

# *Corporate Governance Report 2016*

Statutory report on Corporate Governance cf.  
section 107b of the Danish Financial Statements Act



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2016

Statutory Corporate Governance Statement in accordance with section 107b of the Financial Statements Act

This statutory report on corporate governance for Danske Bank A/S (“Danske Bank”, and with its subsidiaries the “Group”) forms part of the management report in the Annual Report 2016, which covers the accounting period from 1 January - 31 December 2016.

The report comprises:

- Section A: status on recommendations for corporate governance
- Section B: the main elements of Danske Bank’s internal control and risk management systems used in the financial reporting process
- Section C: risk management and the most significant risks
- Section D: the management bodies and their committees and functions
- Section E: other codes observed by Danske Bank

The report is not covered by the auditors’ report prepared in connection with the Annual Report 2016.

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## SECTION A: Status on recommendations for corporate governance

The recommendations on corporate governance, which are available on the Committee on Corporate Governance's website, [www.corporategovernance.dk](http://www.corporategovernance.dk), apply to Danske Bank. The "Rules for issuers of shares" set by NASDAQ Copenhagen also require that Danish companies give a statement on how they address the recommendations.

The recommendations are best practice guidelines, which companies should generally follow. A company failing to comply with a recommendation must explain why it has deviated from the recommendation and what it has chosen to do differently (the "comply or explain" approach). Failure to comply with a recommendation is not considered a breach of rules, but merely implies that the Board of Directors of the company has chosen a different approach.

Below, the Board of Directors comments on the status of compliance with the recommendations issued by the Committee on Corporate Governance. Danske Bank complies with all the recommendations.

• The Company complies

• The Company does not comply

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### 1. Communication and interaction by the company with its investors and other stakeholders

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#### 1.1. Dialogue between company, shareholders and other stakeholders

1.1.1. The Committee recommends that the board of directors ensure ongoing dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company's potential and policies, and in order for the board of directors to be aware of the shareholders' views, interests and opinions on the company.

• The Company complies

Danske Bank provides extensive and regular information to investors and other stakeholders on [danskebank.com](http://danskebank.com). The Executive Board regularly participates in investor meetings, investor conferences and roadshows and regularly reports on investor sentiment to the Board of Directors. From time to time, the Board of Directors meets with selected analysts covering Danske Bank, and the Chairman meets regularly with Danske Bank's major shareholders.



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**1.1.2.** The Committee recommends that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders and other investors, and that the board ensures that the interests of the shareholders are respected in accordance with company policies.

• The Company complies

The Board of Directors has adopted policies on Danske Bank's relationship with its key stakeholders. These include inter alia an Investor Relations Policy, a Stakeholder Policy and a Tax Policy, which are all reviewed annually. The policies are available on [danskebank.com](https://www.danskebank.com).

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**1.1.3.** The Committee recommends that the company publish quarterly reports.

• The Company complies

Danske Bank publishes quarterly reports.

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## **1.2 General meeting**

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**1.2.1.** The Committee recommends that, when organising the company's general meeting, the board of directors plans the meeting to support active ownership.

• The Company complies

Danske Bank's articles of association enable shareholders to exercise active ownership. Danske Bank follows the one-share-one-vote principle. Shareholders may use electronic voting at the general meeting.

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**1.2.2.** The Committee recommends that proxies granted for the general meeting allow shareholders to consider each individual item on the agenda.

• The Company complies

Danske Bank's proxy form allows shareholders to consider each individual item on the agenda.

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## **1.3 Takeover bids**

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**1.3.1.** The Committee recommends that the company set up contingency procedures in the event of takeover bids from the time that the board of directors has reason to believe that a takeover bid will be made. According to such contingency procedures, the board of directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid themselves.

• The Company complies

Danske Bank has set up contingency procedures for takeover bids as described in the recommendation.

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## 2. Tasks and responsibilities of the board of directors

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### 2.1 Overall tasks and responsibilities

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**2.1.1.** The Committee recommends that at least once a year the board of directors take a position on the matters related to the board's performance of its responsibilities.

• The Company complies

Once a year, the Board of Directors adopts a work schedule for the following 12 months. The Board of Directors reviews the Rules of Procedure of the Board of Directors regularly, and at least annually, to ensure that they are updated and compliant with applicable laws, regulations and best practices. The Rules of Procedure are available on [danskebank.com](http://danskebank.com).

**2.1.2.** The Committee recommends that at least once a year the board of directors take a position on the overall strategy of the company with a view to ensuring value creation in the company.

• The Company complies

The Board of Directors is involved in strategy work throughout the year and held a two-day strategy seminar in June 2016. The Board of Directors furthermore follows up on the execution of the strategy on an ongoing basis.

