

Nykredit

 **Totalkredit**

Remuneration policy

March 2020



CONTENTS		
1	<i>Background and purpose</i>	4
1.1	<i>Introduction</i>	4
1.2	<i>General remuneration principles</i>	4
1.3	<i>Strategy and risk</i>	5
2	<i>A common framework applying to all staff members</i>	5
2.1	<i>Remuneration components</i>	5
2.2	<i>Base salary</i>	6
2.3	<i>Pensions</i>	6
2.4	<i>Bonus programmes and performance awards</i>	6
2.5	<i>Long-term incentive schemes</i>	8
2.6	<i>Sign-on and stay-on fees</i>	9
2.7	<i>Staff benefits</i>	9
2.8	<i>Severance pay</i>	9
3	<i>Remuneration of the Board of Directors</i>	9
4	<i>Remuneration of the Executive Board</i>	10
4.1	<i>Remuneration of Group Executive Board</i>	10
5	<i>Risk takers</i>	10
5.1	<i>Identification of material risk takers</i>	10
5.2	<i>Long-term instruments, deferral and retention</i>	11
5.3	<i>Backtesting and clawback</i>	12
5.4	<i>Lower threshold</i>	12
6	<i>Remuneration of staff in control functions</i>	13
7	<i>Remuneration disclosures</i>	13
8	<i>Control and reports</i>	13

Approved by the Boards of Directors of

- Nykredit A/S (4 February 2020)
- Nykredit Realkredit A/S (4 February 2020)
- Nykredit Bank A/S (30 January 2020)
- Totalkredit A/S (3 February 2020)
- Nykredit Portefølje Administration A/S (30 January 2020)
- Nykredit Leasing A/S (29 January 2020)
- Nykredit Mægler A/S (28 January 2020)
- Ejendomsselskabet Kalvebod A/S (30 January 2020)
- Sparinvest Holdings SE (16 March 2020)
- Sparinvest S.A. (27 February 2020)
- LR Realkredit A/S (3 February 2020)

Approved by the Annual General Meetings of

- Nykredit A/S (26 March 2020)
- Nykredit Realkredit A/S (26 March 2020)
- Nykredit Bank A/S (26 March 2020)
- Totalkredit A/S (26 March 2020)
- Nykredit Portefølje Administration A/S (24 March 2020)
- Nykredit Leasing A/S (24 March 2020)
- Nykredit Mægler A/S (24 March 2020)
- Ejendomsselskabet Kalvebod A/S (23 March 2020)
- Sparinvest Holdings SE (6 May 2020)
- Nykredit Realkredit A/S (23 March 2020)

Remuneration policy covering remuneration earned from 1 January 2020.

Any changes to the remuneration policy must be adopted by the Boards of Directors of the respective Companies and approved by the Annual General Meetings of the same Companies.

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1 BACKGROUND AND PURPOSE

1.1 Introduction

The remuneration policy of the Nykredit Group lays down the framework for remuneration of the Boards of Directors, the Executive Boards, other material risk takers, staff in control functions and other staff of Nykredit A/S and the Nykredit Realkredit Group Companies: Nykredit Realkredit A/S, Nykredit Bank A/S, Totalkredit A/S, Nykredit Portefølje Administration A/S, Nykredit Leasing A/S, Nykredit Mægler A/S and Ejendomsselskabet Kalvebod A/S, Sparinvest Holdings SE, Sparinvest S.A. and LR Realkredit A/S (collectively "Nykredit" or the "Group").

This remuneration policy has been prepared on the basis of:

1. Nykredit's business model, strategy and desired risk profile
2. Rules and legal practice within the field
3. Collective agreements
4. The remuneration code of the Danish financial sector
5. Recommendations by the Committee on Corporate Governance
6. Nykredit as a Systemically Important Financial Institution (SIFI)

The remuneration policy has been prepared with focus on accountability and risk management and supports the objective that Nykredit contributes to financial stability. Another objective of this remuneration policy is for Nykredit to safeguard its long-term interests and the interests of other stakeholders such as customers, shareholders, other investors and the public.

