

Annual Report 2017



REALKREDIT
Danmark

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Supplementary information

Annual Report 2017 is a translation of the original report in the Danish language (Årsrapport 2017). In case of discrepancies, the Danish version prevails.

5-year financial highlights – Realkredit Danmark Group

NET PROFIT FOR THE YEAR

(DKK millions)	2017	2016	2015	2014	2013
Administration margin	6,186	5,890	5,770	5,704	5,491
Net interest income	59	123	196	62	-24
Net fee income	-601	-611	-509	-524	-540
Income from investment portfolios	662	786	662	645	750
Other income	180	141	192	129	123
Total income	6,486	6,329	6,311	6,016	5,800
Expenses	736	790	787	815	852
Profit before loan impairment charges	5,750	5,539	5,524	5,201	4,948
Loan impairment charges	147	182	432	1,171	1,471
Profit before tax	5,603	5,357	5,092	4,030	3,477
Tax	1,235	1,176	1,202	974	865
Net profit for the year	4,368	4,181	3,890	3,056	2,612

BALANCE SHEET (AT 31 DECEMBER)

(DKK millions)	2017	2016	2015	2014	2013
Due from credit institutions etc.	30,072	31,491	28,696	25,882	51,004
Mortgage loans	788,765	767,695	744,383	744,502	730,901
Bonds and shares	54,851	59,582	59,827	59,817	61,156
Other assets	3,202	3,909	3,668	4,354	5,073
Total assets	876,890	862,677	836,574	834,555	848,134
Due to credit institutions etc.	4,294	6,355	16,611	10,018	32,501
Issued mortgage bonds	810,050	782,526	745,223	739,358	725,159
Issued senior debt	6,616	17,318	17,721	27,415	32,089
Other liabilities	6,039	7,131	8,273	9,893	11,501
Shareholders' equity	49,891	49,347	48,746	47,871	46,884
Total liabilities and equity	876,890	862,677	836,574	834,555	848,134

RATIOS AND KEY FIGURES

Net profit for the year as % of avg. shareholders' equity	8.8	8.5	8.1	6.5	5.6
Cost/income ratio (%)	11.3	12.5	12.5	13.5	14.7
Total capital ratio (%)	28.3	30.1	38.8	34.5	34.0
Tier 1 capital ratio (%)	28.1	29.6	38.3	34.0	33.5
Full-time-equivalent staff, end of year	232	235	239	237	249

The financial highlights in the table above are alternative performance measures which deviate from the presentation according to IFRS. See note 2 for an explanation of the differences and a reconciliation between these measures and IFRS.

Financial review

Overview

- In 2017, the Realkredit Danmark Group recorded a net profit of DKK 4,368 million, which was an increase of DKK 187 million, or 4%, relative to 2016. The performance was satisfactory. The positive profit performance was driven by a larger loan portfolio.
- Impairments remained low, falling to DKK 147 million in 2017 from DKK 182 million in 2016.
- In mid-September, Realkredit Danmark launched a new mortgage loan product called FlexLife®. FlexLife® is far more flexible than other mortgage loans currently on the market. FlexLife® was very well received by the customers, and at end-2017, Realkredit Danmark had issued loan offers for more than DKK 5 billion.
- In 2017, borrower demand centred primarily on fixed-rate loans and FlexLån® loans with refinancing intervals of 5 years or more.
- Realkredit Danmark complies with all threshold values of the supervisory diamond for mortgage credit institutions.
- Realkredit Danmark expects net profit to be at the same level in 2018 as in 2017.

The year 2017

Realkredit Danmark had a successful year in 2017, recording lending growth and strengthening its market position over the course of the year, while also continuing to improve its financial performance. In September 2017, Realkredit Danmark launched a new mortgage loan product called FlexLife®.

FlexLife® is far more flexible than other mortgage loans currently on the market.

A FlexLife® loan allows customers to adapt their mortgage loan to their situation and needs. When the loan is established, it is tailored to the customer's needs, and in connection with later refinancing, the customer can adjust the loan within agreed limits. For example, the customer can decide the size of loan repayments and also how any interest rate changes should affect the loan.

FlexLife® is offered to customers with more than 25% home equity. The part of the loan that represents less than 60% of the value of the property may be eligible for an interest-only period of up to 30 years. The limit for when customers may be granted an interest-only period of up to 30 years is determined individually on the basis of the customer's financial situation and the property.

FlexLife® is funded using Realkredit Danmark's existing non-callable bonds with refinancing intervals of between 1 and 10 years.

The loan is available to personal as well as business customers.

In spring, the Systemic Risk Council issued a recommendation to the Danish government to limit floating-rate or interest-only mortgage loans to borrowers with large mortgage debt.

As a result of this recommendation, new guidelines for home loans to households with large mortgage debt were announced on 26 October 2017. The guidelines were incorporated into the Executive Order on good business practice for financial undertakings and took effect on 1 January 2018. The new guidelines generally mean that households whose mortgage debt exceeds four times their annual income and for whom the loan-to-value ratio exceeds 60% will no longer be able to get the cheapest loan types with short interest-reset intervals and an interest-only option.

Instead, these borrowers can choose between ordinary or interest-only fixed-rate loans and FlexLån® loans with interest reset every 5 years and repayment of principal.

The new guidelines are expected to help stabilise house prices in the most expensive areas of Denmark.

Within subsidised housing, the Danish government and the financial sector agreed to transfer the funding of subsidised loans in the subsidised housing sector to state-guaranteed mortgage bonds. This means that the Danish state will fully guarantee loans in this area. In return for the guarantee, the mortgage credit institutions must pay commission to the state at 0.12% of the loan principal.

The new lending rules for holiday homes took effect on 1 May. The loan cap was raised from 60% to 75% of the value of the holiday home. This triggered increased activity in the market for holiday homes, and many customers have taken advantage of the higher loan limit.

Remortgaging activity was strong, as was the case in 2016. In 2017, borrower demand centred primarily on fixed-rate loans with a 2% coupon and FlexLån® loans with refinancing intervals of 5 years or more.

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

Results

In 2017, the Realkredit Danmark Group recorded a net profit of DKK 4,368 million, against DKK 4,181 million the year before. Net profit was 4% higher than in 2016 and in line with expectations. The profit performance was driven by lending growth and a resulting rise in administration margin income. Remortgaging activity was at the same high level as in 2016.

Administration margin income rose DKK 296 million, driven by a larger loan portfolio and a small increase in average administration margins.

Other income fell DKK 139 million in 2017, especially because of lower income from the investment portfolio.

Total income rose 2% relative to 2016.

Expenses amounted to DKK 736 million in 2017, against DKK 790 million in 2016. The decline was attributable, among other things, to lower IT costs.

Impairments amounted to DKK 147 million in 2017, against DKK 182 million in 2016, and thus remained low. As in 2016, Realkredit Danmark reversed impairments previously made, primarily against facilities to business customers.

Total impairments equalled 0.02% of total mortgage lending, against 0.02% at the end of 2016. Of total impairments, the majority related to personal customer loans.

The delinquency rate was unchanged from the level at end-2016.

The tax charge totalled DKK 1,235 million. The effective tax rate was 22.0%.

Balance sheet

Gross lending amounted to DKK 133 billion, against DKK 137 billion in 2016. Mortgage lending at fair value amounted to DKK 789 billion, which was an increase of DKK 21 billion on 2016. 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 6 billion increase in the market value adjustment.

At end-2017, the average loan-to-value (LTV) ratio stood at 63%, which was on a level with the end of 2016. An increase in loans calculated at market value was offset by rising property prices.

The number of new foreclosures was 50 in 2017. The number of foreclosures fell to 31 at the end of 2017, of

which 26 were owner-occupied dwellings and 5 were commercial properties. The value of the foreclosures was DKK 38 million.

Issued mortgage bonds rose DKK 28 billion to DKK 810 billion. The nominal value of issued mortgage bonds was DKK 786 billion, which was DKK 22 billion more than at the end of 2016. The amounts are exclusive of holdings of own mortgage bonds. Realkredit Danmark issued bonds for a total of DKK 133 billion exclusive of bonds issued for the refinancing auctions.

Realkredit Danmark is subject to the specific principle of balance and therefore has very limited exposure to market risks. At the end of 2017, Realkredit Danmark's interest rate risk and exchange rate risk amounted to DKK 1,061 million and DKK 2 million, respectively.

Capital and solvency

At the end of 2017, shareholders' equity stood at DKK 49.9 billion, against DKK 49.3 billion at the end of 2016. The ordinary dividend payment of DKK 3.8 billion and the consolidation of the net profit for the year accounted for the change. The Board of Directors is recommending that dividends of DKK 4.3 billion be paid for 2017.

Realkredit Danmark's total capital amounted to DKK 45.9 billion, and the total capital ratio calculated in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) was 28.3%. At 31 December 2016, the corresponding figures were DKK 46.2 billion and 30.1%, 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 161.9 billion at 31 December 2017, against DKK 153.6 billion at the end of 2016.

Calculated on the basis of the transitional rules of the CRR/CRD IV, the capital need for 2017 must, as a minimum, amount to 80% of the requirement calculated under the previous rules, corresponding to DKK 27.8 billion and 17.2% of the REA. Realkredit Danmark thus has a capital buffer of DKK 18.1 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 2017

Realkredit Danmark recorded a profit after tax of DKK 1,098 million in the fourth quarter of 2017, against DKK 1,108 million in the third quarter. The change in profit was attributable primarily to income from the refinancing of FlexLån® loans in the fourth quarter, which was offset by rising loan impairment charges.

Outlook for 2018

Realkredit Danmark expects that low interest rates will continue to characterise the Danish economy in 2018 with moderately rising growth relative to the past few years. Low interest rates will continue to support the positive trend in house prices and general housing market activity.

Realkredit Danmark expects income to be at the same level as in 2017, as income will be supported by moderate growth in the average 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 2018, Realkredit Danmark aims to curb its expenses.

Loan impairment charges are expected to remain at a low level also in 2018.

Overall, Realkredit Danmark therefore expects net profit to be at the same level in 2018 as in 2017.

Property market

Upbeat Danish economy

The economic recovery in Denmark has gained momentum in recent years. GDP growth was stable at around 2%, marking the first time since 2006 that the Danish economy has delivered growth of 2% or higher. There is much to indicate that growth will stay at this level for the rest of the year.

The recovery of the Danish economy is driven by a number of factors. One of them is the continuing expansion of the global economy and stronger economic growth in the euro area. These trends lend support to the Danish economy, in which about 50% of economic activity relies on exports.

Denmark also benefited from mounting domestic demand. Business investment levels were up, and consumers have increased their spending in recent years. Spending growth is close to the 2% mark annualised, and Denmark is generally witnessing a well-balanced increase in consumer spending. Spending is driven by rising disposable income and, to a moderate extent, by consumers mortgaging their homes.

Many new political initiatives in the housing market

While 2017 was a relatively stable year in the financial markets and for the Danish economy as a whole, the housing market witnessed an eventful year with many new political initiatives.

Activity in the market for holiday homes boosted by new rules

Activity in the market for holiday homes has in recent years increased in step with the recovery of the Danish economy and the continued low level of interest rates. However, unlike in the overall housing market, a large supply of holiday homes has led to more stable prices in this market.

New political initiatives have also triggered a boost in activity in the market for holiday homes. Among other things, the cap on mortgage loans for holiday homes was raised on 1 May from 60% to 75% of the value of the holiday home. This triggered increased activity in the market for holiday homes, and many customers took advantage of the higher loan limit. Since 1 May, about half of Realkredit Danmark's new loans for holiday homes have had a loan-to-value ratio of more than 60%.

New property tax reform provides greater stability going forward

In May 2017, a new system for property taxation in Denmark was approved with broad political support. The new system will enter into force in 2021, after which changes in house prices will automatically have an impact on property taxes. This will help stabilise future price fluctuations in the housing market – a feature which for many years has been recommended by The

Economic Council and the Danish central bank, among others.

The property tax reform will be supplemented by a new and improved valuation system. The new valuations will be especially important to the market for owner-occupied flats, which are expected to be subject to a noticeable increase in land valuations. Another effect will be an increased future tax burden in this market.

Generally speaking, the transition to the new tax system will be quite lenient, as income from property taxes in 2021 must be kept at the level received in 2020. However, the effect will vary from one home to the next, and the overall assessment is that six in ten home owners will pay less under the new system. Especially the rural areas will benefit from a lower tax burden, while especially the market for owner-occupied flats will see a negative price effect.

Fewer loan options for homeowners with relatively large mortgage debts

In March, the Systemic Risk Council issued a recommendation to the Danish government to limit high-risk loan types for borrowers with large mortgage debt. The recommendation was based especially on recent years' surge in house prices in the Greater Copenhagen and Aarhus areas. The government acted on the recommendation, and at the end of October, it released a publication called "New guidelines for home loans to households with large mortgage debt". The guidelines will apply from 1 January 2018.