**2.1.3.** The Committee recommends that the board of directors ensure that the company has a capital and share structure ensuring that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors presents this in the management commentary on the company's annual report and/or on the company's website.

• The Company complies

The Board of Directors regularly considers Danske Bank's capital structure. Management's report in the Annual Report includes a review of the capital structure, and the Risk Management Report includes a detailed description of capital management. Both reports are available on [danskebank.com](http://danskebank.com).

**2.1.4.** The Committee recommends that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board on timely, accurate and adequate reporting to the board of directors.

• The Company complies

The Board of Directors reviews the Rules of Procedure of the Executive Board regularly, and at least annually, to ensure that they are updated and compliant with applicable laws, regulations and best practices. The Rules of Procedure are available on [danskebank.com](http://danskebank.com).

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**2.1.5.** The Committee recommends that at least once a year the board of directors discuss the composition of the executive board, as well as developments, risks and succession plans.

• The Company complies

The Board of Directors regularly reviews the Executive Board's composition, development and risks, and also reviews the Succession and Talent Management policy annually. Executive Board/senior management succession planning is a particular focus area and is considered regularly by the Nomination Committee and the Board of Directors.

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**2.1.6.** The Committee recommends that once a year the board of directors discuss the company's activities to ensure relevant diversity at management levels, including setting specific goals and accounting for its objectives and progress made in achieving the objectives in the management commentary on the company's annual report and/or on the website of the company.

• The Company complies

The Board of Directors annually discusses Danske Bank's initiatives to ensure diversity and inclusion at all management levels and reviews the Diversity and Inclusion Policy. The Board of Directors further monitors progress against the targets set out in the Diversity and Inclusion Policy. The Diversity and Inclusion Policy is available on [danskebank.com](https://www.danskebank.com).

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## **2.2. Corporate social responsibility**

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**2.2.1.** The Committee recommends that the board of directors adopt policies on corporate social responsibility.

• The Company complies

In 2015, the Board of Directors adopted a new corporate responsibility strategy covering the period 2015-2018. Furthermore, the Board of Directors has adopted a Group Responsibility Policy, which is reviewed annually. The Group Responsibility Policy and the report on Corporate Responsibility 2016 are both available on [danskebank.com](https://www.danskebank.com).

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## **2.3 Chairman and vice-chairman of the board of directors**

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**2.3.1.** The Committee recommends appointing a vice-chairman of the board of directors who will assume the responsibilities of the chairman in the event of the chairman's absence, and who will also act as effective sparring partner for the chairman.

• The Company complies

The Board of Directors has elected both a chairman and a vice chairman. The Rules of Procedure of the Board of Directors include a description of the tasks, duties and responsibilities of each of them.

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**2.3.2.** The Committee recommends ensuring that, if the board of directors, in exceptional cases, asks the chairman of the board of directors to perform special operating activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect be passed to ensure that the board of directors maintains its independent, overall management and control function. Resolutions on the chairman's participation in day-to-day management and the expected duration hereof should be published in a company announcement.

• The Company complies

In 2016, the Chairman of the Board of Directors did not perform any special operating activities for Danske Bank.

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### 3. Composition and organisation of the board of directors

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#### 3.1 Composition

**3.1.1.** The Committee recommends that the board of directors annually accounts for

- the skills it must have to best perform its tasks,
- the composition of the board of directors, and
- the special skills of each member.

• The Company complies

In 2016, the Board of Directors updated its competency profile and assessed its collective and individual competencies against the updated profile. The competency profile for the Board of Directors as a whole is available on [danskebank.com](http://danskebank.com). A description of the special competencies of each member is published in the Annual Report and is available on [danskebank.com](http://danskebank.com).

**3.1.2.** The Committee recommends that the selection and nomination of candidates for the board of directors be carried out through a thoroughly transparent process approved by the overall board of directors. When assessing its composition and nominating new candidates, the board of directors must take into consideration the need for integration of new talent and diversity in relation to age, international experience and gender.

• The Company complies

The process for selection and nomination of candidates to the Board of Directors has been agreed by the Board of Directors as part of the action plan for the future composition of the Board of Directors. The Nomination Committee charter specifies that the committee must consider "the balance of the Board of Directors, including the need for changes and diversity in relation among other things to international experience, gender and age".

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**3.1.3.** The Committee recommends that the notice convening the general meeting when election of members to the board of directors is on the agenda be accompanied by a description of the nominated candidates' qualifications, including information about the candidates'

- other executive functions, among these memberships in executive boards, boards of directors, and supervisory boards, including board committees in foreign enterprises
- demanding organisational tasks, and information about
- whether candidates to the board of directors are considered independent.

