

## **Directors' Report – Sydbank's Annual General Meeting 2020**

### **Introduction**

An annual general meeting on a summer's day. This is quite extraordinary, to put it mildly. But since 11 March when the Prime Minister put large parts of Denmark on lockdown very little has been as usual.

Nor is this year's general meeting as we are seated apart and yet still together.

And in fact we should not even have been here.

We should have been at Folkehjem to celebrate Sydbank's 50th anniversary and the reunification of Southern Jutland with the rest of Denmark.

Sadly that is not how it turned out. It is disappointing but these are the circumstances in the current situation.

Another thing that feels strange is that the general meeting is predominantly about Sydbank in 2019. That feels like a long time ago.

But before I start to address last year I would like to touch upon the coronavirus crisis from Sydbank's perspective.

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Throughout the coronavirus crisis Sydbank has of course taken the situation seriously and followed the guidance from the authorities.

The Board of Directors and the Group Executive Management have been in close dialogue and together we have handled large and small challenges.

We were even ahead of developments as the annual management conference to be held on 28 February was cancelled on the same day.

And the annual shareholders' meetings shared the same fate – although the notice given was slightly better. In addition we have taken all possible steps to prevent the risk of infection.

Sydbank's branches have been closed for physical access – but our customers have been able all along to get in touch with their bank.

Our branches are open again now but meetings still take place at a safe distance and employees greet customers warmly but without a handshake.

On behalf of the Board of Directors I would like to say a huge thank you to the employees for their tremendous efforts.

We have made heavy demands on our talented employees in the past months, and thanks to the positive attitude and flexibility shown by everyone we have been able to get through

the acute crisis in a really good way and to continue to run a bank and serve the customers who need us.

In contrast to what one small trade organisation has claimed, it is simply wrong that Sydbank does not want to help customers affected by the downturn in the economy.

Sydbank builds on long-term relationships – also in hard times.

In addition the Board of Directors decided on 7 April on the basis of a management estimate to set aside DKK 225m to cover the consequences of the spreading of the coronavirus.

Another consequence of the coronavirus was extreme turbulence in financial markets across the globe.

You can read more about Sydbank's take on the current situation in the latest edition of the investment magazine which has been placed on your seats.

We do not yet know how big the economic bill will be for slowing the global economy and for the bailout packages that have been launched but it will be massive.

As Karen Frøsig stated early on, the decisive factor as to how well we and the rest of the world get through the period ahead – the coming years – depends on the swift implementation of short-term and long-term measures.

Therefore it was positive that all the parties of the Danish parliament quickly agreed on a number of bailout packages to support employment.

The priority now is the long-term initiatives to help boost demand. And in this respect one of the most important things is that the economies of our largest trading partners pick up speed. The Danish economy and employment are totally dependent on exports gaining traction again so it is important that no spanner is thrown in the works of EU cooperation in the period ahead. And even though Brexit has taken a bit of a back seat recently, reaching a sensible deal during autumn will be very important for many of Sydbank's customers.

From the onset of the coronavirus crisis the financial sector was encouraged to show community spirit, cancel share buyback programmes and suspend dividend payouts.

Sydbank has done all this.

Even though our financial position is strong with substantial reserves dictating in fact that there was plenty of room to pay out a decent dividend and continue the share buybacks, we decided to put these activities on hold. We want to signal that naturally we fully support being extraordinarily cautious in the exceptional and difficult situation the Danish society is experiencing. But it was no easy decision. It had to be weighed against the expectations of our shareholders. Regard for our shareholders is our top priority so we hope for understanding as regards these decisions.

We are happy to carry out our important role to help keep the wheels turning in Denmark.

But we have taken it to heart that the Danish Minister for Industry, Business and Financial Affairs found it opportune to shame the financial sector instead of appreciating the responsible role we play in society.

The fact that the extraordinary banking tax announced by the government early on is still on the table is simply incomprehensible.

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The coronavirus crisis completely overshadows the fact that 2019 was actually a very good year for shares, with gains and optimism in markets – it all seems rather remote right now.

