

Investment Stewardship Group

Voting Bulletin: Danske Bank A/S

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our [engagement priorities](#) based on our observation of market developments and emerging governance themes and evolve them year over year as necessary. The BIS team’s key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

Our approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management’s approach to key business issues. When effective corporate governance is lacking, we believe that voting against the re-election of the responsible directors is often the most impactful action a shareholder can take.

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	Danske Bank A/S
Market	Denmark
Meeting Date	9 th June 2020
Key Resolutions ¹	<p>Item 4a: Reelect Lars-Erik Brenoe as Director</p> <p>Item 4b: Reelect Karsten Dybvad as Director</p> <p>Item 4c: Reelect Bente Avnung Landsnes as Director</p> <p>Item 8: Approve Board Remuneration for 2020 and 2021</p> <p>Item 9: Approve Guidelines for Incentive-Based Compensation for Executive Management and Board</p>

¹ Full meeting agenda and resolutions can be accessed at <https://danskebank.com/about-us/corporate-governance/general-meeting>

Board Recommendation	The company recommends shareholders vote FOR all management items.
BlackRockVote	We ABSTAINED from the re-election of the members of the remuneration committee (Items 4a, 4b, and 4c) and voted AGAINST remuneration proposals (items 8 and 9) given our concerns on remuneration outcomes and disclosures. Due to the plurality voting standard in Denmark, it is not possible to vote against director elections in Denmark when voting by proxy. ²

Overview

Danske Bank A/S (Danske Bank) is a Nordic bank that operates through five business units (Banking DK, Banking Nordic, Corporates & Institutions, Wealth Management and Northern Ireland) providing banking services, life insurance and pension products, mortgage credit, wealth management, real estate and leasing products and services.³ Danske Bank is listed in Denmark and A.P. Møller Holding Group is the largest shareholder with ~21% stake in the company.⁴

Danske Bank is currently in dialogue with various international authorities⁵ regarding issues from its Estonian branch where a series of major deficiencies in Danske Bank's governance and control systems made it possible to use the branch for suspicious transactions in the period from 2007 to 2015.⁶ The timing and outcome of the investigations are unclear, though Danske Bank's own internal investigation is expected to conclude in the fourth quarter of 2020.⁷ The Bank has stated that it has taken a number of measures to strengthen its systems and controls relating to money laundering and financial crime and rebuild stakeholder trust.

There has been an overhaul of the board and executive team in the last two years and none of the current leadership were present during the above stated period apart from the Chair of the Risk Committee, Carol Sergeant. Carol Sergeant's presence on the board provides continuity as the majority of the board has been replaced. Given the long-term nature of this process, we will continue to monitor the company's efforts.

During our engagements with the board and senior management, we highlighted concerns on remuneration disclosure and abstained from the vote on the remuneration proposal to Approve Guidelines for Incentive-Based Compensation for Executive Management and Board at the 2019 annual meeting (AGM). We also have had concerns about structural elements such as the ability to grant cash sign-on awards without a link to performance conditions which, as discussed in our [EMEA proxy voting guidelines](#), we believe is not best

² Additional information can be found in ISS Market Mechanics Guide, please refer to footnote 11 on page 20 of the ISS Markets Mechanics Guide: <https://www.issgovernance.com/file/faq/market-mechanics-guide.pdf>. "Danish companies generally do not allow AGAINST votes on director and auditor elections when voting by proxy. Because the election has a plurality voting standard, the only way of voting against is to submit alternate candidates, which is only practical if one is actually attending the meeting. Therefore, ABSTAIN is the only VVO when expressing dissent by proxy."

³ Please see <https://danskebank.com/about-us/customers-and-services?section=business-units>

⁴ Please see <https://danskebank.com/investor-relations/shares/largest-shareholders>

⁵ Please see Danske Bank's Q1 2020 interim report page 54: <https://danskebank.com/-/media/danske-bank-com/file-cloud/2020/4/interim-report--first-quarter-2020.pdf?rev=eb73b398f8af458c8e3b58bb2622a7e5&hash=CC025198B16C9DD0638C123717DA8F67>

⁶ Please see <https://danskebank.com/news-and-insights/news-archive/press-releases/2018/pr19092018>

⁷ Please see Danske Bank's Annual Report 2019 page 12 provides a summary of the authorities' investigations: <https://danskebank.com/-/media/danske-bank-com/file-cloud/2020/2/annual-report-2019.pdf?rev=ce58f68c871c451ab82c07640edbc51f&hash=091E45286122B94B1F719CEA4F23A799>

practice as it does not align pay outcomes with performance. We noted that the new CEO's 2019 remuneration had a substantial component in sign-on fees.⁸

Areas of improvement on disclosure from our perspective include greater specificity on the KPIs used for variable remuneration, the relative importance of each factor and goals and targets that would allow investors to assess if incentive plans are sufficiently stretching and in line with the stated strategy. Furthermore, the board is proposing a significant increase in fees for individual board roles as well as committee work. As a result, we abstained on the re-election of three directors, who are each members of the Remuneration Committee and against the proposals on remuneration, as detailed below. For the purpose of this bulletin, we note that it is not possible to vote against the election of directors in Denmark.

