

# Annual Report 2018



REALKREDIT  
**Danmark**

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Annual Report 2018 is a translation of the original report in the Danish language (Årsrapport 2018). In case of discrepancies, the Danish version prevails.

# 5-year financial highlights – Realkredit Danmark Group

## NET PROFIT FOR THE YEAR

(DKK millions)	2018	2017	2016	2015	2014
Administration margin	6,222	6,186	5,890	5,770	5,704
Net interest income	142	59	123	196	62
Net fee income	-617	-601	-611	-509	-524
Income from investment portfolios	577	662	786	662	645
Other income	125	180	141	192	129
<b>Total income</b>	<b>6,449</b>	<b>6,486</b>	<b>6,329</b>	<b>6,311</b>	<b>6,016</b>
Expenses	703	736	790	787	815
<b>Profit before loan impairment charges</b>	<b>5,746</b>	<b>5,750</b>	<b>5,539</b>	<b>5,524</b>	<b>5,201</b>
Loan impairment charges	-204	147	182	432	1,171
<b>Profit before tax</b>	<b>5,950</b>	<b>5,603</b>	<b>5,357</b>	<b>5,092</b>	<b>4,030</b>
Tax	1,301	1,235	1,176	1,202	974
<b>Net profit for the year</b>	<b>4,649</b>	<b>4,368</b>	<b>4,181</b>	<b>3,890</b>	<b>3,056</b>

## BALANCE SHEET (AT 31 DECEMBER)

(DKK millions)	2018	2017	2016	2015	2014
Due from credit institutions etc.	21,446	30,072	31,491	28,696	25,882
Mortgage loans	796,045	788,765	767,695	744,383	744,502
Bonds and shares	51,158	54,851	59,582	59,827	59,817
Other assets	2,568	3,202	3,909	3,668	4,354
<b>Total assets</b>	<b>871,217</b>	<b>876,890</b>	<b>862,677</b>	<b>836,574</b>	<b>834,555</b>
Due to credit institutions etc.	778	4,294	6,355	16,611	10,018
Issued mortgage bonds	809,091	810,050	782,526	745,223	739,358
Issued senior debt	5,952	6,616	17,318	17,721	27,415
Other liabilities	5,481	6,039	7,131	8,273	9,893
Shareholders' equity	49,915	49,891	49,347	48,746	47,871
<b>Total liabilities and equity</b>	<b>871,217</b>	<b>876,890</b>	<b>862,677</b>	<b>836,574</b>	<b>834,555</b>

## RATIOS AND KEY FIGURES

Net profit for the year as % of avg. shareholders' equity	9.3	8.8	8.5	8.1	6.5
Cost/income ratio (%)	10.9	11.3	12.5	12.5	13.5
Total capital ratio (%)	30.6	28.3	30.1	38.8	34.5
Tier 1 capital ratio (%)	30.3	28.1	29.6	38.3	34.0
Full-time-equivalent staff, end of year	229	232	235	239	237

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

# Financial review

## Overview

- In 2018, the Realkredit Danmark Group recorded a net profit of DKK 4,649 million, which was an increase of DKK 281 million, or 6%, relative to 2017. The performance was satisfactory and driven by a larger loan portfolio. In the IFRS financial statements, the profit for 2018 was DKK 4,337 million.
- Impairments amounted to an income of DKK 204 million in 2018, against a charge of DKK 147 million in 2017. In the IFRS financial statements, impairments in 2018 were an expense of DKK 196 million. The new impairment principles of IFRS 9 have resulted in a transition effect of DKK 400 million.
- There is still strong customer demand for Realkredit Danmark's newest mortgage loan product FlexLife®. FlexLife® accounted for 17% of all new loans to personal customers, and in the 60+ age group, the figure is 75%.
- In 2018, borrower demand centred primarily on fixed-rate loans and FlexLån® loans with 5-year refinancing intervals.
- In nominal terms, repayment of principal is now at the same level as before interest-only loans were launched in 2003. Total ordinary repayments equalled 2% of the loan portfolio.
- Realkredit Danmark complies with all threshold values of the supervisory diamond for mortgage credit institutions.
- Realkredit Danmark expects net profit for 2019 to be at the same level as net profit for 2018.

## The year 2018

Realkredit Danmark had a successful year in 2018, recording lending growth while continuing to improve its financial performance. Lendingwise, personal customer demand for FlexLife®, the new mortgage loan launched by Realkredit Danmark at the end of 2017, continued to develop favourably. FlexLife® is also now being offered to selected business customers.

FlexLife® has been on the market for a little over a year, and 2018 was a highly successful year of strong homeowner demand for the new product. Customers are attracted particularly by the possibility of far greater individual flexibility than with other mortgage loan products and also by the possibility of an interest-only period of up to 30 years. Since they were launched at the end of 2017, FlexLife® loans have accounted for nearly one in five new loans disbursed to Danish homeowners, and by the end of 2018, Realkredit Danmark had disbursed loans for DKK 18 billion.

FlexLife® meets a specific customer need. Other mortgage credit institutions have launched, or intend to launch, similar products. In addition, Danish banks, including Realkredit Danmark's owner, Danske Bank, have launched new long-term bank loans. Competition in the Danish home finance market has intensified with the launch of new products offering customer benefits and attractive pricing. In an international context, Danish homeowners have access to highly attractive home finance conditions and prices.

Homeowners in each of Denmark's 98 municipalities have welcomed the new loan options. The largest urban areas of Copenhagen, Aarhus, Odense and Aalborg together accounted for a little over 25% of FlexLife® loan disbursements, reflecting the population distribution.

Homeowners opting for FlexLife® generally have a lower loan-to-value (LTV) ratio.

As was the case in 2017, remortgaging activity was fairly high in 2018.

In 2018, borrower demand centred primarily on fixed-rate loans and FlexLån® loans with 5-year refinancing intervals.

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

The new guidelines for home loans to households with a high debt-to-income ratio entered into force on 1 January 2018. Realkredit Danmark supports the new rules, which in 2018 had a dampening impact on house prices in the country's most expensive areas, including on price developments for owner-occupied flats in Copenhagen. Based on experience from the first year with the new guidelines, Realkredit Danmark still believes that this is a balanced approach, which serves to reduce the risk for homeowners with relatively high debt-to-income ratio. For the new guidelines to have the intended effect, it is important to ensure cross-sector transparency and thereby level the playing field in terms of competition.

In 2018, for the third 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 2018. 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 is part of the Danske Bank Group and thus also an active part of the Danske Bank Group's corporate responsibility.

The Danske Bank Group's CR activities and performance are described in the Group's Corporate Responsibility 2018 report.

Realkredit Danmark offers mortgage loans to finance residential and commercial property across Denmark. To ensure a good rating and, as a result, obtain good prices on its bonds, Realkredit Danmark works continuously to ensure a robust lending book.

In August 2018, it was announced that Scope Ratings would also be rating Realkredit Danmark bonds issued out of capital centres T and S. The bonds of both capital centres hold a rating of AAA. Scope Ratings is a European rating agency, which in combination with existing US-based rating agencies is considered to strengthen the rating situation for Realkredit Danmark's bonds – for the benefit of borrowers and investors.

At 1 July 2018, the new Danish act on state guarantee, guarantee commission and payment commission in connection with financing of subsidised housing entered into force. This means that the Danish state will fully guarantee loans and mortgage bonds financing loans in the subsidised housing area. In return for the guarantee, the mortgage credit institutions must pay commission to the state at 0.12% of the loan principal.

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

## Results

In 2018, Realkredit Danmark recorded a net profit of DKK 4,649 million, against DKK 4,368 million the year before. The net profit is exclusive of a DKK 400 million transition effect of IFRS 9 and tax thereof in the amount of DKK 88 million, for a net amount of DKK 312 million, which is included in the IFRS financial statements of the Realkredit Danmark Group. In the IFRS financial statements, the net profit is thus DKK 4,337 million. The profit performance was driven by the reversal of impairments previously made as well as lending growth and a resulting rise in administration margin income. Remortgaging activity was at the same level as in 2017.

Administration margin income rose DKK 36 million, driven by a larger loan portfolio.

Other income was down DKK 73 million.

Total income was on a level with 2017.

Expenses amounted to DKK 703 million in 2018, against DKK 736 million in 2017.

Impairments totalled an income of DKK 204 million in 2018, against an expense of DKK 147 million in 2017. In both 2017 and 2018, impairments were reversed, primarily impairments previously made against loans to business customers. In addition, the new impairment principles of IFRS 9 have resulted in a transition effect of DKK 400 million in 2018. This has been expensed in the IFRS financial statements of the Realkredit Danmark Group, but recognised as a reduction of equity at 1 January 2018 in the financial highlights to show the actual activity in 2018. The impairments in the IFRS financial statements thus amounted to DKK 196 million.

Impairments equalled -0.03% of total mortgage lending, against 0.02% at end-2017. The delinquency rate was unchanged from the level at end-2017.

The tax charge totalled DKK 1,301 million. The effective tax rate was 21.8%.

## Balance sheet

Gross lending amounted to DKK 120 billion, against DKK 133 billion in 2017. Mortgage lending at fair value rose DKK 7 billion to DKK 796 billion. The development in mortgage lending at fair value is composed of an increase in the nominal outstanding bond debt of DKK 9 billion and a DKK 2 billion decline in the market value adjustment in the same period.

At end-2018, the average loan-to-value (LTV) ratio stood at 61%, which was on a level with the end of 2017. An increase in loans calculated at market value was offset by rising property prices.

The number of new foreclosures was 39 in 2018. The number of foreclosures fell from year-end 2017, standing at 29, of which 26 were owner-occupied dwellings and 3 were commercial properties. The value of the foreclosures was DKK 26 million.

Issued mortgage bonds fell DKK 1 billion to DKK 809 billion. The nominal value of issued mortgage bonds was DKK 787 billion, which was DKK 1 billion more than at the end of 2017. The amounts are exclusive of holdings of own mortgage bonds. Realkredit Danmark issued bonds for a total of DKK 120 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 2018, Realkredit Danmark's interest rate risk and exchange rate risk amounted to DKK 1,153 million and DKK 1.3 million, respectively.

## Capital and solvency

At the end of 2018, shareholders' equity stood at DKK 49.9 billion, against DKK 49.9 billion at the end of 2017. The ordinary dividend payment of DKK 4.3 billion and the consolidation of the net profit for the year accounted for the change. The Board of Directors is rec-

ommending that dividends of DKK 4.3 billion be paid for 2018.

Realkredit Danmark's total capital amounted to DKK 45.8 billion, and the total capital ratio calculated in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) was 30.6%. At 31 December 2017, the corresponding figures were DKK 45.9 billion and 28.3%.

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 149.8 billion at 31 December 2018, against DKK 161.9 billion at the end of 2017.

The binding capital requirement is the solvency need ratio plus the combined buffer requirement. At end-2018, the capital requirement was calculated at DKK 21.8 billion and 14.5% of the REA. Realkredit Danmark thus has a capital buffer of DKK 24.0 billion.

Under Danish law, Realkredit Danmark must publish its total capital and solvency need on a quarterly basis. The [rd.dk](http://rd.dk) site provides further information.

#### **Fourth quarter 2018**

Realkredit Danmark recorded a profit after tax of DKK 1,128 million in the fourth quarter of 2018, against DKK 1,046 million in the third quarter. The change in profit was attributable primarily to income from the refinancing of FlexLån® loans in the fourth quarter, which was offset by rising loan impairment charges.

#### **Outlook for 2019**

Realkredit Danmark expects that the Danish economy will continue to see moderately rising growth in 2019 relative to the past few years. Low interest rates will continue to support house prices.

Realkredit Danmark expects income to be at the same level as in 2018, as income will be supported by moderate growth in the average loan portfolio, while a decline in income from remortgaging activity and lower returns on the bond portfolios will have downward effect.

Through a persistent focus on cost control in 2019, Realkredit Danmark aims to keep expenses at a low level.

Loan impairment charges are also expected to remain at a low level in 2019.

Overall, Realkredit Danmark therefore expects net profit to be at the same level for 2019 as net profit for 2018.

# Property market

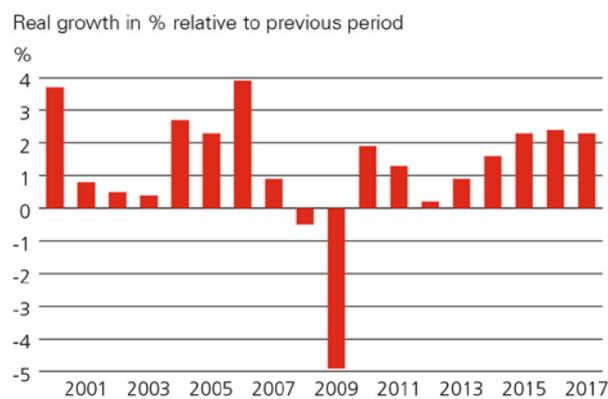
## Danish economy staying buoyant

The economic recovery in Denmark continued in 2018. However, on the basis of preliminary GDP figures, economic growth is expected to be only 1-1.5%, although several temporary factors contributed to the low GDP growth. One of the explanations was that economic growth in 2017 was artificially inflated by a patent sale in the pharmaceutical industry, which caused a downward pressure on growth in 2018 of roughly 0.4 of a percentage point. In addition, the summer drought weighed on production output in the agricultural sector, which also had an adverse impact on overall economic activity.

Taking these temporary factors into account, the Danish economy still recorded decent underlying growth. Furthermore, new revisions of Danish growth figures towards the end of the year showed that, overall, the Danish economy performed better than previously assumed. GDP was thus revised upwards by a full DKK 28 billion in 2017 as economic growth in 2015-2017 proved somewhat stronger than previously estimated.

The revisions once again demonstrated a high degree of uncertainty attaching to Danish growth figures and current calculations.

### Developments in GDP



Source: Danmarks Statistik

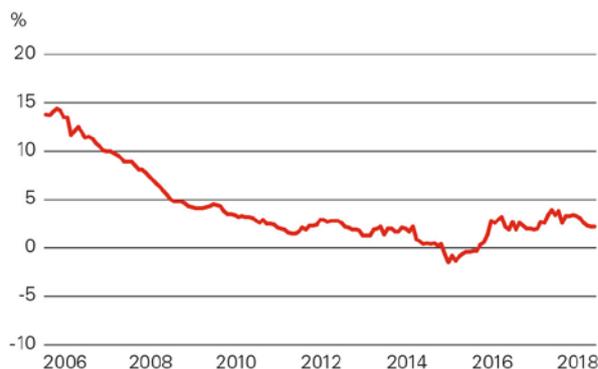
In 2018 alone, employment rose by about 50,000 persons, and since the employment trough in 2013, the increase has been around 225,000 persons. With these new data, the story of an isolated Danish productivity crisis was dismissed, but it does not alter the fact that, going forward, the focus on increasing productivity growth in the Danish economy should be maintained. As in other western countries, productivity growth in Denmark in recent years still seems to have been relatively weak in a historical context.