The recommendations issued by the Committee on Corporate Governance, including recommendations in respect of remuneration of management, will be implemented on a current basis subject to employment and contract law.

The Boards of Directors of Nykredit have set up a Group-level Board Remuneration Committee tasked with preparing the work of the Boards of Directors of the Group Companies with respect to remuneration. The Board Remuneration Committee also monitors remuneration policy compliance.

On the recommendation of the Board Remuneration Committee, the Boards of Directors of the Group Companies review the remuneration policy at least once a year for the purpose of making any changes necessary to reflect the Group's development. Any changes to the remuneration policy are subject to approval by the Annual General Meetings of the Companies.

For a description of the Board Remuneration Committee's members, responsibilities, tasks and powers, see the mandate of the Board Remuneration Committee at nykredit.com and totalkredit.dk.

Nykredit ensures that remuneration is set and overseen to help avoid potential conflicts of interest in relation to remuneration. For other measures having the same purpose, see 2.4.1 (cap on variable remuneration) and 2.6 (presentation of high variable remuneration to the Group Executive Board/responsible Group Managing Director); 2.4.2 (no variable remuneration based on quantitative commercial criteria); 4.1 (determination and composition of the Group Executive Board's remuneration).

1.2 General remuneration principles

The remuneration policy lays down Nykredit's general remuneration principles and components, underpinning:

- Delivery of the Group's strategy.
- Nykredit's ability to attract and retain qualified and performance-oriented staff
- Nykredit's wish to prioritise development and opportunities for engaged and skilled people
- Promotion of responsible conduct
- Sound and effective risk management – including that Nykredit's remuneration structure does not encourage excessive risk taking, for instance by:
 - preparing bonus programmes that do not encourage breach of risk limits or governance
 - acting in harmony with principles of fair treatment of customers and

- protection of customers and investors by taking measures to avoid conflicts of interest
- ensuring that the remuneration structure does not erode Nykredit's capacity for strengthening its capital position
- setting criteria for the determination of fixed and variable remuneration components.

Remuneration of the staff is independent of gender, religion, sexual orientation, political affiliation and ethnic origin.

1.3 Strategy and risk

The remuneration policy has been prepared on the basis of Nykredit's overarching strategy, Winning the Double 2.0., which sets the framework for the Group's strategic and business development.

Nykredit's strategy builds on customer ownership, banking, mortgage lending and the Totalkredit partnership.

The strategy focuses particularly on three objectives:

- 1) We want to secure Totalkredit's future position as market leader in home financing in Denmark
- 2) We want to expand Nykredit's banking position by gaining more full-service customers
- 3) We want to win the position as the customer-owned and responsible financial provider

Nykredit has an objective of growing income from core business and of continuously becoming more cost-efficient. This is required to meet the regulatory requirements and to ensure a competitive business in the long term.

Today, Nykredit uses Balanced Scorecard as a strategic management tool to measure the effects of its business initiatives. This will ensure, on a current basis, that the required business development is realised. Nykredit's Balanced Scorecard includes Group targets, focusing on capital, finances, customers, processes and staff. The extent of target attainment as determined in accordance with the target management tool used from time to time will also have an impact on the size of any variable remuneration.

Decisions made by individual staff members may imply risks in the form of credit risk, market risk, liquidity risk and operational risk – including compliance and IT security risk. Effective risk management in these areas is secured by laying down and following up on policies, guidelines, limits and business procedures.

2 A COMMON FRAMEWORK APPLYING TO ALL STAFF MEMBERS

2.1 Remuneration components

Remuneration of a staff member is determined based on the remuneration level of that staff member's job category and job level, relevant personal and professional skills, contribution and performance, attitude and conduct relative to Nykredit's values, and market conditions.

