

SPAR NORD

# CORPORATE GOVERNANCE REPORT

2017

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# Introduction

The Board of Directors and the Executive Board of Spar Nord 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 supports the efforts to promote corporate governance and has chosen to comply with the vast majority of the most recent recommendations from the Danish Corporate Governance Committee. A full overview of Spar Nord's position on the recommendations is provided on the following pages and on the Bank's website [sparnord.com/governance](http://sparnord.com/governance).

In addition, Spar Nord's Management has considered its position on the corporate governance code of the Finance Denmark 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 Finance Denmark corporate governance code can also be viewed in its entirety in this report and on the website [sparnord.com/governance](http://sparnord.com/governance).

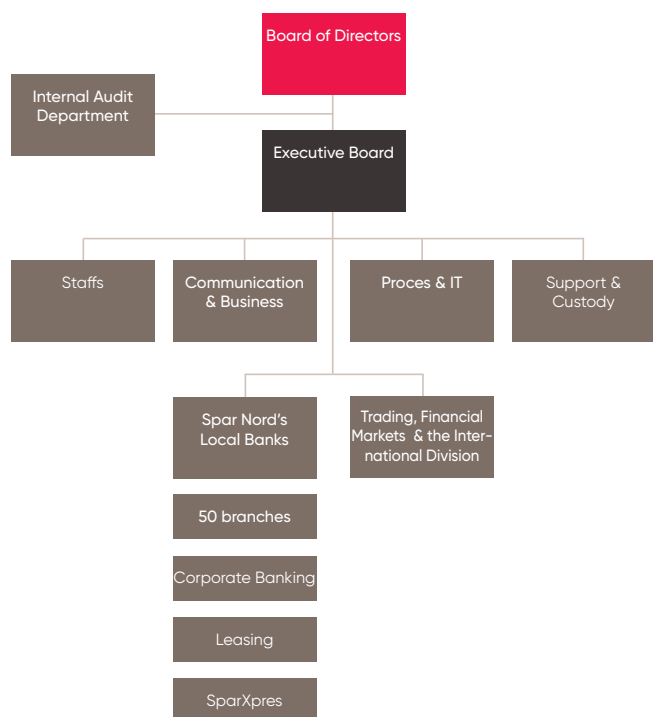
# Board of Directors and Executive Board

## Board of Directors

Spar Nord's Board of Directors is composed of nine members, six of whom are elected by the shareholders and the remaining three members by the employees. The Bank's Executive Board is not part of the Board of Directors but takes part in all of its meetings.

New board members 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 board members and the electoral procedure for employee elections comply with the provisions of the Danish Companies Act. The electoral term is four years.



The shareholder-elected members of the Board of Directors are elected for terms 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 members are up for election every year. At least half of the board members elected at the general meeting must be independent.

The Board of Directors finds it important that all members have the time and energy to actively participate in the Board's work. Those of the current board members who hold senior executive positions or directorships in other companies all hold a number of positions that the Board of Directors finds compatible with the board duties for Spar Nord.

Each year, the Spar Nord Board of Directors convenes 11 ordinary meetings and holds a strategy seminar and four meetings with the chairmen of the regional bank committees. In 2017, the Board of Directors held a total of 19 physical meetings and telephone conferences. The total board member attendance rate was 98%. The attendance by each member of the Board of Directors is published on the Bank's website.

## Board committees

Spar Nord's Board of Directors has set up an Audit Committee which is responsible for monitoring and controlling accounting and auditing matters and undertaking the preparatory work concerning the Board of Directors' consideration of accounting and auditing issues. The Committee is composed of three members.

In addition, a Risk Committee has been set up, which is responsible for arranging the preparatory work leading up to the Board of Directors' resolutions 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 composed of three members, one of whom has been elected by the employees in compliance with legislation. The Nomination and Remuneration Committee is responsible for the preparatory work concerning the Board of Directors' evaluation and nomination process and the transaction of business regarding remuneration, including the Group's remuneration policy.

The terms of reference of the committees can be seen at [spar-nord.com/committees](http://spar-nord.com/committees), which also provides a presentation of the members and their qualifications.

