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Annual Report 2013 is a translation of the original report in the Danish language (Årsrapport 2013). In case of discrepancies, the Danish version prevails.

5 year financial highlights – Realkredit Danmark Group

NET PROFIT FOR THE YEAR

(DKK millions)	2013	2012	2011	2010	2009
Administration margin	5,491	4,724	3,564	3,423	3,200
Net interest income	-24	235	660	614	1,718
Net fee income	-540	-469	-488	-501	-415
Income from investment portfolios	750	862	650	463	1,113
Other income	123	111	105	168	102
Total income	5,800	5,463	4,491	4,167	5,718
Expenses	852	870	934	897	984
Profit before loan impairment charges	4,948	4,593	3,557	3,270	4,734
Loan impairment charges	1,471	1,319	1,057	976	1,267
Profit before tax	3,477	3,274	2,500	2,294	3,467
Tax	865	820	626	573	873
Net profit for the year	2,612	2,454	1,874	1,721	2,594

BALANCE SHEET (AT 31 DECEMBER)

(DKK millions)	2013	2012	2011	2010	2009
Due from credit institutions etc.	51,004	18,727	32,556	28,889	48,966
Mortgage loans	730,901	735,494	723,754	704,449	691,301
Bonds and shares	61,156	35,966	17,300	21,688	3,332
Other assets	5,073	3,940	2,950	2,595	2,744
Total assets	848,134	794,127	776,560	757,621	746,343
Due to credit institutions etc.	32,501	10,079	20,668	27,408	26,855
Issued mortgage bonds	725,159	701,373	695,080	671,644	660,685
Issued senior debt	32,089	21,687	-	-	-
Other liabilities	11,501	14,636	14,010	13,625	15,604
Subordinated debt	-	-	2,045	2,061	2,037
Shareholders' equity	46,884	46,352	44,757	42,883	41,162
Total liabilities and equity	848,134	794,127	776,560	757,621	746,343

RATIOS AND KEY FIGURES

Net profit for the year as % of avg. shareholders' equity	5.6	5.4	4.3	4.1	6.5
Cost/income ratio (%)	14.7	15.9	20.8	21.5	17.2
Total capital ratio (%)	34.0	34.3	35.8	39.4	44.6
Tier 1 capital ratio (%)	33.5	33.7	35.4	38.8	44.2
Full-time-equivalent staff, end of year	249	250	303	320	300

Financial review

Overview

- In 2013, the Realkredit Danmark Group recorded a satisfactory net profit increase of DKK 158 million, marking an improvement of 6% relative to 2012. The profit benefited from a positive trend in core activities, while it was adversely affected by higher funding costs and higher impairments.
- Impairments rose to DKK 1,471 million from DKK 1,319 million in 2012.
- The proportion of customers with F1 loans fell sharply from 25% at the end of 2012 to 17% at the end of 2013. Customers are showing strong interest in financial security by setting their mortgage rates for longer periods.
- In the autumn of 2013, Realkredit Danmark launched the FlexKort® loan type. Customer interest in the product has been very strong, and loans for more than DKK 12 billion were disbursed to customers in the fourth quarter.
- In spite of declining mortgage activity, FlexKort® and Danske Bank's customer programme have ensured positive trends in lending and market share.
- Realkredit Danmark expects a higher profit in 2014 than in 2013.

Carsten Nøddebo, Chairman of the Executive Board, says: *"In the autumn, we successfully launched the FlexKort® loan type for customers looking for a mortgage with frequent interest resetting. Cheaper than an F-1 loan, FlexKort® is expected to become the future product of choice for borrowers favouring short interest reset intervals. FlexKort® has received a warm welcome among customers, with FlexKort® loans for DKK 12 billion having been disbursed by the end of the year. This development supported the positive trend in our core business performance over the course of the year, which has resulted in a stronger market position."*

Results

In 2013, the Realkredit Danmark Group recorded a net profit of DKK 2,612 million, against DKK 2,454 million the year before. The profit was thus 6% higher than in 2012 and in line with expectations.

