

Remuneration Report 2017



REALKREDIT
Danmark

2017 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. 1582 of 13 December 2016, this report explains governance with respect to remuneration, remuneration structure and the principles governing the Realkredit Danmark Group's incentive programmes. Furthermore practices related to regulatory matters are described, as well as change 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 company's corporate governance ambitions, 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 Annual General Meeting of Danske Bank A/S approves the remuneration policy for the Group after prior consideration by the Remuneration Committee and upon the recommendation of the Board of Directors of Danske Bank A/S. The policy is available at danskebank.com and rd.dk.

Table of contents

1 Introduction	3
2 Realkredit Danmark's remuneration policy	3
2.1 Governance and decision-making process	3
2.2 Monitoring of Danske Bank Group's remuneration policy	3
3 Remuneration practices	4
3.1 Remuneration principles	4
3.2 Fixed remuneration	4
3.3 Benefits	4
3.4 Variable remuneration	5
3.5 Risk impact of remuneration	6
4 Material risk takers	6
5 Quantitative information	7

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 personal and business customers, providing extensive financial competence and leading, innovative solutions.

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 overall framework of Realkredit Danmark's remuneration policy is based on Danske Bank's remuneration policy. The remuneration policy is reviewed annually by the Board of Directors. The remuneration policy for 2017 was approved by the Board of Directors of Realkredit Danmark at a board meeting held on 6 March 2017.

2.1 Governance and decision-making process

As Realkredit Danmark has no independent remuneration committee, the Remuneration Committee of Danske Bank – set up by the Board of Directors of Danske Bank – handles matters relating to remuneration. In its efforts, the Remuneration Committee pays particular attention to the remuneration of the members of the Executive Board and key employees, including employees in control functions and 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 charter and composition of Danske Bank's Remuneration Committee and the number of meetings held by the committee as well as the individual members' participation 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. When new legislation and/or regulation leave options for the Group, Group HR, the Executive Board and/or the Board of Directors of Danske Bank, depending on the materiality for Danske Bank hereof, decide the implementation. Material changes are subsequently approved by the Board of Directors of Realkredit Danmark.

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.

3 Remuneration practices

Realkredit Danmark's overall remuneration practices are anchored in the remuneration policy as published on rd.dk. Current governance mainly targets 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.

The governance is published on Danske Bank Group's internal website for easy access from managers. HR partners are trained in compensation governance to support managers appropriately.

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. Few exceptions apply due to special circumstances, e.g. ensured allowances allocated when single positions are excluded from variable remuneration. 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. All employees make mandatory pension contributions and have paid holidays and insurance cover on market competitive terms.

On executive and senior management levels, some benefits are offered to ensure competitive compensation packages in line with market to attract and retain key resources.

3.4 Variable remuneration

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

Incentive programmes are offered to management levels. 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 and managers are based on individual performance agreements, including performance against targets in three key areas: the Group, the Business Unit and the individual programme participant. 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, or overall value contribution to growth and/or profitability.

Some employee segments are restricted by regulation from being awarded bonus. Furthermore Realkredit Danmark has currently decided not to offer variable remuneration to control functions on a general basis.

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

In 2017, 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 3-year vesting period.

Disbursement practice for material risk takers, including members of the Executive Board, includes a relatively higher proportion of conditional shares, as no threshold exists for bonus disbursement in these groups. 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 conditional shares are restricted from transactions 6 months after disbursement. The deferred remuneration is subject to back testing before disbursement, i.e. the deferred remuneration is disbursed only to the extent to which the criteria for the original granting are still fulfilled, and at the same time, provided the financial situation of the 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 2017, back testing at Realkredit Danmark did not result in any reduction of deferred performance based remuneration.

4 Material risk takers

On the basis of the Danish Financial Supervisory Authority's Executive Order No. 1582 of 13 December 2016, 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 procedure calls for cooperation between different subject matter experts in the Danske Bank Group, namely Group Risk, Group Compliance and Group HR to ensure a thought through evaluation of each of the articles, ensuring the definition of risk takers is continuously maintained.

Therefore, an internal EBA Advisory Board was established in 2016 in Danske Bank, with the main objective to continuously evaluate regulatory guidelines and ensure an appropriate interpretation and implementation of such guidelines.

At the end of 2017, 47 material risk takers had been identified in Realkredit Danmark against 49 at the end of 2016.

5 Quantitative information

The enclosed quantitative information complies with the rules of DK FSA and EBA Capital Requirements Regulation on article 450 of Regulation (EU) 575/2013 on disclosure of remuneration related to material risk takers.

Quantitative Information - Realkredit Danmark - Material Risk Takers

(DKK millions)	Retail Activities	Capital Markets	Asset Management	Control Function	Other Activities
Total remuneration for the 2017 financial year broken down by business areas	37	0	0	10	0
(DKK millions)	Board of Directors	Executive Board	Control Function	Other MRT's	
Total amounts for the 2017 financial year broken down by fixed and variable remuneration*					
Number of full-time-equivalent material risk takers (FTE)		8	2	9	31
Number of material risk takers at 31 December 2017		8	2	9	31
Fixed remuneration		0,7	4,1	9,3	29,8
Variable remuneration		0,0	0,6	0,0	2,1
Breakdown of variable remuneration earned in 2017					
- Cash		0,0	0,3	0,0	1,4
- Shares		0,0	0,3	0,0	0,7
- Share-linked instruments & other instruments		0,0	0,0	0,0	0,0
Variable remuneration earned in 2017 broken down by disbursement form					
- Disbursed**		0,0	0,4	0,0	1,5
- Deferred		0,0	0,2	0,0	0,6
Sign-on fees and severance payments disbursed in the 2017 financial year					
- Sign-on fees		0,0	0,0	0,0	0,0
- Number of beneficiaries		0	0	0	0
- Severance payments		0,0	0,0	0,0	0,1
- Number of beneficiaries		0	0	0	1
Provisions made for severance payments in the 2017 financial year					
- Total amounts		0,0	0,0	0,0	0,1
- Highest provision made for severance payment in 2017		0,0	0,0	0,0	0,1
- Number of beneficiaries		0	0	0	1
Outstanding deferred remuneration***					
Outstanding deferred remuneration related to previous years		0,0	0,8	0,0	1,4
- Payments in 2017 related to deferral in previous years		0,0	-0,1	0,0	0,0
- Forfeited deferred remuneration in 2017		0,0	0,0	0,0	0,0
- Reduced		0,0	0,0	0,0	0,0
- Accrued deferred remuneration in 2017		0,0	0,2	0,0	0,6
Deferred remuneration at 31 December 2017		0,0	0,9	0,0	2,0
Number of employees earning EUR 1 million or more, broken down into bands of EUR 500,000					
Total remuneration: EUR 1.0 million - EUR 1.5 million		0	0	0	0
Total remuneration: EUR 1.5 million - EUR 2.0 million		0	0	0	0
Total remuneration: EUR 2.0 million - EUR 2.5 million		0	0	0	0
Total remuneration above EUR 2.5 million		0	0	0	0

The figures are pro rata figures based on the period of time for which the employees have been designated as material risk takers.

* The number of employees includes all material risk takers at 31 December 2017. The number of FTEs is a pro rata figure over the year.

** Disbursed variable remuneration will be disbursed during 2018.

*** The amount of outstanding deferred remuneration is based on the number of designated material risk takers in the year of provision and the share price at the time of granting, thus reflecting the costs for Realkredit Danmark.