

Annual Report 2016



REALKREDIT
Danmark

Contents

Management's report

Financial highlights	2
Financial review	3
The year 2016	3
Results	3
Balance sheet	4
Capital and solvency	4
Fourth quarter 2016	4
Outlook for 2017	5
Property market	6
Lending	8
Funding	11
Capital and risk management	13
Organisation and management	16

Financial statements

Income statement and Comprehensive income	18
Balance	19
Statement of capital	20
Cash flow statement	24
Notes	25

Statement and reports

Statement by the management	60
Auditor's report	61

Directorships

Board of Directors	64
Executive Board	65

Supplementary information

	66
--	----

Annual Report 2016 is a translation of the original report in the Danish language (Årsrapport 2016). In case of discrepancies, the Danish version prevails.

5-year financial highlights – Realkredit Danmark Group

NET PROFIT FOR THE YEAR

(DKK millions)	2016	2015	2014	2013	2012
Administration margin	5,890	5,770	5,704	5,491	4,724
Net interest income	123	196	62	-24	235
Net fee income	-611	-509	-524	-540	-469
Income from investment portfolios	786	662	645	750	862
Other income	141	192	129	123	111
Total income	6,329	6,311	6,016	5,800	5,463
Expenses	790	787	815	852	870
Profit before loan impairment charges	5,539	5,524	5,201	4,948	4,593
Loan impairment charges	182	432	1,171	1,471	1,319
Profit before tax	5,357	5,092	4,030	3,477	3,274
Tax	1,176	1,202	974	865	820
Net profit for the year	4,181	3,890	3,056	2,612	2,454

BALANCE SHEET (AT 31 DECEMBER)

(DKK millions)	2016	2015	2014	2013	2012
Due from credit institutions etc.	31,491	28,696	25,882	51,004	18,727
Mortgage loans	767,695	744,383	744,502	730,901	735,494
Bonds and shares	59,582	59,827	59,817	61,156	35,966
Other assets	3,909	3,668	4,354	5,073	3,940
Total assets	862,677	836,574	834,555	848,134	794,127
Due to credit institutions etc.	6,355	16,611	10,018	32,501	10,079
Issued mortgage bonds	782,526	745,223	739,358	725,159	701,373
Issued senior debt	17,318	17,721	27,415	32,089	21,687
Other liabilities	7,131	8,273	9,893	11,501	14,636
Shareholders' equity	49,347	48,746	47,871	46,884	46,352
Total liabilities and equity	862,677	836,574	834,555	848,134	794,127

RATIOS AND KEY FIGURES

Net profit for the year as % of avg. shareholders' equity	8.5	8.1	6.5	5.6	5.4
Cost/income ratio (%)	12.5	12.5	13.5	14.7	15.9
Total capital ratio (%)	30.1	38.8	34.5	34.0	34.3
Tier 1 capital ratio (%)	29.6	38.3	34.0	33.5	33.7
Full-time-equivalent staff, end of year	235	239	237	249	250

Financial review

Overview

- In 2016, the Realkredit Danmark Group recorded a net profit of DKK 4,181 million, which was an increase of DKK 291 million, or 7%, relative to 2015. The performance was satisfactory. The positive profit performance was driven especially by lower impairments, while income relating to lending activity declined in 2016 after very strong remortgaging activity in 2015. Remortgaging activity recovered somewhat in the second half of 2016, however.
- Lending developed satisfactorily in 2016, rising DKK 15 billion, of which personal customers accounted for DKK 9 billion. In 2016, Realkredit Danmark disbursed loans with a negative interest rate to 2,312 customers.
- Impairments fell to DKK 182 million from DKK 432 million in 2015.
- In 2016, customers continued to show strong interest in Realkredit Danmark's fixed-rate products. Disbursements of fixed-rate loans amounted to DKK 65 billion in 2016, corresponding to 48% of disbursed loans. In addition, customers representing a lending volume of DKK 4 billion opted to replace their FlexLån® loans with short refinancing intervals with loans with longer refinancing intervals.
- Realkredit Danmark continues to comply with all the threshold values set out in the supervisory diamond issued by the Danish FSA.
- Realkredit Danmark expects the profit for 2017 to be at the same level as in 2016.

The year 2016

Realkredit Danmark had a very successful year in 2016, recording lending growth and a strengthened market position over the course of the year, while also continuing to improve its financial performance in a challenging market environment.

Remortgaging activity was quite strong, although not at the level of 2015 when an exceptionally large number of customers remortgaged their loans. 30-year fixed-rate loans with coupons of 2% or 2.5% remained in strong demand in 2016.

Combined with strong interest in fixed-rate loans, Realkredit Danmark's further product price differentiation contributed to a sharp decline in the portfolio of FlexLån® loans with refinancing intervals of less than five years. This helped Realkredit Danmark to further mitigate refinancing risk in 2016.

Realkredit Danmark complies with all the threshold values set out in the supervisory diamond issued by the Danish FSA.

In 2016, many customers started to make principal repayments on their loans when their interest-only period expired, while others opted for new interest-only periods. Realkredit Danmark does not expect the expiry of interest-only periods in the years ahead to give rise to concern.

Realkredit Danmark contributes to ensuring that financing continues to be available for homes in the more sparsely populated areas of Denmark. Realkredit Danmark still offers mortgage loans for homes in these areas and wants to offer

mortgage loans to customers with sustainable personal finances and stable-value properties.

Results

In 2016, the Realkredit Danmark Group recorded a net profit of DKK 4,181 million, against DKK 3,890 million the year before. Net profit was 7% higher than in 2015 and in line with expectations.

The profit improvement was driven by lower impairments, while lower remortgaging activity in 2016 caused a decline in income from lending activity.

The administration margin rose DKK 120 million, driven primarily by a larger nominal loan portfolio. The effect of changed administration margins on FlexLån® loans in the fourth quarter was largely offset by a general decline in average administration margins throughout 2016.

Other income fell DKK 102 million in 2016, especially because of the lower remortgaging activity.

Total income was unchanged from 2015.

At DKK 790 million, expenses were on a level with 2015. Exclusive of payments to the Resolution Fund under Finansiell Stabilitet, expenses fell 3%, driven especially by the lower remortgaging activity.

Impairments amounted to DKK 182 million, against DKK 432 million in 2015. Total impairments declined as a result of a general improvement of macroeconomic conditions in Denmark, including rising property prices, and reversal of charges previously made against facilities to business customers. The agriculture segment, however, had a difficult year.

Total impairments equalled 0.02% of total mortgage lending, against 0.06% at the end of 2015. Of total impairments, 64% related to personal customer loans, while 36% related to business loans.

The delinquency rate was unchanged from the level at end-2015.

The tax charge totalled DKK 1,176 million. The effective tax rate was 22.0%.

Balance sheet

Gross lending amounted to DKK 137 billion, against DKK 155 billion in 2015. Mortgage lending at fair value amounted to DKK 768 billion, which was an increase of DKK 23 billion from 2015. The development in mortgage lending at fair value is composed of an increase in the nominal outstanding bond debt of DKK 15 billion and a DKK 8 billion increase in the market value adjustment.

The loan-to-value (LTV) ratio stood at 64% at the end of 2016, which was marginally lower than at the end of 2015. The effect of rising market value adjustments of loans was more than offset by higher property prices.

The number of foreclosures at the end of the year was 51, against 58 at end-2015. The value of the foreclosures was DKK 79 million at 31 December 2016, against DKK 76 million at end-2015.

Issued mortgage bonds rose DKK 37 billion to DKK 783 billion. The nominal value of issued bonds rose DKK 29 billion to DKK 764 billion. The amounts are exclusive of holdings of own mortgage bonds.

Realkredit Danmark is subject to the specific principle of balance and therefore has very limited exposure to market risks. At the end of 2016, Realkredit Danmark's interest rate risk and exchange rate risk amounted to DKK 1,301 million and DKK 2 million, respectively.

Capital and solvency

At the end of 2016, shareholders' equity stood at DKK 49.3 billion, against DKK 48.7 billion at the end of 2015. The increase in equity equalled the profit for the year less dividends paid for 2015 of DKK 3.5 billion. The Board is recommending that dividends of DKK 3.8 billion be paid for 2016. Realkredit Danmark's total capital amounted to DKK 46.2 billion, and the total capital ratio calculated in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) was 30.1%. At 31 December 2015, the corresponding figures were DKK 45.8 billion and 38.8%, respectively.

Realkredit Danmark uses the internal ratings-based (IRB) approach to calculate the risk exposure amount for credit risks. The total risk exposure amount (REA) was DKK 153.6 billion at 31 December 2016, against DKK 118.1 billion at the end of 2015.

The increase in REA was due primarily to a methodology change in the Danske Bank Group's IRB models, but also to an increase in mortgage loans calculated at market value.

Calculated on the basis of the transitional rules of the CRR/CRD IV, the capital need for 2016 must, as a minimum, amount to 80% of the requirement calculated under the previous rules, corresponding to DKK 26.6 billion and 17.3% of the REA. Realkredit Danmark has total capital of DKK 46.2 billion, and thus has a capital buffer of DKK 19.6 billion.

Under Danish law, Realkredit Danmark must publish its total capital and solvency need on a quarterly basis. The rd.dk site provides further information.

Fourth quarter 2016

Realkredit Danmark recorded a pre-tax profit of DKK 1,196 million in the fourth quarter of 2016, against DKK 915 million in the third quarter. The higher pre-tax profit was attributable primarily to income from the refinancing of FlexLån® loans in the fourth quarter, lower impairments and the effect of the changed price structure for FlexLån® loans with short refinancing intervals.

Outlook for 2017

Realkredit Danmark expects that the Danish economy in 2017 will continue to be characterised by low interest rates and moderately rising growth relative to previous years. Low interest rates will support the positive trend in house prices and general housing market activity.

Realkredit Danmark expects income to be at the same level as in 2016, as income will be supported by moderate growth in the loan portfolio, while a decline in income from remortgaging activity and lower returns on the bond portfolios will have downward effect.

Through a persistent focus on cost control in 2017, Realkredit Danmark aims to curb its expenses.

Loan impairment charges are expected to remain at a low level.

Overall, Realkredit Danmark therefore expects the profit for 2017 to be at the same level as in 2016.

Property market

Economic recovery despite mounting political uncertainty

In macroeconomic terms, 2016 was an eventful year. It began with plummeting share prices due to volatility in the Chinese economy and low and downward trending commodity prices, which threatened to undermine several of the so-called growth economies. Fears of a Chinese growth collapse subsequently abated amid improving economic data for the Chinese economy.

Fears of an economic setback were reignited in June when Britain voted against continued EU membership and Brexit became a reality. However, a number of central banks were quick to calm the financial markets by indicating more dovish monetary policies than would otherwise have been the case. Equity markets recovered relatively quickly, whereas interest rates trended downwards. In fact, the effect of Brexit on key economic indicators was hardly discernible in the ensuing months, but there is still a risk that Brexit will have adverse long-term growth repercussions. Much will depend on coming years' negotiations between the EU and the UK and whether Brexit will make other EU countries follow in Britain's footsteps, jeopardising the entire future EU collaboration.

Towards the end of the year, Donald Trump's victory in the US presidential election caused renewed political uncertainty. However, the financial markets quickly stabilised again. Instead of focusing on the risk of aspects, such as a more protectionist stance in US trade policies with Trump at the helm, focus was swiftly directed towards the potential boost tax cuts and a more active fiscal policy would have on short-term economic activity.

The Danish economy managed a sustained moderate economic recovery in 2016, driven by factors such as healthy growth in consumer spending. This also resulted in employment rising for the fourth consecutive year. In 2016, there was a noticeable improvement in growth figures, and recent years' otherwise weak economic recovery was replaced by fairly decent growth. This trend means that there is now a much better correlation between the strong rise in employment of the past couple of years and developments in economic activity.

Housing market continued to improve in 2016

This was another year of rising houseprices in Denmark, and in the fourth consecutive year of increases, house prices rose by roughly 5% relative to 2015. Trading activity in the housing market was relatively stable over the course of the

year and slightly lower than in 2015. However, the slightly lower activity in 2016 should be seen in the context of the strong housing market activity at the beginning of 2015, subsequent pressure on the Danish krone and the launch of fixed-rate loans with a coupon of 2%. Overall, trading activity in the housing market was at a relatively high level compared with the period from 2008 and onwards.

Trading activity

Number of house sales via home, corrected for seasonality, index 2010 = 100



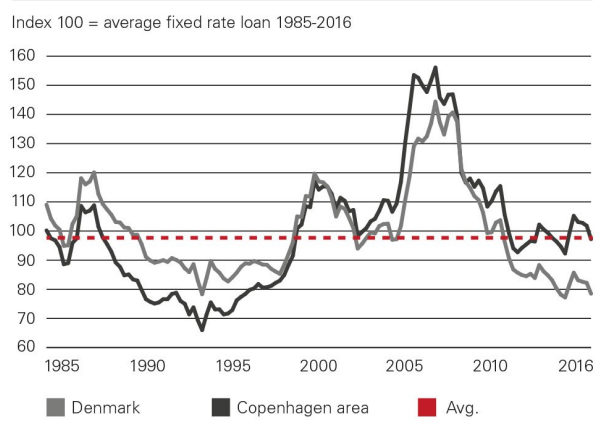
Source: home and own calculations

The housing market improvement has gradually spread to most parts of Denmark in recent years in step with the rise in employment, low interest rates and high and upward-trending house prices in and around large urban areas such as Copenhagen and Aarhus. This trend continued in 2016 with the vast majority of Denmark's municipalities reporting rising house prices. Many municipalities in rural districts also reported improvements in the housing market.

Over the course of the year, the media frequently debated the risk of a price bubble, especially in the market for owner-occupied flats in Copenhagen. Based on market indices from Danish housing website Boligsiden.dk, prices of owner-occupied flats in Copenhagen rose by some 10% in 2016, and prices have now gone up by close to 60% since the end of 2011. Low interest rates, higher disposable incomes, rising employment and a major population inflow into Copenhagen have also underpinned prices of owner-occupied flats in recent years. In an autumn research paper, the Danish central bank investigated possible signs of a housing price bubble in Copenhagen, concluding that it could not be ruled out "that the price increases witnessed so far may be sustainable".

In any case, the primary conclusion was that the market for owner-occupied dwellings and the most expensive residential areas of Denmark are sensitive to interest rate fluctuations. The very low interest rates would largely appear to be reflected in the house prices in these areas, augmenting the risk of falling house prices if interest rates start to rise again at some point. However, prospective home buyers can to some extent hedge this risk by taking out fixed-rate loans.

Housing burden - cost of owning a house compared to disposable income



The market for co-operative housing also improved in 2016. Although distressed co-operative housing societies sometimes got extensive media coverage, the vast majority of the co-operative housing market appears to be robust, and the associations generally have relatively low indebtedness. The Copenhagen area, which accounts for the bulk of the co-operative housing market, saw particularly strong demand for co-operative housing, and estate agents had a low co-operative housing stock.

Number of foreclosures, 3 month rolling average



Source: Statistics Denmark

The favourable housing market trends combined with rising employment and disposable incomes among homeowners caused a further drop in the number of foreclosures in 2016.

The number of foreclosures at 31 December 2016 was thus at the lowest level since 2007.

Business market

The commercial property market experienced another year of strong activity in 2016. Foreign investors continue to show strong interest in the market, focusing especially on Copenhagen.

The keen interest in Danish commercial property among foreign investors is explained by factors such as the safe haven status of the Danish economy, low returns on traditional low-risk investments and Denmark's attractive mortgage-credit system offering low-cost financing in an international context. Foreign property investors often have a much greater proportion of self-financing.

Commercial property with long-term leases are attractive to investors as they help secure stable cash flows over a number of years. Furthermore, prime-location residential rental property and commercial property in the large cities are in particularly strong demand.

Agriculture

As was the case in 2015, the Agriculture segment faced the particular challenge of low selling prices in 2016. This was partly caused by Russia's ban on food imports from the EU, an increase in milk production following the abolition of EU milk quotas and large global grain stocks following several years of strong grain harvests. The low selling prices are only partly offset by low interest rates and low energy prices.

Prices of pork and milk in particular started to rise in 2016. In particular, rising pork exports to China and an adjustment of the milk supply have started to push up prices. Improved agricultural efficiency coupled with the February 2016 agricultural package and positive market trends are expected to gradually improve overall agricultural earnings. This may improve the possibility of locking in the interest rate for longer periods.

Lending

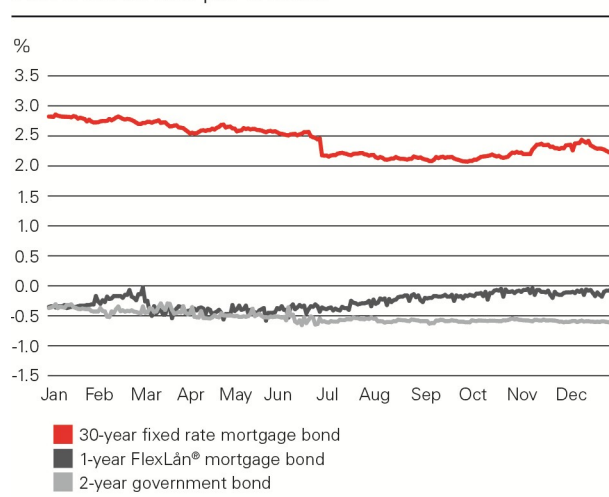
Interest rate developments

After an increase in interest rates in the early summer of 2015, mortgage rates again dropped to historical lows in 2016. The “Leave” outcome of the British EU referendum in June sent long-term mortgage rates down because the greater economic volatility was countered with prospects of more lenient monetary policies than in the rest of the world. This resulted in an attractive price on fixed-rate 30Y loans with a coupon of 2%, giving rise to two consecutive quarters of medium-sized remortgaging waves.

Towards the end of the year, however, long-term mortgage rates rose slightly after Donald Trump was elected the next US president as markets became more upbeat about the growth and inflation outlook based on prospects of tax cuts and higher public expenditure in the USA. There were also mounting expectations of a US rate hike at the FOMC meeting towards the end of the year – and the Federal Reserve met these expectations by announcing a rate hike. As a result, towards the end of the year, Danish borrowers seeking a 30-year fixed-rate loan now had more factors to consider when choosing between 2% and 2.5% coupon loans, depending on their risk profile and willingness to accept a capital loss.

Whereas long-term mortgage rates in Denmark are driven by changes in expectations of future growth and inflation, the Danish fixed-rate policy means that the very short mortgage rates are closely correlated with the monetary policy pursued by the European Central Bank. Accordingly, the long-term mortgage rates rose the most towards the end of the year.

Trend in interest rates past 12 months



At the last refinancing auction of the year in November, the interest rate on FlexLån® loans as per 1 January ended at the lowest levels in Realkredit Danmark’s history. The interest rate on 1-year FlexLån® loans was 0.0%, on 3-year FlexLån® loans, it was 0.07%, and on 5-year FlexLån® loans, it was 0.41%.

