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# Sydbank's statement concerning the recommendations of the Committee on Corporate Governance

Corporate Governance Principles –  
The statement concerns the period 2016

# Recommendations of the Committee on Corporate Governance

Recommendation	Com- pliance	Com- pliance in part	Non- com- pliance	Comments of the Board of Directors:
<b>1. Communication and interaction by the company with its investors and other stakeholders</b>				
<b>1.1. Dialogue between the company, shareholders and other stakeholders</b>				
1.1.1. The Committee <b>recommends</b> that the board of directors ensure ongoing dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company's potential and policies, and in order for the board of directors to be aware of the shareholders' views, interests and opinions on the company.	X			Sydbank informs investors and other stakeholders regularly about developments at the Bank at sydbank.dk. Sydbank holds shareholders' meetings and participates in investor presentations, investor conferences, roadshows and informs the Board of Directors about the sentiment and the feedback from investors.
1.1.2. The Committee <b>recommends</b> that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders and other investors, and that the board of directors ensure that the interests of the shareholders are respected in accordance with company policies.	X			The Board of Directors has a stakeholder policy.
1.1.3. The Committee <b>recommends</b> that the company publish quarterly reports.	X			Sydbank publishes quarterly reports which are available at sydbank.dk.
<b>1.2. General meeting</b>				
1.2.1. The Committee <b>recommends</b> that, when organising the company's general meeting, the board of directors plan the meeting to support active ownership.	X			Sydbank's Articles of Association enable shareholders to exercise active ownership. At general meetings shareholders may engage in dialogue with the Bank's management.
1.2.2. The Committee <b>recommends</b> that proxies granted for the general meeting allow shareholders to consider each individual item on the agenda.	X			Sydbank's proxy form enables shareholders to consider the individual items on the agenda.
<b>1.3. Takeover bids</b>				
1.3.1. The Committee <b>recommends</b> that the company set up contingency procedures in the event of takeover bids from the time that the board of directors has reason to believe that a takeover bid will be made. According to such contingency procedures, the board of directors should not, without the acceptance of the general meeting, attempt to counter a takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid themselves.	X			The procedures are described in the rules of procedure of the Board of Directors.

# Recommendations of the Committee on Corporate Governance

Recommendation	Com- pliance	Com- pliance in part	Non- com- pliance	Comments of the Board of Directors:
<b>2. Tasks and responsibilities of the board of directors</b>				
<b>2.1. Overall tasks and responsibilities</b>				
2.1.1. The Committee <b>recommends</b> that at least once a year the board of directors take a position on the matters related to the board's performance of its responsibilities.	X			Once a year the Board of Directors addresses the work schedule for the year ahead. The Board of Directors reviews its rules of procedure at least once a year to ensure that they are updated and comply with applicable rules and legislation.
2.1.2. The Committee <b>recommends</b> that at least once a year the board of directors take a position on the overall strategy of the company with a view to ensuring value creation in the company.	X			The Board of Directors addresses the strategy regularly and is updated on its implementation. Once a year the Board of Directors holds a strategy seminar.
2.1.3. The Committee <b>recommends</b> that the board of directors ensure that the company has a capital and share structure ensuring that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors present this in the management commentary of the company's annual report and/or on the company's website.	X			The Bank's capital structure is specified in a capital plan which the Board of Directors monitors on an ongoing basis and reviews at least once a year. The Board of Directors monitors the Bank's capital closely. The capital plan is mentioned in the Bank's annual report which is available at sydbank.dk.
2.1.4. The Committee <b>recommends</b> that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board on timely, accurate and adequate reporting to the board of directors.	X			The Board of Directors reviews the rules of procedure of the Group Executive Management at least once a year to ensure that they are updated and comply with applicable legislation.
2.1.5. The Committee <b>recommends</b> that at least once a year the board of directors discuss the composition of the executive board, as well as developments, risks and succession plans.	X			The Nomination Committee of the Board of Directors evaluates the Group Executive Management at least once a year. The evaluation is presented to the Board of Directors.
2.1.6. The Committee <b>recommends</b> that once a year the board of directors discuss the company's activities to ensure relevant diversity at management levels, including setting specific goals and accounting for its objectives and progress made in achieving the objectives in the management commentary of the company's annual report and/or on the website of the company.	X			The Board of Directors discusses Sydbank's activities annually to ensure diversity and set specific goals in the annual report.
<b>2.2. Corporate social responsibility</b>				
2.2.1. The Committee <b>recommends</b> that the board of directors adopt policies on corporate social responsibility.	X			The Board of Directors has adopted a CSR policy which is reviewed annually.

