

Sydbank's Annual General Meeting 2021 – Directors' Report

Welcome to Sydbank's general meeting.

In many ways 2020 was a special year. A year where the coronavirus pandemic turned almost everything, whether big or small, upside down. The Danish economy, the political arena and Danes' everyday lives have been affected. And Sydbank has not been spared but more on that later.

The Board's work

As a result of the coronavirus pandemic it has been necessary to reorganise the daily routines at the Bank – and the work of the Board of Directors, the Shareholders' Committee and the Advisory Boards has also been affected. The Board of Directors and the individual board committees have to a large extent been prevented from meeting physically. However it is my opinion that together with the Group Executive Management the Board of Directors has managed to organise its work in a way that has allowed us to fully perform our duties and meet our responsibility as a board. But we are looking forward to the day when it will be possible to meet again!

In line with the recommendations of the Committee on Corporate Governance the Board of Directors conducts

an annual self-evaluation – concerning the entire Board of Directors as well as its individual members. On the basis of Sydbank's business model the short conclusion of the evaluation of the Board of Directors for 2020 is that the work of the Board of Directors is satisfactory and that the Board of Directors has the competences required at the present time.

In terms of the more formal aspect the Board of Directors held 30 meetings in 2020. This frequency of meetings is evidence of an eventful year in Sydbank. I am pleased that the attendance rate of the Board of Directors is very high. This shows that the Board of Directors is active and takes its responsibility seriously.

The five board committees held a total of 22 meetings in 2020 and I am pleased to say that the attendance rate was 100% at every meeting.

Sydbank's results in 2020

Today we can look back on a 2020 that certainly had its share of challenges for Sydbank. It is however the opinion of the Board of Directors that the day-to-day operations of the Bank were safe and stable in 2020 and the operational risks caused by the pandemic have been handled in due time and with due care.

In this connection I would like to mention that in the early stages of the pandemic the Bank activated its contingency plans as regards Sydbank Markets and

purchased and installed a large number of flexible work stations. Where possible customer meetings as well as internal meetings were and are still held online. During the pandemic the Bank has divided its employees into teams focusing on the staffing of centralised control positions and risk management positions.

The pandemic influenced the level of activity at the Bank in various ways during the year. In Sydbank Markets the activity level was very high whereas the demand for loans by the Bank's corporate clients was lower. Consequently it is obvious that a global pandemic will have an impact on the Bank's results.

I will not make further comments on the financial performance as CEO Karen Frøsig will comment on the Bank's financial statements shortly. However I would like to thank our employees for their great efforts and flexibility in 2020. This has been crucial in us being able to get through the year so well.

I would like to comment on some of the most important activities in 2020.

Expanded decentralised organisation

As the next step in our decentralisation strategy we increased the number of regions from 9 to 12 in autumn. This means that Horsens, Nordjylland and Sønderborg are now independent regions.

As a result of this expansion we have strengthened an important element of Sydbank's DNA, namely our decentralised organisation, our local roots and our proximity to customers.

The increase in the number of regions to 12 indicates that Sydbank strives to drive its organic growth on its own terms. And therefore we recently announced that we will open new branches in Frederikshavn and Nyborg.

But something else – and something very important – occurred in 2020 which puts us in a stronger position than at the beginning of 2020 despite the coronavirus pandemic and its impact. Our acquisition of Alm. Brand Bank was one of the biggest deals in the banking sector in recent years. The acquisition was an immediate significant boost to Sydbank's strength and it also constitutes an important element in our strategic development.

By acquiring Alm. Brand Bank we strengthened Sydbank's retail banking activities in particular where the acquisition of approx 55,000 NemKonto (Easy Account) customers has added volume and contributed to internal economies of scale. In terms of geography the match between Sydbank and Alm. Brand Bank was exceptionally good as the purchase has strengthened Sydbank's presence in the Copenhagen area where our market share has historically been lower than in other parts of the country. It is a top priority of the Board of Directors to strengthen Sydbank's position in the Copenhagen area where the Bank sees great potential for future organic growth. And the acquisition of Alm. Brand Bank has improved our position to realise this potential.