Total lending

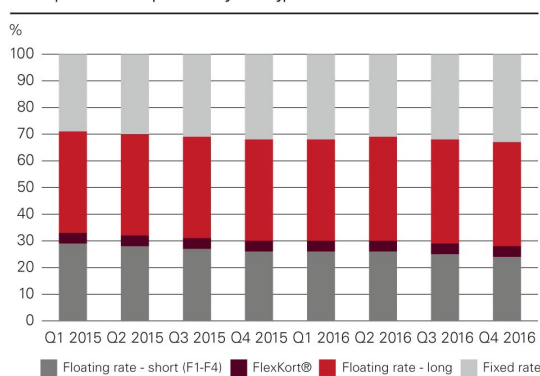
In 2016, Realkredit Danmark’s loan portfolio rose to DKK 754 billion, which was an increase of DKK 15 billion on 2015.

This development was driven primarily by mounting activity in the property market and slightly stronger home owner interest in top-up loans. The increase in the loan portfolio occurred concurrently with a decline in average loan-to-value ratios. Higher property prices acted as the main driver of this development.

Despite the decent remortgaging activity in the second half of the year in the wake of Brexit, it fell short of the level of 2015, when remortgaging activity was at its highest. In 2016, remortgaging activity at Realkredit Danmark reached DKK 69 billion, which was DKK 17 billion less than in 2015. The lower remortgaging activity came as no surprise given the overall lower remortgaging potential. Already in the first half of 2015, many home owners and businesses had seized the opportunity to remortgage to a lower coupon in the form of a 30-year fixed-rate mortgage with a 2% coupon.

The tendency to opt for loans with longer refinancing intervals continued in 2016.

Development in loan portfolio by loan type (%)



Of loans disbursed in 2016, 48% were fixed-rate mortgages, against 63% in 2015. Fixed-rate loans now account for 33% of Realkredit Danmark's total lending. Customers with FlexLån® loans showed a tendency to opt for longer refinancing intervals than previously. FlexLån® F1-F4 loans accounted for 24% of Realkredit Danmark's lending, which is 2 percentage points lower than the year before.

Personal customer market

Demand for longer refinancing intervals was particularly strong among home owners. Low interest rates have made it attractive to lock-in the interest rate for longer periods as home owners find that this provides inexpensive insurance against potential future interest rate increases. Moreover, home owners were further incentivised to lock-in the interest rate for longer periods by Realkredit Danmark's price adjustments, which took effect on 1 October. In an effort to secure a reasonable buffer to the supervisory diamond's refinancing threshold value, Realkredit Danmark raised its administration margin for FlexLån® F1-F4 loans. The price adjustment had a noticeable impact on the loan choices made by Danish home owners. In the third quarter of 2016, demand for both 1-year and 3-year FlexLån® loans fell to historical lows measured in terms of gross lending, despite the fact that both loan types periodically offered negative interest rates during the quarter. Home owners instead opted for 5-year FlexLån® loans and fixed-rate loans.

At the refinancing auction for the 1 January 2017 payment date, there was also a tendency for home owners to prefer 5-year FlexLån® loans at the expense of 3-year FlexLån® loans. Most of the repayment profile shifts were thus into 5-year FlexLån® loans, with many borrowers moving out of 3-year FlexLån® loans. The volume of 1-year FlexLån® loans was largely unchanged, and other than the low interest rates, this was probably because many home owners opt for this loan type to reduce the price risk associated with prepayment.

Business market

In 2016, Realkredit Danmark issued its first floating-rate bond loans with the possibility of a nominal interest rate below 0%. The new option was launched in connection with the refinancing of RD Cibor6® loans at 1 July 2016 and 1 January 2017. The bonds were previously issued with an interest rate floor, preventing the nominal interest rate from dropping below zero. Floating-rate bond loans without a rate floor became more popular in 2016, but Realkredit Danmark will monitor the market situation closely to assess whether a rate floor should apply when opening new floating-rate

bonds. RD Cibor6® loans are used by businesses, although some businesses also use FlexKort® loans. For the latter, the rate floor was maintained when new bonds were issued in 2016.

Distribution channels

Realkredit Danmark consistently seeks to make it easier for its customers to access and obtain an overview of information about their mortgage loans to ensure that the loans match their situation. Realkredit Danmark is accessible when customers need it, among other things by providing services and advice through telephone, virtual and physical channels.

Realkredit Danmark's personal customers are served at Danske Bank primarily by home finance advisers. Customers who are also Danske Bank customers are generally served by the Danske Bank branches, while customers who are customers only with Realkredit Danmark are served by a new housing organisation established by Danske Bank in 2016. Customers are generally served through Home Direct, which provides telephone and virtual advice during extended opening hours.

The largest property customers in Denmark, the largest administrators and all customers within Subsidised Housing are served at Large Real Estate, which is a nationwide Realkredit Danmark unit. In addition, Large Real Estate is responsible for providing expert mortgage advice to large non-property customers and to customers in Norway and Sweden who have a mortgage loan with Realkredit Danmark.

Small and medium-sized customers have a range of access points. Realkredit Business Direct provides telephone and virtual advice and other services. Personal service and advice is available at Danske Bank's business centres and at finance and agriculture centres.

Real-estate business

"home", the real-estate agency chain of the Group, is wholly-owned by Realkredit Danmark. The selling of owner-occupied dwellings is the main business area of "home", and loans distributed via "home" are most often used for a change of ownership.

Activities and portfolio (DKK millions)	Gross lending		Net new lending		Loan portfolio			
	2016	2015	2016	2015	2016	%	2015	%
Personal customer market	79,667	91,915	17,721	14,255	432,522	57	423,845	57
Business market	57,717	63,021	14,941	15,719	321,736	43	315,344	43
Total (nominal value)	137,384	154,936	32,662	29,974	754,258	100	739,189	100

Lending broken down by loan type (%)	Share of gross lending		Share of loan portfolio	
	2016	2015	2016	2015
Short-term floating rate loans (F1-F4)	11	10	24	26
FlexKort®	6	4	4	4
Long-term floating rate loans	35	23	39	38
Fixed-rate loans	48	63	33	32
Total	100	100	100	100

Funding

Bond issuance

Realkredit Danmark is subject to the specific principle of balance and funds its lending to borrowers by issuing mortgage-covered bonds, which are listed on NASDAQ Copenhagen.

Issued bonds are carried in the financial statements at their fair value after deduction of own holdings. The following text and charts are based on nominal values before deduction of own holdings, as these reflect the volume of bonds issued and listed on NASDAQ Copenhagen.

Bonds issued in 2016

Realkredit Danmark issued bonds for a total of DKK 137 billion exclusive of bonds issued for the refinancing auctions. This represents a decrease of 11% relative to 2015. Of bonds issued in 2016, 52% were non-callable bonds and 48% were callable bonds, unlike the bond issuance in 2015, when the proportion of callable bonds exceeded that of non-callable bonds.

Annual refinancing of FlexLån® and RD Cibor3®

In order to spread the risk of refinancing FlexLån® loans, Realkredit Danmark held two auctions in February and November 2016 that were almost equally large. Since March 2010, all new FlexLån® loans have been issued with 1 April as the payment date. The volume of bonds issued in connection with the refinancing of FlexLån® loans at 1 April 2016 amounted to DKK 56 billion, against DKK 54 billion in 2015.

The portion of FlexLån® loans refinanced at 1 April is now larger than the portion refinanced at 1 January. Issued bonds amounted to DKK 47 billion in connection with the refinancing of FlexLån® loans at 1 January 2017, against DKK 67 billion at 1 January 2016.

In May, Realkredit Danmark held an auction amounting to DKK 2.2 billion for the funding of RD Cibor6®, EUR 540 million for the funding of RD Euribor3® and DKK 19.5 billion for the funding of FlexKort® loans. Each auction was held over the course of one day, and investors were invited to make bids for the Cibor6M, Euribor 3M and Cita 6M, respectively. The bond underlying RD Cibor6® loans was issued without a rate floor for the first time. The other two bonds were issued with a rate floor of 0%.

At end-2016, Realkredit Danmark had issued mortgage bonds for a total amount of DKK 841 billion, of which mortgage-covered bonds accounted for DKK 785 billion.

Senior debt issuance

Realkredit Danmark has senior debt pursuant to section 15 of the Mortgage Credit Loans and Mortgage Credit Bonds Act for a nominal amount of DKK 17.3 billion. The senior debt carries an AA- rating from S&P Global.

In 2016, Realkredit Danmark bought back a small amount of senior debt, as a result of which the outstanding amount has dropped slightly from DKK 17.6 billion at the end of 2015.

Issued senior debt for DKK 6.2 billion falls due in April 2017. Realkredit Danmark expects to issue new debt or raise loans on market terms in the same magnitude to continue to comply with the rating agencies' overcollateralisation requirement.

In addition to covering the need for supplementary collateral, the proceeds from the issued senior debt are used to comply with the rating agencies' overcollateralisation requirement.

Investor distribution

Foreign investors continued to show strong interest in Danish mortgage bonds in 2016, partly because these bonds are considered to offer good security, partly because they offer a relatively better return than similar European securities at present. In particular, non-callable bonds with a term to maturity of up to one year attract considerable interest. At 31 December 2016, foreign investors thus held about 22% of all bonds, against some 21% at end-2015.

Rating

Most of Realkredit Danmark's bonds are still rated by two rating agencies; S&P Global and Fitch Ratings.

All mortgage bonds in capital centres S, T and under the Other reserves series are rated by S&P Global and hold a rating of AAA. Bonds issued from Realkredit Danmark's capital centres S and T are also rated by Fitch Ratings.

In capital centre S, the bonds hold a AAA rating. Bonds issued from capital centre T are used for the refinancing of FlexLån® and other loans with a refinancing element. These bonds hold a rating of AA+ because of Fitch Ratings' assessment of the refinancing risk. The refinancing risk is reduced on an ongoing basis because of the decrease in the volume of loans with a refinancing element, less frequent refinancing and the fact that more bonds are comprised by the Act on Refinancing.

The overcollateralisation requirements for the capital centres remain covered by funds from Realkredit Danmark's equity and issued senior debt.

Realkredit Danmark expects stable overcollateralisation requirements from the rating agencies in 2017, but if the requirements are tightened, Realkredit Danmark plans to issue debt in order to comply with the stricter requirements.

Debt buffer

In 2016, the phasing-in of the debt buffer requirement commenced, which means that Danish mortgage credit institutions must have a debt buffer equal to 2% of their lending by 2020. For Realkredit Danmark, this equals approximately DKK 15 billion on the basis of the current lending volume.

Realkredit Danmark is already able to meet the requirement using excess shareholders' equity and therefore does not require additional funding.

Bonds issued at 31 December (nominal value)

Bond type (DKK billions)	Currency	Mortgage-covered bonds		Mortgage bonds	
		2016	2015	2016	2015
Fixed-rate	DKK	236	200	11	16
FlexLån®	DKK	377	372	2	6
FlexLån®	EUR	15	18	-	-
FlexKort®	DKK	32	29	-	-
Index-linked loans	DKK	-	-	21	22
FlexGaranti®	DKK	5	5	14	17
RenteDyk™	DKK	1	1	-	-
RD Cibor6®	DKK	94	57	8	8
RD Nibor3®	NOK	3	2	-	-
RD Stibor3®	SEK	15	13	-	-
RD Euribor3®	EUR	7	8	-	-
Total DKK		785	705	56	69

In 2016, the calculation was adjusted to reflect double-funding of DKK 47 billion because of the refinancing of FlexLån® loans.

Capital and risk management

Capital management

The Realkredit Danmark Group's capital management policies and practices support the Group's business strategy and ensure that the Group is sufficiently capitalised to withstand severe macroeconomic downturns. Moreover, the Group aims to retain the current AAA ratings from S&P Global and AAA/AA+ ratings from Fitch Ratings, which are in line with those assigned to comparable issuers.

At 31 December 2016, the total capital of DKK 46.2 billion consisted primarily of conventional equity after statutory deductions.

The regulatory framework for the Group's capital management practices is rooted in the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), which can be divided into three pillars:

- **Pillar I** contains a set of mathematical formulas for the calculation of risk exposure amounts for credit risk, market risk and operational risk. The minimum capital requirement is 8% of the total REA.
- **Pillar II** contains the framework for the contents of the ICAAP, including the identification of a credit institution's risks, the calculation of the solvency need and stress testing.
- **Pillar III** deals with market discipline and sets forth disclosure requirements for risk and capital management.

While Pillar I entails the calculation of risks and the capital requirement on the basis of uniform rules for all credit institutions, the ICAAP under Pillar II takes into account the individual characteristics of a given institution and covers all relevant risk types, including risks not addressed under Pillar I.

ICAAP

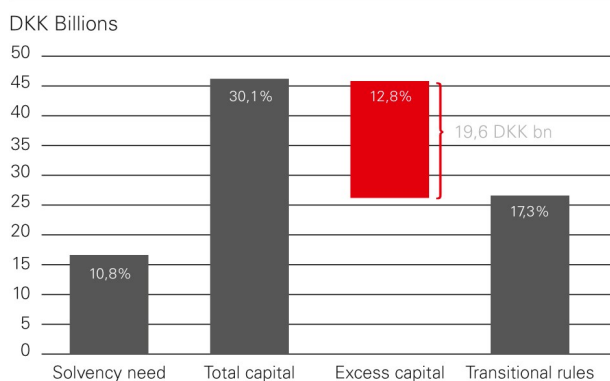
As part of the ICAAP, the Group assesses its total capital on the basis of internal models and ensures that it uses the proper risk management systems. The ICAAP also includes capital planning to ensure that the Group always has sufficient capital to support its chosen business strategy. Stress testing is an important tool used for capital planning purposes. For additional information about the ICAAP process, reference is made to the ICAAP report available on danskebank.com/IR.

Solvency need

According to Danish legislation, every credit institution must disclose its solvency need and solvency need ratio. The solvency need is the total capital of the size, type and composition needed to cover the risks to which an institution is exposed.

Banks that use the advanced approaches for calculating credit risk are subject to limits on the reduction of their capital requirements. The maximum reduction allowed under the Basel I transitional rules is 20% of the capital requirement under Basel I.

Solvency need ratio and total capital ratio, end 2016



At the end of 2016, Realkredit Danmark's solvency need was DKK 16.6 billion, or 10.8% of the total risk exposure amount (REA). Calculated on the basis of the transitional rules, the capital need was DKK 26.6 billion, corresponding to 17.3% of the REA. With total capital of DKK 46.2 billion and a total capital ratio of 30.1%, Realkredit Danmark Group had DKK 19.6 billion in excess of the requirement according to the transitional rules.

Leverage ratio

CRR/CRD IV requires credit institutions to calculate, report on and monitor their leverage ratio, which is defined as tier 1 capital as a percentage of the total risk exposure amount (REA). Pursuant to this definition and the transitional rules, Realkredit Danmark's leverage ratio was 5.2% at 31 December 2016.

Large exposures

Large exposures are defined as exposures amounting to at least 10% of the capital base after deduction of particularly secure claims. At the end of 2016, Realkredit Danmark had three exposures that exceeded 10% of its capital base.

Supplementary collateral

As an institute issuing mortgage-covered bonds, Realkredit Danmark must provide supplementary collateral if the value of the properties on which the loans are secured is such that the LTV ratio rises above 80% for residential property and 60% for commercial property. In 2016, issuance of mortgage-covered bonds rose DKK 80 billion to DKK 785 billion. At the end of 2016, the need for supplementary collateral was DKK 28.5 billion, against DKK 33.9 billion at end-2015.

A large proportion of Realkredit Danmark's mortgage loans are covered by loss guarantees provided by Danske Bank. The loss guarantee covers the top 20 percentage points of the statutory loan limit at the time when the loan is raised. The loss guarantee covered DKK 59 billion of the loan portfolio at 31 December 2016. This amount includes DKK 6 billion in the form of supplementary collateral for mortgage-covered bonds.

Risk management

The Realkredit Danmark Group's principal risks are the credit risk on mortgage loans and the market risk on assets and liabilities.

The credit risk on mortgage loans comprises the risk that the borrower is unable to repay the loan and the expected loss if the borrower does not repay the loan.

Market risks comprise interest rate, equity market and exchange rate risks. Liquidity and operational risks are also monitored.

However, the statutory principle of balance eliminates most of the interest rate, exchange rate and liquidity risks on the Group's assets and liabilities.

Risk management is described in the note on risk management.

Liquidity Coverage Ratio

The effective requirement for Realkredit Danmark's buffer of liquid assets resulting from the Liquidity Coverage Ratio is 2.5% of Realkredit Danmark's total mortgage lending. At the end of 2016, this corresponded to approximately DKK 19 billion. Realkredit Danmark has liquid assets of DKK 56 billion, and after haircuts, this translates into liquid assets of DKK 52 billion. Realkredit Danmark thus has a buffer of DKK 33 billion relative to the requirement.

Future rules

The European Commission has tabled proposals for amending CRR/CRD IV, informally termed CRR II/CRD V, which will be negotiated in 2017. The proposal includes the requirement for a Net Stable Funding Ratio (NSFR) to ensure stable, long-term funding. Extendable maturity triggers are included in the calculation, and this will improve the possibilities for Danish mortgage credit institutions of complying with the requirement. However, difficulties persist because of inexpedient definitions of mortgaging that could cause mortgage credit institutions to incur higher funding costs and reduce their funding possibilities in case of revised overcollateralisation requirements from rating agencies, for example.

The Basel Committee has for some time been working on new standards for calculating credit risk, but in January 2017, the announcement of the final standard was postponed indefinitely.

Supervisory diamond for mortgage credit institutions

Realkredit Danmark complies with all threshold values. At Realkredit Danmark, lending growth, borrower interest rate exposure and large exposures are still well below the threshold values and are expected to remain so in the years to come.

The volume of loans with an interest-only option is declining steadily, and these loans now account for 8.9% against 9.1% at the end of 2015. One of the reasons is that three out of four customers, whose interest-only period expired in 2016, started to make principal repayments on their loans. Loans with short-term funding are still below the threshold value. As customers' future choice of interest-reset loans will affect the volume of short-term funding, which is comprised by the threshold values, Realkredit Danmark remains focused on this area.

For all the threshold values, Realkredit Danmark has defined internal limits to ensure that action is taken in due time before a threshold value is potentially exceeded.

Threshold value	2016	Limit
Growth in lending¹		
Owner-occupied dwellings and holiday homes	3.1%	15%
Residential rental property	5.9%	15%
Agriculture	-0.6%	15%
Other	1.6%	15%
Borrower interest-rate risk²		
Properties for residential purposes	11.2%	25%
Interest-only option³		
Owner-occupied dwellings and holiday homes	8.9%	10%
Loans with short-term funding⁴		
Refinancing, annually	21.5%	25%
Refinancing, quarterly	10.0%	12.5%
Large exposures⁵		
Sum of large exposures relative to common equity tier 1 capital	45%	100%

¹ Annual growth must be lower than 15% unless the size of the segment is smaller than the institution's total capital.

² The proportion of loans for which the loan-to-value ratio is at least 75% of the statutory maximum loan limit and for which the interest rate has been locked for up to two years must not represent more than 25% of the total loan portfolio.

³ The proportion of interest-only loans for which the loan-to-value ratio is more than 75% of the statutory maximum loan limit, must represent less than 10% of the total loan portfolio.

⁴ The proportion of lending to be refinanced must be less than 12.5% per quarter and less than 25% of the total loan portfolio.

⁵ The sum of the 20 largest exposures must be less than the core equity tier 1 capital.

