

## **Corporate governance – Recommendations on corporate governance and the Danish Bankers Association’s supplementary recommendations etc.**

Listed Danish banks must provide information in their annual reports on whether the company is covered by a code of practice for its corporate governance and, if so, provide a reference to it. Information must also be given on which parts of the code the company has not complied with, and the reasons for this.

Ringkjøbing Landbobank has requested the Danish Financial Supervisory Authority’s permission to publish the legally required statement on corporate governance on the bank’s website and to refer to this in the bank’s annual report, and the Danish Financial Supervisory Authority gave the requested permission in its letter of 28 December 2009. The statement on Ringkjøbing Landbobank’s corporate governance thus follows below:

As indicated below, Ringkjøbing Landbobank is covered by the following two codes of practice for corporate governance:

- The Committee for Corporate Governance’s “Recommendations for corporate governance” of 15 August 2005 with subsequent updates (of 6 February 2008 and 10 December 2008) (hereinafter called “the Corporate Governance recommendations”). This code of practice applies to the bank because the Ringkjøbing Landbobank share is listed on the NASDAQ OMX Copenhagen.
- The Danish Bankers Association’s recommendations on corporate governance and external auditing (hereinafter called “the Danish Bankers Association’s supplementary recommendations”). This code of practice applies to the bank because it is a member of the Danish Bankers Association. Banks must assume a position on the Danish Bankers Association’s supplementary recommendations not later than in connection with the calling of the annual general meeting.

The bank does not follow other codes of practice for corporate governance.

Both the above codes of practice are in the public domain. The Corporate Governance recommendations are available at [www.corporategovernance.dk](http://www.corporategovernance.dk) (in Danish and English), and the Danish Bankers Association’s supplementary recommendations are available at [www.finansraadet.dk](http://www.finansraadet.dk) (in Danish only.)

The bank’s position on both sets of recommendations is generally positive as the interplay between the bank and our interested parties (shareholders, customers, employees, suppliers and the local communities) is a prerequisite for the bank’s continuing positive development. As a local and regional bank, we see it as our premier task to place personal contact with customers in focus, and as we live by, and live up to, our customers’ trust and peace of mind, it is particularly important that apart from showing due consideration for our shareholders, we also accommodate the wishes of our other interested parties/, including the bank’s customers.

Shareholders and other interested parties can read more below on the bank’s position on the Corporate Governance recommendations and the Danish Bankers Association’s supplementary recommendations.

The bank complies with the great majority of the Corporate Governance recommendations, and for those which the bank does not accept, a detailed account of the reasons is given in accordance with the “follow or explain” principle. The NASDAQ OMX Copenhagen emphasises with respect to the latter principle that the sustaining element is the transparency concerning the companies’ affairs, and that it is a matter for the individual company to judge the extent to which the Corporate Governance recommendations are followed or whether they are not appropriate or desirable for the company in question.

We comply with the Danish Bankers Association's supplementary recommendations on the same basis: we have also provided explanations below where we have elected to deviate from the recommendations.

The Corporate Governance recommendations are considered under the following eight headings:

- I. The shareholders' role and relations with the management
- II. The role and significance for the bank of interested parties
- III. Openness and transparency
- IV. The duties and responsibilities of the board of directors
- V. The composition of the board of directors
- VI. The boards of directors' and managers' remuneration
- VII. Risk management
- VIII. Auditing

The Danish Bankers Association's supplementary recommendations provide more details on a number of matters in relation to point IV of the Corporate Governance recommendations on the duties and responsibilities of the board of directors, point V on the composition of the board of directors, and point VI on the boards of directors and managers' remuneration, and they also contain an independent recommendation on external auditing.

The Corporate Governance recommendations and the Danish Bankers Association's supplementary recommendations supplement the rules which generally apply to listed companies as well as the rules under company law and for banks also under financial law.

## Corporate Governance

Corporate governance in Ringkjøbing Landbobank is concerned with the goals under which the bank is managed and the general principles and structures governing the interplay between the bank's management and its shareholders, customers, employees and the local areas in which the bank has branches.

### Goals

Ringkjøbing Landbobank has established a goal which focuses on the bank's primary interested parties, namely the bank's shareholders, customers, employees and the local areas in which the bank has branches.

