

Sydbank's Annual General Meeting – Directors' Report

Aabenraa, 23 March 2023

Welcome to Sydbank's general meeting

International financial markets have experienced significant turmoil in the past few weeks. Three US banks ran into trouble and most recently Swiss major bank Credit Suisse agreed to be acquired by UBS.

For the sake of good order – and with reference to Sydbank's Annual Report – please allow me to stress that our situation is quite different. Our lending portfolio is healthy and our liquidity exceeds the statutory requirements by a substantial margin. Also, at our latest board meeting at the end of February we discussed the annual risk assessment of Sydbank and we feel very confident about our financial situation.

Not only financial markets are experiencing turbulence. Russia's attack on Ukraine and the increased uncertainty affected all of us in 2022. We will have to live with the consequences of the war in Ukraine for many years to come – with increasing and dangerous polarisation as a result.

But today is about Sydbank. Things are going well for the Bank and that is why – in spite of the heightened uncertainty around us – we have every reason to look back at 2022 with great satisfaction. For Sydbank's customers and employees as well as Sydbank's management, Board of Directors and shareholders, 2022 was a particularly good year.

Sydbank's results in 2022

Sydbank achieved a record profit in 2022. Two main reasons are behind the improved performance. Firstly, a more normal interest rate environment has lifted the Bank's net interest income to a substantially higher level. Secondly, the Bank has reduced its costs.

Moreover Sydbank's performance in 2022 is testimony to a healthy business model and a strong competitive position. The Bank grew significantly in 2022 through increased lending and a continued positive influx of new customers. We, the Board of Directors, are pleased with the Bank's development, which is in line with our strategy, Growing our business. More on this later.

Sydbank remains among the best rated banks in Europe. Moody's, one of the world's largest credit rating agencies, gave Sydbank's long-term debt an A1 rating in January this year. Moody's rating reflects the fact that Sydbank is considered to have a sound capital base. We are strongly capitalised with significant excess capital and ample liquidity.

Therefore it is highly satisfactory that the record-breaking profit and the Bank's strong capital position allow us to distribute an all-time high dividend of DKK 16.77 per share, equal to 50% of profit for 2022. In addition the Board of Directors recommends distributing DKK 12 million to the sponsorship fund, Sydbank Fonden. This recommendation will be discussed under agenda item 3.

I will not say any more about the year's profit as CEO Karen Frøsig will comment on the financial statements shortly. Instead I would like to talk more about some of the things that have had an impact on the Bank's performance in the past year.

Committed employees

The statement “You will know us for our belief that excellent and committed employees are our most important asset” forms an integral part of Sydbank’s core story. Every day the Bank’s approx 2,000 employees put in a great deal of work for the Bank and their contribution has been crucial for the Bank’s historically impressive financial results in 2022. A huge thank you to all employees.

Every other year employees are asked about their engagement and job satisfaction in a comprehensive engagement survey. Behind me you can see the findings of the survey which was carried out in September. It is good news that also in this survey job satisfaction and engagement were best in class among financial institutions in Denmark.

A high level of engagement among employees reflects a healthy and well-run organisation. This is a sign of extensive and good managerial efforts across the Bank. For the Board of Directors as well as for you, the Bank’s shareholders, there is reassurance in knowing that the Bank has a strong leadership and committed employees. It constitutes a solid foundation for the future.

Satisfied customers

We operate our business with the promise that customers can always be confident that we offer advice that adds value for them. Therefore we also monitor customers' satisfaction with Sydbank through industry surveys within the corporate, Private Banking and retail segments. Behind me you can see how customers rate us in relation to comparable banks in the year's surveys.

At Sydbank we know our customers and we wish to be close to them and provide advice tailored to their individual needs. We have had to acknowledge that as a result of our centralised customer service we have not been able to be close enough to all customers in the retail segment. Consequently we have decided to offer all retail clients a permanent adviser at the branch closest to their address. We believe that this initiative will contribute to increasing customers' satisfaction with the Bank.

