

## **Sydbank's Annual General Meeting 2022 – Directors' Report**

### **Welcome to Sydbank's general meeting.**

Physical attendance at the Bank's general meeting has not been possible for the past two years. Consequently all the members of the Board of Directors and the Group Executive Management have especially looked forward to this year's general meeting where we are here at Sønderjyllandshallen.

Sadly today's general meeting is overshadowed by the horrific and brutal war in Ukraine.

In a matter of days the world order has changed fundamentally and it will affect us all in the years to come – our society as well as our bank.

At Sydbank we soon took the initiative to fundraise for Ukraine. In just a few days our employees have donated more than DKK 400,000 to the Red Cross and the Bank has added to it so that the donation totals DKK 1 million.

I am proud to be the chairman of a bank where its employees are so willing to show their support when the need arises. And thankfully very large parts of society and the corporate sector have provided huge support of various kinds to Ukraine.

## **Sydbank's results in 2021**

However we must return to the reason for our being here today, namely our report for the year 2021 – and like 2020 it was influenced by covid-19.

I am proud to tell you, the Bank's shareholders, that Sydbank has successfully navigated through the last two years and now at the end of the covid-19 crisis the Bank has a strong presence in the marketplace.

Sydbank has achieved excellent results for 2021. I will not say any more about the figures as CEO Karen Frøsig will comment on the financial statements shortly. I would however like to mention that the Board of Directors recommends a dividend payout of DKK 12 per share and distribution of DKK 12 million to the sponsorship fund, Sydbank Fonden. The recommendation by the Board of Directors will be discussed under agenda item 3. Instead I would like to talk about some of the things that had an impact on the Bank's performance in 2021.

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At the general meeting two years ago I said it was a paradox that negative interest on deposits could occur.

However negative interest on deposits is now commonplace but it attracted widespread media coverage and not least in the political arena.

Nevertheless it is worth noting that the media coverage and debate about negative interest on deposits might actually have been bigger than the sum of the negative interest in itself. In fact most of us do not pay negative interest. Seven out of ten adult Danes did not pay negative interest in 2021. Of those who do pay negative interest, most of them

pay less than DKK 600 before tax. This is according to new figures from Finance Denmark.

Also we must not forget that all in all Danish households, regardless of whether we are talking about wage earners, homeowners or senior citizens, have benefited from the decline in interest rates in recent years. Every adult Dane saved an average of DKK 5,000 in 2020 compared to the total interest expenses in 2014. This is according to calculations made by Finance Denmark.

On the other hand it is a fact that the Danish central bank's negative interest on certificates of deposit continues to squeeze Danish banks' earnings.

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The negative interest rate environment has made it less attractive to save money in deposit accounts. As a result professional and private investors sought advice also in 2021 about alternative placements, including investments in bonds and shares. Purchasing securities is associated with a greater risk compared to savings in deposit accounts. Therefore the importance of receiving good advice in connection with investment decisions cannot be overestimated.

In 2021 assets in Danish equity funds targeting private investors grew to more than DKK 500 billion. Growth in assets in 2021 was primarily driven by excellent returns in equity funds but net purchases of DKK 29 billion in equity funds in 2021 are testimony to the greater willingness to invest.

As a result of greater investment appetite, the Bank has recorded high activity in its business units Asset Management and Sydbank Markets. A

high level of activity in financial markets has a positive impact on the Bank's earnings.

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Sydbank concluded an agreement to purchase Alm. Brand Bank in 2020. The integration of Alm. Brand Bank and its related IT conversion have gone well. In other words the Bank has succeeded in achieving the planned synergies by purchasing Alm. Brand Bank – which benefits shareholders.

One element of the agreement with the Alm. Brand Group was a long-term strategic partnership. The partnership is based on two main elements:

Firstly a mutual referral agreement where Sydbank's account managers refer the Bank's customers to Alm. Brand Forsikring (insurance). The Bank's account managers referred an average of more than 400 retail and corporate customers per week in 2021. In return Sydbank receives a fee from Alm. Brand, which contributes to the Bank's earnings.

Similarly Alm. Brand refers customers who would like a dialogue with Sydbank about their banking business. A positive trend is also seen here. The referral agreement thereby supports the Bank's objective to attract new customers.

Secondly the partnership includes the joint development of digital solutions. Via Mobilbank Sydbank's customers can see their insurance with Alm. Brand and if the need should arise they can file a claim via Mobilbank. For the benefit of customers banking and insurance are

united in the digital user experience as we give customers access to information about their insurance policies.