Organisation and management

Management

Realkredit Danmark A/S is a wholly-owned subsidiary of Danske Bank A/S. The Board of Directors consists of seven directors, two of whom are elected by the employees.

At the annual general meeting on 3 March 2016, Henrik Ramlau-Hansen resigned from the Board of Directors. Jacob Aarup-Andersen and Henriette Fenger Ellekrog were elected as new board members.

After the annual general meeting, Tonny Thierry Andersen was appointed chairman and Lars Mørch vice chairman of the Board of Directors.

The Board of Directors defines the overall principles for the Realkredit Danmark Group's operations. The Executive Board is in charge of day-to-day management and must comply with the guidelines and directions given by the Board of Directors. The rules of procedure lay down the precise division of responsibilities between the Board of Directors and the Executive Board.

Board members elected by the shareholders in general meeting are elected for terms of one year and are eligible for reelection. Employee representatives are elected for terms of four years (most recently in 2013) and are eligible for reelection.

Employees

At the end of 2016, the number of full-time equivalent staff at the Realkredit Danmark Group was 235.

Diversity policy

At the board meeting held on 24 October 2016, Realkredit Danmark's Board of Directors adopted a diversity policy. The diversity policy is required under the regulations enacted by the Danish parliament on 14 December 2012 on the gender composition of the supreme governing body of all large companies in Denmark. According to the diversity policy, the Board of Directors must ensure that the company continually focuses on maintaining a balanced gender representation among Realkredit Danmark's managers.

Realkredit Danmark's diversity policy is based on the Danske Bank Group's overall diversity and inclusion policy. Realkredit Danmark has defined targets for the proportion of women at each management level. Realkredit Danmark's gender distribution at 31 December 2016 is set out in the following table:

Management Level	Total	Women	Share of women	Target (2017)	Men	Share of men
Board of Directors*	5	1	20%	20%	4	80%
Executive Board	1	0	0%	-	1	100%
Management level - reporting to Executive Board	6	0	0%	29%	6	100%
Management level - other	17	4	24%	42%	13	76%

*Employee representatives not included

Internal control and risk management systems used in the financial reporting process and Internal Audit

As laid down in the Danish Financial Business Act, the Board of Directors is responsible for ensuring that the Executive Board maintains effective procedures to identify, manage, monitor and report on risks, adequate internal control procedures as well as satisfactory IT controls and security measures.

Good accounting practices are based on authorities, segregation of duties, regular reporting requirements and general transparency in respect of the Group's business.

Realkredit Danmark regularly assesses risks in relation to financial reporting, with particular focus on items where estimates and judgments could significantly affect the value of assets or liabilities. These critical financial statement items are listed under Significant accounting estimates and assessments.

Realkredit Danmark has implemented controls to counter identified financial reporting risks and regularly monitors changes in and compliance with relevant legislation and other financial reporting rules and regulations. Controls have been established for the purpose of preventing, detecting and correcting any errors or irregularities in the financial reporting.

Realkredit Danmark has outsourced a number of activities to Danske Bank A/S. In this connection, Realkredit Danmark has established a governance structure to monitor the outsourced activities and to ensure a procedure involving ongoing reporting for the individual organisational levels within the Group. Internal management reporting is based on the same principles as external reporting. Internal Audit regularly examines operational processes for internal management reporting and audit, focusing, among other things, on significant areas of Realkredit Danmark's risk management, including reporting on this.

Organisation and management

The Executive Board regularly reports to the Board of Directors on compliance with the risk and investment framework set out and the statutory investment rules. The Board of Directors also receives accounting information on an ongoing basis. Compliance regularly submits reports to the Board of Directors on compliance with rules and regulations, including any violation of internal business procedures and policies.

Audit Committee

The Board of Directors has set up an audit committee to prepare the work of the Board of Directors on financial reporting and audit matters, including related risk matters, which the Board of Directors, the committee itself, the external auditors or the head of Internal Audit intend to review further. The committee works on the basis of clearly defined terms of reference. The committee is not authorised to make independent decisions; instead they report exclusively to the combined Board of Directors. In 2016, the Audit Committee held six meetings.

After the annual general meeting of Realkredit Danmark on 3 March 2016, the Audit Committee elected Kim Andersen as chairman and Jacob Aarup-Andersen as a committee member.

Corporate responsibility

Realkredit Danmark is part of Danske Bank Group and thus also an active part of Danske Bank Group's corporate responsibility. Along with Annual Report 2016, the Danske Bank Group has published Corporate Responsibility 2016 on the Group's corporate responsibility. All relevant corporate responsibility data for the Group are available in the CR Fact Book 2016, which is published along with the CR Report. CR Report and CR Fact Book are available at Danske Bank's website danskebank.com/responsibility.

Income statement and Comprehensive income

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
	Profit				
4	Interest income	19,581	21,886	19,580	21,884
5	Interest expense	12,721	14,821	12,721	14,820
	Net interest income	6,860	7,065	6,859	7,064
	Dividends from shares	-	1	-	-
	Fee and commission income	524	649	524	649
	Fee and commission expense	1,135	1,158	1,135	1,158
3	Net fee and commission income	6,249	6,557	6,248	6,555
3, 6	Value adjustments	-61	-441	-61	-440
	Other operating income	141	192	2	38
7-9	Staff costs and administrative expenses	787	784	688	678
	Impairment, depreciation and amortisation charges	3	3	-	1
10	Loan impairment charges	182	432	182	432
	Income from associates and group undertakings	-	3	30	28
	Profit before tax	5,357	5,092	5,349	5,070
11	Tax	1,176	1,202	1,168	1,188
	Net profit for the year	4,181	3,890	4,181	3,882
	Proposal for allocation of profits				
	Net profit for the year			4,181	3,882
	Transferred from other reserves			2,856	2,577
	Total for allocation			7,037	6,459
	Portion attributable to				
	Reserves in series			3,237	2,959
	Other reserves			-	-
	Proposed dividends			3,800	3,500
	Total allocation			7,037	6,459
	Comprehensive income				
	Net profit for the year	4,181	3,890	4,181	3,882
	Other comprehensive income				
	Items that will not be reclassified to profit or loss				
	Actuarial gains/losses on defined benefit plans	-103	-19	-103	-19
	Fair value adjustment of domicile property	-	-	-	1
	Tax	23	4	23	4
	Total other comprehensive income	-80	-15	-80	-14
	Total comprehensive income for the year	4,101	3,875	4,101	3,868

Balance

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
	ASSETS				
	Cash in hand and demand deposits with central banks	206	207	206	207
12	Due from credit institutions and central banks	31,285	28,489	31,225	28,434
13	Bonds at fair value	25,999	30,210	25,999	30,210
14	Bonds at amortised cost	33,563	29,597	33,563	29,597
15-16, 19	Mortgage loans at fair value	767,695	744,383	767,695	744,383
15, 17-19	Loans and other amounts due at amortised cost	702	783	668	749
	Shares	2	2	-	-
20	Holdings in associates	18	18	18	18
	Holdings in group undertakings	-	-	134	129
	Land and buildings	-	-	-	-
21	Domicile property	-	-	-	-
22	Other tangible assets	9	10	5	5
	Current tax assets	-	-	-	-
23	Deferred tax assets	-	-	-	-
24	Assets temporarily taken over	110	122	149	161
19, 25	Other assets	3,070	2,743	3,027	2,693
	Prepayments	18	10	16	7
	Total assets	862,677	836,574	862,705	836,593
	LIABILITIES AND EQUITY				
	AMOUNTS DUE				
26	Due to credit institutions and central banks	6,355	16,611	6,355	16,611
27	Issued mortgage bonds at fair value	782,526	745,223	782,526	745,223
28	Issued bonds at amortised cost	17,318	17,721	17,318	17,721
	Current tax liabilities	22	25	21	24
23	Deferred tax liabilities	51	69	-	-
29, 30	Other liabilities	7,058	8,179	7,011	8,109
	Deferred income	-	-	-	-
	Total amounts due	813,330	787,828	813,231	787,688
	PROVISIONS				
23	Deferred tax	-	-	61	79
30	Reserves in early series subject to a reimbursement obligation	-	-	35	49
	Total provisions	-	-	96	128
	SHAREHOLDERS' EQUITY				
	Share capital	630	630	630	630
	Revaluation reserve	-	-	31	31
	Reserves in series	44,611	42,613	44,611	42,613
	Other reserves	306	2,003	306	2,003
	Proposed dividends	3,800	3,500	3,800	3,500
	Total shareholders' equity	49,347	48,746	49,378	48,777
	Total liabilities and equity	862,677	836,574	862,705	836,593

Statement of capital

Realkredit Danmark Group

(DKK millions)	Share capital	Reserves in series	Other reserves	Proposed dividends	Total
Shareholders' equity at 1 January 2016	630	42,613	2,003	3,500	48,746
Net profit for the year	-	3,237	944	-	4,181
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-103	-	-103
Tax	-	-	23	-	23
Total comprehensive income for the year	-	3,237	864	-	4,101
Transferred from/to Other reserves	-	-1,239	1,239	-	-
Dividend paid	-	-	-	-3,500	-3,500
Proposed dividends	-	-	-3,800	3,800	-
Shareholders' equity at 31 December 2016	630	44,611	306	3,800	49,347
Shareholders' equity at 1 January 2015	630	43,693	548	3,000	47,871
Net profit for the year	-	2,959	931	-	3,890
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-19	-	-19
Tax	-	-	4	-	4
Total comprehensive income for the year	-	2,959	916	-	3,875
Transferred from/to Other reserves	-	-4,039	4,039	-	-
Dividend paid	-	-	-	-3,000	-3,000
Proposed dividends	-	-	-3,500	3,500	-
Shareholders' equity at 31 December 2015	630	42,613	2,003	3,500	48,746

Statement of capital

Realkredit Danmark A/S

(DKK millions)	Share capital	Revaluation reserve	Reserves in series	Other reserves	Proposed dividends	Total
Shareholders' equity at 1 January 2016	630	31	42,613	2,003	3,500	48,777
Net profit for the year	-	-	3,237	944	-	4,181
Other comprehensive income						
Actuarial gains/losses on defined benefit plans	-	-	-	-103	-	-103
Fair value adjustment of domicile property	-	-	-	-	-	-
Tax	-	-	-	23	-	23
Total comprehensive income for the year	-	-	3,237	864	-	4,101
Transferred from/to Other reserves	-	-	-1,239	1,239	-	-
Dividend paid	-	-	-	-	-3,500	-3,500
Proposed dividends	-	-	-	-3,800	3,800	-
Shareholders' equity at 31 December 2016	630	31	44,611	306	3,800	49,378
Shareholders' equity at 1 January 2015	630	33	43,693	553	3,000	47,909
Net profit for the year	-	-	2,959	923	-	3,882
Other comprehensive income						
Actuarial gains/losses on defined benefit plans	-	-	-	-19	-	-19
Fair value adjustment of domicile property	-	-2	-	3	-	1
Tax	-	-	-	4	-	4
Total comprehensive income for the year	-	-2	2,959	911	-	3,868
Transferred from/to Other reserves	-	-	-4,039	4,039	-	-
Dividend paid	-	-	-	-	-3,000	-3,000
Proposed dividends	-	-	-	-3,500	3,500	-
Shareholders' equity at 31 December 2015	630	31	42,613	2,003	3,500	48,777

At the end of 2016, the share capital was made up of 6,300,000 shares of DKK 100 each. All shares carry the same rights; there is thus only one class of shares. The company is wholly-owned by Danske Bank A/S, Copenhagen. Realkredit Danmark A/S and group undertakings are included in the consolidated financial statements of Danske Bank A/S, Copenhagen.

The revaluation reserves relate to fair value adjustment of domicile property.

Statement of capital

	Realkredit Danmark Group	
	31 Dec.	31 Dec.
(DKK millions)	2016	2015
Total capital and Total capital ratio		
Shareholders' equity	49,347	48,746
Revaluation of domicile property at fair value	39	40
Tax effect	-8	-9
Total equity calculated in accordance with the rules of the Danish FSA	49,378	48,777
Expected/proposed dividends	-3,800	-3,500
Revaluation reserve	-	-
Deferred tax assets	-	-
Prudent valuation	-26	-
Defined benefit pension fund assets	-115	-106
Common equity tier 1 capital	45,437	45,171
Difference between expected losses and impairment charges	-	-
Tier 1 capital	45,437	45,171
Reserves in series subject to a reimbursement obligation	-	-
Revaluation reserve	-	-
Difference between expected losses and impairment charges	729	601
Total capital	46,166	45,772
Risk exposure amount	153,597	118,092
Common equity tier 1 capital ratio (%)	29.6	38.3
Tier 1 capital ratio (%)	29.6	38.3
Total capital ratio (%)	30.1	38.8

Total capital and the total risk exposure amount have been calculated in accordance with the rules applicable under the CRR/CRD IV taking transitional rules into account as stipulated by the Danish FSA. A new filter has been introduced for deduction from common equity tier 1 capital of additional value adjustments of assets and liabilities measured at fair value (prudent valuation). The European Commission has approved the standard submitted by the European Banking Authority (EBA), which has been in force since February 2016.

The solvency need calculation is described in more detail on rd.dk.

Statement of capital

	Realkredit Danmark A/S	
	31 Dec. 2016	31 Dec. 2015
(DKK millions)		
Total capital and Total capital ratio		
Shareholders' equity	49,378	48,777
Expected/proposed dividends	-3,800	-3,500
Revaluation reserve	-	-
Deferred tax assets	-	-
Prudent valuation	-26	-
Defined benefit pension fund assets	-115	-106
Common equity tier 1 capital	45,437	45,171
Difference between expected losses and impairment charges	-	-
Tier 1 capital	45,437	45,171
Reserves in series subject to a reimbursement obligation	-	-
Revaluation reserve	-	-
Difference between expected losses and impairment charges	729	600
Total capital	46,166	45,771
Risk exposure amount	153,437	117,938
Common equity tier 1 capital ratio (%)	29.6	38.3
Tier 1 capital ratio (%)	29.6	38.3
Total capital ratio (%)	30.1	38.8

Total capital and the total risk exposure amount have been calculated in accordance with the rules applicable under the CRR/CRD IV taking transitional rules into account as stipulated by the Danish FSA. A new filter has been introduced for deduction from common equity tier 1 capital of additional value adjustments of assets and liabilities measured at fair value (prudent valuation). The European Commission has approved the standard submitted by the European Banking Authority (EBA), which has been in force since February 2016.

The solvency need calculation is described in more detail on rd.dk.

Cash flow statement

	Realkredit Danmark Group	
(DKK millions)	2016	2015
Cash flow from operating activities		
Profit before tax	5,357	5,092
Adjustment for other non-cash operating items		
Amortisation, depreciation and impairment charges	3	3
Loan impairment charges	-522	-274
Other non-cash items	-	-
Tax paid	-1,172	-1,036
Total	3,666	3,785
Cash flow from operating capital		
Bonds and shares	3,991	-5,671
Mortgage loans	-15,070	-13,816
Issued mortgage bonds	28,417	10,000
Due to credit institutions	-10,256	6,593
Other assets/liabilities	-876	-643
Cash flow from operating activities	9,872	248
Cash flow from investing activities		
Acquisition of tangible assets	-1	-2
Sale of tangible assets	-	-
Cash flow from investing activities	-1	-2
Cash flow from financing activities		
Dividends	-3,500	-3,000
Cash flow from financing activities	-3,500	-3,000
Cash and cash equivalents at 1 January	23,128	25,882
Change in cash and cash equivalents	6,371	-2,754
Cash and cash equivalents at 31 December	29,499	23,128
Cash and cash equivalents at 31 December		
Cash in hand and demand deposits with central banks	206	207
Amounts due from credit institutions and central banks within 3 months	29,293	22,921
Total	29,499	23,128

Notes

Note

1 SIGNIFICANT ACCOUNTING POLICIES

General

Realkredit Danmark prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with applicable interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU. Furthermore, the consolidated financial statements comply with the requirements for annual reports formulated by NASDAQ Copenhagen and the Danish FSA's executive order No. 1306 dated 16 December 2008 on the use of IFRSs by undertakings subject to the Danish Financial Business Act.

The Group has not changed its significant accounting policies from those followed in Annual Report 2015.

For the purpose of clarity, the notes to the financial statements are prepared using the concepts of materiality and relevance. This means that information not considered material in terms of quantitative and qualitative measures or relevant to financial statement users is not presented in the notes.

Critical accounting estimates and assessments

Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the Group's consolidated financial statements. The amount most influenced by critical estimates and assessments is the fair value measurement of mortgage loans.

The estimates and assumptions are based on estimates that management finds reasonable but which are inherently uncertain and unpredictable. The premises may be incomplete, unexpected future events or situations may occur, and other parties may arrive at other estimated values.

Fair value measurement of mortgage loans

The fair value of mortgage loans is based on the fair value of the underlying issued mortgage bonds adjusted for changes in the fair value of the credit risk on borrowers.

For mortgage loans granted to customers in rating categories 10 and 11 (loans with objective evidence of impairment), such adjustment is made to the amount which the borrower is expected to be able to repay after a financial restructuring. Loans are written down to the fair value of the collateral if financial restructuring is not possible or in case of asset financing.

A collective assessment also determines the need for changes to reflect fair value adjustments of the credit risk of the remaining portion of the portfolio. No changes are made if it is possible to raise the administration margin on loans (credit margin) sufficiently to compensate for the higher credit risk and market risk premiums on mortgage loans. If it is not possible to raise the administration margin sufficiently or at all, a collective adjustment is made, reflecting trends in expected

losses, unexpected losses (volatility) and the possibility of raising administration margins in the future. The expected future cash flows are discounted at the current market rate with the addition of a risk premium.

Consolidation

Group undertakings

The financial statements consolidate the parent company and group undertakings in which the Group has control over financial and operating policy decisions. Control is said to exist if Realkredit Danmark A/S is exposed to variable returns from the entity and, directly or indirectly, holds more than half of the voting rights in an undertaking or otherwise has power to control management and operating policy decisions affecting the variable returns.

The consolidated financial statements are prepared by consolidating items of the same nature and eliminating intra-group transactions, balances and trading profits and losses.

Associates

Associates are businesses, other than group undertakings, in which the Group has holdings and significant but not controlling influence. The Group generally classifies businesses as associates, if Realkredit Danmark A/S, directly or indirectly, holds 20-50% of the voting rights and also influences management and operating policy decisions.

Holdings are recognised at cost at the date of acquisition and are subsequently measured according to the equity method. The proportionate share of the net profit or loss of the individual business is included under Income from associate. The share is calculated on the basis of data from financial statements with balance sheet dates no earlier than three months before the Group's balance sheet date. The proportionate share of the profit and loss on transactions between associates and the Realkredit Danmark Group is eliminated.

Segment reporting

Realkredit Danmark operates two primary business segments, mortgage finance and a proprietary portfolio. The business segments are based on ongoing internal reporting of customer-facing activities (mortgage finance) and risk management (proprietary portfolio).

The part of the bond portfolio that is not related to mortgage lending operations is managed under the proprietary portfolio segment.

Notes

Note

Offsetting

Assets and liabilities are offset when the Group and the counterparty have a legally enforceable right to set off a recognised amount and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Holdings of own bonds do not constitute a claim on a counterparty, but reduce the Group's liability under the issued bonds. Holdings of own mortgage bonds are therefore set off against Issued mortgage bonds at fair value.

