
Sydbank's Business Model 2016

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Summary

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 we have a simple organisation to ensure high accessibility and easy access to decisions so we can act quickly.

Sydbank has a solid financial foundation and our growth will be built on a firm and sound footing. Sydbank wishes to remain a bank operating on its own terms and with strong partnerships.

Sydbank achieves these objectives by striving to be among the absolute top performers in Denmark in terms of operating a bank and providing advisory services to customers based on their specific situation. We create value for our customers and the Bank – human value as well as the more measurable kind – on the basis of excellence, professional relationships and simplicity.

History

Sydbank was established in 1970 as a result of a merger between four local banks in Southern Jutland. Since then Sydbank has grown through mergers and acquisitions into one of Denmark's largest banks.

Objectives

Sydbank is a nationwide bank that focuses on traditional banking with a significant presence in all parts of Denmark as well as in Northern Germany.

Sydbank is an advisory bank that wishes to be perceived as a competent and value-creating bank. The Bank aims to do business with customers on the basis of long-term relationships. As a service undertaking, Sydbank's primary objective is to meet the financial needs of its customers.

Sydbank is a bank for most people but not the same bank for everyone. The needs of our customers vary. Each customer is unique and is therefore treated uniquely. Sydbank wants to be a bank that provides what retail clients need. Within the corporate segment the Bank will offer the services required by the

SME segment but may decline when it comes to certain services required by the largest enterprises.

Sydbank wishes to remain a bank operating on its own terms and with strong partnerships. In areas where the Bank does not offer its own products, the Bank uses business partners offering a broad range of financial services such as mortgage credit, investment products and insurance to ensure that the Bank is always able to provide the services in demand by customers. Sydbank strives to have long-term relationships with its sub-suppliers.

Sydbank has a solid financial foundation that offers room for more business with new customers as well as existing customers. Our growth will be built on a firm and sound footing. We grow through long-term and close relationships with customers and see acquisitions as an opportunity. We are not looking for quick-fix solutions but sound, clear agreements with a realistic level of risk.

Sydbank achieves these objectives by striving to be among the absolute top performers in Denmark in terms of operating a bank and providing advisory services to customers based on their specific situation. Sydbank aims to be in the top three of the six largest banks in terms of customer satisfaction and return on equity while taking into account the Bank's stakeholders:

- Shareholders
- Customers
- Employees
- Society at large.

Fundamental values

Sydbank's fundamental values are based on three core values:

Excellence

Tailored to the needs of each individual customer, we provide service that makes a difference and offer advice that is simple and easy to understand. The quality of our work must be outstanding because we achieve results when we excel. This is what our customers measure us by. Each of our employees takes responsibility for doing their very best.

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Professional relationships

Human decency and mutual respect reflect the way we act, both internally and externally. Our business is built around professional relationships. Sydbank is a relationship bank and professional relationships are the reason why we can create, maintain and build on long-term customer relationships. Relationships are earned, one at a time.

Simplicity

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.

At Sydbank we create value for the Bank and our customers. Human value as well as the more measurable kind – on the basis of excellence, professional relationships and simplicity.

Organisation

Our customers appreciate quick responses. At Sydbank we have a simple and decentralised organisation to ensure high accessibility and easy access to decisions so we can act quickly.

As regards customers the Bank is divided into a number of regional areas in Denmark with regional head offices. The Bank's activities in Northern Germany are handled by Flensburg Region and the regional head office is located in Flensburg.

Sydbank Direct serves and advises the Bank's customers via the digital platforms used by the Bank. Sydbank Favorit customers with a limited business volume are served directly by Sydbank Direct.

Sydbank Agriculture proactively contacts, advises and serves the Bank's agricultural clients.

Corporate Banking & Finance, which comprises the departments Merchant Bank, Corporate Banking and Sydbank Leasing, proactively contacts, advises and serves some of the Bank's largest and most complex corporate clients and also includes Private Banking Elite, which proactively contacts, serves and advises the Bank's largest Private Banking clients.