There continues to be a major business potential in the collaboration between Sydbank and Alm. Brand which we will move ahead with in the years to come.

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It is now almost two months since we stopped classifying covid-19 as a critical threat to society. In a figurative sense spring came early to Denmark this year. Nevertheless I cannot present my report without touching upon covid-19.

The Economist magazine has ranked Denmark at the top of the list of economies that have performed best during the pandemic. We should all be pleased about this.

One important element in Denmark's excellent socio-economic performance during the past two years is the extensive use of aid packages to the country's businesses. As a result of these packages many companies' bank deposits have grown during the covid-19 crisis and this is reflected in the Bank's deposits from corporate customers. As Denmark's Corporate Bank we are pleased that a sensible agreement has been reached regarding the repayment of government loans and payment of deferred VAT and indirect taxes. We felt the effect of the first deadline for payment in autumn when companies drew on their credit facilities with the Bank. It is positive that we are saying farewell to the "de facto state bank" that served society well during the crisis but is not to be a long-term solution.

Politicians must not falter here. It is important that we return to a normal situation where market forces prevail.

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I would like to thank all employees for their great efforts and flexibility in 2021. This has been crucial in enabling us to get through the year so well. In 2020 as well as in 2021 we were forced to cancel many events at the Bank, including the Bank's management conference and the annual Christmas parties. I hope that in 2022 we will experience a more normal daily life, also in this respect. Once again my thanks to all employees at Sydbank.

## **Socio-economic developments and developments in equity markets in 2021**

Despite a challenging start to the year the Danish economy performed spectacularly in 2021. According to preliminary figures economic growth was the highest in 15 years. In addition employment rose to an all-time high and unemployment fell to its lowest level since 2008. As a result companies experienced strong demand and even though some parts of the year were characterised by restrictions, there were very few bankruptcies. This is due in part to the aid packages and deferred payment deadlines and until the war in Ukraine began we did not anticipate any large increase in the number of bankruptcies in 2022. All things considered the private sector and the public sector look extremely healthy in terms of economic balances. But recent weeks' developments will undoubtedly have a significant impact and we are entering a year of considerable uncertainty.

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2021 saw a price party in global equity markets with returns of around 25%. Ultra-low interest rates and ample liquidity by way of bond purchases by central banks were once again a key basis for the high spirits in equity markets. But 2021 was also characterised by surprisingly strong earnings reports and the 2021 results were therefore much better than expected at the beginning of the year. Happily this tells us that companies throughout the world are growing accustomed to navigating through a very volatile covid-19 driven environment where restrictions are commonplace. The biggest earnings headwinds were the significant increases in commodity prices and unprecedented increases in freight prices. It did not help matters that the container ship the Ever Given

became wedged across the Suez Canal. In several places container shipping prices increased tenfold and supply security dropped drastically. This is still impacting global supply chains and coupled with the effects of the sanctions against Russia share markets in 2022 will be more volatile than is desirable as an investor.

As you can see behind me, Sydbank's share price saw an impressive development in 2021. The Sydbank share went up by 53.8% in 2021. Consequently the share price has risen by 22.9% more than the Danish bank index. We, the Board of Directors, hope that the Bank's shareholders are appreciative of the development in the share price in 2021. We on the Board of Directors are.

## **The Board's work in 2021**

Sydbank addresses the recommendations of the Committee on Corporate Governance and in line with the recommendations the Board of Directors conducts an annual self-evaluation of the entire Board of Directors as well as its individual members.

On the basis of the Bank's business model the competences required to perform board duties are determined in connection with the evaluation. Following this an evaluation is made as to which qualifications are present in order to identify any need for further competences.

The self-evaluation of the Board of Directors was carried out with external assistance in 2021.

Based on Sydbank's business model the main conclusions are as follows:

- The Board of Directors works well together.
- There is a good working relationship as well as a high level of motivation and commitment.
- In terms of qualifications and competences the Board of Directors is considered to be adequately equipped in the year ahead and therefore there are no plans to make any changes in the Board of Directors at this year's general meeting.

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I would characterise the working relationship between the Group Executive Management and the Board of Directors as open, forthright and solution-oriented. At board meetings and committee meetings there is a direct and honest dialogue where we do not need to mince words.

We on the Board of Directors would like to thank the Group Executive Management for the cooperation we enjoy on a day-to-day basis.

