

Report regarding the recommendations from the Danish Committee on Corporate Governance

This report contains KommuneKredit's response to the current Danish Recommendations on Corporate Governance issued by the Danish Committee on Corporate Governance as of December 2020. This report is published on 31 March 2022 in connection with the publication of the annual report for 2021.

KommuneKredit is not subject to the recommendations, but as the recommendations serve as inspiration to KommuneKredit's general corporate governance framework, KommuneKredit's board of directors has decided to report on the recommendations, based on the Committee's standard reporting form.

KommuneKredit is organized as an association and is a so-called special credit institution, exempt from the EU banking directive. KommuneKredit is established under a special act, "Act on the Credit Institution for Local and Regional Authorities in Denmark" (*In Danish: Lov om Kreditforeningen af kommuner og regioner i Danmark*). Due to the special character of KommuneKredit as an association with local governments as members and due to the fact that the recommendations are aimed primarily at Danish publicly listed companies, KommuneKredit has deemed it relevant and helpful to the reader to include general comments to some of the recommendations below which KommuneKredit considers either not applicable ("N/A"), partly relevant or relevant only subject to modifications to the recommendation in question ("Complies/Explained").

Recommendation	Compliance	Comment (why and how)
1 Interaction with the company's shareholders, investors and other stakeholders		
1.1 Communication with the company's shareholders and other stakeholders		
1.1.1 The Committee recommends that the management through ongoing dialogue and interaction ensures that shareholders, investors and other stakeholders gain the relevant insight into the company's affairs, and that the board of directors obtains the possibility of hearing and including their views in its work.	Complies	KommuneKredit is an association and does not have shareholders as such, but rather members, consisting of all Danish municipalities and regions (whom KommuneKredit grants loans to). The members are jointly and severally liable for all KommuneKredit's obligations. The members appoint eight out of ten members to the board of directors of KommuneKredit. These eight board members represent all members of KommuneKredit and thus have insight into KommuneKredit's affairs and are able to include KommuneKredit's members' views, interests and opinions in its work.
1.1.2 The Committee recommends that the company adopts policies on the company's relationships with its shareholders, investors and if relevant other stakeholders in order to ensure that the various interests are included in the company's considerations and that such policies are made available on the company's website.	N/A	Please refer to item no. 1.1.1 above.
1.1.3 The Committee recommends that the company publishes quarterly reports.	Explained	KommuneKredit publishes annual reports and half-yearly reports, including company announcements on an ongoing basis. There are no statutory requirements for more frequent reporting. As KommuneKredit is not a publicly listed company, KommuneKredit deems it not relevant to report more frequently.
1.2 The general meeting		
1.2.1 The Committee recommends that the board of directors organises the company's general meeting in a manner that allows shareholders, who are unable to attend the meeting in person or are represented by proxy at the general meeting, to vote and raise questions to the management prior to or at the general meeting. The Committee recommends that the board of directors ensures that shareholders can observe the general meeting via webcast or other digital transmission.	N/A	KommuneKredit is an association without a general meeting. KommuneKredit's highest decision-making body is its board of directors. Please refer to item no. 1.1.1 above.

1.2.2	The Committee recommends that proxies and postal votes to be used at the general meeting enable the shareholders to consider each individual item on the agenda.	N/A	Please refer to item no. 1.2.1 above.
1.3 Takeover bids			
1.3.1	The Committee recommends that the company has a procedure in place in the event of takeover bids, containing a "road map" covering matters for the board of directors to consider in the event of a takeover bid, or if the board of directors obtains reasonable grounds to suspect that a takeover bid may be submitted. In addition, it is recommended that it appears from the procedure that the board of directors abstains from countering any takeover bids by taking actions that seek to prevent the shareholders from deciding on the takeover bid, without the approval of the general meeting.	N/A	There is no share capital and no shares or equivalent issued in KommuneKredit. Only Danish municipalities and regions can be members of the association.
1.4 Corporate Social Responsibility			
1.4.1	The Committee recommends that the board of directors adopts a policy for the company's corporate social responsibility, including social responsibility and sustainability, and that the policy is available in the management commentary and/or on the company's website. The Committee recommends that the board of directors ensures compliance with the policy.	Complies	<p>The board of directors has adopted a policy on corporate social responsibility. Corporate social responsibility is at the core of KommuneKredit's business model.</p> <p>KommuneKredit also publishes an annual sustainability report which is made available on our website. The report outlines our strategic approach to responsibility, and addresses sustainability issues that are material to our stakeholders and our business. The report aims to provide a fair and balanced presentation of our activities, achievements and contribution to the UN Sustainable Development Goals (SDGs). We also disclose our goals and outlook for the coming year as well as environmental, social and governance (ESG) data activities, focus areas and goals on these matters.</p>
1.4.2	The Committee recommends that the board of directors adopts a tax policy to be made available on the company's website.	N/A	KommuneKredit is established under a special act, "Act on the Credit Institution for Local and Regional Authorities in Denmark" and the business of KommuneKredit is non-profit.