The administration margin rose DKK 767 million, in particular because of the full-year effect of the increase in administration margins implemented in 2012.

Net interest income fell DKK 259 million mainly because of mounting expenses relating to senior debt.

Income from the investment portfolio fell from DKK 862 million in 2012 to DKK 750 million in 2013, especially because of lower returns on bonds. The fall in income from the investment portfolio was offset by the increase in refinancing margins, which amounted to DKK 383 million in 2013, against DKK 336 million in 2012.

Total income rose 6% relative to the level in 2012.

Expenses were down DKK 18 million to DKK 852 million, mainly because of lower costs for marketing and IT systems development.

Impairments amounted to DKK 1,471 million, against DKK 1,319 million in 2012. Impairments equalled 0.20% of

total mortgage lending, against 0.18% in 2012. Of total impairments, 53% related to personal customer loans, while 47% related to business loans.

The 3½-month delinquency rate stood at 0.41% at the end of 2013, against 0.49% at end-2012.

The tax charge totalled DKK 865 million, corresponding to an effective tax rate of 25%.

Balance sheet

Gross lending amounted to DKK 116 billion, against DKK 138 billion in 2012. Mortgage lending at fair value fell DKK 5 billion to DKK 731 billion. During the same period, the nominal outstanding bond debt rose DKK 4 billion to DKK 720 billion at the end of 2013.

The loan-to-value (LTV) ratio declined over the course of the year to stand at 71% at the end of 2013.

In 2013, Realkredit Danmark had 164 foreclosures and sold 198 properties. In 2012, there were 198 foreclosures and 203 properties were sold. The number of foreclosures at the end of the year was 122, against 156 at end-2012. The value of the foreclosures was DKK 193 million at 31 December 2013, against DKK 265 million at end-2012.

Issued mortgage bonds rose DKK 24 billion to DKK 725 billion. The nominal value of issued bonds rose DKK 29 billion to DKK 710 billion. The amounts are exclusive of holdings of own bonds.

Realkredit Danmark is subject to the specific principle of balance and therefore has very limited exposure to market risks. At the end of 2013, Realkredit Danmark's interest rate risk and exchange rate risk amounted to DKK 823 million and DKK 1 million, respectively.

Capital and solvency

At the end of 2013, shareholders' equity stood at DKK 46.9 billion, against DKK 46.4 billion at end-2012. The increase in equity equalled the profit for the year less dividends paid for 2012 of DKK 2.0 billion. The Board is recommending that dividends of DKK 2.1 billion be paid for 2013.

Realkredit Danmark's capital base amounted to DKK 45.5 billion, and the total capital ratio calculated in accordance with the CRD was 34.0%. At 31 December 2012, the corresponding figures were DKK 45.1 billion and 34.3%, respectively.

Because of stricter capital requirements from the rating agencies and higher lending, Realkredit Danmark issued additional senior debt for nominally DKK 7 billion in 2013.

The Realkredit Danmark Group uses the advanced internal ratings-based (IRB) approach to calculate risk-weighted assets for credit risks. Risk-weighted assets (RWA) amounted to DKK 133.9 billion at 31 December 2013, against DKK 131.5 billion at end-2012.

Calculated on the basis of the transitional rules of the CRD, the solvency need for 2013 must, as a minimum, amount to 80% of the requirement calculated under the previous rules, corresponding to DKK 25.6 billion or a solvency need ratio of 19.1%. The Group has a capital base of DKK 45.5 billion, equal to a capital buffer of DKK 19.9 billion.

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

Fourth quarter 2013

Realkredit Danmark recorded a pre-tax profit of DKK 1,046 million in the fourth quarter of 2013, against DKK 862 million in the third quarter. The higher pre-tax profit was attributable primarily to income from the refinancing in the fourth quarter of DKK 242 million. Impairments amounted to DKK 320 million in the fourth quarter, against DKK 264 million in the third quarter.

