

2015 Remuneration Report for the Realkredit Danmark Group

Purpose

This remuneration report includes remuneration practices and main remuneration principles in the Realkredit Danmark Group. The Realkredit Danmark Group consists of the companies Realkredit Danmark A/S and home A/S.

According to the Danish Financial Supervisory Authority's Executive Order No. 818 of 27 June 2014, this report explains governance with respect to remuneration, the pay structure and the principles of the Realkredit Danmark Group's incentive programmes. Furthermore, practices related to regulatory matters are described, as well as changes of practice during the year.

Information on total remuneration to members of the Board of Directors and the Executive Board of Realkredit Danmark is provided in the annual report.

Supporting the ambition on good corporate governance, this remuneration report discloses the main principles related to implementation of the Group's remuneration policy, i.e. how compliance with the policy is monitored.

The remuneration policy of the Realkredit Danmark Group was approved by the Board of Directors of Realkredit Danmark in January 2015. The policy is available at rd.dk.

The 2015 Remuneration Report has not been audited by Realkredit Danmark's auditors.

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1 Introduction

Realkredit Danmark is a member of Danske Bank Group and shares Danske Bank's vision to be recognised as the most trusted financial partner. We strive to be a modern mortgage credit institution for both private individuals and businesses, providing extensive financial competence and leading, innovative solutions.

Remuneration encourages and enables Realkredit Danmark's employees to deliver the best possible customer experience.

Our remuneration practice ensures that Realkredit Danmark complies with legislation and regulatory requirements.

Realkredit Danmark's remuneration policy and practices will evolve over time, reflecting the company's priorities and the industry's regulatory framework, but will always adhere to Danske Bank Group's objectives of good corporate governance and promoting adequate and effective risk management related to remuneration matters.

2 Realkredit Danmark's remuneration policy

Realkredit Danmark's remuneration policy applies to the Board of Directors, the Executive Board and all employees of both Realkredit Danmark A/S and home A/S.

The remuneration policy is reviewed annually by the Board of Directors. The current remuneration policy was approved by the Board of Directors of Realkredit Danmark at a board meeting held on 28 January 2015.

2.1 Governance and decision-making process

As Realkredit Danmark has no independent remuneration committee, the Remuneration Committee of Danske Bank handles matters relating to remuneration. In its efforts, the Remuneration Committee of Danske Bank's Board of Directors pays particular attention to the remuneration of the members of the Executive Board and key employees, including the highest remunerated employees. The Remuneration Committee also considers main remuneration vehicles, e.g. the incentive programmes used for driving and rewarding performance in Danske Bank Group.

Information about the terms of reference and composition of Danske Bank's Remuneration Committee and the number of meetings held by the committee and by Danske Bank's Board of Directors is available at danskebank.com.

2.2 Monitoring of Danske Bank Group's remuneration policy

The Group HR department of Danske Bank Group monitors regulatory and legislative changes to identify what should or must be applied to Danske Bank Group and, by extension, Realkredit Danmark's remuneration policy and practices.

Internal control and validation processes have been set up and documented, and implementation of such processes is documented.

The Remuneration Committee of Danske Bank monitors compliance with the Group's, including Realkredit Danmark's, remuneration policy and monitors the effect of internal controls and validation processes, assisted by Danske Bank's internal auditors.

3 Remuneration practices

Realkredit Danmark's overall remuneration practices are anchored in the remuneration policy as published on rd.dk. Current governance is mainly targeted against variable remuneration and employee benefits.

3.1 Remuneration principles

Realkredit Danmark offers a compensation structure with a varied mix of compensation elements. Some elements are mandatory as part of the total compensation package, while some flexibility is offered on other elements.

The remuneration level of any individual employee is always a matter between the employee and the immediate manager, while at the same time subject to collective agreements and/or Realkredit Danmark's remuneration policy and supporting guidelines. All changes are made in consultation with HR and grandfathered by the manager's manager. Local governance is documented and applies to all compensation elements.

3.2 Fixed remuneration

All employees in Realkredit Danmark receive a fixed salary, consisting of a base salary according to position and function and an individual allowance, which is determined on the basis of an assessment of the employee's performance made on the basis of all relevant elements of his or her position.

Employees on individual contracts, including management levels, only receive a base salary. A few exceptions apply due to special circumstances. The salary level is evaluated on an annual basis with no secured increase for employees on individual contracts.

3.3 Benefits

Employee benefits are offered to all employees with different levels targeted against employee segments. On executive and senior management levels, benefits are offered to ensure competitive compensation packages in line with the market to attract and retain key resources.

On non-managerial levels, employee benefits vary according to local market standards. All employees receive mandatory pension contributions and paid holidays on market competitive terms.