## Spending growth trending up – but households remaining reluctant to spend

Consumer spending has been one of the key growth drivers of the Danish economy in recent years. Spending growth has thus stayed at just above the 2% mark in recent years, which was also the case in 2018. However, spending growth is driven primarily by rising income, and unlike in previous economic recovery periods, consumers have been very reluctant to take out top-up loans secured on their homes. As a result, mortgage lending at sector level for owner-occupied dwellings and holiday homes showed very moderate growth of a little over 3% for 2018 as a whole, despite historically low interest rates, rising home equity and a favourable economic climate.

### Developments in mortgage loans for owner-occupied dwellings and holiday homes

Annual growth, % of total mortgage lending, owner-occupied dwellings and holiday homes, entire mortgage credit sector



Source: Nationalbanken

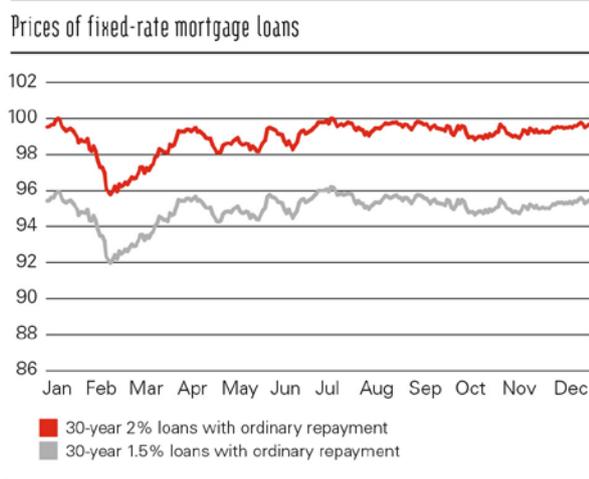
## Another year of historically low mortgage loan rates

Mortgage rates started 2018 at a new all-time low level, but interest rate volatility arose in the course of January and February, when the financial markets started to prepare for higher wage growth in the USA and the US Federal Reserve hiked interest rates by more than expected. The interest rate on a 30-year mortgage loan rose by about 0.35 of a percentage point during this period, but the fixed-rate 30-year 2% loan maintained its position as the benchmark fixed-rate mortgage loan.

Mortgage rates subsequently fell back as several economic indicators raised doubts about economic developments. Initially, especially the US/China trade war set the agenda, and the “budget war” between the EU and Italy and the risk of a hard Brexit added fuel to the fire. Moreover, there were mounting fears that the global recovery is getting nearer to the end and that continuing monetary retrenchment in the USA could be the triggering factor. However, despite strong financial market volatility over the course of the year, 2018 ended with a moderate upswing for the global economy, and most forecasts indicate that the recovery is expected to con-

tinue in 2019, albeit at a slightly slower pace than in 2018.

Mortgage rates ended the year at close to the levels prevailing at the beginning of 2018. A 30-year fixed-rate 2% loan with principal repayment was priced close to par, while the corresponding 1.5% loan was priced at close to 95. Although both underlying bonds were priced decently through large parts of the year, Realkredit Danmark recommended the 2% fixed-rate loan to its customers. This recommendation was based on a lower price risk and notably better liquidity in the series. The latter means that there is no risk of a lock-up effect on the 2% loan, whereas this risk still exists for the 1.5% loan.



At the last refinancing auction of the year in November, the rate on FlexLån® loans as per 1 January also ended at close to the lowest levels in Realkredit Danmark's history. The interest rate on 1-year FlexLån® loans was -0.13%, on 3-year FlexLån® loans it ended at 0%, while the rate on 5-year FlexLån® loans ended at 0.37%.

However, a number of factors are indicating that interest rates will sooner or later climb from the current historical lows. The US Federal Reserve is expected to continue to hike interest rates in 2019, the European Central Bank (ECB) discontinued recent years' comprehensive bond purchase programme at the end of 2018 and, lastly, the first ECB rate hike is expected to be effected towards the end of 2019. Initially, however, mortgage rates in Denmark are not expected to increase to any large extent in 2019. The central banks will thus continue to pursue cautious monetary policies for fear of otherwise derailing the economic recovery.

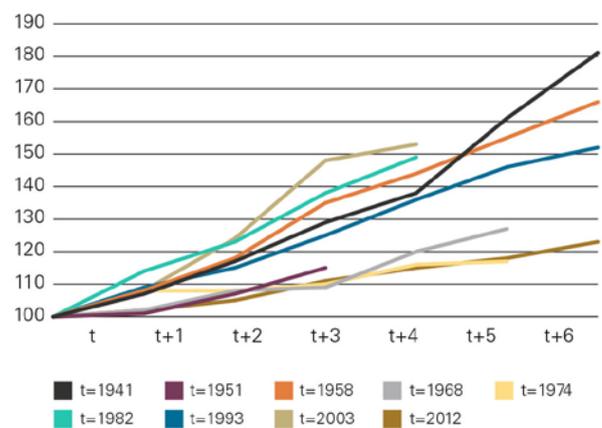
### Balanced upswing in the broad housing market

The combination of low interest rates and economic recovery helped provide continued progress in the broad housing market in 2018. Prices of single-family houses thus rose 4.6%, and trading activity was also relatively strong in a historical context. The improvement was broadly based across Denmark with most municipalities recording higher house prices over the course of the year.

This was the sixth consecutive year of rising house prices in real terms. Since 2012, house prices in real terms have increased by just over 20%. However, the price increase in the current housing market upswing has been notably smaller than during previous recovery periods. Nearly all previous price upswings in the housing market have thus showed higher rates of increase in real terms, and we are nowhere near the recovery witnessed for example in the years after the price trough in 1993, when house prices rose by more than 50% in real terms over a period of six years.

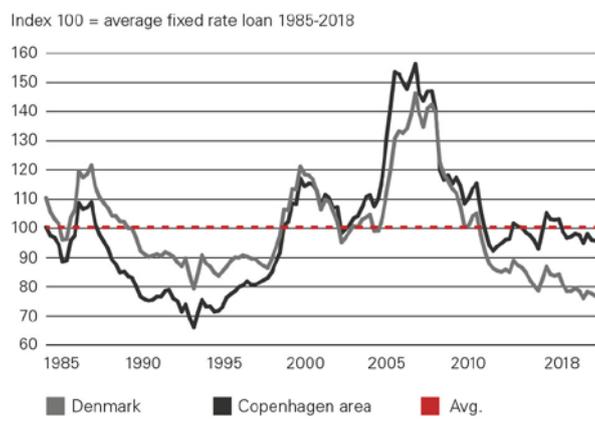
### Price developments in the market for owner-occupied flats

Index, real price development in years after real prices bottomed out (t), single-family houses



In a historical perspective, the currently weak price upswing will increase the sustainability of the housing market recovery in the years ahead. No major imbalances appear to have accumulated in the broad market for single-family homes, not even as a result of the historically low interest rates. This is also reflected in the housing burden, an expression of the cost of buying and owning a home relative to developments in disposable incomes, which remains quite low in a historical context. Obviously, the low interest rates play an important role, but recent years' decent increase in household disposable incomes in Denmark has also contributed positively to the low housing burden across Denmark.

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

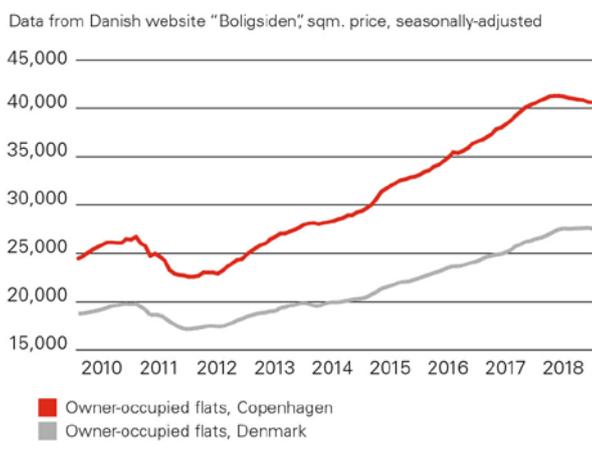


The recovery of the economy as a whole and the housing market also has a positive effect on homeowners' ability to pay. The number of forced sales and the number of homeowners in arrear with payments on their mortgage loans remain at a low level. In 2018, the delinquency rate stayed around 0.2%.

### Slowdown in the market for owner-occupied flats

Not all parts of the housing market experienced improvements in 2018. The market for owner-occupied flats, especially in Copenhagen, saw a sharp downward trend over the course of the year. Following a number of years of surging prices, prices stabilised with a tendency towards small declines through the latter half of the year. Also, trading activity was a little more than 15% lower in the Copenhagen market for owner-occupied flats than in 2017. In the market for owner-occupied flats outside Copenhagen, activity fell by about 5%.

### Price development in the market for owner-occupied flats



There are a number of explanations for this. Prices had become quite elevated in the market for owner-occupied flats, as a result of which many potential home buyers either could not afford to buy or voluntarily searched for a home away from the city to get more space for their money. Extensive newbuilding activity in the market for owner-occupied flats has increased the supply of flats, which in turn has dampened the upward pressure on prices. In addition, the upcoming property tax reform, which will take effect from 2021, and which will increase the tax burden on owner-occupied flats, has also added to uncertainty in the market.

The new guidelines for households with a high debt-to-income ratio also contributed to putting a lid on activity. The guidelines took effect on 1 January 2018. If a borrower has a debt factor higher than four and the loan-to-value ratio exceeds 60%, the borrower must, as a general rule, choose either a fixed-rate loan with or without interest-only periods or a FlexLån® loan with interest reset every five years and repayment of principal.

The rules mean that more prospective home buyers no longer have access to loans with short interest reset intervals and an interest-only option because of a high debt-to-income ratio. In other words, they are more likely to feel the impact of the high house prices on their own financial situation if they go through with the home purchase. The rules have undoubtedly had an impact on buyer behaviour, with some refraining from buying a home or becoming less inclined to bid up the price.

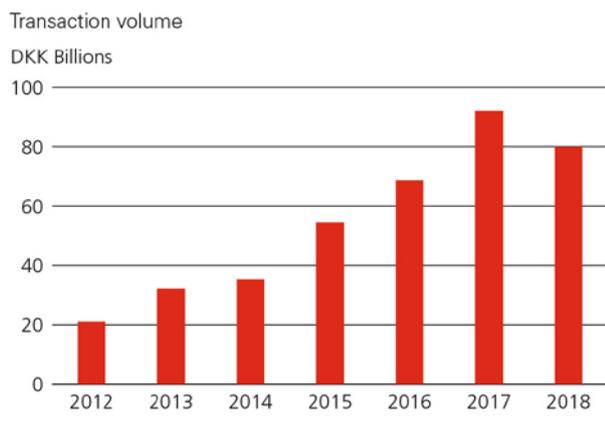
Based on experience from the first year with the new guidelines, Realkredit Danmark still believes that this is a healthy approach, which serves to reduce the risk for homeowners with a relatively high debt-to-income ratio.

Despite the new trends in the Copenhagen market for owner-occupied flats, it is too soon to talk about an actual market crisis. Trading activity remains at a reasonable level in a historical context, the housing supply is not alarmingly high, the time on market is at a low level, and even price reductions are fairly low. At the same time, Realkredit Danmark believes that the low interest rates and a continued economic recovery will support the market for owner-occupied flats through 2019, with prices expected to remain stable or edge down. Longer term, when the property tax reform starts to take effect or if interest rates rise substantially, there will most likely be a negative price effect on the market for owner-occupied flats.

### Business market

The commercial property market had another good year in 2018. While the transaction record from 2017 was not surpassed in 2018, the volume of transactions was very high in a historical context.

Transaction level in the commercial property market



Source: Cushman & Wakefield og skøn for 2018

Foreign investors are still very active in the Danish property market, and in the Copenhagen area, they accounted for a little more than half of all transactions. While they are not as active outside Copenhagen, foreign investors still account for around 30% of trading activity here. In addition to Swedish investors, who were active in the Danish property market in 2018, investors from the USA and Germany were the main buyers of Danish properties.

A stable macroeconomic climate and an attractive mortgage credit system contribute to attracting foreign investors to Danish properties. Ample liquidity also plays a role. Return requirements have generally trended lower in recent years, but this trend appears to have slowed down in Copenhagen. Prices of prime-location properties in Denmark's largest cities have risen by a fair margin. High prices and low return requirements on certain properties have increasingly made investors expand their horizon to other geographical areas and property types. In recent years, the property market outside of Copenhagen has thus witnessed an increase in trading activity, and interest in residential rental properties has diminished and been replaced by a greater focus on office and logistics properties. In the Copenhagen area, investors focus increasingly on the robustness of rental income.

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

### Agriculture

For the Danish agricultural sector, 2018 was a challenging year, and sector earnings came under pressure. In 2017, prices of pork and milk reached their peak in the current cycle and they started to fall in the first half of 2018, causing a decline in earnings from the beginning of 2018 among pork and dairy farmers. Over the course of the summer months, the agricultural sector experienced the most severe drought ever recorded in Denmark. The drought reduced yields for most farmers, aggravating their financial situation.

Pig farmers were particularly hard hit as pork prices have been very low, and the drought resulted in higher feed prices and a lower-than-usual own production of feed. In addition, African swine fever spread to Belgium in 2018, and in the EU, the disease is no longer isolated to Eastern Europe. The spreading of African swine fever to the large pork-producing nations in Europe could further aggravate the situation for Danish pig farmers, and the situation is therefore monitored closely.

Dairy farmers experienced lower milk prices in 2018 than in 2017, although prices were still above the average price level. Milk prices were also affected by the higher feed prices, but the rains of the late summer months and early autumn seem to have saved some of the roughage production for cattle.

Plant breeders have felt the overall decline in field yields, but rising grain prices coupled with an easy and dry harvest offset some of the negative effects of the drought.

Overall, 2018 was one of the worst years for Danish agriculture since the 2009/2010 crisis. Combined with high debts in the sector, this is expected to challenge the Danish agricultural sector further, as a result of which it has proven necessary to increase impairment levels.

On the basis of expectations of a normal harvest in 2019, an adjustment of European pork production and higher pork exports to Asia and, as a result, higher pork prices, 2019 is expected to be a better year for Danish agriculture than 2018 was.

# Lending

## FlexLife®

Customer demand for FlexLife®, the new mortgage loan launched by Realkredit Danmark in 2017, continued to develop favourably throughout 2018. A total of 7,869 personal customers opted for this loan type, with disbursements reaching DKK 14 billion, and about one in every five loans resulted from a loan with another mortgage credit institution being repaid. In addition, many new loans were raised in connection with a change of ownership. FlexLife® is also being offered to selected business customers.