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Covid-19 also impacted the work of the Board of Directors in 2021. Physical meetings and digital meetings were held – depending on the topics to be discussed at the meetings and the current infection rate. In collaboration with the Bank’s Group Executive Management we were able to find good solutions and a framework for our work and it is my belief that we on the Board of Directors were fully able to perform our duties and live up to our responsibilities.

23 board meetings were held in 2021, 8 of which were held physically. I am pleased that the attendance rate is extremely high. This shows that the Board of Directors is active and takes its work seriously. In 2021 25 meetings were held in the 5 committees set up by the Board of Directors. Also here the attendance rate was high.

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Earlier I mentioned that we concluded, on the basis of the self-evaluation, that the Board of Directors has the competences required at the present time and moreover further training of board members is given high priority.

As in previous years the Board of Directors has held two training days. The programme included presentations by the Bank’s management and employees and a talk on sustainability, social responsibility and ESG by an external consultant. In addition two board members attended a 3-day ESG seminar for the financial sector last autumn.

Significant focus is on sustainability, social responsibility and ESG. Therefore we are planning to dedicate this year's two training days to this topic. I will round off my report by outlining the Bank's efforts in this area.

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Work on the Shareholders' Committee and the advisory boards is a crucial element of the Bank's DNA. Consequently it was gratifying that Shareholders' Committee members were gathered again for a meeting at SydbankSalen at the Bank's head office in 2021.

In November we met with the chairpersons of the Bank's advisory boards. We discussed the importance of the work on the advisory boards and how advisory board members can act as active ambassadors for the Bank to a still greater extent and thereby contribute to the Bank's growth.

I would like to thank all members of the Shareholders' Committee and the advisory boards for their efforts for Sydbank in 2021.

## **Sydbank's strategy**

Sydbank's strategy for 2019-2021 was called "A stronger bank". It was a refinement strategy focusing on strengthening Sydbank's competitive position by enhancing the quality of what we do.

The Board of Directors has followed up on the goals of the strategy on a regular basis. At the end of the strategy period two of the three goals were achieved. Firstly Sydbank's return on equity is again this year among the top 3 of the 6 largest banks in Denmark. Secondly employee engagement is best in class among financial institutions in Denmark.

However our objective to gain a top 3 ranking among the 6 largest Danish banks measured in terms of customer satisfaction in the corporate segment and the retail segment was not achieved in 2021. Even so I would like to add that this objective was achieved in the first two years of the strategy period. Naturally we will continue to focus on customer satisfaction at Sydbank.

In October we announced the Bank's strategy for 2022-24. The strategy is called "Growing our business".

The strategy can be briefly 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 strategic goals.

The Board of Directors has been deeply involved in formulating the strategy. It has been an involving and rewarding process and therefore I can say with confidence that a united board of directors and group executive management stand behind the strategy.

## **The Bank's remuneration policy and remuneration report**

I am obliged to inform the general meeting about the remuneration in 2021 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 the Bank is the Bank's remuneration policy, which was adopted by the general meeting last year at the annual general meeting. There are no changes to the remuneration policy this year and therefore it is not on the agenda.

Last year was the first time we prepared a remuneration report. 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. 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.

Like last year the general meeting will hold an advisory vote on the approval of the remuneration report for 2021 (agenda item 4). At last year's advisory vote the remuneration report for 2020 was not approved by the general meeting. The outcome of the vote was attributable to the voting right limitation in the Bank's Articles of Association. The Articles of Association stipulate that no shareholder of the Bank is entitled to cast more than 20,000 votes regardless of the number of shares held by a shareholder. If instead this had been decided on the basis of the capital represented at the general meeting, the outcome would have been different as there was an overwhelming majority for the approval of the

Bank's remuneration report calculated on the basis of capital. And so we can say that the shareholders have been heard.

Since the last general meeting we have explored why some shareholders voted against the remuneration report last year and we have also worked on improving the remuneration report. For instance we have been in contact with several large companies offering proxy voting services as we could see that primarily foreign shareholders voted against the remuneration report in connection with the advisory vote. The voting agencies' concern was that the Group Executive Management could not be motivated or stay motivated without incentive-based remuneration.

The Board of Directors does not share this view. In the assessment of the Board of Directors the Bank's Group Executive Management receives remuneration that motivates them to do their job in the best possible way. The Bank's results show this clearly. I would also like to emphasise the motivation and energy that we, the Board of Directors, experience when we are at the Bank. The remuneration of the Group Executive Management is not the highest in the industry but it is believed to be appropriate for a group executive management of a bank of our size. We, the Board of Directors, do not think this is the time to introduce variable remuneration packages at Sydbank. And I would like to add that the Group Executive Management shares our view.