• The Company complies

The information specified in the recommendation pertaining to candidates nominated by the Board of Directors is always included in the notice of the annual general meeting. The information specified in the recommendation pertaining to candidates nominated by individual shareholders is included in the notice of the annual general meeting to the extent it is communicated prior to the publication of said notice.

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**3.1.4.** The Committee recommends that the company's articles of association stipulate a retirement age for members of the board of directors.

• The Company complies

Danske Bank's articles of association provide that members of the Board of Directors must retire at the first ordinary general meeting after attaining the age of 70. The articles of association are available on [danskebank.com](https://www.danskebank.com).

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**3.1.5.** The Committee recommends that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.

• The Company complies

Danske Bank's articles of association provide that members of the Board of Directors elected by the general meeting are up for election every year.

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## 3.2 Independence of the board of directors

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3.2.1. The Committee recommends that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests.

To be considered independent, this person may not:

- be or within the past five years have been member of the executive board, or senior staff member in the company, a subsidiary undertaking or an associate,
- within the past five years have received larger emoluments from the company/group, a subsidiary undertaking or an associate in another capacity than as member of the board of directors,
- represent the interests of a controlling shareholder,
- within the past year, have had significant business relations (e.g. personal or indirectly as partner or employee, shareholder, customer, supplier or member of the executive management in companies with corresponding connection) with the company, a subsidiary undertaking or an associate,
- be or within the past three years have been employed or partner at the external auditor,
- have been chief executive in a company holding cross-memberships with the company,
- have been member of the board of directors for more than 12 years, or
- have been close relatives with persons who are not considered independent.

### • The Company complies

More than half of the members of the Board of Directors elected by the general meeting are independent. Information about the individual members' independence or non-independence is available in their CVs, which are published in the Annual Report and are available on [danskebank.com](https://www.danskebank.com).

Information about the independence of candidates nominated by the Board of Directors is always provided in the notice of the annual general meeting. Information about the independence of candidates nominated by individual shareholders is provided in the notice of the annual general meeting to the extent it is communicated prior to the publication of said notice.

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### 3.3 Members of the board of directors and the number of other executive functions

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3.3.1. The Committee recommends that each member of the board of directors assesses the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.

• The Company complies

Members of the Board of Directors assess the expected time commitment for the performance of their tasks on the Board of Directors and, as the case may be, on committees necessary for active and value-adding contributions. The number of directorships which Board members may hold is capped in accordance with applicable legislation pertaining to Systemically Important Financial Institutions (SIFI). Danske Bank publishes the Board members' other directorships and offices in the Annual Report as well as on [danskebank.com](https://www.danskebank.com). The individual rate of attendance of Board members at Board and committee meetings is available on [danskebank.com](https://www.danskebank.com).

3.3.2. The Committee recommends that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:

- the position of the relevant person,
- the age and gender of the relevant person,
- whether the member is considered independent,
- the date of appointment to the board of directors of the member,
- expiry of the current election period,
- other executive functions, e.g. memberships in executive boards, boards of directors and supervisory boards, including board committees in foreign enterprises, and
- demanding organisational tasks, and
- the number of shares, options, warrants and similar in the company, and other group companies of the company, owned by the member, as well as changes in the portfolio of the member of the securities mentioned which have occurred during the financial year.

• The Company complies

Danske Bank's Annual Report contains the information specified in the recommendation.

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## 3.4 Board committees

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- 3.4.1. The Committee recommends that the company publish the following on the company's website:
- the terms of reference of the board committees,
  - the most important activities of the committees during the year, and the number of meetings held by each committee, and
  - the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.

• The Company complies

The information specified in the recommendation is available on [danskebank.com](http://danskebank.com).

- 3.4.2. The Committee recommends that a majority of the members of a board committee be independent.

• The Company complies

The majority of the members of the four Board committees are independent.

- 3.4.3 The Committee recommends that the board of directors set up a formal audit committee composed such that
- the chairman of the board of directors is not chairman of the audit committee, and
  - between them, the members should possess such expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit aspects of companies whose shares are admitted to trading on a regulated market.

• The Company complies

The chairman of the Board of Directors is not chairman of the Audit Committee and the members of the Audit Committee possess considerable financial insight and extensive experience in accounting and auditing issues of large listed companies.

- 3.4.4. The Committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitors and reports to the board of directors about:
- significant accounting policies,
  - significant accounting estimates,
  - related party transactions, and
  - uncertainties and risks, including in relation to the outlook for the current year.

• The Company complies

The charter for the Audit Committee provides for specific monitoring and reporting on the issues described in the recommendation and is available on [danskebank.com](http://danskebank.com). The Board of Directors' work schedule for 2016 ensures timely, accurate and adequate reporting to the Board of Directors on said issues.

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**3.4.5.** The Committee recommends that the audit committee:

- annually assesses the need for an internal audit, and in such case, makes recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and
- monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.

