

## Remuneration Policy

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## 1. Background and purpose

- 1.1. This remuneration policy is determined pursuant to section 77d of the Danish Financial Business Act, Danish executive order no 2169 of 22 December 2020 on remuneration policy and remuneration in banks etc, sections 139 and 139a of the Danish Companies Act, the Capital Requirements Regulation (Regulation 575/2013 as amended by Regulation 876/2019 as well as the Disclosure Regulation (Regulation 2088/2019).

The remuneration policy aims to ensure an appropriate framework in order to attract, motivate and retain the Bank's management and employees. Furthermore it must contribute in the long term to supporting the Bank's business model and business strategy, including the Bank's short-term and long-term interests, create value for the Bank, its employees, its management and its shareholders and it must align the interests of the Bank's different stakeholders, including the interests of the Board of Directors and the Group Executive Management, with the interests of the Bank's shareholders and other stakeholders.

In addition the remuneration policy must at all times be consistent with and promote sound and effective risk management which does not encourage excessive risk taking, and for the purpose of observing the principles of protection of customers and investors the policy contains measures to prevent conflicts of interest.

- 1.2. The remuneration policy will apply to and contains a description of the Bank's remuneration of the Board of Directors, the Group Executive Management, material risk takers, staff engaged in control functions and other employees as well as supports the Bank's objective to be a good and motivational workplace.
- 1.3. The remuneration policy is based on equal pay for equal work or work of the same value irrespective of the gender of the employee.
- 1.4. The conditions of the remuneration policy for determining remuneration and bonuses are determined in accordance with the decisions made by the Bank with respect to integrating sustainability factors and sustainability risks. This entails for instance that the remuneration policy reflects the Bank's decision to integrate sustainability risks in Credits and Asset Management, the Bank's endorsement of the UN Principles for Responsible Investment and the Bank's endorsement of the UN Principles for Responsible Banking.

## 2. Determination of remuneration and use of variable remuneration

- 2.1. The most significant part of the remuneration to the Bank's management and employees consists of fixed remuneration. The Bank's general position is that the size of the fixed base salary must ensure that focus and incentives exist so that the desired results are achieved. In general the Bank does not wish to use bonus schemes to such an extent that has contributed to giving the financial sector a poor reputation in the past. The Bank's position is that results can be achieved without such bonus schemes.

The fixed base salary is determined and regularly assessed on the basis of the current market level, individual qualifications and the level of job responsibility and complexity. Pension schemes consistent with the market, employee terms as well as other usual employee benefits form part of the fixed base salary. A few or several employees may receive variable remuneration in addition to the fixed base salary.

- 2.2. The fixed salary can be supplemented with variable remuneration. Specific rules applying to the management and certain groups of employees are described separately in this policy. The criteria for awarding variable remuneration to all other employees include the Bank's overall performance, the performance of individual business units, customer satisfaction as well as efforts to integrate sustainability risks in relevant business units. As regards management staff the quality of their management skills to ensure results and employee commitment is also taken into account. In exceptional cases variable remuneration may represent up to 50%.

Variable remuneration may not be used if it would result in a conflict of interest. This means that variable remuneration may not depend on employees achieving a sales target which may encourage the employees not to provide honest advice or encourage them to disregard rules on good banking practice. For instance variable remuneration to employees who sell or provide advice on financial instruments to non-professional investors may not depend on whether employees achieve a specific sales target. Nor may variable remuneration dependent on achieving specific sales targets be awarded to employees acting as intermediaries for or selling insurance products or housing loans.

Furthermore variable remuneration may not be used if it encourages risk taking contrary to the Bank's risk profile or where inappropriate conduct exposes the Bank to any disproportionate risk or loss. Finally variable remuneration may not encourage risk taking contrary to the Bank's CSR policy.

Remuneration is moreover adjusted according to the adjustment in the collective agreement concluded by the Danish Employers' Association for the Financial Sector and the Financial Services Union in Denmark.

- 2.3. Performance contracts are not used at the Bank.

### **3. Business strategy, sustainability and long-term goals**

- 3.1. The remuneration policy, including in particular with respect to remuneration of the Group Executive Management, contributes to the company's business strategy as well as short-term and long-term interests in several ways. In connection with the Board of Directors' annual assessment of the fixed gross salary of Group Executive Management members, it is significant whether the KPIs set for the Group Executive Management have been achieved, thereby maintaining the focus and incentive of the Group Executive Management.
- 3.2. The KPIs used and related targets will be aligned on a continuing basis with the goals considered relevant by the Board of Directors for Sydbank and for shareholders in the long term.

The Group Executive Management will therefore have relevant and measurable KPIs. The KPIs will be adjusted and changed if the Bank's strategy and situation change.