Rationale for BlackRock vote

Management Proposals

Items 4a, 4b, 4c: Reelection of members of the Remuneration Committee (ABSTAINED)

Last year, despite having concerns with remuneration which we raised in our engagement and having abstained from the remuneration related proposals, we supported the election of Remuneration Committee members, recognizing their short tenure on the board. However, we have seen limited progress this year and continue to have concerns on remuneration structure, disclosure and outcomes. In line with our voting guidelines to hold relevant directors accountable, we have abstained from supporting the re-election of the three directors who are members of the Remuneration Committee.

Item 8: Approve Board Remuneration for 2020 and 2021 (AGAINST)

The board has proposed a substantial increase in fees across board positions, for example, as much as 40% for the chairman role and 64% for the vice chairman. While the board has decided the new fees will take effect from 1st January 2021 given the COVID-19 pandemic, it still believes the rationale for the proposal on new fees remains relevant.⁹ We recognize the Bank's circumstances might require more oversight from the board, however, we don't believe that such sizeable increases are warranted across all roles.

Item 9: Approve Guidelines for Incentive-Based Compensation for Executive Management and Board (AGAINST)

As discussed above, we have concerns regarding the company's remuneration disclosures and structural elements such as the granting of sign-on awards. We expect remuneration disclosures to provide investors with clarity on how the proposed policy is aligned with the company's strategy and shareholders' interests. Disclosures should also explain how the Remuneration Committee sets targets and assesses performance and determines that KPIs are sufficiently stretching to ensure pay is aligned with performance.

BIS voted in favour of all other management proposals.

Appendix: Shareholder Proposals

Danske Bank had a number of shareholder proposals, including four climate-related shareholder proposals filed by two individual shareholders (Items 11, 13.1, 13.2, 13.3), at the 2020 AGM, which management recommended that shareholders vote against.¹⁰ As described below, we supported management and voted

⁸ Please see page 165 for remuneration details: <https://danskebank.com/-/media/danske-bank-com/file-cloud/2020/2/annual-report-2019.pdf?rev=ce58f68c871c451ab82c07640edbc51f&hash=091E45286122B94B1F719CEA4F23A799>

⁹ Please see page 8 for the board's rationale for the board's fee increase: <https://danskebank.com/-/media/danske-bank-com/file-cloud/2020/5/annual-general-meeting-of-danske-bank-2020.pdf?rev=8e00b8c166144a56a927b49c292b5a49>

¹⁰ Please see pages 9-11 for additional information regarding these shareholder proposals: <https://danskebank.com/-/media/danske-bank-com/file-cloud/2020/5/annual-general-meeting-of-danske-bank-2020.pdf?rev=8e00b8c166144a56a927b49c292b5a49>

against the proposals as we considered them overly prescriptive, lacking a clear and strong rationale, and, in some cases, redundant as actions are already in place to address the issues they raise. We are also satisfied by the company's existing sustainability and climate reporting and management practices.

Danske Bank has been publishing sustainability reports for a number of years and enhanced its disclosure with this year's report, including reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework.¹¹ Notably the company demonstrates accountability at the board and executive levels, integration of ESG in credit policy, participation in industry initiatives (the company is a signatory to the UN Principles for Responsible Banking, participating in working groups with UNEP FI, for example) and an alignment of strategy with UN Sustainable Development Goals (SDGs). Climate is one of the Bank's strategic sustainability themes along with innovation and entrepreneurship, financial confidence and security.¹²

Accordingly, we are satisfied with Danske Bank's existing disclosure and robust management of these sustainability and climate-related risks. The proposed resolutions were also overly prescriptive in our view. Therefore, we decided to support management and vote against the shareholder resolutions.

We will continue to monitor the evolution of these disclosures and underlying business practices.

¹¹ Please see pages 14-17 for details on climate and environment initiatives available at <https://danskebank.com/-/media/danske-bank-com/file-cloud/2020/2/sustainability-report-2019.pdf?rev=26101a8b11234450b374e963e665801b&hash=DC7ADA3E3CA95AF84BF225BF84FBD39B>

¹² Page 10 of Danske Bank's sustainability report is available at <https://danskebank.com/-/media/danske-bank-com/file-cloud/2020/2/sustainability-report-2019.pdf?rev=26101a8b11234450b374e963e665801b&hash=DC7ADA3E3CA95AF84BF225BF84FBD39B>