In 2017, the Audit Committee held seven meetings, while the Risk Committee held four and the Nomination and Remuneration Committee held three meetings.

### **Policy and targets for the underrepresented gender**

The Board of Directors constantly strives to promote diversity, including in relation to gender, across all managerial levels in the Group. At end-2017, the Board of Directors was composed of three women and six men, and among the six members elected by the shareholders there are one woman and five men.

Consequently, Spar Nord's Board of Directors has decided to introduce a policy to lift the share of the underrepresented gender on both the Board of Directors and at other managerial echelons in the Group.

The policy includes some concrete objectives to the effect that the share of female Directors elected by the shareholders is to amount to at least 33% by the end of 2019. Neither the actual share of female members nor the target rate was changed in 2017, when no new board members were elected.

As concerns the Group's other managerial levels, 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. The long-term objective of the Bank 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 to 25% women by the end of 2019. As the above-mentioned goals were not fully achieved in 2017, the Bank will focus on HR initiatives to support the intended developments.

### **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 their rules of procedure.

### **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. Board members 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 line 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 its remuneration policy, the Group does not operate with incentive schemes for the Board of Directors and the Executive Board.

# Risk and risk management

Risk assumption is pivotal to banking, and risk management is a key focus area across the Spar Nord organisation. 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 describes the risk within the Bank's most important risk types that the Board of Directors is willing to undertake while meeting the objectives set forth in the strategy.

The objective is to ensure cohesion between Spar Nord's vision and strategy while ensuring that Spar Nord's risk profile is appropriate at all times, 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 in place, 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 organisation, 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, in which the Board of Directors has drafted written guidelines for the Executive Board, specifying 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 organisation 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

## Principal type of risk

### 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 Executive Board reports regularly to the Board of Directors on Spar Nord's risk exposure.

monitoring risks. Regular reporting to the Board of Directors enables the Board to monitor whether the overall risk policies and the defined limits are being 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. 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 appointed 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.

Dismissal of the Bank's head of internal audit is subject to the prior approval of the Board of Directors.

#### **Risk committees**

The Executive Board has set up a number of committees which in specific areas contribute to Spar Nord's risk management, preparing issues and themes for consideration 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 authorisation limits or involve a matter of principle. The Committee meets several 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 to review 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 orientated 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 Committee meets every quarter and serves 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 serves to advise on and deal 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 Risk Management Function is responsible for providing an overview of the Bank and its risk exposure to be able to assess whether such risk exposure is adequately addressed. The Risk Management Function's area of responsibility comprises the Bank's risk-prone activities across various risk areas and organisational units and risks deriving from outsourced functions. The Risk Management Function also serves as a secretariat to the Bank's Risk Committee and will assist the Risk Committee providing information about the Bank's risk exposure.

The Risk Review Officer reports directly to the Bank's Executive Board and Board of Directors. The Risk Management Function reports to the Board of Directors twice a year. 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 Function**

The Compliance Function is charged with assessing and controlling Spar Nord's compliance with applicable legislation, banking sector standards and Spar Nord's internal guidelines, advising on how to reduce compliance risk.

The Compliance Officer reports directly to the Bank's Executive Board and Board of Directors. The Compliance Function reports to the Executive Board on a quarterly basis and to the Board of Directors twice a year. 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.



# Corporate governance recommendations

The Board of Directors and the Executive Board of Spar Nord 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.

For that reason, Spar Nord's Management backs the efforts to promote corporate governance and has chosen to comply with the vast majority of the most recent recommendations from the Danish Corporate Governance Committee (December 2017).