• The Company complies

As a financial institution, Danske Bank is under the obligation to have an internal audit function (Group Internal Audit). Therefore, the charter for the Audit Committee covers the issues described in the recommendation.

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**3.4.6.** The Committee recommends that the board of directors establish a nomination committee chaired by the chairman of the board of directors with at least the following preparatory tasks:

- describe the qualifications required by the board of directors and the executive board, and for a specific membership, state the time expected to be spent on having to carry out the membership, as well as assess the competences, knowledge and experience of the two governing bodies combined,
- annually assess the structure, size, composition and results of the board of directors and the executive board, as well as recommend any changes to the board of directors
- annually assess the competences, knowledge and experience of the individual members of management, and report to the board of directors in this respect
- consider proposals from relevant persons, including shareholders and members of the board of directors and the executive board for candidates for the board of directors and the executive board, and
- propose an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.

• The Company complies

The Board of Directors has set up a Nomination Committee, chaired by the Chairman of the Board of Directors. The charter of the Nomination Committee includes the tasks described in the recommendation and is available on [danskebank.com](https://www.danskebank.com).

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**3.4.7.** The Committee recommends that the board of directors establish a remuneration committee with at least the following preparatory tasks:

- to recommend the remuneration policy (including the general guidelines for incentive-based remuneration) to the board of directors and the executive board for approval by the board of directors prior to the approval by the general meeting,
- make proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensure that the remuneration is in compliance with the company's remuneration policy and the assessment of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the board of directors and the executive board receive from other companies in the group, and
- recommend a remuneration policy applicable for the company in general.

• The Company complies

The Board of Directors has set up a Remuneration Committee. The charter for the Remuneration Committee includes the tasks described in the recommendation and is available on [danskebank.com](https://www.danskebank.com).

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**3.4.8.** The Committee recommends that the remuneration committee do not consult with the same external advisers as the executive board of the company.

• The Company complies

In every instance, the Remuneration Committee ensures that it does not consult with the same external advisers as the Executive Board.

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### **3.5 Evaluation of the performance of the board of directors and the executive board**

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**3.5.1.** The Committee recommends that the board of directors establish an evaluation procedure where contributions and results of the board of directors and the individual members, as well as collaboration with the executive board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.

• The Company complies

The Board of Directors undertakes an annual evaluation of the performance of the Board of Directors, its individual members and its collaboration with the Executive Board. As a minimum, any significant changes resulting from the evaluation will be disclosed on [danskebank.com](https://www.danskebank.com) or in the Annual Report.



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**3.5.2.** The Committee recommends that in connection with preparation of the general meeting, the board of directors consider whether the number of members is appropriate in relation to the requirements of the company. This should help ensure a constructive debate and an effective decision-making process in which all members are given the opportunity to participate actively.

• The Company complies

The Board of Directors considers the number of Board members on a regular basis. The Board of Directors currently consists of eight members elected by the general meeting and four members elected by the employees. It is the Chairman's responsibility to ensure an appropriate balance between exhaustive debate and effective decision-making, applying the individual competencies of Board members. As part of the annual evaluation process, the Board evaluates the quality of the Board meetings and the way the Chairman chairs the meetings.

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**3.5.3.** The Committee recommends that at least once every year the board of directors evaluate the work and performance of the executive board in accordance with pre-defined clear criteria.

• The Company complies

In 2016, the Board of Directors conducted a formal evaluation of the Executive Board's work and performance in 2015. In addition, the Board of Directors assesses the Executive Board's work and performance on an ongoing basis.

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**3.5.4.** The Committee recommends that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the board of directors and the chief executive officer and that the outcome of the evaluation be presented to the board of directors.

• The Company complies

Danske Bank has established a procedure for an annual evaluation through a formalised dialogue between the Chairman of the Board of Directors and the Chief Executive Officer. The outcome as well as concrete actions are presented to the Board of Directors and discussed between the Board of Directors and the Executive Board.

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## 4. Remuneration of management

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### 4.1 Form and content of the remuneration policy

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- 4.1.1. The Committee recommends that the board of directors prepare a clear and transparent remuneration policy for the board of directors and the executive board, including
- a detailed description of the components of the remuneration for members of the board of directors and the executive board,
  - the reasons for choosing the individual components of the remuneration, and
  - a description of the criteria on which the balance between the individual components of the remuneration is based.

The remuneration policy should be approved by the general meeting and published on the company's website.

• The Company complies

Danske Bank has adopted a general Remuneration Policy that applies to all employees of the Group, including the Executive Board, and to the Board of Directors. The Remuneration Policy contains a detailed description of the pay elements for the remuneration of the Board of Directors and the Executive Board. It also lists the factors to be considered when determining the total remuneration, and the criteria for granting variable pay elements. The Remuneration Policy was adopted by the annual general meeting in March 2016 and is available on [danskebank.com](http://danskebank.com).