3.4 Variable remuneration

Realkredit Danmark uses performance-based variable remuneration for incentivising and rewarding high performance.

Incentive programmes are offered to management levels and other selected employee segments. The purpose of incentive programmes is to

- attract and retain skilled and high-performing employees
- encourage employees to take active part in and responsibility for Realkredit Danmark achieving its goals
- motivate employees to meet financial and non-financial objectives while at the same time demonstrating a customer-centric behaviour and collaborative mindset
- ensure coherence between business results and remuneration level in Realkredit Danmark while at the same time balancing individual risk-taking against performance targets

Incentive programmes are mainly cash-based, though share granting and deferral of bonus is included when pay-out exceeds the thresholds as described in the remuneration policy, or when bonus is awarded to material risk takers.

Incentive programmes for members of the Executive Board, managers and designated material risk takers are based on individual performance agreements, including performance against targets in three key areas: the Group, the business unit and the individual employee. KPIs include financial and non-financial targets for Danske Bank Group and business units.

Weighting of each of the key areas is subject to the programme participant's tier level in the organisation.

Financial targets for Danske Bank Group and the business unit are measured on results audited by Danske Bank's external auditors. Non-financial targets for the Group and business unit are also measured by external parties, e.g. through customer satisfaction surveys in principal markets. Individual targets may be quantitative as well as qualitative, e.g. behavioural objectives, compliance with internal rules, overall value contribution to growth and/or profitability or focus on special areas.

Some employee segments are restricted by regulation from being awarded bonus. Furthermore, Danske Bank Group has currently decided not to offer variable remuneration to control functions on a general basis. Instead, managers with control functions are to a limited extent offered a fixed allowance if their positions would usually be eligible for variable remuneration.

The remuneration policy has defined caps on variable remuneration for the different employee segments. No employee in Danske Bank Group may receive more than 200% in variable remuneration during a fiscal year, measured against base salary and company pension contribution in the same fiscal year. In practice no individual in Realkredit Danmark will receive performance-based remuneration exceeding 50% of the fixed salary.

In 2015, no incidents of caps on variable remuneration being exceeded were reported or identified.

3.5 Risk impact of remuneration

The primary risk related to remuneration is linked to variable remuneration. Danske Bank Group has implemented different mechanisms to ensure that variable remuneration does not incentivise excessive risk-taking.

Firstly, Danske Bank has initiated a well-balanced distribution between fixed and variable remuneration, ensuring that a maximum of 33% of the remuneration received by senior management is variable due to a 50% cap on short-term incentives of the base salary.

Secondly, Danske Bank Group has initiated a split disbursement of performance-based incentives if the annual bonus exceeds a threshold, as specified in the remuneration policy. Split disbursement is made in the form of cash and conditional shares, where conditional shares constitute 50% of the total variable remuneration exceeding the threshold. The conditional shares are restricted during a three-year vesting period.

The disbursement practice for material risk takers, including members of the Executive Board and Senior Management, includes a relatively higher proportion of conditional shares, as the threshold is taken out of effect. Thus, the split is applied on the full bonus disbursement.

Thirdly, Danske Bank Group has implemented deferral of variable remuneration for material risk takers, including members of the Executive Board, to encourage sustainable and long-term value creation. Variable remuneration (cash and conditional shares) granted in one year is divided into a part paid initially, and a part deferred three years (four years for members of the Executive Board). Deferred shares are restricted from transactions for a period of six months after disbursement. The deferred remuneration is subject to back testing.

The deferred performance-based remuneration is disbursed only to the extent that the criteria for the original granting are still fulfilled, provided the financial situation of Danske Bank Group has not deteriorated materially. Hence, the disbursement may lapse in part or in full.

In addition, variable remuneration to material risk takers, including members of the Executive Board, is subject to claw-back if there is evidence that the granting of bonus was made on a false basis. The claw-back applies to disbursed and deferred amounts.

In 2015, back testing at Realkredit Danmark did not result in any change in deferred performance-based remuneration.

4 Material risk takers

On the basis of the Danish Financial Supervisory Authority's Executive Order No. 818 of 27 June 2014, Danske Bank has set up a procedure for identifying Danske Bank Group's material risk takers, using the different provisions of the Executive Order to assess and identify staff with material influence on Realkredit Danmark's risk profile.

The definition of risk takers is regularly updated, and a routine has been established for continually reviewing the list of designated material risk takers.

At the end of 2015, 50 material risk takers had been identified in Realkredit Danmark against 52 at the end of 2014.

5 Quantitative information

The enclosed quantitative information complies with the provisions of Executive Order No. 818 of 27 June 2014 issued by the Danish Financial Supervisory Authority and article 450 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council on disclosure of remuneration related to material risk takers.