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

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

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

*Spar Nord complies with the recommendation.*

*The Board of Directors and Executive Board of Spar Nord give high priority and dedicate considerable resources to the dialogue with the Company's stakeholders. Each year, Spar Nord holds about 30 local shareholder meetings, typically attended by a total of 15–20,000 private shareholders, and the Executive Board and IR usually hold 50–75 meetings with professional and institutional investors. Moreover, Spar Nord focuses on making relevant and timely information available to its stakeholders on its website, along with direct contact details for its management. The Board of Directors receives regular reporting on the Executive Board's and its staff's dialogue with stakeholders.*

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

*Spar Nord complies with the recommendation.*

*The Board of Directors of Spar Nord has adopted an investor relations policy, a tax policy and a general code of conduct together with strategies and policies in the CSR area.*

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

*Spar Nord complies with the recommendation.*

### 1.2. General Meeting

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

*Spar Nord complies with the recommendation.*

*At the annual shareholder meetings (see 1.1.1 above), the shareholders of each shareholder region elect delegates to represent the portion of the region's share capital which is not attributable to major shareholders at the Company's general meetings. This ensures that the shareholders, regardless of their nature and size, are involved in the political process.*

- 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.

*Spar Nord complies with the recommendation.*

### 1.3. Takeover bids

- 1.3.1. The Committee recommends that the company set up contingency procedures in the event of takeover bids from the time that the board of directors has reason to believe that a takeover bid will be made. 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.

*Spar Nord complies with the recommendation.*

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

### 2.1 Overall tasks and responsibilities

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

*Spar Nord complies with the recommendation.*

*The Board of Directors's position on matters related to the Board's performance of its responsibilities is focused on the annual board evaluation and the Board's subsequent consideration thereof. Furthermore, the Board's performance of its responsibilities and the required competences are typically discussed at the annual strategy seminar.*



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

*Spar Nord complies with the recommendation.*

*The Board of Directors of Spar Nord arranges an annual strategy seminar, and the Company's strategy and the execution thereof are regularly addressed at Board meetings.*

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

*Spar Nord complies with the recommendation.*

- 2.1.4 The Committee recommends that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board's reporting to the board of directors.

*Spar Nord complies with the recommendation.*

*In financial businesses, the board of director's role in reviewing and approving guidelines for the executive board is to a wide extent governed by the Executive Order on Governance. Furthermore, the Board of Directors regularly addresses the Executive Board's performance of its duties.*

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

*Spar Nord complies with the recommendation.*

## 2.2 Corporate social responsibility

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

*Spar Nord complies with the recommendation.*

*The Board of Directors has worked extensively with various aspects of corporate social responsibility and, in early 2018, it adopted a series of new policies and action plans for the area. Going forward, the Company's annual report will include information about policies, actions and progress in the field.*

## 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.

*Spar Nord complies with the recommendation.*

- 2.3.2 The Committee recommends ensuring that, if the board of directors, in exceptional cases, asks the chairman of the board of directors or other board members 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 or other board members' participation in day-to-day management and the expected duration thereof should be announced.

*Spar Nord complies with the recommendation.*

## 3. Composition and organisation

### 3.1 Composition

- 3.1.1 The Committee recommends that the board of directors annually evaluates and, in the management commentary, accounts for

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

*Spar Nord complies with the recommendation.*

*As part of the annual evaluation process, the Board of Directors addresses its necessary and current skills as well as its composition. The main points of the process and the conclusions are disclosed in the Company's annual report.*

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

*Spar Nord complies with the recommendation.*

- 3.1.3 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 board of directors. When assessing its composition and nominating new candidates, the board of directors, in addition to the need for competences and qualifications, should take into consideration the need for integration of new talent and diversity.

*Spar Nord complies with the recommendation.*

*The process of selecting and nominating candidates for the Board of Directors is well described and is reviewed by the entire Board of Directors at regular intervals.*

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

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

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

*Spar Nord complies with the recommendation.*

- 3.1.5 The Committee recommends that members of the company's executive board are not members of the board of directors and that a chief executive officer who is stepping down does not take up the position of chairman or vice chairman for the same company.

