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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 (from November 2017). This report is published on [date] in connection with the publication of the annual report for 2020.

KommuneKredit is not subject to the recommendations, but as they serve as inspiration to KommuneKredit's general corporate governance framework, KommuneKredit's board of directors has resolved that KommuneKredit will 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
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 ensures 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.	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 are aware of the members' views, interests and opinions in relation to KommuneKredit.
1.1.2 The Committee recommends that the board of directors adopts policies on the company's relationship with its stakeholders, including shareholders, and that the board of directors ensures that the interests of the stakeholders are respected in accordance with company policies.	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 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.	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 or votes by post for the general meeting allow 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 sets 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.	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.
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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 considers the matters that should be included in the board's performance of its work.	Complies	
2.1.2	The Committee recommends that at least once annually the board of directors considers the overall strategy of the company with a view to ensuring value creation in the company.	Complies	
2.1.3	The Committee recommends that the board of directors ensures that the company has a capital and share structure which supports that the strategy and long-term value creation of the company is in the best interest of the shareholders and the company, and that the board of directors explains this in the management commentary and/or on the company's website.	Complies	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 explained 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.
2.1.4	The Committee recommends that the board of directors annually reviews and approves guidelines for the executive board; this includes establishing requirements for the executive board's reporting to the board of directors.	Complies	
2.1.5	The Committee recommends that at least once annually, the board of directors discusses the composition, developments, risks and succession plans of the executive board.	Complies/ Explained	The board of directors has established a nomination committee which is responsible for recommending candidates for an open position as one of two members of the executive board (the Management Board).

2.2 Corporate social responsibility

2.2.1	The Committee recommends that the board of directors adopts policies on corporate social responsibility.	Complies	The board of directors has adopted a policy on corporate social responsibility. Corporate social responsibility is at the core of KommuneKredit's business model.
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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.	Complies	
2.3.2	The Committee recommends that, 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.	Complies	The chairman and the board of directors act independently and shall not participate in the day-to-day management of KommuneKredit.

3 Composition and organisation of the board of directors

3.1 Composition

<p>3.1.1 The Committee recommends that the board of directors annually evaluates and in the management commentary account for</p> <ul style="list-style-type: none">• 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.	<p>Complies/ Explained</p>	<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>In 2020 the board has further supplemented its competencies with another independent member, so that there are now two independent members which must hold qualifications within accounting, auditing, finance or risk management.</p> <p>The composition of the board is accounted for in the annual reports.</p>
<p>3.1.2 The Committee recommends that the board of directors annually discusses the company's activities to ensure relevant diversity at management levels and prepares and adopts a policy on diversity. The policy should be published on the company's website.</p>	<p>Explained</p>	<p>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, 62,5% were men and 37,5% were women at the end of the year.</p>

<p>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.</p>	<p>Complies/ Explained</p>	<p>Please refer to item no. 1.1.1 and 3.1.1 above.</p> <p>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 4 years.</p> <p>The board of directors appoints the two independent board members, based on the recommendation of the nomination committee, cf. item no. 3.4.6 below.</p>
<p>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’</p> <ul style="list-style-type: none"> • 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. <p>Furthermore, it should be indicated if the candidates to the board of directors are considered independent.</p>	<p>N/A</p>	<p>Please refer to item no. 3.1.1 and 3.1.3.</p>
<p>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.</p>	<p>Complies</p>	
<p>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 general meeting.</p>	<p>N/A</p>	<p>Please refer to item no. 1.1.1 and 3.1.1 above.</p>

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.

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.

To be considered independent, this person may not:

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.

- 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 with 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.

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 assesses the expected time commitment for the function in question so that the member does not take on more functions than he/she can undertake at a satisfactory level for the company.	Complies	
3.3.2	<p>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:</p> <ul style="list-style-type: none">• 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 of 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.	Complies/ Explained	The annual report contains information on each individual board member's position, age, gender, appointment period, other directorships, and remuneration.
3.3.3	The Committee recommends that the annual evaluation procedure, cf. section 3.5, includes an evaluation of what is regarded as a reasonable level of the number of other management functions, where the number, level and complexity of the other individual management functions is taken into account.	Complies	

3.4 Board committees

3.4.1	The Committee recommends that the company publishes the following on the company's website: <ul style="list-style-type: none">• 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.	Complies	
3.4.2	The Committee recommends that a majority of the members of a board committee be independent.	Complies/ Explained	The majority of the members of the audit committee is independent.
3.4.3	The Committee recommends that the members of the board of directors set up among its members an audit committee and that a chairman is appointed who is not the chairman of the board of directors.	Complies	
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: <ul style="list-style-type: none">• significant accounting policies,• significant accounting estimates,• related party transactions, and• uncertainties and risks, including in relation to the outlook for the current year.	Complies	

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,
- ensures that if an internal audit has been established, a description of its functions, approved by the board of directors,
- ensures that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work, and
- monitors the executive board's follow-up on the conclusions and recommendations of the internal audit function.

Complies

Till now the assessment has been that KommuneKredit does not need to set up an internal audit function.

3.4.6 The Committee recommends that the board of directors establishes 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 recommending any changes to the board of directors,
- annually assessing the competencies, knowledge, experience and succession of the individual members of management and reporting 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.

Complies/
Explained

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.

Please refer to item no. 1.1.1, 3.1.1 and 3.1.3 above.

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).

3.4.7 The Committee recommends that the board of directors establishes 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") for the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting,
- making proposals to the board of directors on remuneration to 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.

N/A

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.

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

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

N/A

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

<p>3.5.1 The Committee recommends that the board of directors establishes 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:</p> <ul style="list-style-type: none">• 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. <p>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.</p>	Complies/ Explained	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.
<p>3.5.2 The Committee recommends that at least once annually, the board of directors evaluates 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.</p>	Complies	
<p>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.</p>	Complies	Please refer to item no. 3.5.1 above.

4 Remuneration of management

4.1 Form and content of the remuneration policy

4.1.1 The Committee recommends that the board of directors prepares a remuneration policy for the board of directors and the executive board, which includes

N/A

Please refer to item no. 3.4.7 above.

- 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 it should be published on the company's website.

4.1.2 The Committee recommends that if the remuneration policy includes variable components,

N/A

- 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.

4.1.3	The Committee recommends that remuneration of members of the board of directors does not include share options or warrants.	N/A	
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.	N/A	
4.1.5	The Committee recommends that the total value of the remuneration relating to the notice period, including severance pay, does not exceed two years of remuneration, including all components of the remuneration.	Complies	
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.	N/A	Please refer to item no. 4.2.3 below.
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.	N/A	
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.	Complies/ Explained	Information on remuneration received by each member of the board and the executive board (the Management Board) is included in the annual report, which is published on KommuneKredit's website.
	The remuneration report should be published on the company's website.		

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 considers and in the management commentary accounts 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.	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.
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5.2 Whistleblower scheme

5.2.1	The Committee recommends that the board of directors establishes a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.	Complies
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5.3 Consultation with the auditor

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