The KPIs may be results-oriented so that they contribute to the Bank's long-term sustainability.

- 3.3. The Bank's strategy for 2019-2021 "A stronger bank" and the KPIs set on an ongoing basis for the Group Executive Management concern the Bank's short-term and long-term interests, including the Bank's annual profit, business development, CSR efforts and the Bank's focus on integrating sustainability factors and managing sustainability risks. Sydbank has a CSR policy and publishes its CSR report every year on the Bank's websites.

## **4. Remuneration of the Board of Directors**

- 4.1. The Shareholders' Committee determines the remuneration of the Board of Directors.
- 4.2. Members of the Bank's Board of Directors receive a fixed base fee for their service on the board. Board members are not covered by any type of bonus scheme.
- 4.3. The remuneration of the Board of Directors is assessed once a year. The remuneration of the Board of Directors is determined on the basis of the extent of its responsibilities and the number of board meetings relative to the competences and the contribution required by the board members during the year. Shareholder-elected board members are elected for a term of one year.
- 4.4. The chairman and the vice-chairman of the Board of Directors receive an additional fee corresponding to the additional work involved with these offices. The chairman receives a fee equivalent to up to three times the annual base fee and the vice-chairman receives a fee equivalent to up to twice the annual base fee.
- 4.5. Furthermore board members receive a fee for sitting on the committees set up by the Board of Directors, ie the Audit Committee, the Risk Committee, the Remuneration Committee, the Nomination Committee and the Digitization Committee. The fee corresponds to up to one-third of the annual base fee, see 4.2. The chairman of the Audit Committee and the chairman of the Risk Committee receive an additional fee for chairing these two committees equivalent to up to one-third of the fee for sitting on the committee.
- 4.6. The remuneration of the Board of Directors is adjusted annually in accordance with the adjustment of the collective agreement concluded by the Danish Employers' Association for the Financial Sector and the Financial Services Union in Denmark.
- 4.7. The remuneration of the Board of Directors appears from the Bank's annual report and as of 2021 from the Bank's remuneration report.

## **5. Remuneration of the Group Executive Management**

- 5.1. The Board of Directors determines the remuneration of the Group Executive Management. The Board of Directors must ensure that the members of the Group Executive Management possess the necessary professional and personal qualifications at all times and that they execute and deliver in terms of the Bank's business strategy and thereby also the Bank's short-term and long-term interests.

- 5.2. The remuneration of the Group Executive Management consists of a fixed gross salary which is determined on the basis of the current market level, individual qualifications and the level of job responsibility and complexity. Pension contributions are included in the gross salary. Furthermore Group Executive Management members have a company car, free telephone, newspapers, internet access, dental and health insurance, travel insurance and group life insurance etc.
- 5.3. The remuneration of the Group Executive Management is reviewed once a year. The remuneration of the Group Executive Management is determined on the basis of a wish to attract and retain the best qualified members so that the Bank's Group Executive Management is at all times composed of the necessary and correct professional and personal qualifications.

The assessment is carried out on the basis of the current market level for remuneration of group executive management members in comparable banks, the Bank's overall results, customer satisfaction, the individual contribution and areas of responsibility of Group Executive Management members as well as overall performance over a long period at the Bank. Moreover the assessment takes into account whether the KPIs set annually for the Group Executive Management by the Board of Directors have been reached or exceeded. The KPIs may consist of financial as well as non-financial targets, including targets set within the framework of the CSR policy.

The remuneration of the Group Executive Management is moreover adjusted according to the adjustment in the collective agreement concluded by the Danish Employers' Association for the Financial Sector and the Financial Services Union in Denmark.

- 5.4. No fixed bonus schemes have been agreed as regards the Group Executive Management. Group Executive Management members may be granted an annual bonus of the minimum threshold specified in the Danish Financial Business Act (up to DKK 100,000) provided it is the assessment of the Board of Directors that the KPIs set annually for the Group Executive Management are equal to or exceed the levels set by the Board of Directors.
- 5.5. In special circumstances and by way of exception, a sign-on bonus may be granted, remuneration for buyout from a previous employment contract may be awarded or a stay-on bonus may be agreed to ensure that the Group Executive Management has the right profiles and qualifications. These types of bonus may not exceed 50% of the gross salary. They may be paid in cash and with shares in the Bank. The granting and payment of the above will respect the rules in force from time to time, including the provisions of the Danish Financial Business Act. A bonus payment must be made conditional and may be subject to claw back if granted on a manifestly incorrect basis.

The split between cash-based payment and shares will be in accordance with the provisions of the Danish Financial Business Act and must moreover ensure a balance between short-term and long-term results. Furthermore it must be consistent with and promote sound and efficient risk management that does not encourage excessive risk taking.