FlexLife® offers a whole new approach to mortgage loans. The loan provides a new level of flexibility, allowing customers to adjust the loan to their current or future situation and needs. Within agreed limits, the customer may regularly adjust three loan parameters:

- The size of payments
- When to start (or stop) interest-only periods
- The outstanding debt at expiry of the loan

Under the right preconditions, the interest-only option may apply throughout the term of the loan, which may be up to 30 years.

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

Customers may then design the repayment of the loan so that it matches their life situation, finances and more long-term home and pension plans.

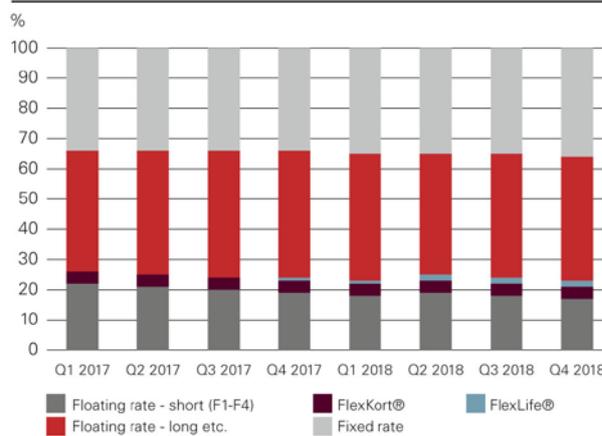
FlexLife® was particularly popular among customers who are approaching retirement and wish to remain in their home. Customers aged 60+ account for 76% of the disbursed loans, and the total LTV ratio among these customers is 52%.

## Total lending

The buoyant property market and a moderate increase in the volume of top-up loans taken out against the rising home equity levels contributed to lifting Realkredit Danmark's total mortgage lending. At the end of 2018, the total loan portfolio amounted to DKK 778 billion, against DKK 769 billion the year before.

The year 2018 brought the same high remortgaging activity as in 2017 although, despite the record-low interest rates, there were no actual remortgaging waves. There were smaller rounds of remortgaging throughout the year from customers who had failed to remortgage their loans in the preceding years.

Development in loan portfolio by loan type (%)



## Personal customer market

Realkredit Danmark's lending for owner-occupied dwellings and holiday homes rose by DKK 5 billion in 2018. Total lending at the end of 2018 amounted to DKK 449 billion.

Although interest rates on floating rate loans were lower at the end of the year than at the beginning, recent years' trend among homeowners to lock in the interest rate for longer periods continued. Nine out of ten mortgage loans disbursed thus were with 5-year refinancing periods or with a fixed rate for 10, 20 or 30 years.

Fixed-rate loans accounted for approximately 39% of the total personal customer loan portfolio.

While homeowners created greater security for their future interest expenses, they also paid off more of their debts. The proportion of new interest-only loans continued to fall, and they accounted for 38% of gross lending. At the same time, more customers whose interest-only period expired opted not to extend the interest-only period but to start to repay their loans. This trend was driven by both the pricing incentive structure, with Realkredit Danmark charging a premium to the administration margin for interest-only loans, and by the stricter requirements for customers with a high debt-to-income ratio and limited product selection possibilities, including the interest-only option.

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

### **Business market**

At end-2018, the loan portfolio amounted to DKK 329 billion, which was an increase of DKK 4 billion on the year before. Many businesses capitalised on the low interest rates to lock in the interest rate for longer periods. Fixed-rate loans accounted for 30% of business loans. This percentage has risen 3 percentage points over the past three years. Again in 2018, Danish businesses increasingly made principal repayments on their loans. Interest-only loans accounted for 41% of total business loans, which is 2 percentage points lower than in 2017.

Within subsidised housing, the Danish government and the financial sector reached a mutual understanding to the effect that the funding of subsidised loans in the subsidised housing sector should be transferred to state-guaranteed mortgage bonds. This means that the Danish state fully guarantees loans in this area. In return for the guarantee, the mortgage credit institutions pay commission to the state at 0.12% of the loan principal. Realkredit Danmark issued loans under this scheme for DKK 5 billion in 2018.

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. The yield on state-guaranteed mortgage bonds is at a level very close to Danish government bonds with a similar maturity. In this way, the Danish state will bring interest rates on funding down from their previous levels. Realkredit Danmark has loans worth about DKK 46 billion for the subsidised housing sector, of which DKK 20 billion is index-linked loans, which are not covered by the guarantee scheme.

As was the case for the personal customers, selected business customers also welcomed Realkredit Danmark's new product, FlexLife®. About 10% of all FlexLife® loans 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 mortgage loans to ensure that the loans match their situation to the greatest extent possible. Realkredit Danmark is accessible when customers need it, among other things by providing personal service and advice by telephone and through virtual and physical channels.

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

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

Small and medium-sized business and property customers are offered several service channels at Danske Bank. In 2018, Danske Bank launched a number of new initiatives to improve and strengthen the customer experience. In that connection, all property specialists were placed at Realkredit Business for organisational purposes. Realkredit Business consists of a number of local entities and Realkredit Business Direct.

The property specialists at the local entities provide personal service and advice at Danske Bank's 14 business centres. Realkredit Business Direct provides telephone and virtual 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 loans distributed via "home" are primarily intended for a change of ownership.

Over the course of the year, home strengthened its market position, and the profit of the franchise business thus rose from DKK 35.3 million in 2017 to DKK 37.6 million in 2018. "home Business" was sold at the end 2018 in order to focus the franchise on the private segment.

Activities and portfolio (DKK millions)	Gross lending		Net new lending		Loan portfolio			
	2018	2017	2018	2017	2018	%	2017	%
Personal customer market	70,257	77,401	15,361	20,923	448,560	58	443,341	58
Business market	49,494	55,219	13,844	13,309	329,154	42	325,549	42
Total (nominal value)	119,751	132,620	29,205	34,232	777,714	100	768,890	100

Lending broken down by loan type (%)	Share of gross lending		Share of loan portfolio	
	2018	2017	2018	2017
Short-term floating rate loans (F1-F4)	8	9	17	19
FlexKort®	3	4	4	4
FlexLife ®	11	3	2	1
Long-term floating rate loans etc.	35	43	42	42
Fixed-rate loans	43	41	35	34
Total	100	100	100	100

# Funding

## Bond issuance

Realkredit Danmark is subject to the specific principle of balance and funds its lending to borrowers by issuing mortgage-covered bonds and to a very limited extent mortgage bonds listed on NASDAQ Copenhagen.

Issued bonds are carried in the financial statements at 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 2018

Realkredit Danmark issued bonds for a total of DKK 120 billion exclusive of bonds issued for refinancing auctions. This represents a decrease of 10% relative to 2017. Of bonds issued in 2018, 57% were non-callable bonds and 43% were callable bonds. In 2017, there was also an overweight of non-callable bonds.

## Refinancing in 2018

In 2018, Realkredit Danmark held auctions in connection with all four ordinary payment dates. To diversify the risk attaching to the refinancing, Realkredit Danmark opted to refinance FlexLån® loans at the 1 January and 1 April payment dates and floating-rate bonds at the 1 July and 1 October payment dates.

The auctions for the refinancing of FlexLån® loans at 1 April 2018 were held in February. Total issuance amounted to DKK 56 billion, against DKK 60 billion in 2017. In November, bonds worth DKK 35 billion were issued in connection with the refinancing of FlexLån® loans at 1 January 2019. Of this amount, DKK 4.5 billion was moved to a separate capital centre for state-guaranteed subsidised loans. Refinancing at 1 January 2018 amounted to DKK 41 billion.

In May, Realkredit Danmark auctioned bonds for DKK 2 billion to refinance RD Cibor6®. The auction was held over the course of a single day, and investors were invited to make bids for the premium to Cibor6M. The bonds underlying RD Cibor6® were issued without a rate floor.

Lastly, in August, NOK 2.9 billion was refinanced in RD Nibor3®, SEK 2.8 billion in RD Stibor3® and DKK 0.75 billion in RD Cibor6® (RO). With respect to the Norwegian and Danish bonds, investors were invited to make bids for the premium to Nibor 3M and Cibor 6M, respectively, while they made bids for the price with respect to the Swedish bonds. The Norwegian and Swedish bonds were offered with a rate floor of 0%, while the Danish bonds were offered without a rate floor.

At end-2018, Realkredit Danmark had issued mortgage bonds for a total amount of DKK 818 billion, of which mortgage-covered bonds accounted for DKK 777 billion.

## Senior debt issuance

Realkredit Danmark's outstanding senior debt, that is, debt issued pursuant to section 15 of the Mortgage Credit Loans and Mortgage Credit Bonds Act, fell to a nominal amount of DKK 6.0 billion from DKK 6.6 billion at end-2017. The reason was that senior debt of DKK 0.6 billion expired in 2018.

In addition to covering the need for supplementary collateral, the proceeds from the issued senior debt are used to comply with the rating agencies' overcollateralisation requirement. It was not necessary to issue new debt in 2018 to comply with the rating agencies' overcollateralisation requirement.

The senior debt carries an AA- rating from S&P Global.

## Investor distribution

Foreign investors continued to show strong interest in Danish mortgage bonds in 2018, 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 are becoming increasingly popular especially with Japanese investors. At 31 December 2018, foreign investors thus held about 22% of all bonds, against some 23% at end-2017.

## Rating

In August 2018, it was announced that Scope Ratings is now also rating Realkredit Danmark's bonds in capital centres T and S. The bonds in both capital centres hold a rating of AAA. Scope Ratings is a European rating agency, which in combination with existing US-based rating agencies is believed to strengthen the rating situation for Realkredit Danmark's bonds – for the benefit of borrowers and investors.

Realkredit Danmark's mortgage bonds in capital centres S, T and under the Other reserves series hold a rating of AAA from S&P Global. Bonds issued from capital centres S and T are also rated by Fitch Ratings. In capital centre S, the bonds hold an AAA rating. Bonds issued from capital centre T are used for the refinancing of FlexLån® and other loans with a refinancing element. These bonds hold a rating of AA+.

At the end of 2018, Fitch Ratings lowered their overcollateralisation requirement in both centres, due primarily to higher credit quality for the portfolio of business loans. Conversely, S&P Global raised their requirement for capital centre T slightly due to changed calculation methods.

Overall, the overcollateralisation requirement was DKK 49.5 billion at end-2018, against DKK 48.7 billion in 2017.

The overcollateralisation requirements for the capital centres remain covered by funds from Realkredit Danmark's equity and issued senior debt. Realkredit Danmark expects stable overcollateralisation requirements from the rating agencies in 2019, but if the requirements are tightened, Realkredit Danmark plans to raise bail-in-able 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 2018, the phasing-in of the debt buffer requirement rose to 80% of the final requirement of 2% of the credit institution's lending, equal to a requirement of about DKK 13 billion. In June 2019, the requirement will rise to 90%, which for Realkredit Danmark will mean roughly DKK 14 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	
		2018	2017	2018	2017
Fixed-rate	DKK	260	248	6	8
FlexLån®, including FlexLife®	DKK	387	382	-	-
FlexLån®	EUR	8	11	-	-
FlexKort®	DKK	33	34	-	-
Index-linked loans	DKK	-	-	19	20
FlexGaranti®	DKK	4	4	10	12
RenteDyk™	DKK	-	1	-	-
RD Cibor6®	DKK	63	62	6	7
RD Nibor3®	NOK	4	3	-	-
RD Stibor3®	SEK	14	15	-	-
RD Euribor3®	EUR	4	7	-	-
Total DKK		777	767	41	47

In 2018, the calculation was adjusted to reflect double-funding of DKK 30 billion because of the refinancing of FlexLån® loans.

# Capital and risk management

## Capital management

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

At 31 December 2018, the total capital of DKK 45.8 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 total capital on the basis of internal models and ensures that it uses the proper risk management systems. The ICAAP also includes capital planning to ensure that the Group always has sufficient capital to support its chosen business strategy. Stress testing is an important tool used for capital planning purposes ensuring that Realkredit Danmark, also going forward, is sufficiently capitalised to withstand severe macroeconomic downturns. For additional information about the ICAAP, reference is made to the ICAAP report available at [danskebank.com/IR](http://danskebank.com/IR).

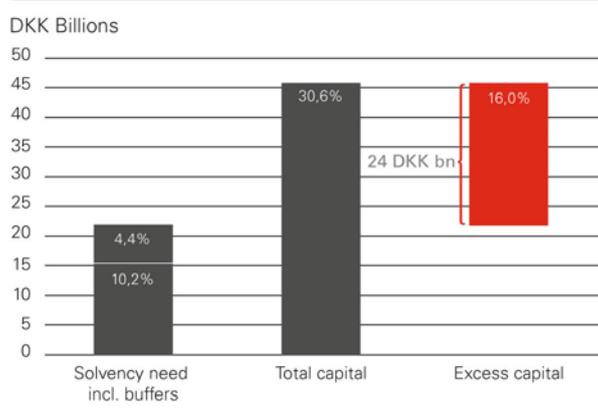
## Capital requirements

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 always have capital to comply with the combined capital buffer requirement. The buffer requirement consists of a systemic risk buffer of 2.4%, a capital conservation buffer of 1.9% and a countercyclical capital buffer of 0.1%.

In March 2018, the Danish government introduced a countercyclical capital buffer of 0.5%. In September 2018, the requirement was increased to 1.0% with effect from 30 September 2019, 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 6.5% of the total REA.

Solvency need ratio and total capital ratio, end 2018



At the end of 2018, Realkredit Danmark's solvency need, including the combined capital buffer requirement, was calculated at DKK 21.8 billion, corresponding to a solvency need ratio including buffers of 14.5% of the total REA. With total capital of DKK 45.8 billion, the Realkredit Danmark Group had DKK 24.0 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 REA. Pursuant to this definition and the transitional rules, Realkredit Danmark's leverage ratio was 5.1% at 31 December 2018.

### **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 2018, Realkredit Danmark had two 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 2018, issuance of mortgage-covered bonds rose DKK 10 billion to DKK 777 billion. At the end of 2018, the need for supplementary collateral was DKK 16.7 billion, against DKK 22.7 billion at end-2017.

A large proportion of Realkredit Danmark's mortgage loans are covered by loss guarantees provided by Danske Bank. The loss guarantee covers the top 20 percentage points of the statutory loan limit at the time when the loan is raised.

The loss guarantee covered DKK 58 billion of the loan portfolio at 31 December 2018. This amount includes DKK 3 billion in the form of supplementary collateral for mortgage-covered bonds.

### **Risk management**

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

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

Market risks comprise interest rate, equity market and exchange rate risks. Liquidity and operational risks are also monitored. However, the statutory principle of balance eliminates most of the interest rate, exchange rate and liquidity risks on the Group's assets and liabilities.

Risk management is described in the note on risk management.

### **Liquidity Coverage Ratio**

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 2018, this corresponded to approximately DKK 20 billion. Realkredit Danmark has unencumbered liquid assets of DKK 41 billion, and after haircuts this translates into liquid assets of DKK 39 billion. Realkredit Danmark thus has a buffer of DKK 19 billion relative to the requirement.