Translation of transactions in foreign currencies

The presentation currency of the consolidated financial statements is Danish kroner, which is the functional currency of Realkredit Danmark.

Transactions in foreign currency are translated at the exchange rate of the functional currency at the transaction date. Gains and losses on exchange rate differences arising between the transaction date and the settlement date are recognised in the income statement.

Monetary assets and liabilities in foreign currency are translated at the exchange rates at the balance sheet date. Exchange rate adjustments of monetary assets and liabilities arising as a result of differences in the exchange rates at the transaction date and at the balance sheet date are recognised in the income statement.

Financial instruments – general

Purchases and sales of financial instruments are measured at fair value at the settlement date. Fair value adjustments of unsettled financial instruments are recognised from the trading date to the settlement date.

Classification

At initial recognition, financial assets are divided into the following categories:

- Securities which are generally classified at fair value through profit or loss. However, part of the portfolio is recognised at amortised cost as a held-to-maturity portfolio.
- Mortgage loans designated at fair value through profit or loss.
- Loans and receivables measured at amortised cost.

At initial recognition, a financial liability is assigned to one of the following categories:

- Issued mortgage bonds designated at fair value through profit or loss.
- Other financial liabilities, including junior covered bonds, are measured at amortised cost.

Fair value option – mortgage loans and issued mortgage bonds at fair value through profit or loss

Mortgage loans granted under Danish mortgage finance law are funded by issuing listed mortgage bonds with matching terms. Borrowers may repay such mortgage loans by delivering the underlying bonds.

Realkredit Danmark buys and sells own mortgage bonds on an ongoing basis because such securities play an important role in the Danish money market. If mortgage loans and issued mortgage bonds were measured at amortised cost, the purchase and sale of own mortgage bonds would result in timing differences in the recognition of gains and losses.

The purchase price would not equal the amortised cost of the issued bonds. Moreover, elimination would result in arbitrary recognition of gains and losses. If the Group subsequently decided to sell its holding of own mortgage bonds, the new amortised cost of this "new issue" would not equal the amortised cost of the matching mortgage loans, and the difference would be amortised over the remaining term to maturity.

Consequently, the Group has chosen to recognise mortgage loans and issued mortgage bonds at fair value in accordance with the fair value option offered by IAS 39 to ensure that neither gain nor loss will occur on the purchase of own mortgage bonds.

The fair value of the mortgage loans is based on the fair value of the underlying mortgage bonds adjusted for the credit risk on borrowers. The fair value adjustment of the mortgage loans largely equals the fair value adjustment of the mortgage bonds issued.

The fair value adjustment of the mortgage loans and the issued mortgage bonds is recognised under Value adjustments, except for the part of the value adjustment that concerns the credit risk on mortgage loans: this part is recognised under Loan impairment charges.

Hedge accounting

Realkredit Danmark uses derivatives to hedge the interest rate risk on fixed-rate liabilities measured at amortised cost. Hedged risks that meet the criteria for fair value hedge accounting are treated accordingly. The interest rate risk on the hedged liabilities is measured at fair value through profit or loss.

BALANCE SHEET

Bonds at fair value

At initial recognition, these bonds are measured at fair value, excluding transaction costs. Subsequently, bonds are measured at fair value through profit or loss.

If an active market exists, fair value is based on the most recently observed market price at the balance sheet date.

If a bond is quoted in a market that is not active, the Group bases its measurement on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance by including transactions in similar bonds that are motivated by normal business considerations.

Notes

Note

If no active market exists, fair value is calculated on the basis of generally accepted valuation techniques and market-based parameters. Market-based parameters are used for measuring fair value.

Bonds at amortised cost

Realkredit Danmark has a held-to-maturity bond portfolio. These bonds are not managed on a fair value basis and are held for the purpose of generating a known return until maturity. The bonds are measured at amortised cost as a held-to-maturity portfolio. Interest rate risk is not hedged.

Mortgage lending and Issued mortgage bonds at fair value

At initial recognition, mortgage loans and issued mortgage bonds are measured at fair value, exclusive of transaction costs. Such assets are subsequently measured at fair value.

The fair value of the issued mortgage bonds will usually equal the market value. However, a small part of the issued bonds are illiquid, and the fair value of these bonds is calculated on the basis of a discounted cash flow valuation model.

The fair value of mortgage loans is based on the fair value of the underlying issued mortgage bonds adjusted for changes in the fair value of the credit risk on borrowers.

For mortgage loans granted to customers in rating categories 10 and 11 (all loans with objective evidence of impairment), each loan is adjusted to reflect the fact that the expected payments deviate from the agreed payments. The debt is written down to the amount that the borrower is expected to be able to repay after a financial restructuring. Loans are written down to the fair value of the collateral if financial restructuring is not possible or if the borrower only to a limited extent is able to service the loan independently of the assets provided as collateral for the loan (asset financing).

Loans are classified in rating categories 10 and 11 if at least one of the following events has occurred:

- the borrower is experiencing significant financial difficulty
- the borrower's actions, such as default or delinquency in interest or principal payments, lead to a breach of contract
- the Group grants to the borrower a concession that Realkredit Danmark would not grant had it not been for the borrower's financial difficulty
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation

A collective assessment also determines the need for changes to reflect fair value adjustments of the credit risk of the remaining portion of the portfolio.

No changes are made if it is possible to raise the administration margin on loans (credit margin) sufficiently to compensate for any higher credit risk and market risk premium on mortgage loans. If it is not possible to raise the administration margin sufficiently or at all, a collective adjustment is made, reflecting trends in expected losses, unexpected losses (volatility) and the possibility of raising administration margins in the future. The expected future cash flows are discounted at the current market rate with the addition of a risk premium.

Due from credit institutions and central banks and Loans and other amounts due at amortised cost

Amounts due from credit institutions and central banks comprise amounts due from other credit institutions and time deposits with central banks. Reverse transactions (purchases of securities from credit institutions and central banks that the Group agrees to resell at a later date) are recognised as Amounts due from credit institutions and central banks with collateral in the securities surrendered. Reverse transactions are made on standard terms and conditions.

Loans and other amounts due carried at amortised cost consist of mortgage payments due and other outlays relating to mortgage loans as well as claims against individual borrowers and reserve fund mortgages, etc.

Impairment of these claims is made according to the same principles as described above for mortgage loans classified in rating categories 10 and 11. However, for discounting purposes the original effective interest rate is used instead of the current interest rate.

Notes

Note

Other tangible assets

Equipment, vehicles, furniture, fixtures and property improvement expenditure are recognised at cost less depreciation and impairment charges. Assets are depreciated over their expected useful lives, which are usually three years, according to the straight-line method. Property improvement expenditure is depreciated over the term of the lease, with a maximum of ten years.

Other tangible assets are tested for impairment if evidence of impairment exists, and the asset is written down to its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Assets temporarily taken over

Assets temporarily taken over include tangible assets, which the Group, according to a publicly announced plan, expects to sell within twelve months. Such assets are measured, from the time at which the above conditions are met, at the lower of their carrying amount at the time of classification and their fair value less expected costs to sell and are no longer depreciated.

At the end of 2015, the Group's domicile property was put up for sale and is recognised as Assets temporarily taken over. Properties taken over in connection with non-performing loans and which are likely to be sold within 12 months are presented under Assets temporarily taken over. Subsequent fair value adjustments and gains or losses on disposal are recognised under Loan impairment charges.

Other assets

Other assets include derivatives, interest receivable and pension assets. Derivatives are recognised at fair value through profit or loss.

Pension assets

The Group's pension obligations generally consist of defined contribution pension plans for its staff. Under the defined contribution plans, the Group pays regular contributions to insurance companies and other institutions. Such payments are expensed as they are earned by the staff, and the obligations under the plans are taken over by the insurance companies and other institutions.

Furthermore, the Group has a defined benefit plan maintained under Kreditforeningen Danmarks Pensionsafvklingskasse (pension fund), Realkredit Danmark A/S guarantees future payment of a defined benefit from the time of retirement. The pension fund and Realkredit Danmark's defined benefit plan has not accepted new members since 1971, so no pension contributions are made. Accordingly, there are no service costs. The amounts payable are recognised on the basis of an actuarial computation of the present value of expected benefits. The present value is calculated on the basis of expected future trends in salaries and interest rates, time of retirement, mortality rate and other factors.

The fair value of pension assets less the present value of pension benefits is carried as a pension asset under Other assets in the balance sheet.

Amounts due to credit institutions and central banks

Amounts due to credit institutions and central banks include amounts received under repo transactions. These deposits are recognised as debt with collateral in the securities surrendered. Repo transactions are made on standard terms and conditions. Amounts due to credit institutions and central banks are measured at amortised cost.

Issued bonds at amortised cost

Issued bonds at amortised cost consist of issued senior debt. Senior debt is measured at amortised cost plus the fair value of the hedged interest rate risk.

Deferred tax assets/Deferred tax liabilities

Deferred tax on all temporary differences between the tax base of assets and liabilities and their carrying amounts is accounted for in accordance with the balance sheet liability method. Deferred tax is recognised under Deferred tax assets or Deferred tax liabilities.

Deferred tax is measured on the basis of the tax regulations and rates that, according to the rules in force at the balance sheet date, will apply at the time the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of adopted changes in tax rates are recognised in the income statement based on expected cash flows.

Current tax assets/Current tax liabilities

Current tax assets and liabilities are recognised in the balance sheet as the estimated tax charge on the profit for the year adjusted for prepaid tax and prior-year tax payables and receivables.

Tax assets and liabilities are offset if the Group has a legally enforceable right to set off such assets and liabilities and intends either to settle the assets and liabilities on a net basis or to realise the assets and settle the liabilities simultaneously.

Other liabilities

Other liabilities includes derivatives, interest payable and accrued fee.

Other liabilities also includes Reserves in early series subject to a reimbursement obligation and other provisions.

Shareholders' equity

Reserves in series

Reserves in series comprise series established before 1972 with joint and several liability series established after 1972 without joint and several liability, other series, including Danske Kredit and mortgage-covered bonds.

Notes

Note

Other reserves

Other reserves comprise the mortgage credit business that is not included in reserves in series.

Proposed dividends

The Board of Directors' proposal for dividends for the year submitted to the general meeting is included as a separate reserve in shareholders' equity. The dividends are recognised as a liability when the general meeting has adopted the proposal.

INCOME STATEMENT

Interest income and expense

Interest income and expenses include interest and administration margins on financial instruments measured at fair value. Origination fees on mortgage loans carried at fair value are recognised as Interest income at origination.

Fees and commission income and expense

Income from mortgage loans carried at fair value is recognised when the transaction is completed. Income and expenses for services provided over a period of time are accrued over the period. Transaction fees are recognised on completion of the individual transaction.

Value adjustments

Value adjustments comprise realised and unrealised capital gains and losses on bonds at fair value, mortgage loans, issued mortgage bonds and fixed-price agreements as well as exchange rate adjustments.

Staff costs and administrative expenses

Staff costs

Salaries and other remuneration that the Group expects to pay for work carried out during the year are expensed under Staff costs and administrative expenses. This item comprises salaries, bonuses, expenses for share-based payments, holiday allowances, anniversary bonuses, pension costs and other remuneration. Performance-based pay is expensed as it is earned.

Performance-based pay and share-based payments

Performance-based pay is expensed as it is earned. Part of the performance-based pay for the year is paid in the form of conditional shares issued by Danske Bank. Rights to shares under the conditional share programme vest up to three years after being granted provided that the employee, with the exception of retirement, has not resigned from the Group. Retirement is not considered as resignation.

The fair value of share-based payments at the grant date is expensed over the service period that unconditionally entitles the employee to the payment. The intrinsic value of the option is expensed in the year in which the share-based payments are earned, whereas any time value is accrued over the remaining service period. Expenses are set off against shareholders' equity. The increase in shareholders' equity is eliminated by set-off against an interim account with Danske

Bank A/S. Subsequent changes in the fair value are not recognised in the income statement.

Pension obligations

The Group's contributions to defined contribution pension plans are recognised in the income statement as they are earned by the employees. For the defined benefit pensions plans in Kreditforeningen Danmarks Pensionsafviklingskasse no contributions are made any longer, and therefore there are no service costs. Gains or losses as a result of the difference between expected trends and actual trends are recognised in Other comprehensive income.

Loan impairment charges

Loan impairment charges includes the fair value adjustment of the credit risk on mortgage loans as well as losses on and impairment charges for other loans and amounts due. The item also includes impairment charges and realised gains and losses on acquired assets if the assets qualify as assets temporarily taken over. Similarly, subsequent value adjustments of assets that the Group has taken over and does not expect to sell within 12 months are recognised under loan impairment charges, provided that the Group has a right of recourse against the borrower.

Tax

Calculated current and deferred tax on the profit for the year and adjustments of tax charges for previous years are recognised in the income statement. Tax on items recognised in Other comprehensive income is recognised in Other comprehensive income. Similarly, tax on items recognised in shareholders' equity is recognised in Shareholders' equity.

Comprehensive income

Total comprehensive income includes the net profit for the year and other comprehensive income.

Cash flow statement

The cash flow statement is prepared according to the indirect method. The statement is based on the pre-tax profit for the year and shows the cash flows from operating, investing and financing activities and the increase or decrease in cash and cash equivalents during the year.

Cash and cash equivalents consists of Cash in hand and demand deposits with central banks and Amounts due from credit institutions and central banks with original maturities shorter than three months.

Standards and interpretations not yet in force

The International Accounting Standards Board (IASB) has issued a number of new accounting standards amendments to existing international accounting standards that have not yet come into force. Similarly, the International Financial Reporting Interpretations Committee (IFRIC) has issued a new interpretation that has not yet come into force. The Group has not implemented any of these. The sections below explain the changes that are likely to affect the Group's future financial reporting. The other changes are not expected to have any material effect.

IFRS 9, Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments, which will replace the principles of IAS 39. The standard provides principles for classification of financial instruments, impairment of financial assets recognised in the income statement at amortised cost and general hedge accounting provisions. IASB is still working on new provisions on hedge accounting for portfolio hedges. IASB is also working on a new macro hedge accounting model. IFRS 9, is to be implemented at 1 January 2018.

Under IFRS 9, financial assets are classified on the basis of the business model adopted and the contractual cash flow characteristics of the assets, including any embedded derivatives (unlike IAS 39, IFRS 9 no longer requires bifurcation). Assets held with the objective exclusively of collecting contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortised cost. Assets held with the objective both of collecting contractual cash flows and being sold and which also have contractual cash flows that are solely payments of principal and interest are measured at fair value through Other Comprehensive Income. This results in assets recognised at fair value in the balance sheet and at amortised cost in the income statement. Other assets are measured at fair value through profit or loss.

The principles applicable to financial liabilities are largely unchanged from IAS 39. Generally, financial liabilities are still measured at amortised cost with bifurcation of embedded derivatives not closely related to a host contract. Financial liabilities that are derivatives or are included in the trading portfolio are measured at fair value.

The fair value option in IAS 39, under which an entity may opt for fair value adjustment of financial assets and liabilities if certain criteria are met, is incorporated in IFRS 9. Value adjustments relating to the inherent credit risk of financial liabilities are, however, recognised in Other comprehensive income after implementation of IFRS 9, unless this leads to an accounting mismatch.

For financial assets recognised at amortised cost (in the income statement), the value must be reduced by expected credit losses. An entity must assess whether or not the credit risk has increased significantly since the asset was acquired. Where no significant increase has been recorded, 12 months of expected losses should be recognised. Where there has been a significant increase in credit risk, the expected loss is written down over the expected life of the asset.

The general hedge accounting model does not fundamentally change the types of hedging relationships or the requirements to recognise ineffectiveness. IFRS 9 contains an option to continue to apply the hedge accounting principles of IAS 39 until the IASB has completed the project on new macro hedge accounting.

The Group is currently assessing the effect of the standard. Mortgage lending and issued mortgage bonds can still be recognised at fair value through profit or loss using the fair value option, as an accounting mismatch would otherwise arise in the income statement. The new principles for impairment of financial assets are not expected to apply for the valuation of mortgage loans, as the loans are recognised at fair value rather than amortised cost, but there may be some knock-on effect on the calculation of fair value of the credit risk on mortgage loans. The Group does not expect material changes to the classification and measurement of other financial assets, including the bond portfolio. No decision has yet been made as to whether or not the Group will continue to apply the hedge accounting principles of IAS 39 (until the IASB's macro hedge accounting project is completed). It is still not possible to assess the overall accounting effect of the standard.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces IAS 18, Revenue, and other existing IFRSs on revenue recognition. Under IFRS 15, revenue is recognised when the performance obligations inherent in the contract with a customer are satisfied. The new standard also includes additional disclosure requirements. IFRS 15 is to be implemented at 1 January 2018. The Group is currently assessing the effect of the standard. It is still not possible to assess any accounting effect of the standard. Implementation of the standard is not expected to have any material effect.

Accounting policies for the parent company

The financial statements of the parent company are prepared in accordance with the Danish Financial Business Act and the Danish FSA's Executive Order No. 281 of 26 March 2014 on Financial Reports for Credit Institutions and Investment Companies, etc. as amended by Executive Order no. 707 of 1 June 2016. The rules are consistent with the Group's measurement principles under IFRS with the exception that domicile properties in the parent company are valued at estimated fair value (revalued amount) through Other comprehensive income, while in the consolidated financial statements they are recognised as Assets temporarily taken over. The estimated fair value of domicile properties is determined in accordance with the Danish FSA's executive order of Financial Reports for Credit Institutions and Investment Companies, etc. Holdings in subsidiary undertakings are measured using the equity method, which means that the tax payable by subsidiary undertakings is charged to the item Income from associates and group undertakings.

Notes

Note (DKK millions)

2 Profit broken down by activity

Realkredit Danmark Group

2016	Mortgage finance	Own holdings	Highlights	Reclassi- fication	Total
Administration margin	5,890	-	5,890	-	5,890
Net interest income	-251	374	123	847	970
Dividends from shares	-	-	-	-	-
Net fee income	-611	-	-611	-	-611
Income from investment portfolios	576	210	786	-786	-
Value adjustments	-	-	-	-61	-61
Other income	141	-	141	-	141
Total income	5,745	584	6,329	-	6,329
Expenses	784	6	790	-	790
Profit before loan impairment charges	4,961	578	5,539	-	5,539
Loan impairment charges	182	-	182	-	182
Income from associates	-	-	-	-	-
Profit before tax	4,779	578	5,357	-	5,357
Total assets	798,718	63,959	862,677	-	862,677
2015	Mortgage finance	Own holdings	Highlights	Reclassi- fication	Total
Administration margin	5,770	-	5,770	-	5,770
Net interest income	-173	369	196	1,099	1,295
Dividends from shares	-	-	-	1	1
Net fee income	-509	-	-509	-	-509
Income from investment portfolios	531	131	662	-662	-
Value adjustments	-	-	-	-441	-441
Other income	192	-	192	-	192
Total income	5,811	500	6,311	-3	6,308
Expenses	781	6	787	-	787
Profit before loan impairment charges	5,030	494	5,524	-3	5,521
Loan impairment charges	432	-	432	-	432
Income from associates	-	-	-	3	3
Profit before tax	4,598	494	5,092	-	5,092
Total assets	772,123	64,451	836,574	-	836,574

Mortgage finance encompasses property financing services provided in Denmark, Sweden and Norway to personal and business customers. The mediation of property financing services is made through Danske Bank's branch network and finance centres and through Corporate & Institutional Mortgage Finance at Realkredit Danmark. The segment also includes mediation of real estate transactions in Denmark offered through the "home" real-estate agency chain. Under the Danish Financial Business Act, at least 60% of the total capital of a mortgage credit institution must be invested in bonds, etc. Own holdings comprise the net return on the part of the securities portfolio not relating to the mortgage finance business. Financial highlights and reporting for the two business segments correspond to the information incorporated in the Management's report, and which is regularly sent to the management. The reclassification column shows the reconciliation between the presentation in the highlights and in the financial statements. The difference is due to the fact that income from trading activities and own holdings is carried in the income statement under net interest income and value adjustments, etc. In the consolidated highlights, this income, except for interest on bonds at amortised cost, is reclassified to income from investment portfolios. Realkredit Danmark has no branch offices or subsidiaries outside Denmark. IFRSs require disclosure if 10% or more of the income derives from a single customer. The Realkredit Danmark Group has no such customers.

