

## Disclosure of information on compliance with governance requirements

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6 January 2021

Pursuant to section 80c of the Danish Financial Business Act, DLR Kredit must disclose information on its compliance with various requirements.

The areas in question are:

- Diversity on DLR's Board of Directors
- Knowledge and experience of the members of DLR's Board of Directors
- Sufficient resources for the professional development of the members of the Executive Board and the Board of Directors
- Remuneration, including remuneration policy and remuneration committee
- Establishment of nomination committee
- How DLR establishes, implements and monitors governance arrangements that ensure efficient and prudent governance at DLR.

### **Diversity on DLR's Board of Directors**

DLR's Board of Directors most recently adopted a policy on diversity on the Board of Directors of DLR Kredit A/S in October 2020.

According to this policy, the Board of Directors targets a diverse composition in terms of qualifications, professional skills and experience, gender and age.

When composing the Board of Directors, special emphasis is placed on qualifications. Accordingly, when recruiting candidates for the Board of Directors, focus is on attracting candidates with diverse qualifications, backgrounds, knowledge and resources that match DLR's business model and current and future priorities. When nominating candidates for the Board of Directors, particular emphasis is placed on ensuring compliance with the conclusions of the Board's self-evaluation to ensure that the necessary qualifications are present on DLR's Board of Directors at all times.

### **Knowledge and experience of the members of DLR's Board of Directors**

DLR will continually ensure that the members of its Board of Directors have sufficient collective knowledge, professional qualifications and experience (knowledge). The Nomination Committee set up under the Board of Directors prepares the full Board's review of issues related to the knowledge possessed by DLR's board members. As a general rule,

new board members at financial institutions must within 12 months of their election complete a basic course in a number of areas of particular importance for financial institutions, such as the framework for the work of the board of directors, capital requirements, credit, etc.

An evaluation of the combined knowledge of the Board of Directors is performed at least once a year. The evaluation is performed on the basis of a report identifying DLR's key risk and business areas. According to this assessment, the following key areas at DLR presently require a special degree of knowledge among the members of the Board of Directors.

#### *General operation of DLR Kredit as a financial and mortgage credit institution*

- The framework for the work of the Board of Directors
- The framework for the organisation of the company, including the execution of tasks, the distribution of responsibilities, etc.
- Accounting, auditing, reporting, etc.
- Regulatory framework for the operation of mortgage credit institutions, including capital position, good practice, compliance, etc. and overview of potential new regulation
- Experience in the management of relevant financial services company
- CSR and sustainability/ESG risk
- Leverage risk
- Liquidity risk
- Operational risk
- Money laundering, terrorist financing and other types of financial crime
- IT operations, security and development, including outsourcing of key business activities
- Rating
- Financial counterparties
- Exposure to selected distribution channels

#### *Credit risk*

- Lending against mortgages on real property, including composition and concentration of loans by property segments
- Agricultural sector
- Non-agricultural sector
- Internal models, including statistical models for the determination of credit risk exposure

#### *Market risk*

- Market risk
- Bond market/bond revenue
- Funding and refinancing risk

Based on these key areas, each board member evaluates his or her knowledge level in each individual area. The knowledge level is stated based on a rating system allowing each board member to indicate any special skills he or she may have in relevant areas.

DLR requires a high combined knowledge level from the Board of Directors in the individual areas. Typically, in each area, at least two or three board members must have a particularly high level of knowledge.

To achieve this, efforts are made to ensure that a sufficient number of board members have a high level of knowledge to enable the Board to discuss complex issues.

DLR has set up a Nomination Committee, which, according to its terms of reference, performs the initial assessment of the knowledge possessed by the members of the Board of Directors, after which the full Board considers the results.

### **Sufficient resources for professional development**

As mentioned above, it is assessed on an ongoing basis whether the members of DLR's Board of Directors possess a sufficient level of knowledge, and in addition, an overall assessment of the combined knowledge of the Board is made at least once a year.

If it is found that a sufficient level of knowledge is lacking in key areas, professional development and other measures are considered. Also, new board members participate in courses to the extent that it is deemed relevant. The majority of the members of DLR's Board of Directors are executive board members of national and local banks and therefore have extensive knowledge of the framework for DLR's operations.

### **Remuneration, including remuneration policy and remuneration committee**

The Board of Directors has adopted "Remuneration policy and guidelines of DLR Kredit A/S", which was most recently approved by the shareholders in general meeting in April 2020. The purpose of DLR's remuneration policy is to promote sound and effective risk management in accordance with DLR's business model without encouraging excessive risk taking.