The integration of and the preparation for the IT conversion of Alm. Brand Bank are progressing as planned. We have successfully amalgamated Alm. Brand Bank's 13 branches with Sydbank's existing branches. The amalgamation has been received positively by customers and employees.

In connection with the acquisition of Alm. Brand Bank we announced an expected reduction of approx DKK 250m in the two banks' joint costs. I can inform the general meeting that the reduction is on target. However as a part of this plan we have announced today that we must regrettably say goodbye to 42 employees. This is sad but necessary.

In addition to the acquisition of Alm. Brand Bank the deal with the Alm. Brand Bank Group comprises a strategic partnership where customers will benefit from Sydbank's wide range of banking products and Alm. Brand's insurance products. As part of the agreement Sydbank and Alm. Brand will jointly invest DKK 100m in the development of new digital customer solutions where banking and insurance go hand in hand. We expect a great deal from the partnership in the coming years.

By acquiring Alm. Brand Bank we deliver on our strategy that Sydbank wishes to acquire and merge with banks – with Sydbank as the continuing bank.

Sydbank's share price in 2020

Sydbank's share price fluctuated significantly in 2020. As you can see from the slide, the share price has largely followed the same development as the other 22 bank shares in the Danish banking index.

Following a positive start to the year the share price was negatively affected by the effects of the coronavirus pandemic – as were Danish bank shares in general. In fact, Danish bank share prices were reduced by more than a third in the weeks following Denmark's lockdown.

It is good news that the Sydbank share has regained most of its lost ground. Yesterday the share traded at 168.

Sydbank observes its part of the contract with society

Cases involving money laundering and dividend tax fraud caused by serious errors and management failure have tarnished the sector's reputation in recent years.

Despite the seriousness of these cases it is incomprehensible that the banking sector must pay for the early retirement of employees from other sectors. And it is downright outrageous and unacceptable that the sector as a whole by way of the adopted financial transaction tax is shamed as the naughty boy in the classroom who does not fulfil his social contract.

Sydbank has and will continue to observe its part of the contract with society.

The Bank's 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 promote a healthy corporate culture in the Bank, including compliance, anti-money laundering, 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 conducts courses on a regular basis for all employees in the areas that support a healthy corporate culture. In addition the Bank's whistleblowing scheme has been established in a way so that not only employees but also customers, business partners and others may use the scheme – and with full anonymity if required.

Employees are expected at all times to put compliance before profit and to react and seek information when they are in doubt as to the rules in force, for instance by consulting the Bank's internal policies, business procedures and job descriptions. All employees completed courses in compliance, anti-money laundering and IT security in 2020. There is a follow-up procedure as regards the few employees who do not complete the training within the stipulated deadlines and unless there is a good reason for not participating (eg maternity/paternity leave, leave of absence or long-term illness) the employee's manager ensures that the course is completed.

Unfortunately there is a lot of fraud and theft via the internet, text messages and telephone calls. Many people, in particular senior citizens, are contacted by criminals tricking them into disclosing personal information – including their passwords for NemID. This

puts criminals in a position to withdraw large amounts from their victims' bank accounts. Regrettably Sydbank's customers have also been targeted.

In 2020 Sydbank strengthened its efforts to combat digital fraud and crime by gathering its competences in a new department "Customer & Transaction Monitoring". The department handles complaints regarding cards and payment transactions, including fraud via NetBank. We can see that this has had an impact – to the benefit of customers and the Bank. The Bank will continue to focus on this area as criminals are becoming increasingly clever.

Sustainability and the Bank's corporate social responsibility (CSR)

Last year in the directors' report I said that the Bank had strengthened its CSR efforts in 2019. At the risk of repeating myself I would like to say that the Bank has boosted its CSR efforts further in 2020.

In 2020 the Bank signed the UN Principles for Responsible Banking, which is related to the Paris Agreement's climate goals and the UN's 17 SDGs. These principles act as a global guiding principle to ensure that the banking industry helps to bring about sustainable development and makes a positive contribution to society.

In line with the UN Principles for Responsible Banking it is the assessment of the Board of Directors and the Group Executive Management that sustainability and CSR efforts must be embedded into the Bank's core business if they are to make a positive contribution to society.

