

# Annual Report 2019



REALKREDIT  
**Danmark**

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# 5-year financial highlights – Realkredit Danmark Group

## NET PROFIT FOR THE YEAR

(DKK millions)	2019	2018	2017	2016	2015
Administration margin	6,082	6,222	6,186	5,890	5,770
Net interest income	203	142	59	123	196
Net fee income	-528	-617	-601	-611	-509
Income from investment portfolios	839	577	662	786	662
Other income	117	125	180	141	192
<b>Total income</b>	<b>6,713</b>	<b>6,449</b>	<b>6,486</b>	<b>6,329</b>	<b>6,311</b>
Expenses	812	703	736	790	787
Profit before loan impairment charges	5,901	5,746	5,750	5,539	5,524
Loan impairment charges	265	-204	147	182	432
Profit before tax	5,636	5,950	5,603	5,357	5,092
Tax	1,240	1,301	1,235	1,176	1,202
<b>Net profit for the year</b>	<b>4,396</b>	<b>4,649</b>	<b>4,368</b>	<b>4,181</b>	<b>3,890</b>

## BALANCE SHEET (AT 31 DECEMBER)

(DKK millions)	2019	2018	2017	2016	2015
Due from credit institutions etc.	53,826	21,446	30,072	31,491	28,696
Mortgage loans	802,579	796,045	788,765	767,695	744,383
Bonds and shares	52,363	51,158	54,851	59,582	59,827
Other assets	3,780	2,568	3,202	3,909	3,668
<b>Total assets</b>	<b>912,548</b>	<b>871,217</b>	<b>876,890</b>	<b>862,677</b>	<b>836,574</b>
Due to credit institutions etc.	4,003	778	4,294	6,355	16,611
Issued mortgage bonds	853,479	809,091	810,050	782,526	745,223
Issued senior debt	-	5,952	6,616	17,318	17,721
Other liabilities	5,073	5,481	6,039	7,131	8,273
Shareholders' equity	49,993	49,915	49,891	49,347	48,746
<b>Total liabilities and equity</b>	<b>912,548</b>	<b>871,217</b>	<b>876,890</b>	<b>862,677</b>	<b>836,574</b>

## RATIOS AND KEY FIGURES

Net profit for the year as % of avg. shareholders' equity	8.8	9.3	8.8	8.5	8.1
Cost/income ratio (%)	12.1	10.9	11.3	12.5	12.5
Total capital ratio (%)	31.1	30.6	28.3	30.1	38.8
Tier 1 capital ratio (%)	30.7	30.3	28.1	29.6	38.3
Full-time-equivalent staff, end of year	237	229	232	235	239

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

- The Realkredit Danmark Group recorded a net profit of DKK 4,396 million in 2019, against DKK 4,649 million in 2018. The profit was affected by higher impairments.
- Impairments amounted to an expense of DKK 265 million in 2019, against an income of DKK 204 million in 2018. The development was due to an update and specification of statistical loss models.
- Strong household finances and the high trading activity contributed to pushing up housing prices in 2019.
- With interest rates falling to all-time low, borrowers have remortgaged to an extent never seen before. The overall interest rate savings for Realkredit Danmark's customers amounted to DKK 2.1 billion in 2019, of which customers with fixed-rate mortgages accounted for DKK 1 billion.
- In 2019, borrower demand centred primarily on fixed-rate mortgages and FlexLån® with 5-year refinancing intervals, and customers are increasingly amortising. This resulted in a small drop in administration margin income.
- For the first time ever, Realkredit Danmark customers are now offered 15-year and 20-year mortgages with a coupon of 0.0%.
- Realkredit Danmark has launched green funding for commercial property in April and has to date disbursed RD Cibur6® Green with a total value of DKK 810 million.
- Realkredit Danmark expects net profit for 2020 to be at a lower level than in 2019.

## The year 2019

Realkredit Danmark had a satisfactory year in 2019 with a loan portfolio increase of DKK 5 billion, but with a lower result than in 2018 primarily because of higher impairments. Lending activity rose significantly compared to 2018 as a result of the high remortgaging activity for both private and business market. Lendingwise, demand for FlexLife®, the most recent mortgage launched by Realkredit Danmark, continued to develop favourably. Realkredit Danmark further launched green funding for commercial property in 2019.

With interest rates falling to all-time low and the introduction of zero-coupon fixed rate mortgages, borrowers have remortgaged to an extent never seen before. For Realkredit Danmark, remortgaging totalled DKK 155 billion during 2019. The effect on earnings in Realkredit Danmark has been modest.

In April Realkredit Danmark was the first among Danish mortgage credit institutions to launch green covered bond in Denmark. Named RD Cibur6® Green, the bond is issued to fund properties with documentation of energy efficiency.

The green mortgage is available for large business customers for the funding of eco-friendly property such as new office buildings, residential rental property or wind farms.

RD Cibur6® Green mortgages worth DKK 810 million have been disbursed in 2019.

With the launch of the green bonds Realkredit Danmark aims to contribute to the green transition in Denmark. Customer responses have been very positive, and inves-

tors have welcomed our green initiative by pricing the bonds slightly better than similar non-green bonds.

On 9 November 2019, Realkredit Danmark changed the refinancing date for new FlexLån® and FlexLife® in Danish kroner to 1 January. The change was effected to distribute the refinancing volume between the two refinancing dates, thus mitigating the refinancing risk and ensuring compliance with the Supervisory Diamond.

In 2019, borrower demand centred primarily on fixed-rate mortgages and FlexLån® with 5-year refinancing intervals.

In nominal terms, repayment of principal is now at the same level as before interest-only mortgages were launched in 2003. Total ordinary repayments equalled 2% of the mortgage portfolio.

Realkredit Danmark has entered into a new partnership with the network organisation Proptech Denmark, which engages in real estate innovation. The partnership aims to speed up the development of technological solutions for the real estate sector. This step will bring Realkredit Danmark even closer to innovative businesses and development tendencies and trends. As a result of the partnership, Realkredit Danmark will have a seat on the board of directors of Proptech Denmark.

In 2019, for the fourth consecutive year, Danish consumers ranked Realkredit Danmark number one in terms of reputation among the four large mortgage providers in a survey undertaken by Finansimage 2019. The image survey showed, among other things, that Danish consumers believe that Realkredit Danmark offers the best service, the best advice and good and visible communications.

Realkredit Danmark's bonds are rated by S&P Global, Fitch Ratings and, since August 2018, also by Scope Ratings. All three rating agencies assign a rating of AAA to bonds in capital centre S. The bonds in capital centre T also hold a rating of AAA from S&P Global and Scope Ratings, while Fitch Ratings has assigned a rating of AA+ to these bonds. The Other reserves series is rated exclusively by S&P Global and holds a rating of AAA. Realkredit Danmark continues to pursue a strategy of having its issues rated by at least two rating agencies.

Realkredit Danmark complies with all threshold values of the supervisory diamond for mortgage credit institutions.

### Results

In 2019, Realkredit Danmark recorded a net profit of DKK 4,396 million, against DKK 4,649 million the year before. In the IFRS financial statements, the net profit for 2018 was DKK 4,337 million. The net profit in 2018 was exclusive of a DKK 312 million transition effect of IFRS 9.

Developments in the net profit for 2019 were primarily due to higher loan impairments.

Administration margin income fell DKK 140 million, especially due to lower average administration margins because an increasing number of customers opt out of interest-only mortgages and into mortgages less frequently refinanced.

Other income rose DKK 404 million in 2019, driven especially by higher income from the investment portfolio.

Total income was on a level with 2018.

Expenses amounted to DKK 812 million, against DKK 703 million in 2018. The increase was attributable, among other things, to higher IT costs and compliance.

Impairments totalled an expense of DKK 265 million in 2019, compared to an income of DKK 204 million in 2018. The higher impairments were mainly due to an update and specification of the statistical loss models used to calculate expected credit losses. The underlying credit quality remains strong with low delinquencies and robust collateral.

In 2018, the impairment principles of IFRS 9 resulted in a transition effect of DKK 400 million, which amount was expensed in the IFRS financial statements but recognised as a reduction of equity at 1 January 2018 in the financial highlights. In the IFRS financial statements, the impairments amounted to DKK 196 million in 2018.

Impairments equalled 0.03% p.a. of total mortgage lending, against -0.03% at the end of 2018.

The tax charge totalled DKK 1,240 million. The effective tax rate was 22.0%.

### Balance sheet

Gross lending amounted to DKK 234 billion, against DKK 120 billion in 2018. Mortgage lending at fair value rose DKK 7 billion to DKK 803 billion. The development in mortgage lending at fair value is composed of an increase in the nominal outstanding bond debt of DKK 5 billion and a DKK 2 billion increase in market value adjustments in the same period.

At end-2019, the average loan-to-value (LTV) ratio stood at 60%, which was at par with last year's ratio. An increase in loans calculated at market value was offset by rising property prices.

The number of new properties taken over was 24 in 2019. The number of properties taken over fell from year-end 2018, standing at 16, of which 11 were owner-occupied dwellings and 5 were commercial properties. The value of the properties taken over was DKK 15 million. The delinquency rate at 31 December 2019 was unchanged from the level at the end of 2018, and at a persistently low level.

Issued mortgage bonds rose DKK 44 billion to DKK 853 billion. The nominal value of issued mortgage bonds was DKK 829 billion, which was DKK 42 billion more than at the end of 2018. The amounts are exclusive of holdings of own mortgage bonds. Realkredit Danmark issued bonds for a total of DKK 234 billion exclusive of bonds issued for 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 2019, Realkredit Danmark's interest rate risk and exchange rate risk amounted to DKK 971 million and DKK 1.9 million, respectively.

### Capital and solvency

At the end of 2019, shareholders' equity stood at DKK 50.0 billion, against DKK 49.9 billion at the end of 2018. The ordinary dividend payment of DKK 4.3 billion and the consolidation of the net profit for the period accounted for the change. The Board of Directors is recommending that dividends of DKK 4.3 billion be paid for 2019.

Realkredit Danmark's total capital amounted to DKK 46.2 billion, and the total capital ratio calculated in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) was 31.1%. At 31 December 2018, the corresponding figures were DKK 45.8 billion and 30.6%, 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 148.4 billion at 31 December 2019, against DKK 149.8 billion at the end of 2018.

The binding capital requirement is the solvency need ratio plus the combined buffer requirement. At end-2019, the capital requirement was calculated at DKK 25.1 billion and 16.9% of the REA. Realkredit Danmark thus has a capital buffer of DKK 21.1 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 2019**

Realkredit Danmark recorded a profit after tax of DKK 1,163 million in the fourth quarter of 2019, against DKK 1,198 million in the third quarter. The change in profit was attributable primarily to income from the refinancing of FlexLån® in the fourth quarter, which was offset by lower income from investment portfolios.

#### **Outlook for 2020**

Realkredit Danmark expects that the Danish economy will continue to see moderate growth in 2020 relative to the past few years. Low interest rates will continue to support house prices.

In 2020, Realkredit Danmark expects income to be at a lower level than in 2019 due to lower average administration margins and a lower remortgaging activity.

Through a persistent focus on cost control in 2020, Realkredit Danmark aims to keep expenses at the same level as in 2019.

Loan impairment charges are expected to be at the same level as in 2019.

Realkredit Danmark therefore expects net profit to be at a lower level than in 2019.

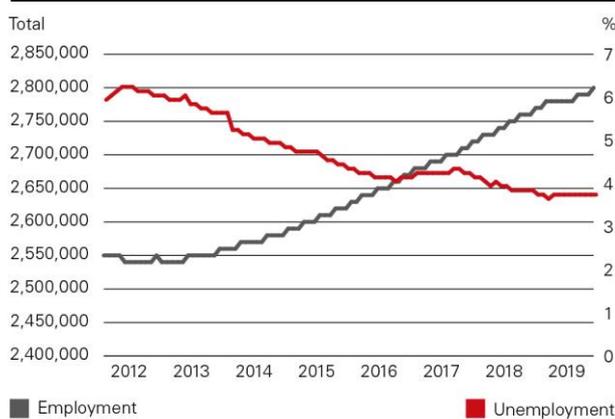
# Macro economics and Property market

## Expansion, but at a slowing pace

The global economic expansion managed to stay on track in a year of high political uncertainty on the international scene, notably the US/China trade war and the risk of a hard Brexit. However, the expansion did lose some momentum over the course of the year, among other things because businesses became more reluctant to invest, while the global manufacturing sector came under pressure.

In Denmark, slower pace of underlying economic growth was reflected in slowing employment growth from May and going into the second half of the year. Unemployment, on the other hand, was more or less unchanged as a result of an expansion of the labour force.

## Employment and unemployment

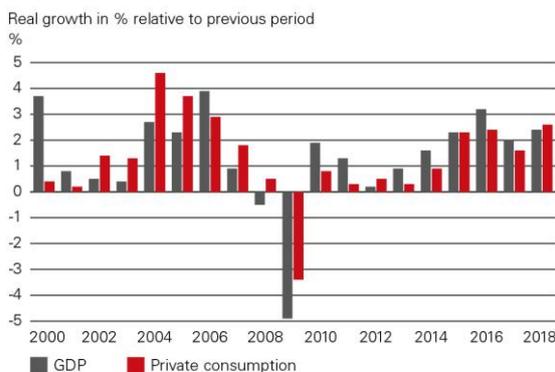


Danish GDP figures remained a challenge in 2019, and for the third time in only a few years there was a strong upward revision of activity in the Danish economy. This time, GDP was revised up by DKK 23 billion for the period 2016-2018, bringing the total upward revision of recent years to nearly DKK 100 billion.

Recently years economic recovery now seems quite strong in a historical context. In 2016 alone, ongoing revisions pushed GDP growth from a little over 1% in the initial release to as much as 3.2% in the final release. In 2015-2018, average annual GDP growth was almost 2.5%. As a result, it is now easier to match labour market developments with economic activity. Since 2015, employment has risen by about 200,000 persons.

For Danish economy a GDP growth in the 1.25-1.5% range is expected in 2020. The recovery will continue, but at a slower pace.

## Annual growth in GDP and private consumption



Source: Danmarks Statistik

## Decent level of spending growth, but no consumption boom

Private consumption has been one of the growth engines of the Danish economy, and spending growth has stayed above the 2% mark during the recovery. However, the decent growth rates are still far from the spending growth levels witnessed during the mid-noughties. From 2004 to 2006, private consumption grew by 3.7% a year on average. Back then, much of the consumption boom was attributable to strong credit growth and increased indebtedness. This is in sharp contrast to developments in the current recovery, where spending growth is driven by higher incomes while households have been able to build a financial buffer.

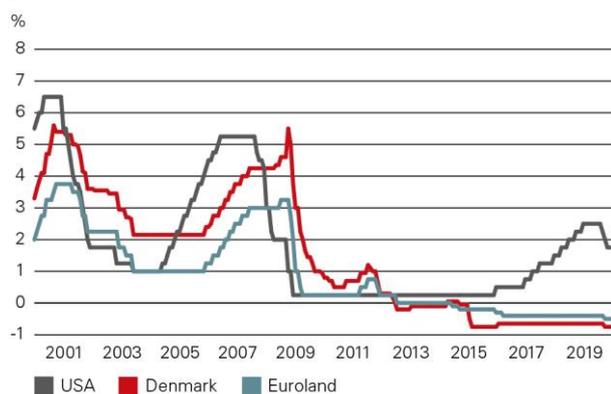
These developments also imply that Danish households are well prepared to face any economic setback as the pre-crisis imbalances have been reduced.

## Interest rates at new all-time lows

Interest rates fell to new all-time lows despite the protracted global economic recovery and an increasingly tight labour market. Political uncertainty regarding the trade war and Brexit along with sluggish industrial sector indicators contributed to reducing investor risk appetite. At the same time, low inflationary pressure offered central banks an opportunity to underpin the economy through monetary policy easing. In the USA, the Federal Reserve Bank made a U-turn in 2019 by delivering rate cuts following rate hikes in the preceding years. In Europe, the European Central Bank (ECB) cut interest rates by 0.1 of a percentage point in September while also restarting an asset purchase programme (APP), shortly after having ended its previous APP at the end of 2018.

In Denmark, the central bank (Danmarks Nationalbank) emulated the ECB rate cut, lowering the deposit rate to a record-low of minus 0.75%. Alongside Switzerland, Denmark once again holds the record in terms of negative policy rates.

#### Policy rates

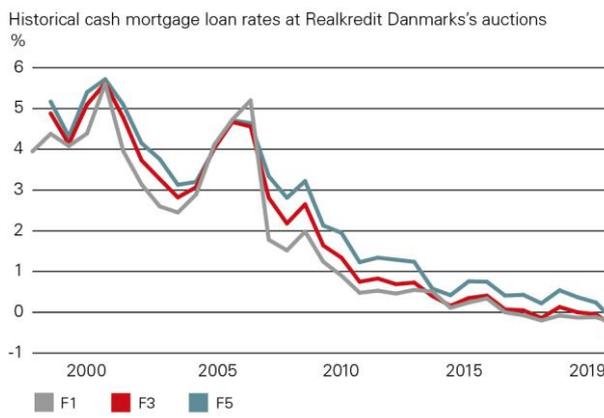


The consequence of the low interest rates was downward pressure on Danish mortgage rates, which was further intensified by continuing and mounting demand from foreign investors for Danish fixed-rate mortgage bonds. Nearly one-third of all fixed-rate bonds are now held by foreign investors, as compared to about 10% back in 2012. For the first time ever, a 30-year fixed-rate 1% mortgage was launched in 2019, with a 30-year 0.5% mortgage being added later in the year. This was followed by the launch of fixed-rate loans with a 0% coupon with maturities of both 15 and 20 years.

Towards the end of the year, the 1% loan was once again the benchmark 30-year mortgage loan as interest rates moved higher in the autumn months amid a more conciliatory tone in the US/China trade conflict and the perception of a reduced risk of a hard Brexit. This triggered growing risk appetite in the financial markets.

At the last refinancing auction of the year in November, rates on FlexLån® as per 1 January ended at the lowest in Realkredit Danmark's history. The interest rate on FlexLån® F1 was -0.25%, on FlexLån® F3 it ended at -0.35%, while the rate on FlexLån® F5 ended at -0.21%. This marked the first time ever that the auction of FlexLån® F5 resulted in negative rates of interest. Therefore, an increasing proportion of loans to our customers will carry negative interest in 2020. At the end of 2019, more than 20% of our mortgage loans had a negative coupon rate.

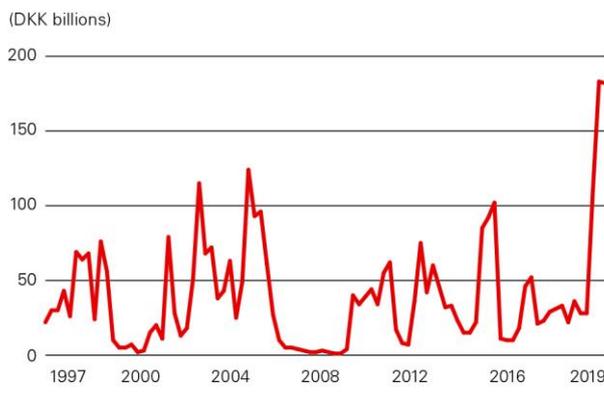
#### Rates on FlexLån®



#### Historically large remortgaging in 2019

The introduction of new fixed-rate mortgages at record-low coupons triggered historically large remortgaging. During the spring months, remortgaging activity was driven by borrowers holding 2.5% fixed-rate mortgages, but 2% borrowers subsequently joined the remortgaging campaign when 1% and later 0.5% mortgages became attractive. Fixed-rate 2% mortgages offered a particularly huge remortgaging potential, having been the benchmark fixed-rate mortgage for homeowners for a number of years. Another result was that remortgaging ran close to DKK 180 billion at the notification deadlines at the end of July and end of October. This marked the highest level of remortgaging in recent history. By comparison the remortgaging during the so-called "krone battle" in 2015, when the 2% mortgage were put on the market, were "only" close to DKK 100 billion.

