

Realkredit Danmark's remuneration policy for 2020 was approved at Realkredit Danmark's Annual General Meeting on 9 March 2020.

Realkredit Danmark's Remuneration Policy 2020

Purpose

As a part of Danske Bank Group, Realkredit Danmark is comprised by Danske Bank Group's remuneration policy, which, as a minimum, is in compliance with applicable legislation and collective agreements.

Building on Danske Bank Group's remuneration policy and adjusted to reflect Realkredit Danmark's specific circumstances, Realkredit Danmark's remuneration policy applies to all Realkredit Danmark employees. Subject to approval at the Annual General Meeting to be held in March 2020, the policy will take effect on 1 January 2020 following approval of Danske Bank Group's remuneration policy at the Annual General Meeting of Danske Bank A/S to be held in March 2020.

The remuneration policy will be made available at www.rd.dk following the Annual General Meeting of Danske Bank A/S in mid-March.

The policy and the general incentive structure reflect Realkredit Danmark's good corporate governance objectives.

In addition, the policy ensures that

- Realkredit Danmark is able to attract, develop and retain high-performing and motivated employees in a competitive market
- employees are offered a competitive and market-aligned remuneration package, of which the fixed salary constitutes a significant component
- employees feel encouraged to create sustainable results
- there is a convergence of the interests of
 - customers
 - employees
 - investors

The policy and the general incentive structure are designed to ensure sound and effective risk management through

- a stringent governance structure for setting goals and communicating these to employees
- alignment with Realkredit Danmark's business strategy, values, key priorities and long-term goals
- alignment with the principle of protecting customers and investors in order to prevent conflicts of interest
- ensuring that the total bonus pool does not undermine or jeopardise Realkredit Danmark's capital base, by embedding the policy and the incentive structure in the Company's capital and liquidity management processes
- ensuring that incentives to take risk are balanced with incentives to manage risk and ensuring that remuneration is aligned with risk and actual performance.

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The policy and the general incentive structure are aligned with Realkredit Danmark's long-term strategy, including its overall business strategy, risk strategy and risk appetite across all risk exposures such as credit, market, operational, liquidity, reputational and other risks identified by Realkredit Danmark.

The policy and the general incentive structure ensure transparency of the compensation strategy. As a general rule, individual performance agreements are entered into with employees comprised by incentive schemes. These agreements set out clear, predefined KPIs fixed in accordance with Realkredit Danmark's overall strategy and applicable legislation. Transparency is ensured also by the disclosure of remuneration policies and information on paid remuneration to the authorities and by disclosure of the Annual Report and the annual Remuneration Report. Lastly, for internal purposes, Realkredit Danmark publishes bonus procedures and guidelines describing its incentive schemes and procedures.

Corporate governance

The Board of Directors of Realkredit Danmark has not established an independent remuneration committee, but undertakes this role itself on the basis of the remuneration policy and other HR guidelines applying to all companies in Danske Bank Group.

Within Danske Bank Group, various control and compliance functions are involved in the process of implementing the policy and the incentive structures to ensure that risk, capital and liquidity limits are not exceeded. Danske Bank Group's risk committee assesses whether the incentive structure is commensurate with the Group's risks, capital and liquidity and evaluates the probability and timing of the remuneration.

On the basis of the recommendation of Danske Bank's remuneration committee, the Board of Directors of Danske Bank reviews, evaluates and approves the incentive structure for the coming year. Aggregate bonus expenses, which are made up of bonus accrued under these schemes, are approved once a year by Danske Bank's Board of Directors based on the recommendation of Danske Bank's remuneration committee.

Danske Bank Group has established effective control procedures with a view to ensuring that variable remuneration is paid in accordance with applicable guidelines, incentive structures and legislation. The related practices and procedures are clear, well-documented and transparent, and the procedures are reviewed at least once a year by Danske Bank's Internal Audit function. Realkredit Danmark is a part of this control set-up.

Remuneration components

At least annually, during the appraisal interview and other dialogue between employees and managers, the employee's performance during the past year/period is evaluated and documented and new goals are defined. Decisions on adjustment, if any, of the employee's fixed salary or on the granting of performance-based pay are made on the basis of this interview/dialogue.