3 Geographical segmentation

For the Realkredit Danmark Group, interest on loans from foreign exposures amounts to DKK 161 million (2015: DKK 166 million). The sum of Realkredit Danmark A/S' net interest and fee income and value adjustments of foreign exposures amounts to DKK 122 million (2015: DKK 93 million).

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
4	Interest income				
	Reverse transactions with credit institutions and central banks	-64	-101	-64	-101
	Credit institutions and central banks	-35	-44	-35	-44
	Loans and other amounts due	12,616	14,891	12,615	14,889
	Administration margin	5,890	5,770	5,890	5,770
	Bonds at fair value	354	539	354	539
	Bonds at amortised cost	210	203	210	203
	Derivatives				
	Interest rate contracts	343	328	343	328
	Other interest income	267	300	267	300
	Total	19,581	21,886	19,580	21,884
	Interest income derived from				
	Assets at fair value	19,203	21,528	19,202	21,526
	Assets at amortised cost	378	358	378	358
	Total	19,581	21,886	19,580	21,884
	Interest on individually impaired financial assets recognised at amortised cost amounted to DKK 10 million (2015: DKK 17 million).				
5	Interest expense				
	Repo transactions with credit institutions and central banks	-64	-86	-64	-86
	Due to credit institutions and central banks	1	1	1	1
	Issued mortgage bonds etc.	12,605	14,709	12,605	14,709
	Disbursed reserve fund shares	178	195	178	195
	Other interest expense	1	2	1	1
	Total	12,721	14,821	12,721	14,820
	Interest expense derived from				
	Liabilities at fair value	12,605	14,709	12,605	14,709
	Liabilities at amortised cost	116	112	116	111
	Total	12,721	14,821	12,721	14,820
6	Value adjustments				
	Mortgage loans	7,820	-13,968	7,820	-13,968
	Bonds	-339	-509	-339	-509
	Shares	-	-1	-	-
	Currency	1	5	1	5
	Derivatives	743	-1,160	743	-1,160
	Other assets	14	13	14	13
	Issued mortgage bonds	-8,378	15,139	-8,378	15,139
	Reserves in early series subject to a reimbursement obligation	-	-1	-	-1
	Other liabilities	78	41	78	41
	Total	-61	-441	-61	-440
	Value adjustments derived from				
	Assets and liabilities at fair value	-153	-495	-153	-494
	Assets and liabilities at amortised cost	92	54	92	54
	Total	-61	-441	-61	-440

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
7	Staff costs and administrative expenses				
	Salaries and remuneration of Executive Board, Board of Directors and local councils				
	Executive Board	4	4	4	4
	Board of Directors	1	1	1	1
	Total	5	5	5	5
	Staff costs				
	Salaries	147	143	124	120
	Share-based payments	-	-	-	-
	Defined benefit pension	18	18	16	16
	Other social security costs and taxes	20	17	20	17
	Total	185	178	160	153
	Other administrative expenses	597	601	523	520
	Total staff costs and administrative expenses	787	784	688	678
	Number of full-time-equivalent staff (avg.)	238	234	206	202
	Remuneration of the Board of Directors (DKK thousands)				
	Kim Andersen	315	315	315	315
	Claus Bundgaard	125	125	125	125
	Lisbeth Sahlertz Nielsen	125	125	125	125
	Total remuneration	565	565	565	565
	Remuneration for committee work included in total remuneration	190	190	190	190
	Members of the Board end of year	7	6	7	6

Members of the Board of Directors employed by Danske Bank A/S do not receive remuneration from Realkredit Danmark.

As members of the board of directors or executive board of other companies in the Danske Bank Group, Tonny Thierry Andersen earned a total remuneration from such companies in 2016 of DKK 10.8 million (2015: DKK 9.6 million), Lars Mørch earned DKK 9.7 million (2015: DKK 8.7 million), Henrik Ramlau-Hansen earned DKK 2.4 million (2015: DKK 9.4 million), Kim Andersen earned DKK 0.3 million (2015: DKK 0.3 million) and Jacob Aarup-Andersen earned DKK 6.3 million (2015: DKK 4.5 million).

Members of the Board of Directors only receive a fixed fee. They are not covered by any incentive programmes at Realkredit Danmark. In addition to the fixed fee, a committee fee is paid to the chairman of the Audit Committee.

Board fees are paid by the parent company Realkredit Danmark A/S. No board member has received remuneration for membership of the executive board or board of directors of the home a/s subsidiary.

The Group has no pension obligations towards its board members.

Notes

Note	(DKK millions)	
7	Staff costs and administrative expenses	
cont'd	Remuneration of the Executive Board	
		Carsten Nøddebo Rasmussen
	2016	
	Fixed salary	3.3
	Pension	0.4
	Variable cash remuneration	0.2
	Variable share-based remuneration	0.3
	Total amount earned	4.2
	Total amount paid	3.9

Total amount paid consists of fixed salary and pension contributions to defined contribution plans in 2016, variable cash remuneration and the exercise of conditional shares granted for earlier financial years. Variable remuneration for 2016 will be paid in subsequent financial years.

The total remuneration of the Executive Board of DKK 4.2 million for 2016 consists of a fixed remuneration of DKK 3.7 million and a variable remuneration of DKK 0.5 million.

		Carsten Nøddebo Rasmussen
	2015	
	Fixed salary	3.2
	Pension	0.4
	Variable cash remuneration	0.2
	Variable share-based remuneration	0.3
	Total amount earned	4.1
	Total amount paid	3.9

The total remuneration of the Executive Board of DKK 4.1 million for 2015 consists of a fixed remuneration of DKK 3.6 million and a variable remuneration of DKK 0.5 million.

The Executive Board's contracts comply with the statutory requirements for agreements on variable remuneration in financial institutions in force since 1 January 2011.

The remuneration of the Executive Board disclosed above was paid by the parent company Realkredit Danmark A/S. No member of the Executive Board has received remuneration for membership of the executive board or board of directors of the subsidiary home a/s.

Pensions

Carsten Nøddebo Rasmussen is entitled to retire at the end of the month in which he attains the age of 60. The pension obligation is covered by payments equal to 14% of his salary to a bank.

Termination

Carsten Nøddebo Rasmussen may terminate his service by giving six months' notice. Realkredit Danmark may terminate the service contract by giving 12 months' notice. In case of termination by Realkredit Danmark, Carsten Nøddebo Rasmussen is entitled to severance pay equal to 12 months' salary.

Notes

Note (DKK millions)

7 **Staff costs and administrative expenses**

cont'd

Remuneration of other material risk takers

In accordance with current legislation the Danish Financial Business Act and the accompanying order, Realkredit Danmark is required to identify all employees within the categories of staff whose professional activities could have a material impact on the risk profile of Realkredit Danmark. Other material risk takers do not comprise members of the Executive Board or Board of Directors.

Variable payment for other material risk takers is split into cash and equity shares according to EBA regulations. Further, 40-60% of variable payments are deferred minimum 3 years.

All variable payments are subject to claw back provisions if granted on the basis of data which has subsequently proven to be manifestly misstated or inaccurate.

For 2016, Realkredit Danmark A/S paid remuneration totalling DKK 41.3 million for 41 other material risk takers (2015: DKK 43.5 million for 43 other material risk takers). The remuneration consists of fixed remuneration of DKK 39.3 million and a variable remuneration of DKK 2.0 million (2015: DKK 40.0 million and DKK 3.5 million). Variable pay for 2016 is estimated and will be finalised at the end of February 2017. The final variable pay will be published no later than in March 2017 in the Realkredit Danmark Group Remuneration Report 2016, where additional quantitative information on the remuneration of material risk takers can be found. The Remuneration Report will be available at rd.dk.

Realkredit Danmark A/S has no pension obligation towards other material risk takers, as these are covered by defined contribution plans through pension funds.

Pension plans

Most of the Group's pension plans are defined contribution plans under which the Group pays contributions to insurance companies. Such payments are expensed regularly. The Group has to a minor extent entered into a defined benefit pension plan through Kreditforeningen Danmarks Pensionsafvklingskasse, where the Group is under an obligation to pay defined future benefits from the time of retirement. The pension fund and the Group's defined benefit plan has not accepted new members since 1971, so no pension contributions are made. Accordingly, there are no service costs.

The fair value of pension assets less the present value of obligations is recognised under Other assets. At 31 December 2016, the net present value of pension obligations was DKK 921 million (2015: DKK 913 million), and the fair value of plan assets was DKK 1,168 million (2015: DKK 1,254 million). In 2016, most of the pension risk was transferred to Danica Pension in the form of an insurance policy. Actuarial gains or losses are recognised in Other comprehensive income.

The calculation of the net obligation is based on valuations made by external actuaries. These valuations rely on assumptions about a number of variables, including discount and mortality rates and salary increases. The measurement of the net obligation is particularly sensitive to changes in the discount rate. The discount rate is determined by reference to yields on Danish mortgage bonds with terms to maturity matching the terms of the pension obligations.

8 **Share-based payments**

The total expense recognised as Operating expenses in 2016 arising from share-based payments is DKK 0.7 million (2015: DKK 0.9 million). All share-based payments are equity-settled. The exact number of shares granted for 2016 will be determined at the end of February 2017.

Effective from 2010, part of the variable remuneration of Realkredit Danmark's Executive Board was granted by way of conditional shares under the bonus structure for material risk takers and other employees, as part of their variable remuneration. Such employees have a performance agreement based on the performance of the Group. Part of the rights to Danske Bank shares for material risk takers are, as required by EBA, deferred, see section above on variable payment. The fair value at grant date is measured at the expected monetary value of the underlying agreement.

Rights to Danske Bank shares under the conditional share programme vest up to three years after being granted provided that the employee, with the exception of retirement, has not resigned from the Group. In addition to this requirement and before pay-out of the deferred shares, back testing is conducted to assess whether the initial criteria for granting the bonus still are considered fulfilled, whether the bank's economic situation has deteriorated significantly.

Notes

Note	(DKK millions)
------	----------------

8 cont'd The fair value of the conditional shares was calculated as the share price less the payment made by the employee.

Danske Bank A/S carries hedged the share price risk.

Until 2008, the Group offered senior staff and selected employees incentive programmes in the form of share-based payment that included share options. During 2015, the last share options were forfeited.

8 Share-based payments

cont'd

Conditional shares

	Number			Fair Value (FV)	
	Executive Board	Other employees	Total	At issue (DKK millions)	End of year (DKK millions)
Granted in 2012					
2015, beg.	522	1,509	2,031		
Vested 2015	-	-1,509	-1,509		
Forfeited 2015	-	-	-		
Other changes 2015	-	-	-		
2015, end	522	-	522	0.0	0.1
Vested in 2016					
Forfeited 2016	-522	-	-522		
Other changes 2016	-	-	-		
2016, end	-	-	-	0.0	0.0
Granted in 2013					
2015, beg.	761	983	1,744		
Vested 2015	-	-	-		
Forfeited 2015	-	-	-		
Other changes 2015	-	-	-		
2015, end	761	983	1,744	0.2	0.3
Vested 2016					
Forfeited 2016	-	-983	-983		
Other changes 2016	-	-	-		
2016, end	761	-	761	0.1	0.2

Notes

Note	(DKK millions)					
8 cont'd	Share-based payments					
	Conditional shares cont'd.					
	Number			Fair Value (FV)		
	Executive Board	Other em- ployees	Total	At issue (DKK millions)	End of year (DKK millions)	
	Granted in 2014					
	599	405	1,004			
	-	-	-			
	-	-	-			
	-	-	-			
	599	405	1,004	0.1	0.2	
	Vested 2016					
	-	-	-			
	-	-	-			
	-	-	-			
	599	405	1,004	0.1	0.2	
	Granted in 2015					
	587	605	1,192			
	-	-242	-242			
	-	-	-			
	-	-	-			
	587	363	950	0.2	0.2	
	Vested 2016					
	-	-	-			
	-	-	-			
	-	-	-			
	587	363	950	0.2	0.2	
	Granted in 2016					
	1,303	3,153	4,456			
	-782	-1,893	-2,675			
	-	-	-			
	-	-	-			
	521	1,260	1,781	0.3	0.4	

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
8	Share-based payments				
cont'd					
	Holdings of the Executive Board and fair value, end of 2016				
	Grant year			2012-2016	
	(DKK millions)			Number	FV
	Carsten Nøddebo Rasmussen			2,468	0.5
	Holdings of the Executive Board and fair value, end of 2015				
	Grant year			2012-2015	
	(DKK millions)			Number	FV
	Carsten Nøddebo Rasmussen			2,469	0.5
	The number of conditional shares and the employee payment price have been adjusted to reflect the capital increase in 2012. In 2016, the average price at the vesting date for rights to conditional shares was DKK 191.2. No conditional shares were vested in 2015.				
9	Audit fees				
	Audit firms appointed by the general meeting				
	Statutory audit of financial statements	1	1	1	1
	Fees for other assurance engagements	-	-	-	-
	Fees for tax advisory services	-	-	-	-
	Fees for other services	-	-	-	-
	Total	1	1	1	1
10	Loan impairment charges				
	Impairment charges etc. during the year	749	1,242	749	1,242
	Reversals of impairment charges etc. for previous years	1,271	1,516	1,269	1,514
	Losses incurred	764	762	762	760
	Received on claims previously written off	60	56	60	56
	Total	182	432	182	432
11	Tax				
	Tax on profit for the year	1,174	1,194	1,165	1,184
	Deferred tax	4	7	5	3
	Adjustment of prior-year tax charges	-2	1	-2	1
	Total	1,176	1,202	1,168	1,188
	Effective tax rate				
	Current Danish tax rate	22.0	23.5	22.0	23.5
	Adjustment of prior-year tax charge	-	-	-	-
	Non-taxable items	-	0.1	-0.1	-0.1
	Effective tax rate	22.0	23.6	21.9	23.4

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
12	Due from credit institutions and central banks				
	Demand deposits	1,866	910	1,806	855
	3 months or less	27,427	22,011	27,427	22,011
	3-12 months	1,992	5,568	1,992	5,568
	Total	31,285	28,489	31,225	28,434
	Due from credit institutions	14,243	20,478	14,183	20,423
	Term deposits with central banks	17,042	8,011	17,042	8,011
	Total	31,285	28,489	31,225	28,434
	At fair value	31,307	28,457	31,247	28,401
	Portion attributable to reverse transactions	12,377	18,836	12,377	18,836

In connection with reverse transactions, Realkredit Danmark is entitled to sell or remortgage the securities. In 2016, DKK 0 million were sold or remortgaged (2015: DKK 0 million).

13	Bonds at fair value				
	Own mortgage bonds	124,165	106,181	124,165	106,181
	Other mortgage bonds	23,086	24,964	23,086	24,964
	Government bonds	2,913	5,246	2,913	5,246
	Other bonds	-	-	-	-
	Total	150,164	136,391	150,164	136,391
	Own mortgage bonds set off against issued mortgage bonds	124,165	106,181	124,165	106,181
	Total	25,999	30,210	25,999	30,210

Of Realkredit Danmark's bond portfolio, DKK 10.2 billion has a maturity of less than 12 months, while DKK 15.8 billion has a maturity of up to five years (2015: DKK 17.1 billion and DKK 13.1 billion).

14	Bonds at amortised cost				
	Other mortgage bonds	33,563	29,597	33,563	29,597
	Total	33,563	29,597	33,563	29,597
	Fair value of held-to-maturity assets	34,035	29,900	34,035	29,900
	The fair value is based on quoted prices.				

Of Realkredit Danmark's bond portfolio, DKK 31.9 billion has a term to maturity of up to five years, while DKK 1.7 billion has a term to maturity of up to ten years (2015: DKK 27.5 billion and DKK 2.1 billion).

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
15	Total lending				
	Mortgage loans, nominal value	754,258	739,189	754,258	739,189
	Fair value adjustment of underlying bonds	16,840	9,020	16,840	9,020
	Adjustment for credit risk	3,403	3,826	3,403	3,826
	Mortgage loans at fair value	767,695	744,383	767,695	744,383
	Arrears and outlays	245	325	245	325
	Other loans	457	458	423	424
	Total	768,397	745,166	768,363	745,132
	Apart from being backed by mortgages on properties, loans are backed by central and local government guarantees and insurance guarantees of	30,175	28,275	30,175	28,275
	Pass books and bonds have been deposited and guarantees provided as supplementary security in a total amount of	100,590	84,161	100,590	84,161
	Realkredit Danmark has also received various declarations of indemnification without specification of amounts.				
	The valuation of the loans is based on the quoted price of the underlying bonds with which borrowers may repay the loans. The regular fluctuations in the price of the bonds will therefore be offset by a corresponding change in the value of the loans with the result being unaffected by the ongoing market value fluctuations, both in terms of interest and the credit risk on the issued bonds. In addition, the value of the loans is affected by credit risk changes. In 2016, DKK 423 million was booked to income concerning adjustment for credit risk on loans (2015: DKK 172 million). The accumulated adjustment for credit risk amounts to DKK 3.4 billion (2015: DKK 3.8 billion).				
16	Mortgage loans at fair value				
	Mortgage loans (nominal value) broken down by property category (percentage)				
	Owner-occupied dwellings	54	55	54	55
	Holiday homes	3	3	3	3
	Subsidised residential property	9	9	9	9
	Private residential rental property	11	10	11	10
	Industrial and skilled trades property	2	3	2	3
	Office and retail property	13	12	13	12
	Agricultural property etc.	6	6	6	6
	Property for social, cultural and training activities	2	1	2	1
	Other property	-	1	-	1
	Total	100	100	100	100
	0-1 month	62,354	55,642	62,354	55,642
	1-3 months	6,284	4,749	6,284	4,749
	3-12 months	38,188	48,561	38,188	48,561
	1-5 years	203,655	162,232	203,655	162,232
	5-10 years	191,326	167,871	191,326	167,871
	Over 10 years	265,888	305,328	265,888	305,328
	Total	767,695	744,383	767,695	744,383
17	Loans and other amounts due at amortised cost				
	On demand	244	327	244	327
	3 months or less	21	22	18	19
	3-12 months	63	63	56	56
	1-5 years	139	137	119	117
	Over 5 years	235	234	231	230
	Total	702	783	668	749

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
18	Arrears and outlays				
	Arrears before impairment charges	244	300	244	300
	Outlays before impairment charges	90	211	90	211
	Impairment charges	89	186	89	186
	Total	245	325	245	325

- 19 **Loans etc.**
 Of the total fair value adjustment for the credit risk on mortgage loans, charges were recognised as an expense of DKK 3,403 million at 31 December 2016, against DKK 3,826 million at 31 December 2015.
 Of the total loan impairment charges for the credit risk on loans and other amounts due at amortised cost, charges were recognised as an expense of DKK 102 million at 31 December 2016, against DKK 201 million at 31 December 2015.