The banks' goal with respect to its owners, the shareholders, is to realise the best possible return for them in the long term, including operating results among the best third in the Danish financial sector, which will be achieved via rational operation and a sensible credit policy.

The bank's goal with respect to its customers is to play a major role in central and western Jutland, where the bank is an integral party. The bank's goal is thus to retain and further develop that part of its customer portfolio which is situated in central and western Jutland.

The bank's goal is also to service selected customer segments throughout Denmark via a high level of expertise and competitive products provided by the bank's distance customer department.

In general terms, the bank will thus live up to the expectations of a full-service bank among both private and business customers by virtue of its strength with respect to both its capital and its advisory expertise.

A further goal of Ringkjøbing Landbobank is that the bank will be a good place for its employees to work. With its chosen strategy, the bank wishes to create a stimulating and challenging workplace which can help to attract and retain competent employees.

Finally, the bank's goal is to support development in those areas where the bank has branches.

### Committee for Corporate Governance

The boards of directors and managers of Ringkjøbing Landbobank first considered the so-called Nørby committee's deliberations and recommendations concerning listed companies in 2002, since when the bank's management has regularly assessed the bank's position on the recommendations.

The Committee for Corporate Governance which was then established proposed revised recommendations in 2005. When the NASDAQ OMX Copenhagen (hereinafter called "Copenhagen Stock Exchange") incorporated the revised recommendations into the information which listed companies are required to provide, the bank's boards of directors and managers took due account of the Corporate Governance recommendations when preparing the 2006, 2007 and 2008 annual reports, as was also done when preparing the 2009 annual report.

A discussion of management's position on the Committee's recommendations within the eight areas with which the Committee dealt is given below.

## **I. The shareholders' role and relations with the management**

The bank follows the recommendations for the area in all essential points.

The shareholders are the bank's owners, and the bank's goal is to realise the best possible long-term return for its shareholders.

Ringkjøbing Landbobank strives to ensure the greatest possible openness with respect to the bank's affairs via its defined Investor Relations policy. The provision of this website which contains relevant and up-to-date information on the bank thus ensures that the bank's shareholders can seek information on the bank easily and without cost. The bank will also investigate the options for using the information technology available to it to improve communication between the bank and its shareholders in the future. Given the bank's proximity to its shareholders, the board of directors has not found it relevant to hold electronic online general meetings. Apart from the annual general meeting, the bank also holds an annual shareholders' meeting.

The bank's last annual general meeting (held on 25 February 2009) authorised the board of directors to permit the bank to acquire own shares up to the next annual general meeting to a total nominal value of 10% of the bank's share capital, such that the shares were acquired at current market price +/-10%. The bank is, however, required to remain within the limitations imposed under its affiliation with bank package I.

The bank further advises that its articles of association include authorisation to the board of directors to enable it, following consultation with the shareholders' committee, to increase the share capital by DKK 14.2 million to DKK 39.4 million in one or more stages. This authorisation is currently valid until 25 February 2014, and it was last used in 2002 in connection with the acquisition of Tarm Bank.

As specified in the articles of association, a shareholding up to and including nom. DKK 500 carries one vote, while shareholdings above this level carry two votes. The board of directors has not found occasion to change this rule as long as the bank's performance exceeds the average for the Danish financial sector. No new voting right limitations will be introduced into the bank's articles of association. There are no limitations on the shares' negotiability.

The bank had approximately 18,600 shareholders at the end of 2009. Approximately 78% of the bank's share capital is owned by private investors, while the remaining approximately 22% is owned by Danish and foreign institutional investors. Only ATP has advised that they own more than 5% of the share capital.

The bank's management finds that the current notice of the bank's general meetings (maximum four weeks and at least eight days before) provides a satisfactory opportunity for decisions on the items to be considered at general meetings. The bank's management will, however, propose an amendment to the bank's articles of association at the next annual general meeting such that the articles of association as regards general meetings follow the rules in the new companies act (when this will come into force). Proxies will be given for voting at a particular general meeting with an agenda which is already known. Changes to the bank's articles of association are only valid if a proposal is adopted by at least two thirds of both votes cast and the share capital with voting rights represented at the meeting.

If any attempt is made to take over the bank, the board of directors will judge what is best for the bank's shareholders in the long term and act accordingly.