Remuneration of Nykredit staff consists of the following components: (i) a base (fixed) salary and (ii) a pension contribution.

In addition, remuneration components such as (i) bonus/performance awards, (ii) sign-on and/or stay-on fees, (iii) staff benefits and (iv) severance pay may be used to a limited extent.

The weighting of the remuneration components varies depending on the job category and

business area. Remuneration is structured at all times to prevent conflicts of interest between members of management and staff on the one hand and customers and investors on the other.

2.2 Base salary

The base salary consists of a fixed cash amount.

Staff subject to collective agreement are subject to the provisions governing salaries of the collective agreements and any related agreements in force from time. Under the current collective agreement, staff members are placed at salary levels/grades which are adjusted annually on 1 July. Nykredit's use of individual salary rises based on skills, contribution or market conditions is limited with respect to staff subject to a collective agreement.

There is no automatic annual adjustment of the salaries of staff and managers whose salary levels are not regulated by a collective agreement. Instead, salary adjustments may be agreed once a year based on the remuneration budget and guidelines laid down by the Group Executive Board and input provided by local managers.

2.3 Pensions

For staff subject to the collective agreement, pension contributions are regulated by such agreement.

For staff not subject to collective agreement, Nykredit's policy is that such staff should be guaranteed pension terms similar to the terms applicable at any time under the collective agreement. Pension terms are set out in the individual employment contracts.

2.4 Bonus programmes and performance awards

In order to ensure market-consistent and competitive remuneration and to underpin the delivery of its strategy at the level of the Group and the individual business divisions, Nykredit offers bonus programmes to certain staff groups. Nykredit's benchmarks for this purpose are national financial businesses.

The proportion of base salary to variable remuneration depends on the specific job position, and individual programmes are subject to limits, ensuring that the bonus programmes do not result in excessive risk-taking, and that relevant legislation is complied with.

Staff members may generally be awarded a bonus provided that Management has decided, prior to its approval of the annual financial statements, that there is a basis for awarding bonuses – and always provided that the payments, for instance in case of economic fluctuations, do not impair Nykredit's capacity for strengthening its capital position.

The majority of Nykredit's staff are not covered by a bonus programme. The top performers among the staff not covered by a bonus programme may, on an individual basis and subject to approval by the Group Executive Board, be awarded a non-recurrent cash performance bonus from year to year. The decision in this respect is made by the management staff, primarily based on the attainment of individual targets set out in the performance review.

2.4.1 Bonus programmes and maximum share of variable remuneration

The Board of Directors determines the maximum proportions of the variable remuneration and the base salary. In principle, the variable remuneration component must never exceed 100% of the base salary; the majority of staff have lower bonus potentials.

However, the Board of Directors and the Annual General Meeting have approved that a very limited number of staff may receive a variable remuneration component of up to 200% of the fixed component subject to prior individual approval by the Group Executive Board and only on the basis of a highly exceptional performance.

Likewise, the use of stay-on/sign-on fees, see 2.6, may result in a total variable remuneration component of more than 100% (but not more than 200%) of the base salary. In such case, the procedure outlined in the Danish Financial Business Act is followed as well, including prior notification to the Danish Financial Supervisory Authority (FSA). For staff of

Sparinvest Holdings SE and Sparinvest S.A, prior notification is given to the CSSF in Luxembourg.

Payment of a variable remuneration component exceeding DKK 750,000 is subject always to approval by the Group Executive Board.

2.4.1.a Long-term incentive scheme

Effective from the qualifying year 2019, a long-term (2-year) incentive scheme has been established for a limited number of members of management reporting directly to the Group Executive Board. The Group Executive Board has decided which members of management and staff participate in the scheme.

The scheme serves as a supplement to the bonus programmes mentioned below and provides that a variable remuneration component of up to 100% of the base salary may be awarded, but the total variable remuneration is, however, subject to the limits set out in 2.4.1 above.