### **Future rules**

The European Commission has tabled a proposal to amend the CRR/CRD IV. The proposal includes the requirement for a Net Stable Funding Ratio (NSFR) to ensure stable, long-term funding. Extendable maturity triggers are recognised in the proposal, which means that the NSFR requirement to a greater extent takes the mortgage credit institution's business model into consideration. However, the proposal also includes inexpedient definitions of mortgaging that could cause mortgage credit institutions to incur higher funding costs and reduce their funding possibilities in case of revised overcollateralisation requirements from rating agencies, for example.

In December 2017, the Basel Committee published its revised capital requirement standards, which may increase the capital requirements applying to Realkredit Danmark. At present, it is too soon to assess the effect as the political process involved in the potential implementation of the standards has not yet commenced in the EU.

In March 2018, the European Commission tabled a proposal for harmonising the rules for mortgage bonds (covered bonds). The proposal defines covered bonds in the EU and lays down the basic characteristics. It contains, among other things, a new requirement on minimum overcollateralisation. It is assessed that the European Commission's proposal generally introduces elements that are already included in Danish mortgage-credit legislation, so the effect on Realkredit Danmark is expected to be marginal.

Mortgage credit institutions are exempt from the minimum requirement for eligible liabilities (MREL) and must instead comply with the debt buffer requirement of 2% of unweighted loans in addition to the existing capital requirement. In 2018, the Danish Parliament passed a bill according to which the debt buffer requirement for mortgage credit institutions forming part of a banking group must ensure that the sum of the debt buffer requirement and the MREL requirement in the Group always amounts to at least 8% of total liabilities. The requirement will take effect on 1 January 2022. It is expected that Realkredit Danmark's debt buffer requirement, also after 1 January 2022, will be 2%.

### 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 7.7% against 8.0% at the end of 2017.

The volume of loans with short-term funding is also trending downward, reducing the utilisation of the threshold. However, Realkredit Danmark remains focused on the threshold value as customers' choice of refinancing interval affects the volume of short-term funding comprised by the threshold value.

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

Threshold value	2018	Limit
<b>Growth in lending<sup>1</sup></b>		
Owner-occupied dwellings and holiday homes	1.2%	15%
Residential rental property	4.5%	15%
Agriculture	-1.9%	15%
Other	-1.7%	15%
<b>Borrower interest-rate risk<sup>2</sup></b>		
Properties for residential purposes	8.3%	25%
<b>Interest-only option<sup>3</sup></b>		
Owner-occupied dwellings and holiday homes	7.7%	10%
<b>Loans with short-term funding<sup>4</sup></b>		
Refinancing, annually	12.8%	25%
Refinancing, quarterly	4.6%	12.5%
<b>Large exposures<sup>5</sup></b>		
Loans relative to shareholders' equity	45%	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 ten directors, three of whom are elected by the employees.

At the annual general meeting on 9 March 2018, all board members elected by the shareholders were reelected. After the annual general meeting, Lars Mørch was appointed chairman and Jesper Nielsen vice chairman of the Board of Directors.

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.

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

Board members elected by the shareholders in general meeting are elected for 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 2018, the number of full-time equivalent staff at the Realkredit Danmark Group was 229.

## Diversity policy

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

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

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

The table below shows the gender composition at 31 December 2018 relative to the 2020 targets:

Management Level	Total	Men	Women	Share of women	Target for share of women 2020
Board of Directors*	7	6	1	14%	33-40%
Executive Board	2	2	-	-	-
Management level - other	22	17	5	23%	25%

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

## Compliance

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

To strengthen the focus on compliance, on 1 January 2019, Realkredit Danmark hired a head of a newly established entity, Regulatory Risk. The head of Regulatory Risk reports directly to the Executive Board.

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

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

The Compliance Function of the Danske Bank Group handles compliance assignments for Realkredit Danmark. To strengthen the focus on this outsourced area, Realkredit Danmark in 2018 opted to change the outsourcing of compliance to a significant outsourced area with additional reporting to Realkredit Danmark's Board of Directors and Executive Board.

### **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 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 audits operational procedures at Realkredit Danmark with a view to assessing the effectiveness of the company's risk management, controls and governance. Internal auditing is conducted in accordance with the requirements of the Danish executive order on audits.

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

### **Audit Committee**

The Board of Directors has set up an audit committee to prepare the work of the Board of Directors on financial reporting and audit matters, including related risk matters, which the Board of Directors, the committee itself, the external auditors or the head of Internal Audit intend to review further. The committee works on the basis of clearly defined terms of reference. The committee is not authorised to make independent decisions, instead, they report exclusively to the combined Board of Directors. In 2018, the Audit Committee held six meetings.

### **Corporate responsibility**

Realkredit Danmark is part of the Danske Bank Group and thus also an active part of the Danske Bank Group's corporate responsibility. The Danske Bank Group reports on its CR activities and performance in the Corporate Responsibility 2018 report. Corporate Responsibility 2018 is supplemented by Corporate Responsibility Fact Book 2018. These reports and information about Danske Bank's CR initiatives and projects are available at [danskebank.com/responsibility](https://danskebank.com/responsibility).

Realkredit Danmark offers mortgage loans to finance residential and commercial property across Denmark, remaining focused on offering its customers the best products, including product development, on competitive terms.

To ensure a good rating and, as a result, obtain the best prices on its bonds, Realkredit Danmark works continuously to optimise customer credit assessment.

# Income statement and Comprehensive income

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2018	2017	2018	2017
	<b>Profit</b>				
4	Interest income	17,578	18,206	17,577	18,205
5	Interest expense	10,570	11,266	10,569	11,266
	Net interest income	7,008	6,940	7,008	6,939
	Dividends from shares	-	-	-	-
3	Fee and commission income	512	572	512	572
	Fee and commission expense	1,129	1,173	1,129	1,173
2	Net fee and commission income	6,391	6,339	6,391	6,338
2, 6	Value adjustments	-67	-32	-67	-33
3	Other operating income	125	180	8	3
7-9	Staff costs and administrative expenses	702	733	634	642
	Impairment, depreciation and amortisation charges	1	3	-	-
10	Loan impairment charges	196	147	197	148
	Income from associates and group undertakings	-	-1	38	35
	Profit before tax	5,550	5,603	5,539	5,553
11	Tax	1,213	1,235	1,202	1,216
	Net profit for the year	4,337	4,368	4,337	4,337
	Proposal for allocation of profits				
	Net profit for the year			4,337	4,337
	Transferred from other reserves			3,424	3,372
	Total for allocation			7,761	7,709
	Portion attributable to				
	Reserves in series			3,461	3,409
	Other reserves			-	-
	Proposed dividends			4,300	4,300
	Total allocation			7,761	7,709
	<b>Comprehensive income</b>				
	Net profit for the year	4,337	4,368	4,337	4,337
	Other comprehensive income				
	Items that will not be reclassified to profit or loss				
	Actuarial gains/losses on defined benefit plans	-17	-30	-17	-30
	Tax	4	6	4	6
	Total comprehensive income	-13	-24	-13	-24
	Total comprehensive income for the year	4,324	4,344	4,324	4,313

# Balance

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2018	2017	2018	2017
	<b>ASSETS</b>				
	Cash in hand and demand deposits				
	with central banks	161	273	161	273
12, 19	Due from credit institutions and central banks	21,285	29,799	21,207	29,717
13	Bonds at fair value	19,375	23,626	19,375	23,626
14	Bonds at amortised cost	31,781	31,223	31,781	31,223
15-16, 19	Mortgage loans at fair value	796,045	788,765	796,045	788,765
15, 17-19	Loans and other amounts due at amortised cost	549	627	520	598
	Shares	2	2	-	-
20	Holdings in associates	-	-	-	-
	Holdings in group undertakings	-	-	137	139
21	Other tangible assets	7	7	5	5
	Current tax assets	1	13	3	16
22	Deferred tax assets	-	-	-	-
23	Assets temporarily taken over	26	38	26	38
19, 24	Other assets	1,978	2,509	1,940	2,468
	Prepayments	7	8	6	6
	<b>Total assets</b>	<b>871,217</b>	<b>876,890</b>	<b>871,206</b>	<b>876,874</b>
	<b>LIABILITIES AND EQUITY</b>				
	<b>AMOUNTS DUE</b>				
25	Due to credit institutions and central banks	778	4,294	778	4,294
26	Issued mortgage bonds at fair value	809,091	810,050	809,091	810,050
27	Issued bonds at amortised cost	5,952	6,616	5,952	6,616
	Current tax liabilities	-	-	-	-
22	Deferred tax liabilities	41	41	-	-
28, 29	Other liabilities	5,440	5,998	5,408	5,951
	Deferred income	-	-	-	-
	<b>Total amounts due</b>	<b>821,302</b>	<b>826,999</b>	<b>821,229</b>	<b>826,911</b>
	<b>PROVISIONS</b>				
22	Deferred tax	-	-	44	43
29	Reserves in early series subject to a reimbursement obligation	-	-	18	29
	<b>Total provisions</b>	<b>-</b>	<b>-</b>	<b>62</b>	<b>72</b>
	<b>SHAREHOLDERS' EQUITY</b>				
	Share capital	630	630	630	630
	Revaluation reserve	-	-	-	-
	Reserves in series	44,654	43,171	44,654	43,171
	Other reserves	331	1,790	331	1,790
	Proposed dividends	4,300	4,300	4,300	4,300
	<b>Total shareholders' equity</b>	<b>49,915</b>	<b>49,891</b>	<b>49,915</b>	<b>49,891</b>
	<b>Total liabilities and equity</b>	<b>871,217</b>	<b>876,890</b>	<b>871,206</b>	<b>876,874</b>

# Statement of capital

## Realkredit Danmark Group

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

# Statement of capital

## Realkredit Danmark A/S

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

At the end of 2018, the share capital was made up of 6,300,000 shares of DKK 100 each. All shares carry the same rights; there is thus only one class of shares. The company is wholly-owned by Danske Bank A/S, Copenhagen. Realkredit Danmark A/S and group undertakings are included in the consolidated financial statements of Danske Bank A/S, Copenhagen.

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

# Statement of capital

	<b>Realkredit Danmark Group</b>	
(DKK millions)	31 Dec. 2018	31 Dec. 2017
<b>Total capital and Total capital ratio</b>		
Shareholders' equity	49,915	49,891
Revaluation of domicile property at fair value	-	-
Tax effect	-	-
Total equity calculated in accordance with the rules of the Danish FSA	49,915	49,891
Proposed/expected dividends	-4,300	-4,300
Revaluation reserve	-	-
Deferred tax assets	-	-
Prudent valuation	-5	-7
Defined benefit pension fund assets	-162	-138
Common equity tier 1 capital	45,448	45,446
Difference between expected losses and impairment charges	-	-
Tier 1 capital	45,448	45,446
Reserves in series subject to a reimbursement obligation	-	-
Revaluation reserve	-	-
Difference between expected losses and impairment charges	320	428
Total capital	45,768	45,874
Risk exposure amount	149,772	161,902
Common equity tier 1 capital ratio (%)	30.3	28.1
Tier 1 capital ratio (%)	30.3	28.1
Total capital ratio (%)	30.6	28.3

At end 2018, 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

	<b>Realkredit Danmark A/S</b>	
	31 Dec. 2018	31 Dec. 2017
(DKK millions)		
<b>Total capital and Total capital ratio</b>		
Shareholders' equity	49,915	49,891
Proposed/expected dividends	-4,300	-4,300
Revaluation reserve	-	-
Deferred tax assets	-	-
Prudent valuation	-5	-7
Defined benefit pension fund assets	-162	-138
Common equity tier 1 capital	45,448	45,446
Difference between expected losses and impairment charges	-	-
Tier 1 capital	45,448	45,446
Reserves in series subject to a reimbursement obligation	-	-
Revaluation reserve	-	-
Difference between expected losses and impairment charges	320	428
Total capital	45,768	45,874
Risk exposure amount	149,668	161,634
Common equity tier 1 capital ratio (%)	30.4	28.1
Tier 1 capital ratio (%)	30.4	28.1
Total capital ratio (%)	30.6	28.4

At end 2018, 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)	2018	2017
<b>Cash flow from operating activities</b>		
Profit before tax	5,550	5,603
Adjustment for other non-cash operating items		
Amortisation, depreciation and impairment charges	1	3
Loan impairment charges	-364	-278
Other non-cash items	-	-
Tax paid	-1,197	-1,274
<b>Total</b>	<b>3,990</b>	<b>4,054</b>
<b>Cash flow from operating capital</b>		
Bonds and shares	3,737	6,658
Mortgage loans	-8,826	-14,631
Issued mortgage bonds	472	11,064
Due to credit institutions	-3,516	-2,061
Other assets/liabilities	-182	-711
<b>Cash flow from operating activities</b>	<b>-4,325</b>	<b>4,373</b>
<b>Cash flow from investing activities</b>		
Acquisition of tangible assets	-1	-
Sale of tangible assets	-	-
<b>Cash flow from investing activities</b>	<b>-1</b>	<b>-</b>
<b>Cash flow from financing activities</b>		
Dividends	-4,300	-3,800
<b>Cash flow from financing activities</b>	<b>-4,300</b>	<b>-3,800</b>
Cash and cash equivalents at 1 January	30,072	29,499
Change in cash and cash equivalents	-8,626	573
<b>Cash and cash equivalents at 31 December</b>	<b>21,446</b>	<b>30,072</b>
<b>Cash and cash equivalents at 31 December</b>		
Cash in hand and demand deposits with central banks	161	273
Amounts due from credit institutions and central banks within 3 months	21,285	29,799
<b>Total</b>	<b>21,446</b>	<b>30,072</b>

## 1 SIGNIFICANT ACCOUNTING POLICIES

### General

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

### *Changes to significant accounting policies*

At 1 January 2018, the Group implemented IFRS 9, Financial Instruments, which replaces IAS 39, and IFRS 15, Revenue from Contracts with Customers, which replaces IAS 18.

IFRS provides new provisions for classification and measurement of financial instruments, a new impairment model for expected credit losses and a new general model for hedge accounting.

Adoption of the classification principles of IFRS 9 has not resulted in reclassifications between amortised cost and fair value in the Realkredit Danmark Group, which means that no financial assets are recognised at fair value through other comprehensive income. Accordingly, there are no changes to the valuation of financial liabilities. As a result, mortgage loans and issued mortgage bonds are still recognised at fair value through profit or loss. 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. See below. 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. The reduction is recognised as a change of accounting estimates in the IFRS income statement in 2018. The effect net of tax is a reduction of the profit for the year of DKK 312 million. The Realkredit Danmark Group uses the option in IFRS 9 to continue to apply the hedge accounting principles of IAS 39.

The implementation of IFRS 15 has not resulted in any significant changes. However, income and expenses are offset when Realkredit Danmark acts as agent and handles the re-invoicing of expenses incurred. In 2018, this led to a DKK 34 million reduction in Other operating income and Staff costs and administrative expenses.