## **II. The role and significance for the bank of interested parties**

The bank has always regarded the role of its various interested parties as being of major significance for its continuing development, and the board of directors has thus defined the policy described below in relation to the interested parties. The bank thereby follows the recommendations for the area.

### Shareholders

The bank's objective with respect to its owners, the shareholders, is to realise the best possible return for them in the long term, including operating results among the best third in the Danish financial sector, which will be achieved via rational operation and a sensible credit policy.

### Customers

Ringkjøbing Landbobank is an integral part of central and western Jutland, the bank's old core area, where the bank has a very high market share. The bank's goal is to retain and develop this part of the customer portfolio with good and competitive products.

Since the mid-1990s, the bank has established new branches outside its old core area in three big west Jutland cities, where the bank's goal is to expand and become a strong local bank in the three communities.

The bank's products are also offered via a distance customer department domiciled in Ringkøbing. The bank's goal is to service selected customer groups throughout Denmark via a high level of expertise and competitive products.

### Employees

The bank's goal is also to ensure that its employees are well trained and motivated, as this is a decisive precondition for the bank's continued success and development. Ringkjøbing Landbobank must be a good place to work, where the tone is straightforward and unpretentious. The bank has been working for a number of years on an efficient organisation of its tasks and the ongoing development of its employees' professional and human skills. It is therefore very important that the bank's employees have the desire and the motivation to participate in a positive development which is also expected to distinguish the bank in the years to come.

### The local community

The bank's goal is to support development in those areas where it has branches.

### Dialogue

It is also the bank's goal for all of its interested parties to maintain a constant, positive and open dialogue with them, which will be ensured among other means via openness concerning the bank.

The bank's board of directors constantly ensures that the bank's management and employees remain focused on compliance with the policy defined above.

### **III. Openness and transparency**

The bank complies with the recommendations concerning openness and transparency.

Ringkjøbing Landbobank formulated an Investor Relations policy in autumn 2002, and thus also the bank's information and communication policy. The Investor Relations policy, which is given on this website, was last updated at the end of 2009.

The bank's website was expanded substantially in 2002 on the basis of its Investor Relations policy, and subsequent further development is continuing.

The level of information provided complies with Copenhagen Stock Exchange's recommendations. The aim of the bank's Investor Relations policy is that all information of significance for assessment of the bank by shareholders, the financial markets and other interested parties is published immediately.

All publications, including quarterly, half-yearly and annual reports, are issued in both Danish and English and posted on the bank's website.

The board of directors attaches considerable importance to an ongoing dialogue with the bank's shareholders and other interested parties. This dialogue is ensured by posting various topics on items related to corporate governance on the bank's website, and the bank's management holds regular meetings with investors.

The bank advises that its annual report is submitted in accordance with the Danish Financial Supervisory Authority's accounting regulation (which is compatible with IAS/IFRS). To date, the board of directors has not found it necessary to supplement the annual report with accounting standards other than that used in the report.

With respect to information of a non-financial nature in the bank's annual report, the board of directors finds that such information is included to an extent which is relevant for a bank of Ringkjøbing Landbobank's size. The 2009 annual report contains a general statement of the bank's social responsibility (CSR – Corporate Social Responsibility), and further details are provided on the bank's website. The board of directors has thus not found any present need to provide an additional report on non-financial information in the annual report.

### **IV. The duties and responsibilities of the board of directors**

The bank follows the recommendations for the area.

The board of directors undertakes the bank's general strategic management and supervises and checks the board of managers' daily administration. The board of directors' duties are performed via meetings, reviews of reports which are received, and general dialogue with the bank's board of managers.

The board holds an annual strategy seminar/updating where the general goals and strategies for the bank are discussed and determined. There are also ongoing discussions on strategy in the board of directors.

The board of directors regularly discusses and determines the most important tasks in relation to its exercise of general financial and managerial control of the bank and the ongoing assessment of the work of management. A general description of the board of directors' duties, its delegation to board of managers and the latter's guidelines for its ongoing reporting to the board is provided in the board's rules of procedure and in the instruction pursuant to Section 70 of the Danish Financial Business Act.