2 The duties and responsibilities of the board of directors

2.1 Overall tasks and responsibilities

2.1.1	<p>The Committee recommends that the board of directors in support of the company's statutory objects according to its articles of association and the long-term value creation considers the company's purpose and ensures and promotes a good culture and sound values in the company. The company should provide an account thereof in the management commentary and/or on the company's website.</p>	Complies	<p>KommuneKredit's main objective has since the association's formation in 1998 essentially been concentrated on creating financial latitude for Danish municipalities and regions by offering funding and financial advice at the lowest possible cost. Most of our loans have a green or social objective such as climate proofing, coastal protection, public transportation, energy efficiency for public buildings, housing for the elderly, local sports centers, schools, water collection, treatment and supply systems, as well as district heating. In that sense responsibility – CSR – is an inherent part of KommuneKredit's business model.</p> <p>KommuneKredit's loans finance projects which are decided upon democratically by municipal and regional authorities and loans are provided on equal terms to all our members.</p>
2.1.2	<p>The Committee recommends that the board of directors at least once a year discusses and on a regular basis follows up on the company's overall strategic targets in order to ensure the value creation in the company.</p>	Complies	
2.1.3	<p>The Committee recommends that the board of directors on a continuously basis takes steps to examine whether the company's share and capital structure supports the strategy and the long-term value creation in the interest of the company as well as the shareholders. The Committee recommends that the company gives an account thereof in the management commentary.</p>	Complies	<p>There is no share capital and no shareholders in KommuneKredit, cf. item no. 1.1.1 above. The business of KommuneKredit is non-profit. As described in the annual and half-yearly reports, the board of directors sets a target equity ratio, whereby earnings should provide appropriate capitalisation well above the statutory minimum level.</p>
2.1.4	<p>The Committee recommends that the board of directors prepares and on an annual basis reviews guidelines for the executive management, including requirements in respect of the reporting to the board of directors.</p>	Complies	

2.2 Members of the board of directors

2.2.1	The Committee recommends that the board of directors, in addition to a chairperson, appoints a vice chairperson, who can step in if the chairperson is absent and who can generally act as the chairperson's close sparring partner.	Complies	
2.2.2	The Committee recommends that the chairperson in cooperation with the individual members of the board of directors ensures that the members up-date and supplement their knowledge of relevant matters, and that the members' special knowledge and qualifications are applied in the best possible manner.	Complies	The board of directors conducts an annual self-evaluation including an assessment of each members' efforts and performance during the year. All board members are offered to participate in an external management course tailored for board members in financial institutions.
2.2.3	The Committee recommends that if the board of directors, in exceptional cases, requests a member of the board of directors to take on special duties for the company, for instance, for a short period to take part in the daily management of the company, the board of directors should approve this in order to ensure that the board of directors maintains its independent overall management and control function. It is recommended that the company publishes any decision on allowing a member of the board of directors to take part in the daily management, including the expected duration thereof.	Complies	The board of directors act independently and shall not participate in the day-to-day management of KommuneKredit.