The new guidelines stipulate that if a borrower has a debt factor higher than four, that is if the total household debt exceeds four times the annual income, and the loan-to-value ratio exceeds 60%, the borrower may only choose between ordinary or interest-only fixed-rate loans or a FlexLån® loan with interest reset every 5 year and repayment of principal.

In practice, the new rules mean that homeowners with a relatively high loan-to-value ratio and a high debt-to-income ratio will typically not be able to get the cheapest loan types with short interest reset intervals and an interest-only option. Realkredit Danmark supports the initiative, which will help mitigate the risk undertaken by Danish homeowners. Also, it will contribute to cap price increases in the most expensive areas of Denmark.

Trading activity

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



Source: home and own calculations

Political agreement on co-operative housing

In the Greater Copenhagen area, the market for co-operative housing has prospered in recent years, experiencing strong demand for this type of dwelling. Today, co-operative dwellings in Copenhagen are rarely sold through estate agents. Instead, they are often sold quickly through waiting lists or DIY sales.

Despite generally improved conditions, the co-operative housing market has at times been criticised for the terms of establishing co-operative housing societies in the market and uncertain financial aspects in relation to bankrupt co-operative housing societies. At the end of November, broad political agreement was reached to ensure a “healthier and more robust co-operative housing market”. One aim of the agreement is to reduce the financial risk when future co-operative housing societies are established. This involves restrictions on the use of interest-only loans and the preparation of an inception budget over a 15-year period as well as clarity in terms of conditions for the co-operative members if the co-operative housing society goes bankrupt.

Housing market improvement continued in 2017

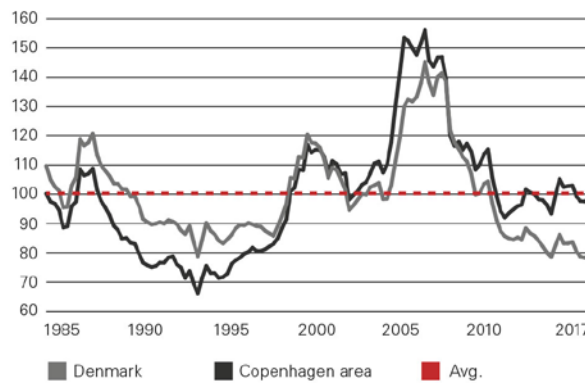
The housing market continued the buoyant trends in 2017, and the various political initiatives have still not taken full effect.

Overall, Danish house prices rose 4.2% in 2017 over 2016. Recent years’ tendency of the housing market recovery spreading to all parts of Denmark continued in 2017.

The market for owner-occupied flats experienced a stronger rebound than the market for single-family houses, and owner-occupied flats in Copenhagen recorded another year of prices rising by an annual rate of close to 10%. Since the end of 2011, prices of owner-occupied flats in Copenhagen have gone up by roughly 80%.

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

Index 100 = average fixed rate loan 1985-2017



The above trends fuelled discussions in the housing debate about the risk of price bubbles throughout 2017. However, for Denmark as a whole, there appears to be little risk of a price bubble. The housing burden, which expresses the cost of buying and owning a home relative to developments in disposable income, is quite low in a historical context. The risk of a price bubble thus exists in specific areas of the housing market, notably the market for owner-occupied flats in Copenhagen. There is hardly any doubt that, the very low level of interest rates is key to understanding recent years’ house price increases. Hence, there is a risk that rising interest rates may push house prices back down – especially in the most expensive parts of the country. Prospective home buyers may to some extent safeguard themselves against this risk by opting for a fixed-rate loan, for which the size of their residual debt will decline if interest rates go up.

Number of foreclosures, 3 month rolling average



Source: Statistics Denmark

Business market

The commercial property market experienced another year of rising property prices and a record-high volume of transactions. Recent years' rebound in the property market has centred on Copenhagen, but there was a tendency in 2017 of property investors increasingly turning to areas outside of Copenhagen. This may be attributable to the rising prices of commercial property in Copenhagen. Investors are now increasingly focused on the potential offered by other large urban areas in Denmark.

In addition, demand for property investments with a greater inherent risk has gone up. The so-called core properties, or properties offering strong cash flows, thus represented a smaller proportion of total property investments in 2017 than they did in 2016.

Owing to a stable macroeconomic climate and an attractive mortgage credit system, foreign investors have played an important role in the Danish property market in recent years. This was also the case in 2017, when foreign investors accounted for more than half of the total volume of transactions. The foreign investors are domiciled primarily in countries such as Sweden, Norway, the UK, Germany and the US.

One of the greatest risks attaching to the commercial property market would appear to be higher interest rates. The lower the return requirement, the more future interest rate increases may potentially feed through to property prices. Against that background, longer refinancing intervals are a key component in Realkredit Danmark's customer dialogue.

Agriculture

The Danish agricultural sector recorded far higher earnings in 2017 than it has in the past few years. Notably, pork and milk prices have gone up after a global realignment of supply and demand. However, the price of grain has been squeezed by large global grain stocks following several years of strong grain harvests. This has adversely affected the earnings of plant breeders, while producers of animal products have benefited from lower prices of feed grain. Earnings in the agricultural sector were also underpinned by low interest rates and low energy prices, and the February 2016 agricultural package also added to performance.

It would seem that prices of pork and milk in particular will have peaked in 2017. Pork prices are also under pressure due to a decline in pork exports to China. Consequently, total agricultural earnings are expected to be lower in 2018 than in 2017.

Lending

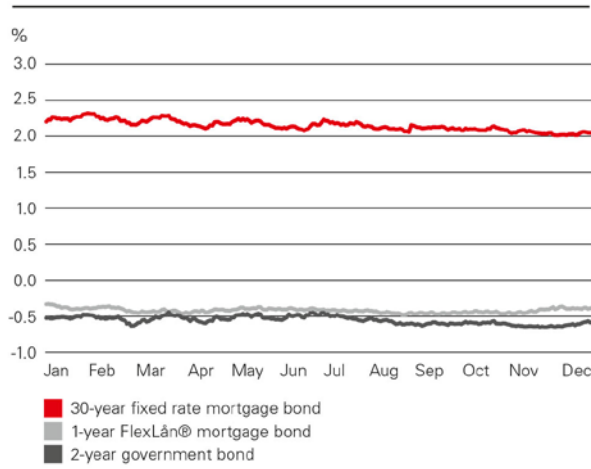
Interest rates lower throughout 2017

Interest rates have remained historically low for a number of years, although with some fluctuations along the way, such as in spring 2015 when 30-year mortgage rates over the course of a few months rose by more than 1 percentage point. Towards the end of 2016, rates also rose after Donald Trump was elected US president. In 2017, on the other hand, interest rates remained fairly stable, showing a slightly falling trend throughout the year. In connection with the change of maturity groups in early September, when all fixed-rate bonds closed for issuance and new maturity groups with maturities three years longer were opened, rates on fixed-rate loans only rose slightly. Maturity groups change every three years, and the extension of maturity by three years of the new bonds impacts the bond prices.

Interest rates on floating-rate loans also reached historical lows in 2017. In certain periods, Realkredit Danmark recorded negative interest rates on loans with refinancing intervals of up to as much as four years, while rates on 5-year FlexLån® loans hovered around 0%. At the last refinancing auction of the year in November, the rate on FlexLån® loans as per 1 January therefore also ended at the lowest levels in Realkredit Danmark's history. The interest rate on 1-year FlexLån® loans ended at -0.2%, on 3-year FlexLån® loans it ended at -0.14%, while the rate on 5-year FlexLån® loans ended at 0.22%.

Given the strengthened economic recovery, the historically low interest rates may appear excessively low. However, inflationary pressures in the euro area remain muted, and the first rate hikes by the European Central Bank (ECB) do not appear to be imminent. The combination of a negative ECB policy rate and a large monthly QE programme is the principal explanation for the low interest rates. The QE programme will continue in 2018 with the ECB announcing its intention to buy bonds for EUR 30 billion every month until September. This represents a scaleback compared to the end of 2017 when the ECB made monthly purchases of approximately EUR 60 billion.

Trend in interest rates past 12 months



New product – FlexLife®

In September, Realkredit Danmark launched a new product called FlexLife®. The product is tailored to the needs of personal customers and selected business customers.

With FlexLife®, customers are offered a new level of flexibility, allowing them to adjust the loan to their current or future situation and needs. Within agreed limits, the customer may regularly adjust three loan parameters: the size of loan repayments, when to start (or stop) interest-only periods and the outstanding debt at expiry of the loan. Under the right preconditions, the interest-only option may apply throughout the term of the loan, which may be up to 30 years.

The interest-only part of a FlexLife® loan is capped at 60% of the value of the property at the date of disbursement. The granted outstanding debt at expiry is fixed when the loan is raised on the basis of an individual assessment of the customer's personal finances.

With FlexLife®, Realkredit Danmark caters to a number of the needs that have arisen among its customers in recent years. Some customers seek a more individual adjustment of their home financing both when they take out a mortgage loan and later on as their life situation and needs change.

Other customers prefer to make repayments on their loans, but perhaps do not want to make full repayments, allowing them to spend money on other things. Also, the product may be relevant for customers planning their "third age" given the longer life expectancy and the possibility of drawing on their home equity in combination with future regular pension benefits.

The interest rate on FlexLife® loans is fixed for periods of between one and ten years at a time and may change in connection with refinancing. In connection with interest rate changes, a borrower may within the agreed limits determine for example whether interest rate changes should initially affect the size of loan repayments, the time of transition to an interest-only loan or the outstanding debt at expiry.

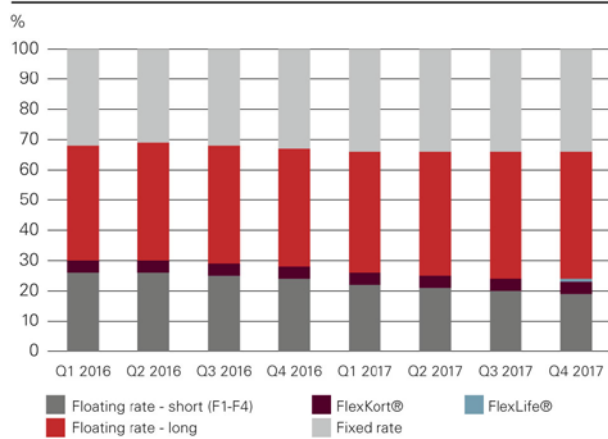
Overall, customers received FlexLife® loan offers for more than DKK 5 billion.

Total lending

The buoyant property market and a moderate increase in the volume of top-up loans taken out against the rising home equity levels contributed to lifting Realkredit Danmark's total mortgage lending. At the end of 2017, the total loan portfolio amounted to DKK 769 billion, against DKK 754 billion the year before.

2017 brought the same high remortgaging activity as in 2016 although there were no actual remortgaging waves despite the record-low interest rates. The reason is that the remortgaging potential was quite low due to the large remortgaging waves witnessed especially in 2015 and to some extent in 2016. Instead, 2017 brought smaller rounds of remortgaging throughout the year from customers who had failed to capitalise on their remortgaging opportunities in the preceding years.

Development in loan portfolio by loan type (%)



Personal customer market

Realkredit Danmark's loans for owner-occupied dwellings and holiday homes rose by DKK 11 billion in 2017. Total lending in 2017 amounted to DKK 443 billion. In 2017, homeowners once again capitalised on the low interest rates to lock-in the interest rate for longer periods. Eight out of ten mortgage loans disbursed were either with 5-year refinancing periods or fixed-rate loans. Accordingly, short-term floating-rate loans were in limited demand despite borrowers being offered negative

interest rates; only about 10% of gross lending had refinancing intervals of up to four years.

Fixed-rate loans account for some 40% of the total personal customer loan portfolio.

Many homeowners moved out of interest-only mortgage loans in 2017. This trend was driven primarily by the combination of low interest rates, the expiry of 10-year interest-only periods and price incentives on interest-only loans compared with loans with ordinary repayment. Overall, interest-only loans account for 47% of Realkredit Danmark's personal customer loan portfolio. In 2016, they accounted for 48%.

2017 saw the first issuance of FlexKort® loans without a rate floor with the possibility of a nominal rate of interest below 0%. This occurred in connection with the refinancing of FlexKort® loans at 1 July. The coupon rate was -0.16%.

Business market

At end-2017, the loan portfolio amounted to DKK 326 billion, which was an increase of DKK 4 billion on the year before. Many businesses capitalised on the low interest rates to lock-in the interest rate for longer periods. Fixed-rate loans accounted for 29% of business loans. This percentage has risen 5 percentage points over the past three years. Again in 2017, Danish businesses increasingly made principal repayments on their loans. Interest-only loans account for 20% of total business loans, which was on a level with 2016.

Within subsidised housing, the Danish government and the financial sector reached a mutual understanding to the effect that the funding of subsidised loans in the subsidised housing sector should be transferred to state-guaranteed mortgage bonds. This means that the Danish state will fully guarantee loans in this area. In return for this guarantee, the mortgage credit institutions must pay commission to the state at 0.12% of the loan principal.