The chairman of the board of directors and the other board members are focused on ensuring that the board of directors' work functions satisfactorily. Attempts are thus made to ensure that the board of directors' deliberations are made by the full board of directors, that all major decisions are made by the full board of directors, that the board of directors meets at a frequency which ensures that it is an active sparring partner for the board of managers, and that the board of directors can react quickly and effectively. The chairman of the board of directors and the other board members also endeavour to ensure that each individual board member's special knowledge and expertise is used as effectively as possible in the board of directors' work for the benefit of the bank.

The board of directors' rules of procedure are reviewed once a year, and they contain a description of the duties etc. of the chairperson. A deputy chairperson is also elected.

Reporting to the board of directors is arranged so that it receives reports for consideration at its meetings continuously and in accordance with a fixed frequency.

## **V. The composition of the board of directors**

The bank follows the recommendations in all essential points.

It is noted firstly that the board of directors regularly assesses the expertise which it requires to be able to perform the duties incumbent upon it as effectively as possible. The board of director' composition in the light of this is also assessed.

Members of the board of directors are elected indirectly from among, and by, the members of the bank's shareholders' committee, who themselves are elected by simple majority at the general meeting. The bank's articles of association specify an age limit of 67 for membership of both the shareholders' committee and the board of directors. Members of both organs are elected for four years at a time, and re-election is possible. The board of directors has considered whether it would be appropriate to introduce direct election to the board of directors and/or a term of one year, but the board of directors has judged for the time being that the present system of election is functioning satisfactorily, and that the current provisions in the articles of association on the term of service ensure good continuity in the work of the board of directors.

The board of directors' judgment is that the greatest possible diversity with respect to gender and age should be ensured among the members of the shareholders' committee and the board of directors, but taking due account of the fact that there must also be focus on the professional qualifications, expertise and business experience of these members, which are thus considered when the shareholders' committee and the board of directors recommend new members to the shareholders' committee.

For the holding of general meetings, the notice of meeting includes information on the candidates for the position of member of the shareholders' committee, including a brief description of them and of the recruitment criteria used by the board of directors for the choice of candidates.



New members of the shareholders' committee are given an introduction to the work of the committee when they are elected. New members of the board of directors elected by the shareholders' committee and the employees are also given an introduction to the bank and the work of the board of directors, and an assessment of whether supplementary instruction may be relevant is made. The board of directors also discusses, regularly and as required, whether there may be areas where the expertise and relevant knowledge of its members should be updated.

As specified in the articles of association, the bank's board of directors consists of four to six members elected by shareholders as well as those members who may be prescribed by law. The board regularly considers whether the number of members elected by shareholders and its composition are appropriate in terms of the bank's needs in general and the board's work in particular, so that the work in question can proceed in an efficient and constructive manner. The board has not found it necessary to provide a separate statement in the bank's annual report of the system of election of board members by employees, as this system is well-known in Denmark.

The recommendations for the independence of the board of directors are followed, and it is not judged that any of the current board members elected by shareholders should be deemed to be dependent in relation to the definition in the recommendations.

The published annual report includes information on the individual member of management's shareholding in the bank, and the individual member of management's share trades are published in stock market announcements as required under applicable rules.

The recommendations on frequency of meetings and plan of work are followed, and the board of directors holds ordinary meetings about eleven times a year.

The board of directors has appointed an audit committee of three members, at least one of whom is independent and qualified under the Financial Supervisory Authority's provisions thereon. The board of directors has prepared terms of reference for the committee which follow the statutory requirements in the area. The audit committee plans to hold about four meetings a year.

The board of directors has not found occasion to appoint other committees as it finds that its frequency of meetings and plan of work ensure that all important discussions and decisions can be held and made by the full board of directors.

With respect to resources for the board of directors' work, the board of directors has prepared guidelines for any other managerial positions held by its members. The board of directors does not find that the number of managerial positions is critical to an effective contribution. On the contrary, it is the amount of work associated with them which is relevant. The board of directors also finds it to be a positive factor when managerial positions are held in other companies, as such positions help to ensure that the member's expertise and relevant knowledge are kept up to date. With respect to the applicable guidelines, the individual board member him- or herself regularly assesses whether he or she can make an effective contribution to the board's work. The board of directors has also introduced an annual written evaluation of itself, including the involvement of work and the cooperation between the boards of directors and the board of managers.

## **VI. The boards of directors' and managers' remuneration**

The bank follows the recommendations in all essential points.