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The five remuneration components, the composition of which depends on the incentive structure applying to the employee, are:

- fixed remuneration
- short-term performance-based remuneration (variable remuneration)
- pension schemes
- other staff benefits
- severance pay

Fixed remuneration is determined on the basis of the role and position of the individual employee, including professional experience, seniority, educational background, responsibilities, job complexity, local market conditions, etc. Fixed remuneration is paid in cash.

Performance-based remuneration motivates, rewards and drives behaviour and performance meeting the targets defined for the employee, which reflect core values and specific requirements for performance at Danske Bank Group level, Realkredit Danmark/business unit level and individual level. As such, all incentive programmes comprise performance at all three levels, where relevant. The incentive structure may be divided into: (1) Management programmes and (2) Employee programmes.

In order to ensure an appropriate balance between fixed and variable remuneration components, performance-based remuneration has been capped at 50% of the fixed remuneration inclusive of pension, where relevant. However, most employees are comprised by incentive schemes under which variable remuneration cannot exceed 25% of the fixed remuneration.

Performance-based remuneration may be paid in the form of a cash bonus and conditional shares. Pursuant to applicable legislation, Danske Bank Group has laid down limits for when bonus is to be paid as a combination of cash and conditional shares.

Pension schemes provide employees with basic cover on critical illness or death and with pension benefits on retirement. As a general rule, employees are covered by compulsory defined contribution plans with a pension insurance company. For employees under collective agreements, pension contributions are regulated by the collective agreement.

Other staff benefits are awarded on the basis of individual employment contracts and local market practice. As a general rule, Danske Bank Group has set guidelines in order to align benefits/standard packages offered to employees at various employment levels within the Group. Benefits include mobile phones, internet, newspaper subscriptions, company car, health insurance and health checks, assistance from health providers and other benefits such as insurance covers and/or reimbursement of costs incurred during the employment.

Severance pay is paid in accordance with applicable legislation and applicable collective agreements. The overall policy and agreements on severance pay are laid down by Group HR and relevant control functions. Severance pay constitutes an appropriate compensation for early termination by Realkredit Danmark, is determined based on the relevant employee's responsibilities and decision-making powers and is composed so as not to reward inadequate performance. As a general rule, severance pay reflects the relevant employee's seniority, as employees qualify for severance pay in the course of their employment. Most employees are

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only entitled to severance pay as provided by law or collective agreements. Under specific individual agreements, certain key employees are entitled to severance pay of up to 12 months' salary, while certain managers are entitled to severance pay of up to 24 months' salary.

It should be specified that, unless otherwise provided by applicable legislation and collective agreements, no severance agreement concluded from 1 January 2015 onwards may include any variable remuneration components, pension or other staff benefits. Unless otherwise provided by law, collective agreements or agreements entered into prior to 1 January 2018, severance pay inclusive of salary during the notice period cannot exceed two years' salary inclusive of all remuneration components and staff benefits.

Performance-based remuneration

Performance-based remuneration is awarded so as to promote sound risk management, including ex-post risk adjustment, and does not induce excessive risk-taking. Accordingly, if performance-based remuneration exceeds the threshold determined by the Board of Directors, it is paid as a combination of conditional shares and cash, part of which is deferred in accordance with national legislation or Danske Bank Group's guidelines. The vesting period for performance-based remuneration is one year. According to Danske Bank Group's spot bonus governance, certain employees who are not comprised by mandatory law stipulating otherwise may be awarded bonus for extraordinary performance during a certain period.

Depending on position and amount, the deferral period is three to seven years. Employees who are awarded performance-based remuneration above a certain threshold will receive the part of the performance-based remuneration that exceeds the threshold in conditional shares, which are deferred for one to three years. For material risk takers, deferral is applied according to mandatory legislation and Danske Bank Group policies. For the Executive Board, performance-based pay is deferred by at least four years.

Non-disbursed performance-based components are subject to back testing. Back testing criteria are determined by Danske Bank Group HR in accordance with applicable law.

For all employees, any disbursed and non-disbursed components paid on the basis of data which subsequently prove to be manifestly misstated or inaccurate are clawed back.

Performance-based pay is awarded in such a way as to ensure:

- an appropriate balance between fixed and performance-based components
- that the fixed remuneration component is sufficient to make the performance-based component a non-necessity
- that risks associated with deferred shares awarded to employees who have been designated as material risk takers are not hedged
- that material risk takers cannot dispose of share-based instruments for an appropriate period of time after granting.