In 2018, Realkredit Danmark expects to open a new capital centre for financing subsidised loans to the subsidised housing sector. The state-guaranteed mortgage bonds are expected to trade at levels very close to Danish government bonds with a similar maturity. In this way, the Danish state will achieve interest rate savings on funding. Realkredit Danmark has loans worth about DKK 43 billion for the subsidised housing sector, of which DKK 13 billion is index-linked loans, which are not expected to be covered by the guarantee scheme.

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 to the best possible extent.

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 Danske Bank branches, while customers who are customers only with Realkredit Danmark are served by 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 are available at Danske Bank's business centres and at finance and agricultural 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. Over the course of the year, "home" strengthened its market position, and the profit of the franchise business thus rose from DKK 29.5 million in 2016 to DKK 35.3 million in 2017.

Activities and portfolio (DKK millions)	Gross lending		Net new lending		Loan portfolio			
	2017	2016	2017	2016	2017	%	2016	%
Personal customer market	77,401	79,667	20,923	17,721	443,341	58	432,522	57
Business market	55,219	57,717	13,309	14,941	325,549	42	321,736	43
Total (nominal value)	132,620	137,384	34,232	32,662	768,890	100	754,258	100

Lending broken down by loan type (%)	Share of gross lending		Share of loan portfolio	
	2017	2016	2017	2016
Short-term floating rate loans (F1-F4)	9	11	19	24
FlexKort®	4	6	4	4
FlexLife ®	3	-	1	-
Long-term floating rate loans etc.	43	35	42	39
Fixed-rate loans	41	48	34	33
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 and to a very limited extent mortgage bonds listed on NASDAQ Copenhagen.

Issued bonds are carried in the financial statements at 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 2017

Realkredit Danmark issued bonds for a total of DKK 133 billion exclusive of bonds issued for the refinancing auctions. This represents a decrease of 3% relative to 2016. Of bonds issued in 2017, 59% were non-callable bonds and 41% were callable bonds. In 2016, there was also an overweight of non-callable bonds.

Refinancing in 2017

In 2017, Realkredit Danmark held auctions in connection with all four ordinary payment dates. To diversify the risk attaching to the refinancing, Realkredit Danmark opted to refinance FlexLån® loans at the 1 January and 1 April payment dates and floating-rate bonds at the 1 July and 1 October payment dates.

The auctions for the refinancing of FlexLån® loans at 1 April 2017 were held in February. Total issuance amounted to DKK 60 billion, against DKK 56 billion in 2016. In November, bonds worth DKK 41 billion were issued in connection with the refinancing of FlexLån® loans at 1 January 2018, against DKK 47 billion at 1 January 2017. 1 April is thus the largest refinancing date for FlexLån® loans.

In May, Realkredit Danmark auctioned bonds for DKK 1.6 billion to fund FlexKort® loans and EUR 70 million to fund RD Euribor3® loans. Each of the auctions was held over the course of a single day, and investors were invited to make bids for the premium to Cita 6M for FlexKort® loans, while they made bids for the price of RD Euribor3® loans. The bond series underlying FlexKort® loans was issued without a rate floor, while the bond series underlying RD Euribor3® loans was issued with a rate floor of 0%.

Finally, NOK 2.5 billion was refinanced in RD Nibor3® loans in August, and SEK 4.2 billion in RD Stibor3® loans in September. With respect to the Norwegian bonds, investors were invited to make bids for the premium to Nibor 3M, while they made bids for the price with respect to the Swedish bonds. Both bond series were offered with a rate floor of 0%.

At end-2017, Realkredit Danmark had issued mortgage bonds for a total amount of DKK 814 billion, of which

mortgage-covered bonds accounted for DKK 767 billion.

Senior debt issuance

Realkredit Danmark's outstanding senior debt, that is, debt issued pursuant to section 15 of the Mortgage Credit Loans and Mortgage Credit Bonds Act, fell to a nominal amount of DKK 6.6 billion from DKK 17.3 billion at end-2016. The reason was that senior debt of DKK 8.2 billion expired in 2017 and that Realkredit Danmark bought back senior debt.

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. As the rating agencies lowered their overcollateralisation requirements in 2017, it was not necessary to issue new debt to replace the expired senior debt. The senior debt carries an AA- rating from S&P Global.

Investor distribution

Foreign investors continued to show strong interest in Danish mortgage bonds in 2017, partly because these bonds are considered to offer good security, partly because they offer a relatively higher return than similar European securities at present. In particular, non-callable bonds with a term to maturity of up to one year attract the greatest interest, but long-term fixed-rate bonds are becoming increasingly popular especially with Japanese investors. At 31 December 2017, foreign investors thus held about 23% of all bonds, against some 22% at end-2016.

Rating

All of Realkredit Danmark's mortgage bonds in capital centres S, T and under the Other reserves series hold a rating of AAA from S&P Global. 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 financing of FlexLån® and other loans with a refinancing element. These bonds hold a rating of AA+.

Fitch Ratings lowered their overcollateralisation requirement on two occasions in 2017. One of the reasons was that the agency has become more favourably inclined towards the subsidised housing sector. Furthermore, Fitch Ratings has assessed that the refinancing risk has been reduced as an ever-increasing proportion of Realkredit Danmark's bonds are issued with a refinancing trigger.

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 2018, but if the requirements are tightened, Realkredit Danmark plans to issue debt or raise loans on market terms in order to comply with the stricter requirements.

Debt buffer

In 2017, the phasing-in of the debt buffer requirement rose to 60% of the final requirement of 2% of the credit institution's lending. The 60% equals a requirement of

about DKK 10 billion. In June 2018, the requirement will rise to 80%, which for Realkredit Danmark will mean roughly DKK 13 billion given the current loan volume. Realkredit Danmark meets the debt buffer requirement using excess shareholders' equity and therefore does not require additional funding at this stage.

Bonds issued at 31 December (nominal value)

Bond type (DKK billions)	Currency	Mortgage- covered bonds		Mortgage bonds	
		2017	2016	2016	2016
Fixed-rate	DKK	248	236	8	11
FlexLån®, including FlexLife®	DKK	382	377	-	2
FlexLån®	EUR	11	15	-	-
FlexKort®	DKK	34	32	-	-
Index-linked loans	DKK	-	-	20	21
FlexGaranti®	DKK	4	5	12	14
RenteDyk™	DKK	1	1	-	-
RD Cibor6®	DKK	62	94	7	8
RD Nibor3®	NOK	3	3	-	-
RD Stibor3®	SEK	15	15	-	-
RD Euribor3®	EUR	7	7	-	-
Total DKK		767	785	47	56

In 2017, the calculation was adjusted to reflect double-funding of DKK 41 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 2017, the total capital of DKK 45.9 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. The combined capital requirements under Pillar I and Pillar II represent the credit institution's solvency need ratio.

Internal Capital Adequacy Assessment Process (ICAAP)

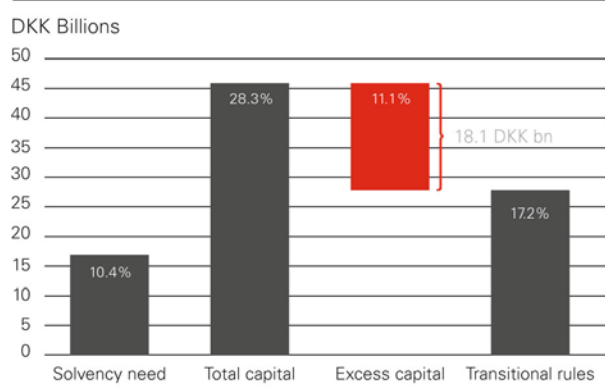
As part of the ICAAP, the Group assesses its total capital on the basis of internal models and ensures that it uses the proper risk management systems. The ICAAP also includes capital planning to ensure that the Group always has sufficient capital to support its chosen business strategy. Stress testing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

Capital requirements

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 as a minimum 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 (transitional rules) 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 2017



At the end of 2017, Realkredit Danmark's solvency need was calculated at DKK 16.9 billion, corresponding to 10.4% of the total risk exposure amount (REA). Calculated on the basis of the transitional rules, the capital need was DKK 27.8 billion, corresponding to 17.2% of REA. With total capital of DKK 45.9 billion and a total capital ratio of 28.3%, the Realkredit Danmark Group had DKK 18.1 billion in excess of the requirement according to the transitional rules.

The transitional rules were finally phased out at the end of the year. The binding capital requirement will subsequently be the solvency need ratio plus the combined buffer requirement, which in 2018 is expected to be 4.4% of REA. This is expected to lead to an increase in the excess capital coverage.

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 5.1% at 31 December 2017.

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 2017, Realkredit Danmark had 2 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 2017, issuance of mortgage-covered bonds fell DKK 18 billion to DKK 767 billion. At the end of 2017, the need for supplementary collateral was DKK 22.7 billion, against DKK 28.5 billion at end-2016.

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 2017. This amount includes DKK 4 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 2017, this corresponded to approximately DKK 20 billion. Realkredit Danmark has liquid assets of DKK 44 billion, and after haircuts this translates into liquid assets of DKK 42 billion. Realkredit Danmark thus has a buffer of DKK 22 billion relative to the requirement.

Future rules

The European Commission has tabled proposals for amending CRR/CRD IV. 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 significantly improve the possibilities of 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.

In December, the Basel Committee published the expected proposal for higher capital requirements. If the proposal is adopted, credit institutions must in future apply higher risk weights than they do today. This will affect especially the risk weighting of low-risk loans such as mortgage loans. The Basel Committee's proposal must be implemented in EU legislation before taking effect.

On 1 January 2018, IFRS 9, the new accounting standard for financial instruments, will take effect. IFRS 9 introduces a new model for loan impairments at amortised cost that will require earlier recognition of expected credit losses. Realkredit Danmark expects a knock-on effect on the calculation of the fair value of credit risk on mortgage loans of around DKK 0.4 billion because the calculation of the fair value of credit risk is largely based on the principles that apply to loan impairment at amortised cost. The change will reduce shareholders' equity in the first quarter of 2018. After tax, the effect will be a reduction in IFRS profit of DKK 0.3 billion and, seen in isolation, this will lead to a decrease in the total capital ratios of 0.2 of a percentage point.

Supervisory diamond for mortgage credit institutions

Realkredit Danmark continues to comply with all threshold values, and, as expected, especially the values for lending growth, borrower interest rate exposure and large exposures are well below the threshold values. The volume of loans with an interest-only option and a loan-to-value ratio above 60% continues the declining trend, and has now fallen to 8.0% against 8.9% at the end of 2016.

One of the reasons is that only one out of seven customers, whose interest-only period expired in 2017, opted to extend the interest-only period on expiry.

Loans with short-term funding are moving ever-further away from the threshold value. The reason is that Realkredit Danmark's customers follow the recommendations about utilising the low interest rates to secure a fixed interest rate for a longer period by way of fixed-rate loans or FlexLån® loans with refinancing intervals of 5 year or more.

Realkredit Danmark remains focused on the threshold value as customers' choice of refinancing interval affects the volume of short-term funding comprised by the threshold value.

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	2017	Limit
Growth in lending¹		
Owner-occupied dwellings and holiday homes	2.5%	15%
Residential rental property	2.8%	15%
Agriculture	-0.9%	15%
Other	0.5%	15%
Borrower interest-rate risk²		
Properties for residential purposes	9.2%	25%
Interest-only option³		
Owner-occupied dwellings and holiday homes	8.0%	10%
Loans with short-term funding⁴		
Refinancing, annually	14.1%	25%
Refinancing, quarterly	5.4%	12.5%
Large exposures⁵		
Loans relative to shareholders' equity	43%	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 core equity tier 1 capital.

Organisation and management

Management

Realkredit Danmark A/S is a wholly-owned subsidiary of Danske Bank A/S.

Board of Directors

The Board of Directors consists of eight directors, three of whom are elected by the employees.

At the annual general meeting on 6 March 2017, Tonny Thierry Andersen resigned from the Board of Directors. Jesper Nielsen was elected as a new board member.

After the annual general meeting, Lars Mørch was appointed chairman and Jesper Nielsen vice chairman of the Board of Directors.

In connection with the January election of employee representatives to the Board of Directors, Lisbeth Sahlertz Nielsen was reelected. In addition, Majken Hammer Sløk and Sonia Khan were elected as new members after the annual general meeting on 6 March, at which meeting Claus Bundgaard resigned from the Board of Directors.

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 2017) and are eligible for reelection.

Executive Board

On 1 November 2017, Klaus Kristiansen joined the Executive Board of Realkredit Danmark A/S. Klaus Kristiansen will continue to act as chief risk officer of Realkredit Danmark.

From 1 November 2017, the Executive Board consists of:

- Carsten Nøddebo Rasmussen, chairman of the Executive Board
- Klaus Kristiansen, member of the Executive Board

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.

