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To The shareholders of Alm. Brand A/S

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From Henrik Kragh Møller, Executive Vice President, Human Resources

# *Review of the remuneration policy of Alm. Brand A/S*

This memorandum contains a review of proposed amendments to the remuneration policy.

## New regulation which could affect the remuneration policy

The Shareholder Rights Directive on the encouragement of long-term shareholder engagement has now been implemented in the form of sections 139-139b of the Danish Companies Act.

The provisions of the Danish Companies Act stipulate that a listed company is required to have a remuneration policy for members of the board of directors and members of the management board. Accordingly, the regulation applies only to the Management Board and the Board of Directors of Alm. Brand A/S.

Listed companies are furthermore required to prepare a remuneration report which provides an overall view of the remuneration granted to the individual members of management over the past financial year.

Pursuant to the Danish Financial Business Act, Alm. Brand A/S is already required to prepare a remuneration policy and to subsequently prepare a report on the remuneration. In future, this remuneration report must be reviewed at the annual general meeting.

The provisions of the Danish Companies Act on the remuneration policy will apply as from the annual general meeting in 2020.

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There is currently no other new legislation to be implemented.

## Amendments to the remuneration policy

Due to the new provisions in sections 139 and 139a of the Danish Companies Act, it has been relevant to make the following adjustments:

1. Remuneration policy: The Danish designation *lønpolitik* is changed to *vederlagspolitik* (the English equivalent of both terms is remuneration policy). This is done to encompass the broader and more fitting concept used in the Danish Companies Act. This change has resulted in a various consequential editorial changes.

2. Clause 1. Background and purpose: This clause has been expanded and consequential changes have been made to reflect sections 139-139a of the Danish Companies Act. The purpose of the remuneration policy is now also to comply with the requirements of the Danish Companies Act, which only concern members of the Board of Directors and members of the Management Board of Alm. Brand A/S.

3. Clause 4. Remuneration of board members and clause 5. Remuneration of management board members: Here, new sections have been inserted as a consequence of section 139a of the Danish Companies Act. It is a requirement that all remuneration components granted to members of the Board of Directors and members of the Management Board of Alm. Brand A/S are described. In addition, it must be explained how the remuneration policy and how share-based remuneration contributes to the company's business strategy, long-term interests and sustainability. This is an absolute requirement, whether the remuneration is fixed or variable. However, based on the legislative history, it must be assumed that these requirements are mainly relevant for situations in which board members and management board members are remunerated by way of variable remuneration. As Alm. Brand remunerates members of Alm. Brand A/S's Board of Directors and Management Board exclusively by way of fixed remuneration, the explanation has been kept quite brief. We have chosen to insert this explanation in clause 4 and clause 5, which concern the remuneration of members of the Board of Directors and members of the Management Board, respectively.

4. Clause 7. One-off fees for executive officers and selected risk takers
The last section has been removed as a consequence of sections 139-139a. Previously, the granting of variable remuneration components to a member of the Management Board of Alm. Brand A/S was subject to the components being approved by the shareholders in general meeting and included in the company's articles of association. It is still a requirement that any variable remuneration of members of the Management Board of Alm. Brand A/S must be approved by the shareholders in general meeting, but now it must be stated in the remuneration policy which, in such case, must contain an explanation of how this variable remuneration component contributes to the company's business strategy, long-term interests and sustainability. It is also a requirement that clear, broad and variable criteria for the grant have been determined. As the variable remuneration component granted to members of the Management Board of Alm. Brand A/S cannot exceed DKK 100,000 p.a., we have chosen for the time being to exclude this option.

5. Clause 11. on guidelines for severance has been amended.
The Committee on Corporate Governance recommends that the value of any remuneration paid to members of the Management Board in connection with severance of service does not exceed the value of two years' remuneration – irrespective of whether the remuneration is granted in the form of salary or severance payment.

   Both in the Danish Companies Act and in the rules governing the financial sector, the so-called "say on pay" principle applies, which means that all remuneration, including remuneration in connection with severance of service, must be specified in the adopted remuneration policy in order for the company to be able to use such remuneration. Accordingly, the remuneration policy describes which remuneration may be granted on severance.

   With a view to aligning the remuneration policy with the recommendations issued by the Committee on Corporate Governance, the provision on severance has now been amended. It has now been stipulated that the value of the remuneration in the notice period may total up to the equivalent of two years' remuneration. The remuneration may be in the nature of usual salary and/or a combination of salary and severance payment, it being noted that the severance payment cannot exceed the equivalent of one year's salary.

The limit of two years' remuneration in connection with severance of service is in accordance with the currently applicable termination provisions agreed between Alm. Brand and members of the Management Board and risk takers.

This limit will apply to all executive officers and other risk takers covered by the remuneration policy, which implies that in future no individual may receive remuneration/severance payment exceeding this limit in connection with severance of service.

6. The Danish designation *aflønningsudvalg* is changed to *vederlagsudvalg* (the English equivalent of both terms is remuneration committee).

7. Other amendments are of a purely editorial nature.