- 4.1.2. The Committee recommends that, if the remuneration policy includes variable components,
- limits be set on the variable components of the total remuneration package,
  - a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long terms,
  - there be clarity about performance criteria and measurability for award of variable components,
  - there be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year, and
  - an agreement is made which, in exceptional cases, entitles the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be misstated.

• The Company complies

Danske Bank's Remuneration Policy contains a limit for performance-based remuneration, which is set at 200% of fixed salary inclusive of pension and is dependent on specific performance criteria. Awarded performance-based remuneration is subject to claw back provisions, if granted on the basis of data which was subsequently proven to be manifestly misstated or inaccurate. The information specified in the recommendation is further detailed in the Remuneration Policy.

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**4.1.3.** The Committee recommends that remuneration of members of the board of directors does not include share options.

• The Company complies

Members of the Board of Directors only receive fixed fees as per the Remuneration Policy. Each Board member elected by the annual general meeting has committed to hold a minimum number of shares in Danske Bank.

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**4.1.4.** The Committee recommends that if share-based remuneration is provided, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should have a maturity of at least three years from the date of allocation.

• The Company complies

Danske Bank uses conditional share-based remuneration programmes which satisfy the recommendation. Details about the share-based remuneration are included in the Remuneration Policy and the Remuneration Report, which are both available on [danskebank.com](https://www.danskebank.com).

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**4.1.5.** The Committee recommends that agreements on termination payments should not amount to more than two years' annual remuneration.

• The Company complies

Under the Remuneration Policy, a limited number of executives, all of them below the Executive Board level, are entitled to severance payments of up to two years' fixed remuneration. The members of the Executive Board are not entitled to severance payments under their service agreements.

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## 4.2 Disclosure of the remuneration policy

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4.2.1. The Committee recommends that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.

• The Company complies

The Chairman of the Board of Directors accounted for the Remuneration Policy in the Board of Directors' report on the company's activities in 2015 which he presented at the annual general meeting in March 2016. Furthermore, in addition to the annual report, each year Danske Bank publishes a Remuneration Report for the preceding year.

4.2.2. The Committee recommends that the proposed remuneration for the board of directors for the current financial year be approved by the shareholders at the general meeting.

• The Company complies

The remuneration of the Board of Directors for the financial year 2016 was adopted by the annual general meeting in 2016.

4.2.3. The Committee recommends that the total remuneration granted to each member of the board of directors and the executive board by the company and other companies in the group, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.

• The Company complies

Danske Bank's Annual Report includes a detailed note on remuneration. If the members of the Executive Board receive fees for directorships in the Group's subsidiaries, such fees are deducted from their remuneration from Danske Bank.

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## 5. Financial reporting, risk management and audits

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### 5.1 Identification of risks and transparency about other relevant information

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5.1.1. The Committee recommends that the board of directors in the management commentary review and account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.

• The Company complies

As a financial institution, Danske Bank reports extensively on all relevant types of risks, including those mentioned in the recommendation, notably in the Annual Report and in the Risk Management Report. Section B of this report contains more information about risks in connection with financial reporting. Section C describes risk management and the most significant risks.

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### 5.2 Whistleblower scheme

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5.2.1. The Committee recommends that the board of directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.

• The Company complies

Danske Bank has a whistleblower scheme in place, enabling employees to raise their concerns of any wrongdoings that come to their attention, in confidentiality. The scheme is reviewed and monitored by the Audit Committee.

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### 5.3 Contact to auditor

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5.3.1. The Committee recommends that the board of directors ensure regular dialogue and exchange of information between the auditor and the board of directors, including that the board of directors and the audit committee at least once a year meet with the auditor without the executive board present. This also applies to the internal auditor, if any.

• The Company complies

The Board of Directors and the Audit Committee maintain a regular dialogue and exchange of information with the Chief Audit Executive and the external auditor. Furthermore, each year, both the Board of Directors and the Audit Committee meet with the Chief Audit Executive and the external auditor without the Executive Board being present.



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**5.3.2.** The Committee recommends that the audit agreement and auditors' fee be agreed between the board of directors and the auditor on the basis of a recommendation from the audit committee.

- **The Company complies**

The Audit Committee's charter specifies that the committee must "prepare and submit recommendations to the Board of Directors on the terms of engagement and fees of the external auditor".

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## *SECTION B: The main elements of Danske Bank's internal control and risk management systems used in the financial reporting process*

The basis of the financial reporting process is well-defined authorisations, a segregation of duties, regular reporting and transparency regarding the Group's affairs. The common IT platform helps provide the documentation of accounting data across the Group and reduce financial reporting risks.