The disclosure requirements in IFRS 7, Financial Instruments: Disclosure, and IAS 1, Presentation of Financial Statements have been amended as a result of IFRS 9. The amendments have been implemented in Annual Report 2018. The Realkredit Danmark Group has further implemented amendments to various standards (IFRS 2, Share-based Payments, IAS 28, Investments in Associates and Joint Ventures and IAS 40, Investment Properties). Further, the Group has implemented IFRIC 22, Foreign Currency Transactions and Advance Considerations. None of these amendments have resulted in any changes.

Comparative figures for 2017 have not been restated.

Apart from these changes, the accounting policies are unchanged from those applied in Annual Report 2017.

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.

From 1 January 2018, the fair value of the credit risk on the borrower is based on the expected credit losses. The losses are estimated using the models developed in connection with the Danske Bank Group's implementation of the expected credit loss impairment model in IFRS 9. The expected credit loss is calculated for all individual facilities 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. Management believes that the new method provides a more accurate estimate of the expected credit losses on the individual loans, thus reducing the need for management overlays.

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.

Overall, the new method of calculating expected credit losses has increased the impairment charge/reduced the fair value of mortgage loans by DKK 400 million at 1 January 2018, which has been recognised as a change in an accounting estimate under Loan impairments in the income statement in 2018.

# Notes

Note

At the end of 2018, the fair value adjustment of the credit risk on mortgage loans was calculated at DKK 2,791 million (end 2017: DKK 3,072 million), reducing the value of mortgage loans. The base case scenario enters with a probability of 70%, the downside scenario with a probability of 15% and the upside scenario with a probability of 15%. If the base case scenario was assigned a probability of 100%, the fair value adjustment at end-2018 would be DKK 2,750 million. The fair value adjustment at end-2018 would increase to 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 2,700 million.

## Consolidation

### Group undertakings

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

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

### Associates

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

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

## Segment reporting

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

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

## 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.

## Financial instruments – general

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

### Classification

From 1 January, 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.

# Notes

Note

## *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 principal amount plus accrued interest. Such an option is not consistent with contractual cash flows which reflect the repayment of principal and interest thereon, among other things because it may entail a negative compensation to the lender when the borrower exercises the option (the so-called SPPI test in IFRS 9). Consequently, regardless of the fact that the business model is to receive the contractual cash flow, such loans must be recognised at fair value over profit or loss.

If the issued mortgage bonds are valued at amortised cost, and the mortgage loans, which are funded using these bonds with matching terms, are valued at fair value over 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 (using the fair value option of IFRS 9 with respect to the issued bonds).

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	161	-	-	-	-	161
Due from credit institutions and central banks	21,285	-	-	-	-	21,285
Bonds	31,781	-	19,375	-	-	51,156
Loans	549	-	-	796,045	-	796,594
Shares	-	-	2	-	-	2
Derivatives (Other assets)	-	66	-	-	-	66
<b>Total assets</b>	<b>53,776</b>	<b>66</b>	<b>19,377</b>	<b>796,045</b>	<b>-</b>	<b>869,264</b>
<b>Amounts due</b>						
Due to credit institutions and central banks	778	-	-	-	-	778
Issued bonds	5,952	-	-	-	809,091	815,043
Derivatives (Other liabilities)	-	68	-	-	-	68
<b>Total amounts due</b>	<b>6,730</b>	<b>68</b>	<b>-</b>	<b>-</b>	<b>809,091</b>	<b>815,889</b>

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.

In 2018, mortgage loans and issued mortgage bonds were both designated at fair value through profit or loss.

### **Hedge accounting**

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

# 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 calculated on the basis of generally accepted valuation techniques and market-based parameters. Market-based parameters are used for measuring fair value.

### Bonds at amortised cost

Realkredit Danmark has a 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 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 under 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. Such assets are subsequently measured at fair value over profit or loss.

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

The fair value of mortgage loans is based on the fair value of the underlying issued mortgage bonds adjusted for changes in the fair value of the credit risk on borrowers. From 1 January 2018, 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 the following regarding the supplementary 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 forbearance 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.

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). From 1 January 2018, the expected credit losses are estimated on the basis of the models etc. prepared by the Danske Bank Group in connection with the implementation of the IFRS 9 model for impairment charges for of expected credit losses in order to ensure consistency between the various models applied across the Group.

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 under 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.

#### **Other tangible assets**

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

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

#### **Assets temporarily taken over**

Assets temporarily taken over include tangible assets, which 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 and pension assets. Derivatives are recognised at fair value through profit or loss

#### *Pension assets*

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

Furthermore, the Group 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.

# Notes

Note

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

#### **Amounts due to credit institutions and central banks**

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

#### **Issued bonds at amortised cost**

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

#### **Deferred tax assets/Deferred tax liabilities**

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

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

#### **Current tax assets/Current tax liabilities**

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

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

#### **Other liabilities**

Other liabilities includes derivatives, interest payable and accrued fee.

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

#### **Shareholders' equity**

##### *Reserves in series*

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

##### *Other reserves*

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

#### *Proposed dividends*

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

#### **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 Pensionsafvklingskasse no contributions are made any longer, and therefore there are no service costs. Gains or losses as a result of the difference between expected trends and actual trends are recognised in Other comprehensive income.

# Notes

Note

## **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 two new accounting standards and amended existing international accounting standards, and the International Financial Reporting Interpretations Committee (IFRIC) has issued an interpretation, that have not yet come into force. The Group has not implemented any of these. The sections below explain the changes that are likely to affect the Group's future financial reporting. The other changes are not expected to have any material effect.

## **Amendments to IFRS 9, Financial Instruments**

In October 2017, IASB issued an amendment to IFRS 9 called "Prepayment Options with Negative Compensation". The amendment relates to the test of the contractual cash flows and the requirement that compensation on exercising a prepayment option may not be negative (i.e. the party exercising the prepayment option cannot receive a compensation for the early termination). After the amendment, any compensation reflecting changes to an interest rate index will be consistent with the test of the contractual cash flows, be it positive or negative.

The amendment must be implemented at 1 January 2019 at which time the Group will have implemented the standard. The amendment will not change the fact that the prepayment option included in mortgage loans continues to be inconsistent with the cash flow test as changes in the fair value of the underlying bonds reflect other factors than interest rate developments. Consequently, implementation of the standard is not expected to have any effect.

## **IFRS 16, Leases**

In June 2016, the IASB issued IFRS 16, Leases, which will replace the principles of IAS 17. For lessees, the accounting will change significantly, as all leases (except leases with terms of 12 months or less and leases of low value assets) will be recognised in the balance sheet.

IFRS 16 must be implemented at 1 January 2019 at which time the Group will have implemented the standard. The Group's existing lease agreements, which mainly relate to properties, will result in the recognition of lease assets and lease liabilities of between DKK 100 and 160 million. The implementation has not had any impact on equity at 1 January 2019.

From 2019, lease contracts in which the Group acts as lessee will be 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 measured at amortised cost, reflecting changes when the lease contract is modified or the lease term is changed. 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. However, for sub-lease contracts classified as finance leases, the future lease payments are made up by interest and instalments.

## **Accounting policies for the parent company**

The financial statements of the parent company are prepared in accordance with the Danish Financial Business Act and the Danish FSA's Executive Order No. 281 of 26 March 2014 on Financial Reports for Credit Institutions and Investment Companies, etc. as amended by Executive Order no. 707 of 1 June 2016. The rules are consistent with the Group's measurement principles under IFRS with the exception that domicile properties in the parent company are valued at estimated fair value (revalued amount) through Other comprehensive income. At the end of 2017, all domicile properties had been sold, so there is currently no difference between the accounting policies of the Group and the parent company.

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

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**  
cont'd

*Geographical segmentation*

For the Realkredit Danmark Group, interest on loans from foreign exposures amounts to DKK 249 million (2017: DKK 206 million). The sum of Realkredit Danmark A/S' net interest and fee income and value adjustments of foreign exposures amounts to DKK 162 million (2017: DKK 152 million).

*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). After the implementation of IFRS 9, the measurement of the fair value of the credit risk will continue to be based on the same approach as that used for impairment of loans recognised at amortised cost. 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 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.

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2018	2017	2018	2017
3	<b>Fee and commission income and other operating income</b>				
	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 117 million, which is recognised over the term of the franchise agreement				
4	<b>Interest income</b>				
	Reverse transactions with credit institutions and central banks	-21	-55	-21	-55
	Credit institutions and central banks	-24	-24	-24	-24
	Loans and other amounts due	10,815	11,494	10,814	11,493
	Administration margin	6,222	6,186	6,222	6,186
	Bonds at fair value	246	295	246	295
	Bonds at amortised cost	172	171	172	171
	Derivatives				
	Interest rate contracts	164	134	164	134
	Other interest income	4	5	4	5
	<b>Total</b>	<b>17,578</b>	<b>18,206</b>	<b>17,577</b>	<b>18,205</b>
	Interest income derived from				
	Assets at fair value	17,447	18,109	17,446	18,108
	Assets at amortised cost	131	97	131	97
	<b>Total</b>	<b>17,578</b>	<b>18,206</b>	<b>17,577</b>	<b>18,205</b>
5	<b>Interest expense</b>				
	Repo transactions with credit institutions and central banks	-18	-44	-18	-44
	Due to credit institutions and central banks	3	2	3	2
	Issued mortgage bonds etc.	10,587	11,305	10,587	11,305
	Other interest expense	-2	3	-3	3
	<b>Total</b>	<b>10,570</b>	<b>11,266</b>	<b>10,569</b>	<b>11,266</b>
	Interest expense derived from				
	Liabilities at fair value	10,587	11,305	10,587	11,305
	Liabilities at amortised cost	-17	-39	-18	-39
	<b>Total</b>	<b>10,570</b>	<b>11,266</b>	<b>10,569</b>	<b>11,266</b>
6	<b>Value adjustments</b>				
	Mortgage loans	-1,826	6,108	-1,826	6,108
	Bonds	-342	-385	-342	-385
	Shares	-	1	-	-
	Currency	5	4	5	4
	Derivatives	-175	-511	-175	-511
	Other assets	15	14	15	14
	Issued mortgage bonds	2,257	-5,285	2,257	-5,285
	Reserves in early series subject to a reimbursement obligation	-	-	-	-
	Other liabilities	-1	22	-1	22
	<b>Total</b>	<b>-67</b>	<b>-32</b>	<b>-67</b>	<b>-33</b>
	Value adjustments derived from				
	Assets and liabilities at fair value	-81	-68	-81	-69
	Assets and liabilities at amortised cost	14	36	14	36
	<b>Total</b>	<b>-67</b>	<b>-32</b>	<b>-67</b>	<b>-33</b>

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2018	2017	2018	2017
7	<b>Staff costs and administrative expenses</b>				
	Salaries and remuneration of Executive Board, Board of Directors and local councils				
	Executive Board	7	5	7	5
	Board of Directors	1	1	1	1
	Local councils	-	-	-	-
	<b>Total</b>	<b>8</b>	<b>6</b>	<b>8</b>	<b>6</b>
	<b>Staff costs</b>				
	Salaries	144	146	121	123
	Share-based payments	-	-	-	-
	Defined benefit pensions	18	18	16	16
	Other social security costs and taxes	22	21	21	21
	<b>Total</b>	<b>184</b>	<b>185</b>	<b>158</b>	<b>160</b>
	Other administrative expenses	510	542	468	476
	<b>Total staff costs and administrative expenses</b>	<b>702</b>	<b>733</b>	<b>634</b>	<b>642</b>
	Number of full-time-equivalent staff (avg.)	230	234	199	203
	<b>Remuneration of the Board of Directors (DKK thousands)</b>				
	Kim Andersen	315	315	315	315
	Sonia Khan (from 6 March 2017)	125	104	125	104
	Lisbeth Sahlertz Nielsen	125	125	125	125
	Majken Hammer Sløk (from 6 March 2017)	125	104	125	104
	Claus Bundgaard (until 1 April 2017)	-	31	-	31
	<b>Total remuneration</b>	<b>690</b>	<b>679</b>	<b>690</b>	<b>679</b>
	Remuneration for committee work included in total remuneration	190	190	190	190
	Members of the Board end of year	10	8	10	8

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, Jesper Nielsen earned a total remuneration from such companies in 2018 of DKK 8.2 million (2017: DKK 7.0 million), Jacob Aarup-Andersen earned DKK 9.0 million (2017: DKK 8.6 million), Kim Andersen earned DKK 0.3 million (2017: DKK 0.3 million), Christian Baltzer earned DKK 3.1 million, Carsten Rasch Egeriis earned DKK 7.9 million (2017: DKK 9.0 million), Henriette Fenger Ellekrog earned DKK 3.5 million, Jakob Groot earned DKK 5.2 million, Lars Mørch earned DKK 2.7 million (2017: DKK 9.8 million) and Tonny Thierry Andersen (2017: DKK 10.1 million).

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.

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

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

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

The Group has no pension obligations towards its board members.

# Notes

Note	(DKK millions)
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## 7 Staff costs and administrative expenses

cont'd

### Remuneration of the Executive Board

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>

Total amount paid consists of fixed salary and pension contributions to defined contribution plans in 2018, variable cash remuneration and the exercise of conditional shares granted for earlier financial years. Variable remuneration for 2018 will be paid in subsequent financial years.

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.

2017	Carsten Nøddebo Rasmussen	Klaus Kristiansen
Fixed salary	3.3	0.3
Pension	0.5	-
Variable cash remuneration	0.2	0.1
Variable share-based remuneration	0.3	-
<b>Total amount earned</b>	<b>4.3</b>	<b>0.4</b>
<b>Total amount paid</b>	<b>4.0</b>	<b>0.3</b>

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

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

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 2018, Realkredit Danmark A/S paid remuneration totalling DKK 38.4 million for 37 other material risk takers (2017: DKK 41.1 million for 40 other material risk takers). The remuneration consists of fixed remuneration of DKK 36.8 million and a variable remuneration of DKK 1.6 million (2017: DKK 39.1 million and DKK 2.0 million). Variable pay for 2018 is estimated and will be finalised at the end of February 2019. The final variable pay will be published no later than in March 2019 in the Realkredit Danmark Group Remuneration Report 2018, where additional quantitative information on the remuneration of material risk takers can be found. The Remuneration Report will be available at rd.dk.

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

**Pension plans**

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

The fair value of pension assets less the present value of obligations is recognised under Other assets. At 31 December 2018, the net present value of pension obligations was DKK 846 million (2017: DKK 901 million), and the fair value of plan assets was DKK 1,054 million (2017: DKK 1,122 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 2018 arising from share-based payments is DKK 0.4 million (2017: DKK 0.5 million). All share-based payments are equity-settled. The exact number of shares granted for 2018 will be determined at the end of February 2019.