#### Historical remortgaging campaigns

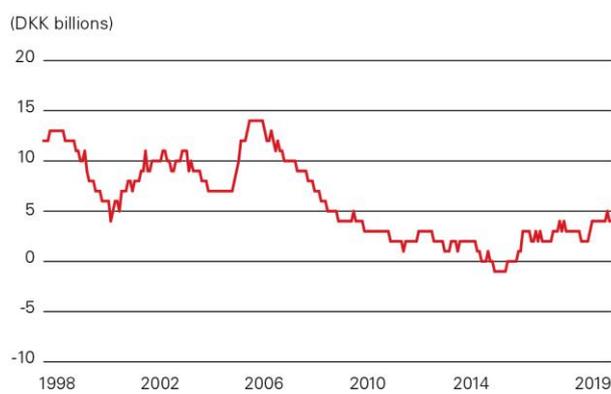


The total remortgaging volumes for the four notification deadlines in 2019 amounted to around DKK 500 billion. This corresponds to about 18% of total outstanding mortgages, and one in six borrower remortgaged or terminated their mortgage in 2019.

Remortgaging generally support the Danish economy. The effect is lower mortgage payments for the borrowers, releasing more money for consumption or investment. Also, a fair share of homeowners utilise the remortgaging to take out top-up mortgages against their home equity. That will have a positive effect on private consumption and housing investments, accelerating the level of activity in the Danish economy.

The strong remortgaging activity and growing demand for top-up mortgages have also contributed to a greater momentum in lending growth to homeowners. The annual growth rate in mortgages for owner-occupied dwellings and holiday homes climbed to more than 4% in 2019, which was the highest growth rate for nearly a decade. In a historical context, however, growth rates remain quite subdued. During the boom years of the late 1990s and mid-noughties, the growth rates in mortgages for owner-occupied dwellings and holiday homes topped at 10%.

#### Lending growth to households



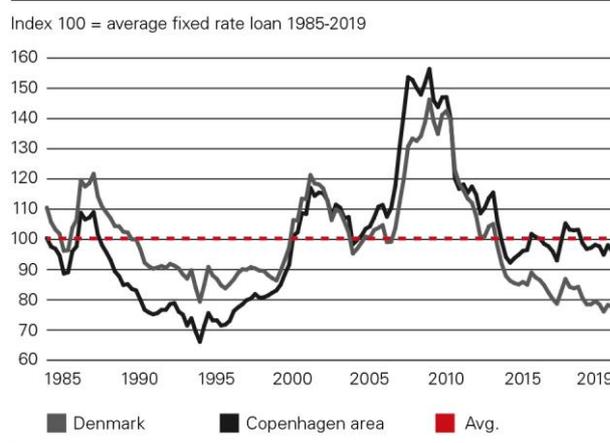
#### Another good year for the housing market in 2019

The uncertainty surrounding the longevity of the expansion did not have any noticeable impact on the finances of Danish households in 2019. Employment trended higher as did disposable incomes, and interest rates dropped to new all-time lows. These factors helped underpin the appetite for buying a home. As a result, 2019 was another year of strong housing market activity. The increase was particularly strong in the market for holiday homes, but the market for single-family homes also trended higher. The high level of trading activity was broadly founded across Denmark.

Strong household finances and the high trading activity contributed to pushing up housing prices in 2019. Prices rose the most in the market for holiday homes, which saw prices rising by 3.7% relative to 2018, while prices of single-family houses rose 2.8%. The market for owner-occupied flats saw a modest price increase of 1.8%.

The risk of a general price bubble accumulating in the Danish housing market in the coming years seems very limited. Recent years' financial regulation and enhanced focus on the debt-to-income ratio in underwriting and mortgage selection processes mean that housing prices should not to any great extent decouple from the home buyer's income. This helps reduce the impact of lower interest rates on house prices, not least in the most expensive segments of the housing market. Also, it seems that no major imbalances have accumulated in the broad market for single-family houses. The housing burden, the cost of buying and owning a home relative to developments in disposable income, is currently at a very low level in a historical context.

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



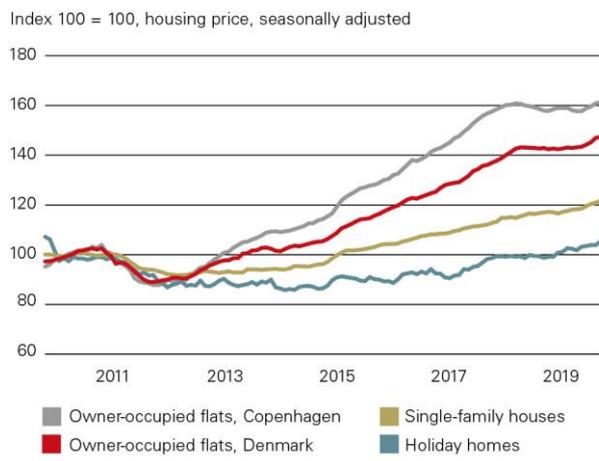
The Greater Copenhagen market for single-family houses is currently below the historical average housing burden. However, this is largely due to the very low level of interest rates, and if, interest were to move considerable higher in the years ahead, the housing burden in the Copenhagen area would quickly move into the expensive territory, unlike the average market for single-family houses in Denmark. This once again demonstrates that house prices in the most expensive areas of Denmark would be more sensitive to rising interest rates. However, the greatest threat to the Danish housing market right now seems to be the risk of an economic recession in the years ahead.

Homeowners' ability to pay remained strong in 2019. The number of forced sales ended at the lowest level since 2007, while the number of homeowners in arrears with payments on their mortgages was also at a low level. In 2019, the delinquency rate stayed around 0.2%.

### Market for owner-occupied flats in Copenhagen stabilising

The Copenhagen market for owner-occupied flats saw prices trending slightly lower in the second half of 2018. The market started to recover already in 2019, and trading activity is again starting to edge up amid slightly rising prices. For 2019 as a whole, prices were 0.1% lower than the year before, and prices at 31 December 2019 were up 2.3% year-on-year.

House prices, single-family houses and owner-occupied flats in Copenhagen



The market stabilised more rapidly than expected, especially because of the sharp drop in interest rates witnessed during the year, which acted as a market stimulant. This also helped cushion some of the impact from the substantial uncertainty caused by the property tax reform.

In particular, the market for off-plan flats experienced a challenge from the property tax reform through most parts of 2019, resulting in plummeting project sales. The reason was that prospective buyers of off-plan flats could potentially face two obstacles. One aspect was the uncertainty surrounding the negative impact the property tax reform would have on the market for owner-occupied flats, while another was the risk of a substantial property tax increase in the monthly budgets for those unable to obtain the permanent tax rebate. To obtain the permanent tax rebate, homeowners had to move in by the end of 2020.

However, in October the property tax reform was postponed from 2021 to 2024 due to challenges in respect of IT systems and land valuations. This postponement eliminated some of the uncertainty from the market for owner-occupied flats, and notably the market for project sales in 2020. That said, some of the uncertainty will return to the market at a later date. The negative price effect for the market for owner-occupied flats is, other things being equal, still believed to amount to 5-10% , not least due to the prospects of higher land values in commercial valuations and, by extension, the payment of

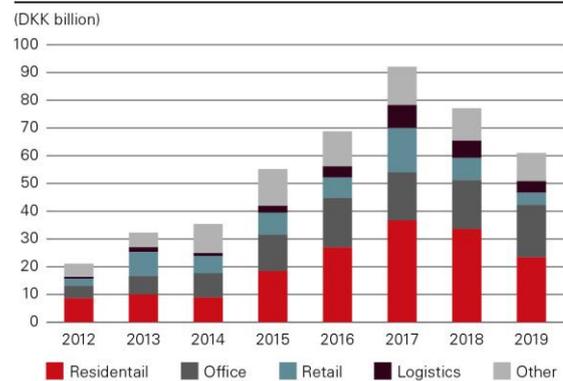
higher land taxes. Once the new valuations are released, expectedly during the period from 2020 to 2022, it will become easier for prospective home buyers to grasp the consequences of the property tax reform. This means the effects of the reform can increasingly be priced in the market. The pricing effect of the property tax reform on the broad housing market is expected to be close to neutral.

### Business market

The Danish commercial property market recorded another decent year. Driven largely by attractive financing, low returns on alternative assets, and a tempered but still positive economic outlook, transaction volumes will come in around DKK 50 billion for 2019.

This is largely in line with the long-term average, which is impressive considering the backdrop of a late state economy and the four preceding years with above average investment activity.

Transaction volume in Danish commercial real estate



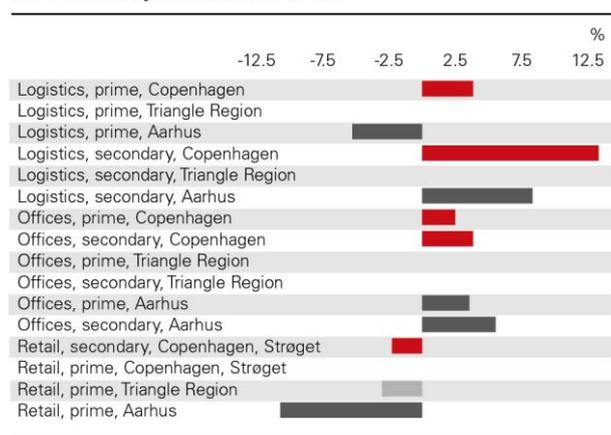
Source: Cushman Wakefield

Offices have been at the centre of most investors' attention due to falling vacancy rates and stronger rental growth. This shift in preference has come at the expense of retail, which so far has only attracted 7% of all investment activity in 2019, half its long-term share. Despite being weighted down by concerns over the disruptive effects of e-commerce, prime Copenhagen high street retail still attracts a 3-3.25% yields.

Within residential, which has historically accounted for the bulk of Danish commercial real estate activity, proposed legislation on post-refurbishment rental levels, called paragraph 5.2, have created unwanted uncertainty. A draft legislation is expected early 2020. The sparse information made public at this point suggests only minor disruption to residential values for the 13% of the total residential stock effected, according to data from the Ministry of Transport and Housing.

Helped by stable economic growth, high employment, and strong retail sales, most sectors have experienced pockets of positive rental growth. The largest percentage change has occurred within the secondary segment, notably in offices and logistics. Part of the explanation is, that rents have come from a low base following the post-crisis drop, and thus have further to grow. Additionally, rental levels within prime assets have reached cyclical highs, making secondary assets relatively more attractive to tenants and thus boosting rents. The headwinds faced by retail is also evident in rental figures, where levels have slid across most locations and qualities, with only prime Copenhagen rents able to sustain their level.

Year to date change in rental level, Q4 2019



There is plenty of reasons to expect that 2020 will resemble 2019 both in terms of investment activity and occupier fundamentals.

In the absence of major economic disruption, such as an escalation of the current China-USA trade dispute, occupier demand should be supported by a tight labour markets and strong household consumption. We are slightly more positive on the short-term prospect for Copenhagen offices, as they seem to benefit from an absence of speculative construction activity.

Changing consumption patterns and e-commerce will continue to shape logistics and retail demand. We remain cautiously optimistic on both sectors, though with the biggest credit preference for the logistics, namely well-placed smaller units.

Despite already at historically low levels, there is little evidence that prime yields have bottomed. Continued loose monetary policy, ample capital in search of returns, and a historical wide spread to fixed income yields could produce further yield compression in selected markets. We are cautious about prime retail yields, which could move higher as the sector continues to fall out of favour with both domestic and international capital.

One of the largest risks facing commercial real estate is the threat of a sudden and sharp rise in interest rates. Currently, this risk seems small as forecast calls for lower or unchanged interest rates in the US and Europe in 2020. Even so, longer refinancing intervals are a key component in Realkredit Danmark's customer dialogue.

### Agriculture

Unlike in 2018, the agricultural market enjoyed very favourable conditions throughout 2019 with high selling prices for domestic animal farmers and reasonable crop yields, which is reflected in the industry's earnings.

Pig farmers enjoyed particularly favourable conditions in 2019 with high pork prices triggered by a major production slump in China and the rest of Asia following the spread of African swine fever, which boosted pork export opportunities for EU and Danish farmers. The African swine fever has also spread further to Eastern Europe, including to western parts of Poland close to the German border. Should the disease spread to large pork-producing nations in Europe like Germany or Denmark, it could reverse the situation for the Danish pig farmers, and the situation is therefore being monitored closely.

Dairy farmers experienced stable milk prices throughout 2019 that were close to the average price level. Producers of roughage for cattle were favoured by good conditions and high yields, and farmers with a low stock of fodder after the 2018 drought have replenished their stocks.

Plant breeders had good conditions in 2019 with above-average field yields. The 2018 drought resulted in high grain prices early in the year, but the strong 2019 harvest has pushed prices down to a more normal level.

Danish agriculture had a good 2019 overall. The stable milk prices and high pork prices are expected to continue in 2020, while the very wet autumn could prove to weigh on the coming harvest or the need for some plant breeders to re-sow their fields.

# Lending

## Green bonds

In March 2019, Realkredit Danmark launched its first green bonds. Committed to contributing to the green transition, Realkredit Danmark launched a new green bond for the funding of eco-friendly property.

The new green bond, RD Cibor6® Green, is offered to very large corporate customers. One of the preconditions for obtaining the mortgage is that the property carries an energy label of A or B or a corresponding label from other energy certification systems.

In 2019, Realkredit Danmark disbursed mortgages for DKK 810 million.

## FlexLife®

Since launching FlexLife® in September 2017, Realkredit Danmark has witnessed a stable and positive development in the portfolio of these mortgages. At the end of 2019, Realkredit Danmark had thus disbursed mortgages worth DKK 33 billion, which is an increase of DKK 14 billion from the beginning of the year.

One in every seven FlexLife® mortgages has replaced a mortgage repaid with another mortgage credit institution. FlexLife® is also being offered to selected business customers.

FlexLife® offers a whole new approach to mortgages. The mortgage provides a new level of flexibility allowing customers to adjust the mortgage to their current or future situation and needs. Under the right preconditions, the interest-only option may apply throughout the term of the mortgage, which may be up to 30 years.

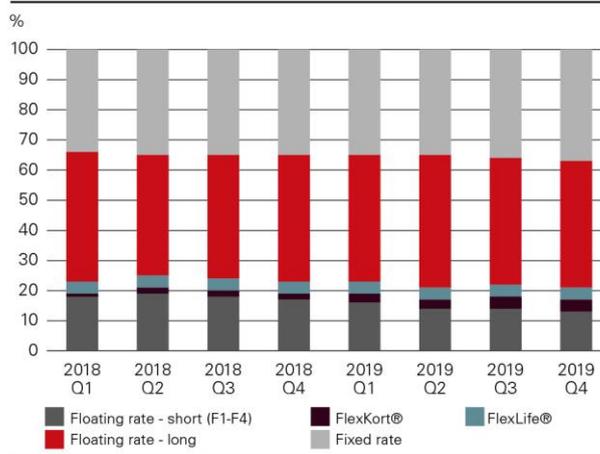
## Total lending

The historically high remortgaging activity in 2019 resulted in gross lending for Realkredit Danmark of DKK 234 billion, which is almost 95% more than in 2018. The high level activity resulted in an increase in Realkredit Danmark's total mortgage lending. At the end of 2019, the total portfolio amounted to DKK 783 billion, against DKK 778 billion the year before.

With borrowers increasingly seeking to service their debts, the proportion of interest-only mortgages fell from 36% to 32% over the last two years.

The low level interest rates has also significantly reduced our customers' interest expenses. Customers who remortgaged a fixed-rate mortgage in 2019 thus achieved total interest rate savings of approximately DKK 1 billion.

Development in loan portfolio by loan type (%)



## Change of refinancing date

On 9 November 2019, Realkredit Danmark changed the refinancing date for new FlexLån® and FlexLife® mortgages in Danish kroner to 1 January. The change was effected to distribute the refinancing volume between the two payment dates, thus mitigating the refinancing risk and ensuring compliance with the Supervisory Diamond.

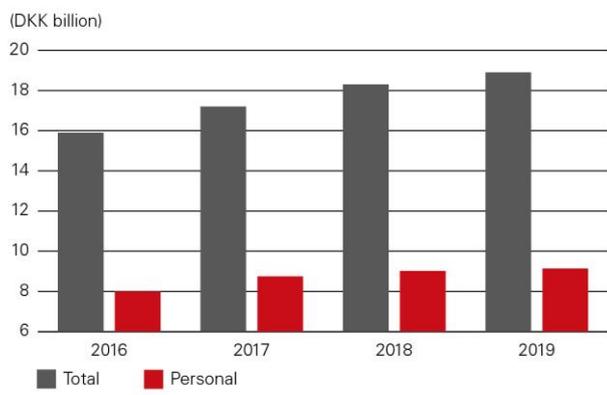
## Personal customer market

Realkredit Danmark's lending for owner-occupied dwellings and holiday homes fell by DKK 2 billion in 2019. Total lending at the end of 2019 amounted to DKK 447 billion.

The low interest rates triggered two historically large remortgaging waves. Realkredit Danmark customers remortgaged loans for DKK 86 billion in 2019 and have especially remortgaged into fixed-rate mortgages. Accordingly, 77% of all disbursements in 2019 were based on fixed-rate loans.

Combined with an enhanced customer focus on the fixed-rate mortgage alternatives, an increasing number of customers are also opting to make repayments on their mortgages.

## Ordinary repayments



This trend ties in well with the pricing incentive structure, with Realkredit Danmark charging a premium to the administration margin for interest-only mortgages. In addition, the stricter requirements for customers with a high debt-to-income ratio are also believed to have influenced the increase in repayments.

The proportion of customers opting for interest-only mortgages has thus dropped by more than 5 percentage points over the past three years, which translates into an increase in mortgages with ordinary repayments of about DKK 5 billion.

However, the trend was partly reversed by customers who opted for FlexLife® and to exercise the option of a long interest-only period. However, this only applied to customers with a low LTV ratio.

### Business market

At end-2019, the mortgage portfolio amounted to DKK 336 billion, which was an increase of DKK 7 billion on the year before.

As is the case with the personal customer market, business customers also migrated to mortgages less frequently refinanced. Of total mortgage disbursements, the proportion of fixed-rate mortgages thus stood at 68% against 35% in 2018.

Remortgaging activity was also quite strong in the business market, with customers remortgaging for about DKK 69 billion, or 363% more than in 2018.

Within subsidised housing, the Danish government and the financial sector reached a mutual understanding in 2018 to the effect that the funding of subsidised mortgages in the subsidised housing sector should be transferred to state-guaranteed mortgage bonds.