Outlook for 2014

Realkredit Danmark expects the Danish economy to see stronger growth in 2014 than it did in 2013, although economic expansion will remain relatively subdued. Interest rates are expected to edge up over the course of the year. Stronger growth and persistently low interest rates will support the ongoing housing market stabilisation.

Realkredit Danmark expects higher administration margins in 2014 because the previously announced increase in margins on certain business loans will take effect. On the other hand, higher funding costs will reduce income in 2014.

Realkredit Danmark will continue to focus on tight cost control in 2014 to keep the growth in costs at a minimum.

Impairments are expected to decline in 2014 owing to an improved economic climate in Denmark.

Overall, Realkredit Danmark therefore expects to achieve a higher profit in 2014 than it did in 2013.

Property market

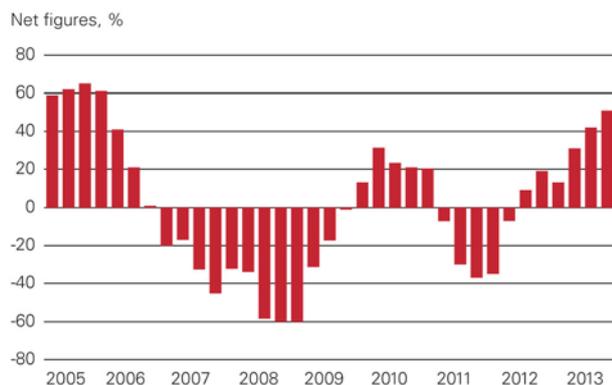
2013 was another year of weak growth

The Danish economy was characterised by weak growth in 2013, marking another disappointing year in terms of growth. Despite a change of sentiment among Danish consumers and positive consumer confidence throughout the second half of the year, consumer spending remained sluggish, and both exports and investments remained subdued, partly because of weak economic trends in the euro area. However, some signs of economic expansion emerged over the course of the year, and unemployment was unchanged.

Housing market stabilisation spreading

The housing market continued to stabilise in 2013. House prices thus rose by slightly more than the rate of inflation, and a number of regions recorded stable or slightly rising house prices. This trend should be seen especially in light of very low interest rates and reduced financial uncertainty among Danish consumers. The latter is reflected directly in a generally more positive view of future developments in unemployment and house prices. Trading activity in the housing market edged up in 2013, but despite this improvement, trading activity remained moderate in a historical context. Given the outlook for persistently low interest rates and expectations of gradual economic recovery in Denmark, prospects appear good for maintaining the housing market improvement throughout 2014.

House price confidence - expected development in house prices



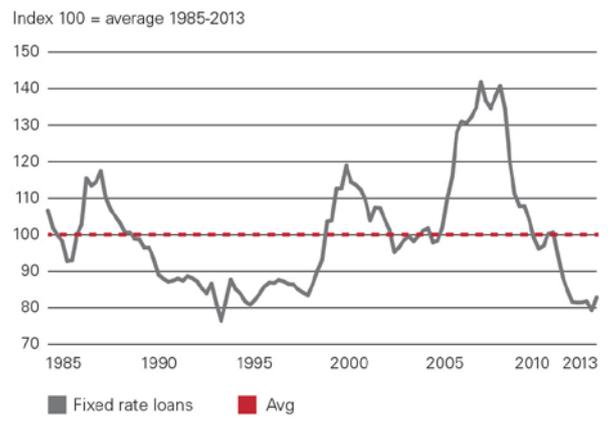
Source: Greens Analyseinsitt and own calculations

The net figure is the difference between the share of people in Denmark expecting higher house prices over the next year and the share expecting falling house prices.

Prices of owner-occupied flats rose sharply throughout 2013, especially in Copenhagen, and overall, the housing market buoyancy was mostly felt in and around the major cities. This is due to the underlying demographic trends in Denmark with more and more people moving to the large cities.

