

# **Spar Nord** **Corporate** **Governance** **Report** **2016**

# Preface

This statutory Corporate Governance Statement for Spar Nord Bank A/S ("Spar Nord") forms part of the Management's Review in Spar Nord's Annual Report for 2016.

## **THE REPORT CONTAINS THE FOLLOWING:**

- Review of Spar Nord's position on the recommendations for good corporate governance
- Review of Spar Nord's position on the Danish Bankers Association's management code
- Review of Spar Nord's internal control and risk management in connection with the financial reporting
- Description of Spar Nord's risk management and significant risks
- Composition of Spar Nord's management bodies, including committees set up by the Board of Directors and their function
- Code of Conduct for Spar Nord.

# Spar Nord's position on the recommendation for good corporate governance

Spar Nord's Board of Directors and Executive Board consider good corporate governance to be a fundamental prerequisite for maintaining a good relationship with internal and external stakeholders and for meeting the Group's financial and non-financial objectives.

Consequently, Spar Nord's Management backs efforts to promote good corporate governance, and has chosen to comply with 46 of the 47 most recent recommendations from the Danish Corporate Governance Committee.

The complete position appears from the overview below.

	Complies with	Does not comply with	Explanation
<b>1. COMMUNICATION AND INTERACTION BY THE COMPANY WITH ITS INVESTORS AND OTHER STAKEHOLDERS</b>			
<b>1.1. DIALOGUE BETWEEN COMPANY, SHAREHOLDERS AND OTHER STAKEHOLDERS</b>			
<b>1.1.1. THE COMMITTEE RECOMMENDS</b> that the board of directors ensure ongoing dialogue between the company and its shareholders in order for the shareholders to gain relevant insight into the company's potential and policies, and in order for the board of directors to be aware of the shareholders' views, interests and opinions on the company.	√		Spar Nord Bank holds about 30 shareholders' meetings each year throughout the country with shareholders participating. Spar Nord further promotes good shareholder communication by presenting information that is always thorough, updated and accessible on the Company's website, sparnord.com. The website provides direct access to contacting both IR staff members and the Bank's Executive Board.  In addition, the Bank issues the newsletter, 'Spar Nord Nyt', which presents information about the Company, the share and a broad spectrum of other topics focusing on financial and non-financial issues.
<b>1.1.2. THE COMMITTEE RECOMMENDS</b> that the board of directors adopt a policy on the company's relationship with its stakeholders, including shareholders and other investors, and that the board ensure that the interests of the stakeholders are respected in accordance with company policies.	√		
<b>1.1.3. THE COMMITTEE RECOMMENDS</b> that the company publish quarterly reports.	√		
<b>1.2. General Meeting</b>			
<b>1.2.1. THE COMMITTEE RECOMMENDS</b> that when organizing the company's general meeting, the board of directors plans the meeting to support active ownership.	√		At the annual local shareholders' meetings each shareholder region elects delegates who will represent that part of the region's share capital that cannot be related to major shareholders at the Annual General Meeting. In this way it is ensured that shareholders are directly involved in the democratic process.
<b>1.2.2. THE COMMITTEE RECOMMENDS</b> that proxies granted for the general meeting allow shareholders to consider each individual item on the agenda.	√		

	Complies with	Does not comply with	Explanation
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<b>1.3. Takeover bids</b>			
<b>1.3.1. THE COMMITTEE RECOMMENDS</b> that the company set up contingency procedures in the event of takeover bids from the time that the board of directors has reason to believe that a takeover bid will be made. According to such contingency procedures, the board of directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid themselves.	√		

<b>2. TASKS AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS</b>			
<b>2.1. Overall tasks and responsibilities</b>			
<b>2.1.1. THE COMMITTEE RECOMMENDS</b> that at least once a year the board of directors take a position on the matters related to the board's performance of its responsibilities.	√		
<b>2.1.2. THE COMMITTEE RECOMMENDS</b> that at least once a year the board of directors take a position on the overall strategy of the company with a view to ensuring value creation in the company.	√		
<b>2.1.3. THE COMMITTEE RECOMMENDS</b> that the board of directors ensure that the company has a capital and share structure ensuring that the strategy and long-term value creation of the company are in the best interests of the shareholders and the company, and that the board of directors presents this in the management commentary on the company's annual report and/or on the company's website.	√		
<b>2.1.4. THE COMMITTEE RECOMMENDS</b> that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board on timely, accurate and adequate reporting to the board of directors.	√		
<b>2.1.5. THE COMMITTEE RECOMMENDS</b> that at least once a year the board of directors discuss the composition of the executive board, as well as developments, risks and succession plans.	√		
<b>2.1.6. THE COMMITTEE RECOMMENDS</b> that once a year the board of directors discuss the company's activities to ensure relevant diversity at management levels, including setting specific goals and accounting for its objectives and progress made in achieving the objectives in the management commentary on the company's annual report and/or on the website of the company.	√		
<b>2.2. Corporate social responsibility</b>			
<b>2.2.1. THE COMMITTEE RECOMMENDS</b> that the board of directors adopt policies on corporate social responsibility.	√		

	Complies with	Does not comply with	Explanation
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### 2.3. Chairman and Deputy 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.