Socio-economic developments and equity market developments in 2022

2022 was a good year for the Danish economy – surpassed only by economic growth in 2021 and 2006. At the same time employment grew by more than 60,000 and businesses cemented the solid comeback after the pandemic.

However in many ways 2022 was split in two as the first half of the year saw solid and broadly-based progress whereas the second half was characterised by more subdued economic growth. Retailing and construction in particular were hit by the slowdown. Construction was impacted by the property market where sharp interest rate increases put a damper on sales and the year ended with prices falling by as much as 10%.

Rising commodity prices – including in particular energy prices – triggered a high inflation rate and reduced spending options for households. Even though corporate earnings in 2022 were generally at a satisfactory level it is evident that the Danish economy will be challenged in the years ahead. In fact, driven by a high inflation rate, the recently concluded collective agreements are the most expensive to date. It is understandable that wage earners' representatives have been eager to preserve wage earners' purchasing power in times of significant price developments – but it also demonstrates why it is essential that inflation is curbed. An uncontrolled wage/price spiral which the Danish economy has seen in the past could quickly undermine for instance Danish competitiveness and employment. Therefore there is good reason to pay close attention to developments in the period ahead.

Global share markets encountered stormy weather in 2022 when prices measured in Danish kroner dropped by approx 14% despite an impressive rebound in the last months of the year. The central banks' monetary turnaround was decisive for the decline in prices. Combating inflation was at the top of central banks' agenda in 2022, and massive interest rate increases and as such an end to the zero-interest era took the edge off investors' appetite for shares.

In this light Sydbank's share price developed very positively in 2022 as you can see behind me. The Sydbank share went up by 41% in 2022. Consequently the share price has outperformed the Danish bank index by 24 percentage points. A highly impressive development which the Board of Directors and the Bank's management hope that the Bank's shareholders appreciate.

The Board's work in 2022

2022 saw a high level of activity for the Bank's Board of Directors. 23 board meetings were held during the year. In 2022 21 meetings were held in the 5 committees set up by the Board of Directors. I am pleased that the attendance rate is high as it reflects an active and committed board of directors.

I would characterise the working relationship between the Board of Directors and the Group Executive Management as open, forthright and solution-oriented. At board meetings and committee meetings there is a direct and constructive dialogue where we do not need to mince words. On behalf of the entire Board of Directors I wish to thank the Group Executive Management for the cooperation we enjoy on a day-to-day basis.

In line with the recommendations of the Committee on Corporate Governance the Board of Directors conducts an annual self-evaluation of the entire Board of Directors and its individual members. On the basis of Sydbank's business model the short conclusion of the evaluation of the Board of Directors for 2022 is that the Board of Directors works well together and it has the competences required at the present time.

Further training of board members is given high priority and consequently the Board of Directors takes part in two annual training days. In 2022 the days included a visit with the European Banking

Authority (EBA) in Paris where we were given an introduction to expected future legislation in selected areas. In addition the Board of Directors visited one of Europe's largest banks, BNP Paribas, which operates its business under the slogan "The bank for a changing world". During our visit we were given insight into BNP Paribas' strategy for its ESG and sustainability efforts.

I will round off my report by outlining Sydbank's efforts within ESG and sustainability.

In the last couple of years we have made a targeted effort to strengthen this work in the Shareholders' Committee and Advisory Boards. Our roots in the local communities and the work on the Shareholders' Committee and Advisory Boards constitute a very significant part of Sydbank's strong roots.

I am pleased with the good sentiment and positive spirit I encountered at the Shareholders' Committee meeting in September. It was a fruitful meeting and included a highly inspiring presentation by one of the Bank's Private Banking clients who is featured in one of our campaign films.

Sydbank's strategy

Sydbank's strategy, "Growing our business", covers the period 2022-2024. The strategy can be summarised as follows: We will be better known, increase our earnings and continue to enhance the Bank's efficiency.