The bank follows the recommendations with respect to the payment of remuneration, and it is judged that the total remuneration is at a competitive and reasonable level which reflects the work and results of the boards of directors and managers.



The bank's shareholders' committee and board of directors have adopted a compensation policy under which management, that is the boards of directors and managers, are to be paid remuneration in conformity with market levels and which reflects management's efforts on behalf of the bank. The remuneration paid will also be a fixed salary, and no form of incentive payment is thus included.

The fee paid to members of the board of directors is thus fixed, and the board of directors has not participated in, and does not participate in, bonus and incentive schemes, including share option schemes.

The members of the board of managers are paid in accordance with separate agreements which do not contain provisions on bonus and incentive schemes.

The board of directors judges that information on the individual person's remuneration, pension and retirement schemes and terms of employment is not relevant to an assessment of the bank, and the board of directors thus finds that the information provided in the annual report on the remuneration paid to the boards of directors and management is satisfactory and adequate.

## **VII. Risk management**

The bank follows the recommendations for the area.

The bank's management is always fully aware of the bank's most important business risks, and there is regular reporting so that management can systematically follow developments within the most important risk areas. All important areas in the bank thus have effective risk management and reporting systems which are regularly evaluated both internally and by the bank's internal and external auditors as well as the Financial Supervisory Authority.

Ringkjøbing Landbobank's biggest risk category is the credit risk on loans, which comprise by far the biggest part of its assets while generating a correspondingly major portion of its earnings. Historically, the bank has always had a healthy credit policy, which is also its goal for the future.

The gearing on loans relative to subordinated capital is a factor of approximately 5, and the bank's goal is that its results should be realised with a lower or the same credit gearing as that of Denmark's major banks.

The bank's level of risk and its management are described in the annual report.

## **VIII. Auditing**

The bank follows the various recommendations for the area in all essential points.

The bank's management maintains an ongoing dialogue with both internal and external auditors, and management discusses the result of the audit, the annual report and accounting policies and estimates with the auditors.

In consultation with the board of managers, the board of directors also regularly assesses the auditors' independence and expertise etc. for its making of a recommendation to the general meeting on the election of auditors, and an auditing agreement is made each year, including an agreement on payment, between the board of directors and the auditors. The board of directors has adopted guidelines for the auditors' provision of non-auditing services which ensure that the board of directors regularly assesses whether any provision of non-auditing services by the auditors might endanger their independence.

The internal control systems are regularly reviewed and assessed by the board of directors with the assistance of the internal auditor appointed by the board of directors.

The board of directors appointed an actual auditing committee in the end of 2009. The committee consists of three members, at least one of whom is independent and qualified under the Financial Supervisory Authority's provisions thereon. The committee invites particular employees of the bank on an ad hoc basis to participate in the committee's meetings.

The board of directors judges that the members of the committee possess adequate special knowledge and experience to perform the duties required of it. It is intended that the committee should perform the duties listed in the special section on auditing committees in the Corporate Governance recommendations. Furthermore are matters concerning the auditing committee governed by the Financial Supervisory Authority's regulation thereon.

## The Danish Bankers Association's supplementary recommendations for Corporate Governance etc.

As described above, the Danish Bankers Association has prepared supplementary recommendations to the recommendations on Corporate Governance.

The object of the Danish Bankers Association's supplementary recommendations is to strengthen the work and the expertise of the member institutions' boards of directors and managers and that of the external auditors.

As noted above, the Danish Bankers Association's supplementary recommendations supplement three of the Corporate Governance recommendations, and an independent recommendation on external auditing is also included.

The three recommendations on which the Danish Bankers Association has comments for guidance in relation to interpretation, implementation and use are: IV The duties and responsibilities of the board of directors, V The boards of directors' and managers' remuneration, and VI Compensation paid to the boards of directors and management.

### **Recommendation IV – The duties and responsibilities of the board of directors**

#### ***The major tasks and responsibilities of the board of directors***

The Danish Bankers Association's supplementary recommendations specify as follows on this point:

"The boards of directors of banks, savings banks and cooperative banks should

- specify guidelines for and exercise control over the work of the board of managers, including the allocation of tasks between members of the board of managers. There should be a written summary of those parts of the board of managers' work which the board of directors is to supervise and participate in. How the board of directors is to make ongoing checks should be specified;
- ensure that procedures are prepared for the board of managers' inclusion of and reporting to the board of directors. Such procedures should be prepared by the board of managers and approved by the board of directors;
- ensure that the board of managers possesses the relevant expertise. The board of directors should assess whether the board of managers possesses all the requisite expertise at least once a year. If this is not the case, it is the board of directors' responsibility to decide how this problem can be solved;
- act as a qualified sparring partner to the board of managers."