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

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

# Notes

Note (DKK millions)

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

cont'd

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

## Share-based payments

### Conditional shares

	Number			Fair Value (FV)	
	Executive Board	Other employees	Total	At issue (DKK millions)	End of year (DKK millions)
<b>Granted in 2014</b>					
2017, beg.	599	405	1,004		
Vested 2017	-	-405	-405		
Forfeited 2017	-	-	-		
Other changes 2017	-	-	-		
2017, end	599	-	599	0.1	0.1
<b>Vested 2018</b>	-599	-	-599		
Forfeited 2018	-	-	-		
Other changes 2018	-	-	-		
2018, end	-	-	-	-	-
<b>Granted in 2015</b>					
2017, beg.	587	363	950		
Vested 2017	-	-	-		
Forfeited 2017	-	-	-		
Other changes 2017	-	-	-		
2017, end	587	363	950	0.2	0.2
<b>Vested 2018</b>	-	-363	-363		
Forfeited 2018	-	-	-		
Other changes 2018	-	-	-		
2018, end	587	-	587	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 2016</b>				
	2017, beg.	521	1,260	1,781	
	Vested 2017	-	-	-	
	Forfeited 2017	-	-	-	
	Other changes 2017	-	-	-	
	2017, end	521	1,260	1,781	0.3      0.4
	<b>Vested 2018</b>				
	Forfeited 2018	-	-	-	
	Other changes 2018	-	-	-	
	2018, end	521	1,260	1,781	0.3      0.2
	<b>Granted in 2017</b>				
	Granted 2017	1,105	2,845	3,950	
	Vested 2017	-663	-1,709	-2,372	
	Forfeited 2017	-	-99	-99	
	Other changes 2017	-	-	-	
	2017, end	442	1,037	1,479	0.4      0.4
	<b>Vested 2018</b>				
	Forfeited 2018	-	-	-	
	Other changes 2018	-	-	-	
	2018, end	442	1,037	1,479	0.4      0.2
	<b>Granted in 2018</b>				
	Granted 2018	1,330	2,120	3,450	
	Vested 2018	-798	-1,273	-2,071	
	Forfeited 2018	-	-	-	
	Other changes 2018	-	-	-	
	2018, end	532	847	1,379	0.3      0.2

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2018	2017	2018	2017
8	<b>Share-based payments</b>				
cont'd					
	<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	-
	<b>Holdings of the Executive Board and fair value, end of 2017</b>				
	Grant year			2014-2017	
	(DKK millions)			Number	FV
	Carsten Nøddebo Rasmussen			2,149	0.5
	In 2018, the average price at the vesting date for rights to conditional shares was DKK 150.30.				
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	-	-	-	-
	Total	1	1	1	1
10	<b>Loan impairment charges</b>				
	IFRS 9 transitional impact on implementation, 1 January 2018	400	-	400	-
	ECL on new assets	80	-	80	-
	ECL on assets derecognised	458	-	458	-
	Impact of remeasurement	-183	-	-183	-
	Impairment charges etc. during the year	-	745	-	745
	Reversals of impairment charges etc. for previous years	-	1,023	-	1,022
	Losses incurred	38	484	39	484
	Received on claims previously written off	47	59	47	59
	Total	196	147	197	148
11	<b>Tax</b>				
	Tax on profit for the year	1,219	1,237	1,208	1,225
	Deferred tax	3	-1	3	-8
	Adjustment of prior-year tax charges	-9	-1	-9	-1
	Total	1,213	1,235	1,202	1,216
	<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
	Effective tax rate	21.8	22.0	21.7	21.9

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2018	2017	2018	2017
12	<b>Due from credit institutions and central banks</b>				
	On demand	1,176	1,180	1,098	1,098
	3 months or less	20,109	28,619	20,109	28,619
	3-12 months	-	-	-	-
	<b>Total</b>	<b>21,285</b>	<b>29,799</b>	<b>21,207</b>	<b>29,717</b>
	Due from credit institutions	3,750	7,495	3,672	7,413
	Term deposits with central banks	17,535	22,304	17,535	22,304
	<b>Total</b>	<b>21,285</b>	<b>29,799</b>	<b>21,207</b>	<b>29,717</b>
	At fair value	21,285	29,791	21,208	29,709
	Portion attributable to reverse transactions	2,537	5,303	2,537	5,303
	The fair value is based on quoted prices.				

In connection with reverse transactions, Realkredit Danmark is entitled to sell or remortgage the securities. In 2018, DKK 0 million were sold or remortgaged (2017: DKK 0 million).

13	<b>Bonds at fair value</b>				
	Own mortgage bonds	62,540	69,844	62,540	69,844
	Other mortgage bonds	16,514	21,058	16,514	21,058
	Government bonds	2,861	2,568	2,861	2,568
	<b>Total</b>	<b>81,915</b>	<b>93,470</b>	<b>81,915</b>	<b>93,470</b>
	Own mortgage bonds set off against issued mortgage bonds	62,540	69,844	62,540	69,844
	<b>Total</b>	<b>19,375</b>	<b>23,626</b>	<b>19,375</b>	<b>23,626</b>

Of Realkredit Danmark's bond portfolio, DKK 8.1 billion has a maturity of less than 12 months, while DKK 11.3 billion has a maturity of 1-5 years (2017: DKK 11.7 billion and DKK 11.9 billion).

14	<b>Bonds at amortised cost</b>				
	Other mortgage bonds	31,781	31,223	31,781	31,223
	<b>Total</b>	<b>31,781</b>	<b>31,223</b>	<b>31,781</b>	<b>31,223</b>
	Fair value of held-to-maturity assets	32,078	31,644	32,078	31,644
	The fair value is based on quoted prices.				

Of Realkredit Danmark's bond portfolio, DKK 31.4 billion has a term to maturity of less than five years, while DKK 0.4 billion has a term to maturity of 5-10 years (2017: DKK 30.2 billion and DKK 1.0 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 is insignificant.

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2018	2017	2018	2017
15	<b>Total lending</b>				
	Mortgage loans, nominal value	777,715	768,890	777,715	768,890
	Fair value adjustment of underlying bonds	21,122	22,947	21,122	22,947
	Adjustment for credit risk	2,792	3,072	2,792	3,072
	Mortgage loans at fair value	796,045	788,765	796,045	788,765
	Arrears and outlays	110	175	110	175
	Other loans	439	452	410	423
	<b>Total</b>	<b>796,594</b>	<b>789,392</b>	<b>796,565</b>	<b>789,363</b>
	Apart from being backed by mortgages on properties, loans are backed by central and local government guarantees and insurance guarantees of	32,276	31,675	32,276	31,675
	Pass books and bonds have been deposited and guarantees provided as supplementary security in a total amount of	90,611	90,812	90,611	90,812
	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 2018, DKK 280 million was booked to income concerning adjustment for credit risk on loans (2017: DKK 331 million). The accumulated adjustment for credit risk amounts to DKK 2.8 billion (2017: DKK 3.1 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	9	10	9
	Private residential rental property	11	11	11	11
	Industrial and skilled trades property	2	2	2	2
	Office and retail property	12	13	12	13
	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	1,263	1,149	1,263	1,149
	1-3 months	4,361	3,857	4,361	3,857
	3-12 months	17,099	15,355	17,099	15,355
	1-5 years	99,976	92,594	99,976	92,594
	5-10 years	144,103	137,684	144,103	137,684
	Over 10 years	529,243	538,126	529,243	538,126
	<b>Total</b>	<b>796,045</b>	<b>788,765</b>	<b>796,045</b>	<b>788,765</b>
17	<b>Loans and other amounts due at amortised cost</b>				
	On demand	110	175	110	175
	3 months or less	21	21	19	18
	3-12 months	63	62	56	56
	1-5 years	134	136	117	119
	Over 5 years	221	233	218	230
	<b>Total</b>	<b>549</b>	<b>627</b>	<b>520</b>	<b>598</b>

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2018	2017	2018	2017
18	<b>Arrears and outlays</b>				
	Arrears before impairment charges	133	167	133	167
	Outlays before impairment charges	37	152	37	152
	Impairment charges	60	144	60	144
	<b>Total</b>	<b>110</b>	<b>175</b>	<b>110</b>	<b>175</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	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
Gross carrying amount 31 December 2018	755,428	31,530	11,879	21,460	27	414	35,519	1,004	302	857,563

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

**Reconciliation of total allowance account**

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	
Collective and individual impairment charges under IAS 39										3,227
Transition effect (ECL at 1 January), incl. impact on loans	535	400	2,585	15	11	71	2	1	7	400
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

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 29 million in home are excluded (recognised in other loans in the tables).

# Notes

Note	(DKK millions)						
19 cont'd	<b>Loans etc.</b>						
	Realkredit Danmark Group			Realkredit Danmark A/S			
	Loans individual impairment	Loans collective impairment	Total	Loans individual impairment	Loans collective impairment	Total	
2017							
Impairment charges at 1 January 2017	2,690	815	3,505	2,685	815	3,500	
Impairment charges during the year	602	143	745	602	143	745	
Reversals of impairment charges for previous years	934	89	1,023	933	89	1,022	
Impairment charges at 31 December 2017	2,358	869	3,227	2,354	869	3,223	

Value adjustments of assets taken over amounted to DKK 0 million at end-2018, against DKK -2 million at end-2017.

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2018	2017	2018	2017
20	<b>Holdings in associates</b>				
	Cost at 1 January	-	14	-	14
	Disposals	-	-14	-	-14
	Cost at 31 December	-	-	-	-
	Revaluations at 1 January	-	4	-	4
	Reversals of revaluations	-	-4	-	-4
	Revaluations at 31 December	-	-	-	-
	Carrying amount at 31 December	-	-	-	-
21	<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	15	-	-
	Depreciation charges	1	2	-	-
	Depreciation and impairment charges reversed on disposals etc.	1	-	-	-
	Depreciation and impairment charges at 31 December	17	17	-	-
	Carrying amount at 31 December	7	7	5	5

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S		
		2018	2017	2018	2017	
22	<b>Deferred tax assets and liabilities</b>					
	Deferred tax liabilities	41	41	-	-	
	Provision for deferred tax	-	-	44	43	
	<b>Total</b>	<b>41</b>	<b>41</b>	<b>44</b>	<b>43</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.
	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			
	2017					
	Intangible assets	-	-1	-	-	-1
	Tangible assets	2	-6	-	-	-4
	Securities	6	1	-	-	7
	Provisions	44	3	-7	-	40
	Other	-1	-	-	-	-1
	<b>Total</b>	<b>51</b>	<b>-3</b>	<b>-7</b>	<b>-</b>	<b>41</b>
	Adjustment of prior-year tax charges included in total		-3			
	<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.
	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			
	2017					
	Intangible assets	-	-1	-	-	-1
	Tangible assets	11	-14	-	-	-3
	Securities	6	1	-	-	7
	Provisions	44	3	-7	-	40
	Other	-	-	-	-	-
	<b>Total</b>	<b>61</b>	<b>-11</b>	<b>-7</b>	<b>-</b>	<b>43</b>
	Adjustment of prior-year tax charges included in total		-3			

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2018	2017	2018	2017
23	<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 2018, the Group took over properties for DKK 40 million (2017: DKK 37 million). The effect on profit or loss on properties taken over was DKK -5 million (2017: DKK 1 million).				
24	<b>Other assets</b>				
	Interest due	428	532	428	532
	Pension assets	208	221	208	221
	Other assets	1,342	1,756	1,304	1,715
	<b>Total</b>	<b>1,978</b>	<b>2,509</b>	<b>1,940</b>	<b>2,468</b>
25	<b>Due to credit institutions and central banks</b>				
	On demand	-	-	-	-
	3 months or less	778	4,294	778	4,294
	3-12 months	-	-	-	-
	1-5 years	-	-	-	-
	<b>Total</b>	<b>778</b>	<b>4,294</b>	<b>778</b>	<b>4,294</b>
	At fair value	773	4,289	773	4,289
	Portion attributable to repo transactions	778	4,294	778	4,294
26	<b>Issued mortgage bonds at fair value</b>				
	Issued mortgage bonds, nominal value*	848,951	855,233	848,951	855,233
	Fair value adjustment	22,680	24,661	22,680	24,661
	Issued mortgage bonds at fair value, before set-off	871,631	879,894	871,631	879,894
	Set-off of own mortgage bonds at fair value	62,540	69,844	62,540	69,844
	<b>Issued mortgage bonds at fair value</b>	<b>809,091</b>	<b>810,050</b>	<b>809,091</b>	<b>810,050</b>
	The fair value is based on quoted prices.				
	0-1 month	64,330	83,130	64,330	83,130
	1-3 months	-	-	-	-
	3-12 months	106,745	81,728	106,745	81,728
	1-5 years	373,302	388,495	373,302	388,495
	5-10 years	76,832	72,327	76,832	72,327
	Over 10 years	187,882	184,370	187,882	184,370
	<b>Total</b>	<b>809,091</b>	<b>810,050</b>	<b>809,091</b>	<b>810,050</b>
	* Portion pre-issued	36,931	45,308	36,931	45,308
	* Portion drawn at 2 January 2019, or in 2018	61,629	76,771	61,629	76,771

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 2018, the Danish mortgage bond yield spread widened and the fair value of issued mortgage bonds thus fell by some DKK 2 billion. In 2017, a narrowing led to an increase in fair value. Based on the outstanding portfolio at the end of 2018, 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 8 billion (2017: negative fair value of DKK 9 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 2018 or the period since the issue has been required.

# Notes

Note	(DKK millions)	Realkredit Danmark Group		Realkredit Danmark A/S	
		2018	2017	2018	2017
27	<b>Issued bonds at amortised cost</b>				
	Nominal value of issued bonds	5,952	6,617	5,952	6,617
	Fair value hedging of interest rate risk	-	-	-	-
	Premium/discount		-1		-1
	<b>Total issued bonds</b>	<b>5,952</b>	<b>6,616</b>	<b>5,952</b>	<b>6,616</b>
	Fair value of issued bonds at amortised cost	5,965	6,665	5,965	6,665
	The fair value of based on quoted prices.				
	0-1 month	-	-	-	-
	1-3 months	-	560	-	560
	3-12 months	5,965	-	5,965	-
	1-5 years	-	6,105	-	6,105
	5-10 years	-	-	-	-
	Over 10 years	-	-	-	-
	<b>Total</b>	<b>5,965</b>	<b>6,665</b>	<b>5,965</b>	<b>6,665</b>
	Nominal value	1 Jan. 2018	Issued	Redeemed	31 Dec. 2018
	<b>Total issued bonds</b>	<b>6,617</b>	<b>-</b>	<b>665</b>	<b>5,952</b>

Issued bonds at amortised cost consist of issued senior debt.