Sydbank Markets and Asset Management assist the Bank's customer-facing activities and to a certain extent also proactively contact, advise and serve the Bank's retail, corporate and institutional clients in areas such as market analysis, trading, investment products and savings products.

The Bank seeks to increase value creation in advisory services to customers by drawing on centralised specialist functions in connection with customer-facing activities.

The Bank's central functions are located at Sydbank's head office and carry out common/multidisciplinary tasks of a formal, coordinating, servicing and administrative nature as well as direct business-facing/customer-facing tasks. A number of central business units also have direct customer contact.

Customers

As a large Danish nationwide bank, Sydbank has customers in all categories.

Guided by Sydbank's service philosophy "What can we do for you", the Bank wishes to increase the following customer segments:

- Medium-sized or large enterprises 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.

The Bank aims to have a diversified customer portfolio with only few large exposures and diversification across industries corresponding as far as possible to the Danish corporate structure.

Products

Sydbank offers banking products such as deposits, loans, guarantees, leasing, payment services, pooled schemes, investment allocation services, investment research and financial transactions such as swaps, forward transactions, futures and options. The Bank strives to price its services so as to ensure that the Bank's exposures are profitable.

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Other products such as mortgage credit, investment fund products and insurance products are offered via sub-suppliers.

Customer service

Sydbank seeks to ensure high accessibility and gives customers the possibility of contacting the Bank whenever and however it is convenient for them. Sydbank wishes to do business with its customers on the basis of long-term customer relationships as well as on a reciprocal basis and on transparent terms.

Retail clients

In order to promote the above, improve its retention of customers and achieve a more contemporary profile, the Bank offers Sydbank Favorit, which is a flexible loyalty programme where customers are free to choose the benefits that best suit them and their needs.

The more business a customer has with Sydbank and its business partners, the greater the number of benefits a customer can choose. Apart from the optional benefits, Sydbank Favorit customers receive a number of fixed benefits, for instance a discount on general insurance and a loyalty discount where customers are rewarded for their long-term relationship with the Bank.

Sydbank Favorit customers with a limited business volume are served by Sydbank Direct. Other Sydbank Favorit customers are assigned a personal adviser at their branch who serves as their trusted partner.

The objective is that Sydbank's advisers are always able to provide competent advice to customers on the basis of the Bank's knowledge of a customer's preferences/profile. This is ensured by:

- regularly updating advisers' professional qualifications
- carrying out customer analyses using customer data from the Bank's Data Warehouse as well as customers' choice of Sydbank Favorit benefits.

The objective is for customers to be able to do as much of their day-to-day banking as possible via the digital solutions made available by the Bank.

Outside Sydbank's business hours customers must be able to contact the Bank by telephone via Sydbank Direct. If customers do not want to have a physical branch as their touchpoint, they can bank at Sydbank's online branch.

Private Banking concept

Sydbank's Private Banking concept is offered to wealthy retail clients with investable assets or a household income above a specified level.

Private Banking clients are served by the Bank's regional head offices by Private Bankers with special qualifications within wealth management, including the interplay between personal finances and business finances.

The Private Banking concept consists of advisory services as well as a range of benefits, thereby ensuring clients of attractive terms regarding for instance payment cards, insurance, investment products and related services as well as fees and charges. In addition the services of an investment manager, who ensures the best possible interplay between a client's investment profile, securities portfolio and other Private Banking advice, are offered to Private Banking clients.

The extent of investment advisory services depends in general on a client's preferred involvement. To ensure that the concept is perceived as exclusive, Private Banking clients are invited to special events and are guaranteed priority in terms of response times and service.

Corporate clients

As a rule corporate clients are served by the regional head offices or by special corporate branches.

Sydbank wishes primarily to have medium-sized or large enterprises with growth potential as clients. The enterprises must have a sound financial footing and use the main part of the Bank's palette of products and services. In addition clients must be able to generate satisfactory income for the Bank and use the self-service products made available by the Bank.

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Corporate clients are divided into five segments and are served by the following entities:

- Corporate by Corporate Banking & Finance
- Corporate Large by the corporate centres
- Corporate Medium by the corporate departments
- Corporate Local by retail branches with corporate local departments
- Agricultural clients by the agricultural centres.