Danske Bank's finance function ('Group Finance') regularly assesses financial reporting risks, of which the most significant risks are regulatory risk, reporting process risk and value measurement risk. Regulatory risk consists of the increasing number of disclosure requirements imposed on Danske Bank by both national and international bodies. Danske Bank must incorporate the required information in its financial reporting. Reporting process risk concerns the preparation of interim and annual reports. Because of the large data volumes and short reporting deadlines, the financial reporting process depends on Danske Bank's IT systems. Value measurement risk concerns the financial items for which estimates and assumptions may significantly affect the valuation of assets and liabilities. These financial items are described in the Significant Accounting Estimates note to the consolidated financial statements.

The Executive Board has implemented controls to mitigate financial reporting risks that have been identified and regularly monitors changes in and compliance with relevant legislation and other financial reporting regulations. The purpose of the controls is to prevent, detect and correct reporting errors and irregularities. Although controls reduce the risk, they provide no guarantee against such errors and irregularities.

The Group has a well-established procedure of regular reporting, including deviation reports for the individual units of the Group. Internal management reporting is based on the same principles as external reporting, and local and central units use the same data and reporting systems. Group Finance reviews the reports and uses them to prepare the consolidated financial statements to be submitted to the Executive Board and the Board of Directors.

Danske Bank has an internal audit department (Group Internal Audit). It reports directly to the Board of Directors. Material and high risk areas are within the scope of Group Internal Audit's yearly auditing, while other areas are audited at least every three years unless it is assessed by Group Internal Audit that a longer rotation cycle is appropriate. The scope of audit includes key areas of the Group's risk management procedures, including risk reporting.

The Executive Board regularly reports to the Board of Directors and its committees on compliance with the risk framework defined by the Board of Directors and with statutory rules. The Board of Directors also receives accounting information on an ongoing basis. Group Compliance and Group Internal Audit submit reports to the Board of Directors on compliance with rules and regulations, including violation of internal business procedures and policies. Once a quarter, Internal Audit submits a report to the Audit Committee with information about the level of internal control across the Group.

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## *SECTION C: Risk management and the most significant risks*

The Group's risk management is based on defined appetites, policies and risk instructions adopted by the Board of Directors. Specific risk instructions that reflect the overall instructions of the Board of Directors have been prepared for the individual business units. On the basis of these instructions, business procedures and control procedures are established for the individual business units.

The Group's risk management practices are organised in three lines of defence. This organisation ensures a segregation of duties between (1) units that enter into business transactions with customers or otherwise expose the Group to risk, (2) units in charge of risk oversight and control, and (3) Group Internal Audit.

The first line of defence is represented by the business units and the operations and service organisations. Each unit operates in accordance with risk policies and delegated mandates. The units are responsible for having adequate skills, operating procedures, systems and controls in place to comply with policies and mandates and to exercise sound risk management.

The second line of defence is represented by both Group-wide functions and business units-dedicated risk functions that monitor whether the business units and the operations and service organisations adhere to the general policies and mandates. These functions are located in Group Risk Management and Group Compliance.

The third line of defence is represented by Group Internal Audit.

Danske Bank regularly monitors and assesses its risk profile for the main business units and risk types. The main risks are outlined below.

### **Credit risk**

Danske Bank offers loans, credits, guarantees and other products as part of its business model and thus incurs credit risk. Credit risk is defined as the risk of losses arising from counterparties' or debtors' failure to meet all or part of their payment obligations.

### **Market risk**

Market risk is defined as the risk of losses arising from the fair value of financial assets, liabilities and off-balance-sheet items varying with market conditions. Danske Bank markets, trades and takes positions in products that entail a variety of market risk components.

### **Counterparty credit risk**

Counterparty credit risk is defined as the risk of losses arising from a customer's default on trading room-related securities and derivative transactions. Danske Bank enters into transactions in OTC derivatives and securities-lending instruments (such as repo and reverse repo transactions) and thus incurs counterparty credit risk.

### **Liquidity risk**

Liquidity risk is defined as the risk of losses arising from:

- funding costs becoming excessive, or
- lack of funding preventing the Group from maintaining its business model or fulfilling its payment obligations.

### **Operational risk**

Operational risk is defined as the risk of losses arising from inadequate internal procedures, human or system errors, or external events. Operational risk includes compliance risk, legal risk and IT risk / cyber security.

### **Insurance risk**

Insurance risk is defined as all types of risk in Danica Pension, including market risk, life insurance risk, business risk and operational risk.

