

Corporate Governance Report 2019

Statutory report on Corporate Governance cf.
section 134 of the Danish FSA's Executive Order of
Financial Reports for Credit Institutions and Investment Firms etc

2019

Statutory Corporate Governance Statement in accordance with section 134 of the Danish FSA's Executive Order of Financial Reports for Credit Institutions and Investment Firms etc

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 2019, which covers the accounting period from 1 January - 31 December 2019.

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 risk categories
- 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 2019.

SECTION A: Status on recommendations for corporate governance

The recommendations on corporate governance, which are available on the Committee on Corporate Governance's website, 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

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

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, so that the shareholders gain relevant insight into the company and in order for the board of directors to be aware of the shareholders' views, interests and opinions in relation to the company.

• The Company complies

Danske Bank provides extensive and regular information to investors and other stakeholders on danskebank.com. The Executive Leadership Team 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 Chairman of the Board of Directors meets with Danske Bank's major shareholders.

1.1.2. The Committee recommends that the board of directors adopt policies on the company's relationship with its stakeholders, including shareholders, and that the board of directors ensure that the interests of the stakeholders 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 a Societal Impact and Sustainability Policy, 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).

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

• The Company complies

Danske Bank publishes quarterly reports.

1.2 General meeting

1.2.1. The Committee recommends that in 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.

1.2.2. The Committee recommends that proxies or votes by post 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.

1.3 Takeover bids

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. The contingency procedures should establish that 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 a takeover response manual which includes the procedures described in the recommendation.

2. Tasks and responsibilities of the board of directors

2.1 Overall tasks and responsibilities

2.1.1. The Committee recommends that at least once annually the board of directors consider the matters that should be included in the board's performance of its work.

• 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 of the Board of Directors are available on [danskebank.com](https://www.danskebank.com).

2.1.2. The Committee recommends that at least once annually the board of directors consider 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 2019. 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 which supports 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 explain this in the management commentary 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](https://www.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's reporting to the board of directors.

• The Company complies

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

2.1.5. The Committee recommends that at least once annually, the board of directors discuss the composition, developments, risks and succession plans of the executive board.

• The Company complies

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

2.2. Corporate social responsibility

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

• The Company complies

The Board of Directors adopted a strategy in 2018 for Societal Impact and Sustainability until 2025. Furthermore, the Board of Directors has adopted a supporting Societal Impact and Sustainability Policy. The Societal Impact and Sustainability Policy and the Sustainability Report 2019 are both available on [danskebank.com](https://www.danskebank.com).

2.3 Chairman and vice-chairman of the board of directors

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 two Vice Chairmen. The Rules of Procedure of the Board of Directors include a description of the tasks, duties and responsibilities for each of them.

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

• The Company complies

In 2019, the Chairman of the Board of Directors, the Vice Chairman and the members of the Audit Committee performed extensive activities related to the handling of the Estonia case. This, however, did not involve ordinary day-to-day management of Danske Bank.

3. Composition and organisation of the board of directors

3.1 Composition

3.1.1. The Committee recommends that the board of directors annually evaluate and in the management commentary account for

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

• The Company complies

In 2019, 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. The competencies of the individual Board members are listed in the CV's also available on danskebank.com

3.1.2 The Committee recommends that the board of directors annually discuss the company's activities to ensure relevant diversity at management levels and prepare and adopt a policy on diversity. The policy should be published on the company's website.

• 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.

3.1.3. The Committee recommends that the selection and nomination of candidates for the board of directors be carried out through a careful and transparent process approved by the board of directors. When assessing its composition and nominating new candidates, the board of directors should, in addition to the need for competencies and qualifications, take into consideration the need for integration of new talent and diversity.

• 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”. The Board of Directors has also set 2020 diversity and inclusion targets for the share of females in the Board of Directors, which are more than met at the present.