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

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### 3. Composition and organization of the Board of Directors

#### 3.1. Composition

**3.1.1. THE COMMITTEE RECOMMENDS** that the board of directors annually accounts for

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

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

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

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

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**3.1.4. THE COMMITTEE RECOMMENDS** that the company's articles of association stipulate a retirement age for members of the board of directors

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	Complies with	Does not comply with	Explanation
<p><b>3.1.5. THE COMMITTEE RECOMMENDS</b> that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.</p>		√	<p>The members of the Board of Directors serve for a term of two years at a time.</p> <p>The members of the Board of Directors serve staggered terms, meaning that three members are up for election every year. With an electoral term of two years and the staggered terms, the Board of Directors desires to ensure the necessary continuity in its work.</p>
<b>3.2. INDEPENDENCE OF THE BOARD OF DIRECTORS</b>			
<p><b>3.2.1. THE COMMITTEE RECOMMENDS</b> 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.</p> <p>To be considered independent, this person may not:</p> <ul style="list-style-type: none"> <li>• be or within the past five years have been member of the executive board, or senior staff member in the company, a subsidiary undertaking or an associate,</li> <li>• within the past five years, have received larger emoluments from the company/group, a subsidiary undertaking or an associate in another capacity than as member of the board of directors,</li> <li>• represent the interests of a controlling shareholder,</li> <li>• within the past year, have had significant business relations (e.g. personal or indirectly as partner or employee, shareholder, customer, supplier or member of the executive management in companies with corresponding connection) with the company, a subsidiary undertaking or an associate,</li> <li>• be or within the last three years have been an employee or partner of the external audit firm,</li> <li>• have been chief executive in a company holding cross-memberships with the company,</li> <li>• have been member of the board of directors for more than 12 years, or</li> <li>• have been close relatives with persons who are not considered independent.</li> </ul>	√		
<b>3.3. Members of the board of directors and the number of other executive functions</b>			
<p><b>3.3.1. THE COMMITTEE RECOMMENDS</b> that each member of the board of directors assesses the expected time commitment for each function in order that the member does not take on more functions than he/she can manage satisfactorily for the company.</p>	√		

	Complies with	Does not comply with	Explanation
<p><b>3.3.2. THE COMMITTEE RECOMMENDS</b> 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"> <li>• the position of the relevant persons,</li> <li>• the age and gender of the relevant person,</li> <li>• whether the member is considered independent,</li> <li>• the date of appointment to the Board of Directors of the member,</li> <li>• expiry of the current election period,</li> <li>• other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, in foreign companies,</li> <li>• demanding organizational tasks, and</li> <li>• the number of shares, options, warrants and similar in the company and its consolidated companies, owned by the member, and any changes in the portfolio of the member of the securities mentioned that have occurred during the financial year.</li> </ul>	√		
<b>3.4. Board committees</b>			
<p><b>3.4.1. THE COMMITTEE RECOMMENDS</b> that the company publish the following on the company's website:</p> <ul style="list-style-type: none"> <li>• the terms of reference for the board committees,</li> <li>• the most important activities of the committees during the year, and the number of meetings held by each committee, and</li> <li>• the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.</li> </ul>	√		
<p><b>3.4.2. THE COMMITTEE RECOMMENDS</b> that a majority of the members of a board committee be independent.</p>	√		
<p><b>3.4.3. THE COMMITTEE RECOMMENDS</b> that the board of directors set up a formal audit committee such that</p> <ul style="list-style-type: none"> <li>• the chairman of the board of directors should not be chairman of the audit committee, and</li> <li>• between them, the members should possess such expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit aspects of companies whose shares are admitted to trading on a regulated market.</li> </ul>	√		
<p><b>3.4.4. THE COMMITTEE RECOMMENDS</b> 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:</p> <ul style="list-style-type: none"> <li>• significant accounting policies,</li> <li>• significant accounting estimates,</li> <li>• related party transactions, and</li> <li>• uncertainties and risks, including in relation to the outlook for the current year.</li> </ul>	√		

	Complies with	Does not comply with	Explanation
<p><b>3.4.5. THE COMMITTEE RECOMMENDS</b> that the audit committee:</p> <ul style="list-style-type: none"> <li>• annually assesses the need for an internal audit, and in such case, makes recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and</li> <li>• monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	√		
<p><b>3.4.6. THE COMMITTEE RECOMMENDS</b> that the board of directors establish a nomination committee chaired by the chairman of the board of directors with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describe the qualifications required by the board of directors and the executive board, and for a specific membership, state the time expected to be spent on having to carry out the membership, as well as assess the competences, knowledge and experience of the two governing bodies combined,</li> <li>• annually assess the structure, size, composition and results of the board of directors and the executive board, as well as recommend any changes to the board of directors,</li> <li>• annually assess the competences, knowledge and experience of the individual members of management, and report to the board of directors in this respect,</li> <li>• consider proposals from relevant persons, including shareholders and members of the board of directors and the executive board for candidates for the board of directors and the executive board, and</li> <li>• propose an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes.</li> </ul>	√		Spar Nord Bank has set up a nomination committee which deals with the relevant tasks. In addition, the selection and nomination process is carried out in a transparent and formal process in close collaboration with the chairmen of the regional bank committees.
<p><b>3.4.7. THE COMMITTEE RECOMMENDS</b> that the board of directors establish a remuneration committee with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• to recommend the remuneration policy (including the general guidelines for incentive-based remuneration) to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting,</li> <li>• make proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensure that the remuneration is in compliance with the company's remuneration policy and the assessment of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the board of directors and the executive board receive from other companies in the group, and</li> <li>• recommend a remuneration policy applicable for the company in general.</li> </ul>	√		
<p><b>3.4.8. THE COMMITTEE RECOMMENDS</b> that the remuneration committee do not consult with the same external advisers as the executive board of the company.</p>	√		