3 The composition, organisation and evaluation of the board of directors

3.1 Composition

3.1.1	<p>The Committee recommends that the board of directors on an annual basis reviews and in the management commentary and/or on the company's website states</p> <ul style="list-style-type: none">• which qualifications the board of directors should possess, collectively and individually, in order to perform its duties in the best possible manner, and• the composition of and diversity on the board of directors.	Complies/ Explained	<p>The composition of the board of directors is set forth in the articles of association of KommuneKredit which must be approved by the Minister for Industry, Business and Financial Affairs as supervisory authority, cf. item no. 1.1.1 above.</p> <p>As part of the board's yearly evaluation of its work and performance, the board discusses its collective competencies.</p> <p>The two independent members must hold qualifications within accounting, auditing, finance or risk management.</p>
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The composition of the board is accounted for in the annual reports.

3.1.2	The Committee recommends that the board of directors on an annual basis discusses the company's activities in order to ensure relevant diversity at the different management levels of the company and adopts a diversity policy, which is included in the management commentary and/or available on the company's website.	Explained	KommuneKredit attaches importance to having a culture in which employees, regardless of gender, ethnicity and age have equal opportunity to create a career. At management level, 61.1% were men and 38.9% were women at the end of the year.
3.1.3	The committee recommends that candidates for the board of directors are recruited based on a thorough process approved by the board of directors. The Committee recommends that in assessing candidates for the board of directors – in addition to individual competencies and qualifications – the need for continuity, renewal and diversity is also considered.	Complies/ Explained	Please refer to item no. 1.1.1 and 3.1.1 above. The members of KommuneKredit (Danish municipalities and regions) appoint eight out of ten members of the board of directors pursuant to a procedure set up by the two interest organisations of the Danish municipalities and the Danish regions respectively, which is effected after the local government elections every four years. The board of directors appoints the two independent board members, based on the recommendation of the nomination committee, cf. item no. 3.4.4 below. The two independent board members can be appointed for a maximum of two periods of four years, and the periods of the two members are offset by two years to ensure both continuity and renewal.
3.1.4	The Committee recommends that the notice convening general meetings, where election of members to the board of directors is on the agenda - in addition to the statutory items – also includes a description of the proposed candidates' <ul data-bbox="324 1133 1108 1276" style="list-style-type: none">• qualifications,• other managerial duties in commercial undertakings, including board committees,• demanding organisational assignments and• independence.	N/A	Please refer to item no. 3.1.1 and 3.1.3.
3.1.5	The Committee recommends that members to the board of directors elected by the general meeting stand for election every year at the annual general meeting, and that the members are nominated and elected individually.	Complies	Please refer to item no. 1.1.1 and 3.1.3 above.

3.2 The board of directors' independence

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

N/A

The composition of the board of directors is set forth in the articles of association of KommuneKredit which must be approved by the Minister for Industry, Business and Financial Affairs as supervisory authority.

In order to be independent, the member in question may not:

- be or within the past five years have been a member of the executive management or an executive employee in the company, a subsidiary or a group company,
- within the past five years have received large emoluments from the company/group, a subsidiary or a group company in another capacity than as member of the board of directors,
- represent or be associated with a controlling shareholder,
- within the past year have had a business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body in companies with similar relations) with the company, a subsidiary or a group company, which is significant for the company and/or the business relationship,
- be or within the past three years have been employed with or a partner in the same company as the company's auditor elected in general meeting,
- be a CEO in a company with cross-memberships in the company's management,
- have been a member of the board of directors for more than twelve years, or
- be closely related to persons, who are not independent, cf. the above-stated criteria.

The board of directors consists of ten members, eight of whom are appointed by the municipalities and the regions (whom KommuneKredit grants loans to). Two board members are independent.

Please also refer to item no. 3.1.3.

Even if a member of the board of directors does not fall within the above-stated criteria, the board of directors may for other reasons decide that the member in question is not independent.

3.2.2 The Committee recommends that members of the executive management are not members of the board of directors and that members retiring from the executive management does not join the board of directors immediately thereafter.

Complies

3.3 Members of the board of directors and the number of other managerial duties

3.3.1 The Committee recommends that the board of directors and each of the members on the board of directors, in connection with the annual evaluation, cf. recommendation 3.5.1., assesses how much time is required to perform the board duties. The aim is for the individual member of the board of directors not to take on more managerial duties than the board member in question is able to perform in a satisfactory manner.