3.1.4. The Committee recommends that the notice convening a general meeting where the agenda includes the election of members to the board of directors, include (in addition to the statutory requirements) a description of the qualifications of nominated candidates, including information about the candidates’

- other executive functions, including positions on executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign enterprises, and
- demanding organisational tasks

• The Company complies

The information specified in the recommendation pertaining to candidates nominated by the Board of Directors was included in the notice of the annual general meeting in 2019.

Furthermore, it should be indicated if the candidates to the board of directors are considered independent.

3.1.5. The Committee recommends that members of the company's executive board be not members of the board of directors and that a resigning chief executive officer be not directly elected as chairman or vice chairman for the same company.

• The Company complies

No members of the Board of Directors are former members of the Executive Leadership Team of Danske Bank.

3.1.6. 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.

3.2 Independence of the board of directors

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 a member of the executive board, or senior staff member in the company, a subsidiary or an associated company,
- within the last five years have received significant remuneration from the company/group, a subsidiary or an associated company in a different capacity than as member of the board of directors,
- represent or be associated with a controlling shareholder,
- within the past year, have had significant business relations (e.g. personally or indirectly as partner or employee, shareholder, customer, supplier or member of management in companies with corresponding connection) with the company, a subsidiary or an associated company,
- be or within the past three years have been employed or been a partner in the same company as the auditor elected by the general meeting,
- be part of the executive management in a company with cross-management representation in the company,
- have been a member of the board of directors for more than 12 years, or
- be a close relative of persons who are not considered independent.

Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that will lead the board of directors to decide that one or more members cannot be regarded as independent.

• The Company complies

Despite that no members of the Board of Directors of Danske Bank are directly covered by the criteria pursuant to which Board members are not considered independent as listed in the recommendation on corporate governance, the Board of Directors of Danske Bank have decided that only 2 of the 8 members of the Board of Directors elected by the general meeting in 2019 are non-independent due to their relations with the major shareholder, A.P. Møller-Holding Group.

Information about the individual members' independence or non-independence is available in their CVs, which are published in the Annual Report and available on [danskebank.com](https://www.danskebank.com).

Information about the independence of candidates nominated by the Board of Directors is provided in the notice of the annual general meeting.

3.3 Members of the board of directors and the number of other management functions

3.3.1. The Committee recommends that each member of the board of directors assess the expected time commitment for each function so that the member does not take on more functions than he/she can complete at a satisfactory level 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 person in question,
- the person's competencies and qualifications that are relevant to the company
- whether the member is considered independent,
- the member's date of appointment to the board of directors,
- expiry of the current election term,
- the member's participation in the meetings on the board of directors and committee meetings,
- other management functions, including memberships in executive boards, boards of directors and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks, and
- the number of shares, options, warrants and similar owned by the member in the company and other group companies, as well as changes to the member's portfolio of the mentioned securities which have occurred during the financial year.

• The Company complies

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

3.3.3. The Committee recommends that the annual evaluation procedure, cf. section 3.5, include an evaluation of what is regarded as a reasonable level for the number of other management functions, where the number, level and complexity of the other individual management functions are taken into account.

• The Company complies

The number of directorships which Board members may hold is capped in accordance with applicable legislation pertaining to Systemically Important Financial Institutions (SIFI).

3.4 Board committees

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 regarding which members are independent members and which members have special competencies.

• The Company complies

The information specified in the recommendation is available on 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 five Board committees are independent.

3.4.3 The Committee recommends that the members of the board of directors set up an audit committee and that a chairman is appointed who is not the chairman of the board of directors.

• The Company complies

As a financial institution, Danske Bank is under the obligation to set up an Audit Committee. The chairman of the Board of Directors is not the chairman of the Audit Committee, and as provided in the the Charter for the Audit Committee, the chairman of the Board of Directors cannot be chairman for the Audit Committee.

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- 3.4.4.** The Committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report 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 Audit Committee monitors and reports on the issues described in the Recommendation, which is reflected in the Charter for the Audit Committee, available on [danskebank.com](https://www.danskebank.com).