# Recommendations of the Committee on Corporate Governance

Recommendation	Com- pliance	Com- pliance in part	Non- com- pliance	Comments of the Board of Directors:
<b>2.3. Chairman and vice-chairman of the board of directors</b>				
2.3.1. The Committee <b>recommends</b> appointing a vice-chairman of the board of directors who will assume the responsibilities of the chairman in the event of the chairman's absence, and who will also act as an effective sparring partner for the chairman.	X			The Board of Directors has appointed a chairman and a vice-chairman. Their duties, obligations and responsibilities are described in the rules of procedure of the Board of Directors.
2.3.2. The Committee <b>recommends</b> ensuring that, if the board of directors, in exceptional cases, asks the chairman of the board of directors to perform special operating activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect be passed to ensure that the board of directors maintains its independent, overall management and control function. Resolutions on the chairman's participation in day-to-day management and the expected duration hereof should be published in a company announcement.	X			The chairman does not perform any operating activities for Sydbank.
<b>3. Composition and organisation of the board of directors</b>				
<b>3.1. Composition</b>				
3.1.1. The Committee <b>recommends</b> that the board of directors annually accounts for <ul style="list-style-type: none"> <li>• the skills it must have to best perform its tasks,</li> <li>• the composition of the board of directors, and</li> <li>• the special skills of each member.</li> </ul>	X			The Board of Directors conducts a self-evaluation annually which is discussed by the Nomination Committee. The Nomination Committee presents the conclusions of its discussions to the Board of Directors. Every third year with the participation of an external consultant. The evaluation includes a review as regards the issues mentioned in the recommendation.
3.1.2. The Committee <b>recommends</b> that the selection and nomination of candidates for the board of directors be carried out through a thoroughly transparent process approved by the overall board of directors. When assessing its composition and nominating new candidates, the board of directors must take into consideration the need for integration of new talent and diversity in relation to age, international experience and gender.	X			The Board of Directors often uses external consultants in the recruitment process which includes selection parameters such as gender, age, experience and skills. An account of the process is given at board meetings. The process is transparent.
3.1.3. The Committee <b>recommends</b> that the notice convening the general meeting when election of members to the board of directors is on the agenda be accompanied by a description of the nominated candidates' qualifications, including information about the candidates' <ul style="list-style-type: none"> <li>• other executive functions, among these memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises</li> <li>• demanding organisational tasks, and information about</li> <li>• whether candidates to the board of directors are considered independent.</li> </ul>			X	The general meeting does not elect members to the Board of Directors but it elects members to the Shareholders' Committee. The members of the Board of Directors are elected by the Bank's Shareholders' Committee. The relevant information is available when electing Shareholders' Committee members.

# Recommendations of the Committee on Corporate Governance

Recommendation	Com- pliance	Com- pliance in part	Non- com- pliance	Comments of the Board of Directors:
3.1.4. The Committee <b>recommends</b> that the company's articles of association stipulate a retirement age for members of the board of directors.	X			The Bank is considering removing the age limit of 70 years in the Articles of Association.
3.1.5. The Committee <b>recommends</b> that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.			X	Members of Sydbank's Board of Directors are elected for a three-year term with the possibility of re-election. As a main rule the maximum term of office for board members is 12 years. The terms are staggered such that all members of the Board of Directors are not up for election in the same year. Consequently the continuity of the Board's work is ensured.
<b>3.2. Independence of the board of directors</b>				
3.2.1. The Committee <b>recommends</b> that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests. To be considered independent, this person may not: <ul style="list-style-type: none"> <li>• be or within the past five years have been a member of the executive board, or senior staff member in the company, a subsidiary undertaking or an associate,</li> <li>• within the past five years, have received large emoluments from the company/group, a subsidiary undertaking or an associate in another capacity than as a member of the board of directors,</li> <li>• represent the interests of a controlling shareholder,</li> <li>• within the past year, have had significant business relations (e.g. personal or indirectly as a partner or employee, shareholder, customer, supplier or member of the executive management in companies with a similar connection) with the company, a subsidiary undertaking or an associate,</li> <li>• be or within the past three years have been employed or a partner at the external auditor,</li> <li>• be chief executive in a company holding cross-memberships with the company,</li> <li>• have been a member of the board of directors for more than 12 years, or</li> <li>• be close relatives with persons who are not considered independent.</li> </ul>	X			Seven out of eight board members elected by the Shareholders' Committee are independent.
<b>3.3. Members of the board of directors and the number of other executive functions</b>				
3.3.1. The Committee <b>recommends</b> that each member of the board of directors assess the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.	X			Board members are subject to a limit on executive functions.