The subdued expansion of the Danish economy and the housing market had a positive effect on statistics of delinquencies and foreclosures. In 2013, the number of foreclosures dropped to the lowest level since 2009, although the figure remains slightly above the historical average of the past 20 years. Many families have made it through the housing crisis relatively unscathed, largely owing to very low interest rates combined with interest-reset and interest-only loans. Furthermore, despite a sharp increase at the onset of the crisis, unemployment remains moderate in a historical context.

Housing burden - cost compared to available income



Commercial property market

In the commercial property market, we continue to see investors focusing especially on prime-location properties with good rental prospects that will provide stable earnings. Foreign players also retained their interest in Danish properties.

Lending and distribution

Marketing

Realkredit Danmark markets its products and services on the basis of its customer promise: "Remove your doubts".

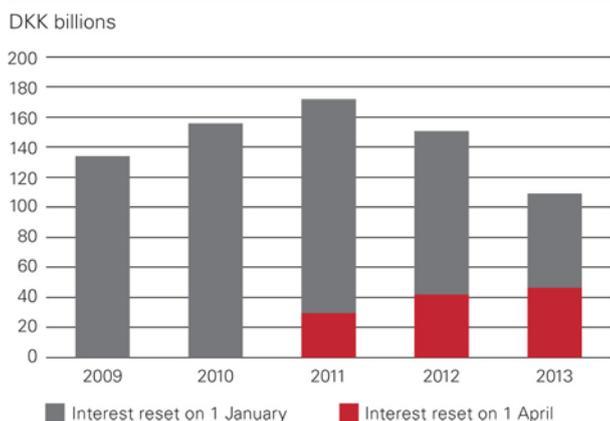
In 2013, Realkredit Danmark continued to build on its well-known marketing concept and launched a new communication concept, emphasising that customers should make the right decision about whether to stick with their existing loan or remortgage to another loan product. In this connection, Realkredit Danmark offers its recommendation on the basis of the individual customer's situation. With these campaigns, Realkredit Danmark has successfully attracted new customers and retained existing ones.

Loans at Realkredit Danmark are fully incorporated in Danske Bank's customer programme. Many Danske Bank customers have benefitted from transferring their mortgage loan to Realkredit Danmark, and with the customer programme, Realkredit Danmark customers can get great benefits at Danske Bank.

New products – FlexKort®

Following the uncertainty surrounding the Cibar rate in 2012, Realkredit Danmark followed up on its agreement with the authorities by launching the first mortgage product based on the Cita rate in September 2013. Going by the name of FlexKort®, the product is offered to both business and personal customers. This loan type is a strong alternative to F1 FlexLån® loans for customers not seeking to set their mortgage rate for long periods. In terms of mortgage payments, the loan has proven to be cheaper than F1 FlexLån® loans, and this has helped boost interest in the product. FlexKort® is currently based on bonds with a three-year maturity, which also results in a lower refinancing need than that associated with F1 FlexLån® loans.

Total RD F1 refinancing volume



The warm welcome given by customers to FlexKort® and the growing interest in FlexLån® loans with longer refinancing intervals resulted in a much lower refinancing volume in 2013. Moreover, the refinancing volume was more evenly spread over the two auctions held during the year.

Sweden and Norway

Following the expansion of Realkredit Danmark's geographical business area in 2012 to include Norway, mortgage lending to selected business customers in Sweden and Norway continued in 2013. The selected customers have good ratings and low LTV ratios, and the loans were granted against mortgages on real property located mainly in major cities. In 2014, Realkredit Danmark will aim to offer mortgage loans to the same type of customers both in Sweden and Norway.

Distribution channels

Realkredit Danmark offers its customers a wide range of property finance products. The customers may opt for personal service or use online and self-service solutions provided at the rd.dk and danskebank.dk websites. The rd.dk website includes a tool that allows personal and business customers to make calculations for loan and financing options when remortgaging or obtaining new loans.