The bank follows the recommendations in all essential points.

The board of directors discusses the above matters in connection with the annual review of its rules of procedure and instructions to the board of managers.

The board of directors' rules of procedure and instructions from the board of managers thus include a specification of the procedures where matters such as planning, following up and risk management are addressed.

### ***The duties of the chairperson of the board of directors***

The Danish Bankers Association's supplementary recommendations on this point are as follows:

"The chairperson of a bank's, savings bank's or cooperative bank's board of directors should:

- ensure that a description of the tasks of the board of directors is prepared. The description, which can be included in the board of director's rules of procedure, should be in writing and specific;
- ensure that the entire board of directors is included in the work of the board of directors, and that as far as possible, all board members have an opportunity to express their opinions."

The bank follows the recommendations. The framework for the work of the board of directors, including the chairperson's duties, is specified in the board's rules of procedure. All board members participate on an equal footing in the board's work in a manner which ensures that the individual member's knowledge and expertise are utilised as efficiently as possible.

### ***Information from the board of managers to the board of directors***

The Danish Bankers Association's supplementary recommendations on this point are as follows:

"Apart from the recommendations in section VI point 4, it is the board of managers' duty and responsibility to:

- undertake the daily management of the bank, savings bank or cooperative bank,
- prepare a detailed allocation of work and tasks for its duties. This description should be in writing, and the board of directors should be advised of the chosen allocation and major ongoing changes,
- provide clear guidelines for all major decisions to be made by the bank. Guidelines should be in writing and contain directions on the types of transactions which can be made at a given level of seniority. Information should also be provided on formalities and requirements concerning documentation for the employees who were involved in the process, and who made the final decisions,
- regularly update the bank's strategy and prepare an appropriate draft in writing to be sent to the board of directors."

The bank follows the recommendations, which must also be said to be a statutory requirement for banks to a very high degree. The written guidelines provided to the board of managers by the board of directors are specified in accordance with an instruction which specifies the allocation of duties between the boards of directors and managers. A written allocation of work and duties for the board of managers is also prepared. The board of directors is kept advised of, and has approved, the allocation in question.

## **Recommendation V – The composition of the board of directors**

### ***Composition of the board of directors***

The Danish Bankers Association's supplementary recommendations on this point are as follows:

"The board of directors should be comprised in such manner that it possesses all relevant expertise for supervising a bank, savings bank or cooperative bank. At least one board member should have qualifications within accountancy or auditing in accordance with Section 31(1) of the Danish Auditing Act."

The recommendation is followed. The board members elected by shareholders are elected by and from among the members of the bank's shareholders' committee. Attempts are made to ensure that the board members have professional expertise, a good age distribution and breadth (diversity) and a broad commercial background. The financial legislation requires that the management of a bank fulfils a number of requirements with respect to suitability (qualifications and experience) and integrity. New members of the board of directors are recruited on the basis of the above criteria rather than on the basis of a formally specified process, as the board of directors has found no need to specify such a process.

The reference to the Auditing Act should be understood in relation to the Bankers Association as a reference to the auditing regulation for banks. It is noted that the bank's auditing committee should include at least one independent and qualified member, in which respect the recommendation is also followed.

#### ***Introduction to and training of new members of the board of directors***

The Danish Bankers Association's supplementary recommendations on this point are as follows: "The chairperson of the board of directors should decide whether the individual board members should be offered relevant supplementary training. This assessment should be made at least once a year for all board members irrespective of their seniority in the board of directors."

The bank follows the recommendation. The bank offers newly elected board members a full introduction to the work of the board of directors, including the option of taking relevant courses. The need for supplementary training is also regularly assessed by the chairperson of the board of directors and by the full board of directors.

#### ***Independence of the board of directors***

The Danish Bankers Association's supplementary recommendations on this point are as follows: "Whether a board member is a customer of the bank, savings bank or cooperative bank should have no influence on the assessment of independence".