Employees

At the end of 2017, the number of full-time equivalent staff at the Realkredit Danmark Group was 232.

Finance Denmark

On 22 December 2016, the Danish Bankers Association, the Association of Danish Mortgage Banks and the Danish Mortgage Banks' Federation merged to form a joint trade organisation, Finance Denmark. In connection with the establishment of the new organisation, mortgage banking, through the Association of Danish Mortgage

Banks, was given a special status and has its own board of directors and secretariat in part because mortgage credit will remain subject to extensive public and regulatory scrutiny.

Carsten Nøddebo Rasmussen, the chairman of the Executive Board of Realkredit Danmark A/S, serves as chairman of the Association of Danish Mortgage Banks.

Diversity policy

Realkredit Danmark's Board of Directors has adopted the Danske Bank Group's diversity policy together with the 2020 targets for gender composition at management level in Realkredit Danmark – targeting the under-represented gender.

The targets for female managers in 2020 in Realkredit Danmark are:

- 33-40% female board members elected by the shareholders.
- No target has been defined for female members of the Executive Board.
- 25% female managers in the rest of the organisation.

The table below shows the gender composition at 31 December 2017 relative to the 2017 targets:

Management level	Total	Men	Women	Share of women	Target for share of women 2017
Board of Directors*	5	4	1	20%	20%
Executive Board	2	2	-	-	-
Management level - other	20	17	3	15%	42%

*Employee representatives not included

Compliance

Realkredit Danmark remains focused on having a strong compliance culture to ensure that compliance is an integral part of day-to-day business at all levels of the Group and that we act with integrity.

Our objective is for regulatory compliance requirements to be a natural part of our interaction with customers and ensuring that customers are treated fairly when they interact with Realkredit Danmark.

Realkredit Danmark works intensively to ensure compliance with applicable rules and to prevent criminals from abusing the group for purposes of committing economic crime.

The new EU markets in financial instruments directive (MiFID II) entered into force in January 2018. The directive contains a number of new requirements to the financial sector as a whole and serves to harmonise the rules on financial instruments in the EU.

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 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.

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 2017, the Audit Committee held six meetings.

Corporate responsibility

Realkredit Danmark is part of Danske Bank Group and thus also an active part of Danske Bank Group's corporate responsibility. Danske Bank Group contributes to financial stability and economic growth, and credit granting is a factor in this process.

Danske Bank Group reports on its CR activities and performance in the Group's Corporate Responsibility Report 2017. The CR Report is supplemented by the Corporate Responsibility Fact Book 2017, and together the documents provide a complete overview of Danske Bank Group's CR activities. CR Report and CR Fact Book are both available on Danske Bank's website danskebank.com/responsibility.

Income statement and Comprehensive income

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2017	2016	2017	2016
	Profit				
4	Interest income	18,206	19,581	18,205	19,580
5	Interest expense	11,266	12,721	11,266	12,721
	Net interest income	6,940	6,860	6,939	6,859
	Dividends from shares	-	-	-	-
	Fee and commission income	572	524	572	524
	Fee and commission expense	1,173	1,135	1,173	1,135
3	Net fee and commission income	6,339	6,249	6,338	6,248
3, 6	Value adjustments	-32	-61	-33	-61
	Other operating income	180	141	3	2
7-9	Staff costs and administrative expenses	733	787	642	688
	Impairment, depreciation and amortisation charges	3	3	-	-
10	Loan impairment charges	147	182	148	182
	Income from associates and group undertakings	-1	-	35	30
	Profit before tax	5,603	5,357	5,553	5,349
11	Tax	1,235	1,176	1,216	1,168
	Net profit for the year	4,368	4,181	4,337	4,181
	Proposal for allocation of profits				
	Net profit for the year			4,337	4,181
	Transferred from other reserves			3,372	2,856
	Total for allocation			7,709	7,037
	Portion attributable to				
	Reserves in series			3,409	3,237
	Other reserves			-	-
	Proposed dividends			4,300	3,800
	Total allocation			7,709	7,037
	Comprehensive income				
	Net profit for the year	4,368	4,181	4,337	4,181
	Other comprehensive income				
	Items that will not be reclassified to profit or loss				
	Actuarial gains/losses on defined benefit plans	-30	-103	-30	-103
	Tax	6	23	6	23
	Total comprehensive income	-24	-80	-24	-80
	Total comprehensive income for the year	4,344	4,101	4,313	4,101

Balance sheet

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2017	2016	2017	2016
	ASSETS				
	Cash in hand and demand deposits with central banks	273	206	273	206
12	Due from credit institutions and central banks	29,799	31,285	29,717	31,225
13	Bonds at fair value	23,626	25,999	23,626	25,999
14	Bonds at amortised cost	31,223	33,563	31,223	33,563
15-16, 19	Mortgage loans at fair value	788,765	767,695	788,765	767,695
15, 17-19	Loans and other amounts due at amortised cost	627	702	598	668
	Shares	2	2	-	-
20	Holdings in associates	-	18	-	18
	Holdings in group undertakings	-	-	139	134
21	Other tangible assets	7	9	5	5
	Current tax assets	13	-	16	-
22	Deferred tax assets	-	-	-	-
23	Assets temporarily taken over	38	110	38	149
19, 24	Other assets	2,509	3,070	2,468	3,027
	Prepayments	8	18	6	16
	Total assets	876,890	862,677	876,874	862,705
	LIABILITIES AND EQUITY				
	AMOUNTS DUE				
25	Due to credit institutions and central banks	4,294	6,355	4,294	6,355
26	Issued mortgage bonds at fair value	810,050	782,526	810,050	782,526
27	Issued bonds at amortised cost	6,616	17,318	6,616	17,318
	Current tax liabilities	-	22	-	21
22	Deferred tax liabilities	41	51	-	-
28, 29	Other liabilities	5,998	7,058	5,951	7,011
	Deferred income	-	-	-	-
	Total amounts due	826,999	813,330	826,911	813,231
	PROVISIONS				
22	Deferred tax	-	-	43	61
29	Reserves in early series subject to a reimbursement obligation	-	-	29	35
	Total provisions	-	-	72	96
	SHAREHOLDERS' EQUITY				
	Share capital	630	630	630	630
	Revaluation reserve	-	-	-	31
	Reserves in series	43,171	44,611	43,171	44,611
	Other reserves	1,790	306	1,790	306
	Proposed dividends	4,300	3,800	4,300	3,800
	Total shareholders' equity	49,891	49,347	49,891	49,378
	Total liabilities and equity	876,890	862,677	876,874	862,705

Statement of capital

Realkredit Danmark Group

(DKK millions)	Share capital	Reserves in series	Other reserves	Proposed dividends	Total
Shareholders' equity at 1 January 2017	630	44,611	306	3,800	49,347
Net profit for the year	-	3,409	959	-	4,368
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-30	-	-30
Tax	-	-	6	-	6
Total comprehensive income for the year	-	3,409	935	-	4,344
Transferred from/to Other reserves	-	-4,849	4,849	-	-
Dividend paid	-	-	-	-3,800	-3,800
Proposed dividends	-	-	-4,300	4,300	-
Shareholders' equity at 31 December 2017	630	43,171	1,790	4,300	49,891
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

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 2017	630	31	44,611	306	3,800	49,378
Net profit for the year	-	-	3,409	928	-	4,337
Other comprehensive income						
Actuarial gains/losses on defined benefit plans	-	-	-	-30	-	-30
Realised fair value adjustment of domicile property	-	-39	-	39	-	-
Tax	-	8	-	-2	-	6
Total comprehensive income for the year	-	-31	3,409	935	-	4,313
Transferred from/to Other reserves	-	-	-4,849	4,849	-	-
Dividend paid	-	-	-	-	-3,800	-3,800
Proposed dividends	-	-	-	-4,300	4,300	-
Shareholders' equity at 31 December 2017	630	-	43,171	1,790	4,300	49,891
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
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

At the end of 2017, 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	
(DKK millions)	31 Dec. 2017	31 Dec. 2016
Total capital and Total capital ratio		
Shareholders' equity	49,891	49,347
Revaluation of domicile property at fair value	-	39
Tax effect	-	-8
Total equity calculated in accordance with the rules of the Danish FSA	49,891	49,378
Proposed/expected dividends	-4,300	-3,800
Revaluation reserve	-	-
Deferred tax assets	-	-
Prudent valuation	-7	-26
Defined benefit pension fund assets	-138	-115
Common equity tier 1 capital	45,446	45,437
Difference between expected losses and impairment charges	-	-
Tier 1 capital	45,446	45,437
Reserves in series subject to a reimbursement obligation	-	-
Revaluation reserve	-	-
Difference between expected losses and impairment charges	428	729
Total capital	45,874	46,166
Risk exposure amount	161,902	153,597
Common equity tier 1 capital ratio (%)	28.1	29.6
Tier 1 capital ratio (%)	28.1	29.6
Total capital ratio (%)	28.3	30.1

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.

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

Statement of capital

	Realkredit Danmark A/S	
(DKK millions)	31 Dec. 2017	31 Dec. 2016
Total capital and Total capital ratio		
Shareholders' equity	49,891	49,378
Proposed/expected dividends	-4,300	-3,800
Revaluation reserve	-	-
Deferred tax assets	-	-
Prudent valuation	-7	-26
Defined benefit pension fund assets	-138	-115
Common equity tier 1 capital	45,446	45,437
Difference between expected losses and impairment charges	-	-
Tier 1 capital	45,446	45,437
Reserves in series subject to a reimbursement obligation	-	-
Revaluation reserve	-	-
Difference between expected losses and impairment charges	428	729
Total capital	45,874	46,166
Risk exposure amount	161,634	153,437
Common equity tier 1 capital ratio (%)	28.1	29.6
Tier 1 capital ratio (%)	28.1	29.6
Total capital ratio (%)	28.4	30.1

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.

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

Cash flow statement

	Realkredit Danmark Group	
(DKK millions)	2017	2016
Cash flow from operating activities		
Profit before tax	5,603	5,357
Adjustment for other non-cash operating items		
Amortisation, depreciation and impairment charges	3	3
Loan impairment charges	-278	-522
Tax paid	-1,274	-1,172
Total	4,054	3,666
Cash flow from operating capital		
Bonds and shares	6,658	3,991
Mortgage loans	-14,631	-15,070
Issued mortgage bonds	11,064	28,417
Due to credit institutions	-2,061	-10,256
Other assets/liabilities	-711	-876
Cash flow from operating activities	4,373	9,872
Cash flow from investing activities		
Acquisition of tangible assets	-	-1
Sale of tangible assets	-	-
Cash flow from investing activities	-	-1
Cash flow from financing activities		
Dividends	-3,800	-3,500
Cash flow from financing activities	-3,800	-3,500
Cash and cash equivalents at 1 January	29,499	23,128
Change in cash and cash equivalents	573	6,371
Cash and cash equivalents at 31 December	30,072	29,499
Cash and cash equivalents at 31 December		
Cash in hand and demand deposits with central banks	273	206
Amounts due from credit institutions and central banks within 3 months	29,799	29,293
Total	30,072	29,499

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 2016.

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 "senior debt", 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 on-going 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.

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.

Notes

Note

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 Pensionsafviklingskasse (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.

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.

Notes

Note

INCOME STATEMENT

Interest income and expense

Interest income and expenses include interest and administration margins on financial instruments measured at fair value.

Fees and commission income and expense

Income, including origination fees, 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 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 Pensionsafvklingskasse 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.

Notes

Note

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 a new macro hedge accounting model. IFRS 9 will take effect on 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 Realkredit Danmark Group has opted to exercise this option and continue to apply the hedge accounting principles of IAS 39.

IFRS 9 will not lead to reclassification between amortised cost and fair value in the Realkredit Danmark Group. Mortgage lending and issued mortgage bonds will still be recognised at fair value through profit or loss. There is expected to be a knock-on effect from the new impairment principles of IFRS 9 on the calculation of the fair value of credit risk on mortgage loans to the tune of DKK 0.4 billion because the calculation of the fair value of credit risk is largely based on the principles that apply to loan impairment at amortised cost After tax, this will reduce shareholders' equity by about DKK 0.3 billion, which will be recognised in the income statement in the first quarter of 2018.

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.

IFRS 15 is to be implemented with effect from 1 January 2018. Implementation of the standard will not have any material effect. However, income and expenses will be offset when Realkredit Danmark acts as agent and handles the re-invoicing of expenses incurred. In 2017, this will lead to a DKK 35 million reduction in Other operating income and Staff costs and administrative expenses.

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 for 2016 they were recognised as Assets temporarily taken over. At the end of 2017, all domicile properties had been sold. 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 associated and group undertakings.