In 2018, Realkredit Danmark opened a new capital centre (capital centre A) for the issuance of state-guaranteed mortgage bonds to fund subsidised loans to the subsidised housing sector. At end-2019, the mortgage portfolio in capital centre A amounted to DKK 26.7 billion.

As was the case for the personal customers, selected business customers also welcomed Realkredit Danmark's new product, FlexLife®. About 10% of all FlexLife® mortgages were taken out by business customers.

### Distribution channels

Realkredit Danmark consistently seeks to make it easier for its customers to access and obtain an overview of information about their mortgages.

Realkredit Danmark has a distribution agreement with Danske Bank, which provides service to most of the customers.

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 Realkredit Danmark Home Direct, which provides telephone and digital advice during extended opening hours.

The largest property customers in Denmark, the largest property administrators and all customers within Subsidised Housing are served at Large Real Estate. This is a nationwide unit of Realkredit Danmark which provides highly specialised advisory services in property financing based on both mortgage and bank-based solutions. 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 with Realkredit Danmark.

Small and medium-sized business and property customers are offered several service channels at Danske Bank. For organisational purposes, all property specialists are placed at Realkredit Business, which consists of a number of local entities and of Realkredit Business Direct. The property specialists at the local entities provide personal service and advice at Danske Bank's business centres. Realkredit Business Direct provides telephone and digital advice and other services.

Danske Bank's agricultural centre provides personal service and advice to all agricultural customers.

### Real-estate business

“home”, the real-estate agency chain of the Group, is wholly-owned by Realkredit Danmark A/S. The selling of owner-occupied dwellings is the business area of “home”, and mortgages distributed via “home” are primarily intended for a change of ownership.

The profit of the franchise business amounted to DKK 35.6 million in 2019 against DKK 37.6 million in 2018.

Activities and portfolio	Gross lending		Net new lending		Loan portfolio			
	2019	2018	2019	2018	2019	%	2018	%
DKK millions								
Personal customer market	129,141	70,257	8,637	15,361	446,866	57	448,560	58
Business market	104,380	49,494	18,033	13,844	336,125	43	329,154	42
Total (nominal value)	233,521	119,751	26,670	29,205	782,991	100	777,714	100

Lending broken down by loan type	Share of gross lending		Share of loan portfolio	
	2019	2018	2019	2018
%				
Short-term floating rate loans (F1-F4)	2	8	13	17
FlexKort®	1	3	4	4
FlexLife ®	6	11	4	2
Long-term floating rate loans etc.	18	35	42	42
Fixed-rate loans	73	43	37	35
Total	100	100	100	100

# Funding

## Bond issuance

Realkredit Danmark operates under the specific balance principle 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 their fair value after deduction of own holdings. The following text and table 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 2019

Realkredit Danmark issued bonds worth DKK 234 billion exclusive of bonds issued for refinancing auctions. This represents an increase of 95% relative to 2018. The bond market was characterised by falling interest rates in 2019, resulting in extensive remortgaging activity. Customers opted to remortgage existing fixed-rate loans to a lower coupon, while a number of FlexLån® loans were also remortgaged to fixed-rate products. Of bonds issued in 2019, 73% were callable and 27% were non-callable. In 2018, there was an overweight of non-callable bonds.

## Refinancing in 2019

In 2019, 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® at 1 April 2019 were held in February. Total issuance amounted to DKK 59 billion, against DKK 56 billion in 2018. In November, bonds worth DKK 22 billion were issued in connection with the refinancing of FlexLån® at 01 January 2020. Refinancing at 01 January 2019 amounted to DKK 35 billion.

Since 2010, all new FlexLån® have been issued with 1 April as the refinancing date. In terms of volume, April is now twice as large as the January refinancing auctions. To level out refinancing volumes, all new mortgages taken out since November 2019 will again be disbursed with 1 January as refinancing date. FlexLån® denominated in euro and state-guaranteed FlexLån® will still have 1 April as the refinancing date.

In May, Realkredit Danmark auctioned bonds for DKK 9 billion to refinance RD Cibor6®, DKK 10 million to refinance FlexKort® loans and EUR 165 million to refinance RD Cibor3®.

Lastly, in August SEK 4 billion was refinanced in RD Stibor3®. At end-2019, Realkredit Danmark had issued mortgage bonds for a total amount of DKK 866 billion, of which mortgage-covered bonds accounted for DKK 829 billion.

## Debt issuance

At end-2018, Realkredit Danmark had senior debt, that is, debt pursuant to section 15 of the Mortgage Credit Loans and Mortgage Credit Bonds Act, for a nominal amount of DKK 6 billion. As this debt expired in 2019, Realkredit Danmark has raised a loan with the parent group, Danske Bank A/S, in the amount of DKK 4 billion. The loan proceeds were used primarily to comply with the rating agencies' overcollateralisation requirement.

## Investor distribution

Foreign investors continued to show strong interest in Danish mortgage bonds in 2019, partly because these bonds are considered to offer good security, partly because they offer a relatively higher return than similar European securities at present. Long-term fixed-rate bonds have in recent years become increasingly popular especially with Japanese investors. At 31 December 2019, foreign investors held about 22% of all bonds, which is unchanged as compared with end-2018.

## Rating

Realkredit Danmark's bonds are rated by S&P Global, Fitch Ratings and, since August 2018, also by Scope Ratings.

All three rating agencies assign a rating of AAA to bonds in capital centre S. The bonds in capital centre T also hold a rating of AAA from S&P Global and Scope Ratings, while Fitch Ratings has assigned a rating of AA+ to these bonds.

The Other reserves series is rated exclusively by S&P Global and holds a rating of AAA.

The effective overcollateralisation requirement from the three agencies was slightly declining over the course of 2019, from DKK 49.5 billion at 31 December 2018 to DKK 44.8 billion at end-2019.

The overcollateralisation requirements for the capital centres are covered by funds from Realkredit Danmark's equity and the loan raised with Danske Bank A/S. Realkredit Danmark expects stable overcollateralisation requirements from the rating agencies in 2019, but if the requirements are tightened, Realkredit Danmark plans to raise bail-inable debt on market terms in order to comply with the stricter requirements. This type of debt may also be used to comply with the debt buffer requirement.

### Debt buffer

In 2019, the phasing-in of the debt buffer requirement rose to 90% of the final requirement of 2% of the credit institution's lending, equal to a requirement of about DKK 14 billion. In July 2020, the requirement will be fully phased-in, which for Realkredit Danmark will

mean roughly DKK 16 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	
		2019	2018	2019	2018
Fixed-rate	DKK	323	260	5	6
FlexLån®	DKK	352	369	-	-
FlexLån®	EUR	5	8	-	-
FlexLife®	DKK	31	18	-	-
FlexKort®	DKK	30	33	-	-
Index-linked loans	DKK	-	-	18	19
FlexGaranti® and RenteDyk™	DKK	3	4	8	10
RD Cibor6®	DKK	64	63	6	6
RD Nibor3®	NOK	6	4	-	-
RD Stibor3®	SEK	13	14	-	-
RD Euribor3®	EUR	2	4	-	-
Total DKK		829	777	37	41

In 2019, the calculation was adjusted to reflect double-funding of DKK 20 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 selected business strategy and ensure that the Group remains sufficiently capitalised to withstand severe macroeconomic downturns. Moreover, the Group aims to retain the current AAA ratings from S&P Global and Scope Ratings and AAA/AA+ ratings from Fitch Ratings, which are in line with those assigned to comparable issuers.

At 31 December 2019, the total capital of DKK 46.2 billion consisted primarily of conventional equity after statutory deductions.

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

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

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

## Internal Capital Adequacy Assessment Process (ICAAP)

As part of the ICAAP, the Group assesses its solvency need 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 in the efforts to ensure that the Realkredit Danmark Group, 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](http://danskebank.com/IR).

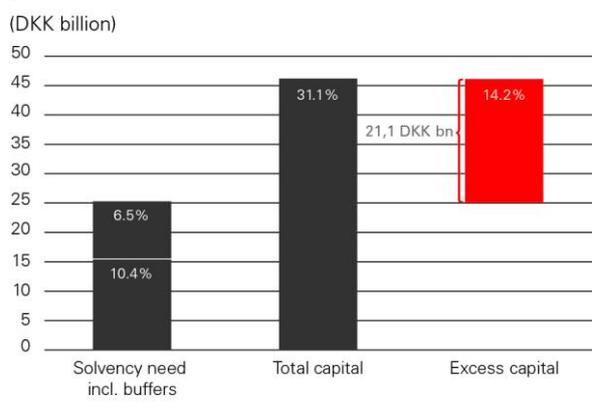
## Capital requirements

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.

In addition to the solvency need ratio, the institution must have capital to comply with the combined capital buffer requirement. The buffer requirement consists of a SIFI buffer of 3%, a capital conservation buffer of 2.5% and a countercyclical capital buffer of 1%.

In July 2019, the Danish government resolved to increase the countercyclical capital buffer to 1.5% effective 30 June 2020. In October 2019, the requirement was further increased to 2% with effect from 30 September 2020, which will increase Realkredit Danmark's combined capital requirement by a corresponding 1.0%. The fully phased-in combined capital buffer requirement will thus be 7.5% of the total REA.

Solvency need ratio and total capital ratio, end 2019



At the end of 2019, Realkredit Danmark's solvency need, including the combined capital buffer requirement, was calculated at DKK 25.1 billion, corresponding to a solvency need ratio including buffers of 16.9% of the total REA. With total capital of DKK 46.2 billion, the Realkredit Danmark Group had DKK 21.1 billion in excess of the requirement.

### **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 balance (with some adjustments). Pursuant to this definition and the transitional rules, Realkredit Danmark's leverage ratio was 4.9% at 31 December 2019.

### **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 2019, 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 2019, issuance of mortgage-covered bonds rose DKK 52 billion to DKK 829 billion. At the end of 2019, the need for supplementary collateral was DKK 13.3 billion, against DKK 16.7 billion at end-2018.

A large proportion of Realkredit Danmark's mortgages 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 mortgage is raised.

The loss guarantee covered DKK 53 billion of the loan portfolio at 31 December 2019. This amount includes DKK 2 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 liquidity risk primarily in connection with refinancing auctions.

The credit risk on mortgages comprises the risk that the borrower is unable to repay the loan and the expected loss if the borrower does not repay the loan. Liquidity risk is the risk that payments to the bondholder fall due before Realkredit Danmark has secured the necessary liquidity. This is usually based on payments received from Realkredit Danmark's borrowers or the sale of new bonds at refinancing auctions.

Realkredit Danmark is also exposed to market risks, which comprise interest rate, equity market and exchange rate risks. However, the statutory principle of balance eliminates most of the interest rate and exchange rate risks on the Group's assets and liabilities.

Risk management is described in the note on risk management.

### **Liquidity Coverage Ratio**

As a credit institution, Realkredit Danmark is subject to the Liquidity Coverage Ratio. In addition, Realkredit Danmark is subject to a requirement for the institution's buffer of liquid assets to constitute 2.5% of its total mortgage lending, which is a binding requirement for Realkredit Danmark. At the end of 2019, this corresponded to approximately DKK 20 billion. Realkredit Danmark has unencumbered liquid assets of DKK 37 billion after haircuts, which means Realkredit Danmark has a buffer of DKK 17 billion relative to the requirement.

The Danish FSA has prepared a new model for calculating the liquidity requirement, which comprises, among other things, a so-called Pillar II liquidity add-on due to arrears, remortgaging and refinancing risk. During an observation period starting at the end of 2019, mortgage credit institutions must report their calculation of the new requirement. The requirement will take effect once the new EU directive on covered bonds enters into force, expectedly in 2022.

Realkredit Danmark intends to comply with the new requirement during the entire period until the directive comes into force.

### **Future rules**

In May 2019, the EU Banking Package (CRD V, CRR II and BRRD II) was adopted. The CRR II includes the requirement for a Net Stable Funding Ratio (NSFR) to ensure stable, long-term funding. Match funding and non-discretionary extendable maturity triggers are recognised in the NSFR requirement, which implies that the NSFR requirement to a greater extent takes the mortgage credit institution's business model, including that of Realkredit Danmark into consideration.

In December 2017, the Basel Committee on Banking Supervision (BCBS) published the final revised standards for REA calculations (the Basel IV). The process for its implementation in the EU has recently started and a legislative proposal from the European Commission is expected in Q2 2020. The amendments of the Basel standards is expected to increase Realkredit Danmark's REA. However absent any legislative proposal from the EU Commission it is still too early to firmly assess the potential impact.

In December 2019 the EU covered bonds package was adopted. The package outlines requirements for bonds to be recognised as covered bonds under EU law. This includes a requirement for a cover pool liquidity buffer and stipulates eligible cover pool assets. Further, the package introduces a new requirement on a minimum level of cover pool overcollateralisation. To a large extent, the Covered Bonds Package generally introduces elements that are already included in Danish mortgage credit legislation, implying that the effect on Realkredit Danmark is expected to be marginal.

#### Supervisory diamond for mortgage credit institutions

Realkredit Danmark continues to comply with all threshold values by a satisfactory margin.

The volume of loans with an interest-only option continues the declining trend and has now fallen to 6.9% against 7.7% at the end of 2018.

The volume of loans with short-term funding is also trending downward, reducing the utilisation of the quarterly threshold. In 2019, a large proportion of the floating-rate loans were refinanced, which only happens every three or four years. As a result, the total amount for refinancing increased from 12.8% to 13.7%.

On 9 November 2019, Realkredit Danmark changed the refinancing date for new FlexLån® and FlexLife® mortgages in Danish kroner to 1 January. The change was effected to distribute the refinancing volume between the two payment dates, thus mitigating the refinancing risk and ensuring compliance with the Supervisory Diamond.

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	2019	Limit
<b>Growth in lending<sup>1</sup></b>		
Owner-occupied dwellings and holiday homes	-0.6%	15%
Residential rental property	7.4%	15%
Agriculture	-2.0%	15%
Other	-3.4%	15%
<b>Borrower interest-rate risk<sup>2</sup></b>		
Properties for residential purposes	6.9%	25%
<b>Interest-only option<sup>3</sup></b>		
Owner-occupied dwellings and holiday homes	7.4%	10%
<b>Loans with short-term funding<sup>4</sup></b>		
Refinancing, annually	13.7%	25%
Refinancing, quarterly	2.9%	12.5%
<b>Large exposures<sup>5</sup></b>		
Loans relative to shareholders' equity	41%	100%

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

<sup>2</sup> 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.

<sup>3</sup> 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.

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

<sup>5</sup> 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. The Board of Directors consists of eight directors, three of whom are elected by the employees.

At the annual general meeting on 7 March 2019, all board members elected by the shareholders were reelected with the exception of Henriette Fenger Ellekrog, who did not seek reelection. After the general meeting, Jesper Nielsen was appointed chairman and Jacob Aarup-Andersen vice chairman of the Board of Directors.

On 15 July 2019, Jesper Nielsen resigned from the Board of Directors. The Board of Directors elected Jacob Aarup-Andersen as chairman and Carsten Rasch Egeriis as vice chairman.

On 26 September 2019, Christian Baltzer resigned from the Board of Directors. At an extraordinary general meeting held on 1 October 2019, Berit Behring was elected as a new member of the Board of Directors. At the same time, Sonia Khan stepped down as employee-elected member of the Board of Directors, as she resigned from her position at Realkredit Danmark to take up a position as head of advisory at Danske Bank. In that connection, the former first alternate, Anna-Marie Mikelsen, joined the Board of Directors as a new employee representative.

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

Board members elected by the shareholders in general meeting are elected for a term of one year and are eligible for reelection. Employee representatives are elected for a term of four years (most recently in 2017) and are eligible for reelection.

## Employees

At the end of 2019, the number of full-time equivalent staff at the Realkredit Danmark Group was 237.

## Diversity policy

Realkredit Danmark's Board of Directors has adopted the Danske Bank Group's diversity policy. One of the key focus areas of the policy is to promote the gender composition in managerial positions at all level of the Group. For example, this is achieved by ensuring more qualified female applicants for managerial positions.

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

- 30% female board members elected by the shareholders.
- No target has been defined for female members of the Executive Board.
- 40% female managers in the rest of the organisation.

The table below shows the gender composition at 31 December 2019 relative to the 2020 targets:

Management level	Total	Men	Women	Share of women	Target for share of women 2020
Board of Directors*	5	4	1	20%	30%
Executive Board	2	2	-	-	-
Management level - other	28	18	10	36%	40%

\*Employee representatives not included. There are 3 representatives – all women

## Compliance

Realkredit Danmark keeps focusing on ensuring a robust compliance culture across its organisation, thereby ensuring that we live our core value of integrity in all interactions with our customers and stakeholders.

Realkredit Danmark is subject to the Danish Financial Business Act and other regulation applying for mortgage credit institutions in Denmark. Managing and controlling the compliance of this regulation is performed by the Realkredit Danmark organisation in accordance with a three-lines-of-defence risk management and control model, thereby ensuring that compliance is an integral part of the day-to-day operation of the business at all levels in Realkredit Danmark.

Realkredit Danmark has outsourced the statutory compliance function to Danske Bank A/S, who runs the 2nd line controls on the compliance area on behalf of Realkredit Danmark and reports findings to the Executive Board and Board of Directors.

To strengthen the focus on compliance across the Realkredit Danmark organisation, a specific Regulatory Risk unit was established in 2019. The unit reports directly to the Executive Board. The role and responsibilities of the unit is to support the organisation in Realkredit Danmark managing the compliance risks associated with their activities and to design and control 1st line compliance control frameworks and processes for the activities exposed to high inherent financial crime risks and conduct risks. The head of Regulatory Risk is a member of the risk committee and the product committee of Realkredit Danmark.

In 2019, the new unit very much focused its activities on financial crime compliance to prevent criminals from abusing mortgage loans and properties mortgaged with loans from Realkredit Danmark for criminal purposes. Throughout the year, initiatives related to financial crime framework and processes were made to strengthen the financial crime risk management and control set-up for Realkredit Danmark, and additional initiatives are planned for in 2020. Realkredit Danmark will keep focusing on the robustness of its financial crime framework and processes to protect its integrity and to support the society at large combating financial crime activities in Denmark.

To a large extent, Realkredit Danmark has outsourced significant activities to Danske Bank A/S. Therefore, Realkredit Danmark has increased its focus on outsourcing risks and will continue to do this throughout 2020 to ensure compliance with the upcoming new regulatory requirements on outsourcing based on EBA Guidelines on Outsourcing (2019/02).

Treating customer fairly compliance remains a high focus area in Realkredit Danmark, including GDPR compliance. Realkredit Danmark has outsourced the statutory data protection officer role and responsibilities and other GDPR processes to Danske Bank A/S, but maintains its own internal experts to support the organisation in Realkredit Danmark in its day-to-day operation of activities comprising personal data. Generally, Realkredit Danmark keeps focusing on the quality level of its GDPR risk management and control processes.

#### **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, 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 significant 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 assessments could significantly affect the value of assets or liabilities. These critical financial statement items are listed under Significant accounting estimates and assessments.