In organisational terms the five customer segments are placed in five different types of entities and each segment has a specific adviser profile.

Employees

By means of recruitment, training and cultivating attitudes, the Bank aims to have highly skilled and competent employees who are committed to building relationships. Sydbank wants to be a workplace offering excellent career opportunities and personal development opportunities. Sydbank wishes to be perceived by its employees as an attractive and socially responsible workplace with a healthy and challenging work environment.

Through continuous training of the Bank's managers, Sydbank aims to ensure that the right skills are in the right positions. The Bank's Human Resources division is responsible for continuous training of the Bank's managers in collaboration with external partners.

The Bank's employees are encouraged to improve their skill set on an ongoing basis and Sydbank offers in-house and external education and training activities.

The Bank has an introduction programme for new employees.

In connection with recruitment Human Resources tests qualified applicants to ensure that vacancies are filled by the most eligible candidates. In connection with filling certain types of senior management and specialist positions the recruitment process is carried out with the assistance of external consultants.

IT supply system

Sydbank has outsourced a significant part of its IT systems development to Bankdata. Large parts of its IT operations have been outsourced to Bankdata/JN Data.

It is intended that the Bank's IT development activities will primarily ensure:

- further development of the Bank's electronic accessibility and also ensure that Sydbank NetBank and Sydbank MobilBank are perceived as being competitive by corporate clients and retail clients
- process development to ensure a competitive cost structure and customer experience
- appropriate use of all customer data in the Bank's Data Warehouse – with focus on competent credit assessment, customer service and additional business.

IT risks

Any prolonged breakdown of IT systems represents a considerable risk to the Bank as its business depends on the IT systems being almost always accessible to the Bank's employees and, via the self-service systems, to the Bank's customers.

In collaboration with Bankdata this risk must be described and minimised and Sydbank must have a contingency plan in place describing how failures in business critical IT systems are tackled.

Credit risks

Credit risks represent the majority of the Bank's risks.

The Bank's activities in connection with lending must be based on good advisory services. The solutions offered must help to ensure that customers' finances are transparent, healthy and sustainable.

The Bank wishes to be perceived as a professional bank whose credit management is appropriate and whose impairment charges and losses are no larger than comparable professional banks in Denmark.

Risks in connection with lending must be precalculated on an informed and updated basis. Naturally Sydbank must accept business losses as a result of changed conditions compared to the time of lending.

The Bank wishes to be competitive in terms of response times but is not willing to compromise on quality of advice or credit quality.

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For corporate clients this means that medium-size and large exposures are approved centrally by Credits, the Group Executive Management or the Board of Directors and that lending authority at local and regional level is limited as regards new corporate clients and corporate clients whose finances are assessed to be weak.

Exposures to the vast majority of retail clients are approved at local and regional level whereas exposures to retail clients who are highly leveraged or who have considerable negative assets must be handled centrally by Credits. Credit granting to Private Banking clients is subject to the lending authority levels applying to retail clients in force from time to time.

The Bank has obtained approval as regards the use of its IRB rating models to calculate credit portfolio risk.

The rating of a corporate client is based on accounting data, the strength profile of the corporate client, the corporate client's transaction data and an assessment of the corporate client's industry.

The rating of a retail client is based on transaction data, ie it is a behavioural scoring model. In the long-term perspective the aim is to include financial data – such as wealth, leverage factor and disposable amount – in the rating model for retail clients.

Liquidity

The Bank wishes to have adequate liquidity to honour the Group's payment obligations.

This entails:

- maintenance of a high level of ratings
- active participation in international money markets
- frequent use of international capital markets
- a consistently strong and stable deposit base which ensures stability in the long-term funding of the Group's lending activities
- maintenance of an adequate liquidity buffer.

Risks

On the basis of the strategic objectives for the Group, the Board of Directors has issued guidelines for the Group Executive Management, determined LCR requirements and adopted policies as regards credit risk, liquidity risk, market risk, operational risk, insurance and IT security.