Complies

3.3.2 The Committee recommends that the management commentary, in addition to the statutory requirements, contains the following information on the individual members of the board of directors:

Complies/
Explained

The annual report contains information on each individual board member's position, age, gender, appointment period, other directorships, and remuneration.

- position, age and gender,
 - competencies and qualifications relevant to the company,
 - independence,
 - year of joining the board of directors,
 - year of expiry of the current election period,
 - participation in meetings of the board of directors and committee meetings,
 - managerial duties in other commercial undertakings, including board committees, and demanding organisational assignments, and
 - the number of shares, options, warrants, etc. that the member holds in the company and its group companies and any changes in such holdings during the financial year.
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3.4 Board committees

3.4.1 The Committee recommends that the management describes in the management commentary:

Complies

- the board committees' most significant activities and number of meetings in the past year, and
- the members on the individual board committees, including the chairperson and the independence of the members of the committee in question.

In addition, it is recommended that the board committees' terms of reference are published on the company's website.

3.4.2	The Committee recommends that board committees solely consist of members of the board of directors and that the majority of the members of the board committees are independent.	Complies/ Explained	The majority of the members of the audit committee are independent.
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3.4.3	The Committee recommends that the board of directors establishes an audit committee and appoints a chairperson of the audit committee, who is not the chairperson of the board of directors. The Committee recommends that the audit committee, in addition to its statutory duties, assists the board of directors in:	Complies	
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- supervising the correctness of the published financial information, including accounting practices in significant areas, significant accounting estimates and related party transactions,
- reviewing internal control and risk areas in order to ensure management of significant risks, including in relation to the announced financial outlook,
- assessing the need for internal audit,
- performing the evaluation of the auditor elected by the general meeting,
- reviewing the auditor fee for the auditor elected by the general meeting,
- supervising the scope of the non-audit services performed by the auditor elected by the general meeting, and
- ensuring regular interaction between the auditor elected by the general meeting and the board of directors, for instance, that the board of directors and the audit committee at least once a year meet with the auditor without the executive management being present.

If the board of directors, based on a recommendation from the audit committee, decides to set up an internal audit function, the audit committee must:

- prepare terms of reference and recommendations on the nomination, employment and dismissal of the head of the internal audit function and on the budget for the department,
 - ensure that the internal audit function has sufficient resources and competencies to perform its role, and
 - supervise the executive management's follow-up on the conclusions and recommendations of the internal audit function.
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3.4.4	<p>The Committee recommends that the board of directors establishes a nomination committee to perform at least the following preparatory tasks:</p> <ul style="list-style-type: none"> • describing the required qualifications for a given member of the board of directors and the executive management, the estimated time required for performing the duties of this member of the board of directors and the competencies, knowledge and experience that is or should be represented in the two management bodies, • on an annual basis evaluating the board of directors and the executive management's structure, size, composition and results and preparing recommendations for the board of directors for any changes, • in cooperation with the chairperson handling the annual evaluation of the board of directors and assessing the individual management members' competencies, knowledge, experience and succession as well as reporting on it to the board of directors, • handling the recruitment of new members to the board of directors and the executive management and nominating candidates for the board of directors' approval, • ensuring that a succession plan for the executive management is in place, • supervising executive managements' policy for the engagement of executive employees, and • supervising the preparation of a diversity policy for the board of directors' approval. 	Complies/ Explained	<p>The board of directors has established a nomination committee which is responsible for recommending candidates for the two seats as independent members of the board of directors as well as candidates for the two positions as members of the executive board (the Management Board).</p> <p>Please refer to item no. 3.1.3.</p>
3.4.5	<p>The Committee recommends that the board of directors establishes a remuneration committee to perform at least the following preparatory tasks:</p> <ul style="list-style-type: none"> • preparing a draft remuneration policy for the board of directors' approval prior to the presentation at the general meeting, • providing a proposal to the board of directors on the remuneration of the members of the executive management, 	N/A	<p>Remuneration to the members of the board of directors is a fixed amount, which must be approved by the Minister for Industry, Business and Financial Affairs as supervisory authority, pursuant to the Act on the Credit Institution for Local and Regional Authorities in Denmark.</p> <p>KommuneKredit's general remuneration policy is defined by the board of directors. This policy does not cover remuneration to the members of the executive board (the Management Board); however, the members of the</p>

- providing a proposal to the board of directors on the remuneration of the board of directors prior to the presentation at the general meeting,
- ensuring that the management's actual remuneration complies with the company's remuneration policy and the evaluation of the individual member's performance, and
- assisting in the preparation of the annual remuneration report for the board of directors' approval prior to the presentation for the general meeting's advisory vote.

executive board do not have a bonus plan, nor do they receive other variable components of remuneration.