Therefore Sydbank's work will begin in our core business and we will focus on setting sustainable goals for our impact on investments as well as finance.

The Bank has organised its sustainability and CSR efforts in four strategic focus areas: responsible finance, responsible investment, responsible employer and responsible climate footprint. We believe that they are the four natural focus areas for our activities.

Status of the Danish economy

As I mentioned earlier the coronavirus pandemic has had a severe impact on the Danish economy. 2020 was the worst year for the Danish economy since the financial crisis with a negative development in GDP of 3.3%.

Nonetheless the Danish economy has fared relatively well compared to other countries. The economy remains in good condition and even though 2021 got off to a rough start the potential for economic growth in the second half of the year is great.

Thanks to the relief packages the economy has not been too badly affected. Central government debt has grown but it remains low and there is room for more help if it proves necessary.

The aid packages have contributed to keeping the number of bankruptcies at a lower level than seen in recent years. This has filtered through to the Bank's customers, who have also fared relatively well through the crisis.

In September Bjarne Larsen, Deputy Group Chief Executive, said that the many doomsday prophecies about the economic consequences of the coronavirus pandemic were exaggerated. The fact of the matter is that today deposits held by Sydbank's customers are at an all-time high and the demand for credit by the Bank's corporate clients in particular is lower.

Much has been written in the press that banks have been unwilling to help their customers in connection with the coronavirus pandemic. My comment is that the Bank has increased its credit lines to corporate clients by approx DKK 7.1bn during the pandemic. The fact that clients have not drawn on their facilities is more likely an indication that the central government via its deferral of tax and VAT payments is in fact acting as a state bank instead of letting banks fulfil that part of the contract with society.

Economic developments have been very uneven. Some industries have taken a hard blow and have barely felt the economic recovery yet. Other industries have prospered during the crisis.

Therefore this is no normal crisis. For instance the housing market has performed very well. Prices and the number of sales have trended upwards. This also goes for the market for holiday homes which has really come to life after having been dormant for several years. One of the reasons for the unexpectedly strong development in the housing market is that especially employees with a tenuous connection to the labour market were laid off at the beginning of the crisis. So it was not the usual homeowners who were hit by the crisis and unemployment remains low in a historical perspective.

Employment continues to be high and vaccines are being rolled out. All in all there is potential for progress in 2021. This will benefit society at large and Sydbank.

Performance in financial markets

Against all odds 2020 was a decent year in financial markets with positive share returns in Denmark and abroad. But it was not plain sailing all the way. The coronavirus pandemic and the lockdowns around the world created massive turbulence in financial markets at the beginning of the year. The share market corrections in February/March were the fastest in history and we witnessed many things never seen before. One of the most unusual effects of the coronavirus lockdowns was a negative oil price – albeit for a short period. Selling a barrel of oil actually cost money. That was a first. As opposed to previous crises central governments and central banks soon came to the rescue. Massive relief packages were approved overnight and central banks pumped money into the financial markets at a faster pace than ever seen before. The relief was key in maintaining a very low level of interest rates and creating a more upbeat sentiment in share markets – which reached record levels in USA and Denmark towards the end of 2020. But there were also great differences in how hard various sectors and regions were affected. Everything related to holidays, air transport and hotels was been hit incredibly hard whereas the digital transition clearly accelerated as a result of the coronavirus pandemic.

2021 – what lies ahead?

At Sydbank we will continue our efforts to strengthen the Bank and its position in the Danish banking sector.

We have launched a major campaign to position Sydbank as Denmark's corporate bank. It is ambitious as well as achievable to take the position as Denmark's corporate bank. The Board of Directors is convinced that a more distinct positioning of Sydbank as the skilled and preferred bank for the backbone of the Danish corporate sector is the right one.

I am proud that a number of the Bank's corporate clients have gladly taken part in videos where they talk about their companies' activities and success. The small and medium-sized enterprises are the businesses that create value every day to the benefit of the Danish society. They are the backbone of the Danish corporate sector – we are their bank.

Our foothold in this key business area is strong and our campaign is the first step in a series of activities that will define 2021.