	Complies with	Does not comply with	Explanation
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<b>3.5. Evaluation of the performance of the board of directors and the executive board</b>			
<b>3.5.1. THE COMMITTEE RECOMMENDS</b> that the board of directors establish an evaluation procedure where contributions and results of the board of directors and the individual members, as well as collaboration with the executive board are annually evaluated. Significant changes deriving from the evaluation should be included in the management commentary or on the company's website.	√		
<b>3.5.2. THE COMMITTEE RECOMMENDS</b> that in connection with preparation of the general meeting, the board of directors consider whether the number of members is appropriate in relation to the requirements of the company. This should help ensure a constructive debate and an effective decision-making process in which all members are given the opportunity to participate actively.	√		
<b>3.5.3. THE COMMITTEE RECOMMENDS</b> that at least once every year the board of directors evaluate the work and performance of the executive board in accordance with predefined clear criteria.	√		
<b>3.5.4. THE COMMITTEE RECOMMENDS</b> 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.	√		

<b>4. REMUNERATION OF MANAGEMENT</b>			
<b>4.1. Form and content of the remuneration policy</b>			
<b>4.1.1. THE COMMITTEE RECOMMENDS</b> that the board of directors prepare a clear and transparent remuneration policy for the board of directors and the executive board, including <ul style="list-style-type: none"> <li>• a detailed description of the components of the remuneration for members of the board of directors and the executive board,</li> <li>• the reasons for choosing the individual components of the remuneration, and</li> <li>• a description of the criteria on which the balance between the individual components of the remuneration is based.</li> </ul> The remuneration policy should be approved by the general meeting and published on the company's website.	√		

	Complies with	Does not comply with	Explanation
<p><b>4.1.2. THE COMMITTEE RECOMMENDS</b> that, if the remuneration policy includes variable components,</p> <ul style="list-style-type: none"> <li>• limits be set on the variable components of the total remuneration package,</li> <li>• a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long terms,</li> <li>• there be clarity about performance criteria and measurability for award of variable components,</li> <li>• there be criteria ensuring that qualifying periods for variable components in remuneration agreements are longer than one calendar year, and</li> <li>• an agreement is made which, in exceptional cases, entitles the company to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be misstated.</li> </ul>	√		
<p><b>4.1.3. THE COMMITTEE RECOMMENDS</b> that remuneration of members of the board of directors does not include share options.</p>	√		
<p><b>4.1.4. THE COMMITTEE RECOMMENDS</b> that if share-based remuneration is provided, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should have a maturity of at least three years from the date of allocation.</p>	√		Spar Nord Bank has not used share-based remuneration since 2007, and there are no current plans to resume such a scheme.
<p><b>4.1.5. THE COMMITTEE RECOMMENDS</b> that termination payments should not amount to more than two years' annual remuneration.</p>	√		
<b>4.2. Disclosure of the remuneration policy</b>			
<p><b>4.2.1. THE COMMITTEE RECOMMENDS</b> 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.</p>	√		
<p><b>4.2.2. THE COMMITTEE RECOMMENDS</b> that the proposed remuneration for the board of directors for the current financial year be approved by the shareholders at the general meeting.</p>	√		
<p><b>4.2.3. THE COMMITTEE RECOMMENDS</b> that the total remuneration granted to each member of the board of directors and the executive board by the company and other companies in the group, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage with the remuneration policy be explained.</p>	√		

	Complies with	Does not comply with	Explanation
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<b>5. Financial reporting, risk management and audits</b>			
<b>5.1. Identification of risks and transparency about other relevant information</b>			
<b>5.1.1. THE COMMITTEE RECOMMENDS</b> that the board of directors in the management commentary review and account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.	√		
<b>5.2. Whistleblower scheme</b>			
<b>5.2.1. THE COMMITTEE RECOMMENDS</b> that the board of directors decide whether to establish a whistleblower scheme for expedient and confidential notification of possible or suspected wrongdoing.	√		
<b>5.3. Contact to auditor</b>			
<b>5.3.1. THE COMMITTEE RECOMMENDS</b> that the board of directors ensure regular dialogue and exchange of information between the auditor and the board of directors, including that the board of directors and the audit committee at least once a year meet with the auditor without the executive board present. This also applies to the internal auditor, if any.	√		
<b>5.3.2. THE COMMITTEE RECOMMENDS</b> that the audit agreement and auditors' fee be agreed between the board of directors and the auditor on the basis of a recommendation from the audit committee.	√		

<b>1. The Danish Bankers Association recommends</b> that member companies address all the recommendations of the Committee on Corporate Governance.	√		Spar Nord complies with 46 of the 47 most recent recommendations from the Committee on Corporate Governance. A full overview of Spar Nord's position on the recommendations can be seen on its website at sparnord.com.
<b>2. The Danish Bankers Association recommends</b> member companies to prepare and publish a code of conduct with a description of the company's values and desired behaviours for the company's operations and management.	√		Spar Nord's Code of Conduct can be seen on its website.
<b>3. The Danish Bankers Association recommends</b> that member companies use a well-defined and structured process for recruitment of candidates for the board and possibly involve external competence.	√		The recruitment of candidates takes place in a process that includes the nomination and remuneration committee and the chairmen of the regional bank committees.
<b>4. The Danish Bankers Association recommends</b> that member companies, whose articles of association include conditions about that the board can only be selected within a restricted group of people explains the background to these limitations.	√		Spar Nord's Articles of Association do not contain such limitations.
<b>5. The Danish Bankers Association recommends</b> that board members as soon as possible and no later than 6 months after accession commence a course in banking operations, unless the member already has specific banking skills. The course is to reflect the company's size, business model and complexity.	√		