Notes

Note (DKK millions)

2017	Realkredit Danmark Group				
	Mortgage finance	Own holdings	Highlights	Reclassification	IFRS
Administration margin	6,186	-	6,186	-	6,186
Net interest income	-296	355	59	695	754
Dividends from shares	-	-	-	-	-
Net fee income	-601	-	-601	-	-601
Income from investment portfolios	562	100	662	-662	-
Value adjustments	-	-	-	-32	-32
Other income	180	-	180	-	180
Total income	6,031	455	6,486	1	6,487
Expenses	730	6	736	-	736
Profit before loan impairment charges	5,301	449	5,750	1	5,751
Loan impairment charges	147	-	147	-	147
Income from associates	-	-	-	-1	-1
Profit before tax	5,154	449	5,603	-	5,603
Total assets	822,901	53,989	876,890	-	876,890
2016	Mortgage finance	Own holdings	Highlights	Reclassification	IFRS
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

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. Own holdings comprise the net return on the part of the securities portfolio not relating to the mortgage finance business. Under the Danish Financial Business Act, at least 60% of the total capital of a mortgage credit institution must be invested in bonds, etc.

Financial highlights and reporting for the two business segments correspond to the information incorporated in the Management's report, which is regularly sent to management. The reclassification column shows the reconciliation between the presentation in the highlights and in the IFRS financial statements. The difference is due to the fact that income from trading activities in mortgage credit activities and income from own holdings, except for interest on bonds at amortised cost, is carried in the consolidated highlights as income from investment portfolios, while in the income statement according to IFRS, it is carried under net interest income, value adjustments, etc.

As the distribution of income between the various income line items in the IFRS income statement can vary considerably from one year to the next, depending on the underlying transactions and market conditions, the net presentation in the financial highlights is considered to better reflect income in those areas.

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.

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2017	2016	2017	2016
3	Geographical segmentation				
	For the Realkredit Danmark Group, interest on loans from foreign exposures amounts to DKK 206 million (2016: DKK 161 million). The sum of Realkredit Danmark A/S' net interest and fee income and value adjustments of foreign exposures amounts to DKK 152 million (2016: DKK 122 million).				
4	Interest income				
	Reverse transactions with credit institutions and central banks	-55	-64	-55	-64
	Credit institutions and central banks	-24	-35	-24	-35
	Loans and other amounts due	11,494	12,616	11,493	12,615
	Administration margin	6,186	5,890	6,186	5,890
	Bonds at fair value	295	354	295	354
	Bonds at amortised cost	171	210	171	210
	Derivatives				
	Interest rate contracts	134	343	134	343
	Other interest income	5	267	5	267
	Total	18,206	19,581	18,205	19,580
	Interest income derived from				
	Assets at fair value	18,109	19,203	18,108	19,202
	Assets at amortised cost	97	378	97	378
	Total	18,206	19,581	18,205	19,580
	Interest on individually impaired financial assets recognised at amortised cost amounted to DKK 9 million (2016: DKK 10 million).				
5	Interest expense				
	Repo transactions with credit institutions and central banks	-44	-64	-44	-64
	Due to credit institutions and central banks	2	1	2	1
	Issued mortgage bonds etc.	11,305	12,605	11,305	12,605
	Other interest expense	3	179	3	179
	Total	11,266	12,721	11,266	12,721
	Interest expense derived from				
	Liabilities at fair value	11,305	12,605	11,305	12,605
	Liabilities at amortised cost	-39	116	-39	116
	Total	11,266	12,721	11,266	12,721
6	Value adjustments				
	Mortgage loans	6,108	7,820	6,108	7,820
	Bonds	-385	-339	-385	-339
	Shares	1	-	-	-
	Currency	4	1	4	1
	Derivatives	-511	743	-511	743
	Other assets	14	14	14	14
	Issued mortgage bonds	-5,285	-8,378	-5,285	-8,378
	Reserves in early series subject to a reimbursement obligation	-	-	-	-
	Other liabilities	22	78	22	78
	Total	-32	-61	-33	-61
	Value adjustments derived from				
	Assets and liabilities at fair value	-68	-153	-69	-153
	Assets and liabilities at amortised cost	36	92	36	92
	Total	-32	-61	-33	-61

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2017	2016	2017	2016
7	Staff costs and administrative expenses				
	Salaries and remuneration of Executive Board, Board of Directors and local councils				
	Executive Board	5	4	5	4
	Board of Directors	1	1	1	1
	Total	6	5	6	5
	Staff costs				
	Salaries	146	147	123	124
	Share-based payments	-	-	-	-
	Defined benefit pensions	18	18	16	16
	Other social security costs and taxes	21	20	21	20
	Total	185	185	160	160
	Other administrative expenses	542	597	476	523
	Total staff costs and administrative expenses	733	787	642	688
	Number of full-time-equivalent staff (avg.)	234	238	203	206
	Remuneration of the Board of Directors (DKK thousands)				
	Kim Andersen	315	315	315	315
	Lisbeth Sahlertz Nielsen	125	125	125	125
	Majken Hammer Sløk (from 6 March 2017)	104	-	104	-
	Sonia Khan (from 6 March 2017)	104	-	104	-
	Claus Bundgaard (until 1 April 2017)	31	125	31	125
	Total remuneration	679	565	679	565
	Remuneration for committee work included in total remuneration	190	190	190	190
	Members of the Board end of year	8	7	8	7

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, Lars Mørch earned a total remuneration from such companies in 2017 of DKK 9.8 million (2016: DKK 9.7 million), Jesper Nielsen earned DKK 7.0 million, Kim Andersen earned DKK 0.3 million (2016: DKK 0.3 million), Jacob Aarup-Andersen earned DKK 8.6 million (2016: DKK 6.3 million) and Tonny Thierry Andersen earned DKK 10.1 million (2016: DKK 10.8 million). At the annual general meeting in Realkredit Danmark on 6 March 2017, Tonny Thierry Andersen resigned from the Board of Directors. Jesper Nielsen was elected as a new board member.

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	Klaus Kristiansen
	2017		
	Fixed salary	3.3	0.3
	Pension	0.5	-
	Variable cash remuneration	0.2	0.1
	Variable share-based remuneration	0.3	-
	Total amount earned	4.3	0.4
	Total amount paid	4.0	0.3

Salary and pension amounts for Klaus Kristiansen are disclosed for the period since he joined the Executive Board.

Total amount paid consists of fixed salary and pension contributions to defined contribution plans in 2017, variable cash remuneration and the exercise of conditional shares granted for earlier financial years. Variable remuneration for 2017 will be paid in subsequent financial years.

The total remuneration of the Executive Board of DKK 4.7 million for 2017 consists of a fixed remuneration of DKK 4.1 million and a variable remuneration of DKK 0.6 million.

	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

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.

The service contracts of the Executive Board are in compliance with the Danish FSA's Executive Order no. 1582 of 13 December 2016 on remuneration policy and salaries in financial institutions.

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 and termination

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 life insurance company.

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.

Klaus Kristiansen is entitled to retire at the end of the month in which he attains the age of 60, in which case he will receive a severance payment equivalent to 12 months' salary. The pension obligation is covered by payments equal to 14% of his salary to a life insurance company. In addition to the severance payment, Realkredit Danmark will pay the employer's pension contribution for up to three years, but not longer than until the retirement age laid down in legislation.

Klaus Kristiansen may terminate the service contract by giving 3 months' notice. Realkredit Danmark may terminate the service contract by giving 8 months' notice. In case of termination by Realkredit Danmark, Klaus Kristiansen is entitled to severance pay equal to 24 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 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 2017, Realkredit Danmark A/S paid remuneration totalling DKK 41.1 million for 40 other material risk takers (2016: DKK 41.3 million for 41 other material risk takers). The remuneration consists of fixed remuneration of DKK 39.1 million and a variable remuneration of DKK 2.0 million (2016: DKK 39.3 million and DKK 2.0 million). Variable pay for 2017 is estimated and will be finalised at the end of February 2018. The final variable pay will be published no later than in March 2018 in the Realkredit Danmark Group Remuneration Report 2017, 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 Pensionsafvirkingskasse, 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 2017, the net present value of pension obligations was DKK 901 million (2016: DKK 921 million), and the fair value of plan assets was DKK 1,122 million (2016: DKK 1,168 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 2017 arising from share-based payments is DKK 0.5 million (2016: DKK 0.7 million). All share-based payments are equity-settled. The exact number of shares granted for 2017 will be determined at the end of February 2018.

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

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

Share-based payments

Conditional shares

	Number			Fair Value (FV)	
	Executive Board	Other employees	Total	At issue (DKK millions)	End of year (DKK millions)
Granted in 2013					
2016, beg.	761	983	1,744		
Vested 2016	-	-983	-983		
Forfeited 2016	-	-	-		
Other changes 2016	-	-	-		
2016, end	761	-	761	0.1	0.2
Vested in 2017					
Forfeited 2017	-761	-	-761		
Other changes 2017	-	-	-		
2017, end	-	-	-	-	-
Granted in 2014					
2016, beg.	599	405	1,004		
Vested 2016	-	-	-		
Forfeited 2016	-	-	-		
Other changes 2016	-	-	-		
2016, end	599	405	1,004	0.1	0.2
Vested 2017					
Forfeited 2017	-	-405	-405		
Other changes 2017	-	-	-		
2017, end	599	-	599	0.1	0.1

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 2015				
	587	363	950		
	-	-	-		
	-	-	-		
	-	-	-		
	587	363	950	0.2	0.2
	Vested 2017				
	-	-	-		
	-	-	-		
	-	-	-		
	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
	Vested 2017				
	-	-	-		
	-	-	-		
	-	-	-		
	521	1,260	1,781	0.3	0.4
	Granted in 2017				
	1,105	2,845	3,950		
	-663	-1,709	-2,372		
	-	-99	-99		
	-	-	-		
	442	1,037	1,479	0.4	0.4

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2017	2016	2017	2016
8	Share-based payments				
cont'd					
	Holdings of the Executive Board and fair value, end of 2017				
	Grant year			2014-2017	
	(DKK millions)			Number	FV
	Carsten Nøddebo Rasmussen			2,149	0.5
	Holdings of the Executive Board and fair value, end of 2016				
	Grant year			2013-2016	
	(DKK millions)			Number	FV
	Carsten Nøddebo Rasmussen			2,468	0.5
	The number of conditional shares and the employee payment price have been adjusted to reflect the capital increase in 2012.				
	In 2017, the average price at the vesting date for rights to conditional shares was DKK 240.93.				
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	745	749	745	749
	Reversals of impairment charges etc. for previous years	1,023	1,271	1,022	1,269
	Losses incurred	484	764	484	762
	Received on claims previously written off	59	60	59	60
	Total	147	182	148	182
11	Tax				
	Tax on profit for the year	1,237	1,174	1,225	1,165
	Deferred tax	-1	4	-8	5
	Adjustment of prior-year tax charges	-1	-2	-1	-2
	Total	1,235	1,176	1,216	1,168
	Effective tax rate				
	Current Danish tax rate	22.0	22.0	22.0	22.0
	Adjustment of prior-year tax charge	-	-	-	-
	Non-taxable items	-	-	-0.1	-0.1
	Effective tax rate	22.0	22.0	21.9	21.9

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2017	2016	2017	2016
12	Due from credit institutions and central banks				
	On demand	1,180	1,866	1,098	1,806
	3 months or less	28,619	27,427	28,619	27,427
	3-12 months	-	1,992	-	1,992
	Total	29,799	31,285	29,717	31,225
	Due from credit institutions	7,495	14,243	7,413	14,183
	Term deposits with central banks	22,304	17,042	22,304	17,042
	Total	29,799	31,285	29,717	31,225
	At fair value	29,791	31,307	29,709	31,247
	Portion attributable to reverse transactions	5,303	12,377	5,303	12,377

In connection with reverse transactions, Realkredit Danmark is entitled to sell or remortgage the securities. In 2017, DKK 0 million were sold or remortgaged (2016: DKK 0 million).

13	Bonds at fair value				
	Own mortgage bonds	69,844	124,165	69,844	124,165
	Other mortgage bonds	21,058	23,086	21,058	23,086
	Government bonds	2,568	2,913	2,568	2,913
	Total	93,470	150,164	93,470	150,164
	Own mortgage bonds set off against issued mortgage bonds	69,844	124,165	69,844	124,165
	Total	23,626	25,999	23,626	25,999

Of Realkredit Danmark's bond portfolio, DKK 11.7 billion has a maturity of less than 12 months, while DKK 11.9 billion has a maturity of 1-5 years (2016: DKK 10.2 billion and DKK 15.8 billion).

14	Bonds at amortised cost				
	Other mortgage bonds	31,223	33,563	31,223	33,563
	Total	31,223	33,563	31,223	33,563
	Fair value of held-to-maturity assets	31,644	34,035	31,644	34,035
	The fair value is based on quoted prices.				

Of Realkredit Danmark's bond portfolio, DKK 30.2 billion has a term to maturity of less than five years, while DKK 1.0 billion has a term to maturity of 5-10 years (2016: DKK 31.9 billion and DKK 1.7 billion).