28	<b>Other liabilities</b>				
	Interest accrued	5,006	5,605	5,006	5,605
	Reserves in early series subject to a reimbursement obligation*	18	29	-	-
	Other creditors	416	364	402	346
	<b>Total</b>	<b>5,440</b>	<b>5,998</b>	<b>5,408</b>	<b>5,951</b>

\* Recognised in the balance sheet of the parent company, Realkredit Danmark A/S, under "Provisions".

29	<b>Reserves in early series subject to a reimbursement obligation*</b>				
	Carrying amount, beginning of year	29	35	29	35
	Utilised	-7	-10	-7	-10
	Increase due to shortening of maturity	-4	4	-4	4
	Increase due to change in discount rate	-	-	-	-
	<b>Carrying amount, end of year</b>	<b>18</b>	<b>29</b>	<b>18</b>	<b>29</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	
		2018	2017	2018	2017
30	<b>Risk exposure amount (REA)</b>				
	Credit risk (IRB approach)	132,283	143,847	132,214	143,773
	Credit risk (standardised approach)	6,321	6,458	6,458	6,458
	Counterparty risk	8	4	8	4
	<b>Total credit risk</b>	<b>138,612</b>	<b>150,309</b>	<b>138,680</b>	<b>150,235</b>
	Market risk	227	679	227	679
	Operational risk	10,933	10,914	10,761	10,720
	<b>Total</b>	<b>149,772</b>	<b>161,902</b>	<b>149,668</b>	<b>161,634</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.

- 31 **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	10,522	13,271	10,522	13,271
Portion issued by Realkredit Danmark	4,901	5,505	4,901	5,505
<b>Assets sold under repo transactions</b>				
Bonds at fair value	773	4,289	773	4,289
Portion issued by Realkredit Danmark	-	228	-	228

At 31 December 2018, mortgage lending totalling DKK 796,045 million and other assets totalling DKK 16,675 million were registered as security for issued mortgage bonds, including mortgage-covered bonds, and issued bonds at amortised cost (2017: DKK 788,765 million and DKK 22,665 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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## 32 **Contingent liabilities**

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

As the sponsoring employer, Realkredit Danmark is liable for the pension obligations of Kreditforeningen Danmarks Pensionsafviklingskasse. 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	
	2018	2017	2018	2017
<b>Other contingent liabilities</b>				
Irrevocable loan commitments	36,830	37,476	36,824	37,476
Other commitments	24	46	5	22
<b>Total</b>	<b>36,854</b>	<b>37,522</b>	<b>36,829</b>	<b>37,498</b>

# Notes

Note	(DKK millions)				
33	<b>Related party transactions</b>				
	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 2018.				
	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	
		2018	2017	2018	2017
	Fees, etc. paid to Danske Bank A/S for the arranging and guaranteeing of mortgage loans	1,089	1,127	1,089	1,127
	Fees received from Danske Bank A/S for referral of customers and for property valuation	80	68	80	68
	Fees paid to Danske Bank A/S for managing Realkredit Danmark's IT operations and development, portfolio management and finance functions, etc.	237	215	221	200
	Interest received by Realkredit Danmark A/S on outstanding accounts with Danske Bank A/S	-19	-47	-19	-47
	Interest received on mortgage loans raised by sister company	9	10	9	10
	Interest paid by Realkredit Danmark A/S on outstanding accounts with Danske Bank A/S	-12	-37	-12	-37
	Amounts due from Danske Bank A/S	3,741	7,488	3,663	7,406
	Mortgage lending to sister company	1,107	1,255	1,107	1,255
	Loss guarantees from Danske Bank A/S	58,335	59,336	58,335	59,336
	Other guarantees from Danske Bank A/S	24,995	33,398	24,995	33,398
	Amounts due to Danske Bank A/S	778	4,294	778	4,294
	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.				
34	<b>Loans etc. to management</b>				
	Mortgage loans established on an arm's length basis for Board of Directors of Realkredit Danmark A/S	54	36	54	36
	Executive Board of Realkredit Danmark A/S	4	4	4	4
	Board of Directors and Executive Board of Danske Bank A/S	54	61	54	61
	Average interest rate and administration margin for loans etc. to management	2.0%	2.0%	2.0%	2.0%

# Notes

Note	(DKK millions)	Realkredit Danmark Group			
35	<b>Financial instruments at fair value</b>				
	2018	Quoted prices	Observable input	Non-observable input	Total
	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>
	2017				
	Bonds at fair value	17,327	6,299	-	23,626
	Mortgage loans at fair value	-	788,765	-	788,765
	Shares	-	-	2	2
	Derivatives	-	64	-	64
	<b>Total</b>	<b>17,327</b>	<b>795,128</b>	<b>2</b>	<b>812,457</b>
	Issued mortgage bonds at fair value	810,050	-	-	810,050
	Derivatives	-	10	-	10
	<b>Total</b>	<b>810,050</b>	<b>10</b>	<b>-</b>	<b>810,060</b>

Negative interest income and interest expenses due to negative interest rates were insignificant during 2017 and 2018. The amounts are offset against interest income and interest expenses, respectively.

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

Developments in the financial markets did not lead to reclassification of bonds between listed prices and observable input in 2018.

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

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

# Notes

Note	(DKK millions)
36	<p><b>Fair value hedging</b></p> <p>The Realkredit Danmark Group uses interest rate swaps to hedge the interest rate risk on any fixed-rate liabilities measured at amortised cost. Hedged interest rate risks that meet the criteria for fair value hedge accounting are treated accordingly. The interest rate risk on the hedged liabilities is measured at fair value through profit or loss.</p> <p>At the end of 2018 and 2017, there were no fixed-rate liabilities measured at amortised cost, and therefore the Group did not hedge any interest rate exposure using interest rate derivatives.</p>
37	<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 and Executive Order no. 1043 of 5 September 2017.</p> <p>The rules are consistent with the Group's measurement principles under IFRS with the exception that</p> <ul style="list-style-type: none"> <li>• Domicile properties are valued at estimated fair value (revalued amount) through other comprehensive income</li> </ul> <p>The estimated fair value of domicile properties is determined in accordance with the Danish FSA's executive order on Financial Reports of Credit Institutions and Investment Companies, etc. Available-for-sale financial assets are measured at fair value through profit or loss.</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> <p>The table below shows the differences in net profit and shareholders' equity between the IFRS consolidated financial statements and the parent company's financial statements presented in accordance with Danish FSA rules.</p>

(DKK millions)	Net profit 2018	Net profit 2017	Shareholders' equity 31 Dec. 2018	Shareholders' equity 31 Dec. 2017
Consolidated financial statements (IFRS)	4,337	4,368	49,915	49,891
Domicile property	-	-39	-	-
Tax effect	-	8	-	-
Consolidated financial statements (Danish FSA rules)	4,337	4,337	49,915	49,891

The group's domicile properties were sold in 2017.

# 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.

### 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 2018 by maintaining a total capital ratio of 30.6, well above the regulatory requirement of 14.5, 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 21%, Urban trade for 16% and Agriculture for the remaining 6%. The current composition of the exposure matches Realkredit Danmark's target that personal property loans should account for at least two-thirds of the total exposure.

In 2018, 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 2019. 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 granted by Realkredit Danmark's Executive Board or Board of Directors.

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

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

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

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

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

Rating category	Personal	Business	2018 Total	2017 Total
1	-	-	-	-
2	12	2	14	15
3	105	69	174	161
4	133	86	219	211
5	111	66	177	177
6	49	58	107	107
7	35	36	71	74
8	9	11	20	25
9	1	2	3	4
10	2	6	8	11
11	1	5	6	7
Total	458	341	799	792

### 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

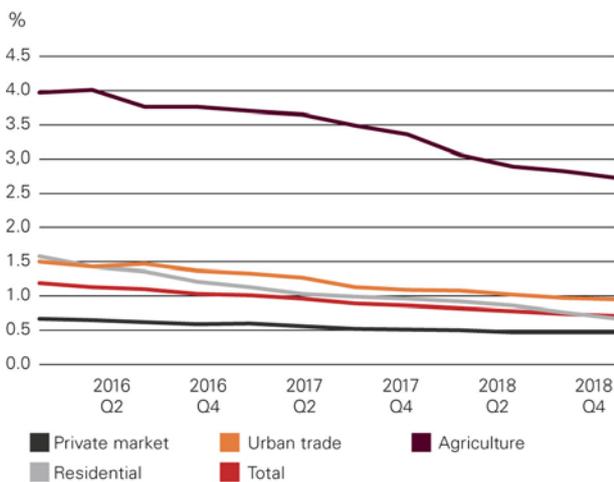
# Notes

## 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 2017. The total average PD has fallen for all sectors of the loan portfolio compared with the level a year ago.

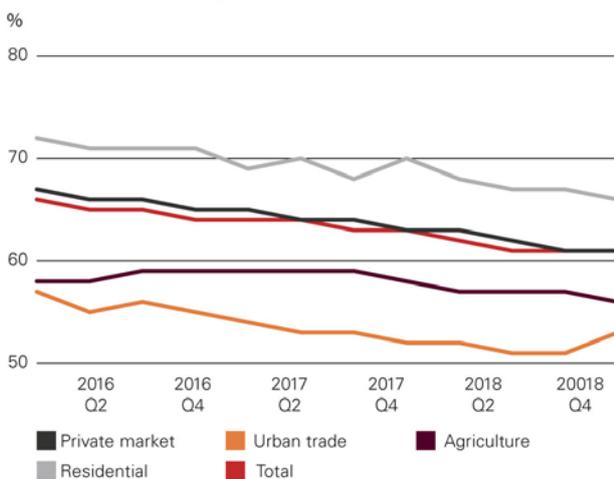
The average PD for all segments has trended down as a result of the improved credit quality.

### Development in average PD



Property prices have risen in recent years, especially in Copenhagen and in Aarhus. This trend in property prices led to a fall in average loan-to-value ratios (LTV). For the entire loan portfolio, the LTV dropped from 63% at end-2017 to 61% at end-2018.

### 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 98% was secured within 80% of the value.

### 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

### Loan portfolio broken down by loan-to-value ratios at 2017

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

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 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

# Notes

Note

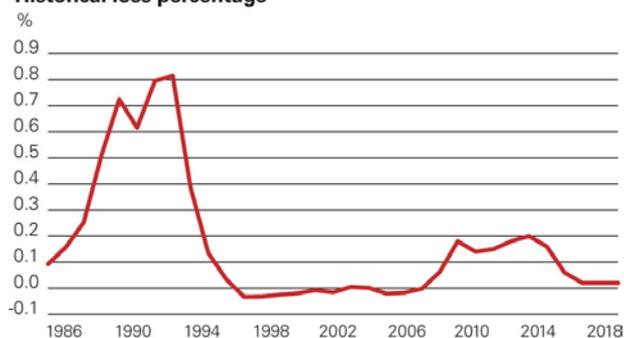
## Portfolio broken down by loan to value and rating category 2017

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

Impairments for 2018 amounted to DKK 196 million, corresponding to 0.02% of total mortgage lending. This is an increase relative to 2017, when the charges amounted to DKK 147 million. Developments in total impairments were due to model adjustments in connection with implementation of IFRS 9 in the financial sector. Disregarding this implementation effect, the general improvement of economic conditions in Denmark, including rising property prices, has led to the reversal of impairments. This applied to all segments except the agricultural sector. The new impairment principles of IFRS 9 have resulted in a transition effect of DKK 400 million in 2018.

Loan impairment charges are expected to remain at a low level in 2019.

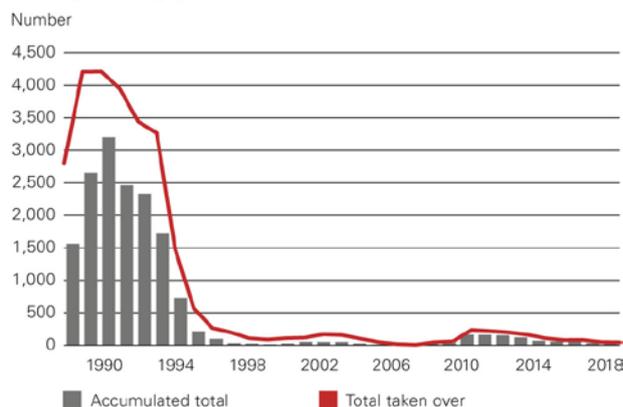
## Historical loss percentage



The number of properties taken over by Realkredit Danmark at a forced sale fell to 39 in 2018 from 50 in 2017. In the same period, the number of foreclosed properties fell from 31 to 29.

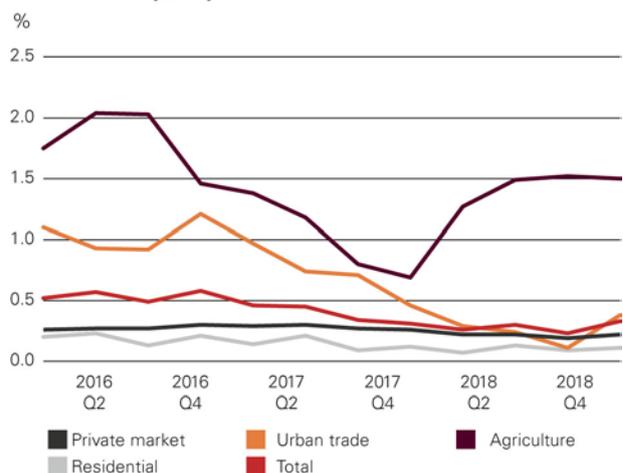
In a historical context, the number of properties taken over in 2018 was much lower than during the crisis of the early 1990s, when more than 4,000 properties were taken over in the worst year.

## 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 291 billion was partly covered by this loss guarantee at the end of 2018. The total guarantee in 2018 amounted to DKK 58 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, rose by a small margin from 2017 to 2018. The increase was driven by higher delinquencies in the agricultural sector, while delinquencies fell in the other segments.

# Notes

Note

## Arrears on loans without OEI at 31 December 2018

(DKK millions)



The chart shows arrears on loans without OEI at 31 December 2018. Total arrears on loans without OEI amounted to DKK 0.8 million at the end of 2018. Of total arrears on loans without OEI, 99.8% 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 2018, the total exposure to loans with forbearance terms amounted to DKK 6.1 billion. This is an increase of DKK 3.1 billion relative to 2017.

Arrears	Loan portfolio DKK millions		Loan to value %		Arrears Sept. paym. in %	
	2018	2017	2018	2017	2018	2017
Privat market	457,723	453,904	61	63	0.22	0.26
Urban trade	125,204	128,302	53	52	0.38	0.46
Agriculture	46,795	47,776	56	58	1.50	0.69
Residential rental property	169,115	161,855	66	70	0.11	0.12
Total	798,837	791,837	61	63	0.33	0.31

## Non-performing loans

At 31 December 2018, the total exposure to non-performing loans amounted to DKK 11.6 billion. This is an increase compared with the end of 2017, when non-performing loans amounted to DKK 9.1 billion. The increase was driven by a change to the definition of non-performing loans. Previously, non-performing loans were defined as facilities with objective evidence of impairment and for which individual impairment charges had been booked. Now, they are classified as stage 3 loans. The latter is a broader definition, which explains the increase.