	Complies with	Does not comply with	Explanation
<b>6. The Danish Bankers Association recommends</b> that the board regularly receives skills that are relevant to the board profession. Topics and scope must be adapted to the company's size, business model and complexity.	√		
<b>7. The Danish Bankers Association recommends</b> that each member annually makes an evaluation of his or her duties. Board member must, as part of the evaluation, complete an evaluation form, which affects both managerial and technical banking issues.	√		
<b>8. The Danish Bankers Association recommends</b> that relevant specialists are involved in cooperation with the board, including participating in board meetings in connection with the discussion of particularly complex cases.	√		
<b>9. The Danish Bankers Association recommends</b> that cooperation between management and the board is discussed at the board meeting at least once a year. The management is not present during these discussions.	√		
<b>10. The Danish Bankers Association recommends</b> that a list of board members' participation in board- and committee meetings is published on the member company's website or on a similar platform.	√		The information can be found on the Bank's website.
<b>11. The Danish Bankers Association recommends</b> that member companies relate to the Act on Financial Business's rules about a ceiling on executive positions.	√		Spar Nord's Board of Directors has taken a position on the rules and finds that the executive positions of the current board members are in compliance with the rules.
<b>12. The Danish Bankers Association recommends</b> that member companies must focus on the role of external auditors and the quality of the work s/he performs. Member companies should, among other things, make demands on the composition of the teams that external auditors use to ensure that there are at least two experienced auditors in a team with complementary areas of expertise. To be an experienced accountant, s/he must have completed training targeted the banking area and have participated in the audit of a bank, savings bank or cooperative through a minimum of 3 years.	√		

# Risks

Risk assumption is pivotal to banking, and risk management is a key focus area across the Spar Nord organization. The various risk types the Bank assumes and the initiatives taken to manage and monitor them, as well as the development of various risks are described in Spar Nord's Risk Report, which can be accessed at [www.sparnord.com/risk](http://www.sparnord.com/risk). This section gives a general outline of the risk area.

## Risk profile

Using Spar Nord's strategic objectives as its point of departure, the Board of Directors determines the Bank's risk profile, which comprises the risk appetite within the Bank's most important risk type areas that the Board of Directors is willing to accept while meeting the objectives set forth in the strategy.

The objective is to ensure cohesion between Spar Nord's vision and strategy and also ensure that at all times Spar Nord's risk profile is appropriate, having regard to the Bank's capital and liquidity situation.

The Bank's risk appetite is incorporated in the ordinary risk reporting, which ensures monitoring of compliance with the Bank's risk profile.

As a supplement to the Bank's risk profile, specific risk policies have been put in place, defining the general guidelines for handling and managing the individual risks. These policies are reviewed and approved by the Board of Directors at least once a year.

## Risk management and control systems in connection with financial reporting

The Board of Directors and the Executive Board share overall responsibility for Spar Nord's risk management and control systems when the financial statements are prepared. The Board of Directors and the Executive Board are composed so as to ensure that the appropriate internal control and risk management expertise is present to warrant appropriate financial reporting.

The Board of Directors approves the overarching policies, procedures and control systems, and also prepares a detailed annual

plan for the internal audit and compliance functions and for the Risk Review Officer. Policies, manuals and procedures within important areas in connection with the presentation of the financial statements are available, including a business procedure for the presentation of the financial statements, a business procedure for the finance & accounts function and other central functions, and an IT security policy.

The Board of Directors makes an annual review of the organization, its focus areas and resource allocation control systems to manage risk, and also annually assesses the risk of fraud in all business areas.

## Delegation of responsibility

Spar Nord has a two-tier management structure, with the Board of Directors having drafted written guidelines for the Executive Board, specifying clearly the areas of responsibility and scope of action for each management tier. The Board of Directors lays down general policies, while the Executive Board is responsible for the day-to-day management of Spar Nord. Spar Nord's management structure reflects statutory requirements for listed Danish companies and the provisions of the Danish Financial Business Act.

The Board of Directors is responsible for ensuring that Spar Nord has an appropriate organization and that risk policies and limits are established for all important risk categories. In addition, all major credit facilities must be submitted to the Board of Directors for approval. The Board of Directors also makes decisions regarding general principles for handling and monitoring risks. Regular reporting to the Board of Directors is undertaken with a view to enabling the Board of Directors to check whether the overarching risk policies and the pre-defined limits are complied with.

The Executive Board is responsible for the day-to-day management of Spar Nord. To this end, the Executive Board passes on specific instructions for Spar Nord's risks and its risk management procedures.

## Most important risk categories

### CREDIT RISK

The risk of losses because counterparties fail to meet all or part of their payment obligations. Managed pursuant to the Bank's credit policy, which is geared to strike a balance between earnings and risks, and to ensure that the risk assumption is always quantified.

### MARKET RISK

Market risk is an umbrella heading for the risk of loss caused by fluctuations in exchange rates or prices for financial instruments. Market risks are essentially managed on the basis of an instruction hierarchy having three levels: the Board of Directors, the Executive Board and the business units.