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2017	2016	2017	2016
15	Total lending				
	Mortgage loans, nominal value	768,890	754,258	768,890	754,258
	Fair value adjustment of underlying bonds	22,947	16,840	22,947	16,840
	Adjustment for credit risk	3,072	3,403	3,072	3,403
	Mortgage loans at fair value	788,765	767,695	788,765	767,695
	Arrears and outlays	175	245	175	245
	Other loans	452	457	423	423
	Total	789,392	768,397	789,363	768,363
	Apart from being backed by mortgages on properties, loans are backed by central and local government guarantees and insurance guarantees of	31,675	30,175	31,675	30,175
	Pass books and bonds have been deposited and guarantees provided as supplementary security in a total amount of	90,812	100,590	90,812	100,590
	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 2017, DKK 331 million was booked to income concerning adjustment for credit risk on loans (2016: DKK 423 million). The accumulated adjustment for credit risk amounts to DKK 3.1 billion (2016: DKK 3.4 billion).				
16	Mortgage loans at fair value				
	Mortgage loans (nominal value) broken down by property category (percentage)				
	Owner-occupied dwellings	54	54	54	54
	Holiday homes	3	3	3	3
	Subsidised residential property	9	9	9	9
	Private residential rental property	11	11	11	11
	Industrial and skilled trades property	2	2	2	2
	Office and retail property	13	13	13	13
	Agricultural property etc.	6	6	6	6
	Property for social, cultural and training activities	2	2	2	2
	Other property	-	-	-	-
	Total	100	100	100	100
	0-1 month	1,149	1,124	1,149	1,124
	1-3 months	3,857	5,286	3,857	5,286
	3-12 months	15,355	16,720	15,355	16,720
	1-5 years	92,594	95,536	92,594	95,536
	5-10 years	137,684	136,609	137,684	136,609
	Over 10 years	538,126	512,420	538,126	512,420
	Total	788,765	767,695	788,765	767,695
	From 2017, the break down is calculated according to the loans at fair value amortisation. The comparative figures have been adjusted.				
17	Loans and other amounts due at amortised cost				
	On demand	175	244	175	244
	3 months or less	21	21	18	18
	3-12 months	62	63	56	56
	1-5 years	136	139	119	119
	Over 5 years	233	235	230	231
	Total	627	702	598	668

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2017	2016	2017	2016
18	Arrears and outlays				
	Arrears before impairment charges	167	244	167	244
	Outlays before impairment charges	152	90	152	90
	Impairment charges	144	89	144	89
	Total	175	245	175	245

- 19 **Loans etc.**
 Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 3,072 million at 31 December 2017, against DKK 3,403 million at 31 December 2016.
 Of the total loan charges for the credit risk on loans and other amounts due at amortised cost, charges were recognised as an expense of DKK 155 million at 31 December 2017, against DKK 102 million at 31 December 2016.

	Realkredit Danmark Group			Realkredit Danmark A/S		
	Loans individual impairment	Loans collective impairment	Total	Loans individual impairment	Loans collective impairment	Total
2017						
Impairment charges at 1 January 2017	2,690	815	3,505	2,685	815	3,500
Impairment charges during the year	602	143	745	602	143	745
Reversals of impairment charges for previous years	934	89	1,023	933	89	1,022
Impairment charges at 31 December 2017	2,358	869	3,227	2,354	869	3,223
Value adjustment of assets taken over						-2
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						-

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
2017				
Rating category 10	10,994	940	10,994	936
Rating category 11	6,815	1,418	6,815	1,418
Total	17,809	2,358	17,809	2,354
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

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	
		2017	2016	2017	2016
20	Holdings in associates				
	Cost at 1 January	14	14	14	14
	Disposals	-14	-	-14	-
	Cost at 31 December	-	14	-	14
	Revaluations at 1 January	4	4	4	4
	Reversals of revaluations	-4	-	-4	-
	Revaluations at 31 December	-	4	-	4
	Carrying amount at 31 December	-	18	-	18
	Associates are specified on page 58				
21	Other tangible assets				
	Cost at 1 January	24	24	5	5
	Additions	-	1	-	-
	Disposals	-	1	-	-
	Cost at 31 December	24	24	5	5
	Depreciation and impairment charges at 1 January	15	14	-	-
	Depreciation charges	2	1	-	-
	Depreciation and impairment charges reversed on disposals etc.	-	-	-	-
	Depreciation and impairment charges at 31 December	17	15	-	-
	Carrying amount at 31 December	7	9	5	5

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S		
		2017	2016	2017	2016	
22	Deferred tax assets and liabilities					
	Deferred tax liabilities	41	51	-	-	
	Provision for deferred tax	-	-	43	61	
	Total	41	51	43	61	
	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.
	2017					
	Intangible assets	-	-1	-	-	-1
	Tangible assets	2	-6	-	-	-4
	Securities	6	1	-	-	7
	Provisions	44	3	-7	-	40
	Tax loss carryforwards	-	-	-	-	-
	Other	-1	-	-	-	-1
	Total	51	-3	-7	-	41
	Adjustment of prior-year tax charges included in total		-3			
	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			
	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.
	2017					
	Intangible assets	-	-1	-	-	-1
	Tangible assets	11	-14	-	-	-3
	Securities	6	1	-	-	7
	Provisions	44	3	-7	-	40
	Tax loss carryforwards	-	-	-	-	-
	Other	-	-	-	-	-
	Total	61	-11	-7	-	43
	Adjustment of prior-year tax charges included in total		-3			
	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		-			

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2017	2016	2017	2016
23	Assets temporarily taken over				
	Foreclosures	38	79	38	79
	Domicile properties held for sale	-	31	-	70
	Total	38	110	38	149
	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 1 million. (2016: DKK 17 million). In 2015, domicile properties were put up for sale and in that connection transferred to Assets temporarily taken over. At the end of 2017, all of these properties had been sold, leading to a gain of DKK 31 million in the Realkredit Danmark Group recognised in Other operating income and a loss of DKK 8 million in Realkredit Danmark A/S recognised in Staff costs and administrative expenses.				
24	Other assets				
	Interest due	532	652	532	652
	Pension assets	221	247	221	247
	Other assets	1,756	2,171	1,715	2,128
	Total	2,509	3,070	2,468	3,027
25	Due to credit institutions and central banks				
	On demand	-	-	-	-
	3 months or less	4,294	6,355	4,294	6,355
	3-12 months	-	-	-	-
	1-5 years	-	-	-	-
	Total	4,294	6,355	4,294	6,355
	At fair value	4,289	6,346	4,289	6,346
	Portion attributable to repo transactions	4,294	6,355	4,294	6,355
26	Issued mortgage bonds at fair value				
	Issued mortgage bonds, nominal value*	855,233	887,737	855,233	887,737
	Fair value adjustment	24,661	18,953	24,661	18,953
	Issued mortgage bonds at fair value, before set-off	879,894	906,690	879,894	906,690
	Set-off of own mortgage bonds at fair value	69,844	124,164	69,844	124,164
	Issued mortgage bonds at fair value	810,050	782,526	810,050	782,526
	0-1 month	83,130	47,004	83,130	47,004
	1-3 months	-	-	-	-
	3-12 months	81,728	103,847	81,728	103,847
	1-5 years	388,495	382,193	388,495	382,193
	5-10 years	72,327	71,546	72,327	71,546
	Over 10 years	184,370	177,936	184,370	177,936
	Total	810,050	782,526	810,050	782,526
	* Portion pre-issued	45,308	78,631	45,308	78,631
	* Portion drawn at 2 January 2018, or in 2017	76,771	124,661	76,771	124,661

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 2017, the Danish mortgage bond yield spread narrowed and the fair value of issued mortgage bonds thus increased some DKK 7 billion. In 2016, a narrowing also led to an increase in the fair value. Based on the outstanding portfolio at the end of 2017, 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 9 billion (2016: negative fair value of DKK 2 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 2017 or the period since the issue has been required.

Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2017	2016	2017	2016
27	Issued bonds at amortised cost				
	Nominal value of issued bonds	6,617	17,297	6,617	17,297
	Fair value hedging of interest rate risk	-	20	-	20
	Premium/discount	-1	1	-1	1
	Total issued bonds	6,616	17,318	6,616	17,318
	Fair value of issued bonds at amortised cost	6,665	17,506	6,665	17,506
	The fair value of based on quoted prices.				
	0-1 month	-	-	-	-
	1-3 months	560	-	560	-
	3-12 months	-	8,401	-	8,401
	1-5 years	6,105	9,105	6,105	9,105
	5-10 years	-	-	-	-
	Over 10 years	-	-	-	-
	Total	6,665	17,506	6,665	17,506
		1 Jan.			31 Dec.
	Nominal value	2017	Issued	Redeemed	2017
	Total issued bonds	17,297	-	10,680	6,617
	Issued bonds at amortised cost consist of issued senior debt.				
28	Other liabilities				
	Interest accrued	5,605	6,606	5,605	6,606
	Reserves in early series subject to a reimbursement obligation*	29	35	-	-
	Other creditors	364	417	346	405
	Total	5,998	7,058	5,951	7,011
	* Recognised in the balance sheet of the parent company, Realkredit Danmark A/S, under "Provisions".				
29	Reserves in early series subject to a reimbursement obligation*				
	Carrying amount, beginning of year	35	49	35	49
	Utilised	-10	-11	-10	-11
	Increase due to shortening of maturity	4	-3	4	-3
	Increase due to change in discount rate	-	-	-	-
	Carrying amount, end of year	29	35	29	35
	* 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	
		2017	2016	2017	2016
30	Risk exposure amount (REA)				
	Credit risk (IRB approach)	143,847	134,523	143,773	134,443
	Credit risk (standardised approach)	6,458	6,986	6,458	7,120
	Counterparty risk	4	98	4	98
	Total credit risk	150,309	141,607	150,235	141,661
	Market risk	679	1,443	679	1,443
	Operational risk	10,914	10,547	10,720	10,333
	Total	161,902	153,597	161,634	153,437

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 434,711 million at the end of 2017 (2016: DKK 414,915 million). The solvency need, calculated on the basis of the transitional rules, was DKK 27,821 million in 2017, equal to 80% of the capital requirement of 8% of the total risk exposure amount (2016: DKK 26,555 million). rd.dk provides more details about Realkredit Danmark's solvency need. The solvency need calculation is not covered by the statutory audit.

31 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	13,271	8,304	13,271	8,304
Portion issued by Realkredit Danmark	5,505	2,339	5,505	2,339
Assets sold under repo transactions				
Bonds at fair value	4,289	6,346	4,289	6,346
Portion issued by Realkredit Danmark	228	653	228	653

At 31 December 2017, mortgage lending totalling DKK 788,765 million and other assets totalling DKK 22,665 million were registered as security for issued mortgage bonds, including mortgage-covered bonds, and issued bonds at amortised cost (2016: DKK 767,695 million and DKK 28,493 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	
		2017	2016	2017	2016

32 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 amount to:

(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
	2017	2016	2017	2016
Other contingent liabilities				
Irrevocable loan commitments regarding reverse mortgages	6	11	6	11
Other commitments	46	96	22	70
Total	52	107	28	81

In addition to credit exposure from lending activities, loan offers made by the Group in 2017 amounted to DKK 37,470 million (2016: DKK 28,366 million). These items are included in the calculation of the total risk amount in accordance with the CRR/CRD IV.

Notes

Note	(DKK millions)				
33	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 2017.				
	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	
		2017	2016	2017	2016
	Fees, etc. paid to Danske Bank A/S for the arranging and guaranteeing of mortgage loans	1,127	1,086	1,127	1,086
	Fees received from Danske Bank A/S for referral of customers and for property valuation	68	74	68	74
	Fees paid to Danske Bank A/S for managing Realkredit Danmark's IT operations and development, portfolio management and finance functions, etc.	215	233	200	215
	Interest received by Realkredit Danmark A/S on outstanding accounts with Danske Bank A/S	-47	5	-47	5
	Interest received on mortgage loans raised by sister company	10	14	10	14
	Interest paid by Realkredit Danmark A/S on outstanding accounts with Danske Bank A/S	-37	2	-37	2
	Amounts due from Danske Bank A/S	7,488	14,239	7,406	14,179
	Mortgage lending to sister company	1,255	1,266	1,255	1,266
	Loss guarantees from Danske Bank A/S	59,336	58,920	59,336	58,920
	Other guarantees from Danske Bank A/S	33,398	49,306	33,398	49,306
	Amounts due to Danske Bank A/S	4,294	6,355	4,294	6,355
	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 Pensionsafvklingskasse, 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 0 million (2016: DKK 51 million) and interest expenses of DKK 0 million (2016: DKK 1 million). Such transactions are not eliminated in the consolidated financial statements.				
34	Loans etc. to management				
	Mortgage loans established on an arm's length basis for				
	Board of Directors of Realkredit Danmark A/S	36	29	36	29
	Executive Board of Realkredit Danmark A/S	4	1	4	1
	Board of Directors and Executive Board of Danske Bank A/S	61	36	61	36
	Average interest rate and administration margin for loans etc. to management	2,0%	2,1%	2,0%	2,1%

Notes

Note	(DKK millions)	Realkredit Danmark Group			
35	Financial instruments at fair value				
	2017	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	17,327	6,299	-	23,626
	Mortgage loans at fair value	-	788,765	-	788,765
	Shares	-	-	2	2
	Derivatives	-	64	-	64
	Total	17,327	795,128	2	812,457
	Issued mortgage bonds at fair value	810,050	-	-	810,050
	Derivatives	-	10	-	10
	Total	810,050	10	-	810,060
	2016				
	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

Negative interest income and interest expenses due to negative interest rates were insignificant during 2016 and 2017. 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.