Realkredit Danmark has implemented controls to counter identified financial reporting risks and regularly monitors changes in and compliance with relevant legislation

and other financial reporting rules and regulations. Controls have been established for the purpose of preventing, detecting and correcting any errors or irregularities in the financial reporting.

Realkredit Danmark has outsourced a number of activities to Danske Bank A/S. In this connection, Realkredit Danmark has established a governance structure to monitor the outsourced activities and to ensure a procedure involving ongoing reporting for the individual organisational levels within Realkredit Danmark. Internal management reporting is based on the same principles as external reporting.

Internal Audit perform audit of operational processes at Realkredit Danmark to assess the effectiveness of the company's risk management, controls and governance. The planning and performance of the work of Internal Audit is subject to the provisions of the Danish Executive Order on Auditing, the International Standards on Auditing (ISAs) as well as the International Standards for the Professional Practice of Internal Auditing (IPPF).

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 reports to the Board of Directors in respect of compliance and any non-compliance with 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 has no independent decision-making powers, but reports to the Board of Directors as a whole. In 2019, the Audit Committee held six meetings.

#### **Corporate responsibility and sustainability**

Corporate responsibility and sustainability are key elements of Realkredit Danmark's strategy. We want our customers and other stakeholders to be absolutely confident that in operating our business we factor in environmental, social, ethical and governance considerations. Realkredit Danmark believes that responsible business conduct is a prerequisite for a company's long-term value creation.

In spring 2019, Realkredit Danmark became the first Danish mortgage credit institution to launch green bonds for large business customers for the funding of eco-friendly property. These bonds have attracted strong interest among customers and investments.

Realkredit Danmark is incorporated in Danske Bank Group's corporate responsibility and sustainability work. Along with its Annual Report 2019, the Danske Bank Group has published a Sustainability Report 2019 detailing the Group's corporate responsibility. The Sustainability Report is supplemented by the Sustainability Fact Book 2019, and together they provide a comprehensive view of the principal corporate responsibility and sustainability aspects of the Group's activities. As a part of the group, we refer to Danske Bank's Sustainability report for the statutory report on corporate social responsibility in pursuance of section 135b of Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc. The Sustainability Report, which also serves as our Communication on Progress, as required by the UN Global Compact, is available at [www.danskebank.com/societal-impact](http://www.danskebank.com/societal-impact).

# Income statement and Comprehensive income

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2019	2018	2019	2018
	<b>Income statement</b>				
4	Interest income	16,782	17,578	16,781	17,577
5	Interest expense	9,877	10,570	9,876	10,569
	Net interest income	6,905	7,008	6,905	7,008
	Dividends from shares	-	-	-	-
3	Fee and commission income	888	512	888	512
	Fee and commission expense	1,416	1,129	1,416	1,129
2	Net fee and commission income	6,377	6,391	6,377	6,391
2, 6	Value adjustments	219	-67	219	-67
3	Other operating income	117	125	6	8
7-9	Staff costs and administrative expenses	811	702	748	634
	Impairment, depreciation and amortisation charges	1	1	-	-
10	Loan impairment charges	265	196	264	197
	Income from associates and group undertakings	-	-	36	38
	Profit before tax	5,636	5,550	5,626	5,539
11	Tax	1,240	1,213	1,230	1,202
	Net profit for the year	4,396	4,337	4,396	4,337
	Proposal for allocation of profits				
	Net profit for the year			4,396	4,337
	Transferred from other reserves			3,404	3,424
	Total for allocation			7,800	7,761
	Portion attributable to				
	Reserves in series			3,500	3,461
	Other reserves			-	-
	Proposed dividends			4,300	4,300
	Total allocation			7,800	7,761
	<b>Comprehensive income</b>				
	Net profit for the year	4,396	4,337	4,396	4,337
	Other comprehensive income				
	Items that will not be reclassified to profit or loss				
	Actuarial gains/losses on defined benefit plans	-23	-17	-23	-17
	Tax	5	4	5	4
	Total comprehensive income	-18	-13	-18	-13
	Total comprehensive income for the year	4,378	4,324	4,378	4,324

# Balance

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2019	2018	2019	2018
	<b>ASSETS</b>				
	Cash in hand and demand deposits				
	with central banks	54	161	54	161
12	Due from credit institutions and central banks	53,772	21,285	53,694	21,207
13	Bonds at fair value	23,022	19,375	23,022	19,375
14	Bonds at amortised cost	29,339	31,781	29,339	31,781
15-16, 19	Mortgage loans at fair value	802,579	796,045	802,579	796,045
15, 17-19	Loans and other amounts due at amortised cost	543	549	515	520
	Shares	2	2	-	-
	Holdings in group undertakings	-	-	137	137
20	Other tangible assets	6	7	5	5
	Current tax assets	-	1	-	3
21	Deferred tax assets	-	-	-	-
22	Assets temporarily taken over	15	26	15	26
19, 23	Other assets	3,215	1,978	3,079	1,940
	Prepayments	1	7	1	6
	<b>Total assets</b>	<b>912,548</b>	<b>871,217</b>	<b>912,440</b>	<b>871,206</b>
	<b>LIABILITIES AND EQUITY</b>				
	<b>AMOUNTS DUE</b>				
24	Due to credit institutions and central banks	4,003	778	4,003	778
25	Issued mortgage bonds at fair value	853,479	809,091	853,479	809,091
26	Issued bonds at amortised cost	-	5,952	-	5,952
	Current tax liabilities	31	-	28	-
21	Deferred tax liabilities	36	41	-	-
27, 28	Other liabilities	5,006	5,440	4,885	5,408
	Deferred income	-	-	-	-
	<b>Total amounts due</b>	<b>862,555</b>	<b>821,302</b>	<b>862,395</b>	<b>821,229</b>
	<b>PROVISIONS</b>				
21	Deferred tax	-	-	39	44
28	Reserves in early series subject to a reimbursement obligation	-	-	13	18
	<b>Total provisions</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>62</b>
	<b>SHAREHOLDERS' EQUITY</b>				
	Share capital	630	630	630	630
	Revaluation reserve	-	-	-	-
	Reserves in series	44,978	44,654	44,978	44,654
	Other reserves	85	331	85	331
	Proposed dividends	4,300	4,300	4,300	4,300
	<b>Total shareholders' equity</b>	<b>49,993</b>	<b>49,915</b>	<b>49,993</b>	<b>49,915</b>
	<b>Total liabilities and equity</b>	<b>912,548</b>	<b>871,217</b>	<b>912,440</b>	<b>871,206</b>

# Statement of capital

## Realkredit Danmark Group

(DKK millions)	Share capital	Reserves in series	Other reserves	Proposed dividends	Total
Shareholders' equity at 1 January 2019	630	44,654	331	4,300	49,915
Net profit for the year	-	3,500	896	-	4,396
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-23	-	-23
Tax	-	-	5	-	5
Total comprehensive income for the year	-	3,500	878	-	4,378
Transferred from/to Other reserves	-	-3,176	3,176	-	-
Dividend paid	-	-	-	-4,300	-4,300
Proposed dividends	-	-	-4,300	4,300	-
Shareholders' equity at 31 December 2019	630	44,978	85	4,300	49,993
Shareholders' equity at 1 January 2018	630	43,171	1,790	4,300	49,891
Net profit for the year	-	3,461	876	-	4,337
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-17	-	-17
Tax	-	-	4	-	4
Total comprehensive income for the year	-	3,461	863	-	4,324
Transferred from/to Other reserves	-	-1,978	1,978	-	-
Dividend paid	-	-	-	-4,300	-4,300
Proposed dividends	-	-	-4,300	4,300	-
Shareholders' equity at 31 December 2018	630	44,654	331	4,300	49,915

# Statement of capital

## Realkredit Danmark A/S

(DKK millions)	Share capital	Reserves in series	Other reserves	Proposed dividends	Total
Shareholders' equity at 1 January 2019	630	44,654	331	4,300	49,915
Net profit for the year	-	3,500	896	-	4,396
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-23	-	-23
Tax	-	-	5	-	5
Total comprehensive income for the year	-	3,500	878	-	4,378
Transferred from/to Other reserves	-	-3,176	3,176	-	-
Dividend paid	-	-	-	-4,300	-4,300
Proposed dividends	-	-	-4,300	4,300	-
Shareholders' equity at 31 December 2019	630	44,978	85	4,300	49,993
Shareholders' equity at 1 January 2018	630	43,171	1,790	4,300	49,891
Net profit for the year	-	3,461	876	-	4,337
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-17	-	-17
Tax	-	-	4	-	4
Total comprehensive income for the year	-	3,461	863	-	4,324
Transferred from/to Other reserves	-	-1,978	1,978	-	-
Dividend paid	-	-	-	-4,300	-4,300
Proposed dividends	-	-	-4,300	4,300	-
Shareholders' equity at 31 December 2018	630	44,654	331	4,300	49,915

At the end of 2019, 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.

# Statement of capital

	<b>Realkredit Danmark Group</b>	
(DKK millions)	31 Dec. 2019	31 Dec. 2018
<b>Total capital and Total capital ratio</b>		
Shareholders' equity	49,993	49,915
Tax effect	-	-
Total equity calculated in accordance with the rules of the Danish FSA	49,993	49,915
Proposed/expected dividends	-4,300	-4,300
Revaluation reserve	-	-
Deferred tax assets	-	-
Prudent valuation	-9	-5
Defined benefit pension fund assets	-146	-162
Common equity tier 1 capital	45,538	45,448
Difference between expected losses and impairment charges	-	-
Tier 1 capital	45,538	45,448
Reserves in series subject to a reimbursement obligation	-	-
Revaluation reserve	-	-
Difference between expected losses and impairment charges	631	320
Total capital	46,169	45,768
Risk exposure amount	148,353	149,772
Common equity tier 1 capital ratio (%)	30.7	30.3
Tier 1 capital ratio (%)	30.7	30.3
Total capital ratio (%)	31.1	30.6

At end-2019, the total capital and the total risk exposure amount is calculated in accordance with the Capital Requirements Regulation (CRR/CRD IV).

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

# Statement of capital

	Realkredit Danmark A/S	
	31 Dec.	31 Dec.
(DKK millions)	2019	2018
<b>Total capital and Total capital ratio</b>		
Shareholders' equity	49,993	49,915
Proposed/expected dividends	-4,300	-4,300
Revaluation reserve	-	-
Deferred tax assets	-	-
Prudent valuation	-9	-5
Defined benefit pension fund assets	-146	-162
Common equity tier 1 capital	45,538	45,448
Difference between expected losses and impairment charges	-	-
Tier 1 capital	45,538	45,448
Reserves in series subject to a reimbursement obligation	-	-
Revaluation reserve	-	-
Difference between expected losses and impairment charges	631	320
Total capital	46,169	45,768
Risk exposure amount	148,174	149,668
Common equity tier 1 capital ratio (%)	30.7	30.4
Tier 1 capital ratio (%)	30.7	30.4
Total capital ratio (%)	31.2	30.6

At end-2019, the total capital and the total risk exposure amount is calculated in accordance with the Capital Requirements Regulation (CRR/CRD IV).

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

# Cash flow statement

	<b>Realkredit Danmark Group</b>	
(DKK millions)	2019	2018
<b>Cash flow from operating activities</b>		
Profit before tax	5,636	5,550
Adjustment for other non-cash operating items		
Amortisation, depreciation and impairment charges	1	1
Loan impairment charges	-64	-364
Other non-cash items	-	-
Tax paid	-1,209	-1,197
<b>Total</b>	<b>4,364</b>	<b>3,990</b>
Cash flow from operating capital		
Bonds and shares	-1,146	3,737
Mortgage loans	-5,276	-8,826
Issued mortgage bonds	35,908	472
Due to credit institutions	3,225	-3,516
Other assets/liabilities	-395	-182
Cash flow from operating activities	36,680	-4,325
<b>Cash flow from investing activities</b>		
Acquisition of tangible assets	-	-1
Sale of tangible assets	-	-
Cash flow from investing activities	-	-1
<b>Cash flow from financing activities</b>		
Dividends	-4,300	-4,300
Cash flow from financing activities	-4,300	-4,300
Cash and cash equivalents at 1 January	21,446	30,072
Change in cash and cash equivalents	32,380	-8,626
Cash and cash equivalents at 31 December	53,826	21,446
Cash and cash equivalents at 31 December		
Cash in hand and demand deposits with central banks	54	161
Amounts due from credit institutions and central banks within 3 months	53,772	21,285
<b>Total</b>	<b>53,826</b>	<b>21,446</b>

## 1 SIGNIFICANT ACCOUNTING POLICIES

### General

Realkredit Danmark prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) and applicable interpretations (IFRIC) issued by the International Accounting Standards Board (IASB), as adopted by the EU. Furthermore, the consolidated financial statements comply with 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.

### *Changes to significant accounting policies*

On 1 January 2019, the Group implemented IFRS 16, Leases, amendments to various standards (IFRS 9, Prepayment Features with Negative Compensation, Annual Improvements to IFRS Standards 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23), IAS 19, Plan Amendment, Curtailment or Settlement, and IAS 28, Long-term Interests in Associates and Joint Ventures), and the interpretation IFRIC 23, Uncertainty over Income Tax Treatments. The implementation of changes to IFRSs not mentioned below had no impact on the Group's financial statements.

### *IFRS 16*

As a result of the implementation of IFRS 16, at 1 January 2019 lease assets and lease liabilities were recognised in the amount of DKK 132 million. The implementation has no impact on shareholders' equity at 1 January 2019, and the net profit for 2019 is unaffected. In accordance with transitional provisions, comparative figures have not been restated. Lease liabilities are recognised under Other liabilities, while lease assets are recognised under Other tangible assets, except for assets deriving from financial sub-leases, which are recognised under Other assets.

From 2019, lease contracts in which the Group acts as lessee are recognised in the balance sheet, except for leases of low value assets and contracts with terms of 12 months or less. On initial recognition of a lease agreement, future lease payments are recognised as a lease liability and a lease asset at the present value using the Group's borrowing rate. The lease liability is subsequently adjusted to reflect accrued interest, instalments and correction due to modification or reassessment. The lease asset is measured at cost less depreciation and impairment charges. Lease assets are depreciated on a straight-line basis over the lease term.

### *IFRS 9, Prepayment Features with Negative Compensation*

The amendment to IFRS 9, Financial Instruments, relates to the SPPI test, and the previous requirement that a prepayment option will only be consistent with 'basic lending features' if the prepayment amount represents the principal amount outstanding plus accrued interest and may include a reasonable additional compensation for early termination (i.e. the party exercising the right cannot receive a compensation for the early termination). The word 'additional' is deleted. After the implementation of the amendment, compensation that reflects changes in the relevant benchmark interest rate will be consistent with the SPPI test, regardless of whether the compensation is positive or negative.

The amendment does not change the fact that the prepayment option included in mortgage loans continues to be inconsistent with the SPPI test as changes in the fair value of the underlying bonds reflect other factors than interest rate developments. Consequently, implementation of the standard has no effect.

Apart from these changes, the accounting policies are unchanged from those applied in Annual Report 2018.

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.

### **Significant 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 assessments are based on assumptions 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.

The fair value of the credit risk on the borrower is based on the expected credit loss impairment model in IFRS 9. The expected credit loss is calculated for all individual loans as a function of PD (probability of default), EAD (exposure at default) and LGD (loss given default) and incorporates forward-looking information. The forward-looking information reflects management's expectations and involves the creation of scenarios (base case, upside and downside), including an assessment of the probability for each scenario.

In addition to the expected credit losses, a collective assessment determines the need for adjustments to reflect other components in the fair value measurement, such as an assessment of an investor's risk premium, compensation for administrative costs related to the loans and the possibility to increase the credit margin if the credit risk increases.

# Notes

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## Note

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At the end of 2019, the fair value adjustment of the credit risk on mortgage loans was calculated at DKK 2,736 million (2018: DKK 2,792 million), reducing the value of mortgage loans. The base case scenario enters with a probability of 60% (2018: 70%), the downside scenario with a probability of 30% (2018: 15%) and the upside scenario with a probability of 10% (2018: 15%). If the base case scenario was assigned a probability of 100%, the fair value adjustment at end-2019 would be DKK 2,600 million (2018: DKK 2,750 million). The fair value adjustment at the end of 2019 would increase to DKK 3,125 million (2018: DKK 3,575 million) if the downside scenario was assigned a probability of 100%. If instead the upside scenario was assigned a probability of 100%, the fair value adjustment would decrease to DKK 2,450 million (2018: DKK 2,700 million). It should be noted that the expected credit losses in the individual scenarios do not reflect forecasts of the Group's expected credit losses.

According to the Group's definition of a significant increase in credit risk, i.e. when a loan is transferred from stage 1 to stage 2, loans with an initial PD below 1% are transferred to stage 2 if the loan's 12-month PD has increased by at least 0.5 of a percentage point and the loan's lifetime PD has doubled since origination. The allowance account is relatively stable in terms of changes to the definition of significant increase in credit risk. At 31 December 2019, the allowance account would increase by DKK 5 million (2018: DKK 5 million), if instead an increase in the loan's 12-month PD by at least 0.25 of a percentage point combined with a doubling of the lifetime PD was considered a significant increase in credit risk.

The Group applies post-model adjustments of DKK 678 million (2018: DKK 571 million). The adjustments cover loans to high-risk industries such as Agriculture, where the Group has no specific expected credit loss models in place, and consequently makes supplementary calculations in order to ensure sufficient impairment coverage. Further, adjustments are made to take into account non-linear downside risks, for instance related to the property market in Copenhagen for which the macroeconomic forecasts used in the models are based on the Danish property market as a whole and adjustments are therefore made to reflect the fact that a further specific downside risk currently exists for properties in Copenhagen. The development from 2018 to 2019 was mostly due to a management add-on to cover an update and specification of statistical loss models.

### **Consolidation**

#### *Group undertakings*

The financial statements consolidate the parent company and group undertakings in which the Group has control. Control exists 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.

### **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 currencies are translated into Danish kroner using the exchange rates applicable on 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.

# Notes

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Note

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## **Financial instruments – general**

Regular way purchases and sales of financial instruments are recognised and derecognised at the settlement date. Fair value adjustments of unsettled financial instruments are recognised from the trade date to the settlement date for financial instruments subsequently recognised at fair value over profit or loss.

### *Classification*

Financial assets are classified at initial recognition on the basis of the company's business model adopted for managing the assets and on their contractual cash flow characteristics (including embedded derivatives, if any) into one of the following measurement categories:

- Amortised cost if the assets are held exclusively for the purpose of collecting contractual cash flows and if the cash flows are payments of principal and interest on the principal amount outstanding solely.
- Fair value through other comprehensive income if the assets are held for the purpose of both collecting contractual cash flows and selling and if cash flows are payments of principal and interest on the principal amount outstanding solely. The Group has no financial assets in this category.
- Fair value through profit or loss for all other financial assets.

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

- Issued mortgage bonds are designated at fair value through profit or loss using the fair value option of IFRS 9 in order not to create an accounting mismatch that would otherwise arise. See below.
- Other financial liabilities, including "Senior debt" measured at amortised cost.

### *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. This represents an option to prepay at the fair value of the underlying bonds, which can be both above and below the prin-

cipal amount plus accrued interest. Such an option is not consistent with the so-called SPPI test in IFRS 9, as changes in the fair value of the underlying bonds reflect other factors than interest rate development. Consequently, regardless of the fact that the business model is to receive the contractual cash flow, such loans are mandatorily recognised at fair value through profit or loss.