Sydbank's strategy is named "A stronger bank". It is a refinement strategy. Consequently there is focus on refining and expanding the Bank's core business.

The current strategy period expires in 2021. Therefore the Board of Directors is already now deeply involved in

formulating the Bank's new strategy to succeed “A stronger bank”.

We look forward to presenting it in autumn.

Dividends over time

Last year the Bank cancelled its dividend distribution on the recommendation of the authorities. Regard for the Bank's shareholders is a top priority for the Board of Directors and therefore I am pleased that this year the Board of Directors is able to recommend a dividend distribution which is in line with the Bank's dividend policy of 30-50% of profit for the year after tax.

As you can see from the slide there is a strong tradition for dividend distribution at Sydbank. The slide also shows that over the past five years we have repaid a total of DKK 4.4bn by way of dividends and share buybacks.

In light of the Bank's strong capital position and good credit quality while taking into account the uncertainty surrounding the economic effects of Covid-19 in the period ahead, the Board of Directors has decided to recommend that a dividend of DKK 4.00 per Sydbank share is distributed for the 2020 financial year. This represents 30% of profit for the year after tax.

After the acquisition of Alm. Brand Bank and dividend distribution the Bank's capital ratio stands at 24.0%. The Bank's capital target is around 18.5%. So the target is more than comfortably achieved.

Motions submitted to the general meeting

In accordance with the proposal of the Audit Committee the Board of Directors proposes that PwC is appointed as the independent auditor.

The Audit Committee has stated that it has in no way been influenced by third parties or been subjected to any agreement with a third party which would limit the general meeting's appointment of these auditors or audit firms.

As usual the Board of Directors submits a proposal that the Board of Directors is authorised to allow the Bank to acquire own shares at a total value of up to 10% of the Bank's share capital. The authorisation will be effective until the next annual general meeting. Under this authorisation the Board of Directors may launch share buyback programmes.

In addition the authorisation of the Board of Directors in the Articles of Association to increase the share capital in one or more issues has expired this year and therefore the Board of Directors submits a proposal to extend the authorisation until 1 March 2026.

The Bank's remuneration policy and remuneration report

I am obliged to inform the general meeting about the remuneration in 2020 of the Bank's Group Executive Management and Board of Directors as well as about the expected remuneration in this and coming financial years.

The Bank's remuneration policy was adopted by the general meeting at the AGM last year. In 2020 the Bank revised its remuneration policy in compliance with the EU disclosure regulation. Consequently the revised remuneration policy is item 4 on today's agenda to be adopted by the general meeting.

A new element this year is that the general meeting must hold an indicative vote on the approval of the remuneration report for the most recent financial year, see agenda item 5.

The remuneration report provides a complete 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

At the beginning of 2020 Sydbank's Group Executive Management consisted of Karen Frøsig, CEO, Bjarne Larsen, Deputy Group Chief Executive, and Jørn Adam Møller, Deputy Group Chief Executive. Henning Dam, Deputy Group Chief Executive, was appointed to the Group Executive Management on 1 April 2020.

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 members of Sydbank's Group Executive Management.

Within the limits of the remuneration policy, the Board of Directors also 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 in the Group Executive Management so that 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 Group Executive Management. In 2020 their remuneration was as follows:

Karen Frøsig DKK 7.0m

Bjarne Larsen DKK 5.3m

Jørn Adam Møller DKK 3.4m

Henning Dam DKK 2.7m

No bonus schemes have been agreed as regards the Group Executive Management.

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 fee of DKK 354,000 in 2020.

The vice-chairman received an additional 75% and the chairman an additional 200%. Furthermore a fixed fee is paid to the members of the five committees set up by the Board of Directors.

The four members of the Digitization Committee have only received a fee since July as committee members did not receive a fee during the start-up period.

For further information I refer to the Annual Report, where all items are specified and where it can be seen that the total remuneration to the Board of Directors amounted to DKK 6.5m.

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

The remuneration of the Group Executive Management and the Board of Directors was unchanged in 2020 and was only adjusted according to the rate determined in the collective agreement between the Employers' Association for the Financial Sector and the Financial Services Union in Denmark.

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 2020.

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 2020.

Thank you for your attention.