Developments in the financial markets did not lead to reclassification of bonds between listed prices and observable input in 2017.

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 Group			
		2017		2016	
		Carrying amount	Amortised/notional amount	Carrying amount	Amortised/notional amount
36	Fair value hedging				
	Issued mortgage bonds at amortised cost	-	-	6,244	6,220
	Hedging Derivatives	-	-	142	208

The fair value of issued mortgage bonds at amortised cost was DKK 0 million at end-2017 (2016: DKK 6,274 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 2 million, net, in 2017 (2016: DKK 1 million), consisting of a gain on the hedged instrument of DKK 21 million (2016: a gain of DKK 64 million) and a loss on the hedging derivative of DKK 19 million (2016: a loss of DKK 63 million). The net effect is recognised in the income statement.

37 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. 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 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 of 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.

(DKK millions)	Net profit 2017	Net profit 2016	Shareholders' equity 31 Dec. 2017	Shareholders' equity 31 Dec. 2016
Consolidated financial statements (IFRS)	4,368	4,181	49,891	49,347
Domicile property	-39	-	-	39
Tax effect	8	-	-	-8
Consolidated financial statements (Danish FSA rules)	4,337	4,181	49,891	49,378

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 2017 by maintaining a total capital ratio of 28.3, well above the regulatory requirement of 17.2, 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 21%, Urban trade for 16% 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 2017, Realkredit Danmark continued its prudent credit-granting process, accommodating the Group's existing and new customers. Continuing this prudent credit-granting process will remain the objective in 2018. When granting credit, the Group requires the customer to be able to service a fixed-rate loan. When granting a FlexLån® loan, the customer must also be able to service a fixed-rate loan with an interest rate equal to a fixed rate over 30 years plus 1%, however, not less than 4%.

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	2017 Total	2016 Total
1	-	-	-	-
2	11	4	15	13
3	94	67	161	145
4	134	77	211	194
5	112	65	177	174
6	52	55	107	114
7	35	39	74	78
8	11	14	25	26
9	2	2	4	6
10	2	9	11	13
11	1	6	7	8
Total	454	338	792	771

Probability of Default (PD) %

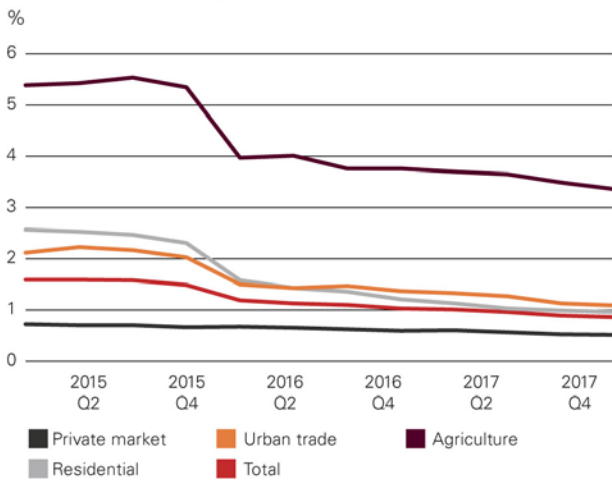
Rating category	Low PD	High PD
1	0.00	0.01
2	0.01	0.03
3	0.03	0.06
4	0.06	0.14
5	0.14	0.31
6	0.31	0.63
7	0.63	1.90
8	1.90	7.98
9	7.98	25.70
10	25.70	100.00
11	100.00	100.00

Notes

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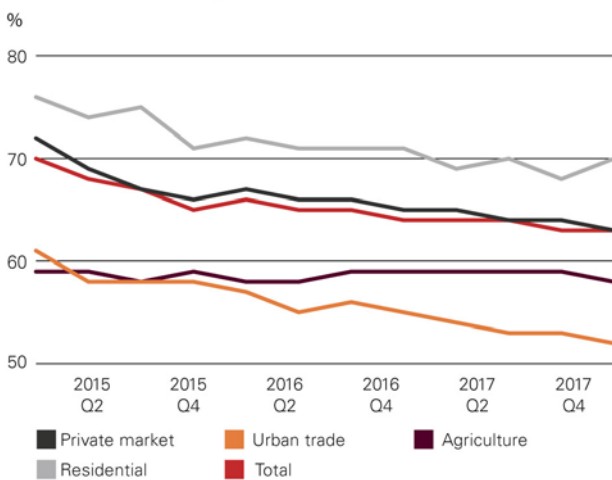
Over the past year, Realkredit Danmark has witnessed a positive migration in customer classifications, which is reflected in a larger proportion of the loan portfolio being loans to customers in the good rating categories compared with 2016. The total average PD has fallen for all sectors of the loan portfolio compared with the level a year ago. The large decrease in average PD for business segments in the first quarter of 2016 was due to model changes that led to adjustments to average PD for large business customers to the level actually observed for default for these type of customers.

Development in average PD



Property prices have risen in recent years, 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 64% at end-2016 to 63% at end-2017.

Development in average LTV



The loan portfolio remained very secure. 89% 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 at 2017

Sector, %	0-20	20-40	40-60	60-80	>80	Total DKK billions
Personal market	164	140	97	44	9	454
Urban trade	54	44	23	5	2	128
Agriculture	19	15	10	3	1	48
Residential	67	44	27	14	10	162
Weighted distribution	38%	31%	20%	8%	3%	100%
Total DKK billions	304	243	157	66	22	792

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

As shown in the table, DKK 3 billion were loans with an LTV ratio higher than 80% granted to customers in one of the four lowest categories. This equals 0.4% of the total portfolio.

Portfolio broken down by loan to value and rating category 2017

Rating category	Loan to Value					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	80-100%	
1	-	-	-	-	-	-
2	7	5	2	1	-	15
3	70	47	27	11	6	161
4	85	66	39	15	6	211
5	64	56	39	15	3	177
6	39	33	23	10	2	107
7	25	23	17	7	2	74
8	8	7	6	3	1	25
9	1	1	1	1	-	4
10	3	3	2	2	1	11
11	2	2	1	1	1	7
Total	304	243	157	66	22	792

Notes

Note

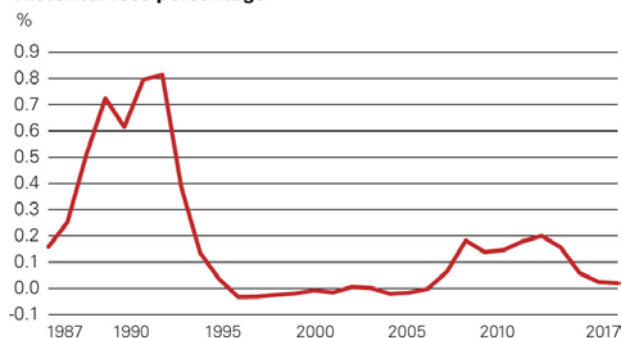
Portfolio broken down by loan to value and rating category 2016

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

Impairments for 2017 amounted to DKK 147 million, corresponding to 0.02% of total mortgage lending. This is a decline relative to 2016, when the charges amounted to DKK 182 million. Total impairments declined as a result of a general improvement of macroeconomic conditions in Denmark, including rising property prices. In both 2016 and 2017, impairment charges previously made were reversed, primarily charges against facilities in the business market.

Loan impairment charges are expected to remain at a low level in 2018.

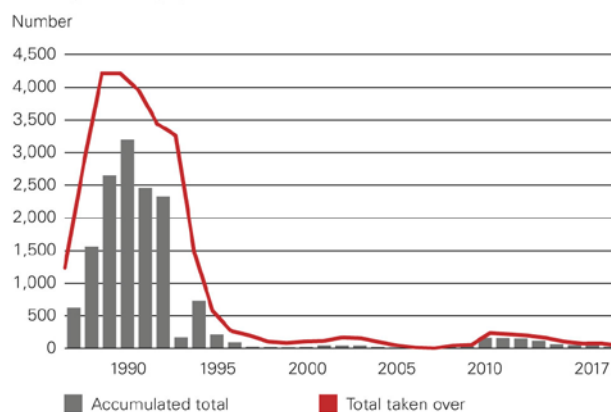
Historical loss percentage



The number of properties taken over by Realkredit Danmark at a forced sale stood at 50 in 2017, against 81 in 2016. In the same period, the portfolio of foreclosed properties fell from 51 to 31.

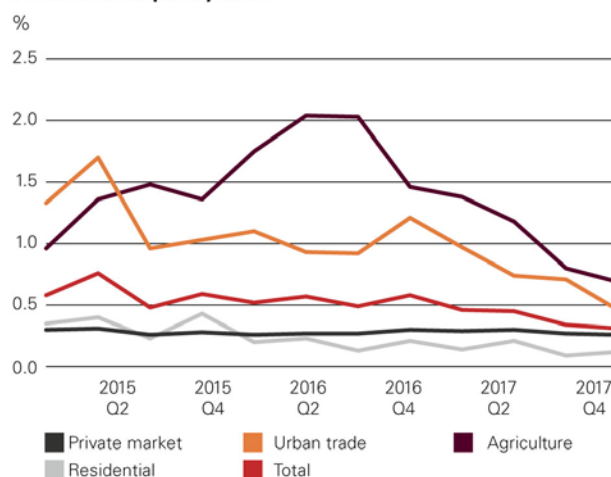
In a historical context, the number of properties taken over in 2017 was much lower than during the crisis of the early 1990s, when more than 4,000 properties were taken over in the worst year

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 297 billion was partly covered by this loss guarantee at the end of 2017. The total guarantee in 2017 amounted to DKK 59 billion.

3-month delinquency rates



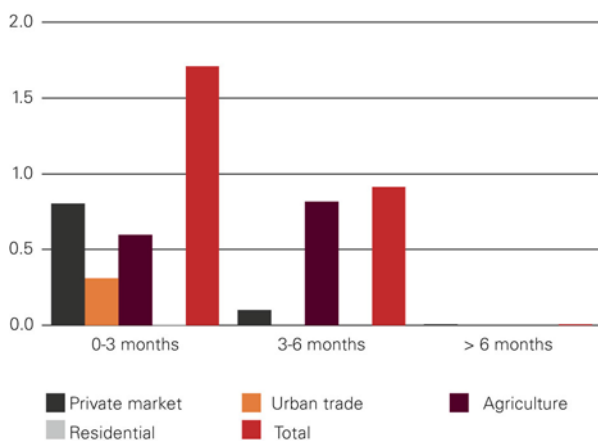
The delinquency rate, calculated as the proportion of due payments remaining unpaid 3 months after the last due payment date, declined from 2016 to 2017. In particular, delinquencies in the agricultural sector were reduced because of the generally improved conditions for the sector in 2017.

Notes

Note

Arrears on loans without OEI at 31 December 2017

(DKK millions)



All loans with objective evidence of impairment (OEI) are classified in rating categories 10 and 11. Rating categories 1-9 thus comprise the part of the loan portfolio without OEI.

The chart shows arrears at 31 December 2017 on loans without OEI broken down by the length of the arrears period. Total arrears on loans with no OEI amounted to DKK 3 million at the end of 2017. Of total arrears on loans without charges, 65% are less than three months old.

Arrears	Loan portfolio DKK millions		Loan to value %		Arrears Sept. paym. in %	
	2017	2016	2017	2016	2017	2016
Privat market	453,904	440,006	63	65	0.26	0.30
Urban trade	128,302	127,011	52	55	0.46	1.21
Agriculture	47,776	48,062	58	59	0.69	1.46
Residential rental property	161,855	156,019	70	71	0.12	0.21
Total	791,837	771,098	63	64	0.31	0.58

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 2017, the total exposure to non-performing loans amounted to DKK 9.1 billion. This is a decline compared with the end of 2016, when non-performing loans amounted to DKK 12.5 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 2017, the total exposure to loans with forbearance terms amounted to DKK 3.0 billion. This is a decrease of DKK 200 million relative to 2016. The decrease primarily concerns co-operative housing societies and agriculture, while there was an increase in residential rental property and urban trade.

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 2017, the Group's exposures did not exceed these limits.