If the issued mortgage bonds are valued at amortised cost, and the mortgage loans, which are funded by the issued mortgage bonds with matching terms, are valued at fair value through profit or loss, a timing difference will arise in the recognition of gains and losses in the financial statements.

To eliminate this random timing difference in the recognition of gains and losses, both mortgage loans and issued mortgage bonds are valued at fair value through profit or loss (for the issued bonds by using the fair value option of IFRS 9).

The fair value of the mortgage loans is based on the fair value of the underlying mortgage bonds adjusted for the credit risk on borrower/the Group's customer. This entails that the fair value adjustment of the mortgage loans in all material respects balance out the fair value adjustment of the issued bonds. Consequently, the total fair value adjustment of the issued mortgage bonds, including the proportion relating to own credit risk, is recognised in the income statement, as recognition of the fair value adjustment of own credit risk in other comprehensive income would lead to an accounting mismatch in the income statement.

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.

# Notes

Note

The table below shows the distribution of the Group's financial instruments by valuation method:

	Fair value over profit or loss					Total
	Amortised cost	Trading portfolio	Managed on fair-value basis	Due to SPPI test	Designated	
<b>Assets</b>						
Cash in hand and demand deposits with central banks	54	-	-	-	-	54
Due from credit institutions and central banks	53,772	-	-	-	-	53,772
Bonds	29,339	-	23,022	-	-	52,361
Loans	543	-	-	802,579	-	803,122
Shares	-	-	2	-	-	2
Derivatives (Other assets)	-	95	-	-	-	95
<b>Total assets</b>	<b>83,708</b>	<b>95</b>	<b>23,024</b>	<b>802,579</b>	<b>-</b>	<b>909,406</b>
<b>Amounts due</b>						
Due to credit institutions and central banks	4,003	-	-	-	-	4,003
Issued bonds	-	-	-	-	853,479	853,479
Derivatives (Other liabilities)	-	5	-	-	-	5
<b>Total amounts due</b>	<b>4,003</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>853,479</b>	<b>857,487</b>

# Notes

Note

## 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. The bonds form part of a portfolio, which is managed on a fair value basis.

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.

If no active market exists, fair value is estimated on the basis of generally accepted valuation techniques and market-based parameters.

### Bonds at amortised cost

Realkredit Danmark has a bond portfolio held for the purpose of generating a known return until maturity. The bonds are measured at amortised cost. Interest rate risk is not hedged. Impairments are made for expected credit losses on the basis of a classification of the bonds into stages 1, 2 and 3, and the impairment equals 12-month expected credit losses for bonds in stage 1 and the present value of lifetime expected credit losses for bonds in stages 2 and 3, cf. the description below in the section 'Mortgage loans and Issued mortgage bonds at fair value'. For calculating the present value of expected credit losses for discounting purposes, the original effective interest rate is used instead of the current interest rate.

### 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. Subsequently, these financial instruments are measured at fair value through profit or loss.

The fair value of the issued mortgage bonds will usually equal the quoted market price. 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 the borrowers. The IFRS 13 estimate of the fair value of the expected credit losses are calculated on the basis of the IFRS 9 model for calculating impairment of losses on loans at amortised cost: expected credit losses, including the classification of loans between stages 1, 2 and 3:

Stage 1: If the credit risk has not increased significantly, the impairment equals the expected credit losses resulting from default events that are possible within the next 12 months, see however below on the collective assessment of the need for further adjustments.

Stage 2: If the credit risk has increased significantly, the loan is transferred to stage 2 and an impairment equal to the lifetime expected credit losses is recognised. A significant credit risk increase is considered to occur when the following increase in the probability of default (PD) is observed:

- For loans originated below 1% in PD: An increase in the loan's 12-month PD of at least 0.5 percentage points since origination and a doubling of the loan's lifetime PD since origination
- For loans originated above 1% in PD: An increase in the loan's 12-month PD of 2 percentage points since origination or a doubling of the loan's lifetime PD since origination
- Further, loans that are more than 30 days past due are moved from stage 1 to stage 2. Finally, customers subject to forbearance measures are placed in stage 2, if the Group, in the most likely outcome, expects no loss or the customers are in the 2-year probation period for performing forbore exposures.

Stage 3: If the loan is in default or otherwise credit impaired, it is transferred to stage 3. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for reasons relating to the borrower's financial difficulty, is granted a concession; (d) it is probable that the borrower will enter into bankruptcy. Credit-impaired facilities are placed in Realkredit Danmark's rating category 10 or 11. For customers in rating category 10, the stage 3 classification only applies to customers where a loss is expected in the most likely scenario. For rating category 11, all exposures are classified as stage 3. The Realkredit Danmark Group uses the option to continue to recognise interest income on mortgage loans measured at fair value on the basis of the contractual interest rates.

The definition of default used in the measurement of expected credit losses and in the classification of facilities between stages 1, 2 and 3 is consistent with the definition of default used for internal credit risk management purposes and is aligned with the CRR. Hence, exposures which are considered to be in default for regulatory purposes will be considered stage 3. This applies both for 90-days-past-due considerations and unlikely-to-pay factors leading to a regulatory default.

# Notes

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## Note

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The expected credit loss is calculated for all individual loans as a function of the probability of default (PD), the exposure at default (EaD) and the loss given default (LGD).

The lifetime expected credit losses cover the expected remaining lifetime of the loan. For most loans, the expected lifetime is limited to the remaining contractual maturity and adjusted for expected prepayment. For exposures with weak credit quality, the likelihood of prepayment is not included.

The forward-looking elements of the calculation reflect the current unbiased expectations of the management. The process consists of the creation of macroeconomic scenarios (base case, upside and downside), including an assessment of the probability for each scenario, by the Danske Bank Group's independent macroeconomic research unit, the review and sign-off of the scenarios (throughout the organisation) and a process for adjusting scenarios given new information during the quarter. Management's approval of scenarios can include adjustments to the scenarios, probability weighting and management overlays to cover the outlook for particular high-risk portfolios, which are not provided by the Group's macroeconomists. The approved scenarios are used to calculate the impairment levels. Technically, the forward-looking information is used directly in the PDs through an estimate of general changes to the PDs and the LGDs in the expected credit loss calculation. However, for significant exposures in stage 3, an individual assessment of the scenarios, changes to expected credit losses and the related probabilities are performed by senior credit officers.

In addition, a collective assessment determines the need for further adjustments to reflect other components in the fair value measurement, such as an assessment of an investor's risk premium, compensation for administrative costs related to the loans and the possibility to increase the credit margin if the credit risk increases. This assessment also takes into consideration the fact that initial recognition of 12-month expected credit losses is not in accordance with fair value, and the fact that the expected credit losses during the lifetime of the asset should be included in the assessment even if the credit risk has not increased significantly.

Loans that are considered uncollectible are written off. Write-offs are debited to the allowance account. Loans are written off once the usual collection procedure has been completed and the loss on the individual loan can be calculated.

### **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 received. Reverse transactions are made on standard terms and conditions.

These financial assets are held for the purpose of achieving the contractual return until expiry and have contractual cash flows reflecting repayment of principal and interest thereon. Loans and other amounts due are therefore carried at amortised cost and consist of mortgage payments due and other outlays relating to mortgage loans as well as claims against individual borrowers and reserve fund mortgages, etc.

Impairments are made for expected credit losses on the basis of a classification of the loans into stages 1, 2 and 3, and the impairment equals 12-month expected credit losses for loans in stage 1 and the present value of lifetime expected credit losses for loans in stages 2 and 3, cf. the description above in the section 'Mortgage loans and Issued mortgage bonds at fair value'. For calculating the present value of expected credit losses for discounting purposes, the original effective interest rate is used instead of the current interest rate.

### **Assets temporarily taken over**

Assets temporarily taken over include tangible assets, which according to a publicly announced plan, the Group expects to sell within twelve months. Such assets are measured 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.

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, tangible assets, assets under sub-leases and pension assets. Derivatives are recognised at fair value through profit or loss

### *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.

From 2019, tangible assets also include lease assets under lease contracts in which the Group acts as lessee, except for leases of low value assets and contracts with terms of 12 months or less. On initial recognition, the lease asset represents the present value of future lease payments (using the Group's borrowing rate). Lease assets are depreciated on a straight-line basis over the lease term.

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

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## *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 operates 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.

## **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, accrued fee and lease liabilities. Further, other liabilities also includes Reserves in early series subject to a reimbursement obligation and other provisions.

From 2019, other liabilities includes lease liabilities under leases contracts in which the Group acts as lessee, except for leases of low value assets and contracts with terms of 12 months or less. On initial recognition, the lease liability represents the present value of future lease payments (using the Group's borrowing rate). Subsequently, the lease liability is adjusted to reflect accrued interest, instalments and correction due to modification or reassessment.

## **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.

## **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, with the exception of retirement, has not resigned from the Group. Retirement is not considered as resignation.

The fair value of share-based payments at the grant date is expensed over the service period that unconditionally entitles the employee to the payment. The intrinsic value of the option is expensed in the year in which the share-based payments are earned, whereas the time value (if any) 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 Pensionsafvilkingskasse 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 impairments

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 profit for the year before tax and shows the consolidated 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 one new accounting standard (IFRS 17) and amendments to existing international accounting standards (IFRS 3, IFRS 7, IFRS 9, IAS 1, IAS 8, IAS 39). Further, several standards were amended to incorporate reference to the revised Conceptual Framework for Financial Reporting. The Group has not implemented any of these changes. The changes are not expected to have any material impact on the Group's financial statements.

## 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.

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)

2	Profit broken down by activity	Realkredit Danmark Group				
		Mortgage finance	Own holdings	Highlights	Reclassification	IFRS
2019						
	Administration margin	6,082	-	6,082	-	6,082
	Net interest income	-86	289	203	620	823
	Dividends from shares	-	-	-	-	-
	Net fee income	-528	-	-528	-	-528
	Income from investment portfolios	769	70	839	-839	-
	Value adjustments	-	-	-	219	219
	Other income	117	-	117	-	117
	<b>Total income</b>	<b>6,354</b>	<b>359</b>	<b>6,713</b>	<b>-</b>	<b>6,713</b>
	Expenses	808	4	812	-	812
	Profit before loan impairment charges	5,546	355	5,901	-	5,901
	Loan impairment charges	265	-	265	-	265
	Income from associates	-	-	-	-	-
	Profit before tax	5,281	355	5,636	-	5,636
	Tax	-	-	1,240	-	1,240
	Net profit for the year	-	-	4,396	-	4,396
	Total assets	864,203	48,345	912,548	-	912,548
2018						
	Administration margin	6,222	-	6,222	-	6,222
	Net interest income	-212	354	142	644	786
	Dividends from shares	-	-	-	-	-
	Net fee income	-617	-	-617	-	-617
	Income from investment portfolios	525	52	577	-577	-
	Value adjustments	-	-	-	-67	-67
	Other income	125	-	125	-	125
	<b>Total income</b>	<b>6,043</b>	<b>406</b>	<b>6,449</b>	<b>-</b>	<b>6,449</b>
	Expenses	697	6	703	-	703
	Profit before loan impairment charges	5,346	400	5,746	-	5,746
	Loan impairment charges	-204	-	-204	400	196
	Income from associates	-	-	-	-	-
	Profit before tax	5,550	400	5,950	-400	5,550
	Tax	-	-	1,301	-88	1,213
	Net profit for the year	-	-	4,649	-312	4,337
	Total assets	818,568	52,649	871,217	-	871,217

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.

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

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Note (DKK millions)

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2 **Profit broken down by activity**

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*Alternative performance measures*

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 presentation in the financial highlights deviates in certain areas from the financial statements prepared under IFRS and therefore represents alternative performance measures. There are generally no adjusting items, which means that net profit is the same in the financial highlights and in the IFRS financial statements. However, in 2018 there is one adjusting item deriving from the implementation of IFRS 9. Mortgage loans are recognised at fair value (both under IAS 39 and under IFRS 9). However, the IFRS 13 measurement of the fair value of the credit risk on mortgage loans, which is required by IFRS 9, should from 1 January 2018 be made on the basis of the models prepared by the Danske Bank Group in connection with the implementation of the model in IFRS 9. This has caused a change to the estimate of the fair value of the credit risk on mortgage loans at 1 January 2018, leading to a reduction of the fair value of mortgage loans of DKK 400 million. In the IFRS income statement, the effect of the new impairment principles is recognised as a change of an accounting estimate. To better reflect current earnings in 2018, the effect in the financial highlights and reporting for the two business segments is recognised as a reduction in shareholders' equity at 1 January 2018. As a result, the profit for the period in 2018 is DKK 312 million higher in the financial highlights than in the IFRS income statement.

The reclassification column shows the reconciliation between the presentation in the highlights and in the IFRS financial statements. Other than the above-mentioned adjusting item concerning the fair value of the credit risk on mortgage loans in 2018, the difference between the presentation in the financial highlights and in the IFRS financial statements 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.

3 **Fee and commission income and other operating income**

Fee and commission income relates to mortgage credit activities and primarily concern income from the establishment and change of loans. These are recognised at the date of transaction as the loans are measured at fair value through profit or loss. In the business segment reporting and internal management, fees are presented as net figures, i.e. fee income and fee expenses are offset.

Other income includes franchise income in the amount of DKK 111 million, which is recognised over the term of the franchise agreement

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2019	2018	2019	2018
4	<b>Interest income</b>				
	Reverse transactions with credit institutions and central banks	-90	-21	-90	-21
	Credit institutions and central banks	-142	-24	-142	-24
	Loans and other amounts due	10,197	10,815	10,196	10,814
	Administration margin	6,082	6,222	6,082	6,222
	Bonds at fair value	199	246	199	246
	Bonds at amortised cost	87	172	87	172
	Derivatives				
	Interest rate contracts	445	164	445	164
	Other interest income	4	4	4	4
	<b>Total</b>	<b>16,782</b>	<b>17,578</b>	<b>16,781</b>	<b>17,577</b>
	Interest income derived from				
	Assets at fair value	16,923	17,447	16,922	17,446
	Assets at amortised cost	-141	131	-141	131
	<b>Total</b>	<b>16,782</b>	<b>17,578</b>	<b>16,781</b>	<b>17,577</b>
5	<b>Interest expense</b>				
	Repo transactions with credit institutions and central banks	-39	-18	-39	-18
	Due to credit institutions and central banks	1	3	1	3
	Issued mortgage bonds etc.	9,913	10,587	9,913	10,587
	Other interest expense	2	-2	1	-3
	<b>Total</b>	<b>9,877</b>	<b>10,570</b>	<b>9,876</b>	<b>10,569</b>
	Interest expense derived from				
	Liabilities at fair value	9,913	10,587	9,913	10,587
	Liabilities at amortised cost	-36	-17	-37	-18
	<b>Total</b>	<b>9,877</b>	<b>10,570</b>	<b>9,876</b>	<b>10,569</b>
6	<b>Value adjustments</b>				
	Mortgage loans	1,202	-1,826	1,202	-1,826
	Bonds	-283	-342	-283	-342
	Shares	-	-	-	-
	Currency	6	5	6	5
	Derivatives	947	-175	947	-175
	Other assets	10	15	10	15
	Issued mortgage bonds	-1,662	2,257	-1,662	2,257
	Reserves in early series subject to a reimbursement obligation	-	-	-	-
	Other liabilities	-1	-1	-1	-1
	<b>Total</b>	<b>219</b>	<b>-67</b>	<b>219</b>	<b>-67</b>
	Value adjustments derived from				
	Assets and liabilities at fair value	210	-81	210	-81
	Assets and liabilities at amortised cost	9	14	9	14
	<b>Total</b>	<b>219</b>	<b>-67</b>	<b>219</b>	<b>-67</b>

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2019	2018	2019	2018
7	<b>Staff costs and administrative expenses</b>				
	Salaries and remuneration of Executive Board and Board of Directors				
	Executive Board	7	7	7	7
	Board of Directors	1	1	1	1
	<b>Total</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>
	Staff costs				
	Salaries	148	144	127	121
	Defined benefit pensions	19	18	16	16
	Other social security costs and taxes	24	22	24	21
	<b>Total</b>	<b>191</b>	<b>184</b>	<b>167</b>	<b>158</b>
	Other administrative expenses	612	510	573	468
	<b>Total staff costs and administrative expenses</b>	<b>811</b>	<b>702</b>	<b>748</b>	<b>634</b>
	Number of full-time-equivalent staff (avg.)	231	230	200	199
	<b>Remuneration of the Board of Directors (DKK thousands)</b>				
	Kim Andersen	315	315	315	315
	Anna-Marie Mikkelsen (from 1 October 2019)	31	-	31	-
	Lisbeth Sahlertz Nielsen	125	125	125	125
	Majken Hammer Sløk	125	125	125	125
	Sonia Khan (until 1 October 2019)	94	125	94	125
	<b>Total remuneration</b>	<b>690</b>	<b>690</b>	<b>690</b>	<b>690</b>
	Remuneration for committee work included in total remuneration	190	190	190	190
	Members of the Board end of year	8	10	8	10

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, Jacob Aarup-Andersen earned a total remuneration from such companies in 2019 of DKK 11.2 million (2018: DKK 9.0 million), Carsten Rasch Egeriis earned DKK 9.8 million (2018: DKK 7.9 million), Kim Andersen earned DKK 0.4 million (2018: DKK 0.3 million), Jakob Groot earned DKK 8.8 million (2018: DKK 5.2 million), Berit Behring earned DKK 2.9 million, Henriette Fenger Ellekrog earned DKK 1.4 million (2018: DKK 3.5 million), Jesper Nielsen earned DKK 5.7 million (2018: DKK 8.2 million), Christian Baltzer earned DKK 6.0 million (2018: DKK 3.1 million) and Lars Mørch (2018: DKK 2.7 million).

At the annual general meeting on 7 March 2019, Henriette Fenger Ellekrog, who did not seek reelection, resigned from the Board of Directors. Jesper Nielsen was appointed chairman and Jacob Aarup-Andersen vice chairman of the Board of Directors.

On 15 July 2019, Jesper Nielsen resigned from the Board of Directors. The Board of Directors elected Jacob Aarup-Andersen as chairman and Carsten Rasch Egeriis as vice chairman.

On 26 September 2019, Christian Baltzer resigned from the Board of Directors. At an extraordinary general meeting held on 1 October 2019, Berit Behring was elected as a new member of the Board of Directors. At the same time, Sonia Khan stepped down as employee-elected member and the former first alternate, Anna-Marie Mikkelsen, joined the Board of Directors as a new employee representative.

On 26 April 2018, Lars Mørch resigned from the Board of Directors. The Board of Directors elected Jesper Nielsen as chairman and Jacob Aarup-Andersen as vice chairman.

At an extraordinary general meeting on 23 May 2018, Carsten Rasch Egeriis, Jakob Groot and Christian Baltzer were elected as new board members, although Christian Baltzer did not take up his directorship until he started as CFO of Danske Bank A/S on 15 October 2018.