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- 3.4.5.** The Committee recommends that the audit committee:
- annually assesses the need for an internal audit function and, in such a case, presents mandates and recommendations on selecting, appointing and removing the head of any internal audit function and on the budget of the internal audit function,
 - ensure that if an internal audit has been established, a description of its functions is available and approved by the board of directors,
 - ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work, 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). The terms of reference for Group Internal Audit and an annual audit plan, including budget, is approved annually by the Board of Directors. Group Internal Audit reports quarterly to the Audit Committee and semi-annually to the Board of Directors on conclusions and recommendations.

3.4.6. The Committee recommends that the board of directors establish a nomination committee, which is at least, responsible for the following preparatory tasks:

- describing the qualifications required by the board of directors and the executive board and for a given position, indicating the time expected to be spent carrying out a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies,
- annually assessing the structure, size, composition and results of the board of directors and the executive board and recommend any changes to the board of directors,
- annually assessing the competencies, knowledge, experience and succession of the individual members of management and report to the board of directors in this respect,
- recommending candidates for the board of directors and the executive board, and
- proposing 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. The Nomination Committee is responsible for the tasks described in the recommendation, which are reflected in the Charter of the Nomination Committee, 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, which is at least, responsible for the following preparatory tasks:
- recommending 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,
 - making proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensuring 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 on the total remuneration that members of the board of directors and the executive board receive from other companies in the group,
 - recommending a remuneration policy applicable for the company in general and
 - assisting with the preparation of the annual remuneration report.

• The Company complies

The Board of Directors has set up a Remuneration Committee. The Remuneration Committee is responsible for the tasks described in the recommendation, which are reflected in the Charter for the Remuneration Committee, 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 Leadership Team.

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

3.5.1. The Committee recommends that the board of directors establish an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least every third year. The evaluation should inter alia include:

- contribution and results,
- cooperation with the executive board,
- the chairman's leadership of the board of directors,
- the composition of the board of directors (including competencies, diversity and the number of members),
- the work in the committees and the committee structure, and
- the organisation and quality of the material that is submitted to the board of directors.

The evaluation procedure and the general conclusions should be described in the management commentary and on the company's website. The chairman should account for the evaluation of the board of directors, including the process and general conclusions on the general meeting prior to the election of the board of directors.

• The Company complies

The Board of Directors undertakes an annual evaluation of the performance of the Board of Directors and its individual members. The evaluation includes the subjects described in the recommendation.

In 2019 an external consulting firm facilitated the evaluation in order to ensure anonymity. The evaluation procedure and the general conclusions are described in the Annual Report.

3.5.2. The Committee recommends that at least once annually, the board of directors evaluate the work and performance of the executive board in accordance with pre-defined criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and composition of the executive board, in light of the company's strategy.

• The Company complies

In 2019, the Remuneration Committee, the Nomination Committee and the Board of Directors conducted an evaluation of the Executive Leadership Team's work and performance in accordance with pre-defined criteria.

In 2019 the Board of Directors considered both structure and the composition of the Executive Leadership Team as an integral part of the Nordic Integrator Strategy, leading to numerous changes.

3.5.3. 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 by the Board of Directors and the Executive Leadership Team.

4. Remuneration of management

4.1 Form and content of the remuneration policy

- 4.1.1.** The Committee recommends that the board of directors prepare a remuneration policy for the board of directors and the executive board, which includes
- 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,
 - a description of the criteria that form the basis for the balance between the individual components of the remuneration, and
 - an explanation for the correlation between the remuneration policy and the company's long-term value creation and relevant related goals.

The remuneration policy should be approved by the general meeting at least every fourth year and upon any material amendments and published on the company's website.

• The Company complies

Danske Bank has adopted a general Remuneration Policy, which includes the subjects described in the recommendation. The Remuneration Policy applies to all employees of the Group, including the Executive Leadership Team, and 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 Leadership Team. 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 2019 and is available on [danskebank.com](https://www.danskebank.com).

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- 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 composition be ensured between remuneration for members of management and the value creation for shareholders in the short and long term,
 - clarity be established about performance criteria and measurability for the award of variable components,
 - it is ensured that variable remuneration not only consists of short-term remuneration components, and that long-term remuneration components must have a vesting or maturity period of at least three years, and
 - it be ensured that the company has the ability to reclaim, in full or in part, variable components of remuneration that were paid on the basis of information, which subsequently are found to be incorrect.