Any deferred shares will be dependent on the conditions for granting shares as well as other statutory requirements in connection with the granting of shares being met at

the grant date. The granting of shares up to and including the minimum threshold prescribed by legislation may be paid unconditionally.

- 5.6. The Group Executive Management is employed under an open-ended employment contract. A Group Executive Management member may be employed under a fixed-term contract if the employment is for the purpose of solving a specific assignment where the assignment must be completed within a time interval not exceeding two years.
- 5.7. Any severance terms applying to the Group Executive Management are determined by the Board of Directors. The notice period with respect to the members of the Group Executive Management is a maximum of 12 months. Furthermore they are entitled to severance pay equal to 12 months' salary.
- 5.8. Agreed non-compete clauses and non-solicitation clauses may be concluded for a period of up to one year and remuneration is in accordance with the applicable rules.
- 5.9. In case of the death of a member of the Group Executive Management the company may pay an amount corresponding to up to six months' gross salary to the dependants of the Group Executive Management member.
- 5.10. Any fees received by Group Executive Management members from outside directorships are set off against their salary.
- 5.11. The remuneration of the Group Executive Management appears from the Bank's annual report and as of 2021 from the Bank's remuneration report.

## 6. Material risk takers

- 6.1. In accordance with legislation the Bank's material risk takers are defined by the Bank's Remuneration Committee at least once a year. Material risk takers employed by the Bank's subsidiaries are defined by the board of directors of the relevant subsidiary.
- 6.2. The remuneration of material risk takers is reviewed as a minimum every two years.
- 6.3. Remuneration is adjusted according to the adjustment in the collective agreement concluded by the Danish Employers' Association for the Financial Sector and the Financial Services Union in Denmark.
- 6.4. Any bonus may not exceed 50% of the fixed base salary. During years when the Bank's performance does not contribute to consolidation, bonuses may not exceed 25%. When bonuses are determined the question of whether material risk takers have performed in accordance with the Bank's CSR policy may be taken into account.

Bonuses may be paid in cash and with shares in the Bank. The granting and payment of bonuses will respect the rules in force from time to time, including the provisions of the Danish Financial Business Act. A bonus payment may be made conditional and may be subject to claw back if granted on a manifestly incorrect basis.

The split between cash-based payment and shares will be in accordance with the provisions of the Danish Financial Business Act and must moreover ensure a balance

between short-term and long-term results but also ensure that it is consistent with and promotes sound and efficient risk management that does not encourage excessive risk taking.

Any deferred shares will be dependent on the conditions for granting shares as well as other statutory requirements in connection with the granting of shares being met at the grant date. The granting of shares up to the minimum threshold prescribed by legislation may be paid unconditionally.

- 6.5. In special circumstances and by way of exception, a sign-on bonus may be awarded, remuneration for buyout from a previous employment contract may be awarded or a stay-on bonus may be agreed. These types of bonus may not exceed 50% of the fixed base salary. Any bonus granted according to this item will be according to the same guidelines as those stipulated in 6.4.

## **7. Management and staff engaged in control functions**

- 7.1. In accordance with legislation the Bank's Remuneration Committee defines the management responsible for the Bank's control functions at least once a year.
- 7.2. The remuneration of the management of the Bank's control functions consists of a fixed base salary which is reviewed as a minimum every two years.
- 7.3. Remuneration is adjusted according to the adjustment in the collective agreement concluded by the Danish Employers' Association for the Financial Sector and the Financial Services Union in Denmark.
- 7.4. The decision to pay any bonuses is made once a year. Such a review is based on the contribution made and is not dependent on the performance of the Bank as a whole or in parts of the Bank. Furthermore bonuses may not depend on the performance of any department(s) with which the employee has control.
- 7.5. Any bonus may not exceed 50% of the fixed base salary. During years when the Bank's performance does not contribute to consolidation, bonuses may not exceed 25%. When bonuses are determined the question of whether members of the management or the Bank's control functions have performed in accordance with the Bank's CSR policy may be taken into account.

## **8. Governance and Remuneration Committee**

- 8.1. The Board of Directors has set up a Remuneration Committee which consists of at least three members of the Board of Directors. The terms of reference of the Remuneration Committee set out the powers and responsibilities of the committee.
- 8.2. The Remuneration Committee works as a preparatory committee for the Board of Directors with respect to remuneration issues. In addition the committee determines, maintains and updates the remuneration policy as well as monitors compliance with the remuneration policy. Furthermore it determines measures to ensure that conflicts of interest are prevented or managed.

- 8.3. At least once a year the committee must review the remuneration policy and any changes must be submitted to the Board of Directors. The Board of Directors is responsible for making any and necessary adjustments to the remuneration policy. In case of any material changes or as a minimum every four years the remuneration policy must be submitted to the general meeting for adoption.