## 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 2018, the Group's exposures did not exceed these limits.

Credit exposure to groups representing 10% or more of the capital base amounted to DKK 4,936 million at 31 December 2018 (2017: DKK 5,197 million). At the end of 2018, 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):

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 458 million. At the end of 2018, this interest rate risk amounted to DKK 9 million. The interest rate risk on other assets and liabilities and on off-balance-sheet items, including in particular the proprietary investment portfolio, may not exceed 8% of the total capital, or DKK 3,661 million, in accordance with Danish law. At the end of 2018, the interest rate risk on these items amounted to DKK 1,144 million, against DKK 1,054 million the year before. At the end of 2018, the total interest rate risk amounted to DKK 1,153 million, or 2.5% of the total capital. The year before, Realkredit Danmark's interest rate risk was DKK 1,061 million.

### 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-2018, the market value and hence the equity market risk amounted to DKK 139 million, against DKK 141 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 2018, the exchange rate risk amounted to DKK 1 million, against DKK 2 million the year before.

# Notes

Note

Derivatives (DKK millions)	Nominal value	2018		Nominal value	2017	
		Positive market value	Negative market value		Positive market value	Negative market value
<b>Interest rate contracts</b>						
Forward/futures bought	36,683	42	-	47,530	48	-
Forward/futures sold	19,370	19	66	21,221	8	10
<b>Currency contracts</b>						
Forward/futures bought	929	-	-	70	-	-
Forward/futures sold	140	-	1	194	5	-
Interest rate and currency contracts held for trading purposes, total		61	67		61	10
<b>Outstanding spot transactions</b>						
Interest rate contracts bought	1,082	5	-	684	1	-
Interest rate contracts sold	1,149	-	1	1,348	2	-
Total outstanding spot transactions		5	1		3	-
<b>Hedging derivatives</b>						
	-	-	-	-	-	-

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. In 2016, most of the pension risk was transferred to Danica Pension in the form of an insurance policy.

## Liquidity risk

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

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

# Notes

Note

<b>Realkredit Danmark Group</b>					
(DKK millions)	2018	2017	2016	2015	2014
<b>HIGHLIGHTS</b>					
Net interest and fee income	6,391	6,339	6,249	6,557	6,468
Value adjustments	-67	-32	-61	-441	-583
Staff costs and administrative expenses	702	733	787	784	811
Loan impairment charges	196	147	182	432	1,171
Income from associates	-	-1	-	3	2
Net profit for the year	4,337	4,368	4,181	3,890	3,056
Loans	796,594	789,392	768,397	745,166	745,421
Shareholders' equity	49,915	49,891	49,347	48,746	47,871
Total assets	871,217	876,890	862,677	836,574	834,555
<b>RATIOS AND KEY FIGURES</b>					
Total capital ratio (%)	30.6	28.3	30.1	38.8	34.5
Tier 1 capital ratio (%)	30.3	28.1	29.6	38.3	34.0
Return on equity before tax (%)	11.1	11.3	10.9	10.5	8.5
Return on equity after tax (%)	8.7	8.8	8.5	8.1	6.5
Cost/core income ratio DKK	7.17	7.35	6.51	5.18	3.03
Foreign exchange position (%)	0.5	1.5	3.2	0.5	1.1
Gearing of loans	16.0	15.8	15.6	15.3	15.6
Growth in lending for the year (%)	1.1	1.9	2.0	1.9	0.8
Impairment ratio for the year (%)	0.02	0.02	0.02	0.06	0.16
Return on assets (%)	0.5	0.5	0.5	0.5	0.4
<b>Realkredit Danmark A/S</b>					
<b>HIGHLIGHTS</b>					
Net interest and fee income	6,391	6,338	6,248	6,555	6,466
Value adjustments	-67	-33	-61	-440	-583
Staff costs and administrative expenses	634	642	688	678	706
Loan impairment charges	197	148	182	432	1,170
Income from associates and group undertakings	38	35	30	28	17
Net profit for the year	4,337	4,337	4,181	3,882	3,056
Loans	796,565	789,363	768,363	745,132	745,385
Shareholders' equity	49,915	49,891	49,378	48,777	47,909
Total assets	871,206	876,874	862,705	836,593	834,591
<b>RATIOS AND KEY FIGURES</b>					
Total capital ratio (%)	30.6	28.4	30.1	38.8	34.6
Tier 1 capital ratio (%)	30.4	28.1	29.6	38.3	34.1
Return on equity before tax (%)	11.1	11.2	10.9	10.5	8.5
Return on equity after tax (%)	8.7	8.7	8.5	8.0	6.4
Cost/core income ratio DKK	7.67	8.03	7.15	5.56	3.14
Foreign exchange position (%)	0.5	1.5	3.2	0.5	1.1
Gearing of loans	16.0	15.8	15.6	15.3	15.6
Growth in lending for the year (%)	1.1	1.9	2.0	1.9	0.8
Impairment ratio for the year (%)	0.02	0.02	0.02	0.06	0.16
Return on assets (%)	0.5	0.5	0.5	0.5	0.4

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

# Notes

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Note

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<b>Group holdings and undertakings</b>	Share capital (thousands)	Net profit (DKK millions)	Shareholders' equity (DKK millions)	Holding of share capital (%)
<b>Realkredit Danmark A/S, Copenhagen</b>	DKK 630,000	4,337	49,915	
<b>Subsidiaries</b>				
<b>Real-estate agency business</b>				
home a/s, Aarhus	DKK 15,000	38	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 jydsk Kjøbstad- Credit- forening	Østifternes Kredit- forening	Series not subject to a reimbursement obligation	Danske Kredit
<b>Income statement</b>						
	Income from lending	0.2	0.3	0.8	21.3	0.6
1	Net interest income etc.	0.1	0.1	1.0	10.2	-
1	Administrative expenses etc.	1.3	1.1	2.2	11.6	1.1
	Loan impairment charges	-	-	-	16.6	0.5
	Tax	-0.2	-0.2	-0.1	0.7	-0.2
2	Net profit for the year	-0.8	-0.5	-0.3	2.6	-0.8
<b>Balance sheet - assets</b>						
	Mortgage loans etc.	32.9	52.0	224.0	14,138.6	90.8
	Other assets	6.1	13.2	127.9	1,453.2	11.9
	Total assets	39.0	65.2	351.9	15,591.8	102.7
<b>Balance sheet - liabilities and equity</b>						
3	Issued bonds	34.7	59.9	245.6	14,715.5	100.2
	Other liabilities	-	0.1	0.5	21.1	0.1
4	Shareholders' equity	4.3	5.2	105.8	855.2	2.4
5	Total liabilities and equity	39.0	65.2	351.9	15,591.8	102.7

	(DKK millions)	SDRO S	Mortgage- SDRO T	SDRO Almen	Other reserves	Total
<b>Income statement</b>						
	Income from lending	1,658.0	4,422.8	3.4	175.2	6,282.6
1	Net interest income etc.	143.2	305.0	-	58.6	518.2
1	Administrative expenses etc.	369.5	603.7	1.5	89.6	1,081.6
	Loan impairment charges	83.5	17.3	-	78.9	196.8
	Tax	296.6	903.5	0.4	1.2	1,201.7
2	Net profit for the year	1,051.6	3,203.3	1.5	64.1	4,320.7
<b>Balance sheet - assets</b>						
	Mortgage loans etc.	258,248.4	485,122.5	5,328.3	32,952.7	796,190.2
	Other assets	31,797.1	92,949.8	4,856.4	6,952.5	138,168.1
	Total assets	290,045.5	578,072.3	10,184.7	39,905.2	934,358.3
<b>Balance sheet - liabilities and equity</b>						
3	Issued bonds	273,923.3	549,405.1	10,169.6	34,507.4	883,161.3
	Other liabilities	392.4	782.0	13.8	54.0	1,264.0
4	Shareholders' equity	15,729.8	27,885.2	1.3	5,343.8	49,933.0
5	Total liabilities and equity	290,045.5	578,072.3	10,184.7	39,905.2	934,358.3

# 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>2018</b>
2	<b>Net profit for the year, series accounts</b>	
	Net profit for the year, Realkredit Danmark A/S's financial statements	4,337
	Transferred to other reserves etc.	-3
	Adjustment of defined benefit plans	-13
	Market value adjustment of domicile properties	-
	Net profit for the year, series accounts	4,321
3	<b>Issued bonds, series accounts</b>	
	Issued bonds, Realkredit Danmark A/S's financial statements	815,043
	Own mortgage bonds, not offset in the series accounts	62,540
	Accrued interest, own bonds	5,578
	Issued bonds, series accounts	883,161
4	<b>Shareholders' equity, series accounts</b>	
	Shareholders' equity, Realkredit Danmark A/S's financial statements	49,915
	Reserves in pre-1972 series subject to a reimbursement obligation	18
	Shareholders' equity, series accounts	49,933
5	<b>Total assets, series accounts</b>	
	Total assets, Realkredit Danmark A/S's financial statements	871,206
	Own mortgage bonds, not offset in the series accounts	62,540
	Accrued interest, own bonds	612
	Total assets, series accounts	934,358
6	<b>Transfers to and from reserves subject to a reimbursement obligation</b>	
	In 2018, the following net transfers of funds to and from the reserves were made between individual associations and other reserves.	
	Transferred from and to shareholders' equity:	
	Series not subject to a reimbursement obligation	-1,978
	Other reserves	1,978
	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 2018.

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 2018 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 2018. 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, 1 February 2019

## Executive Board

Carsten Nøddebo Rasmussen  
Chairman of the Executive Board

Klaus Kristiansen  
Member of the Executive Board

## Board of Directors

Jesper Nielsen  
Chairman

Jacob Aarup-Andersen  
Vice Chairman

Kim Andersen

Christian Baltzer

Carsten Rasch Egeriis

Henriette Fenger Ellekrog

Jakob Groot

Sonia Khan

Lisbeth Sahlertz Nielsen

Majken Hammer Sløk

# Auditor's report

## Independent auditor's reports

To the shareholder of Realkredit Danmark A/S

### Opinion

We have audited the consolidated financial statements and the parent financial statements of Realkredit Danmark A/S for the financial year 1 January to 31 December 2018, pages 20-65, 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 2018, and of the results of its operations and cash flows for the financial year 1 January to 31 December 2018 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 2018, and of the results of its operations for the financial year 1 January to 31 December 2018 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 4 years up to and including the financial year 2018.

### 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 2018. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Key audit matter

#### How the matters were addressed in our audit

#### Loan impairment charges

Loans for the Group amounted to DKK 796,045 million at 31 December 2018 (DKK 788,765 million at 31 December 2017), and loan impairment charges of DKK 196 million in 2018 (DKK 147 million in 2017).

From 1 January 2018, the Group has opted to adjust for changes in the fair value of borrower credit risk based on the IFRS impairment principles applicable to loans at amortised cost. This has resulted in impairment charges being recognised when losses are expected rather than when they have been incurred. Management has disclosed information regarding the transition effect in notes 1 and 10, including the impact on profit or loss at 1 January 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

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.
- Testing of key controls over models and manual processes for valuation of collateral and assumptions of future cash flows.

# Auditor's report

<p>and credit impaired exposures.</p> <ul style="list-style-type: none"><li>• Valuation of collateral and assumptions of future cash flows on manually assessed credit-impaired exposures.</li><li>• Management overlays for particular high-risk portfolios, which are not appropriately captured in the expected credit loss model.</li></ul> <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>• 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, 1 February 2019

## **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

### **Jesper Nielsen** Chairman

Member of the Executive Board of Danske Bank A/S

Born on 20 October 1968

Joined the Board of Directors on 6 March 2017

Directorships and other offices:

e-nettet (chairman)

MobilePay A/S (chairman)

MobilePay Denmark A/S (chairman)

Finance Denmark

Danske Banks Fond

Grænseforeningen

### **Jacob Aarup-Andersen**

Member of the Executive Board of Danske Bank A/S

Born on 6 December 1977

Joined the Board of Directors on 3 March 2016

Directorships and other offices:

Danica Pension, Livsforsikringsaktieselskab (chairman)

Danica Pensionsforsikring A/S (chairman)

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999 (chairman)

Danske Bank International S.A: (chairman)

Danske Invest Management A/S (chairman)

Kreditforeningen Danmarks Pensionsafviklingskasse (chairman)

Danske Banks Fond

### **Kim Andersen**

Managing Director

Born on 30 April 1955

Joined the Board of Directors on 21 November 2011

Independent

Chairman of the Audit Committee

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

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

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

Managing Director of Audio Consult ApS

Managing Director of KA Invest af 2. maj 2003 ApS

Directorships and other offices:

Danica Pension, Livsforsikringsaktieselskab

Danica Pensionsforsikring A/S

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999

### **Christian Baltzer**

Member of the Executive Board of Danske Bank A/S

Born on 18 April 1978

Joined the Board of Directors on 15 October 2018

Member of the Audit Committee

Directorships and other offices:

Danica Pension, Livsforsikringsaktieselskab

Danica Pensionsforsikring A/S

Forsikringsselskabet Danica, Skadeforsikringsaktieselskab af 1999

# Directorships

## **Carsten Rasch Egeriis**

Member of the Executive Board of Danske Bank A/S

Born on 18 June 1976

Joined the Board of Directors on 23 May 2018

Directorships and other offices:

Northern Bank Limited

Danske Banks Fond

## **Henriette Fenger Ellekrog**

Member of the Executive Board of Danske Bank A/S

Born on 29 April 1966

Joined the Board of Directors on 3 March 2016

Directorships and other offices:

Finanssektorens Arbejdsgiverforening (chairman)

Fondet for Dansk-Norsk Samarbejde

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

"Women on Board"

## **Jakob Groot**

Member of the Executive Board of Danske Bank A/S

Born on 26 June 1967

Joined the Board of Directors on 23 May 2018

Directorships and other offices:

International Capital Markets Association

GFO ApS

## **Sonia Khan** (elected by the employees)

Senior Economist, Realkredit Danmark A/S

Born on 17 November 1985

Joined the Board of Directors on 6 March 2017

## **Lisbeth Sahlertz Nielsen** (elected by the employees)

Senior Business Adviser, Realkredit Danmark A/S

Born on 16 May 1972

Joined the Board of Directors on 7 March 2013

## **Majken Hammer Sløk** (elected by the employees)

Senior Consultant, Realkredit Danmark A/S

Born on 2 January 1965

Joined the Board of Directors on 6 March 2017

Directorships and other offices:

Arrangement Committee of Byens Netværk

## 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:  
7 March 2019
- Interim Report – First Quarter 2019:  
30 April 2019
- Interim Report – First Half 2019:  
18 July 2019
- Interim Report – First Nine Months 2019:  
1 November 2019

## **Contact**

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

## **Links**

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



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

rd.dk  
E-mail rd@rd.dk