• The Company complies

Danske Bank's Remuneration Policy contains a limit for performance-based remuneration. The Board of Directors sets several limits as to variable pay for different groups of employees. The majority of employees are covered by limits of 25% - 50% while a few employees receive 100% - 200% of fixed salary inclusive of pension and 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 or warrants.

• The Company complies

Members of the Board of Directors only receive fixed fees as per the Remuneration Policy.

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- 4.1.4.** The Committee recommends that if, in relation to long-term incentive programmes, a share-based remuneration is used, the programmes should have a vesting or maturity period of at least three years after being allocated and should be roll-over programmes, i.e. the options should be granted periodically.

• 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, available on [danskebank.com](https://www.danskebank.com), and the Remuneration Report. The Remuneration Report will be published before the Annual General Meeting.

4.1.5. The Committee recommends that the total value of the remuneration relating to the notice period, including severance pay, do not exceed two years of remuneration, including all components of the remuneration.

• The Company complies

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

4.2 Disclosure of remuneration

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 his statement at the annual general meeting in March 2019.

In addition to the annual report, Danske Bank publishes a Remuneration Report for the preceding year. The Remuneration Report will be published before the Annual General Meeting.

4.2.2. The Committee recommends that shareholders at the general meeting consider proposals for approval of remuneration for the board of directors for the current financial year.

• The Company complies

The remuneration of the Board of Directors for the financial year 2019 was adopted by the annual general meeting in 2019.

4.2.3. The Committee recommends that the company prepares a remuneration report that includes information on the total remuneration received by each member of the board of directors and the executive board from the company and other companies in the group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained.

The remuneration report should be published on the company's website.

• The Company complies

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

Furthermore, Danske Bank discloses an annual Remuneration Report in addition to the Annual Report. The Remuneration Report includes a) information on remuneration to designated material risk takers for the last three years as required by the Recommendation, and b) information on remuneration to individuals as required by the guidelines from the Danish Financial Business Act for 2019 and 2018 (when these provisions came into force). In the coming years, new information will be added to the Remuneration Report, in accordance with the Shareholders Rights Directive. The Remuneration Report will be published before the annual general meeting.

5. Financial reporting, risk management and audits

5.1 Identification of risks and transparency about other relevant information

5.1.1. The Committee recommends that the board of directors consider and in the management commentary 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 risk categories.

5.2 Whistleblower scheme

5.2.1. The Committee recommends that the board of directors establish a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.

• 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 handled by Group Compliance and reviewed and monitored by the Conduct and Compliance Committee.

5.3 Contact to auditor

5.3.1. The Committee recommends that the board of directors ensure regular dialogue and exchange of information between the auditor elected by the general meeting and the board of directors, including that the board of directors and the audit committee meet with the auditor elected by the general meeting at least once annually 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 Leadership Team being present.

5.3.2. The Committee recommends that the audit agreement and auditor's fee be agreed by the board of directors and the auditor elected by the general meeting based on a recommendation from the Audit Committee.

• The Company complies

The Board of Directors and the external auditor agree on the terms of engagement and fees, based on recommendations from the Audit Committee.

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 ('CFO Area') regularly assesses financial reporting risks, which is a part of financial control & strategic risk (see section C) and 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 Leadership Team 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. Internal management reporting is based on the same principles as external reporting, and local and central units use the same data and reporting systems. CFO Area reviews the reports and uses them to prepare the consolidated financial statements to be submitted to the Executive Leadership Team and the Board of Directors.

Danske Bank has an internal audit department (Group Internal Audit) which is the third line of defence (see section C). 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 Leadership Team 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.

SECTION C: Risk management and risk categories

The Enterprise Risk Management (ERM) framework defines how the Group manage risk and it specifies how risk responsibilities are structured to ensure appropriate oversight and accountability. The ERM framework sets common standards for how the Group organises activities to identify and respond to risks and helps the Group in meeting its objective to provide value to customers, employees, society and investors.