We have however worked on improving the remuneration report so that it is easier to understand and includes more easily accessible tables of remuneration paid to the individual members of the Board of Directors and the Group Executive Management.

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

At the beginning of 2021 Sydbank's Group Executive Management consisted of Karen Frøsig, CEO, Bjarne Larsen, Deputy Group Chief Executive, Jørn Adam Møller, Deputy Group Chief Executive and Henning Dam, Deputy Group Chief Executive. Henning Dam decided to resign in December.

The annual evaluation of the composition and qualifications of the Group Executive Management was supposed to have been conducted at the board meeting in February. Unfortunately this was not possible due to illness. The evaluation will be carried out at the board meeting later this month.

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 2021 their remuneration was as follows:

Karen Frøsig DKK 7.9m

Bjarne Larsen DKK 5.8m

Jørn Adam Møller DKK 3.9m

Henning Dam DKK 4.1m

As I just mentioned it is the Board of Directors' decision that no bonus schemes have been agreed as regards the Group Executive Management.

For Group Executive Management members an increase in salary of between 1.8% and 11% has been agreed for 2022. To this must be added an adjustment in accordance with the collective agreement for the financial sector. The individual salary increase is justified by members' qualifications and responsibility, their personal contribution, the Bank's performance as well as the market level for remuneration of group executive management members in comparable banks.

For 2023 it is expected that an individual adjustment will be made based on the same parameters as in 2022 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 fee of DKK 361,172 in 2021. The vice-chairman received an additional 75% and the chairman an additional 200%.

The individual fees are as follows:

Lars Mikkeldgaard-Jensen, Chairman: DKK 1,279,554

Jacob Chr. Nielsen, Vice-Chairman: DKK 828,090

Other members from DKK 383,563 to DKK 570,010

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.

For further information I refer to the remuneration report for 2021, where all items are specified and where it can be seen that the total remuneration to the Board of Directors amounted to DKK 7.1 million.

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

The fees of the Board of Directors will be adjusted in 2022 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.

The fees of the Board of Directors for 2023 are expected to be reviewed in terms of responsibility, workload and fees in comparable banks.

## **Policy for healthy corporate culture**

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 promote 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 in 2021 all employees attended the annual anti-money laundering course and the Bank's account managers also received training in relevant and current topics concerning anti-money laundering.

It is important that new employees are introduced to the aspects that the Bank finds 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 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 that employees, customers, business partners, suppliers and others can use the scheme, in complete anonymity, if required.

In 2021 all the Bank's managers were tasked with going over and discussing the policy for healthy corporate culture with their employees and the activity included exercises. This resulted in a very good dialogue throughout the Bank about the policy for healthy corporate culture and the feedback was included in for instance an updating of the policy and now it is even more topical and user friendly.

## **Sustainability, corporate social responsibility and ESG**

For the last two years I have said in my report that the Bank has strengthened its CSR efforts. Our efforts in this respect can be regarded as due care as 2021 was characterised by a tsunami of new legislation that washed over the financial sector from Brussels.

Consequently significant focus was on new legislation last year. In particular considerable time was spent on the EU Taxonomy Regulation, which defines the activities that can be called climate and environmentally sustainable in the future. At Sydbank we welcome legislation that in the long term will help to create greater transparency and a common yardstick in the finance sector and society in general.

Sustainability claimed a bigger seat in the boardroom in 2021 as the Bank's sustainability and social responsibility policy was updated and now specifies that the Board of Directors is responsible for approving objectives in this area in addition to ensuring that the policy is complied with.

Sustainability is a subject that is increasingly addressed in the dialogue with the Bank's customers and other stakeholders. Consequently all employees were offered basic training in sustainability in 2021.

To sum up we can say that Sydbank is up to speed with developments in the financial sector within sustainability, social responsibility and ESG.

## **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 2021.

In addition I would like to thank the members of the advisory boards and the Shareholders' Committee for contributing to Sydbank's welfare last year.

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 2021.

But allow me to end where I began.

As a society, as private individuals and as companies, we face considerable upheavals and challenges in the years to come – indeed we are already facing them!

This will make demands on us all but I am confident that we at Sydbank will know how to tackle the things that come our way.

Our highly skilled employees, our well-run bank and our fundamental values are the right basis to navigate the uncertain times ahead.

Thank you for your attention.