	Realkredit Danmark Group			Realkredit Danmark A/S		
	Loans individual impairment	Loans collective impairment	Total	Loans individual impairment	Loans collective impairment	Total
2016						
Impairment charges at 1 January 2016	3,055	972	4,027	3,048	972	4,020
Impairment charges during the year	653	96	749	653	96	749
Reversals of impairment charges for previous years	1,018	253	1,271	1,016	253	1,269
Impairment charges at 31 December 2016	2,690	815	3,505	2,685	815	3,500
Value adjustment of assets taken over						0
2015						
Impairment charges at 1 January 2015	3,590	711	4,301	3,581	711	4,292
Impairment charges during the year	912	330	1,242	912	330	1,242
Reversals of impairment charges for previous years	1,447	69	1,516	1,445	69	1,514
Impairment charges at 31 December 2015	3,055	972	4,027	3,048	972	4,020
Value adjustment of assets taken over						-1

Allowance account for individual impairment charges broken down by evidence of impairment

	Realkredit Danmark Group		Realkredit Danmark A/S	
	Credit exposure	Allowance account, individual	Credit exposure	Allowance account, individual
2016				
Rating category 10	13,265	1,162	13,265	1,157
Rating category 11	8,147	1,528	8,147	1,528
Total	21,412	2,690	21,412	2,685
2015				
Rating category 10	16,181	1,239	16,181	1,232
Rating category 11	9,368	1,816	9,368	1,816
Total	25,549	3,055	25,549	3,048

Customers in rating category 11 comprise customers submitted for debt collection, suspension of payments, debt rescheduling and 90 days arrears. Rating category 10 covers other financial difficulties.

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
20	Holdings in associates				
	Cost at 1 January	14	14	14	14
	Disposals	-	-	-	-
	Cost at 31 December	14	14	14	14
	Revaluations at 1 January	4	1	4	1
	Reversals of revaluations	-	3	-	3
	Revaluations at 31 December	4	4	4	4
	Carrying amount at 31 December	18	18	18	18
	Associates are specified on page 57				
21	Domicile property				
	Carrying amount at 1 January	-	90	-	140
	Disposals	-	-	-	-
	Depreciation charges	-	1	-	1
	Value adjustment recognised in other comprehensive income	-	-	-	-
	Transferred to assets temporarily taken over	-	89	-	139
	Carrying amount at 31 December	-	-	-	-
	Broken down by cost and depreciation and impairment charges				
	Cost at 1 January	-	132	-	-
	Disposals	-	-	-	-
	Transferred to assets temporarily taken over	-	132	-	-
	Cost at 31 December	-	-	-	-
	Depreciation and impairment charges at 1 January	-	42	-	-
	Reversal of depreciation charges	-	-	-	-
	Depreciation charges	-	1	-	-
	Transferred to assets temporarily taken over	-	43	-	-
	Depreciation and impairment charges at 31 December	-	-	-	-
	Carrying amount at 31 December	-	-	-	-
	Fair value of domicile property	-	-	-	-
	The property is valued on the basis of assessments made by valuers of the Danske Bank Group.				
	The Group measures domicile property at cost less depreciation and impairment charges. The parent company, Realkredit Danmark A/S, measures it at the estimated fair value.				
22	Other tangible assets				
	Cost at 1 January	24	22	5	5
	Additions	1	2	-	-
	Disposals	1	-	-	-
	Cost at 31 December	24	24	5	5
	Depreciation and impairment charges at 1 January	14	12	-	-
	Depreciation charges	1	2	-	-
	Depreciation and impairment charges reversed on disposals etc.	-	-	-	-
	Depreciation and impairment charges at 31 December	15	14	-	-
	Carrying amount at 31 December	9	10	5	5

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S		
		2016	2015	2016	2015	
23	Deferred tax assets and liabilities					
	Deferred tax liabilities	51	69	-	-	
	Provision for deferred tax	-	-	61	79	
	Total	51	69	61	79	
	Change in deferred tax					
	Realkredit Danmark Group	At 1 Jan.	Recognised in net profit for the year	Recognised in shareholder's equity	Other adjustments	At 31 Dec.
	2016					
	Intangible assets	-	-	-	-	-
	Tangible assets	3	-1	-	-	2
	Securities	5	1	-	-	6
	Provisions	62	5	-23	-	44
	Tax loss carryforwards	-	-	-	-	-
	Other	-1	-1	1	-	-1
	Total	69	4	-22	-	51
	Adjustment of prior-year tax charges included in total		1			
	2015					
	Intangible assets	-	-	-	-	-
	Tangible assets	4	-1	-	-	3
	Securities	9	-4	-	-	5
	Provisions	61	5	-4	-	62
	Tax loss carryforwards	-	-	-	-	-
	Other	-2	1	-	-	-1
	Total	72	1	-4	-	69
	Adjustment of prior-year tax charges included in total		-6			
	Change in deferred tax					
	Realkredit Danmark A/S	At 1 Jan.	Recognised in net profit for the year	Recognised in shareholder's equity	Other adjustments	At 31 Dec.
	2016					
	Intangible assets	-	-	-	-	-
	Tangible assets	12	-1	-	-	11
	Securities	5	1	-	-	6
	Provisions	62	5	-23	-	44
	Tax loss carryforwards	-	-	-	-	-
	Other	-	-	-	-	-
	Total	79	5	-23	-	61
	Adjustment of prior-year tax charges included in total		-			
	2015					
	Intangible assets	-	-	-	-	-
	Tangible assets	15	-5	2	-	12
	Securities	9	-4	-	-	5
	Provisions	61	5	-4	-	62
	Tax loss carryforwards	-	-	-	-	-
	Other	-	-	-	-	-
	Total	85	-4	-2	-	79
	Adjustment of prior-year tax charges included in total		-6			

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
24	Assets temporarily taken over				
	Foreclosures	79	76	79	76
	Domicile properties held for sale	31	46	70	85
	Total	110	122	149	161
	Assets temporarily taken over consist of properties taken over in a forced sale under non-performing loan agreements. The properties are expected to be sold through a real-estate agent within one year from the takeover date. These properties are recognised at the lower of cost and fair value less the estimated costs of selling the property. The effect on profit or loss amounted to DKK 17 million. (2015: DKK 24 million). In 2015, domicile properties were put up for sale and in that connection transferred to Assets temporarily taken over.				
25	Other assets				
	Interest due	652	790	652	790
	Pension assets	247	341	247	341
	Other assets	2,171	1,612	2,128	1,562
	Total	3,070	2,743	3,027	2,693
26	Due to credit institutions and central banks				
	On demand	-	-	-	-
	3 months or less	6,355	13,582	6,355	13,582
	3-12 months	-	3,029	-	3,029
	1-5 years	-	-	-	-
	Total	6,355	16,611	6,355	16,611
	At fair value	6,346	16,579	6,346	16,579
	Portion attributable to repo transactions	6,355	16,611	6,355	16,611
27	Issued mortgage bonds at fair value				
	Issued mortgage bonds, nominal value*	887,737	841,264	887,737	841,264
	Fair value adjustment	18,953	10,140	18,953	10,140
	Issued mortgage bonds at fair value, before set-off	906,690	851,404	906,690	851,404
	Set-off of own mortgage bonds at fair value	124,164	106,181	124,164	106,181
	Issued mortgage bonds at fair value	782,526	745,223	782,526	745,223
	0-1 month	47,004	41,009	47,004	41,009
	1-3 months	-	-	-	-
	3-12 months	103,847	112,969	103,847	112,969
	1-5 years	382,193	355,314	382,193	355,314
	5-10 years	71,546	67,489	71,546	67,489
	Over 10 years	177,936	168,442	177,936	168,442
	Total	782,526	745,223	782,526	745,223
	* Portion pre-issued	78,631	68,190	78,631	68,190
	* Portion drawn at 2 January 2017, or in 2016	124,661	96,291	124,661	96,291

Fair value adjustment for the credit risk on issued mortgage bonds is calculated on the basis of the option-adjusted spread (OAS). The calculation incorporates maturity, nominal holdings and OAS sensitivity. As a number of estimates are made, the calculation is subject to uncertainty. In 2016, the Danish mortgage bond yield spread narrowed and the fair value of issued mortgage bonds thus increased some DKK 5 billion. In 2015, on the other hand, the Danish mortgage bond yield spread widened, and the fair value of issued mortgage bonds decreased. Based on the outstanding portfolio at the end of 2016, Realkredit Danmark estimates that there has been a net narrowing of the spread since the issuance of the bonds, which produces a negative fair value of approximately DKK 2 billion (2015: positive fair value of DKK 5 billion). Net profit and shareholders' equity remain unaffected by the change in fair value because the spread narrowing increased the value of mortgage loans correspondingly.

Fair value adjustment for the credit risk on issued mortgage bonds may also be calculated on the basis of changes in similar AAA-rated mortgage bonds offered by other Danish issuers. The market for such bonds is characterised by an absence of measurable price differences between bonds with similar features from different issuers. Using this method, no fair value adjustment for credit risk in 2016 or the period since the issue has been required.

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
28	Issued bonds at amortised cost				
	Nominal value of issued bonds	17,297	17,622	17,297	17,622
	Fair value hedging of interest rate risk	20	85	20	85
	Premium/discount	1	14	1	14
	Total issued bonds	17,318	17,721	17,318	17,721
	Fair value of issued bonds at amortised cost	17,506	17,811	17,506	17,811
	The fair value is based on quoted prices.				
	0-1 month	-	-	-	-
	1-3 months	-	-	-	-
	3-12 months	8,401	-	8,401	-
	1-5 years	9,105	17,811	9,105	17,811
	5-10 years	-	-	-	-
	Over 10 years	-	-	-	-
	Total	17,506	17,811	17,506	17,811
	Nominal value	1 Jan. 2016	Issued	Redeemed	31 Dec. 2016
	Total issued bonds	17,622	-	325	17,297
	Issued bonds at amortised cost consist of issued senior debt.				
29	Other liabilities				
	Interest accrued	6,606	7,847	6,606	7,847
	Reserves in early series subject to a reimbursement obligation*	35	49	-	-
	Other creditors	417	283	405	262
	Total	7,058	8,179	7,011	8,109
	* Recognised in the balance sheet of the parent company, Realkredit Danmark A/S, under "Provisions".				
30	Reserves in early series subject to a reimbursement obligation*				
	Carrying amount, beginning of year	49	62	49	62
	Utilised	-11	-16	-11	-16
	Change due to shortening of maturity	-3	2	-3	2
	Change due to change in discount rate	-	1	-	1
	Carrying amount, end of year	35	49	35	49
	* Recognised in the balance sheet of the Realkredit Danmark Group under "Other liabilities".				

Reserves in early series subject to a reimbursement obligation relate to mortgage loan agreements under which the borrower's share of the series reserve fund is disbursed to the borrower on repayment of the loan in accordance with the terms and conditions applying to the series. Until 2031, the Group's obligations will gradually be reduced in step with individual borrower repayments. Factors that affect the repayment pattern include changes in interest rates, cash flows, etc.

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015
31	Risk exposure amount (REA)				
	Credit risk (IRB approach)	134,523	100,128	134,443	100,041
	Credit risk (standardised approach)	6,986	7,517	7,120	7,646
	Counterparty risk	98	192	98	192
	Total credit risk	141,607	107,837	141,661	107,879
	Market risk	1,443	-	1,443	-
	Operational risk	10,547	10,255	10,333	10,059
	Total	153,597	118,092	153,437	117,938

The total capital and tier 1 capital ratios are calculated in accordance with the CRR/CRD IV. The total risk exposure amount calculated under the Basel I rules amounted to DKK 414,915 million at the end of 2016 (2015: DKK 409,344 million). The solvency need, calculated on the basis of the transitional rules, was DKK 26,555 million in 2016, equal to 80% of the capital requirement of 8% of the total risk exposure amount (2015: DKK 26,198 million). rd.dk provides more details about Realkredit Danmark's solvency need. The solvency need calculation is not covered by the statutory audit.

32 Assets deposited and received as collateral

Realkredit Danmark deposits securities as collateral in connection with repo and securities transactions undertaken on usual terms and conditions for such agreements.

In connection with clearing, Realkredit Danmark has deposited the following securities with the Danish Central Bank

Bonds at fair value	8,304	9,410	8,304	9,410
Portion issued by Realkredit Danmark	2,339	4,722	2,339	4,722
Assets sold under repo transactions				
Bonds at fair value	6,346	16,567	6,346	16,567
Portion issued by Realkredit Danmark	653	1,507	653	1,507

At 31 December 2016, mortgage lending totalling DKK 767,695 million and other assets totalling DKK 28,493 million were registered as security for issued mortgage bonds, including mortgage-covered bonds, and issued bonds at amortised cost (2015: DKK 744,383 million and DKK 33,859 million).

Pursuant to Danish mortgage credit legislation, issued mortgage bonds, including mortgage-covered bonds, are secured against the underlying mortgage loans.

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2016	2015	2016	2015

33 Contingent liabilities

Owing to its size and business volume, the Realkredit Danmark Group is continually a party to various disputes. The Group does not expect the outcomes of the disputes pending to have any material effect on its financial position.

As the sponsoring employer, Realkredit Danmark is liable for the pension obligations of Kreditforeningen Danmarks Pensionsafvklingskasse. The pension fund and the Group's defined benefit plan have not accepted new members since 1971.

In connection with implementation of the EU Bank Recovery and Resolution Directive, a Danish resolution fund has been established. The resolution fund must amount to 1% of the covered deposits of all Danish credit institutions by 31 December 2024. The first contribution to the fund was made at 31 December 2015. The individual institution must make contributions to the fund on the basis of its size and risk relative to other credit institutions in Denmark. The intention is that losses should be covered by the annual contributions made by the participating credit institutions. If sufficient means are not available in the resolution fund, extraordinary contributions can be required of up to three times the latest annual contribution.

The company is registered jointly with all major Danish subsidiaries of the Danske Bank Group for financial services employer tax and VAT, for which it is jointly and severally liable.

The company is jointly taxed with all Danish companies in the Danske Bank Group and are jointly and severally liable for their Danish income tax, withholding tax, etc.

Realkredit Danmark operates out of leased premises. Leases are concluded by the parent company. Realkredit Danmark pays monthly rent to the parent company.

Guarantees and indemnities issued by the Group, irrevocable loan commitments regarding reverse mortgages and other commitments not recognised in the balance sheet are set out in the table below.

	Realkredit Danmark Group		Realkredit Danmark A/S	
	2016	2015	2016	2015
Other contingent liabilities				
Irrevocable loan commitments regarding reverse mortgages	11	22	11	22
Other commitments	96	91	70	67
Total	107	113	81	89

In addition to credit exposure from lending activities, loan offers made by the Group in 2016 amounted to DKK 28,366 million (2015: DKK 24,088 million). These items are included in the calculation of the total risk exposure amount in accordance with the CRR/CRD IV.

Notes

Note (DKK millions)

34 Related party transactions

Transactions between related parties are concluded and settled on an arm's length or on a cost-reimbursement basis. No unusual transactions were made with associates and group undertakings in 2016.

Realkredit Danmark A/S made the below-mentioned major intra-group transactions with companies directly or indirectly associated with the Group/company. Danske Bank A/S is the parent company of Realkredit Danmark A/S.

	Realkredit Danmark Group		Realkredit Danmark A/S	
	2016	2015	2016	2015
Fees, etc. paid to Danske Bank A/S for the arranging and guaranteeing of mortgage loans	1,086	1,126	1,086	1,126
Fees received from Danske Bank A/S for referral of customers and for property valuation	74	89	74	89
Fees paid to Danske Bank A/S for managing Realkredit Danmark's IT operations and development, portfolio management and finance functions, etc.	233	235	215	216
Interest received by Realkredit Danmark A/S on outstanding accounts with Danske Bank A/S	5	6	5	6
Interest received on mortgage loans raised by sister company	14	16	14	16
Interest paid by Realkredit Danmark A/S on outstanding accounts with Danske Bank A/S	2	6	2	6
Amounts due from Danske Bank A/S	14,239	20,469	14,179	20,414
Mortgage lending to sister company	1,266	2,169	1,266	2,169
Loss guarantees from Danske Bank A/S	58,920	58,490	58,920	58,490
Other guarantees from Danske Bank A/S	49,306	35,675	49,306	35,675
Amounts due to Danske Bank A/S	6,355	16,611	6,355	16,611

Any amounts due to related parties in the form of issued bonds have not been included in the above outstanding accounts as such bonds are bearer securities. In these cases, the Group does not know the identity of the creditors.

Kreditforeningen Danmarks Pensionsafviklingskasse, which has been set up for the purpose of paying out pension benefits to former employees of the Realkredit Danmark Group, is also considered a related party. Realkredit Danmark Group has entered into transactions with this fund. Transactions with the pension fund comprised issued mortgage bonds of DKK 51 million (2015: DKK 154 million) and interest expenses of DKK 1 million (2015: DKK 3 million). Such transactions are not eliminated in the consolidated financial statements.

35 Loans etc. to management

Mortgage loans established on an arm's length basis for Board of Directors of Realkredit Danmark A/S	29	12	29	12
Executive Board of Realkredit Danmark A/S	1	1	1	1
Board of Directors and Executive Board of Danske Bank A/S	36	12	36	12
Average interest rate and administration margin for loans etc. to management	2.1%	2.0%	2.1%	2.0%

Notes

Note	(DKK millions)	Realkredit Danmark Group			
36	Financial instruments at fair value				
	2016	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	21,277	4,722	-	25,999
	Mortgage loans at fair value	-	767,695	-	767,695
	Shares	-	-	2	2
	Derivatives	-	231	-	231
	Total	21,277	772,648	2	793,927
	Issued mortgage bonds at fair value	782,526	-	-	782,526
	Derivatives	-	85	-	85
	Total	782,526	85	-	782,611
	2015				
	Bonds at fair value	26,229	3,981	-	30,210
	Mortgage loans at fair value	-	744,383	-	744,383
	Shares	-	-	2	2
	Derivatives	-	328	-	328
	Total	26,229	748,692	2	774,923
	Issued mortgage bonds at fair value	745,223	-	-	745,223
	Derivatives	-	41	-	41
	Total	745,223	41	-	745,264

Negative interest income and interest expenses due to negative interest rates were insignificant during 2015 and 2016. The amounts are offset against interest income and interest expenses, respectively.

Fair value is the amount at which a financial asset can be traded between knowledgeable, willing parties. If an active market exists, Realkredit Danmark uses the quoted price.

Mortgage loans and issued mortgage bonds are recognised at the fair value of the issued mortgage bonds. In accordance with the accounting policies, the fair value of the credit risk on the mortgage loans is adjusted.