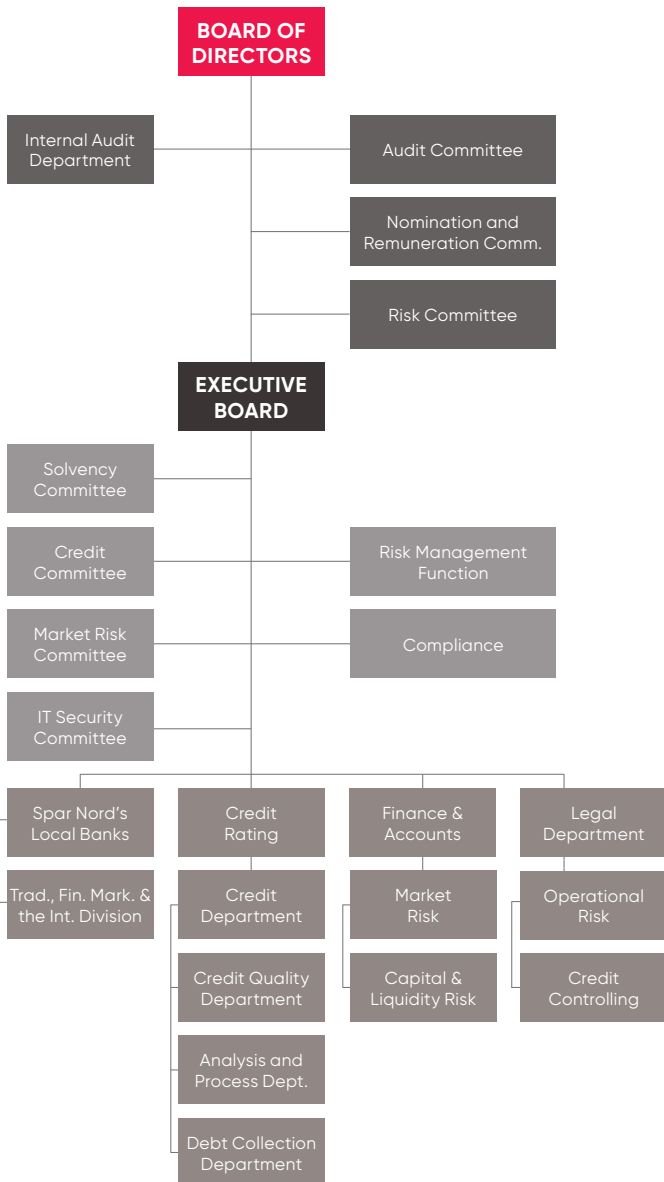
### OPERATIONAL RISK

The risk of direct or indirect losses caused by deficient or erroneous internal procedures and processes, human errors, system errors or losses due to external events or incidents. Managed across the Group through a comprehensive system of business procedures and control measures.

### LIQUIDITY RISK

Liquidity risk is the risk that the Group's financing costs rise disproportionately, and that the Group is prevented from entering into new transactions because it lacks adequate cash funds. On the basis of the overarching policies and strategic goals for the Group's liquidity risks set by the Board of Directors, it has issued operational frameworks for the Executive Board.

**THE RISK MANAGEMENT ORGANIZATION**



The Executive Board reports regularly to the Board of Directors on Spar Nord’s risk exposure.

**Internal and external audit**

Spar Nord’s Internal Audit Department submits reports to both the Board of Directors and the Executive Board and answers to the Board of Directors. The Internal Audit Department bases its activities on the annual plan adopted by the Board of Directors. These activities include test examinations of business procedures and internal control systems in key areas subject to risk, including in connection with preparing the financial statements.

Spar Nord’s independent auditors are elected at the Annual General Meeting for one year at a time. The focus of the auditing team is subject to review by the Board of Directors once a year based on the recommendations of the Audit Committee.

**The Executive Board’s committees and working parties**

The Executive Board has appointed a number of committees and working parties that contribute to Spar Nord’s risk governance in specific areas, and which prepare cases and themes for processing by the Executive Board and Board of Directors.

The Credit Committee, which is composed of representatives of the Executive Board, Credit Rating and Corporate Banking, deals with credit facilities that exceed Credit Rating’s authorization limits or involve a matter of principle. The Committee meets three times a week. Frequently, matters that have been dealt with by the Credit Committee will be prepared for subsequent discussion among all members of the Board of Directors.

The Market Risk Committee is composed of representatives of the Executive Board, Finance & Accounts and Trading, Financial Markets & the International Division. The Committee meets every quarter and reviews developments in Spar Nord’s positions and risks as well as the liquidity situation and expectations regarding market developments and future plans. In addition, the Committee receives input from a more operationally slanted Capital Market Committee, for example regarding any issues that may require specific discussion in terms of principles.

The Solvency Committee is composed of members of the Executive Board, Credit Rating and Finance & Accounts. The objective of the Committee is to formulate targets and principles for calculating adequate own funds and the individual solvency need. The Solvency Committee prepares a recommendation for the individual solvency need and passes it on to the Board of Directors for approval.

The IT Security Committee is composed of a member of the Executive Board, the head of the IT department, the IT security officer and selected heads of business areas. The Committee is tasked with advising and dealing with any issues that may arise in relation to the IT security policy, IT security rules and procedures and the IT contingency plan. The IT Security Committee holds quarterly meetings.

**Risk Management Function**

The Executive Board has set up a Risk Management Function, and a Risk Review Officer with specific responsibility for the Function has been appointed to head it. The Risk Management Function’s area of responsibility comprises Spar Nord’s risk-prone activities across various risk areas and organizational units and risks deriving from outsourced functions. The Function is responsible for appropriate risk management of Spar Nord’s operations, including providing an overview of its risks and the overall risk exposure. The Risk Review Officer is responsible to the Executive Board, submits reports to the Board of Directors and the Executive Board and assists the Board of Directors’ Risk Committee in its work. The activities of the Risk Management Function are rooted in the annual plan adopted by the Board of Directors.