2.4.1.b Markets Trading, Asset Management, Investments and Treasury

Special bonus programmes apply to members of staff and management of Markets Trading, Asset Management, Investments and Treasury who have major earnings responsibility, in line with market standards for such positions. Remuneration of these staff members is based on the business performance, and the variable remuneration component is generally high relative to the rest of the Group's bonus programmes. The variable remuneration component may reach up to 100% of the base salary – and up to 200% for a very limited number of staff.

2.4.1.c Functions with responsibility for the largest and most professional customers

A limited number of bonus programmes under which the variable remuneration component may reach up to 100% of the base salary apply to members of management and staff in key functions having responsibility for the largest and most professional customers.

2.4.1.d Other members of management and staff

Bonus programmes under which the variable remuneration component may reach up to 25% of the base salary apply to other members of management and a small number of the members of staff in high-level positions or tasked with special projects. Variable remuneration is exclusively awarded to reward exceptional performance.

2.4.1.e Extraordinary increase of the variable remuneration component

Under highly extraordinary circumstances, including projects of particular strategic importance to Nykredit, bonuses awarded to staff eligible for a bonus programme under which the maximum variable remuneration component is less than 100% may, subject to decision by the Group Executive Board and prior notification to the Board Remuneration Committee, be increased to a maximum of 100% of the base salary.

2.4.2 Bonus criteria

For all bonus programmes, a number of bonus award criteria must be met. The criteria are all aligned with Nykredit's strategic priorities and targets as specified in the Group's Balanced Scorecard and vary depending on the business division in question or the position held by the staff member in question. Moreover, a number of circumstances may cause the bonus to be reduced or cease, irrespective of the extent to which the set criteria have been met.

A balance between short-term and long-term targets should apply to the bonus programmes. This means that earnings targets/quantitative criteria will be supplemented with other targets/quantitative criteria.

Examples of specific targets/criteria are:

- Earnings – both level and growth
- Risk impact
- Customer satisfaction

- Contribution to internal and external collaboration
- Contribution to development of business area
- Contribution to efficiency and projects
- Conduct – must be aligned with strategy and culture
- Contribution to meeting the targets set out in the Group's current performance management tool
- Attainment of individual targets set out in performance reviews.
- Staff satisfaction

The assessment of earnings targets factors in credit risk, market risk, liquidity risk and operational risk – including compliance and IT security risk – by, among other things, deducting any losses and capital charges. The purpose is to ensure that business divisions and/or members of management/staff do not take unnecessary risks, as this may prompt a reduction in the individual bonus.

In addition, the earnings of the Group, the division/subsidiary and the individual staff member are factored in but are weighted differently relative to the individual staff member's earnings impact. As for Nykredit Portefølje Administration and Sparinvest, consideration is also made for the performance of the managed portfolio funds and the overall performance of the asset manager.

The main circumstances that may cause the bonus to be reduced or cease are:

- Non-compliance with rules or business procedures etc (compliance)
- Non-compliance with policies, guidelines or risk limits
- That the staff member is not deemed to have carried out their job or acted in accordance with their obligations in a satisfactory manner and has thus failed to meet appropriate eligibility and integrity requirements.

In accordance with the rules applicable to the financial area aimed at ensuring that the Company's remuneration policy and practice are designed so as to prevent conflicts of interest vis-à-vis customers, Nykredit does not pay out variable remuneration based on quantitative commercial criteria (such as specific sales targets or the number or proportion of approved home loan applications).

Criteria similar to those outlined above apply to staff eligible for the bonus programme, see 2.4.1.d. However, more weight will be attached to Nykredit's overall performance, including attainment of the targets set out in the Group's Balanced Scorecard and a manager's performance in this respect.