Valuation techniques are generally used for OTC derivatives and unlisted shares. The most frequently used valuation models include pricing of businesses with future settlement and swap models using present value calculations. The valuation is based substantially on observable input.

Notes

Note	(DKK millions)	Realkredit Danmark A/S			
		2016		2015	
		Carrying amount	Amortised/notional amount	Carrying amount	Amortised/notional amount
37	Fair value hedging				
	Issued mortgage bonds at amortised cost	6,244	6,220	6,599	6,495
	Hedging Derivatives	142	6,220	208	6,495

The fair value of issued mortgage bonds at amortised cost was DKK 6,274 million at end-2016 (2015: DKK 6,580 million).

Realkredit Danmark hedges the interest rate risk on the fixed-rate issued mortgage bonds etc. using interest rate swaps. The effect on profit or loss of fair value hedge accounting was DKK 1 million, net, in 2016 (2015: DKK 0 million), consisting of a gain on the hedged instrument of DKK 64 million (2015: a gain of DKK 30 million) and a loss on the hedging derivative of DKK 63 million (2015: a loss of DKK 30 million). The net effect is recognised in the income statement.

38 Reporting to the Danish FSA

The financial statements of the parent company, Realkredit Danmark A/S, have been prepared in accordance with the Danish Financial Business Act and the Danish FSA's executive order no. 281 dated 26 March 2014 on Financial Reports of Credit Institutions and Investment Companies, etc.

The rules are consistent with the Group's measurement principles under IFRS with the exception that

- Domicile properties are valued at estimated fair value (revalued amount) through other comprehensive income

The estimated fair value of domicile properties is determined in accordance with the Danish FSA's executive order on Financial Reports for Credit Institutions and Investment Companies, etc. Available-for-sale financial assets are measured at fair value through profit or loss.

The format of the parent company's financial statements is not identical to the format of the consolidated financial statements prepared in accordance with IFRSs.

The table below shows the differences in net profit and shareholders' equity between the IFRS consolidated financial statements and the parent company's financial statements presented in accordance with Danish FSA rules.

	Net profit 2016	Net profit 2015	Shareholders' equity 31 Dec. 2016	Shareholders' equity 31 Dec. 2015
Consolidated financial statements (IFRS)	4,181	3,890	49,347	48,746
Domicile property	-	-12	39	40
Tax effect	-	4	-8	-9
Consolidated financial statements (Danish FSA rules)	4,181	3,882	49,378	48,777

Notes

Note

RISK MANAGEMENT

The principal risk incurred by Realkredit Danmark is credit risk on mortgage loans. Realkredit Danmark has only limited exposure to market risk.

Total capital

The purpose of capital management is to ensure efficient use of capital in relation to risk tolerance and business development. The Group must have sufficient capital to comply with regulatory capital requirements, and the Group has also defined a goal of maintaining bond ratings from external rating agencies that are on a level with those of its peers.

The Group met this goal in 2016 by maintaining a total capital ratio of 30.1, well above the regulatory requirement of 17.3, and AAA ratings from S&P Global and AAA/AA+ ratings from Fitch Ratings. The capital requirement has been covered by tier 1 capital and also by proceeds from the issuance of senior debt as described in Funding.

Credit risk

Realkredit Danmark serves mortgage credit customers in Denmark, Sweden and Norway. Realkredit Danmark serves all customer segments in Denmark, while the strategy in Sweden and Norway is to serve large business customers. Realkredit Danmark's principal segment is loans to the Personal customer market, which accounts for 57% of lending.

Residential accounts for 20%, Urban trade for 17% and Agriculture for the remaining 6%. The current composition of the exposure matches Realkredit Danmark's target that personal property loans should account for at least two-thirds of the total exposure.

In 2016, Realkredit Danmark continued its prudent credit-granting process, accommodating the Group's existing and new creditworthy customers. Continuing this prudent credit-granting process will remain the objective in 2017. When granting credit, the Group requires the customer to be able to service a fixed-rate loan even if it has granted a FlexLån® loan and irrespective of whether or not the customer pays instalments on the loan.

The credit risk on a mortgage loan basically derives from two factors; the risk that the borrower is unable to repay the loan and the expected loss if the customer is unable to repay the loan, which largely depends on the value of the property. These two factors are commonly designated by the abbreviations "PD" (Probability of Default) and "LGD" (Loss Given Default). The higher the PD and LGD, the higher risk a loan involves. The value of the property is automatically determined in a property valuation model. This property valuation model is regularly monitored and is subjected to annual validation.

The credit process widely builds on the two above-mentioned components and the size of the loan. Most often, the Group performs a decentralised assessment of whether a customer has the ability and the willingness to repay his loan. However, the Group handles the largest customers at a central corporate centre, which has the expertise to serve this customer segment.

When the Group assesses that there is a high credit risk, the credit granting process will be assigned to the central credit

department.

A high credit risk may arise for less financially strong customers (high PD), but it may also be due to expectations of a high LGD if the credit involves a property type that is difficult to sell and which may lose much of its value if it has to be sold in a forced sale.

Very large loans must be granted by Realkredit Danmark's Executive Board or Board of Directors.

Realkredit Danmark applies customer classification models as a key tool in deciding when to grant the loan.

Depending on the customer's loan facility and customer type, customers are classified using rating models or statistical scoring models. The rating models typically rely on the customer's financial statements, industry information and an assessment of the company's situation in terms of management and competition. The rating is assessed in the central credit department by a rating specialist and a credit officer, before it is fixed. The customer's rating is translated into a PD.

The statistical scoring models rely on factors such as relevant sector information and payment records. The calculated PD is translated into a rating category.

The customer classification models break down customers into 11 rating categories, with category 1 being the most creditworthy.

Portfolio broken down by customer type and rating category (DKK billions)

Rating category	Personal	Business	2016 Total	2015 Total
1	-	-	-	1
2	10	3	13	11
3	81	64	145	132
4	130	64	194	177
5	109	65	174	168
6	54	60	114	112
7	33	45	78	83
8	8	18	26	31
9	2	4	6	7
10	2	11	13	16
11	1	7	8	10
Total	430	341	771	748

Probability of Default (PD) %

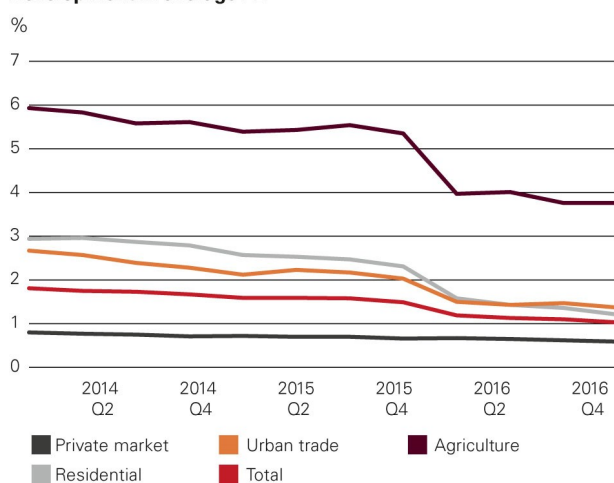
Rating category	Low PD	High PD
1	0.00	0.01
2	0.01	0.03
3	0.03	0.06
4	0.06	0.14
5	0.14	0.31
6	0.31	0.63
7	0.63	1.90
8	1.90	7.98
9	7.98	25.70
10	25.70	100.00
11	100.00	100.00

Notes

Note

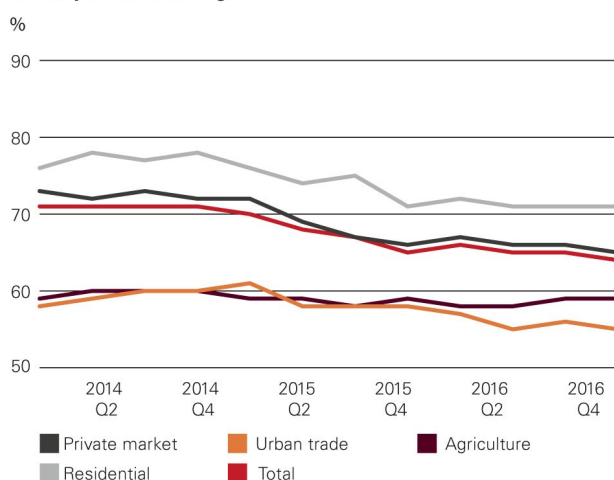
Over the past year, Realkredit Danmark has witnessed a positive migration in customer classifications, which is reflected in a larger proportion of the loan portfolio being loans to customers in the good rating categories compared with 2015. The total average PD has fallen for all sectors in the loan portfolio compared with the level a year ago.

Development in average PD



Property prices rose in 2016, especially in Copenhagen and in Aarhus. This trend in property prices led to a fall in average loan-to-value ratios (LTV). For the entire loan portfolio, the LTV dropped from 65 % in 2015 to 64 % in 2016. The effect of rising market value adjustments of loans is more than offset by higher property prices.

Development in average LTV



The loan portfolio remained very secure. 87% of the portfolio was secured within 60% of the value of the property, and 97% was secured within 80% of the value.

Loan portfolio broken down by loan-to-value ratios 2016

Sector, %	0-20	20-40	40-60	60-80	>80	Total DKK billions
Personal market	157	133	94	44	12	440
Urban trade	51	42	26	6	3	128
Agriculture	18	16	10	3	1	48
Residential	63	42	27	13	10	155
Weighted distribution	37%	30%	21%	9%	3%	100%
Total DKK billions	289	233	157	66	26	771

Loan portfolio broken down by loan-to-value ratios 2015

Sector, %	0-20	20-40	40-60	60-80	>80	Total DKK billions
Personal market	148	128	92	45	14	427
Urban trade	48	40	26	7	4	125
Agriculture	19	16	10	3	1	49
Residential	59	39	26	14	9	147
Weighted distribution	36%	30%	21%	9%	4%	100%
Total DKK billions	274	223	154	69	28	748

As shown in the figure, DKK 5 billion were loans with an LTV ratio higher than 80% granted to customers in one of the four lowest categories. This equals 0.65% of the total portfolio.

Portfolio broken down by loan to value and rating category 2016

Rating category	Loan to Value					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	80-100%	
1	-	-	-	-	-	-
2	7	4	2	-	-	13
3	63	42	24	10	6	145
4	77	60	38	14	5	194
5	61	54	38	16	5	174
6	40	35	25	11	3	114
7	26	24	18	8	2	78
8	8	8	6	3	1	26
9	2	1	1	1	1	6
10	3	3	3	2	2	13
11	2	2	2	1	1	8
Total	289	233	157	66	26	771

Notes

Note

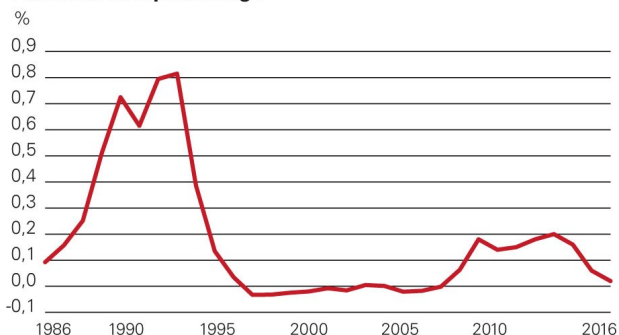
Portfolio broken down by loan to value and rating category 2015

Rating category	Loan to Value					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	80-100%	
1	-	-	-	-	-	-
2	6	3	2	-	-	11
3	56	38	22	10	6	132
4	69	55	34	15	3	176
5	58	51	38	16	6	169
6	39	34	24	11	4	112
7	28	25	19	9	3	84
8	10	9	7	4	1	31
9	2	2	2	1	1	8
10	4	4	4	2	2	16
11	2	2	2	1	2	9
Total	274	223	154	69	28	748

Impairments for 2016 amounted to DKK 182 million, corresponding to 0.02% of total mortgage lending. This is a decline relative to 2015, when the charges amounted to DKK 432 million. Total impairments declined as a result of a general improvement of macroeconomic conditions in Denmark, including rising property prices. Furthermore, impairments were reduced in all segments in 2016, primarily because the increase in property prices spread to most parts of Denmark.

Loan impairment charges are expected to remain at a low level in 2017.

Historical loss percentage

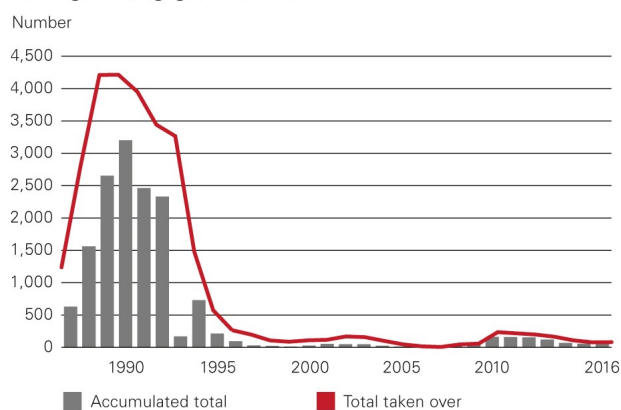


The number of properties taken over by Realkredit Danmark at a forced sale stood at 81 in 2016, against 78 in 2015.

In the same period, the portfolio of foreclosed properties fell from 58 to 51.

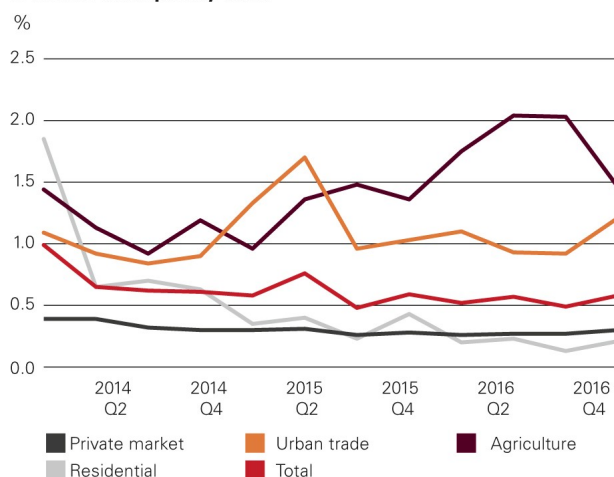
In a historical context, the number of properties taken over in 2016 was much lower than during the crisis of the early 1990s, when more than 4,000 properties were taken over in the worst year

Holding of mortgages taken over



Realkredit Danmark is to a certain extent covered against losses, as Danske Bank provides a loss guarantee for loans arranged via the bank. The guarantee covers the part of the loan which at the date of disbursement is within the last 20% of the statutory lending limits. Total lending of DKK 298 billion was partly covered by this loss guarantee at the end of 2016. The total guarantee in 2016 amounted to DKK 59 billion.

3-month delinquency rates



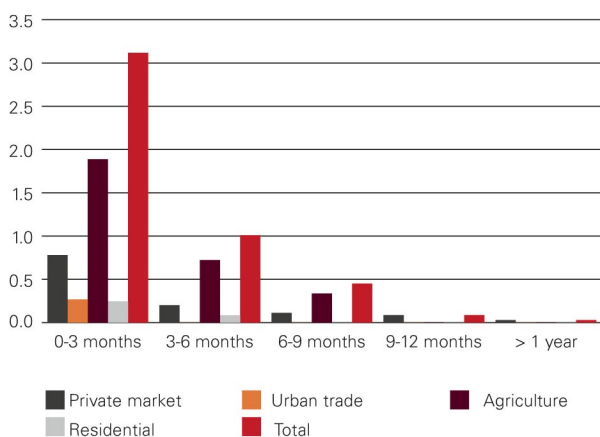
The delinquency rate, calculated as the proportion of due payments remaining unpaid 3 months after the last due payment date, was unchanged from 2015.

Notes

Note

Arrears at 2016 – loans without impairment charges

(DKK millions)



All impaired loans are classified in rating categories 10 and 11. Rating categories 1-9 thus comprise the part of the loan portfolio that does not include impaired loans.

The chart shows arrears on loans without impairment charges at 31 December 2016. Total arrears on loans without impairment charges amounted to DKK 5 million at the end of 2016. Of total arrears on loans without charges, 67% are less than three months old.

Arrears	Loan portfolio DKK millions		Loan to value %		Arrears Sept. paym. in %	
	2016	2015	2016	2015	2016	2015
Private market	440,006	426,850	65	66	0.30	0.28
Urban trade	127,011	125,667	55	58	1.21	1.03
Agriculture	48,062	48,317	59	59	1.46	1.36
Residential rental property	156,019	147,375	71	71	0.21	0.43
Total	771,098	748,209	64	65	0.58	0.59

Non-performing loans

The Group defines non-performing loans as facilities with objective evidence of impairment for which individual impairment charges have been booked. For non-retail exposures with non-performing loans, the entire amount of the customer's exposure is considered to be non-performing.

For retail exposures, only impaired facilities are included in non-performing loans.

At the end of 2016, the total exposure to non-performing loans amounted to DKK 12.5 billion. This is a decline compared with the end of 2015, when non-performing loans amounted to DKK 19.1 billion.

Forbearance practices

Under certain circumstances, Realkredit Danmark will grant concessions in borrowing terms to customers in financial difficulty, for example if a personal customer becomes unemployed or a business customer experiences a substantial drop in revenue. Concessions are granted mainly if the financial difficulties are considered to be temporary, but may also be granted if a restructuring is considered necessary to limit Realkredit Danmark's losses on an exposure.

Forbearance measures include the granting of respite for a short period of time. The customer will be downgraded to a lower rating category. The exposure is then written down to the amount that the customer is estimated to be able to service in the future. Once a customer has proven able to service the exposure, it will, after a certain period, no longer be considered subject to objective evidence of impairment, and the customer will move to a better rating category.

At 31 December 2016, the total exposure to loans with forbearance terms amounted to DKK 3.2 billion. This is an increase of DKK 900 million relative to 2015. The increase primarily concerns co-operative housing societies and agriculture.

Single-name concentration

The exposure to a single customer or a group of related customers, after deduction of particularly secure claims, may not exceed 25% of the capital base. In 2016, the Group's exposures did not exceed these limits.

Credit exposure to groups representing 10% or more of the capital base amounted to DKK 10,077 million at 31 December 2016 (2015: DKK 10,054 million). At the end of 2016, 0 exposures exceeded 20% of the capital base, while 2 exposures exceeded 10%. Intra-group accounts are not included in the calculation.

Notes

Note

Market risk

Market risk is the risk of losses because of changes in market prices and interest rates. Realkredit Danmark's Board of Directors defines the overall framework for interest rate, equity market and exchange rate risks in accordance with the limits laid down in the Danish Mortgage Credit Loans and Mortgage Credit Bonds, etc. Act. Realkredit Danmark calculates, monitors and reports on these risks on a regular basis, and the Group pursues a policy of only having limited market risk exposure. By complying with the statutory principle of balance, Realkredit Danmark eliminates interest rate, exchange rate and liquidity risks on most of its assets and liabilities.

Interest rate risk

The interest rate risk expresses the expected loss on fixed-income positions from a general increase in interest rates of 1 percentage point.