*Spar Nord complies with the recommendation.*

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

*Spar Nord does not comply with this recommendation as the members of the Board of Directors are elected for terms of two years.*

*The members of the Board of Directors serve staggered terms, meaning that three members are up for election every year. With terms of two years and staggered terms, the Board of Directors aims at ensuring the necessary continuity in the work of the Board of Directors.*

### 3.2 Independence of the board of directors

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

To be considered independent, this person may not:

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

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

*Spar Nord complies with the recommendation.*

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

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

*Spar Nord complies with the recommendation.*

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

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

*Spar Nord complies with the recommendation.*

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 for the number of other executive functions, where the number, level and complexity of the other individual executive functions are taken into account.

*Spar Nord complies with the recommendation.*

### 3.4 Board committees

3.4.1 The Committee recommends that the company publish the following on the company's website:

- the terms of reference of the board committees,
- the most important activities of the committees during the year, and the number of meetings held by each committee, and
- the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.

*Spar Nord complies with the recommendation.*

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

*Spar Nord complies with the recommendation.*

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

*Spar Nord complies with the recommendation.*

3.4.4 The Committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitors and reports to the board of directors about:

- significant accounting policies,
- significant accounting estimates,
- related party transactions, and
- uncertainties and risks, including in relation to the outlook for the current year.

*Spar Nord complies with the recommendation.*

3.4.5 The Committee recommends that the audit committee:

- annually assesses the need for an internal audit, and in such case, makes mandates and recommendations on selecting, appointing and removing the head of the 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 is available and approved by the board of directors,
- ensures that if an internal audit has been established, that adequate resources and competences 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.

*Spar Nord complies with the recommendation.*

*As a financial business with more than 125 employees, Spar Nord has a duty to establish an internal audit function under the Danish Financial Business Act.*

3.4.6 The Committee recommends that the audit committee:

- define guidelines for and establish processes for controlling what non-audit services are provided by the auditor appointed by the general meeting, and
- define guidelines for the process to select and nominate an auditor.

*Spar Nord complies with the recommendation.*

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

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

*Spar Nord complies with the recommendation by having established a Nomination and Remuneration Committee whose terms of reference include the tasks listed.*

3.4.8 The Committee recommends that the board of directors also establish a remuneration committee with at least the following preparatory tasks:

- 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,
- 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,
- recommend a remuneration policy applicable for the company in general, and
- assist with the preparation of the annual remuneration report.

*Spar Nord complies with the recommendation by having established a Nomination and Remuneration Committee whose terms of reference include the tasks listed.*

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

3.5.1 The Committee recommends that the board of directors 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 include:

- Contribution and results,
- Cooperation with the executive board,
- The chairman's leadership of the meetings,
- The composition of the board of directors (including competences, diversity and the number of members),
- The need for and usefulness of the committee structure, and
- The organisation and quality of the material that is submitted to the board of directors.

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

*Spar Nord complies with the recommendation with respect to performing an evaluation and communicating the results thereof. However, Spar Nord does not have any firm principle in place on how frequent external assistance should be obtained in the evaluation process, as the need for this is considered regularly.*

3.5.2 The Committee recommends that once every year the board of directors evaluate the work and performance of the executive board in accordance with predefined 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.

*Spar Nord complies with the recommendation.*

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.

*Spar Nord complies with the recommendation.*

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

### 4.1 Overall tasks and responsibilities

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

- a detailed description of the components of the remuneration for members of the board of directors and the executive board,
- the reasons for choosing the individual components of the remuneration,
- a description of the criteria on which the balance between the individual components of the remuneration is based, and
- that the linkage between the remuneration and company strategy and relevant related goals be explained.

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

*Spar Nord complies with the recommendation.*

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

- limits be set on the variable components of the total remuneration package and, by extension, a limit on the total remuneration package,
- a reasonable and balanced linkage be ensured between remuneration for governing body members and the value creation for shareholders in the short and long terms,
- there be clarity about performance criteria and measurability for award of variable components,
- there be criteria ensuring that variable components are earned in full or in part over a period of not less than three financial years,
- ensures the opportunity for 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 and/or influenced by negligence.