For management staff reporting directly to the Group Executive Board, bonuses are particularly closely linked to the attainment of targets in the Balanced Scorecards of the Group and their own division. Moreover, bonus awards also depend on the attainment of individual targets set out in the annual performance review. All targets are thus set by the Group Executive Board or the individual Group Managing Director.

For other management staff, the attainment of individual targets, as agreed in, for instance, in the performance review, carries the highest weighting. Targets are based on Nykredit's strategy and overall objectives. Bonus is exclusively paid in case of an exceptional performance and is subject to delivery of individual ambitious targets. No bonus is payable for performance expected to be covered by the base salary.

Each staff member subject to a bonus programme may at any time request a discussion of the status of their performance relative to specific bonus criteria.

2.5 Long-term incentive schemes

Some staff of Sparinvest Holdings SE and Sparinvest S.Aare currently covered by bonus programmes running for more than three years.

In addition to this as well as the long-term incentive scheme described in 2.4.1.a and bonds used as a bonus element for the Group's material risk takers, see 5, Nykredit does not apply long-term incentive schemes.

2.6 Sign-on and stay-on fees

Sign-on and stay-on fees are offered only in extraordinary cases. Sign-on fees are offered to attract highly specialised key staff. Stay-on fees are offered to retain staff if it is deemed essential for Nykredit that such staff remain in Nykredit's employ for a specified period of time. The Board of Directors defines maximum limits to such fees annually. The 2020 maximum sign-on fee is 100% and the maximum stay-on fee is also 100% of the base salary. Amounts above DKK 750,000 are always subject to approval by the Group Executive Board. Amounts below DKK 750,000 are subject to approval by the responsible Group Managing Director.

The total variable remuneration component (sign-on/stay-on fees, bonus etc) cannot exceed 200% of the base salary. If the total variable remuneration component exceeds 100% of the base salary, the procedure stipulated in the Danish Financial Business Act must be complied with. This includes prior notification to the Danish FSA.

Bonuses are not subject to any guarantee.

2.7 Staff benefits

Nykredit wants to provide the Group's staff with the best possible options in critical situations, and under the collective agreement, all staff are covered by group life insurance, including critical illness, full-time accident and health insurance.

In addition, the staff is offered flexible pay packages (transport, mobile phones, broadband etc) within the framework of Danish legislation.

Some staff groups may, against a reduction in their salaries, opt for staff benefits that are not offered to all staff, such as newspaper subscriptions or a car subject to Nykredit's company car policy.

Furthermore, some of the financial products of the Nykredit Group are offered to staff on special terms.

2.8 Severance pay

Staff members subject to the Group Collective Agreement will exclusively receive severance pay pursuant to the provisions of the Danish Salaried Employees Act and the Collective Agreement.

Severance pay for some members of management and staff not subject to the Group Collective Agreement is determined in accordance with provisions of the individual employment contracts and cannot exceed nine months.

Apart from the severance pay, see above, an appropriate compensation for early termination by Nykredit may extraordinarily be paid in certain isolated cases.

Special conditions apply to the Group Executive Board, see4.

3 REMUNERATION OF THE BOARD OF DIRECTORS

The members of the Boards of Directors of Nykredit Realkredit A/S and Nykredit A/S as well as members of the Board of Directors of Totalkredit A/S who are not employed with the Nykredit Group and staff-elected members of the Board of Directors of Nykredit Bank A/S as well as investment representatives elected to the Board of Directors of Nykredit Portefølje Administration A/S receive fixed annual cash fees. This group of persons may further receive a fixed cash fee for serving on Board Committees. The fees must be approved by the Annual General Meeting of the Group Company in question for the current year.

No board member is entitled to any kind of variable remuneration by virtue of their directorship. Board members employed with the Group may receive variable remuneration as part of their employment contract with Nykredit.

The fees paid to the Board of Directors are fixed at a reasonable level relative to market standards and reflect the qualifications and skills necessary for board members relative to

the size and complexity of the Group, their individual contribution, value creation and responsibility as well as the time they are expected to spend to meet their obligations.