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**

2019	Carsten Nøddebo Rasmussen	Klaus Kristiansen
Fixed salary	3.4	1.8
Pension	0.5	0.2
Variable cash remuneration	0.3	0.2
Variable share-based remuneration	0.3	0.1
<b>Total amount earned</b>	<b>4.5</b>	<b>2.3</b>
<b>Total amount paid</b>	<b>4.2</b>	<b>4.2</b>

Total amount paid consists of fixed salary and pension contributions to defined contribution plans in 2019, variable cash remuneration and the exercise of conditional shares granted for earlier financial years. Variable remuneration for 2019 will be paid in subsequent financial years.

The total remuneration of the Executive Board of DKK 6.8 million for 2019 consists of a fixed remuneration of DKK 5.9 million and a variable remuneration of DKK 0.9 million.

2018	Carsten Nøddebo Rasmussen	Klaus Kristiansen
Fixed salary	3.4	1.8
Pension	0.5	0.2
Variable cash remuneration	0.3	0.1
Variable share-based remuneration	0.3	0.1
<b>Total amount earned</b>	<b>4.5</b>	<b>2.2</b>
<b>Total amount paid</b>	<b>4.0</b>	<b>2.1</b>

The total remuneration of the Executive Board of DKK 6.7 million for 2018 consists of a fixed remuneration of DKK 5.9 million and a variable remuneration of DKK 0.8 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 as amended by Executive Order no. 1337 of 29 November 2017.

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

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Note (DKK millions)

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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 granted in accordance with the rules of the Danske Bank Group's remuneration policy, which Realkredit Danmark has adopted, the rules of the European Banking Authority (EBA) and the rules of the Danish FSA with respect to split into cash and share-based payment and postponement of disbursement. 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 2019, Realkredit Danmark A/S paid remuneration totalling DKK 41.6 million for 38 other material risk takers (2018: DKK 38.4 million for 37 other material risk takers). The remuneration consists of fixed remuneration of DKK 39.9 million and a variable remuneration of DKK 1.7 million (2018: DKK 36.8 million and DKK 1.6 million). Variable pay for 2019 is estimated and will be finalised at the end of February 2020. The final variable pay will be published no later than in March 2020 in the Realkredit Danmark Group Remuneration Report 2019, 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 2019, the net present value of pension obligations was DKK 758 million (2018: DKK 846 million), and the fair value of plan assets was DKK 945 million (2018: DKK 1,054 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 2019 arising from share-based payments was DKK 0.4 million (2018: DKK 0.4 million). All share-based payments are equity-settled. The exact number of shares granted for 2019 will be determined at the end of February 2020.

Effective from 2010, part of the variable remuneration of Realkredit Danmark's Executive Board has been 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 Danske Bank shares granted to 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 are still considered fulfilled, and whether the bank's economic situation has deteriorated significantly.

# Notes

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

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

## Share-based payments

### Conditional shares

	Number			Fair Value (FV)	
	Executive Board	Other employees	Total	At issue (DKK millions)	End of year (DKK millions)
<b>Granted in 2015</b>					
2018, beg.	587	363	950		
Vested 2018	-	-363	-363		
Forfeited 2018	-	-	-		
Other changes 2018	-	-	-		
2018, end	587	-	587	0.1	0.1
<b>Vested 2019</b>					
Forfeited 2019	-567	-	-567		
Other changes 2019	-20	-	-20		
2019, end	-	-	-	-	-
<b>Granted in 2016</b>					
2018, beg.	521	1,260	1,781		
Vested 2018	-	-	-		
Forfeited 2018	-	-	-		
Other changes 2018	-	-	-		
2018, end	521	1,260	1,781	0.3	0.2
<b>Vested 2019</b>					
Forfeited 2019	-	-1,260	-1,260		
Other changes 2019	-	-	-		
2019, end	521	-	521	0.1	0.1

# Notes

Note	(DKK millions)				
8 cont'd	<b>Share-based payments</b>				
	<b>Conditional shares cont'd.</b>				
	Number			Fair Value (FV)	
	Executive Board	Other em- ployees	Total	At issue (DKK millions)	End of year (DKK millions)
	<b>Granted in 2017</b>				
	442	1,037	1,479		
	-	-	-		
	-	-	-		
	-	-	-		
	442	1,037	1,479	0.4	0.2
	-	-	-		
	-	-	-		
	-	-	-		
	442	1,037	1,479	0.4	0.2
	<b>Granted in 2018</b>				
	1,330	2,120	3,450		
	-798	-1,273	-2,071		
	-	-	-		
	-	-	-		
	532	847	1,379	0.3	0.2
	-	-	-		
	-	-	-		
	-	-	-		
	532	847	1,379	0.3	0.1
	<b>Granted in 2019</b>				
	3,318	3,233	6,551		
	-1,991	-1,940	-3,931		
	-	-	-		
	-	-	-		
	1,327	1,293	2,620	0.3	0.3

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2019	2018	2019	2018
8 cont'd	<b>Share-based payments</b>				
	<b>Holdings of the Executive Board and fair value, end of 2019</b>				
	Grant year			2016-2019	
	(DKK millions)			Number	FV
	Carsten Nøddebo Rasmussen			2,335	0.3
	Klaus Kristiansen			487	0.1
	<b>Holdings of the Executive Board and fair value, end of 2018</b>				
	Grant year			2015-2018	
	(DKK millions)			Number	FV
	Carsten Nøddebo Rasmussen			1,997	0.3
	Klaus Kristiansen			85	-
	In 2019, the average price at the vesting date for rights to conditional shares was DKK 93.44.				
9	<b>Audit fees</b>				
	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	-	-	-	-
	<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
10	<b>Loan impairment charges</b>				
	IFRS 9 transitional impact on implementation, 1 January 2018	-	400	-	400
	ECL on new assets	230	80	230	80
	ECL on assets derecognised	448	458	448	458
	Impact of remeasurement	-504	-183	-503	-183
	Losses incurred	26	38	26	39
	Received on claims previously written off	47	47	47	47
	<b>Total</b>	<b>265</b>	<b>196</b>	<b>264</b>	<b>197</b>
11	<b>Tax</b>				
	Tax on profit for the year	1,239	1,219	1,228	1,208
	Deferred tax	1	3	2	3
	Adjustment of prior-year tax charges	-	-9	-	-9
	<b>Total</b>	<b>1,240</b>	<b>1,213</b>	<b>1,230</b>	<b>1,202</b>
	<b>Effective tax rate</b>				
	Current Danish tax rate	22.0	22.0	22.0	22.0
	Adjustment of prior-year tax charge	-	-0.2	-	-0.2
	Non-taxable items	-	-	-0.1	-0.1
	<b>Effective tax rate</b>	<b>22.0</b>	<b>21.8</b>	<b>21.9</b>	<b>21.7</b>

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2019	2018	2019	2018
12	<b>Due from credit institutions and central banks</b>				
	On demand	1,045	1,176	967	1,098
	3 months or less	52,727	20,109	52,727	20,109
	3-12 months	-	-	-	-
	<b>Total</b>	<b>53,772</b>	<b>21,285</b>	<b>53,694</b>	<b>21,207</b>
	Due from credit institutions	23,310	3,750	23,232	3,672
	Term deposits with central banks	30,462	17,535	30,462	17,535
	<b>Total</b>	<b>53,772</b>	<b>21,285</b>	<b>53,694</b>	<b>21,207</b>
	At fair value	53,772	21,285	53,694	21,208
	Portion attributable to reverse transactions	22,265	2,537	22,265	2,537
	The fair value is based on quoted prices.				

In 2019, reverse transactions of DKK 1,302 million were offset against repo transactions.

In connection with reverse transactions, Realkredit Danmark is entitled to sell or remortgage the securities.

In 2019, DKK 0 million were sold or remortgaged (2018: DKK 0 million).

13	<b>Bonds at fair value</b>				
	Own mortgage bonds	57,009	62,540	57,009	62,540
	Other mortgage bonds	17,978	16,514	17,978	16,514
	Government bonds	5,044	2,861	5,044	2,861
	<b>Total</b>	<b>80,031</b>	<b>81,915</b>	<b>80,031</b>	<b>81,915</b>
	Own mortgage bonds set off against issued mortgage bonds	57,009	62,540	57,009	62,540
	<b>Total</b>	<b>23,022</b>	<b>19,375</b>	<b>23,022</b>	<b>19,375</b>

Of Realkredit Danmark's bond portfolio, DKK 18.6 billion has a maturity of less than 12 months, while DKK 4.4 billion has a maturity of 1-5 years (2018: DKK 8.1 billion and DKK 11.3 billion).

14	<b>Bonds at amortised cost</b>				
	Other mortgage bonds	29,339	31,781	29,339	31,781
	<b>Total</b>	<b>29,339</b>	<b>31,781</b>	<b>29,339</b>	<b>31,781</b>
	Fair value of held-to-maturity assets	29,689	32,078	29,689	32,078
	The fair value is based on quoted prices.				

Of Realkredit Danmark's bond portfolio, DKK 28.3 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 (2018: DKK 31.4 billion and DKK 0.4 billion).

After implementation of IFRS 9, the bonds are recognised in connection with impairment for expected credit losses.

The bonds are recognised in stage 1, and the expected credit losses resulting from default events within the next 12 months are insignificant.

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2019	2018	2019	2018
15	<b>Total lending</b>				
	Mortgage loans, nominal value	782,991	777,715	782,991	777,715
	Fair value adjustment of underlying bonds	22,324	21,122	22,324	21,122
	Adjustment for credit risk	2,736	2,792	2,736	2,792
	Mortgage loans at fair value	802,579	796,045	802,579	796,045
	Arrears and outlays	122	110	122	110
	Other loans	421	439	393	410
	<b>Total</b>	<b>803,122</b>	<b>796,594</b>	<b>803,094</b>	<b>796,565</b>
	Apart from being backed by mortgages on properties, loans are backed by central and local government guarantees and insurance guarantees of	42,266	32,276	42,266	32,276
	Pass books and bonds have been deposited and guarantees provided as supplementary security in a total amount of	95,553	90,611	95,553	90,611
	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 2019, DKK 56 million was booked to income concerning adjustment for credit risk on loans (2018: DKK 280 million). The accumulated adjustment for credit risk amounts to DKK 2.7 billion (2018: DKK 2.8 billion).				
16	<b>Mortgage loans at fair value</b>				
	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	10	10	10	10
	Private residential rental property	12	11	12	11
	Industrial and skilled trades property	2	2	2	2
	Office and retail property	11	12	11	12
	Agricultural property etc.	6	6	6	6
	Property for social, cultural and training activities	2	2	2	2
	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
	0-1 month	1,049	1,263	1,049	1,263
	1-3 months	3,655	4,361	3,655	4,361
	3-12 months	14,528	17,099	14,528	17,099
	1-5 years	87,772	99,976	87,772	99,976
	5-10 years	133,406	144,103	133,406	144,103
	Over 10 years	562,169	529,243	562,169	529,243
	<b>Total</b>	<b>802,579</b>	<b>796,045</b>	<b>802,579</b>	<b>796,045</b>
17	<b>Loans and other amounts due at amortised cost</b>				
	On demand	122	110	122	110
	3 months or less	20	21	18	19
	3-12 months	61	63	54	56
	1-5 years	131	134	115	117
	Over 5 years	209	221	206	218
	<b>Total</b>	<b>543</b>	<b>549</b>	<b>515</b>	<b>520</b>

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2019	2018	2019	2018
18	<b>Arrears and outlays</b>				
	Arrears before impairment charges	149	133	149	133
	Outlays before impairment charges	32	37	32	37
	Impairment charges	59	60	59	60
	<b>Total</b>	<b>122</b>	<b>110</b>	<b>122</b>	<b>110</b>

## 19 Loans etc.

### Credit exposure – gross carrying amount (i.e. before impairments)

Realkredit Danmark Group	Mortgage loans			Other loans			Loan commitments			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Gross carrying amount at 1 January 2018	744,358	24,711	22,769	29,958	-	616	36,522	546	402	859,882
Transferred to Stage 1	11,171	-8,892	-2,279	-	-	-	-	-	-	-
Transferred to Stage 2	-9,624	16,489	-6,865	-1	15	-14	-21	203	-182	-
Transferred to Stage 3	-2,582	-301	2,883	-	-	-	-	-	-	-
New assets	115,000	4,463	777	21,301	9	210	26,141	393	52	168,346
Assets derecognised (other than written off)	81,918	4,123	4,888	29,814	-	467	25,351	399	97	147,057
Other	-20,977	-817	-518	16	3	69	-1,772	261	127	-23,608
<b>Gross carrying amount 31 December 2018</b>	<b>755,428</b>	<b>31,530</b>	<b>11,879</b>	<b>21,460</b>	<b>27</b>	<b>414</b>	<b>35,519</b>	<b>1,004</b>	<b>302</b>	<b>857,563</b>
Transferred to Stage 1	7,180	-6,543	-637	3	-3	-	277	-277	-	-
Transferred to Stage 2	-20,016	20,826	-810	-7	7	-	-1	1	-	-
Transferred to Stage 3	-1,519	-1,113	2,632	-	-4	4	-	-	-	-
New assets	212,838	9,089	1,261	31,197	19	725	20,357	314	49	275,849
Assets derecognised (other than written off)	189,766	8,063	3,221	5	8	295	21,262	427	56	223,103
Other	-14,441	-847	-372	365	49	428	-2,204	-41	-38	-17,101
<b>Gross carrying amount 31 December 2019</b>	<b>749,704</b>	<b>44,879</b>	<b>10,732</b>	<b>53,013</b>	<b>87</b>	<b>1,276</b>	<b>32,686</b>	<b>574</b>	<b>257</b>	<b>893,208</b>

The nominal value of loans written off in 2019 and for which Realkredit Danmark has maintained the claim amounts to DKK 201 million (2018: DKK 208 million).

# Notes

Note	(DKK millions)											
19 cont'd	<b>Loans etc.</b>											
	<b>Reconciliation of total allowance account</b>											
	<b>Realkredit Danmark Group</b>			Mortgage loans			Other loans			Loan commitments		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total	
	ECL at 1 January 2018, incl. impact on loans	535	400	2,585	15	11	71	2	1	7	3,627	
	Transferred to stage 1	233	-155	-78	5	-4	-1	-	-	-	-	
	Transferred to stage 2	-65	342	-277	-1	8	-7	-	-	-	-	
	Transferred to stage 3	-35	-35	70	-1	-1	2	-	-	-	-	
	ECL on new assets	20	12	42	-	-	1	5	-	-	80	
	ECL on assets derecognised	42	65	334	1	1	8	-	-	7	458	
	Impact of remeasurement	10	32	153	-4	-3	-6	-	-	-	182	
	Write-offs, allowance account	10	8	538	-	-	12	-	-	-	568	
	Impairment charges at 31 December 2018	646	523	1,623	13	10	40	7	1	-	2,863	
	Transferred to stage 1	239	-209	-30	5	-4	-1	-	-	-	-	
	Transferred to stage 2	-391	541	-150	-7	10	-3	-	-	-	-	
	Transferred to stage 3	-30	-185	215	-1	-3	4	-	-	-	-	
	ECL on new assets	15	172	35	-	3	1	3	-	1	230	
	ECL on assets derecognised	92	173	175	2	3	3	-	-	-	448	
	Impact of remeasurement	-94	273	327	-2	4	-4	-	-	-	504	
	Write-offs, allowance account	3	17	324	-	-	6	-	-	-	350	
	Impairment charges at 31 December 2019	290	925	1,521	6	17	28	10	1	1	2,799	

Includes the IFRS 9 transitional impact on implementation 1 January 2018 of DKK 400 million. see note 9.

Other loans comprise the balance sheet items "Due from credit institutions and central banks", "Loans and other amounts due at amortised cost" and "Other assets". These loans are valued at amortised cost. For Realkredit Danmark A/S, the credit exposure and total impairments correspond to the calculation for the Group with the sole difference that loans in the amount of DKK 28 million in home are excluded (recognised in other loans in the tables) (2018: DKK 29 million).

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2019	2018	2019	2018
20	<b>Other tangible assets</b>				
	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	17	17	-	-
	Depreciation charges	1	1	-	-
	Depreciation and impairment charges reversed on disposals etc.	-	1	-	-
	Depreciation and impairment charges at 31 December	18	17	-	-
	Carrying amount at 31 December	6	7	5	5

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S		
		2019	2018	2019	2018	
21	<b>Deferred tax assets and liabilities</b>					
	Deferred tax liabilities	36	41	-	-	
	Provision for deferred tax	-	-	39	44	
	<b>Total</b>	<b>36</b>	<b>41</b>	<b>39</b>	<b>44</b>	
	<b>Change in deferred tax</b>					
	<b>Realkredit Danmark Group</b>	At 1 Jan.	Recognised in net profit for the year	Recognised in other comprehensive income	Other adjustments	At 31 Dec.
	2019					
	Intangible assets	-1	-	-	-	-1
	Tangible assets	-3	-	-	-	-3
	Securities	7	-1	-	-	6
	Provisions	40	1	-5	-	36
	Other	-2	-	-	-	-2
	<b>Total</b>	<b>41</b>	<b>-</b>	<b>-5</b>	<b>-</b>	<b>36</b>
	Adjustment of prior-year tax charges included in total		-1			
	2018					
	Intangible assets	-1	-	-	-	-1
	Tangible assets	-4	1	-	-	-3
	Securities	7	-	-	-	7
	Provisions	40	3	-3	-	40
	Other	-1	-1	-	-	-2
	<b>Total</b>	<b>41</b>	<b>3</b>	<b>-3</b>	<b>-</b>	<b>41</b>
	Adjustment of prior-year tax charges included in total		1			
	<b>Change in deferred tax</b>					
	<b>Realkredit Danmark A/S</b>	At 1 Jan.	Recognised in net profit for the year	Recognised in other comprehensive income	Other adjustments	At 31 Dec.
	2019					
	Intangible assets	-1	-	-	-	-1
	Tangible assets	-2	-	-	-	-2
	Securities	7	-1	-	-	6
	Provisions	40	1	-5	-	36
	Other	-	-	-	-	-
	<b>Total</b>	<b>44</b>	<b>-</b>	<b>-5</b>	<b>-</b>	<b>39</b>
	Adjustment of prior-year tax charges included in total		-1			
	2018					
	Intangible assets	-1	-	-	-	-1
	Tangible assets	-3	1	-	-	-2
	Securities	7	-	-	-	7
	Provisions	40	4	-4	-	40
	Other	-	-	-	-	-
	<b>Total</b>	<b>43</b>	<b>5</b>	<b>-4</b>	<b>-</b>	<b>44</b>
	Adjustment of prior-year tax charges included in total		1			

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2019	2018	2019	2018
22	<b>Assets temporarily taken over</b>				
	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. In 2019, the Group took over properties for DKK 22 million (2018: DKK 40 million). The effect on profit or loss on properties taken over was DKK 0 million (2018: DKK -5 million).				
23	<b>Other assets</b>				
	Interest due	352	428	352	428
	Pension assets	187	208	187	208
	Lease assets	100	-	-	-
	Other assets	2,576	1,342	2,540	1,304
	<b>Total</b>	<b>3,215</b>	<b>1,978</b>	<b>3,079</b>	<b>1,940</b>
24	<b>Due to credit institutions and central banks</b>				
	On demand	-	-	-	-
	3 months or less	3	778	3	778
	3-12 months	-	-	-	-
	1-5 years	4,000	-	4,000	-
	<b>Total</b>	<b>4,003</b>	<b>778</b>	<b>4,003</b>	<b>778</b>
	At fair value	3	773	3	773
	Portion attributable to repo transactions	3	778	3	778
	In 2019, repo transactions of DKK 1,302 million were offset against reverse transactions.				
25	<b>Issued mortgage bonds at fair value</b>				
	Issued mortgage bonds, nominal value*	885,535	848,951	885,535	848,951
	Fair value adjustment	24,953	22,680	24,953	22,680
	Issued mortgage bonds at fair value, before set-off	910,488	871,631	910,488	871,631
	Set-off of own mortgage bonds at fair value	57,009	62,540	57,009	62,540
	Issued mortgage bonds at fair value	853,479	809,091	853,479	809,091
	The fair value is based on quoted prices.				
	0-1 month	93,012	64,330	93,012	64,330
	1-3 months	-	-	-	-
	3-12 months	101,866	106,745	101,866	106,745
	1-5 years	358,606	373,302	358,606	373,302
	5-10 years	99,442	76,832	99,442	76,832
	Over 10 years	200,553	187,882	200,553	187,882
	<b>Total</b>	<b>853,479</b>	<b>809,091</b>	<b>853,479</b>	<b>809,091</b>
	* Portion pre-issued	25,341	36,931	25,341	36,931
	* Portion drawn at 2 January 2020, or in 2019	88,968	61,629	88,968	61,629
	*In 2019, Realkredit Danmark issued bonds under the green bond framework, with a nominal value of DKK 812 million outstanding at the end of 2019.				