*Spar Nord complies with the recommendation.*

*Under Spar Nord's remuneration policy, the Board of Directors and the Executive Board are not eligible for variable remuneration components, and the so-called "material risk takers" may only receive up to DKK 100,000 in variable remuneration components. Employees of the Trading, Financial Markets & the International Division, who are not material risk takers, may receive bonus equivalent of up to 12 months' salary.*

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

*Spar Nord complies with the recommendation.*

4.1.4 The Committee recommends that if share-based remuneration is provided, such programmes should have a maturity of at least three years from the date of allocation and be roll-over programmes, i.e. the options are allocated periodically. As a result, no exercise and/or payment should be made until at least three years have passed since the allocation.

*Spar Nord complies with the recommendation.*

*For a number of years, Spar Nord has not paid share-based remuneration and currently has no plans to do so again.*

4.1.5 The Committee recommends that the maximum length of notice periods be two years and that no severance pay is agreed in addition to the remuneration paid during the notice period.

Spar Nord does not comply with the recommendation, as three members of its Executive Board are entitled to a notice period of 12 months and severance pay equivalent to two years' salary.

### 4.2 Disclosure of the remuneration policy

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.

*Spar Nord complies with the recommendation.*

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

*Spar Nord complies with the recommendation.*

4.2.3 The Committee recommends that the company prepares a remuneration report that includes information on 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 and associates for the last three years, including information on the most important contents of retention and retirement/resignation schemes, be disclosed in the annual report and that the linkage between the remuneration and company strategy and relevant related goals be explained. The remuneration report must be published on the company website.

*Spar Nord complies with the recommendation.*

## 5. Financial reporting, risk management and audits

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

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

*Spar Nord complies with the recommendation.*

### 5.2 Whistleblower scheme

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

*Spar Nord complies with the recommendation.*

### 5.3 Contact to auditor

- 5.3.1 The Committee recommends that the board of directors ensure regular dialogue and exchange of information between the auditor 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.

*Spar Nord complies with the recommendation.*

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

*Spar Nord complies with the recommendation.*

# Corporate governance code of Finance Denmark

1. **Finance Denmark recommends** that the members respond to all the recommendations of the Committee on Corporate Governance.
2. **Finance Denmark recommends** that the members prepare and publish a code of conduct describing the company's core values and the conduct desired in terms of the company's management and operations.
3. **Finance Denmark recommends** that the members use a well-described, structured process when recruiting candidates for the board of directors and possibly bring in external expertise.
4. **Finance Denmark recommends** that those members whose articles of association contain provisions determining that board members may only be elected from a limited group of individuals explain the background to these restrictions.
5. **Finance Denmark recommends** that board members embark on a training programme in banking operations as soon as possible and at the latest six months after joining the board, unless the board member concerned already possesses up-to-date, special banking skills. The programme should reflect the company's size, business model and complexity.
6. **Finance Denmark recommends** that the members of a board of directors continuously receive skills development opportunities as relevant for their board duties. The topics and scope should be adapted to the company's size, business model and complexity.
7. **Finance Denmark recommends** that each individual board member undertake an evaluation of his or her work for the board. As part of the evaluation, each board member must fill in an evaluation form referring to both management and technical banking matters.
8. **Finance Denmark recommends** that relevant experts be involved in the cooperation with the board of directors, including participation in meetings of the board of directors when particularly complex issues are to be discussed.
9. **Finance Denmark recommends** that the cooperation between the executive board and the board of directors be discussed at least once a year, without the presence of the executive board.
10. **Finance Denmark recommends** that an overview of the participation of the members of the board of directors in board and committee meetings be published on the members' website or similar.
11. **Finance Denmark recommends** that the members consider and explain whether the rules set out in the Danish Financial Business Act (lov om finansiel virksomhed) regarding a cap on the number of executive positions are relevant for the members.
12. **Finance Denmark recommends** that the members focus on the role of the external auditor and the quality of its audit work. Among other things, members should set requirements for the composition of the teams used by external auditors to ensure that a team includes at least two experienced auditors with additional areas of expertise. To be considered an experienced auditor, an auditor must have completed supplementary training aimed at the banking sector and participated in the audit of a commercial bank, savings bank or cooperative bank for at least three years.

*Spar Nord complies with all recommendations.*



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