Except for the staff-elected members of the Boards of Directors of Nykredit Realkredit A/S, Nykredit A/S, Nykredit Bank A/S and Totalkredit A/S, the board members do not receive any staff discounts on the Group's products.

Except for the staff-elected members of the Board of Directors of Nykredit Bank A/S, the internal board members of the subsidiaries do not receive any fees for their service.

Based on the recommendation of the Board Remuneration Committee, the Board of Directors of the relevant Company submits a proposal to the Annual General Meeting of that Company for fees to be paid to the members of the Board of Directors.

4 REMUNERATION OF THE EXECUTIVE BOARD

4.1 Remuneration of Group Executive Board

The members of the Group Executive Board who are responsible for the duties of the Executive Boards of Nykredit Realkredit A/S and Nykredit A/S receive cash base salaries as determined by the Board of Directors.

Members of the Group Executive Board are covered by Nykredit's company car policy and may, against a reduction in their salaries, choose a car within the limits stipulated therein.

The Group Managing Directors do not receive variable remuneration.

In addition to their base salaries, the members of the Group Executive Board receive a contribution for a pension plan of their own choice. The pension programmes applicable from time to time are published annually in connection with the presentation of the Group's Annual Report and in the Group's remuneration report, see the Recommendations on Corporate Governance.

The members of the Group Executive Board have a notice of termination of 12 months. Moreover, severance pay agreed upon appointment and not performance-driven may be paid in case the employment is terminated by Nykredit. Severance pay constitutes between 6 and 17 months' salary.

The members of the Group Executive Board do not receive staff discounts on the Group's products.

4.2. Remuneration of Executive Boards of subsidiaries

Salaries and bonuses paid to the Executive Boards of the subsidiaries are determined by the Group Executive Board and the Boards of Directors of the Group Companies in question.

The members of the Executive Boards of the subsidiaries that carry on financial business, are financial institutions or alternative investment fund managers, etc, are de facto risk takers and are subject to the terms, conditions and restrictions relative to variable remuneration mentioned under 5 below, which may constitute no more than 50% of the base salary including pension.

In case of termination by the company, the executive boards of subsidiaries have a notice of termination of up to 12 months. For more information on severance pay, see 2.8.

The members of the Executive Boards of Nykredit Bank A/S and Totalkredit A/S do not receive staff discounts on the Group's products.

5 RISK TAKERS

5.1 Identification of material risk takers

A number of circumstances relating to variable remuneration of material risk takers ("risk takers") of financial businesses, financial institutions and alternative investment fund

managers are regulated by law.

The criteria laid down in law for deciding who among the staff members are risk takers have been aligned with Nykredit's present situation, and this has resulted in specific criteria for identifying the staff members at Nykredit who are risk takers. The criteria have been laid down in business procedures determined by the Boards of Directors of the financial Group Companies, financial institutions and alternative investment fund managers that define responsibility and processes in relation to identification of risk takers and bonuses for risk takers of the Group.

Based on these criteria, the HR and Risk & Conduct units will propose specific management staff and non-management staff as risk takers of Nykredit. The specific considerations, criteria and risk takers are subject to approval annually by the Board Remuneration Committee and by the Boards of Directors of the Companies in question. In addition, risk takers are designated over the year in connection with resignations/recruitments, organisational changes, budgetary changes etc.

Members of the Group Executive Board and all members of the Boards of Directors and Executive Boards of the Nykredit companies that carry on financial business or are financial institutions or alternative investment fund managers etc, are de facto risk takers.

Risk takers are notified of their designation and its implications in the form of a supplement to their employment contract.

Staff members of Nykredit Portefølje Administration A/S and Sparinvest having a material impact on the risk profiles of the managed alternative investment funds are also risk takers.