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 2019, the Danish mortgage bond yield spread narrowed and the fair value of issued mortgage bonds thus increased by some DKK 2 billion. In 2018, the Danish mortgage bond yield spread widened, and the fair value of issued mortgage bonds decreased. Based on the outstanding portfolio at the end of 2019, 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 5 billion (2018: negative fair value of DKK 8 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 2019 or the period since the issue has been required.

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S		
		2019	2018	2019	2018	
26	<b>Issued bonds at amortised cost</b>					
	Nominal value of issued bonds	-	5,952	-	5,952	
	Fair value hedging of interest rate risk	-	-	-	-	
	Premium/discount	-	-	-	-	
	<b>Total issued bonds</b>	-	<b>5,952</b>	-	<b>5,952</b>	
	Fair value of issued bonds at amortised cost	-	5,965	-	5,965	
	The fair value is based on quoted prices.					
	0-1 month	-	-	-	-	
	1-3 months	-	-	-	-	
	3-12 months	-	5,965	-	5,965	
	1-5 years	-	-	-	-	
	5-10 years	-	-	-	-	
	Over 10 years	-	-	-	-	
	<b>Total</b>	-	<b>5,965</b>	-	<b>5,965</b>	
		1 Jan.			31 Dec.	
	Nominal value	2019	Issued	Redeemed	2019	
	<b>Total issued bonds</b>	<b>5,952</b>	-	<b>5,952</b>	-	
	Issued bonds at amortised cost consist of issued senior debt.					
27	<b>Other liabilities</b>					
	Interest accrued	4,447	5,006	4,447	5,006	
	Reserves in early series subject to a reimbursement obligation*	13	18	-	-	
	Lease liabilities	100	-	-	-	
	Other creditors	446	416	438	402	
	<b>Total</b>	<b>5,006</b>	<b>5,440</b>	<b>4,885</b>	<b>5,408</b>	
	* Recognised in the balance sheet of the parent company, Realkredit Danmark A/S, under "Provisions".					
28	<b>Reserves in early series subject to a reimbursement obligation*</b>					
	Carrying amount, beginning of year	18	29	18	29	
	Utilised	-5	-7	-5	-7	
	Increase due to shortening of maturity	-	-4	-	-4	
	Increase due to change in discount rate	-	-	-	-	
	<b>Carrying amount, end of year</b>	<b>13</b>	<b>18</b>	<b>13</b>	<b>18</b>	
	* 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	
		2019	2018	2019	2018
29	<b>Risk exposure amount (REA)</b>				
	Credit risk (IRB approach)	130,192	132,283	130,126	132,214
	Credit risk (standardised approach)	6,744	6,321	6,782	6,458
	Counterparty risk	66	8	66	8
	<b>Total credit risk</b>	<b>137,002</b>	<b>138,612</b>	<b>136,974</b>	<b>138,680</b>
	Market risk	267	227	267	227
	Operational risk	11,084	10,933	10,933	10,761
	<b>Total</b>	<b>148,353</b>	<b>149,772</b>	<b>148,174</b>	<b>149,668</b>

The total capital and tier 1 capital ratios are calculated in accordance with the CRR/CRD IV.

rd.dk provides more details about Realkredit Danmark's solvency need. The solvency need calculation is not covered by the statutory audit.

- 30 **Assets deposited 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	10,389	10,522	10,389	10,522
Portion issued by Realkredit Danmark	2,550	4,901	2,550	4,901
<b>Assets sold under repo transactions</b>				
Bonds at fair value	3	773	3	773
Portion issued by Realkredit Danmark	3	-	3	-

At 31 December 2019, mortgage lending totalling DKK 802,579 million and other assets totalling DKK 13,330 million were registered as security for issued mortgage bonds, including mortgage-covered bonds, and issued bonds at amortised cost (2018: DKK 796,045 million and DKK 16,675 million).

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

# Notes

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Note	(DKK millions)
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31 **Contingent liabilities**

Owing to its size and business volume, 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 Pensionsafvirkingskasse. 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. Realkredit Danmark pays an annual contribution to the resolution fund.

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:

	Realkredit Danmark Group		Realkredit Danmark A/S	
	2019	2018	2019	2018
<b>Other contingent liabilities</b>				
Irrevocable loan commitments	33,522	36,830	33,517	36,824
Other commitments	23	24	5	5
Total	33,545	36,854	33,522	36,829

# Notes

Note	(DKK millions)
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## 32 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 2019.

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	
	2019	2018	2019	2018
Fees, etc. paid to Danske Bank A/S for the arranging and guaranteeing of mortgage loans	1,377	1,089	1,377	1,089
Fees received from Danske Bank A/S for referral of customers and for property valuation	91	80	91	80
Fees paid to Danske Bank A/S for managing Realkredit Danmark's IT operations and development, portfolio management and finance functions, etc.	287	237	270	221
Interest received by Realkredit Danmark A/S on outstanding accounts with Danske Bank A/S	-91	-19	-91	-19
Interest received on mortgage loans raised by sister company	4	9	4	9
Interest paid by Realkredit Danmark A/S on outstanding accounts with Danske Bank A/S	-36	-12	-36	-12
Amounts due from Danske Bank A/S	23,300	3,741	23,222	3,663
Mortgage lending to sister company	-	1,107	-	1,107
Loss guarantees from Danske Bank A/S	53,287	58,335	53,287	58,335
Other guarantees from Danske Bank A/S	68,697	24,995	68,697	24,995
Amounts due to Danske Bank A/S	4,003	778	4,003	778

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.

## 33 Loans etc. to management

Mortgage loans established on an arm's length basis for

Board of Directors of Realkredit Danmark A/S	61	54	61	54
Executive Board of Realkredit Danmark A/S	4	4	4	4
Board of Directors and Executive Leadership Team of Danske Bank A/S	61	54	61	54

Average interest rate and administration margin for loans etc. to management

1.6%	2.0%	1.6%	2.0%
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# Notes

Note	(DKK millions)	Realkredit Danmark Group			
34	<b>Financial instruments at fair value</b>				
	2019	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	11,799	11,223	-	23,022
	Mortgage loans at fair value	-	802,579	-	802,579
	Shares	-	-	2	2
	Derivatives	-	95	-	95
	<b>Total</b>	<b>11,799</b>	<b>813,897</b>	<b>2</b>	<b>825,698</b>
	Issued mortgage bonds at fair value	853,479	-	-	853,479
	Derivatives	-	5	-	5
	<b>Total</b>	<b>853,479</b>	<b>5</b>	<b>-</b>	<b>853,484</b>
	2018				
	Bonds at fair value	13,016	6,359	-	19,375
	Mortgage loans at fair value	-	796,045	-	796,045
	Shares	-	-	2	2
	Derivatives	-	66	-	66
	<b>Total</b>	<b>13,016</b>	<b>802,470</b>	<b>2</b>	<b>815,488</b>
	Issued mortgage bonds at fair value	809,091	-	-	809,091
	Derivatives	-	68	-	68
	<b>Total</b>	<b>809,091</b>	<b>68</b>	<b>-</b>	<b>809,159</b>

Negative interest income and interest expenses due to negative interest rates were insignificant during 2018 and 2019 when taking into account that negative interest expenses on issued mortgage bonds are passed over to the customers as part of the interest on the mortgage loans funded by those bonds. Negative interest income and interest expenses 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 2019.

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

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Note	(DKK millions)
35	<p><b>Reporting to the Danish FSA</b></p> <p>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, Executive Order no. 1043 of 5 September 2017 and Executive Order no. 1441 of 3 December 2018.</p> <p>The amendments to the Danish FSA's Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc. included in the Executive Order no. 1441 of 3 December 2018 incorporate changes due to IFRS 16 Leases.</p> <p>Note 1 to the financial statements for Realkredit Danmark Group provides further information on the impact from the implementation of IFRS 16. Except for these changes, Realkredit Danmark A/S has not changed its significant accounting policies from those applied in the Annual Report 2018.</p> <p>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.</p>

# Notes

Note

## RISK MANAGEMENT

The principal risk faced by Realkredit Danmark is credit risk on mortgage loans. Realkredit Danmark only has limited exposure to market risk due to the balance principle and the fact that Realkredit Danmark does not invest in equities. The principal market risk is interest rate risk on Realkredit Danmark's proprietary portfolio of bonds.

In recent years, Realkredit Danmark has increased its focus on non-financial risks like operational risks and risks related to financial crime.

### 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 2019 by maintaining a total capital ratio of 31.1, well above the regulatory requirement of 16.9, and AAA ratings from S&P Global, AAA/AA+ ratings from Fitch Ratings and AAA ratings from Scope 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 22%, Urban trade for 15% 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 2019, 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 2020. When granting credit, the Group requires the customer to be able to service a fixed-rate loan with principal repayment. When granting a FlexLån® loan, the customer must also be able to service a fixed-rate loan with principal repayment 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 value model. This property value model is regularly monitored, and it is also subjected to an 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 approved 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	2019 Total	2018 Total
1	-	-	-	-
2	20	1	21	14
3	114	69	183	174
4	127	71	198	219
5	106	87	193	177
6	44	63	107	107
7	31	37	68	71
8	9	11	20	20
9	1	2	3	3
10	2	5	7	8
11	1	4	5	6
Total	455	350	805	799

### Probability of Default (PD) %

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

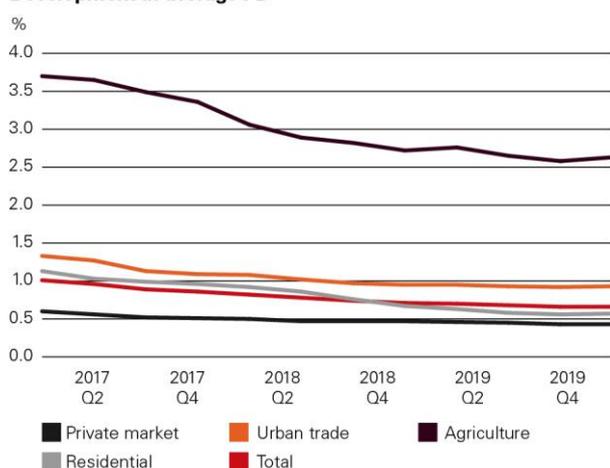
# Notes

## Note

Over the past year, Realkredit Danmark has witnessed a positive migration in customer classifications, which is reflected in a larger proportion of the loan portfolio being loans to customers in the good rating categories compared with 2018. The total average PD has fallen for all sectors of the loan portfolio compared with the level a year ago.

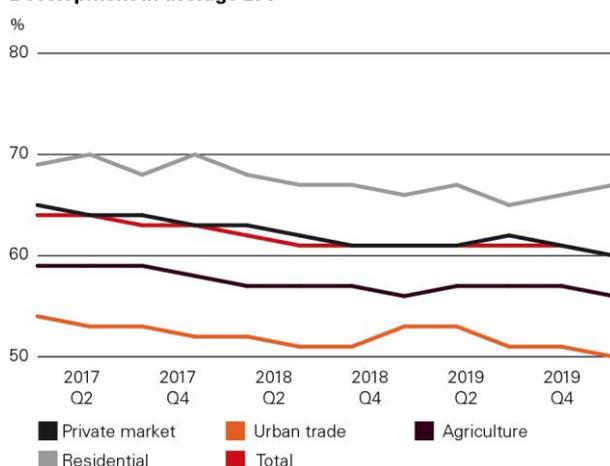
The average PD for all segments has generally trended lower due to the improved credit quality.

### Development in average PD



Property prices have risen in recent years. 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 61 at end-2018 to 60 at end-2019.

### Development in average LTV



The loan portfolio remained very secure. 90% of the loan 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 2019

Sector, %	0-20	20-40	40-60	60-80	>80	Total DKK billions
Personal market	172	145	96	37	5	455
Urban trade	54	42	20	3	2	121
Agriculture	18	15	9	2	1	45
Residential	74	48	32	16	14	184
Weighted distribution	39%	31%	20%	7%	3%	100%
Total DKK billions	318	250	157	58	22	805

### Loan portfolio broken down by loan-to-value ratios at 2018

Sector, %	0-20	20-40	40-60	60-80	>80	Total DKK billions
Personal market	172	144	96	39	6	457
Urban trade	52	43	24	4	2	125
Agriculture	18	16	10	2	1	47
Residential	72	46	29	13	10	170
Weighted distribution	40%	31%	20%	7%	2%	100%
Total DKK billions	314	249	159	58	19	799

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 2019

Rating category	Loan to Value					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	80-100%	
1	-	-	-	-	-	-
2	10	7	3	1	-	21
3	79	54	31	12	7	183
4	83	61	36	13	5	198
5	72	63	41	14	3	193
6	39	34	23	9	2	107
7	24	22	15	6	1	68
8	7	6	4	2	1	20
9	1	1	1	-	-	3
10	2	2	1	1	1	7
11	1	1	1	1	1	5
Total	318	251	156	59	21	805

# Notes

Note

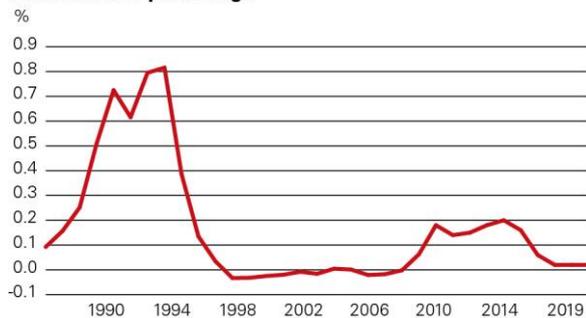
## Portfolio broken down by loan to value and rating category 2018

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	77	52	29	10	6	174
4	90	69	42	14	4	219
5	65	57	38	14	3	177
6	39	34	23	9	2	107
7	24	23	16	7	1	71
8	7	6	5	2	1	21
9	1	1	1	-	-	3
10	2	2	2	1	1	8
11	2	1	1	1	1	6
Total	314	249	159	58	19	799

Impairments for 2019 amounted to DKK 265 million, corresponding to 0.03% of total mortgage lending. This is an increase relative to 2018, when the charges amounted to DKK 196 million. The higher impairments were due to an update of the statistical loss models used to calculate expected credit losses. The underlying credit quality remains strong with few non-performing exposures and strong collateral.

Loan impairment charges are expected to remain at a low level in 2020.

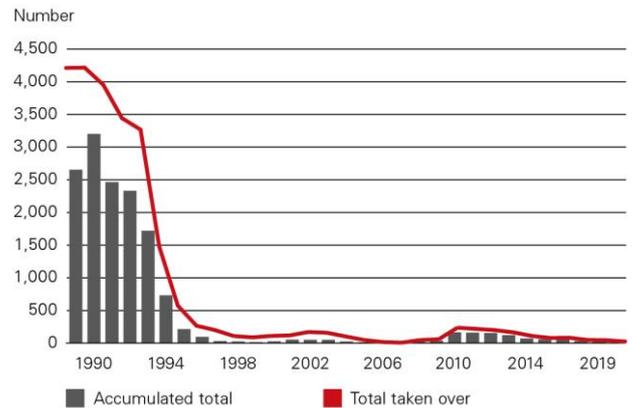
## Historical loss percentage



The number of new properties taken over by Realkredit Danmark at a forced sale fell to 24 in 2019 from 39 in 2018. In the same period, the number of properties taken over fell from 29 to 16.

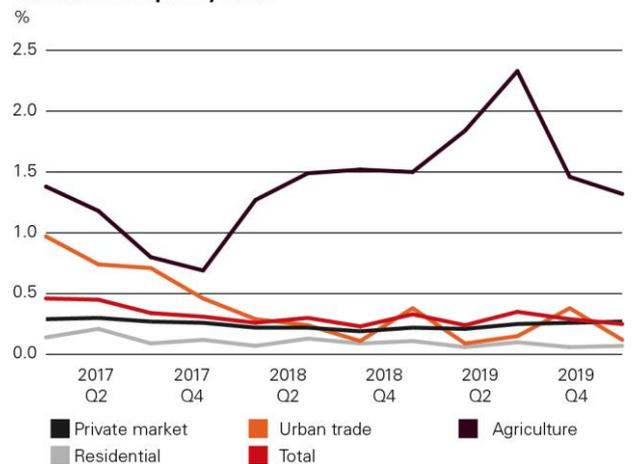
In a historical context, the number of properties taken over in 2019 was much lower than during the crisis of the early 1990s, when more than 4,000 properties were taken over in the worst year.

## 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 270 billion was partly covered by this loss guarantee at the end of 2019. The total guarantee in 2019 amounted to DKK 53 billion.

## 3-month delinquency rates



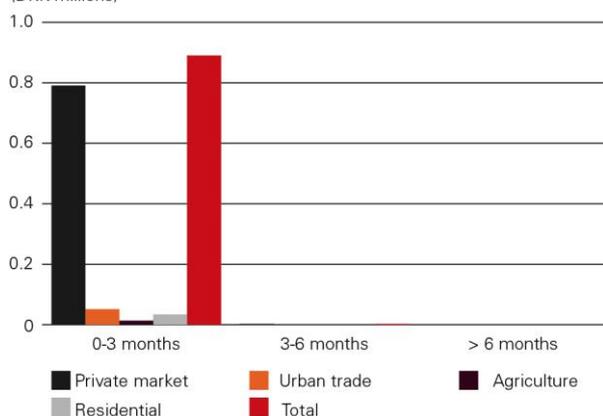
The delinquency rate, calculated as the proportion of due payments remaining unpaid 3 months after the last due payment date, generally trended lower in 2019 compared with 2018. The decline was driven by falling delinquencies for business customers, while delinquencies for personal customers trended higher.

# Notes

Note

## Arrears on loans without OEI at 31 December 2019

(DKK millions)



The chart shows arrears on loans without OEI at 31 December 2019. Total arrears on loans without OEI amounted to DKK 0.9 million at the end of 2019. Of total arrears on loans without OEI, 99.7% are less than three months old.