Dismissal of the Risk Review Officer is subject to the prior approval of the Board of Directors.

**Compliance**

Spar Nord’s Compliance Function is charged with overseeing Spar Nord’s compliance with financial legislation, banking sector standards and Spar Nord’s internal guidelines in all areas. This Function, which answers to the Executive Board, submits reports to the Board of Directors and the Executive Board and is manned by staff members responsible for compliance and representatives of a cross-section of Spar Nord’s business areas who are engaged in decentralized compliance tasks. The activities of the Compliance Function are rooted in the annual plan adopted by the Board of Directors.

Dismissal of the Compliance Officer is subject to the prior approval of the Board of Directors.

# Organization and corporate governance

Spar Nord’s Board of Directors and Executive Board consider corporate governance to be a fundamental requirement for maintaining a good relationship with internal and external stakeholders and for meeting the Group’s financial and non-financial objectives.

Consequently, Spar Nord’s Management backs efforts to promote good corporate governance and has chosen to comply with 46 of the 47 most recent recommendations from the Danish Corporate Governance Committee. A full overview of Spar Nord’s position on the recommendations can be seen on its website at <https://www.sparnord.com/corporategovernance>.

In addition, Spar Nord’s Management has considered its position on the management code issued by the Danish Bankers Association and has chosen to comply with all 12 recommendations. In addition to Spar Nord’s position on the general recommendations on corporate governance, the Bank’s position on the Danish Bankers Association’s management code can also be viewed in its entirety on the website, <https://sparnord.com/corporategovernance>.

### The role of the shareholders and their interaction with the Management of the Bank

Spar Nord’s Management considers it fundamental to maintain a good, ongoing dialogue with shareholders – and that the Bank gives professional and private shareholders alike the best possible insight into the Bank’s goals and strategies.

Each year Spar Nord holds about 30 shareholders’ meetings across the nation, and thus the Bank’s Management is in direct contact with a significant portion of its private shareholders. Spar Nord further promotes good shareholder communication by presenting information that is always thorough, updated and accessible on the Bank’s website, [sparnord.com](http://sparnord.com). The website provides direct access to contacting both IR staff members and the Bank’s Executive Board.

Spar Nord regularly issues press releases and company announcements and publishes interim reports and annual reports in order to give all stakeholders an adequate picture of the Bank’s position and developments. The consolidated financial statements have been presented in accordance with IFRS as adopted by the EU, and the Parent Company’s Financial Statements have been prepared in accordance with the Danish Financial Business Act. All financial statements are published simultaneously in Danish and English.

### General Meeting

Spar Nord follows the recommendations of the Danish Corporate Governance Committee on preparing for annual general meetings, including the recommendations regarding the drafting of the convening notice and the issuing of proxies.

According to the Articles of Association, shareholders’ rights to vote at the general meeting are exercised through delegates who are members of the Bank’s bank committees. However, shareholders that hold at least 20,000 shares as of the record date one week before the relevant general meeting (major shareholders) are entitled to exercise their voting rights at the general meeting.

Delegates, who are also members of the Bank’s bank committees, represent the share capital listed as of the record date one week before the relevant general meeting as belonging to the relevant shareholder region. Each delegate represents equal fractions of the share capital, calculated based on the number of delegates immediately prior to the general meeting. A major shareholder represents the share capital registered, or requested to be registered, as belonging to the relevant major shareholder, as of the record date one week before the relevant general meeting.

Each year the Board of Directors assesses whether the capital and share structure still serves the interests of the shareholders and the Company.

Alterations to the Articles of Association that cannot be made by the Board of Directors pursuant to statutory provisions may be adopted at the general meeting by at least two-thirds of the votes cast as well as of the voting stock represented at the relevant general meeting.

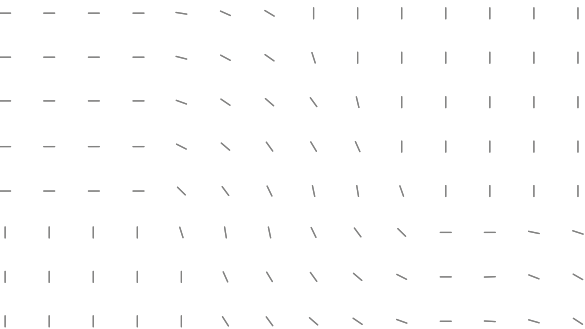
### Board of Directors

Spar Nord’s Board of Directors is composed of nine members, six of whom are elected by the shareholders and the remainder by the employees.

The Bank’s Executive Board is not part of the Board of Directors but takes part in all of its meetings. The Board of Directors is confident that the chosen size and composition will effectively contribute to ensuring a constructive dialogue and efficient decision-making processes.

New Directors are recruited through a formal, thorough and transparent process, based on a dialogue between the Board of Directors and the chairmen of the regional bank committees, and the nominees are presented at shareholder meetings prior to the general meeting.

The number of employee-elected Directors and the electoral procedure for employee elections comply with the provisions of the Danish Companies Act. The electoral term is four years.







As concerns the Group's other managerial echelons, the goal is that there should be at least five qualified applicants to managerial positions in the Bank, and that at least two of these should be women. As the HR area was heavily impacted in 2016 by the major changeover project that the transition from one IT platform to another entailed, there was less focus on initiatives related to gender diversity in the year under review.