Performance-based pay is determined based on Danske Bank Group's financial results, the results of Realkredit Danmark/the business unit in which the employee is employed and the individual employee's own performance. This applies, as a minimum, to material risk takers.

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Both financial and non-financial criteria are taken into consideration when determining individual employee bonuses, such as compliance with core values and internal guidelines and procedures, including guidelines concerning customers and investors. A discretionary assessment is always made to ensure that other factors - including factors which are not directly measurable - are considered.

Performance-based pay is determined on the basis of an assessment of Danske Bank Group's results and a number of KPIs reflecting the Group's key strategic priorities. Depending on the area of employment, an appropriate, target-balancing mix of absolute, relative, internal and external KPIs is composed and applied. Risk KPIs are applied to ensure effective risk management and a culture focused on compliance in order to facilitate Danske Bank Group's targeted integrity efforts. The KPIs applied comprise quantitative and qualitative criteria, such as:

- return on equity
- cost/income ratio and/or other cost-related measures
- customer satisfaction
- relative performance measured against peers
- observance of core values and delivery on the Essence of Danske Bank Group mission
- compliance with legislation and internal business procedures/code of conduct
- performance supporting the strategy of Realkredit Danmark/the business unit or Danske Bank Group
- expected loss or similar risk measures
- innovation
- observance of Danske Bank Group's and Realkredit Danmark/the business unit's risk management and compliance culture
- leadership/employee engagement

If Danske Bank Group incurs a loss in a financial year, a mechanism may be implemented to suspend performance-based pay that year. Further, if a beneficiary fails to act in accordance with Realkredit Danmark's code of conduct, the Executive Board subsequently Realkredit Danmark's Board of Directors may reduce or cancel any earned bonus.

The KPIs are designed to prevent conflicts of interest and thus ensure that employees are rewarded for acting in the best interests of all stakeholders, including customers. Employees are not incentivised to sell specific products to customers if, based on best practice, customer analysis, etc., other products would serve the customer better or be more suitable for the customer.

Fixed sign-on bonus, stay-on bonus and guaranteed variable bonus

Fixed sign-on bonus, stay-on bonus and guaranteed variable bonus are granted only in exceptional cases and subject to assessment by the head of the business unit in question in consultation with Group HR. Such components will only be used to attract or retain highly specialised employees or managers and may not exceed one year's gross salary inclusive of pension contributions, staff benefits and fixed allowances. Fixed sign-on bonus can be paid in cash or as a combination of cash and shares and will generally, in accordance with applicable

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legislation, be conditional upon the employee not resigning within a given period of time after disbursement.

Where relevant, sign-on bonus for material risk takers is agreed on employment of the employee concerned and will be granted for a maximum of one year.

Sign-on bonus, stay-on bonus and guaranteed variable bonus are determined and paid in accordance with legislation applicable to the Group and to local entities subject to national legislation.

Diversity and equal pay

An employee's total remuneration package is composed on the basis of the employee's role and position, professional experience, seniority, educational background, responsibilities, job complexity, local market conditions, the financial results of Danske Bank Group, the financial results of Realkredit Danmark/the business unit, the individual's performance, etc.

Several years ago, Danske Bank Group adopted a diversity and inclusion strategy and policy, which can be found at [danskebank.com](https://www.danskebank.com). The policy sets out to ensure that employee remuneration is determined without regard to gender, race, ethnic origin, political views, sexual orientation, age or other discriminatory factors. Danske Bank Group continuously strives to promote equality with respect to employment, career development, promotions, equal pay, etc. With a view to closing the gender pay gap, the Group focuses not only on pay but more broadly on diversity and inclusion in order to foster a higher proportion of women in executive and top-bracket positions. Danske Bank Group has implemented numerous initiatives with a view to achieving its ambitions in relation to diversity and equal pay and regularly carries out internal reviews in order to ensure that the Group delivers on its strategy and targets. Additional information is available in the Corporate Responsibility report at [danskebank.com](https://www.danskebank.com). Based on the group policy, Realkredit Danmark has defined its own diversity targets and follows up on these in its Annual Report.