According to the remuneration policy, remuneration at DLR does not include variable remuneration components or, by extension, incentive pay.

For more information on DLR's remuneration policy, reference is made to DLR's website, <https://dlr.dk/wp-content/uploads/2020/10/Loenpolitik-i-DLR-Kredit.pdf>

### **Remuneration Committee**

In accordance with applicable law, DLR has set up a Remuneration Committee under the Board of Directors. The following board members are members of DLR's Remuneration Committee.

Vagn Hansen, Managing Director & CEO (chairman)  
Lars Møller, Managing Director  
Jakob G. Hald, Agricultural Account Manager

DLR's Board of Directors has defined the terms of reference of the Committee, specifying the tasks of the Committee and other matters relating to it.

The tasks of the Committee include:

- undertaking the preparatory work ahead of the Board of Directors' decision-making on remuneration matters, including remuneration policy and other decisions relating to remuneration that may affect DLR's risk management. While undertaking its preparatory work, the Committee must safeguard DLR's long-term interests, including in relation to shareholders, other investors and the public;

- any other remuneration-related tasks, including preparatory work relating to the Board of Directors' appointment of material risk takers in DLR.

## **Nomination Committee**

In accordance with applicable law, DLR has furthermore set up a Nomination Committee under the Board of Directors. According to resolution by the Board of Directors, all members of the Board of Directors are also members of the Nomination Committee.

- Vagn Hansen, Managing Director & CEO (chairman)
- Lars Møller, Managing Director (deputy chairman)
- Claus Andersen, Managing Director
- Frank Mortensen, Deputy Director & CFO
- Bjarne Larsen, Managing Director
- Lars Petersson, Managing Director & CEO
- Randi Franke, Head of Business Development and Communications (elected by the employees)
- Jakob G. Hald, Agricultural Account Manager (elected by the employees)
- Kim Hansen, Office Messenger (elected by the employees)
- Søren Jensen, Compliance Manager (elected by the employees)
- Lars Faber, IT Operations Manager (elected by the employees)

DLR's Board of Directors has defined the terms of reference of the Committee, specifying the tasks of the Committee and other matters relating to it.

The tasks of the Committee include:

- nominating candidates for the Board of Directors, including preparing a description of the functions and qualifications required for the relevant position and indicating the expected time commitment for it;
- setting a target for the proportion of the underrepresented gender on the Board of Directors and drawing up a policy for achieving that target;
- establishing a policy for diversity on the Board of Directors;
- regularly and at least annually evaluating the size, structure, composition and performance of the Board of Directors in respect to the tasks to be performed and reporting and making recommendations in this regard to the full Board of Directors;
- regularly and at least annually assessing whether the Board of Directors possesses the required combination of knowledge, professional skills, diversity and experience and whether the individual members satisfy the requirements set out in section 64 of the Danish Financial Business Act and reporting and making recommendations in this regard to the full Board of Directors; and
- regularly ensuring that the decision-making of the Board of Directors is not dominated by one individual or a small group of individuals in a way that is harmful to the Company's general interests.

## **How DLR establishes, implements and monitors governance arrangements that ensure efficient and prudent governance at DLR**

DLR has established procedures in a number of areas to ensure efficient and prudent governance at DLR. DLR's organisation comprises an Executive Board and a number of middle managers who all report directly to the Executive Board.

The Board of Directors and the Executive Board have the overall responsibility for DLR's risk management, internal controls, compliance with relevant legislation and other regulations in relation to DLR's choice of risk exposure. The Board of Directors and the Executive Board establish and approve general policies, procedures and controls in key risk management areas. The foundation for this is a clear organisational structure, well-defined reporting lines, authorisation procedures and people segregation ("four eyes principle"). This ensures a clear division of responsibilities and an appropriate segregation of duties between operations, development, risk management, reporting and control within the various risk areas.

In compliance with statutory requirements, the Board of Directors has also set up an Internal Audit function which reports to the Board of Directors and which, in accordance with an audit plan approved by the Board of Directors, performs test checks of business procedures, manuals and internal controls in areas of importance and material risk. All business procedures etc. are available to DLR's employees. In addition, an Audit Committee, a Risk Committee, a Nomination Committee and a Remuneration Committee have been set up under the Board of Directors in accordance with applicable law.

DLR has furthermore established a risk management function and a compliance function headed by a Chief Risk Officer and a Chief Compliance Officer, respectively, who are responsible for ensuring that risk management and compliance tasks are performed appropriately. Both the Chief Risk Officer and the Chief Compliance Officer report directly to DLR's Executive Board.

DLR has furthermore set up an independent control function to perform internal, independent control checks of tasks that involve a material risk.