These initiatives will be accorded a much higher priority in connection with the implementation of the Bank's new strategy, including more structured initiatives within career paths and leadership development. The long-term objective is to shift the gender breakdown at executive and executive mid-level towards a more equal distribution between men and women – from currently about 20% women in the Bank's executive team (unchanged compared with end-2015) to 25% women by 2019.

**Executive Board**

The Executive Board is appointed by the Board of Directors and is composed of Lasse Nyby, CEO, John Lundsgaard, Managing Director and Lars Møller, Managing Director.

The Executive Board is the supreme decision-making body as concerns the day-to-day affairs of the Bank, in compliance with the guidelines and directions issued by the Board of Directors. The more specific distribution of duties between the Board of Directors and the Executive Board appears from the rules of procedure under which they both operate.

**Remuneration of the Board of Directors and the Executive Board**

The remuneration of the Board of Directors and the fees and salaries paid to the Executive Board are shown in the notes to the Annual Report. Directors are paid a fixed annual amount and do not participate in any bonus or option programmes.

The Board of Directors finds that the terms of service of Executive Board members, including severance terms, are in tune with general practice in the area, and they are regularly reviewed. The Board of Directors also finds that the overall remuneration is competitive and fair in light of the Executive Board's performance and having regard to long-term value generation for shareholders.

According to the Group's remuneration policy, the Group does not operate with incentive schemes for the Board of Directors and the Executive Board.

For more information, please refer to the Bank's Corporate Governance Report, which is downloadable from the website, [www.spar-nord.com/corporategovernance](http://www.spar-nord.com/corporategovernance).

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# Spar Nord's management bodies

Spar Nord has a traditional two-tier management structure with a Board of Directors and an Executive Board. The Board of Directors is in charge of overall and strategic management, while the Executive Board is in charge of day-to-day management in accordance with the guidelines, policies and instructions set out by the Board of Directors.

## THE BOARD OF DIRECTORS

Spar Nord's Board of Directors is composed of nine members, six of whom are elected by the shareholders and the remainder by the employees.

The Bank's Executive Board is not part of the Board of Directors but takes part in all of its meetings. The Board of Directors is confident that the chosen size and composition will effectively contribute to ensuring a constructive dialogue and efficient decision-making processes.

New Directors are recruited through a formal, thorough and transparent process, based on a dialogue between the Board of Directors and the chairmen of the regional bank committees, and the nominees are presented at shareholder meetings prior to the Annual General Meeting.

The number of employee-elected Directors and the electoral procedure for employee elections comply with the provisions of the Danish Companies Act. The electoral term is four years.

The members of the Board of Directors are elected for a term of two years at a time, and the age limit for members is 70 years. The members of the Board of Directors serve staggered terms, meaning that three are up for election every year. Spar Nord has decided on this practice - and not the one recommended by the Danish Corporate Governance Committee, viz. an electoral period of one year - to ensure better continuity in the Board of Directors' activities.

At least half of the Directors elected at the Annual General Meeting must be disinterested in accordance with the recommendation of the Danish Corporate Governance Committee.

The Board of Directors finds it important that all members have the time and energy to actively participate in the Board's work, and believes that a simple calculation of executive positions makes no sense, as the workload varies greatly from one company to another. Those of the current Directors who hold senior executive positions or directorships in other companies all hold a number of posts that the Board of Directors finds compatible with the board duties for Spar Nord.

The Spar Nord Board of Directors convenes 11 ordinary meetings a year plus a strategy seminar and four meetings with the chairmen of the regional bank committees. In 2016, the Board of Directors held a total of 17 physical meetings and telephone conferences. The total Board member attendance rate was 96.7%. In accordance with the Danish Bankers Association's code of conduct, the attendance by each member of the Board of Directors is published on the Bank's website.

## Committees appointed by the Board of Directors

Spar Nord's Board of Directors has set up an audit committee charged with monitoring and controlling accounting and auditing matters and undertaking the preparatory work concerning the Board of Directors' processing of accounting and auditing issues. The committee is composed of three members, one of whom is a member with special expertise in auditing and accounting matters, as required by statute, and who is also disinterested.

In addition, a risk committee has been set up, charged with responsibility for arranging the preparatory work leading up to the Board of Directors' decisions regarding the Group's risk management and related issues. The committee is composed of three members.

Finally, the Board of Directors has set up a nomination and remuneration committee with three members, one of whom has been selected by the employees in compliance with legislation. The nomination and remuneration committee is charged with undertaking the preparatory work concerning the Board of Directors' evaluation and nomination process and the processing of issues regarding remuneration, including the Group's remuneration policy.

The terms of reference of the committees can be seen at <https://www.sparnord.com>

## EXECUTIVE BOARD

The Executive Board is appointed by the Board of Directors and is composed of Lasse Nyby, CEO, John Lundsgaard, Managing Director, and Lars Møller, Managing Director.

The Executive Board is the supreme decision-making body as concerns the day-to-day affairs of the Bank, in compliance with the guidelines and directions issued by the Board of Directors. The more specific distribution of duties between the Board of Directors and the Executive Board appears from the rules of procedure under which they both operate.

# Spar Nord's code of conduct

Spar Nord considers fair and equitable conduct to be an imperative prerequisite for running a successful bank, whether in the short or long term. Thus, fair and equitable conduct is an ideal that the Bank manifests in a wide range of contexts, including by practising good ethics when providing advisory services, by setting an amicable, professional tone between employees and customers, by complying with all relevant legislation and by promoting good working conditions and respectful relations between colleagues.

