clients which are served directly by Sydbank Markets and Asset Management. These two divisions also support the Bank's decentralised regions by providing advice and customer service with-in economic research, trading, investment products and savings products.

Digitization and IT

Digitization and IT represent an essential part of the Bank's business model. Digital developments are transforming the financial sector and the Bank strives to be consistently innovative to enhance its competitive strength via digital solutions. The Bank acts as a fast follower. This means that we invest in well-documented value-creating technology but are not a pioneer in the area.

Sydbank adapts its products and services on an ongoing basis to an increasingly digitized everyday life. Thus the Bank's business adapts dynamically to customers' growing demand for self-service and advisory services solutions outside the traditional branch.

Digitization of the Bank's business processes is a decisive element in the Bank's constant efforts to increase efficiency and reduce operating costs.

Sydbank has outsourced a considerable part of its IT operations and development to JN Data/Bankdata, which performs these activities on behalf of Sydbank.

Centralised production

Sydbank has centralised part of its production in Operations for the purpose of reaping efficiency gains on a continuing basis so as to lead to ongoing operating cost reductions. In addition to the centralised production of banking products and relevant documents the Bank has centralised a number of tasks, eg financial analysis, because better quality and higher efficiency can be achieved via increased specialisation.

The Bank assesses on a regular basis further centralisation of its production and operating tasks where it makes sense taking into account response times, quality and costs.

Excellent and committed employees

Sydbank believes that excellent and committed employees are its most important asset. Excellent and committed employees are key to ensuring the Bank's continued success and value creation for Sydbank's customers as well as the Bank itself.

Business partners

Sydbank's business model rests on its focus on its own products and the procurement of a wide range of financial services, including mortgage credit, pension and insurance, via strong cooperation partners. This way the Bank can offer its customers the best portfolio of financial products and services.

The Bank's primary business partners within mortgage credit are Totalkredit and DLR Kredit. The Bank cooperates with a number of sub-suppliers in the investment fund area, eg Sydinvest, BankInvest, Sparinvest and Maj Invest. The Bank arranges for insurance products from eg Alm. Brand.

Risk management and compliance

Assuming risks is an essential element of the Bank's business model which is why being able to measure and manage these risks is paramount to the Bank. Consequently Sydbank maintains its centralised risk management.

Credit risk

The Bank's intermediation of lending products involves a risk of loss as a result of the non-performance by customers and other counterparties of their payment obligations to the Bank. Consequently credit risk makes up the biggest part of the Bank's risks and the most significant credit risks relate to the Bank's loans and advances and guarantees issued to retail and corporate clients.

Sydbank wishes to be perceived as a decent and responsible bank whose credit management is prudent and whose impairment charges and losses are no larger than comparable banks in Denmark. The Bank's lending activities must therefore be based on good customer advice. The solutions offered must help to ensure that customers' finances are transparent, healthy and sustainable.

Credit activities are conducted partly in the Bank's branches, thus supporting the possibility of giving customers a quick reply and partly centrally in Credits. Sydbank has developed rating models to assess the risks to its customers. The Bank's credit activities contribute actively to the efforts to increase the Bank's income by expanding its activities with existing customers and ensure a continuous influx of customers in the preferred segments.

Risk management

In addition to credit risk, the Bank's risks comprise market risk, liquidity risk and operational risk. It is of vital importance to Sydbank that its risk management is prudent and complies with the requirements of the Danish executive order on management and control of banks etc.

Sydbank's risk management is undertaken by a formal risk organisation comprising a number of risk committees and a Chief Risk Officer reporting directly to the Group Executive Management. It is the responsibility of the risk organisation to identify, monitor and assess risks within the individual risk areas and ensure that models and principles are formulated to calculate risk. The risk organisation ensures that the Bank's business units address identified risks.

Compliance

Sydbank strives to run a decent and responsible bank which is why compliance with legislation and rules is vital to the Bank. The Bank focuses on these efforts in that the Bank's compliance function supervises and assesses whether the Bank's business units have efficient procedures to comply with legislation and internal rules. The objective is to minimise the Bank's compliance risks, for example the risk of financial loss, the loss of good standing or administrative sanctions as a result of non-compliance with rules.





An independent and resourceful bank – also in the future

Sydbank believes that there will also be a demand for banking services in the future. That is why we invest in achieving the best position and the best reputation in the long term.

In the current market income from banking business will decline. Sydbank is fully aware of the challenges in the Danish financial sector and like the other players in the industry the Bank must accept that its earnings capacity is under pressure due to structural industry issues.

This pressure has emerged for one thing as a result of economic circumstances with a negative interest rate environment that looks set to continue in the years ahead. Consequently the Bank forecasts that net interest income will be under pressure in the coming years. In the competitive Danish banking sector pressure on core income is increasing further as price pressure is rising. Like the other players in the sector the Bank is experiencing that increased industry regulation is leading to a rise in costs to comply with new regulatory measures. Finally as a result of the speedy digitization of society new digital players are attempting to capture part of the earnings potential in the industry.

Sydbank proactively counters these threats by working towards and investing in making Sydbank a stronger bank. While strengthening its position, brand and reputation as well as building long-term relationships with new and existing customers, the Bank proactively counters these threats by making investments in order to lower its operating costs. For instance via initiatives to optimise procedures and processes and via increased digitization.

Sydbank is well prepared for the future. The Bank is strong and well capitalised. Its lending portfolio is healthy and its compliance level is high. Sydbank will continue to run a decent and responsible bank and therefore we do not compromise on our risk profile or our business standards.

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