Behind me you can see the three goals which must have been reached by the end of 2024. With a record-breaking profit for 2022 we currently meet two of the financial targets.

Sydbank has a good reputation and a strong brand with significant, unleashed potential. Therefore Sydbank must be known by more. The third objective deals with unaided brand awareness. Thanks to our campaign Denmark's Corporate Bank we have increased awareness and recently we launched a Private Banking campaign called "You have life goals. We are your bank."

For the remainder of the strategy period we will focus our efforts on increasing awareness of Sydbank. We believe that greater awareness is an important driving force in order to grow our business.

The Bank's remuneration policy and remuneration report

I am obliged to inform the general meeting about the remuneration in 2022 of the Bank's Group Executive Management and Board of Directors as well as the expected remuneration in this and coming financial years.

The basis of remuneration at Sydbank is the Bank's remuneration policy, which was adopted at the annual general meeting in 2021. There are no changes to the remuneration policy.

As in 2022 the general meeting will hold an advisory vote on the approval of the remuneration report for 2022 (agenda item 4). The remuneration report is a numerical specification of the remuneration of the Board of Directors and the Group Executive Management on the basis of the Bank's current remuneration policy. The report provides an overview of the remuneration that the individual members of the Board of Directors and the Group Executive Management, new as well as former members, have received during the latest financial year or that is owing to them for the latest financial year.

Remuneration of the Group Executive Management

In 2022 Sydbank's Group Executive Management consisted of Karen Frøsig, CEO, Bjarne Larsen, Deputy Group Chief Executive, and Jørn Adam Møller, Deputy Group Chief Executive.

The Board of Directors has conducted its annual evaluation of the composition and qualifications of the Group Executive Management and we have concluded that the Group Executive Management has the right composition and consists of the right persons who, individually and combined, have the qualifications required to be in charge of Sydbank.

Within the limits of the remuneration policy, the Board of Directors fixes the total remuneration of the Group Executive Management. We have determined the remuneration on the basis of a wish to attract and retain the right persons so the Bank's Group Executive Management is at all times composed of the right Group Executive Management members.

I am obliged to inform the general meeting about the remuneration of the Bank's Group Executive Management. In 2022 the Bank's three-member Group Executive Management received DKK 19 million.

In accordance with the Bank's remuneration policy, no bonus schemes have been agreed as regards the Group Executive Management.

For further information I refer to the Bank's remuneration report which comprises a specification of the remuneration of the Group Executive Management.

For Group Executive Management members an individual increase in salary of 3.5%, 4.4% and 25.8% has been agreed for 2023. To this must be added an adjustment in accordance with the collective agreement for

the financial sector. The reason for the relatively high increase in salary as regards one of the Group Executive Management members is a low starting salary a few years ago. In addition the individual salary increases are justified by the Group Executive Management members' qualifications and responsibility, their personal contribution and job seniority, the Bank's performance as well as the market level for remuneration of group executive management members in comparable banks.

For 2024 it is expected that an individual adjustment will be made based on the same parameters as in 2023 and that a salary rate adjustment will be made in accordance with the existing collective agreement for the financial sector.

Remuneration of the Board of Directors

Legislation also dictates that the remuneration of the Board of Directors is disclosed at the AGM. The members of the Board of Directors received a fixed annual base fee of DKK 368,395 in 2022. 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 size of the individual fee depends on the number of seats held on the 5 committees set up by the Board of Directors. It should be noted that the chairman of the Audit Committee and the chairman of the Risk Committee receive an additional fee for chairing the committee.

Once again I refer to the remuneration report for 2022, where all items are specified and where it can be seen that the total remuneration to the Board of Directors amounted to DKK 7.2 million.

Board members are not covered by any type of bonus scheme.

The fees of the Board of Directors will be adjusted in 2023 by 2% 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 on 1 July 2022.

The fees of the Board of Directors for 2024 are expected to be reviewed in terms of responsibility, workload and fees in comparable banks.