If this general meeting had been held in March, my introduction would probably have been somewhat different.

I would have been much happier about the fundamental strength of the Danish economy.

In 2019 Denmark's growth was on the right side of 2% and employment had gone up by around 30,000.

The situation was different in our neighbouring countries. Germany and Sweden experienced periods where their economies struggled and were heading for recession.

Against this background the trend in Denmark's economy was quite satisfactory.

Decency and responsibility are fundamental concepts at Sydbank and affect all aspects of how the Bank does business, just as it should be.

In the opinion of the Board of Directors, good processes, a sound credit policy, responsibility in our compliance and other business procedures mean that Sydbank is helping to raise the standard in the sector.

There were a number of examples of this last year which I will touch upon today.

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Internally 2019 was an unusual year for Sydbank in several respects. Several board members resigned prematurely and a major organisational change was implemented.

I will return to this later but as board chairman I am pleased that at this general meeting the Board of Directors is complete in number, has the right qualifications and is looking forward.

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Another important component of the economy is the trend in the property market.

Sydbank stated clearly last year that we would not finance cooperative dwellings in Copenhagen or Aarhus that were on the market at excessively high prices – which was the tendency for quite a long time.

CEO Karen Frøsig stated that Sydbank would not contribute to a new property bubble nor lend money to persons who could end up in a debt trap. It was a question of decency and good advice.

We received both favourable and critical comments for that statement but when a new housing agreement was entered into at the beginning of this year, it became clear that Sydbank's position was right.

Whereas customers in other banks now have a cooperative dwelling that may be worth less now due to the housing agreement, the situation for Sydbank's customers is unchanged.

For the Board of Directors this is a concrete example of how Sydbank operates and must operate its business in a decent manner.

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### **Sydbank's results in 2019 and strategy development**

In 2019 Sydbank entered a new strategy period with the strategy 'A stronger bank'.

Under the new strategy focus is on further enhancing and developing Sydbank within the positions of strength that we already have as a bank.

Therefore the strategy and its three themes, Customer first, More Sydbank and Digitization, are also based on Sydbank's core story.

In 2019 the Board of Directors allocated DKK 75m for strategy initiatives, including initiatives with the aim of enhancing efficiency and automating processes at Sydbank.

Last year DKK 73m of this amount was spent and we are thus within budget.

As part of its ongoing efforts the Board of Directors will monitor the progress of the strategy also in the coming year.

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In 2019 Sydbank also formulated 10 rules to live by. These rules will contribute to binding the Bank's core story and strategy even closer together.

The rules show the direction for the Bank's employees in the short term as well as the long term.

And they show the outside world which bank we want to be and which bank we do not want to be.

We, the Board of Directors, are pleased that the Bank's employees and the outside world have welcomed these rules. They serve as a useful tool in Sydbank's daily activities and development.

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CEO Karen Frøsig will comment on the financial statements under the next item on the agenda.

### **Sydbank's share price throughout 2019**

Sydbank's share price fluctuated significantly in 2019. But it saw a decent rise in the last four months of the year.

As can be seen from the slide, the share price was below the bank index for most of the year but on the whole it followed the same trend as the other banks.

Sydbank's share, just as European bank shares in general, was adversely impacted by the coronavirus.

When Karen Frøsig presented the Q1 results for this year she said: *"I would have never thought I would be proud of a quarterly profit of DKK 70m."*

As board chairman I felt quite the same.

All in all Sydbank's income and capital were solid in 2019 in a market challenged by negative interest rates.

### **Dividends over time**

Over the past five years we have repaid a total of DKK 5.3bn by way of dividends and share buybacks.

This is also the case when including 2019.

As I have already touched upon, the Board of Directors decided to suspend the share buyback programme of DKK 250m early on in the coronavirus crisis.

At the time of suspension Sydbank had repurchased 279,000 own shares at a transaction value of DKK 31,324,580.

Subsequently it was decided not to recommend dividend distribution at the general meeting in 2020.

In 2019 – ie before the decision to suspend the share buyback programme and not to recommend dividend distribution – the capital ratio stood at 22.9%.