In accordance with Danish law, the difference between interest payments and instalments received on mortgage loans and payments made on issued bonds may not result in an interest rate risk exceeding 1% of Realkredit Danmark's total capital, that is, DKK 462 million. At the end of 2016, this interest rate risk amounted to DKK 10 million.

The interest rate risk on other assets and liabilities and on off-balance-sheet items, including in particular the proprietary investment portfolio, may not exceed 8% of the total capital, or DKK 3,693 million, in accordance with Danish law. At the end of 2016, the interest rate risk on these items amounted to DKK 1,291 million, against DKK 1,069 million the year before.

At the end of 2016, the total interest rate risk amounted to DKK 1,301 million, or 2.8% of the total capital. The year before, Realkredit Danmark's interest rate risk was DKK 1,088 million.

Liquidity risk

Realkredit Danmark regularly finances its lending activities by issuing bonds, which involves very limited liquidity risk.

Denmark has had a well-functioning bond market, also during the past three years.

Equity market risk

The equity market risk is calculated as the market value of the Realkredit Danmark Group's equity portfolios and holdings in subsidiary and group undertakings etc. The Group intends exclusively to maintain strategic share portfolios and has therefore defined very low exposure thresholds with respect to overall equity market risk. At end-2016, the market value and hence the equity market risk amounted to DKK 154 million, against DKK 149 million the year before. Nearly all the risk relates to the Group's ownership of home a/s.

Exchange rate risk

Realkredit Danmark has only very small unhedged currency positions. The exchange rate risk is calculated in accordance with exchange rate indicator 2 of the Danish FSA and may, in accordance with legislation, not exceed 0.1% of the total capital, that is DKK 46 million. At the end of 2016, the exchange rate risk amounted to DKK 2 million, against DKK 1 million the year before.

Derivatives

The Group does not employ derivatives for hedging purposes in relation to mortgage finance business but exclusively to hedge the interest rate risk on fixed-rate liabilities from issued senior debt and are carried at fair value in the financial statements. The market risk on these instruments is included in the risk calculations mentioned above.

Pension risk

The Group's pension risk is the risk of a pension shortfall in the Group's defined benefit plans, which means that it will have to make additional contributions to cover its pension obligations to former employees. The Group aims to reduce the pension risk of the defined benefit pension plans in the same way that it handles other risks in the Group. To achieve this goal, the Group matches pension obligations with assets similar mainly in terms of maturity and volatility. In 2016, most of the pension risk was transferred to Danica Pension in the form of an insurance policy.

Derivatives (DKK millions)	Nominal value	2016		Nominal value	2015	
		Positive market value	Negative market value		Positive market value	Negative market value
Interest rate contracts						
Forward/futures bought	81,576	70	-	68,893	78	-
Forward/futures sold	41,494	18	83	38,078	28	28
Currency contracts						
Forward/futures bought	1,636	-	1	537	-	-
Forward/futures sold	-	-	-	6	-	-
Interest rate and currency contracts held for trading purposes, total						
		88	84		106	28
Outstanding spot transactions						
Interest rate contracts bought	408	1	-	804	2	-
Interest rate contracts sold	2,178	-	1	1,377	12	13
Total outstanding spot transactions						
		1	1		14	13
Hedging derivatives						
	6,220	142	-	6,495	208	-

All derivatives have a maturity of less than one year.

The calculation applies to the Realkredit Danmark Group and Realkredit Danmark A/S.

Notes

Note

	Realkredit Danmark Group				
(DKK millions)	2016	2015	2014	2013	2012
HIGHLIGHTS					
Net interest and fee income	6,249	6,557	6,468	6,741	6,082
Value adjustments	-61	-441	-583	-1,067	-732
Staff costs and administrative expenses	787	784	811	848	866
Loan impairment charges	182	432	1,171	1,471	1,319
Income from associates	-	3	2	3	2
Net profit for the year	4,181	3,890	3,056	2,612	2,454
Loans	768,397	745,166	745,421	731,874	736,340
Shareholders' equity	49,347	48,746	47,871	46,884	46,352
Total assets	862,677	836,574	834,555	848,134	794,127
RATIOS AND KEY FIGURES					
Total capital ratio (%)	30.1	38.8	34.5	34.0	34.3
Tier 1 capital ratio (%)	29.6	38.3	34.0	33.5	33.7
Return on equity before tax (%)	10.9	10.5	8.5	7.5	7.2
Return on equity after tax (%)	8.5	8.1	6.5	5.6	5.4
Cost/core income ratio DKK	6.51	5.18	3.03	2.50	2.50
Foreign exchange position (%)	3.2	0.5	1.1	0.5	0.3
Gearing of loans	15.6	15.3	15.6	15.6	15.9
Growth in lending for the year (%)	2.0	1.9	0.8	0.5	1.1
Impairment ratio for the year (%)	0.02	0.06	0.16	0.20	0.18
Return on assets (%)	0.5	0.5	0.4	0.3	0.3

	Realkredit Danmark A/S				
HIGHLIGHTS					
Net interest and fee income	6,248	6,555	6,466	6,738	6,080
Value adjustments	-61	-440	-583	-1,067	-732
Staff costs and administrative expenses	688	678	706	742	767
Loan impairment charges	182	432	1,170	1,469	1,317
Income from associates and group undertakings	30	28	17	12	7
Net profit for the year	4,181	3,882	3,056	2,612	2,454
Loans	768,363	745,132	745,385	731,836	736,291
Shareholders' equity	49,378	48,777	47,909	46,922	46,385
Total assets	862,705	836,593	834,591	848,176	794,163
RATIOS AND KEY FIGURES					
Total capital ratio (%)	30.1	38.8	34.6	34.0	34.3
Tier 1 capital ratio (%)	29.6	38.3	34.1	33.5	33.7
Return on equity before tax (%)	10.9	10.5	8.5	7.4	7.2
Return on equity after tax (%)	8.5	8.0	6.4	5.6	5.4
Cost/core income ratio DKK	7.15	5.56	3.14	2.57	2.57
Foreign exchange position (%)	3.2	0.5	1.1	0.5	0.3
Gearing of loans	15.6	15.3	15.6	15.6	15.9
Growth in lending for the year (%)	2.0	1.9	0.8	0.5	1.1
Impairment ratio for the year (%)	0.02	0.06	0.16	0.20	0.18
Return on assets (%)	0.5	0.5	0.4	0.3	0.3

The ratios and key figures are defined in the Danish FSA's executive order on financial reports of credit institutions, investment companies, etc.

Notes

Note

	Share capital (thousands)	Net profit (DKK mil- lions)	Shareholders' equity (DKK mil- lions)	Holding of share capital (%)
Group holdings and undertakings				
Realkredit Danmark A/S, Copenhagen	DKK 630,000	4,181	49,378	
Subsidiaries				
Real-estate agency business				
home a/s, Aarhus	DKK 15,000	30	134	100
Associates				
Property information				
e-nettet Holding A/S, Copenhagen (financial year 1 January - 31 December)	DKK 11,000	7	78	21
Further information on e-nettet Holding A/S:				
Total assets DKK 148 million				
Total liabilities DKK 70 million				
Total income DKK 151 million				

The information published is extracted from the most recent annual report of the companies.

Notes – Series accounts

Pursuant to the executive order on the presentation of series accounts by mortgage credit institutions, Realkredit Danmark A/S' financial statements are broken down by the individual underlying mortgage credit associations as follows:

Note	(DKK millions)	Jydsk Grundejer- Kredit- forening	Ny jydsk Kjøbstad- Credit- forening	Østifternes Kredit- forening	Series not subject to a reimbursement obligation
Income statement					
	Income from lending	0.2	0.4	1.1	24.4
1	Net interest income etc.	0.2	0.2	2.2	33.7
1	Administrative expenses etc.	2.1	2.3	5.2	19.3
	Loan impairment charges	-	-	-	-6.9
	Tax	-0.4	-0.4	-0.4	10.1
2	Net profit for the year	-1.3	-1.3	-1.5	35.6
Balance sheet - assets					
	Mortgage loans etc.	40.5	76.0	300.8	14,944.5
	Other assets	12.0	15.9	158.5	1,764.2
	Total assets	52.5	91.9	459.3	16,708.7
Balance sheet - liabilities and equity					
3	Issued bonds	45.3	80.9	339.8	15,553.7
	Other liabilities	0.4	0.7	3.3	120.3
4	Shareholders' equity	6.8	10.3	116.2	1,034.7
5	Total liabilities and equity	52.5	91.9	459.3	16,708.7

	(DKK millions)	Danske Kredit	Mortgage- bonds S	Mortgage- bonds T	Other reserves	Total
Income statement						
	Income from lending	1.1	1,482.1	4,153.1	297.6	5,960.0
1	Net interest income etc.	0.4	343.6	516.4	151.8	1,048.5
1	Administrative expenses etc.	2.4	492.9	889.9	148.7	1,562.8
	Loan impairment charges	0.4	50.3	112.7	25.6	182.1
	Tax	-0.2	282.1	806.7	70.3	1,167.8
2	Net profit for the year	-1.1	1,000.4	2,860.2	204.8	4,095.8
Balance sheet - assets						
	Mortgage loans etc.	165.5	238,418.2	471,346.2	42,743.1	768,034.8
	Other assets	27.9	40,010.8	167,660.6	10,145.5	219,795.4
	Total assets	193.4	278,429.0	639,006.8	52,888.6	987,830.2
Balance sheet - liabilities and equity						
3	Issued bonds	186.2	260,752.1	606,649.1	47,694.5	931,301.6
	Other liabilities	1.4	2,005.7	4,603.2	381.0	7,116.0
4	Shareholders' equity	5.8	15,671.2	27,754.5	4,813.1	49,412.6
5	Total liabilities and equity	193.4	278,429.0	639,006.8	52,888.6	987,830.2

Notes – Series accounts

Note	(DKK millions)	
1	Pursuant to section 3(1) and (2) of the executive order on the presentation of series accounts by mortgage credit institutions, a share of net interest etc. equivalent to the ratio of the individual series reserve fund to other series reserve funds has been allocated to each series. Pursuant to section 3(3) of the executive order on the presentation of series accounts by mortgage credit institutions, the Danish FSA has approved the allocation of administrative expenses etc. to individual associations using a distribution scale by which the number of loans in the association is weighted at 3, and the principal of the loans is weighted at 1. The same distribution scale is used for allocation to individual series and series reserve funds, however, allocation to pre-1972 series is made in accordance with the statutes etc. of the associations in question.	
		2016
2	Net profit for the year, series accounts	
	Net profit for the year, Realkredit Danmark A/S's financial statements	4,181
	Transferred to other reserves etc.	-5
	Adjustment of defined benefit plans	-80
	Market value adjustment of domicile properties	-
	Net profit for the year, series accounts	4,096
3	Issued bonds, series accounts	
	Issued bonds, Realkredit Danmark A/S's financial statements	799,844
	Own mortgage bonds, not offset in the series accounts	124,164
	Accrued interest, own bonds	7,294
	Issued bonds, series accounts	931,302
4	Shareholders' equity, series accounts	
	Shareholders' equity, Realkredit Danmark A/S's financial statements	49,378
	Reserves in pre-1972 series subject to a reimbursement obligation	35
	Shareholders' equity, series accounts	49,413
5	Total assets, series accounts	
	Total assets, Realkredit Danmark A/S's financial statements	862,705
	Own mortgage bonds, not offset in the series accounts	124,164
	Accrued interest, own bonds	961
	Total assets, series accounts	987,830
6	Transfers to and from reserves subject to a reimbursement obligation	
	In 2016, the following net transfers of funds to and from the reserves were made between individual associations and other reserves.	
	Transferred from and to shareholders' equity:	
	Series not subject to a reimbursement obligation	-1,238
	Danske Kredit	-1
	Other reserves	1,239
	Total	-

Financial statements for the individual series may be obtained from Realkredit Danmark.

Statement by the management

The Board of Directors and the Executive Board (the management) have considered and approved the annual report of Realkredit Danmark A/S for the financial year 2016.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the Parent Company's financial statements have been prepared in accordance with the Danish Financial Business Act. Furthermore, the annual report has been prepared in accordance with Danish disclosure requirements for annual reports of issuers of listed bonds.

In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 31 December 2016 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 2016. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the Parent Company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

The management will submit the annual report to the general meeting for approval.

Copenhagen, 2 February 2017

Executive Board

Carsten Nøddebo Rasmussen
Chairman of the Executive Board

Board of Directors

Tonny Thierry Andersen
Chairman

Lars Mørch
Vice Chairman

Kim Andersen

Jacob Aarup-Andersen

Henriette Fenger Ellekrog

Claus Bundgaard

Lisbeth Sahlertz Nielsen

Auditors' report

Independent auditor's reports

To the shareholder of Realkredit Danmark A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Realkredit Danmark A/S for the financial year 1 January to 31 December 2016, pages 18-59, which comprise the income statement and comprehensive income, balance sheet, statement of capital and notes, including a summary of significant accounting policies, for the Group as well as for the Parent, and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds and the parent financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2016, and of the results of its operations and its cash flows for the financial year 1 January to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2016, and of the results of its operations for the financial year 1 January to 31 December 2016 in accordance with the Danish Financial Business Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January to 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<p>Loan impairment charges</p> <p>Loan impairment charges amount to DKK 182 million in 2016 for the Group. The determination of assumptions for the measurement of impairment is subjective due to the level of judgement applied by Management.</p> <p>Due to the significance of the judgements applied, auditing loan impairment charges is considered a key audit matter. Changes in assumptions and the methodology applied may have a major impact on the measurement of loan impairment charges.</p> <p>The principles for determining the impairment charge are described in the accounting policies, and Management has described the management of credit risks and the review for impairment in more detail in notes 10, 19 and Risk Management to the consolidated financial statements.</p> <p>The most significant judgements are:</p> <ul style="list-style-type: none">• If impairment events have occurred• Valuation of collateral and future cash flows• Management judgements, including determining any impairment charges	<p>Based on our risk assessment, we have examined the impairment charges and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter.</p> <p>Our examination included the following elements:</p> <ul style="list-style-type: none">• Obtaining audit evidence in respect of key controls over the models and manual processes for impairment events identification and collateral valuation• Obtaining audit evidence of management judgements with particular focus on the consistency of the methodology applied and evidence of assumptions-setting processes• Challenging the methodologies applied by using our industry knowledge and experience, focusing on potential changes since last year• Assessing the key changes in the assumptions against industry standards and historical data• Performing a risk-based test of loans to ensure timely identification of impairment of loans• Performing a risk-based test for impaired loans to ensure appropriate impairment charging.

Auditor's report

Statement on the Management's report

Management is responsible for the Management's report.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the Management's report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the Management's report and, in doing so, consider whether the Management's report is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's report provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management's report is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's report.

Management's responsibilities for the consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds, as well as for the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Business Act and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in the preparation of the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit in accordance with ISAs and the requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

Auditors' report

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 2 February 2017

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Erik Holst Jørgensen
State-Authorised
Public Accountant

Jens Ringbæk
State-Authorised
Public Accountant

Directorships

Management's report, continued

Under section 80(8) of the Danish Financial Business Act, financial institutions are required to publish information at least once a year about directorships held with the approval of the Board of Directors by persons employed by the Board (section 80(1) of the Act).

This page also lists directorships held by members of the Board of Directors outside the Realkredit Danmark Group.

Board of Directors

Tonny Thierry Andersen, Chairman

Member of the Executive Board of Danske Bank A/S

Born on 30 September 1964

Joined the Board of Directors on 22 April 2004

Directorships and other offices:

FR I af 16. September 2015 A/S (chairman)

Danske Bank International S.A. (chairman)

Danske Bank Oyj (chairman)

Danske Invest Management A/S (chairman)

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999

Danica Pension, Livsforsikringsaktieselskab

FinansDanmark

The Private Contingency Association for the Winding up of Distressed Banks, Savings Banks and Cooperative Banks (Chairman)

Værdiansættelsesrådet

ICC Danmark

Danish Economic Council

Lars Mørch, Vice Chairman

Member of the Executive Board of Danske Bank A/S

Born on 11 May 1972

Joined the Board of Directors on 9 August 2012

Directorships and other offices:

Northern Bank Limited (chairman)

Danske Leasing A/S (chairman)

Grænsefonden

Dagmar Marshalls Fond

Kim Andersen

Managing Director

Born on 30 April 1955

Joined the Board of Directors on 21 November 2011

Independent

Chairman of the Audit Committee

The Board of Directors has agreed to appoint Kim Andersen as a qualified member of the Audit Committee.

Kim Andersen is a state-authorised public accountant (license deposited). He has experience as chief internal auditor, controller and CFO of an international company and has served both as an executive and non-executive board member.

On the basis of his qualifications, the Board of Directors believes that Kim Andersen is able to make an independent assessment of whether the Realkredit Danmark Group's financial reporting, internal controls, risk management and statutory audit are planned and conducted in an expedient manner in relation to the Group's size and complexity.

Managing Director of Audio Consult ApS

Managing Director of KA Invest af 2. maj 2003 ApS

Directorships and other offices:

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999

Danica Pension, Livsforsikringsaktieselskab

Jacob Aarup-Andersen

Member of the Executive Board of Danske Bank A/S

Born on 6 December 1977

Joined the Board of Directors on 3 March 2016

Member of the Audit Committee

Directorships and other offices:

Kreditforeningen Danmarks Pensionsafviklingskasse (chairman)

Danske Hypotek AB (chairman)

Circus Road Capital ApS

Monterey River Capital ApS

Directorships

Henriette Fenger Ellekrog

Member of the Executive Board of Danske Bank A/S

Born on 29 April 1966

Joined the Board of Directors on 3 March 2016

Directorships and other offices:

Danske Bank Plc

Finanssektorens Arbejdsgiverforening

Fondet for Dansk-Norsk Samarbejde

Claus Bundgaard (elected by the employees)

Senior Valuation Consultant, agriculture, Realkredit Danmark A/S

Born on 11 January 1957

Joined the Board of Directors on 31 August 2011

Directorships and other offices:

Studenterkollegiet Jomsborg

Lisbeth Sahlertz Nielsen (elected by the employees)

Senior Business Adviser Realkredit Danmark A/S

Born on 16 May 1972

Joined the Board of Directors on 7 March 2013

Executive Board

Carsten Nøddebo Rasmussen

Chairman of the Executive Board

Born on 15 August 1964

Joined the Executive Board on 1 December 2006

Directorships and other offices:

home a/s (chairman)

e-nettet a/s

Kreditforeningen Danmarks Pensionsafviklingskasse

Association of Danish Mortgage Banks (chairman)

Danish Mortgage Banks' Federation (dissolved at 31.12.2016)

The Popular Educational Association, Kgs. Lyngby (chairman)

Supplementary information

Management's report, continued

Financial calendar


- Annual General Meeting:
6 March 2017
- Interim Report – First Quarter 2017:
28 April 2017
- Interim Report – First Half 2017:
20 July 2017
- Interim Report – First Nine Months 2017:
2 November 2017

Contact

Chairman of the Executive Board and
Chief Executive Officer
Carsten Nøddebo Rasmussen
Tel +45 45 13 20 82

Links

rd.dk
danskebank.dk
danskebank.com
home.dk



Realkredit Danmark A/S
Lersø Parkallé 100
DK-2100 København Ø
Telephone +45 70 12 53 00

rd.dk
E-mail rd@rd.dk