Healthy corporate culture at Sydbank

The Bank has a policy for healthy corporate culture that ensures and promotes a healthy corporate culture throughout the organisation. The Board of Directors and the Group Executive Management focus on all aspects that encourage a healthy corporate culture in the Bank, including compliance, anti-money laundering, preventing and managing conflicts of interest and risk management. Reporting is carried out on a regular basis as regards various parameters to the Group Executive Management and the Board of Directors. Furthermore the Compliance Committee, the AML Committee and the risk organisation committees are chaired by a member of the Group Executive Management.

The Bank arranges courses on an ongoing basis for all employees in areas promoting a healthy corporate culture. For instance all employees have attended the course “Processing of personal data and information security”. Representatives from the Bank’s Compliance division visited all branches in Denmark and Germany where compliance and compliance-related topics, including the policy for healthy corporate culture, were discussed with all employees in the Bank’s regions.

In addition it should be mentioned that the head of the Bank’s legal department headed an internal information campaign on healthy corporate culture in 2022. This has raised awareness of this area throughout the Bank.

It is important that new employees are introduced to the aspects that are relevant to ensure a healthy corporate culture. All new employees receive a copy of the Bank’s policy for healthy corporate culture along with their contract of employment and take part in several training activities during the early days of their employment where a healthy

corporate culture, compliance and anti-money laundering are a part of the programme.

Employees are expected at all times to put compliance with rules before profit and to react and seek information when in doubt about the rules in force, including for instance to seek relevant information in the Bank's policies, business procedures and job descriptions. We expect that the Bank's employees will tell us if they experience anything they are not comfortable with. In addition the Bank has a whistleblower scheme accessible to everyone via the Bank's website so employees, customers, business partners, suppliers and others can use the scheme, in complete anonymity, if required.

Sydbank also took part in a number of the thematic reviews conducted by the Danish Financial Supervisory Authority in 2022. The Bank has received good reports and feedback from the Danish FSA. As a consequence the entire Board of Directors is ensured that the constant focus on decency and due care throughout the Bank will contribute to maintaining a well-run and solid bank.

ESG and sustainability

It is our aim that the Bank's ESG and sustainability efforts will create long-term value for society as well as be rewarding for the Bank and our customers. As a result it is an objective for us to embed ESG and sustainability into the Bank's core business.

The significance of and attention to corporate ESG reporting is growing. Therefore the Bank has integrated ESG reporting into its annual report. This means that in future ESG reporting will be presented together with the financial information. A strong signal that priority is given to ESG and sustainability.

In September Sydbank issued green bonds totalling EUR 500 million. Green bonds are a special type of bonds where Sydbank, as the issuer, is obligated to allocate the proceeds from the bonds to finance loans for activities that contribute for instance to reducing CO₂ emissions. This issue is a concrete example of Sydbank's contribution to the green transition.

I would also like to emphasise that in 2022 the Bank reduced its own CO₂e emissions by 7.7% compared with 2021. This reduction has primarily been achieved through energy optimisation, for instance improved heat and ventilation management. We will continue to work on reducing the Bank's own climate and environmental impact.

It is worth noting that ESG efforts comprise more than climate and environmental issues. Earlier I mentioned employee engagement and a healthy corporate culture. These issues are encompassed in the S and G of ESG.

To sum up we can say that Sydbank is up to speed with developments in the financial sector within ESG and sustainability. I can only encourage shareholders to read the ESG reporting in the Bank's annual report.

Concluding remarks and thanks

In conclusion I would like to thank the Bank's shareholders and customers very much for the confidence and support shown to the Bank.

I would also like to express my thanks to the Bank's employees for all their hard work in 2022. It is a great pleasure to feel their commitment.

In addition I would like to thank the members of the Advisory Boards and the Shareholders' Committee for contributing to Sydbank's well-being last year. I greatly appreciate you devoting time and resources to help make Sydbank an even better bank.

Finally I would like to extend my thanks to the Group Executive Management and my colleagues on the Board of Directors for their excellent collaboration in 2022.

Thank you for your attention.