# Recommendations of the Committee on Corporate Governance

Recommendation	Com- pliance	Com- pliance in part	Non- com- pliance	Comments of the Board of Directors:
3.3.2. The Committee <b>recommends</b> that the management commentary, in addition to the provisions laid down by legislation, include the following information about the members of the board of directors: <ul style="list-style-type: none"> <li>• the position of the relevant person,</li> <li>• the age and gender of the relevant person,</li> <li>• whether the member is considered independent,</li> <li>• the date of appointment to the board of directors of the member,</li> <li>• expiry of the current election period,</li> <li>• other executive functions, e.g. memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises and</li> <li>• demanding organisational tasks, and</li> <li>• the number of shares, options, warrants and similar in the company, and other group companies of the company, owned by the member, as well as changes in the member's portfolio of the securities mentioned which have occurred during the financial year.</li> </ul>	X			This information appears from the annual report.
<b>3.4. Board committees</b>				
3.4.1. The Committee <b>recommends</b> that the company publish the following on the company's website: <ul style="list-style-type: none"> <li>• the terms of reference of the board committees,</li> <li>• the most important activities of the committees during the year, and the number of meetings held by each committee, and</li> <li>• the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.</li> </ul>	X			This information appears from sydbank.dk.
3.4.2. The Committee <b>recommends</b> that a majority of the members of a board committee be independent.	X			All board members elected by the Shareholders' Committee are independent.
3.4.3. The Committee <b>recommends</b> that the board of directors set up a formal <u>audit committee</u> composed such that <ul style="list-style-type: none"> <li>• the chairman of the board of directors is not chairman of the audit committee, and</li> <li>• between them, the members should possess such expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit aspects of companies whose shares are admitted to trading on a regulated market.</li> </ul>	X			The Board of Directors has set up an Audit Committee. The chairman of the Audit Committee meets the statutory requirements regarding experience in and knowledge of audit and accounting matters.

# Recommendations of the Committee on Corporate Governance

Recommendation	Com- pliance	Com- pliance in part	Non- com- pliance	Comments of the Board of Directors:
<p>3.4.4. The Committee <b>recommends</b> that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the board of directors about:</p> <ul style="list-style-type: none"> <li>• significant accounting policies,</li> <li>• significant accounting estimates,</li> <li>• related party transactions, and</li> <li>• uncertainties and risks, including in relation to the outlook for the current year.</li> </ul>	X			<p>Prior to the financial reporting the process of the presentation of the financial statements is reviewed including accounting policies and significant accounting estimates. In connection with completion of the financial statements, the Audit Committee reviews a draft annual report and long-form audit reports prior to approval by the Board of Directors. The Audit Committee presents the key findings from the two reviews to the Board of Directors.</p>
<p>3.4.5. The Committee <b>recommends</b> that the audit committee:</p> <ul style="list-style-type: none"> <li>• annually assess the need for an internal audit, and in such case, make recommendations on selecting, appointing and removing the head of the internal audit function, if any, and on the budget of the internal audit function, and</li> <li>• monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	X			<p>Sydbank has an internal audit function. The budget of the internal audit function is approved by the Audit Committee.</p>
<p>3.4.6. The Committee <b>recommends</b> that the board of directors establish a <u>nomination committee</u> chaired by the chairman of the board of directors with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describe the qualifications required by the board of directors and the executive board, and for a specific position, state the time expected to be spent on performing these duties, as well as assess the competences, knowledge and experience of the two governing bodies combined,</li> <li>• annually assess the structure, size, composition and results of the board of directors and the executive board, as well as recommend any changes to the board of directors,</li> <li>• annually assess the competences, knowledge and experience of the individual members of management, and report to the board of directors in this respect,</li> <li>• consider proposals from relevant persons, including shareholders and members of the board of directors and the executive board for candidates for the board of directors and the executive board, and</li> <li>• propose an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.</li> </ul>	X			<p>The Board of Directors has set up a Nomination Committee chaired by the chairman of the Board of Directors. The tasks of the committee are laid down in the terms of reference which comprise tasks mentioned in the recommendations.</p>

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Recommendation	Com- pliance	Com- pliance in part	Non- com- pliance	Comments of the Board of Directors:
<p>3.4.7. The Committee <b>recommends</b> that the board of directors establish a <u>remuneration committee</u> with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>· recommend the remuneration policy (including the general guidelines for incentive-based remuneration) to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting,</li> <li>· make proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensure that the remuneration is in compliance with the company's remuneration policy and the assessment of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the board of directors and the executive board receive from other companies in the group, and</li> <li>· recommend a remuneration policy applicable for the company in general.</li> </ul>	X			Sydbank's Board of Directors has set up a Remuneration Committee.
<p>3.4.8. The Committee <b>recommends</b> that the remuneration committee do not consult with the same external advisers as the executive board of the company.</p>	X			This appears from the committee's terms of reference.
<b>3.5. Evaluation of the performance of the board of directors and the executive board</b>				
<p>3.5.1. The Committee <b>recommends</b> that the board of directors establish an evaluation procedure where the contributions and results of the board of directors and the individual members, as well as collaboration with the executive board are evaluated annually. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.</p>	X			The Board of Directors conducts a self-evaluation annually which is discussed by the Nomination Committee. The Nomination Committee presents the conclusions of its discussions to the Board of Directors. Every third year with the participation of an external consultant. The evaluation includes a review as regards the issues mentioned in the recommendation.
<p>3.5.2. The Committee <b>recommends</b> that in connection with preparation of the general meeting, the board of directors consider whether the number of members is appropriate in relation to the requirements of the company. This should help ensure a constructive debate and an effective decision-making process in which all members are given the opportunity to participate actively.</p>	X			The size and composition form part of the annual evaluation of the Board of Directors.
<p>3.5.3. The Committee <b>recommends</b> that at least once every year the board of directors evaluate the work and performance of the executive board in accordance with predefined clear criteria.</p>	X			The Nomination Committee evaluates the Group Executive Management annually and presents its evaluation to the Board of Directors.
<p>3.5.4. The Committee <b>recommends</b> that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the board of directors and the chief executive officer and that the outcome of the evaluation be presented to the board of directors.</p>	X			The evaluation of the Group Executive Management includes its collaboration with the Board of Directors.