The ERM framework as well as its supporting policies are approved by the Board of Directors.

Governance and responsibilities

The Group's risk management practices are organised in line with the principles of the three-lines-of-defence model. The three lines of defence segregate duties between risk ownership, risk oversight and risk assurance.

The first line of defence owns and manages the risks related to business activities. It consists of frontline and direct support functions and includes the business units, COO area, CFO area, Group legal, Group HR as well as Group Communications, Brand & Marketing. These units are responsible for identifying and managing risks across national borders, including designing, implementing and operating effective controls.

The second line of defence provides the risk management framework, performs risk oversight and support and challenge the first line of defence. It consists of Group Risk Management and Group Compliance. The second line of defence operates independently of the first line of defence.

The third line of defence evaluates and improves the effectiveness of risk management, control, and governance processes in relation to the control environments of the first and second lines of defence. It is made up of Group Internal Audit (GIA) which is an independent and objective unit headed by the chief audit executive (CAE). GIA reports directly to the Board of Directors.

Risk Taxonomy - risk categories

The risk taxonomy defines a common set of risk categories and definitions intended to ensure adequate risk identification and ownership across the Group. The risk categories cover both financial and non-financial risks.

Roles and responsibilities are defined for each identified risk category to ensure continuous monitoring and risk assessment. To ensure that risk categories reflect the Group's current main risks, the taxonomy is reviewed on an annual basis.

The annual Risk Management Report provides a detailed description of the risk categories identified in the risk taxonomy and is published together with the Annual Report. Both reports are available on [danskebank.com](https://www.danskebank.com).

The following section briefly outlines these categories.

The Group's financial risk categories

Credit risk

Credit risk is the risk of losses because debtors fail to meet all or part of their payment obligations to Danske Bank Group. Credit risk includes counterparty credit risk.

Market risk

Market risk is the risk of losses or gains caused by changes in the market values of the Group's financial assets, liabilities and off-balance-sheet items resulting from changes in market prices or rates.

Liquidity, funding and capital risk

Liquidity risk is the risk that lack of funding leads to excessive costs or prevents the Group from maintaining its business model or fulfilling payment obligations. Capital risk is the risk of not having enough capital to cover all material risks arising from the Group's chosen business strategy.

Insurance and pension risk

Danske Bank Group's Insurance and pension risk consists of the risks originating from its ownership of Danica Pension. This includes market risk, life insurance risk and operational risk in Danica.

The Group's non-financial risk categories

Model risk

Model risk is the risk of adverse consequences resulting from decisions based on incorrect or misused model outputs and reports.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems and people or from external events. Operational risk includes legal risks.

Technology risk

Technology risk is the risk that a given threat will exploit vulnerabilities of an asset or a group of assets and thereby cause harm to the Group. It includes data and systems risks, such as unforced failures in technical infrastructure or data integrity.

Financial Crime risk

Financial crime risk is the risk that internal or external parties misuse the Group's infrastructure and services to steal, defraud, amnipulate or circumvent established rules, laws and regulations through money laundering, terrorism financing, sanctions breaches, bribery and corruption, or fraud.

Conduct risk

Conduct risk is the current or future risk of inappropriate supply of financial services, mistreatment of customers or failure to maintain the integrity of markets and financial services. Conduct risk also includes cases of wilful or negligent misconduct.

Financial control and strategic risk

Financial control risk is the risk of inaccurate or incomplete application of accounting and tax laws. Strategic risk is the potential risk of opportunity loss of earnings resulting from the failure to account for external forces adequately in the Group's business strategy or a loss of market position due to the failure of the Group's business strategy.

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 Leadership Team. Under the management structure, the Board of Directors is responsible for the overall and strategic management of Danske Bank, while the Executive Leadership Team 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; 8 are elected by the general meeting, and 4 are elected by and among 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 Board of Directors has established five Board committees: the Risk Committee, the Audit Committee, the Conduct and Compliance 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, market risk, liquidity, funding and capital risk, insurance and pension risk, model risk, operational risk, technology risk, financial control and strategic risk. 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 operational resilience

framework (former 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.