Where Nykredit Portefølje Administration A/S or the managed alternative investment funds delegate portfolio management or risk management to staff in other Group Companies, Nykredit has made sure that the staff members so authorised are subject to either remuneration rules corresponding to those governing alternative investment fund managers or similar contractual commitments.

The risk takers are covered by the above bonus programmes, restrictions and criteria.

Some of these criteria relating to risk takers are moreover governed by law, implying that:

- A variable, performance-related remuneration component is determined on the basis of the performance of the individual, of the business unit of the said individual and of the overall results of the Company.
- The performance measurement used as a basis for the variable remuneration component reflects the current and future risks related to the actual performance and any cost of capital and liquidity required to obtain such performance.
- When assessing the performance of the individual staff member, consideration is made for non-financial criteria such as compliance with internal rules and procedures and with the Company's guidelines and business procedures that apply to the relationship with customers and investors.

Moreover, the risk takers are subject to a number of restrictions on the payout of bonuses awarded for the purpose of ensuring that material risk takers have a long-term perspective in their decision-making.

5.2 Long-term instruments, deferral and retention

For risk takers receiving variable remuneration, at least 50% of the variable remuneration must be awarded as long-term instruments.

For risk takers who are also members of the Executive Board of a Group SIFI, a minimum of 60% of the variable remuneration is awarded as long-term instruments.

Long-term instruments currently consist in bonds with the characteristics of senior contingent notes, where the price performance is linked to Nykredit's Tier 1 capital ratio.

As an alternative investment fund manager, Nykredit Portefølje Administration A/S pays out at least 50% or a significant part of the variable remuneration, subject to the alternative investment funds' Articles of Association, nature etc, as a mix of units or instruments relating to units in the alternative investment funds or corresponding instruments reflecting the value of the alternative investment funds.

The staff member must not hedge the risk relating to the above instruments.

In pursuance of the Danish Financial Business Act, the payout of at least 40% of the variable remuneration – or at least 60% in respect of large remuneration amounts – must be deferred over a period of five years as regards members of the Executive Board of Group SIFIs, four years as regards other Executive Board members in financial undertakings and three years as regards other risk takers.

The Executive Boards of the Companies in question are authorised to decide whether a variable remuneration component is particularly large in each specific case, and a variable remuneration component higher than DKK 750,000 must always be considered particularly large. The deferred variable remuneration is paid out in equal amounts over the years. The deferral period for Nykredit Portefølje Administration A/S is, however, adjusted in line with the life cycle and redemption policy of the investment fund.

Nykredit's retention period is 12 months for bonuses placed in long-term instruments.

5.3 Backtesting and clawback

In connection with the payout of deferred amounts – including the bond part – Nykredit will consider whether the criteria underlying the calculation of the bonus continue to be met at the time of payout. It must be assessed whether the individual performance/actions on which the variable remuneration component was awarded in the year in question have proved as good as initially assessed, also in the long term.

Further, the Group's performance – and where relevant also the that of the subsidiary in question – must be assessed, especially with regard to any losses. The Boards of Directors of the relevant Group Companies must approve the payout of the total deferred bonus prior to the announcement of the financial statements together with the basis for bonus payout for the previous year.

The Board of Directors may also resolve to withhold variable remuneration if Nykredit and/or the Company (i) do/does not comply with capital requirements and/or capital adequacy requirements or if there is a likely risk of non-compliance, or (ii) have/has been given a deadline by the Danish FSA to fulfil the capital requirement or a requirement for a reconstruction plan.

Further, it is a precondition for deferred variable remuneration that (i) the staff member has not participated in or is not responsible for a conduct leading to substantial losses for Nykredit or the investment funds managed by Nykredit Portefølje Administration A/S, (ii) the staff member has met appropriate eligibility and integrity requirements, (iii) the financial position of Nykredit or the relevant Group Company, and for Nykredit Portefølje Administration A/S also the managed investment funds, has not deteriorated significantly since the calculation of the variable remuneration component.