## 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 difficulty is 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 2019, the total exposure to loans with forbearance terms amounted to DKK 4.1 billion. This is a decrease of DKK 2.0 billion relative to 2018.

Arrears	Loan portfolio DKK millions		Loan to value %		Arrears Sept. paym. in %	
	2019	2018	2019	2018	2019	2018
Private market	455,078	457,723	60	61	0.27	0.22
Urban trade	120,644	125,204	50	53	0.12	0.38
Agriculture	45,868	46,795	56	56	1.32	1.50
Residential rental property	183,725	169,115	67	66	0.07	0.11
<b>Total</b>	<b>805,315</b>	<b>798,837</b>	<b>60</b>	<b>61</b>	<b>0.25</b>	<b>0.33</b>

## Non-performing loans

At 31 December 2019, the total exposure to non-performing loans amounted to DKK 10.7 billion. This is a decline compared with the end of 2018, when non-performing loans amounted to DKK 11.6 billion.

## 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 2019, the Group's exposures did not exceed these limits.

Credit exposure to groups representing 10% or more of the capital base amounted to DKK 4,675 million at 31 December 2019 (2018: DKK 4,936 million). At the end of 2019, 0 exposures exceeded 20% of the capital base, while 1 exposure exceeded 10%. Intra-group accounts are not included in the calculation.

# Notes

## Note

In the table below, mortgage loans and the fair value of credit risk is broken down by 11 rating categories and stages 1, 2 and 3 of IFRS 9 (DKK billions):

31 December 2019

Rating category	PD level		Gross Exposure			Expected Credit Loss			Net Exposure		
	Lower	Upper	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	0.00	0.00	356	-	-	-	-	-	356	-	-
2	0.01	0.03	21,385	12	6	2	-	-	21,383	12	6
3	0.03	0.06	183,002	446	45	12	2	2	182,990	444	43
4	0.06	0.14	197,108	754	265	34	2	8	197,074	752	257
5	0.14	0.31	191,209	1,425	133	66	7	9	191,143	1,418	124
6	0.31	0.63	99,960	6,481	180	55	37	7	99,905	6,444	173
7	0.63	1.90	50,019	17,396	328	90	103	21	49,929	17,293	307
8	1.90	7.98	6,026	13,016	321	28	484	29	5,998	12,532	292
9	7.98	25.70	362	2,378	122	3	228	13	359	2,150	109
10	25.70	100.00	189	2,829	4,398	-	57	582	189	2,772	3,816
11	100.00	100.00	88	142	4,934	-	5	850	88	137	4,084
Total			749,704	44,879	10,732	290	925	1,521	749,414	43,954	9,211

31 December 2018

Rating category	PD level		Gross Exposure			Expected Credit Loss			Net Exposure		
	Lower	Upper	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	0.00	0.01	353	-	-	-	-	-	353	-	-
2	0.01	0.03	13,886	6	48	1	2	1	13,885	4	47
3	0.03	0.06	173,008	421	130	13	2	2	172,995	419	128
4	0.06	0.14	218,692	473	219	36	2	3	218,656	471	216
5	0.14	0.31	175,525	751	197	64	3	5	175,461	748	192
6	0.31	0.63	103,102	2,938	361	70	10	66	103,032	2,928	295
7	0.63	1.90	57,560	12,655	273	126	47	14	57,434	12,608	259
8	1.90	7.98	12,136	8,074	382	275	144	16	11,861	7,930	366
9	7.98	25.70	745	2,384	67	59	181	9	686	2,203	58
10	25.70	100.00	265	3,166	4,873	1	62	595	264	3,104	4,278
11	100.00	100.00	156	662	5,329	1	70	912	155	592	4,417
Total			755,428	31,530	11,879	646	523	1,623	754,782	31,007	10,256

### Market risk

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

### Interest rate risk

The interest rate risk expresses the expected loss on fixed-income positions from a general increase in interest rates of 1 percentage point. In accordance with Danish law, the difference between interest payments and instalments received on mortgage loans and payments made on issued bonds may not result in an interest rate risk exceeding 1% of

Realkredit Danmark's total capital, that is, DKK 462 million. At the end of 2019, this interest rate risk amounted to DKK 18 million against DKK 9 million in 2018.

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 3,694 million, in accordance with Danish law. At the end of 2019, the interest rate risk on these items amounted to DKK 953 million, against DKK 1,144 million the year before.

At the end of 2019, the total interest rate risk amounted to DKK 971 million, or 2.1% of the total capital. The year before, Realkredit Danmark's interest rate risk was DKK 1,153 million.

# Notes

Note

## 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-2019, the market value and hence the equity market risk amounted to DKK 139 million, against DKK 139 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 2019, the exchange rate risk amounted to DKK 2 million, against DKK 1 million the year before.

Derivatives (DKK millions)	Nominal value	2019		Nominal value	2018		
		Positive market value	Negative market value		Positive market value	Negative market value	
<b>Interest rate contracts</b>							
Forward/futures bought	25,338	33	-	36,683	42	-	
Forward/futures sold	16,108	79	2	19,370	19	66	
<b>Currency contracts</b>							
Forward/futures bought	407	-	-	929	-	-	
Forward/futures sold	60	-	2	140	-	1	
Interest rate and currency contracts held for trading purposes, total		112	4		61	67	
<b>Outstanding spot transactions</b>							
Interest rate contracts bought	1,067	13	-	1,082	5	-	
Interest rate contracts sold	2,214	3	1	1,149	-	1	
Total outstanding spot transactions		16	1		5	1	

All derivatives have a maturity of less than one year.

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

## 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.

## Liquidity risk

Realkredit Danmark regularly finances its lending activities by issuing bonds. Consequently, Realkredit Danmark's principal liquidity risk is not related to the ongoing financing of loans but to the refinancing auctions at which large volume of bonds need to be sold during a short period of time. Realkredit Danmark constantly seeks to mitigate this risk by spreading the auctions across the year and giving borrowers an incentive to opt for loans without or with less frequent needs for refinancing.

The refinancing auctions are also supported by the well-functioning Danish bond market. In the opinion of Realkredit Danmark, the size of the auctions is not at a level that gives rise to concern.

## Non-financial risks

In recent years, Realkredit Danmark has focused increasingly on non-financial risks. Each year, the Group assesses and reports on operational risks, and operational events are reported in in-house systems. These endeavours have helped ensure that Realkredit Danmark has not experienced significant repeating operational errors during the past five years, and losses caused by operational events have been very limited..

## Compliance

Realkredit Danmark is exposed to compliance risks, such as financial crime risks, market integrity risks, outsourcing risks, GDPR risks and other governance and conduct risks. See also Compliance under "Organisation and management".

# Notes

Note

<b>Realkredit Danmark Group</b>					
(DKK millions)	2019	2018	2017	2016	2015
<b>HIGHLIGHTS</b>					
Net interest and fee income	6,377	6,391	6,339	6,249	6,557
Value adjustments	219	-67	-32	-61	-441
Staff costs and administrative expenses	811	702	733	787	784
Loan impairment charges	265	196	147	182	432
Income from associates	-	-	-1	-	3
Net profit for the year	4,396	4,337	4,368	4,181	3,890
Loans	803,122	796,594	789,392	768,397	745,166
Shareholders' equity	49,993	49,915	49,891	49,347	48,746
Total assets	912,548	871,217	876,890	862,677	836,574
<b>RATIOS AND KEY FIGURES</b>					
Total capital ratio (%)	31.1	30.6	28.3	30.1	38.8
Tier 1 capital ratio (%)	30.7	30.3	28.1	29.6	38.3
Return on equity before tax (%)	11.3	11.1	11.3	10.9	10.5
Return on equity after tax (%)	8.8	8.7	8.8	8.5	8.1
Cost/core income ratio DKK	6.23	7.17	7.35	6.51	5.18
Foreign exchange position (%)	0.6	0.5	1.5	3.2	0.5
Gearing of loans	16.1	16.0	15.8	15.6	15.3
Growth in lending for the year (%)	0.7	1.1	1.9	2.0	1.9
Impairment ratio for the year (%)	0.03	0.02	0.02	0.02	0.06
Return on assets (%)	0.5	0.5	0.5	0.5	0.5
<b>Realkredit Danmark A/S</b>					
<b>HIGHLIGHTS</b>					
Net interest and fee income	6,377	6,391	6,338	6,248	6,555
Value adjustments	219	-67	-33	-61	-440
Staff costs and administrative expenses	748	634	642	688	678
Loan impairment charges	264	197	148	182	432
Income from associates and group undertakings	36	38	35	30	28
Net profit for the year	4,396	4,337	4,337	4,181	3,882
Loans	803,094	796,565	789,363	768,363	745,132
Shareholders' equity	49,993	49,915	49,891	49,378	48,777
Total assets	912,440	871,206	876,874	862,705	836,593
<b>RATIOS AND KEY FIGURES</b>					
Total capital ratio (%)	31.2	30.6	28.4	30.1	38.8
Tier 1 capital ratio (%)	30.7	30.4	28.1	29.6	38.3
Return on equity before tax (%)	11.3	11.1	11.2	10.9	10.5
Return on equity after tax (%)	8.8	8.7	8.7	8.5	8.0
Cost/core income ratio DKK	6.56	7.67	8.03	7.15	5.56
Foreign exchange position (%)	0.6	0.5	1.5	3.2	0.5
Gearing of loans	16.1	16.0	15.8	15.6	15.3
Growth in lending for the year (%)	0.7	1.1	1.9	2.0	1.9
Impairment ratio for the year (%)	0.03	0.02	0.02	0.02	0.06
Return on assets (%)	0.5	0.5	0.5	0.5	0.5

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

# Notes

Note

	Share capital (thousands)	Net profit (DKK millions)	Shareholders' equity (DKK millions)	Holding of share capital (%)
<b>Group holdings and undertakings</b>				
<b>Realkredit Danmark A/S, Copenhagen</b>	DKK 630,000	4,396	49,993	
<b>Subsidiaries</b>				
<b>Real-estate agency business</b>				
home a/s, Aarhus	DKK 15,000	36	137	100

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

# Notes

## Series accounts

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

Note	(DKK millions)	Jydsk Grundejer- Kredit- forening	Ny jydske Kjøbstad- Credit- forening	Østifternes Kredit- forening	Series not subject to a reimbursement obligation	Danske Kredit
<b>Income statement</b>						
	Income from lending	0.1	0.3	0.7	19.9	0.4
1	Net interest income etc.	0.1	0.1	2.6	20.0	-
1	Administrative expenses etc.	1.6	1.3	2.4	16.1	1.1
	Loan impairment charges	-	-	-	-0.2	0.6
	Tax	-0.3	-0.2	0.2	5.3	-0.3
2	Net profit for the year	-1.1	-0.7	0.7	18.7	-1.0
<b>Balance sheet - assets</b>						
	Mortgage loans etc.	23.7	43.5	161.3	13,620.8	68.5
	Other assets	9.5	9.1	119.5	1,418.8	8.3
	Total assets	33.2	52.6	280.8	15,039.6	76.8
<b>Balance sheet - liabilities and equity</b>						
3	Issued bonds	30.2	48.7	175.6	14,160.7	75.6
	Other liabilities	0.2	0.2	1.3	70.9	0.3
4	Shareholders' equity	2.8	3.7	103.9	808.0	0.9
5	Total liabilities and equity	33.2	52.6	280.8	15,039.6	76.8
<b>Income statement</b>						
	Income from lending	1,753.9	4,178.1	76.4	159.3	6,189.1
1	Net interest income etc.	410.3	767.4	3.1	93.5	1,297.1
1	Administrative expenses etc.	549.3	849.2	48.9	143.5	1,613.4
	Loan impairment charges	105.3	153.6	-	5.1	264.4
	Tax	332.1	867.5	6.7	19.1	1,230.1
2	Net profit for the year	1,177.5	3,075.2	23.9	85.1	4,378.3
<b>Balance sheet - assets</b>						
	Mortgage loans etc.	271,001.6	459,332.9	29,412.0	29,056.4	802,720.7
	Other assets	81,736.7	74,249.8	2,796.1	6,922.5	167,270.3
	Total assets	352,738.3	533,582.7	32,208.1	35,978.9	969,991.0
<b>Balance sheet - liabilities and equity</b>						
3	Issued bonds	332,558.4	505,638.7	32,035.9	30,693.2	915,417.0
	Other liabilities	1,661.2	2,513.0	151.7	169.5	4,568.3
4	Shareholders' equity	18,518.7	25,431.0	20.5	5,116.2	50,005.7
5	Total liabilities and equity	352,738.3	533,582.7	32,208.1	35,978.9	969,991.0

# Notes

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.	
		<b>2019</b>
2	<b>Net profit for the year, series accounts</b>	
	Net profit for the year, Realkredit Danmark A/S's financial statements	4,396
	Transferred to other reserves etc.	-
	Adjustment of defined benefit plans	-18
	Net profit for the year, series accounts	4,378
3	<b>Issued bonds, series accounts</b>	
	Issued bonds, Realkredit Danmark A/S's financial statements	853,479
	Own mortgage bonds, not offset in the series accounts	57,009
	Accrued interest, own bonds	4,929
	Issued bonds, series accounts	915,417
4	<b>Shareholders' equity, series accounts</b>	
	Shareholders' equity, Realkredit Danmark A/S's financial statements	49,993
	Reserves in pre-1972 series subject to a reimbursement obligation	13
	Shareholders' equity, series accounts	50,006
5	<b>Total assets, series accounts</b>	
	Total assets, Realkredit Danmark A/S's financial statements	912,440
	Own mortgage bonds, not offset in the series accounts	57,009
	Accrued interest, own bonds	542
	Total assets, series accounts	969,991
6	<b>Transfers to and from reserves subject to a reimbursement obligation</b>	
	In 2019, 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	-3,176
	Other reserves	3,176
	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 2019.

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 2019 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 2019. 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, 5 February 2020

## Executive Board

Carsten Nøddebo Rasmussen  
Chairman of the Executive Board

Klaus Kristiansen  
Member of the Executive Board

## Board of Directors

Jacob Aarup-Andersen  
Chairman

Carsten Rasch Egeriis  
Vice Chairman

Kim Andersen

Jakob Groot

Berit Behring

Anna-Marie Mikkelsen

Lisbeth Sahlertz Nielsen

Majken Hammer Sløk

# Auditor's report

## Independent auditor's report

To the shareholder of Realkredit Danmark A/S

### Opinion

We have audited the consolidated financial statements and the parent financial statements of Realkredit Danmark A/S for the financial year 1 January to 31 December 2019, pages 22-68, 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 2019, and of the results of its operations and cash flows for the financial year 1 January to 31 December 2019 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 2019, and of the results of its operations for the financial year 1 January to 31 December 2019 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 5 years up to and including the financial year 2019.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January to 31 December 2019. 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 matters

### How the matters were addressed in our audit

#### Loan impairment charges

Loans for the Group amounted to DKK 802,579 million at 31 December 2019 (DKK 796.045 million at 31 December 2018), and loan impairment charges of DKK 265 million in 2019 (DKK 196 million in 2018).

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

The most significant judgements are:

- Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer.
- Timely identification of exposures with significant increase in credit risk and credit impaired exposures.
- Valuation of collateral and assumptions of future cash flows on manually assessed credit-impaired exposures.
- Management overlays for particular high-risk portfolios, which are not appropriately captured in the expected credit loss model.

Based on our risk assessment and industry knowledge, we have examined the impairment charges for loans 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 assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer.
- Obtaining and substantively testing evidence to support the assumptions used in the expected credit loss models applied in stage allocation, assumptions applied to derive lifetime possibility of default and methods applied to derive loss given default.
- Testing of key controls over timely identification of exposures with significant increase in credit risk and timely identification of credit impaired exposures.
- Obtaining and substantively testing evidence of timely identification of exposures with significant increase in credit risk and timely identification of credit impaired exposures.

# Auditor's report

<p>Management has provided further information about the loan impairment charges in notes 1, 10 and 19 to the consolidated financial statements.</p>	<ul style="list-style-type: none"><li>• Testing of key controls over models and manual processes for valuation of collateral and assumptions of future cash flows.</li><li>• Obtaining and substantively testing evidence to support appropriate determination of assumptions for loan impairment charges including valuation of collateral and assumptions of future cash flows on manually assessed credit impaired exposures.</li><li>• Testing of key controls over management overlays applied to manage risks that are not included in the modelled expected credit losses</li><li>• Obtaining and substantively testing evidence of management overlays for high-risk portfolios with particular focus on the methodology applied, evidence of assumptions-setting processes and the consistency thereof by:<ul style="list-style-type: none"><li>○ Assessing the key developments since last year against industry standards and historical data.</li><li>○ Assessing the appropriateness of the different identified management overlays compared with the embedded macro forecasts applied in the expected credit loss models.</li><li>○ Challenging the methodologies applied by using our industry knowledge and experience.</li></ul></li></ul>
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## 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:

# Auditor's report

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the 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, 5 February 2020

**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

**Jacob Aarup-Andersen** Chairman

Member of the Executive Leadership Team of Danske Bank A/S

Born on 6 December 1977

Joined the Board of Directors on 3 March 2016

Directorships and other offices:

Danica Pension, Livsforsikringsaktieselskab (chairman)

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999 (chairman)

Danske Bank International S.A. (chairman)

Kreditforeningen Danmarks Pensionsafvklingskasse (chairman)

MobilePay A/S (chairman)

MobilePay Denmark A/S (chairman)

Finance Denmark

Danish Venture Capital & Private Equity Association

Danske Banks Fond

FR I af 16. september 2018 A/S

Banker og Sparekassers Ungdomskontakt Finansrådet

Digital Dogme

**Carsten Rasch Egeriis**

Member of the Executive Leadership Team of Danske Bank A/S

Born on 18 June 1976

Joined the Board of Directors on 23 May 2018

Directorships and other offices:

e-nettet

Northern Bank Limited

**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:

Danica Pension, Livsforsikringsaktieselskab

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999

**Jakob Groot**

Member of the Executive Leadership Team of Danske Bank A/S

Born on 26 June 1967

Joined the Board of Directors on 23 May 2018

Member of the Audit Committee

Directorships and other offices:

International Capital Markets Association

# Directorships

## **Berit Behring**

Member of the Executive Leadership Team of Danske Bank A/S

Born on 18 October 1966

Joined the Board of Directors on 1 October 2019

Directorships and other offices:

Danica Pension, Livsforsikringsaktieselskab

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999

Northern Bank Limited

Danske Banks Fond

**Anna-Marie Mikkelsen** (elected by the employees)

Specialist Advisor, Realkredit Danmark A/S

Born on 24 September 1955

Joined the Board of Directors on 1 October 2019

**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

## 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)

Association of Danish Mortgage Banks (chairman)

The Popular Educational Association, Copenhagen (chairman)

Kreditforeningen Danmarks Pensionsafviklingskasse

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 2020
- Interim Report – First Quarter 2020:  
30 April 2020
- Interim Report – First Half 2020:  
17 July 2020
- Interim Report – First Nine Months 2020:  
4 November 2020

## **Contact**

Chairman of the Executive Board and  
Chief Executive Officer  
Carsten Nøddebo Rasmussen  
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## **Links**

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