**Other risks**

Other risks consist of pension risk and business risk. Pension risk is defined as the risk of losses arising from the Group's liability for defined benefit pension plans. Valuation is uncertain because this type of pension plan entails protracted liabilities and is based on actuarial assumptions. Business risk is the risk that income will not be able to cover losses caused by events affecting the Group's profit before loan impairment charges, market losses and operational losses.

In addition to the risk management section in the Annual Report, Danske Bank publishes a Risk Management Report, which describes in detail its risk management framework, including policies, methods and practices for the most significant risks. The Risk Management Report is published once a year together with the Annual Report. It is available on [danskebank.com](https://www.danskebank.com).

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## *SECTION D: The management bodies and their committees and functions*

Danske Bank has a conventional two tier management structure, with a board of directors and an executive board. Under the management structure, the Board of Directors is responsible for the overall and strategic management of Danske Bank, while the Executive Board is in charge of its day-to-day management, observing the guidelines, policies and instructions issued by the Board of Directors.

The Board of Directors consists of 12 members; eight are elected by the general meeting, and four are elected by the employees. Under Danish law, employees are entitled to elect from among themselves a number of representatives equal to half of the number of members elected by the general meeting at the time of the announcement of the employee representative election.

The Executive Board consists of Thomas F. Borgen, Chief Executive Officer, Tonny Thierry Andersen, Head of Wealth Management, Lars Mørch, Head of Business Banking, Jesper Nielsen, Head of Personal Banking, Glenn Söderholm, Head of Corporates & Institutions, Jacob Aarup-Andersen, Chief Financial Officer and Head of CFO area, James Ditmore, Chief Operating Officer and Head of COO area and Gilbert Kohnke, Group Chief Risk Officer and Head of Group Risk Management.

The Board of Directors has established four board committees: the Risk Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. The committees act as preparatory committees for the Board of Directors. The tasks of the committees are laid out in charters of each committee, which are reviewed at least once a year.

The Risk Committee operates as a preparatory committee for the Board of Directors with respect to Danske Bank's risk management

and related matters. Danske Bank's risks include credit risk, liquidity risk, market risk, counterparty credit risk, operational risk, insurance risk and other risks (including IT risk/cyber security). The committee advises the Board of Directors on Danske Bank's risk profile, risk culture, risk appetite, risk strategy and risk management framework as a part hereof. The committee therefore reviews and submits recommendations to the Board of Directors regarding Danske Bank's risk appetites, policies and instructions, its capital, leverage, liquidity, solvency and recovery requirements, its business continuity plans, its impairment levels, its products and services from a risk perspective and the credit quality of Danske Bank's loan portfolio. Furthermore, the Risk Committee reviews the use of internal models, the adequacy and sufficiency of staff resources of the risk management control function and incentive programmes from a risk perspective.

The Audit Committee operates as a preparatory committee for the Board of Directors with respect to accounting and auditing matters, including risk matters relating thereto. The committee reviews and submits recommendations to the Board of Directors regarding financial reports and assessment of the related risks, key accounting principles and procedures, internal controls, reports from both internal and external audit, whistleblowing, compliance and anti-money laundering.

The Remuneration Committee operates as a preparatory committee for the Board of Directors with respect to matters concerning remuneration with a special focus on the remuneration of members of the Board of Directors, the Executive Board, material risk takers, key employees and executives in charge of control and internal audit functions, and on incentive programmes. The committee reviews and submits recommendations to the Board



of Directors regarding remuneration policies and practices, developments in remuneration levels, including variable remuneration. The committee monitors the incentive programmes to ensure that they promote ongoing, long-term shareholder value creation as well as compliance with the Remuneration Policy.

The Nomination Committee operates as a preparatory committee for the Board of Directors with respect to the nomination and appointment of candidates to the Executive Board and to the Board of Directors and evaluation of the work and performance of the Executive Board, the Board of Directors and its individual members. The committee also submits proposals to the Board of Directors on policies for succession planning and diversity and inclusion.

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## SECTION E: Other codes observed by Danske Bank

As a member of the Danish Bankers Association, Danske Bank reports on the corporate governance recommendations issued by the Danish Bankers Association for its member companies. The recommendations are available in English on the Danish Bankers Association's website: <http://www.finansraadet.dk/en/Politics/Pages/Recommendations/Corporate-Governance-Code-of-the-Danish-Bankers-Association.aspx>.

The recommendations come in addition to the recommendations of the Danish Committee on Corporate Governance. Members shall report on corporate governance according to the "comply or explain" principle.

Danske Bank complies with all the recommendations.