Credit exposure to groups representing 10% or more of the capital base amounted to DKK 5,197 million at 31 December 2017 (2016: DKK 10,077 million). At the end of 2017, 0 exposures exceeded 20% of the capital base, while 1 exposure 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 459 million. At the end of 2017, this interest rate risk amounted to DKK 7 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 3,670 million, in accordance with Danish law. At the end of 2017, the interest rate risk on these items amounted to DKK 1,054 million, against DKK 1,291 million the year before.

At the end of 2017, the total interest rate risk amounted to DKK 1,061 million, or 2.3% of the total capital. The year before, Realkredit Danmark's interest rate risk was DKK 1,301 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-2017, the market value and hence the equity market risk amounted to DKK 141 million, against DKK 154 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 2017, the exchange rate risk amounted to DKK 2 million, against DKK 2 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	2017		Nominal value	2016	
		Positive market value	Negative market value		Positive market value	Negative market value
Interest rate contracts						
Forward/futures bought	47,530	48	-	81,576	70	-
Forward/futures sold	21,221	8	10	41,494	18	83
Currency contracts						
Forward/futures bought	70	-	-	1,636	-	1
Forward/futures sold	194	5	-	-	-	-
Interest rate and currency contracts held for trading purposes, total		61	10		88	84
Outstanding spot transactions						
Interest rate contracts bought	684	1	-	408	1	-
Interest rate contracts sold	1,348	2	-	2,178	-	1
Total outstanding spot transactions		3	-		1	1
Hedging derivatives	-	-	-	6,220	142	-

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)	2017	2016	2015	2014	2013
HIGHLIGHTS					
Net interest and fee income	6,339	6,249	6,557	6,468	6,741
Value adjustments	-32	-61	-441	-583	-1,067
Staff costs and administrative expenses	733	787	784	811	848
Loan impairment charges	147	182	432	1,171	1,471
Income from associates	-1	-	3	2	3
Net profit for the year	4,368	4,181	3,890	3,056	2,612
Loans	789,392	768,397	745,166	745,421	731,874
Shareholders' equity	49,891	49,347	48,746	47,871	46,884
Total assets	876,890	862,677	836,574	834,555	848,134
RATIOS AND KEY FIGURES					
Total capital ratio (%)	28.3	30.1	38.8	34.5	34.0
Tier 1 capital ratio (%)	28.1	29.6	38.3	34.0	33.5
Return on equity before tax (%)	11.3	10.9	10.5	8.5	7.5
Return on equity after tax (%)	8.8	8.5	8.1	6.5	5.6
Cost/core income ratio DKK	7.35	6.51	5.18	3.03	2.50
Foreign exchange position (%)	1.5	3.2	0.5	1.1	0.5
Gearing of loans	15.8	15.6	15.3	15.6	15.6
Growth in lending for the year (%)	1.9	2.0	1.9	0.8	0.5
Impairment ratio for the year (%)	0.02	0.02	0.06	0.16	0.20
Return on assets (%)	0.5	0.5	0.5	0.4	0.3
Realkredit Danmark A/S					
HIGHLIGHTS					
Net interest and fee income	6,338	6,248	6,555	6,466	6,738
Value adjustments	-33	-61	-440	-583	-1,067
Staff costs and administrative expenses	642	688	678	706	742
Loan impairment charges	148	182	432	1,170	1,469
Income from associates and group undertakings	35	30	28	17	12
Net profit for the year	4,337	4,181	3,882	3,056	2,612
Loans	789,363	768,363	745,132	745,385	731,836
Shareholders' equity	49,871	49,378	48,777	47,909	46,922
Total assets	876,874	862,705	836,593	834,591	848,176
RATIOS AND KEY FIGURES					
Total capital ratio (%)	28.4	30.1	38.8	34.6	34.0
Tier 1 capital ratio (%)	28.1	29.6	38.3	34.1	33.5
Return on equity before tax (%)	11.2	10.9	10.5	8.5	7.4
Return on equity after tax (%)	8.7	8.5	8.0	6.4	5.6
Cost/core income ratio DKK	8.03	7.15	5.56	3.14	2.57
Foreign exchange position (%)	1.5	3.2	0.5	1.1	0.5
Gearing of loans	15.8	15.6	15.3	15.6	15.6
Growth in lending for the year (%)	1.9	2.0	1.9	0.8	0.5
Impairment ratio for the year (%)	0.02	0.02	0.06	0.16	0.20
Return on assets (%)	0.5	0.5	0.5	0.4	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

Group holdings and undertakings	Share capital (thousands)	Net profit (DKK mil- lions)	Shareholders' equity (DKK mil- lions)	Holding of share capital (%)
Realkredit Danmark A/S, Copenhagen	DKK 630,000	4,337	49,891	
Subsidiaries				
Real-estate agency business				
home a/s, Aarhus	DKK 15,000	35	139	100

Associates

In 2016, e-nettet Holding A/S, Copenhagen, was recognised as an associate in Realkredit Danmark A/S. In 2017, the equity investment in e-nettet was sold.

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

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	0.9	22.7
1	Net interest income etc.	0.1	0.1	1.7	15.7
1	Administrative expenses etc.	1.8	1.7	3.9	16.4
	Loan impairment charges	-	-	-	-15.9
	Tax	-0.3	-0.3	-0.3	8.4
2	Net profit for the year	-1.2	-0.9	-1.0	29.5
Balance sheet - assets					
	Mortgage loans etc.	38.7	65.1	251.8	14,593.8
	Other assets	7.4	14.0	132.3	1,786.8
	Total assets	46.1	79.1	384.1	16,380.6
Balance sheet - liabilities and equity					
3	Issued bonds	40.2	71.2	272.6	15,228.8
	Other liabilities	0.2	0.4	1.9	82.5
4	Shareholders' equity	5.7	7.5	109.6	1,069.3
5	Total liabilities and equity	46.1	79.1	384.1	16,380.6

	(DKK millions)	Danske Kredit	Mortgage- bonds S	Mortgage- bonds T	Other reserves	Total
Income statement						
	Income from lending	0.8	1,626.1	4,402.0	219.9	6,273.0
1	Net interest income etc.	-	236.6	499.5	95.7	849.4
1	Administrative expenses etc.	1.8	484.8	815.7	116.4	1,442.5
	Loan impairment charges	-0.2	78.1	61.0	25.2	148.2
	Tax	-0.2	285.9	885.5	36.9	1,215.6
2	Net profit for the year	-0.6	1,013.9	3,139.3	137.1	4,316.1
Balance sheet - assets						
	Mortgage loans etc.	121.5	253,564.6	483,866.8	36,495.3	788,997.6
	Other assets	18.8	33,813.6	113,394.6	9,329.4	158,496.9
	Total assets	140.3	287,378.2	597,261.4	45,824.7	947,494.5
Balance sheet - liabilities and equity						
3	Issued bonds	135.6	272,697.3	565,556.4	38,804.4	892,806.5
	Other liabilities	0.7	1,446.0	3,005.3	230.6	4,767.6
4	Shareholders' equity	4.0	13,234.9	28,699.7	6,789.7	49,920.4
5	Total liabilities and equity	140.3	287,378.2	597,261.4	45,824.7	947,494.5

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.	
		2017
2	Net profit for the year, series accounts	
	Net profit for the year, Realkredit Danmark A/S's financial statements	4,337
	Transferred to other reserves etc.	2
	Adjustment of defined benefit plans	-23
	Net profit for the year, series accounts	4,316
3	Issued bonds, series accounts	
	Issued bonds, Realkredit Danmark A/S's financial statements	816,666
	Own mortgage bonds, not offset in the series accounts	69,844
	Accrued interest, own bonds	6,297
	Issued bonds, series accounts	892,807
4	Shareholders' equity, series accounts	
	Shareholders' equity, Realkredit Danmark A/S's financial statements	49,891
	Reserves in pre-1972 series subject to a reimbursement obligation	29
	Shareholders' equity, series accounts	49,920
5	Total assets, series accounts	
	Total assets, Realkredit Danmark A/S's financial statements	876,874
	Own mortgage bonds, not offset in the series accounts	69,844
	Accrued interest, own bonds	777
	Total assets, series accounts	947,495
6	Transfers to and from reserves subject to a reimbursement obligation	
	In 2017, 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	-4,849
	Other reserves	4,849
	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 2017.

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 2017 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 2017. 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 2018

Executive Board

Carsten Nøddebo Rasmussen
Chairman of the Executive Board

Klaus Kristiansen
Member of the Executive Board

Board of Directors

Lars Mørch
Chairman

Jesper Nielsen
Vice Chairman

Kim Andersen

Jacob Aarup-Andersen

Henriette Fenger Ellekrog

Lisbeth Sahlertz Nielsen

Majken Hammer Sløk

Sonia Khan

Auditor's 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 2017 to 31 December 2017, pages 19-60, which comprise the income statement, statement of comprehensive income, balance sheet, statement of capital and notes, including 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 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 2017, and of its financial performance and cash flows for the financial year 1 January 2017 to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds.

Also, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2017, and of its financial performance for the financial year 1 January 2017 to 31 December 2017 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

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.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were appointed auditors of Realkredit Danmark A/S for the first time on 05 March 2015 for the financial year 2015. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 3 years up to and including the financial year 2017.

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 2017 to 31 December 2017. 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 matters were addressed in our audit

Loan impairment charges

Loans amounting to DKK 788,765 million at 31 December 2017 (DKK 767,695 million at 31 December 2016), and loan impairment charges of DKK 147 million in 2017 (DKK 182 million in 2016) have been recognised for the Group.

Measurement of loan impairment charges is deemed a key audit matter as the determination of assumptions for impairment charges is highly subjective due to the level of judgement applied by Management.

The most significant judgements are:

- Timely identification of impairment events
- Valuation of collateral and assumptions of future cash flows; and
- Management judgements, including determining any impairment charges.

Management has provided further information about the principles for determining the impairment charge, management of credit risks and the review for impairment in note 10, 19 and Risk Management to the consolidated financial statements.

Based on our risk assessment and industry knowledge, 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.

Our examination included the following elements:

- Testing of key controls over models and manual processes for impairment events identification.
- Performing a risk-based test of loans to ensure timely identification of impairment events.
- Testing of key controls over models and manual processes for valuation of collateral and assumptions of future cash flows.
- Performing a risk-based test for impaired loans to ensure appropriate determination of assumptions for impairment charges including valuation of collateral and assumptions of future cash flows.
- Testing of key controls over management judgements applied to adjust the collective impairment charge.
- Obtaining audit evidence of management judgements with particular focus on the methodology applied, evidence of assumptions-setting processes and the consistency thereof by:

Auditor's report

- | | |
|--|--|
| | <ul style="list-style-type: none">○ Assessing the key changes since last year in the assumptions against industry standards and historical data.○ Challenging the methodologies applied by using our industry knowledge and experience. |
|--|--|

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 Business 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 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 Parent 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 the 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 additional 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 ob-

Auditor's report

tained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent to cease to continue as a going concern.

- 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 2018

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Erik Holst Jørgensen
State-Authorised
Public Accountant
MNE no 9943

Jens Ringbæk
State-Authorised
Public Accountant
MNE no 27735

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

Lars Mørch, 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

Jesper Nielsen Vice Chairman

Member of the Executive Board of Danske Bank A/S

Born on 20 October 1968

Joined the Board of Directors on 6 March 2017

Directorships and other offices:

e-nettet (chairman)

MobilePay A/S (chairman)

MobilePay Denmark A/S (chairman)

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:

Danske Hypotek AB (chairman)

Danske Mortgage Bank Plc (chairman)

Kreditforeningen Danmarks Pensionsafvklingskasse (chairman)

Danica Pension, Livsforsikringsaktieselskab

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999

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 (chairman)

Fondet for Dansk-Norsk Samarbejde

DSB

The Confederation of Danish Industry's (DI's) Advisory Board for "Women on Board"

Directorships

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

Majken Hammer Sløk (elected by the employees)
Senior Consultant, Realkredit Danmark A/S
Born on 2 January 1965
Joined the Board of Directors on 6 March 2017

Directorships and other offices:
Arrangement Committee of Byens Netværk

Sonia Khan (elected by the employees)
Senior Economist, Realkredit Danmark A/S
Born on 17 November 1985
Joined the Board of Directors on 6 March 2017

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)
Kreditforeningen Danmarks Pensionsafviklingskasse
Association of Danish Mortgage Banks (chairman)
The Popular Educational Association, Copenhagen (chairman)
Danske Hypotek AB

Klaus Kristiansen
Member of the Executive Board
Born on 28 May 1971
Joined the Executive Board on 1 November 2017

Directorships and other offices:
Association of Danish Mortgage Banks

Supplementary information

Management's report, continued

Financial calendar


- Annual General Meeting:
9 March 2018
- Interim Report – First Quarter 2018:
26 April 2018
- Interim Report – First Half 2018:
18 July 2018
- Interim Report – First Nine Months 2018:
1 November 2018

Contact

Chairman of the Executive Board and
Chief Executive Officer
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Links

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