The members of the bank's board of directors are also customers of the bank.

### **Recommendation VI - The boards of directors' and managers' remuneration**

#### ***General guidelines for the payment of incentives***

The Danish Bankers Association's supplementary recommendations on this point are as follows: "Apart from the terms in the Committee's recommendations and guidelines, incentive schemes for members of the board of managers of a bank, savings bank or cooperative bank should:

- a. depend on a number of different parameters which should be explicitly specified. They may, for example, be an increase in the share price, the financial result, the magnitude of losses, increase in earnings, trends in costs, implementation of specific projects, or comparison with, for example, share price movements in a predefined group of comparable banks or savings banks (peer group);
- b. include a ceiling for the potential payment. This need not necessarily be a limit on the amount payable. It could, for example, be a decision to the effect that the strike price for a share option may never exceed a particular percentage under the current share price or that the strike price may not exceed 100% of the share price on the date of allocation. The chosen model should be simple and easy to understand.

Incentive schemes should be considered and approved at the bank's general meeting/the savings bank's meeting of the shareholders' committee. The scheme should then be published on the company's website without undue delay."

As described above under the Corporate Governance recommendations, neither the board of directors nor the board of managers has entered into agreements on incentive payments.

### **Independent recommendation from the Danish Bankers Association on external auditing**

The Danish Bankers Association's supplementary recommendations on this point are as follows:  
"The member companies of the Danish Bankers Association should be strongly focused on the role of the external auditor and the quality of the external auditor's work. Banks, savings banks and cooperative banks should, for example, require that:

- external auditors have undertaken in-service training in the bank area,
- the composition of the teams used by external auditors should ensure that there are at least two experienced auditors in the team with complementary areas of expertise. To be considered an experienced auditor, the person in question should have participated in the auditing of a bank for a minimum of three years in addition to having taken the above in-service training."

The bank follows the recommendations. The bank is strongly focused on the external auditor's role and qualifications. It has been agreed for the bank's partnership with the external auditor that there will always be at least two experienced auditors in the team which audits the bank.

The bank is also aware that the auditing firm which the general meeting has elected as the bank's auditor has an in-service training programme etc. which is targeted towards the bank sector.

## Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

Finally, the bank advises in accordance with the Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc. that it must provide

1. a description of the main elements in the company's internal control and risk management systems in connection with the process of presenting the accounts, and
2. a description of the composition of the company's management organs and their selection and function.

**1.**  
The process of presenting the accounts is organised such that the bank's annual report is prepared by the accounts department in cooperation with the board of managers and other relevant departments.

The internal control and risk management systems in connection with the presentation of the accounts are structured in the following main elements:

- The accounts department maintains general control of the process
- The accounts department coordinates and obtains relevant information for use in the preparation of the accounts from other departments, and also reviews the information provided
- The accounts department provides external and internal auditing with information in connection with the audit of the annual report
- The board of managers makes a thorough review of the draft annual report and other reports
- The audit committee and the board of directors review the draft annual report
- The board of managers and the board of directors meet with the bank's auditor.

The above points also apply to the presentation of quarterly and half-yearly reports with the changes and adaptations following from them.

**2.**  
The company's management organs are as follows:

- a) The general meeting
- b) The shareholders' committee
- c) The board of directors
- d) The board of managers

The functions of the individual organs are as follows:

**a)**  
The general meeting is the bank's highest authority. Among other things the general meeting elects the members of the bank's shareholders' committee.

**b)**  
The bank's board of directors is elected by and from among the members of the shareholders' committee, which is also bound to work to ensure the bank's vigorous development and to the best of its ability to assist the boards of directors and managers, inter alia by procuring any information which they may require. The shareholders' committee currently sets the fixed payments to the board of directors and, on the recommendation of the board, decides on the establishment of branches.



**c)**  
The board of directors has general responsibility for the bank's operation, including making decisions of a strategic character. The board also supervises the bank's board of managers.  
The board of directors has appointed one subcommittee, the audit committee, to handle matters concerning the bank's accounts and their auditing, and the auditing of the bank's internal systems and procedures.

**d)**  
The board of managers undertakes the daily management of the bank.

*The board of directors of Ringkjøbing Landbobank A/S, 3 February 2010*