External collaboration partners

When collaborating with external partners such as agents, independent consultants, temporary workers from temp agencies, etc., Danske Bank Group strives to ensure that the terms and conditions of the contract are consistent with the Group's business and risk strategy, long-term interests and core values and discourage conflicts of interest, major risks and misleading sales practices. Accordingly, as a general rule, external collaboration partners are paid by the hour or receive a fixed project fee and do not receive variable pay. In accordance with the above criteria, the head of procurement at Danske Bank may under extraordinary and exceptional circumstances derogate from the fixed remuneration principle and award project bonuses etc. However, such bonus must always be agreed having regard to the above criteria and may not reward failure, non-performance or non-compliance with Group policies.

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Material risk takers and control functions

The remuneration of material risk takers and employees in control functions is subject to specific conditions laid down in applicable legislation, EU rules and relevant guidelines.

Once a year, in accordance with the policy of conducting an annual assessment, the Board of Directors of Danske Bank, where relevant, designates employees within the Group's internal control functions and employees who are material risk takers at group, sub-group and institutional level.

In accordance with the legislation in force from time to time, material risk takers are designated on the basis of internal criteria set by the Board of Directors of Danske Bank as well as qualitative and quantitative regulatory criteria. Members of the Executive Board and the Board of Directors are designated as material risk takers on a continuous basis.

Where employees in control functions are comprised by incentive schemes, Danske Bank Group ensures that such employees are rewarded for delivering the best possible results within their specific roles and that the variable remuneration does not compromise their objectivity and independence.

Remuneration of the Executive Board of Realkredit Danmark

The remuneration paid to the Executive Board is set so as to ensure Realkredit Danmark's continued ability to attract and retain the best qualified Executive Board members. Developments in market practice are taken into account in connection with the annual evaluation of the remuneration structure for members of the Executive Board.

The remuneration of the Executive Board is determined by the Board of Directors and may consist of a fixed salary, various allowances and eligibility for incentive pay and pension schemes (as a general rule, the Executive Board member will be comprised by the Group's pension scheme, under which a fixed percentage of the salary is paid into the collective group pension scheme, thus entitling the member to pension benefits upon retirement). Based on individual agreements, members of the Executive Board are also entitled to mobile phones, internet, newspaper subscriptions, company car, health insurance and health checks, assistance from health providers and other staff benefits. Executive Board members may also be offered insurance covers and/or reimbursement of costs incurred during their employment.

Realkredit Danmark's CEO is entitled to a notice period of 12 months upon termination by the Group and to terminate his own position at six months' notice. Realkredit Danmark's CEO is entitled to 12 months' severance pay upon termination by Realkredit Danmark.

Other members of the Executive Board are entitled to a notice period of eight months upon termination by the Group and to terminate their own position at three months' notice. Members of the Executive Board are entitled to 24 months' severance pay upon termination by Realkredit Danmark.

During a notice period, members of the Executive Board are only entitled to salary and benefits to the extent that they do not receive other income during the notice period.

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The performance of Executive Board members is evaluated once a year based on written performance agreements prepared in accordance with the financial and non-financial KPIs described above. Subject to applicable legislation, the annual performance-based remuneration paid to members of the Executive Board cannot exceed 50% of their annual gross salary exclusive of pension contributions. The remuneration of the Executive Board is set out in the Annual Report.

Remuneration of the Board of Directors of Realkredit Danmark

Board members elected by the shareholders and board members elected by the employees receive a fixed fee. Board members do not receive any kind of incentive or performance-based pay. Fees are aligned with market practice and reflect the qualifications and competencies required in view of the Company's size and complexity, the responsibilities assumed by Board members and the time they are expected to spend discharging their obligations as Board members. Directors' fees are not pensionable.

Shareholder-elected Board members who are employed with Danske Bank Group do not receive fees or any other kind of compensation.

The fees paid to individual Board members are disclosed in the Annual Report.

The Board of Directors presents a proposal for the remuneration of the members of the Board of Directors to the Annual General Meeting for its approval.

Miscellaneous

If warranted by extraordinary and exceptional circumstances, the Board of Directors may, as permitted by law, deviate from this policy in isolated cases.

Information on Realkredit Danmark's remuneration policy, the remuneration paid to members of the Executive Board and the aggregate remuneration of other material risk takers is disclosed once a year at Realkredit Danmark's website at www.rd.dk.