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### Recommendations

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| <p>1. The Danish Bankers Association recommends that the members respond to all the recommendations of the Committee on Corporate Governance.</p>  | <div style="background-color: #002060; color: white; padding: 5px;"><b>• The Company complies</b></div> <p>By law Danske Bank is required to state its position on the recommendations issued by the Committee on Corporate Governance. As presented in this report, Danske Bank complies with all recommendations.</p>   |
| <p>2. The Danish Bankers Association recommends that the members prepare and publish a code of conduct describing the company's core values and the conduct desired in terms of the company's management and operations.</p> | <div style="background-color: #002060; color: white; padding: 5px;"><b>• The Company complies</b></div> <p>Danske Bank has a code of conduct which is available on <a href="http://www.danskebank.com">www.danskebank.com</a>. Employees of Danske Bank, including the Executive Board, and the Board of Directors abide by the code of conduct.</p>  |
| <p>3. The Danish Bankers Association recommends that the members use a well-described, structured process when recruiting candidates for the board of directors and possibly bring in external expertise.</p>                | <div style="background-color: #002060; color: white; padding: 5px;"><b>• The Company complies</b></div> <p>The process for the selection and nomination of candidates to the Board of Directors has been agreed by the Board of Directors as part of the action plan for future Board composition. The Board of Directors uses an external consulting firm in order to help identify and assess potential candidates.</p> |
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<p>4. The Danish Bankers Association recommends that those members whose articles of association contain provisions determining that board members may only be elected from a limited group of individuals explain the background to these restrictions.</p>	<p>• The Company complies</p> <p>Danske Bank's articles of association contain no such limitations.</p>
<p>5. The Danish Bankers Association recommends that board members embark on a training programme in banking operations as soon as possible and at the latest six months after joining the board, unless the board member concerned already possesses up-to-date, special banking skills. The programme should reflect the company's size, business model and complexity.</p>	<p>• The Company complies</p> <p>Danske Bank has a comprehensive induction programme covering bank operations and holds individual follow-up meetings with key executives on selected topics of particular importance or interest to new Board members. Additionally, new Board members from 2017 will have to complete a mandatory introduction course required by law.</p>
<p>6. The Danish Bankers Association recommends that the members of a board of directors continuously receive skills development opportunities as relevant for their board duties. The topics and scope should be adapted to the company's size, business model and complexity.</p>	<p>• The Company complies</p> <p>Board training is conducted regularly based on a schedule determined for each calendar year.</p>
<p>7. The Danish Bankers Association recommends that each individual board member undertakes an evaluation of his or her work for the board. As part of the evaluation, each board member must fill in an evaluation form referring to both management and technical banking matters.</p>	<p>• The Company complies</p> <p>Once a year the Board of Directors conducts a Board evaluation based on a comprehensive questionnaire. The evaluation is facilitated by an external consulting firm. The evaluation includes a self assessment of each Board member and covers both management and banking issues.</p>
<p>8. The Danish Bankers Association recommends that relevant experts be involved in the cooperation with the board of directors, including participation in meetings of the board of directors when particularly complex issues are to be discussed.</p>	<p>• The Company complies</p> <p>Specialists regularly participate in Board and Committee meetings at the initiative of the Executive Board and/or the Board of Directors.</p>

<p>9. The Danish Bankers Association recommends that the cooperation between the executive board and the board of directors be discussed at least once a year, without the presence of the executive board.</p>	<p>• The Company complies</p> <p>The cooperation between the Executive Board and the Board of Directors is assessed as part of the annual Board evaluation at least once a year.</p>
<p>10. The Danish Bankers Association recommends that an overview of the participation of the members of the board of directors in board and committee meetings be published on the members' website or similar.</p>	<p>• The Company complies</p> <p>Attendance rates at both Board of Directors and committees meetings are published on <a href="http://www.danskebank.com">www.danskebank.com</a>.</p>
<p>11. The Danish Bankers Association recommends that the members consider and explain whether the rules set out in the Danish Financial Business Act (lov om finansiel virksomhed) regarding a cap on number of executive positions are relevant for the members.</p>	<p>• The Company complies</p> <p>Danske Bank is a Systemically Important Financial Institution (SIFI). The rules on limitations on the number of directorships that Board members are allowed to hold therefore apply.</p>
<p>12. The Danish Bankers Association recommends that the members focus on the role of the external auditor and the quality of its audit work. Among other things, members should set requirements for the composition of the teams used by external auditors to ensure that a team includes at least two experienced auditors with additional areas of expertise. To be considered an experienced auditor, an auditor must have completed supplementary training aimed at the banking sector and participated in the audit of a commercial bank, savings bank or cooperative bank for at least three years.</p>	<p>• The Company complies</p> <p>The Board of Directors is attentive to the role of the external auditor and to the quality of its audit work. The Audit Committee carries out a thorough selection procedure and prepare a recommendation for the Board of Directors containing at least two proposals for an external auditor with a reasoned preference for one of them. The external auditor is always selected amongst a group of recognized accountancy firms. Deloitte has confirmed that they fulfil the criteria.</p>