Finally, variable remuneration may be denied if the basis of the decision was erroneous and the staff member was or should have been aware of that. In such cases the staff member must moreover repay any part of the variable remuneration received previously.

5.4 Lower threshold

The Executive Board may decide, on the basis of a specific assessment of reasonableness of the individual variable remuneration component, to exempt variable remuneration components of a maximum of DKK 100,000 annually from the requirements relating to deferral and retention period and the requirement that at least 50% of the variable remuneration must be in long-term instruments, investments in alternative investment funds, corresponding instruments, etc.

6 REMUNERATION OF STAFF IN CONTROL FUNCTIONS

Nykredit considers the following as control and audit functions:

- Credit Controlling
- Group Finance (Group Accounting and Performance Management)
- Risk & Conduct
- Compliance
- IT Security
- Internal Audit
- HR Operations

Staff involved in the controlling process must be independent of the Nykredit units which they oversee. To the extent that staff in control functions receive variable remuneration, this will depend on how they meet targets relating to their functions and thus be independent of the performance of the units they oversee.

The Chief Audit Executive and Deputy Chief Audit Executive do not participate in variable remuneration schemes.

Managers of Group Credits, Risk & Conduct, Internal Audit and Compliance do not participate in variable remuneration schemes.

Nykredit finds that staff in other control functions may participate in variable remuneration schemes. The reason is that the variable remuneration pools are determined by the Group Executive Board on the basis of Nykredit's overall results – and thus not on the basis of the results of individual units. In addition, bonus/performance awards granted to staff members are based on personal targets that are linked to their own units. The targets are set and assessed exclusively by their manager and not the units they oversee.

7 REMUNERATION DISCLOSURES

In connection with the Boards of Directors' Report at the annual general meeting, the Chairman of the Board of Directors accounts for (i) the principles of the remuneration policy and Nykredit's compliance with the policy, and (ii) remuneration of the Board of Directors/Executive Board, including remuneration in the past financial year and expected remuneration in the current and next financial years.

Nykredit's Annual Report contains information on this remuneration policy and the total remuneration paid out in the financial year to current and former members of the Executive Board, the Board of Directors and risk takers as well as information on the total remuneration of each named member of the Board of Directors and the Executive Board earned as part of their employment with the Company in question in the relevant financial year and as member of the Board of Directors or Executive Board of a Group Company in the same financial year.

In addition, a remuneration report is prepared annually in accordance with the Recommendations on Corporate Governance.

Once a year, Nykredit publishes the Group's remuneration policy, remuneration report and information on remuneration of the Boards of Directors and the Executive Boards of the Group Companies as well as material risk takers at nykredit.com and totalkredit.dk.

8 CONTROL AND REPORTS

Nykredit has effective, transparent and well-documented control procedures, ensuring that variable remuneration is paid out in accordance with the remuneration policy and current legislation. Based on the guidelines laid down by the Boards of Directors, once a year the HR unit reviews compliance with the remuneration policy and the remuneration rules. Based on its review, HR prepares a report and a statement, stating whether the remuneration policy complies with the remuneration rules, which are submitted to the Board Remuneration Committee together with an overview of the remuneration paid out to the Executive Boards and Senior Executives of control functions as defined in 6.

The Board Remuneration Committee assesses the documents received and reports on its findings to the Boards of Directors of the Group Companies in question. In this connection, each Board of Directors must receive the report and overview of the remuneration paid out to the Executive Board.

To ensure compliance with the remuneration policy and current rules, the Compliance unit is involved as much as possible to control and assess whether methods and procedures in relation to the remuneration rules are adequate to discover and mitigate the risk of non-compliance. Compliance reports to the Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S and the respective Boards of Directors of the other Group Companies.

Moreover, the Board Risk Committee assesses at least once a year whether the criteria/incentives forming part of Nykredit's remuneration structure sufficiently allow for risk etc.