# Recommendations of the Committee on Corporate Governance

Recommendation	Com- pliance	Com- pliance in part	Non- com- pliance	Comments of the Board of Directors:
<b>4. Remuneration of management</b>				
<b>4.1. Form and content of the remuneration policy</b>				
4.1.1. The Committee <b>recommends</b> that the board of directors prepare a clear and transparent remuneration policy for the board of directors and the executive board, including <ul style="list-style-type: none"> <li>· a detailed description of the components of the remuneration for members of the board of directors and the executive board,</li> <li>· the reasons for choosing the individual components of the remuneration, and</li> <li>· a description of the criteria on which the balance between the individual components of the remuneration is based.</li> </ul> <p>The remuneration policy should be approved by the general meeting and published on the company's website.</p>	X			This information appears from the remuneration policy.
4.1.2. The Committee <b>recommends</b> that, if the remuneration policy includes variable components, <ul style="list-style-type: none"> <li>· limits be set on the variable components of the total remuneration package,</li> <li>· a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long terms,</li> <li>· there be clarity about performance criteria and measurability for the award of variable components,</li> <li>· there be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year, and</li> <li>· an agreement be made which, in exceptional cases, entitles the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data which proved to be misstated.</li> </ul>	X			This information appears from the remuneration policy.
4.1.3. The Committee <b>recommends</b> that remuneration of members of the board of directors do not include share options.	X			The remuneration policy does not include remuneration in the form of share options.
4.1.4. The Committee <b>recommends</b> that if share-based remuneration is provided, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should have a maturity of at least three years from the date of allocation.	X			Sydbank does not provide share-based remuneration.
4.1.5. The Committee <b>recommends</b> that agreements on termination payments do not exceed a value corresponding to remuneration paid in the preceding two years.	X			According to the remuneration policy any severance pay may not exceed two years' fixed remuneration.

# Recommendations of the Committee on Corporate Governance

Recommendation	Com- pliance	Com- pliance in part	Non- com- pliance	Comments of the Board of Directors:
<b>4.2. Disclosure of the remuneration policy</b>				
4.2.1. The Committee <b>recommends</b> that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.	X			This information is included in the financial review.
4.2.2. The Committee <b>recommends</b> that the proposed remuneration for the board of directors for the current financial year be approved by the shareholders at the general meeting.			X	The general meeting approves the remuneration policy. The remuneration of the Board of Directors is determined by the Shareholders' Committee in accordance with the policy.
4.2.3. The Committee <b>recommends</b> that the total remuneration granted to each member of the board of directors and the executive board by the company and other companies in the group, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.	X			This information appears from the annual report.
<b>5. Financial reporting, risk management and audits</b>				
<b>5.1. Identification of risks and transparency about other relevant information</b>				
5.1.1. The Committee <b>recommends</b> that the board of directors in the management commentary review and account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.	X			This information appears from the annual report.
<b>5.2. Whistleblower scheme</b>				
5.2.1. The Committee <b>recommends</b> that the board of directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.	X			Sydbank has established a whistleblower scheme which allows for confidential and anonymous reporting. The scheme is managed by the Bank's Compliance function.
<b>5.3. Contact to auditor</b>				
5.3.1. The Committee <b>recommends</b> that the board of directors ensure regular dialogue and exchange of information between the auditor and the board of directors, including that the board of directors and the audit committee at least once a year meet with the auditor without the executive board present. This also applies to the internal auditor, if any.	X			The procedure is followed.
5.3.2. The Committee <b>recommends</b> that the audit agreement and auditors' fee be agreed between the board of directors and the auditor on the basis of a recommendation from the audit committee.	X			The Audit Committee monitors the size and composition of the fee to the auditor appointed – including approval of allowed additional services.