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

3.5.1 The Committee recommends that the board of directors once a year evaluates the board of directors and at least every three years engages external assistance in the evaluation. The Committee recommends that the evaluation focuses on the recommendations on the board of directors' work, efficiency, composition and organisation, cf. recommendations 3.1.-3.4. above, and that the evaluation as a minimum always includes the following topics:

Complies

The board of directors conducts an annual self-evaluation including an assessment of each members' efforts and performance during the year as well as an assessment of the cooperation with the executive board (the Management Board). External assistance is obtained at least every third year.

- the composition of the board of directors with focus on competencies and diversity
- the board of directors and the individual member's contribution and results,
- the cooperation on the board of directors and between the board of directors and the executive management,
- the chairperson's leadership of the board of directors,
- the committee structure and the work in the committees,
- the organisation of the work of the board of directors and the quality of the material provided to the board of directors, and
- the board members' preparation for and active participation in the meetings of the board of directors.
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3.5.2 The Committee recommends that the entire board of directors discusses the result of the evaluation of the board of directors and that the procedure for the evaluation and the general conclusions of the evaluation are described in the management commentary, on the company's website and at the company's general meeting.

Complies/
Explained

The procedure and conclusions of the evaluation is not published.

3.5.3	The Committee recommends that the board of directors at least once a year evaluates the work and results of the executive management according to pre-established criteria, and that the chairperson reviews the evaluation together with the executive management. In addition, the board of directors should on a continuous basis assess the need for changes in the structure and composition of the executive management, including in respect of diversity, succession planning and risks, in light of the company's strategy.	Complies/ Explained	Please refer to item no. 3.5.1 above.
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4 Remuneration of management

4.1 Remuneration of the board of directors and the executive management

4.1.1	The Committee recommends that the remuneration for the board of directors and the executive management and the other terms of employment/service is considered competitive and consistent with the company's long-term shareholder interests.	N/A	Please refer to item no. 3.4.5 above.
4.1.2	The Committee recommends that share-based incentive schemes are revolving, i.e. that they are periodically granted, and that they primarily consist of long-term schemes with a vesting or maturity period of at least three years.	N/A	
4.1.3	The Committee recommends that the variable part of the remuneration has a cap at the time of grant, and that there is transparency in respect of the potential value at the time of exercise under pessimistic, expected and optimistic scenarios.	N/A	
4.1.4	The Committee recommends that the overall value of the remuneration for the notice period, including severance payment, in connection with a member of the executive management's departure, does not exceed two years' remuneration including all remuneration elements.	N/A	
4.1.5	The Committee recommends that members of the board of directors are not remunerated with share options and warrants.	N/A	
4.1.6	The Committee recommends that the company has the option to reclaim, in whole or in part, variable remuneration from the board of directors and the executive management if the remuneration granted, earned or paid was based on information, which subsequently proves to	N/A	

be incorrect, or if the recipient acted in bad faith in respect of other matters, which implied payment of a too large variable remuneration.

5 Risk management

5.1 Identification of risks and openness in respect of additional information

5.1.1	The Committee recommends that the board of directors based on the company's strategy and business model considers, for instance, the most significant strategic, business, accounting and liquidity risks. The company should in the management commentary give an account of these risks and the company's risk management.	Complies	The most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management is presented to and discussed among the board of directors at least four times a year. This information is also summarised in the annual report.
5.1.2	The Committee recommends that the board of directors establishes a whistleblower scheme, giving the employees and other stakeholders the opportunity to report serious violations or suspicion thereof in an expedient and confidential manner, and that a procedure is in place for handling such whistleblower cases.	Complies	