The Conduct and Compliance Committee operates as a preparatory committee for the Board of Directors with respect to conduct and reputational risk, compliance and financial crime, whistleblowing, and other matters. The committee monitors the adequacy of Group compliance resources, oversees Danske Bank's conduct in relation to its corporate and societal obligations including setting guidance, direction and policies for the group approach to customers and regulation. Furthermore the committee oversees investigations of significant breaches, monitors the handling of claims and litigations and oversees communication with the Danish Financial Supervisory Authority and the whistleblower scheme.

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

neration 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 and comply 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.

In 2019 the Board of Directors carried out the annual evaluation of the Board of Directors, including its composition, the work of the Board Committees, the Committee structure and the leadership of the Board Chairman and the Executive Leadership Team. To ensure anonymity, an external consulting firm facilitated the evaluation. The findings and conclusions were presented to and discussed by the Board of Directors.

As of 5 September 2019, the Executive Board is named Executive Leadership Team. The Executive Leadership Team consists of Chris Vogelzang, Chief Executive Officer and interim Chief Operating Officer; Jacob Aarup-Andersen, Interim Chief Financial Officer and Head of Banking DK as of 1 February 2020; Berit Behring, Head of Wealth Management; Carsten Egeriis, Chief Risk Officer; Jakob Groot, Head of Corporates and Institutions; Glenn Söderholm, Head of Banking Nordic; and Philippe Vollot, Chief Compliance Officer.

Stephan Engels has been appointed Chief Financial Officer and new member of the Executive

Leadership Team. Stephan Engels is expected to take up his position in April 2020.

Frans Woelders has been appointed Chief Operating Officer and new member of the Executive Leadership Team. Frans Woelders is expected to take up his position in June 2020 at the latest.

On 8 February 2019, Henriette Fenger Ellekrog, member of the Executive Leadership Team and Head of Group HR resigned. On 24 June 2019, Jesper Nielsen, member of the Executive Leadership Team and Head of Banking DK, was dismissed and subsequently released from his duties as of 29 June 2019.

With effect of 5 September 2019, Christian Baltzer, member of the Executive Leadership Team and Chief Financial Officer; Jim Ditmore, member of the Executive Leadership Team and Head of Group Services & Group IT; and Frederik Gjessing Vinten, member of the Executive Leadership Team and Head of Group Development, left their Executive positions in the Bank.

SECTION E: Other codes observed by Danske Bank

The Danish Bankers Association, which is now part of Finance Denmark, has issued a Corporate Governance Code which applies to the institutions which were members of the Danish Bankers Association. The Corporate Governance Code is available on finansdanmark.dk. The member institutions must comply with the recommendations or explain why they do not comply. Danske Bank complies with all recommendations set out in the code.

Recommendations

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| 1. | The Danish Bankers Association recommends that the members respond to all the recommendations of the Committee on Corporate Governance. | <div style="background-color: #003366; color: white; padding: 5px;">• The Company complies</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> |
| 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. | <div style="background-color: #003366; color: white; padding: 5px;">• The Company complies</div> <p>Danske Bank has a code of conduct which is available on danskebank.com. Employees of Danske Bank, including the Executive Leadership Team, and the Board of Directors abide by the code of conduct.</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. | <div style="background-color: #003366; color: white; padding: 5px;">• The Company complies</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 will have to complete a mandatory introduction course required by law unless dispensation has been provided by the Danish FSA.</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 Leadership Team 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>	<ul style="list-style-type: none"> • The Company complies <p>The cooperation between the Executive Leadership Team 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>	<ul style="list-style-type: none"> • The Company complies <p>Attendance rates at both Board of Directors and committees meetings are published on danskebank.com.</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>	<ul style="list-style-type: none"> • The Company complies <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>	<ul style="list-style-type: none"> • The Company complies <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 process and prepares 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>