The objective was 18.5% so the objective was comfortably achieved.

### **Changes on the Board of Directors**

As I mentioned in my introduction 2019 was an unusual year for Sydbank internally.

Much has been said and much has been written.

The fact remains that four board members resigned prematurely. Without giving a specific reason or being outvoted.

In two rounds they have been replaced by a total of four new board members and today our Board of Directors is strong and complete in number.

And it meets in all respects the high qualification requirements imposed on a bank's board of directors.

It is my opinion that in terms of competences we are stronger than before and I see a board of directors that is united in its

aim to further develop Sydbank together with the day-to-day management and that is positive on the prospects for Sydbank. There is a good and constructive dialogue between the Board of Directors and the Group Executive Management so I am looking forward to being able to meet in person again soon.

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In terms of the more formal aspect the Board of Directors held 15 physical meetings in 2019, ie three more than the year before.

The board committees convened 20 times in 2019.

I can also note that the board members have taken their board duties seriously.

With the exception of one board member who was prevented from attending one board meeting, all board members have attended all meetings.

As regards board committee meetings no apologies for absence were received from committee members for any meeting during the entire year.

This is positive not least in light of the changes that have taken place.

Furthermore the Board of Directors takes part in two annual training days where focus is on future legislation and Sydbank's efforts to comply with ever-stricter requirements.

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Ordinarily an evaluation of the Board of Directors is carried out once a year.

Given the circumstances I decided, with the support of the Board of Directors, to postpone this activity until the Board of Directors was complete.

This allows all board members to be part of this activity and we believe that this is the proper way. Consequently the evaluation has been postponed until after the general meeting.

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I am obliged to inform the general meeting about the remuneration in 2019 of the Bank's Board of Directors and Group Executive Management as well as about the expected remuneration in this and coming financial years.

In this connection I would like to mention briefly that the Bank has revised its remuneration policy whereby it now complies with the provisions of the Danish Financial Business Act and the Danish Companies Act.

Consequently the revised remuneration policy is item 5 on today's agenda to be adopted by the general meeting.

I will give you more information about the work on revising the remuneration policy and the contents of the policy when we reach that item on the agenda.

In compliance with the new provisions of the Danish Companies Act, the Bank will prepare a remuneration report next year that will provide 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.

At next year's AGM the general meeting will hold an indicative ballot on the adoption of the remuneration report for the most recent financial year.

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### **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 347,000 in 2019.

Board members who were not members of the Board of Directors for the entire period have received remuneration for the period during which they served on the Board of Directors.

The vice-chairman continues to receive an additional 75% and the chairman an additional 200%.

Furthermore a fixed fee is paid to the members of the four committees set up by the Board of Directors.

Members of the Digitization Committee have not received 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 4.8m.

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

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

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

At the beginning of 2019 Sydbank's Group Executive Management consisted of Karen Frøsig, CEO, Jan Svarre, Deputy Group Chief Executive, and Bjarne Larsen, Deputy Group Chief Executive.

In autumn Jan Svarre resigned and a major organisational change was implemented at Sydbank.

The Group Executive Management was increased by one additional member when the then CFO Jørn Adam Møller joined the Group Executive Management as Deputy Group Chief Executive.

Since then Henning Dam, who has previously held group executive vice president positions at Sydbank, has also been appointed and he started on 1 April.

Henning Dam's responsibilities include Sydbank's decentralised areas.

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 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 2019 their remuneration was as follows:

Karen Frøsig DKK 7.2m

Bjarne Larsen DKK 5.4m

Jørn Adam Møller DKK 0.5m

Jan Svarre has received a total of DKK 14.3m as a result of his severance terms.

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

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I am also obliged to inform the general meeting about Sydbank's policy for a healthy corporate culture, which focuses on Sydbank operating a decent and responsible business.

The policy aims to ensure and promote a healthy corporate culture for everyone at the Bank.

Thanks to its employees the Bank complies with all rules, it does not assume irresponsible risk, it contributes to preventing money laundering and other financial crime and it has a good and trusting collaboration with the authorities.