## **The Code of Conduct springs from the Bank's strategy and business model - and applies to all the Group's employees**

Spar Nord's vision and business model are formed from a core of "local autonomy", involvement and commitment in personal relations with customers and good relations within the external environment in which the Bank carries on its activities.

In this context, the Code of Conduct should be considered a common yardstick for conduct in the Bank's decentralized units, which are autonomous in many respects, and should take into account the fact that Spar Nord's employees are highly committed towards their local communities, and that employees move within a complex web of relationships with internal and external stakeholders.

The Code of Conduct applies to all employees in the Group and contains concrete guidelines for conducting business with internal and external stakeholders. The Code of Conduct is closely intertwined with the Bank's policies, business procedures, etc., and should be viewed as a superstructure to these. The policies and business procedures describe the specific conduct and practices to be applied in a wide range of areas, including credit facility granting, product development, IT security, communications, procedures for dealing with complaints, avoiding conflicts of interest, etc.

## **CUSTOMER RELATIONS**

### **Ethics in advisory services and easy-to-grasp information material**

This is Spar Nord's customer mission: Together we create financial freedom.

Living up to this mission statement requires high customer counselling standards and a crystal-clear focus on the needs and financial capabilities of each retail and business customer. Thus, practicing good ethics when providing advisory services entails striking an appropriate balance between 'selling' a product to the customer and providing fair counselling. Spar Nord strives to maintain this balance by ensuring that no customer adviser receives an incentive or a financial reward for his or her sales results. In this way, Spar Nord strives to ensure that the customer's needs remain in constant focus, and that the Bank's results are solely generated by meeting these needs.

Good ethics also means that Spar Nord does not want to engage in business relations with customers and other partners whose activities may jeopardize the Bank's reputation.

Finally, in dealing with Bank customers, staff members strive to ensure that the Bank's fees and terms and conditions are communicated in an easy-to-grasp manner, and that information and marketing materials are prepared and checked with a view to ensuring compliance with all relevant legislation. This applies both to materials that are produced and used at Group level and/or materials used locally.

Setting an amicable, professional tone between employees and customers

The personal relationship between customers and employees lies at the core of the Bank's business model and mission, and the results that the Bank generates in the long run greatly depend on the Bank's ability to establish and maintain long-term and mutually profitable customer relations.

As a natural extension of these points, Spar Nord wants good, constructive dialogue to mark the relationship between the Bank's employees and its customers – also in difficult situations where a customer happens to run into financial difficulties and the Bank must thus decline his or her credit application, or where the customer is dissatisfied with the Bank.

In the pursuit of setting an amicable, professional tone between employees and customers, Spar Nord must moreover emphasize that it has a zero-tolerance policy as regards discrimination or harassment based on gender, age, religion, sexual orientation or other factors and is prepared to take legal action to stop any such practices.

### **Constructive processing of feedback and complaints**

It follows from Spar Nord's strategic focus on involvement and long-term customer relationships that the Bank seeks a close dialogue with its customers, and that it is basically interested in receiving and learning from customers' feedback.

The Bank strives to reach this goal in part by positively and constructively receiving and processing the customer feedback provided to local bank employees, the Customer Service Department, etc. – both when it comes to positive input and to criticism or outright complaints.

As concerns complaints, Spar Nord has established a clear and transparent procedure for receiving and processing complaints that is described on the Bank's website. Customers can also obtain information about the complaints procedure at all branches. Essentially, the procedure entails that efforts to deal with a complaint will be made as close as possible to the employee and branch to which it relates. If this proves impossible, the complaint will be processed by the Bank's Complaints Processing Manager, who reports directly to the Management.

## EMPLOYEE RELATIONS

### Sound financial health – focus on avoiding conflicts of interest

The Bank's employment contracts stipulate that in their personal affairs Spar Nord's employees must have sound financial health, and that they must refrain from assuming financial obligations that may jeopardize their financial security.

The terms of employment also state that employees must refrain from engaging in related party transactions (involving individuals as well as businesses), and that apart from ordinary, work-related use of the Bank's self-service systems, employees may not process their own financial transactions (loan applications, securities trades, etc.).

### Confidential information and inside information

The Bank has business procedures and controls intended to prevent abuse and any other unjustified disclosure of inside information, including customer-related information and information about the Bank's internal affairs.

### Personal freedom – and responsibility for own actions

Spar Nord does not interfere with employees' private affairs, but the Bank expects employees in all contexts to conduct themselves in a way that does not compromise the Bank's reputation.

This expectation applies to the way in which employees conduct themselves both during working hours at the Bank and in the professional and private networks and circles in which they move. Finally, the expectation as to fair and equitable conduct applies to staff members actions and comments on the social digital media on which they may be active.

## COMPLIANCE AND SANCTIONS

### Compliance with Code of Conduct guidelines

The individual manager is responsible for ensuring that everyone in his or her department complies with the Group's Code of Conduct. If an employee is unsure as to whether certain conduct complies with the Bank's Code of Conduct, the employee concerned is responsible for discussing the issue with his or her immediate superior.

Material breach will be dealt with by the Group's compliance function, which will report to the Executive Board and the Board of Directors whenever necessary.

### Compliance with all relevant legislation

The Bank has business procedures, internal controls and a whistleblower arrangement, all of which combine to prevent any violation of legislation and other relevant guidelines. Should any breach nevertheless be ascertained, the Bank's policy is to take immediate steps to have the relevant authorities investigate the breach and subsequently to take legal action, if appropriate.

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