Sydbank's efforts to ensure a healthy corporate culture are ongoing and are carried out by means of internal business procedures, internal and external communication as well as training and education of employees.

An example of the latter is that in 2019 more than 99% of Sydbank's employees completed the mandatory training courses in money laundering, terrorist financing and personal data.

The Bank's communication, business procedures and policies reflect that employees are expected to put compliance with

rules before earnings at all times so that we can live up to our social responsibility as a bank.

This is supported by the “tone” from the top of the Bank.

For instance in the media Bjarne Larsen, Deputy Group Chief Executive, called on the Danish Money Laundering Secretariat of the State Prosecutor for Serious Economic and International Crime to provide additional and better feedback as well as guidance to financial institutions.

This was to ensure that banks can adapt and be even better at paying attention to relevant circumstances, which, in the Board of Directors’ view, is also an example of Sydbank’s willingness to take on the task of combating money laundering.

The fact that Sydbank actively makes its position known and acts on its words reflects a healthy corporate culture.

In addition Sydbank has been an active participant in Finance Denmark’s anti-money laundering taskforce, which published a number of recommendations in late 2019 on how the sector along with the authorities can increase efforts to combat money laundering and terrorist financing.

Sydbank already acts in accordance with the recommendations within its control and is working to communicating these efforts to customers and business partners.

In addition the Bank has established a completely confidential whistleblowing scheme where everyone, including present and former employees, business partners and customers, can report circumstances that could be contrary to financial legislation.

The Board of Directors receives for instance quarterly reports on the compliance with rules on money laundering and terrorist financing, risk, GDPR, lending, investments, etc.

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### **Greater decentralised focus**

At Sydbank we are close to our customers.

As a result the organisational change in autumn was also used to increase the managerial capacity and consequently responsibility at a decentralised level.

And the coronavirus crisis has shown that Sydbank's decentralised organisation *is* strong.

As a result the efforts to strengthen the decentralised organisation will continue.

The Board of Directors is convinced that this is the right way to proceed in order to make the optimum use of the resources and insight of employees.

### **CSR**

Sydbank boosted its CSR efforts in 2019.

Partly because we wish to give Sydbank a more distinct profile in terms of its responsible role in society and partly because we know that this is what the surrounding world wants.

The Bank has set up a CSR forum tasked with formulating the direction of these efforts and launching initiatives.

There are four specific paths for Sydbank's CSR efforts.

This guarantees that Sydbank covers all aspects, from ensuring solid and reliable reporting to initiatives such as phasing out plastic at Sydbank's canteens, installing a solar cell system at the head office at Peberlyk and setting up electric vehicle charging stations – also at the head office.

The most comprehensive path deals with embedding Sydbank's corporate social responsibility in the core of the Bank's business, ie investments and lending.

Integrating ESG issues into our rating models is no easy task but it is where we can make the biggest difference.

I can only recommend that you read the CSR Report 2019. Because there is no doubt that there will be an ever greater focus on businesses such as Sydbank to engage in social responsibility.

### **Negative interest**

The last topic I will touch upon is probably that which was the most substantive in the Danish financial sector last year, ie the introduction of negative interest for retail customers.

Its introduction was not a surprise as such. But the symbolism is significant.

A prime minister once got into trouble for saying that the economic textbooks needed to be rewritten. I am not going down that road.

But it is something along those lines.

Because it is a paradox and contradictory in every sense that negative interest can occur.

At Sydbank we respond to the interest rate level that the Nationalbank fixes and when negative interest rates have been decided politically we must respond.

There is nothing to suggest that this trend will turn any time soon and therefore we must add a minus next to the interest rate for some time yet. However strange it might seem.

### **Concluding remarks**

These were the topics I wished to address in a report that is unusual in many respects.

There was not much of an anniversary celebration at this general meeting. We will have to take a rain check on that.

I am delighted to be the chairman of a healthy and well-run bank that we must help grow even stronger – even in these difficult times.

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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 2019.

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

Thank you.