Realkredit Danmark's personal customers are served at Danske Bank by home advisers or employees with mortgage finance expertise. Home Direct serves customers over the telephone during extended opening hours. Customers preferring personal contact are served at Danske Bank branches or at Realkredit Danmark's Personal Centres.

Focus on large property customers

Together with Danske Bank, Realkredit Danmark has decided to focus its services to large property customers by pooling real property expertise at a double-branded nationwide unit – Large Real Estate. Via one unit, large property customers thus have access to advisory services on all products and services. Large Real Estate is in charge of the large property customers in Denmark, of the large administrators for cooperative housing and owners' associations and of all customers within subsidised housing. In addition, the unit will be in charge of providing expert mortgage advice to large non-property customers and to customers in Norway and Sweden who have a mortgage loan with Realkredit Danmark.

Realkredit Danmark's other business customers are served through Danske Bank's other business centres, including finance and agricultural centres, and customers are also offered advice over the telephone through Realkredit Business Direct. All units have relationship managers and business advisers with mortgage finance expertise.

Real-estate business

"home" is wholly-owned by Realkredit Danmark and is the Danish real-estate agency chain of the Danske Bank Group. Sale of owner-occupied dwellings is the main business area of "home", and loans distributed via "home" are most often used for changes of ownership. Furthermore, "home" also operates a business estate-agency chain "home Business".

Total lending

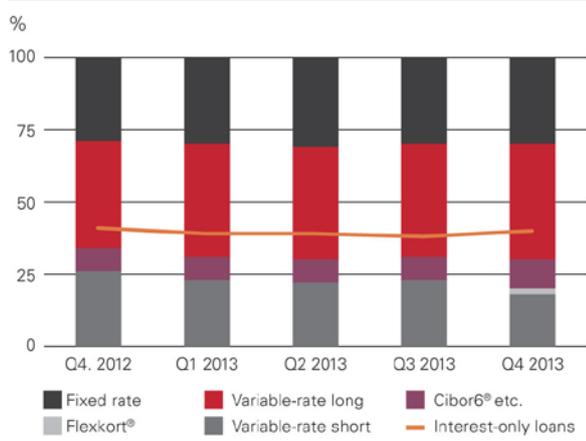
Despite historically low interest rates in 2013, lending activity was lower than in 2012, primarily because of decreasing remortgaging activity. In 2013, remortgaging amounted to DKK 68 billion, against DKK 84 billion in 2012. Realkredit Danmark was pleased to record that customers have opted for loans with longer refinancing intervals.

Interest-only loans accounted for an unchanged share of loans disbursed and of the aggregate portfolio of loans at the end of 2013 compared with end-2012.

Net new lending was up from DKK 19 billion in 2012 to DKK 24 billion in 2013.

Sharp drop in loans based on short-term funding

Loan portfolio - loan types in 2013

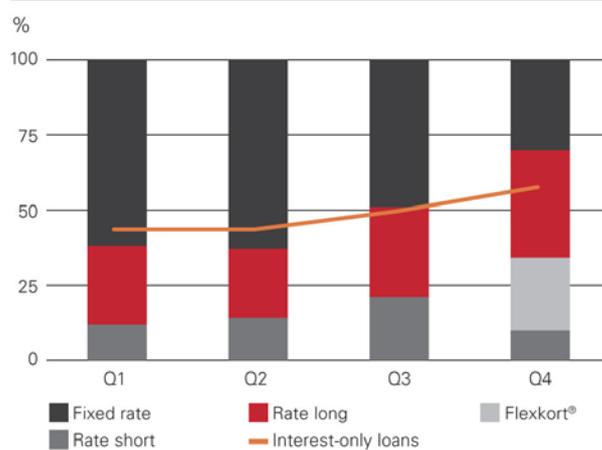


In 2013, many personal customers and, in particular, business customers switched their loan profile to loans based on longer-term funding.

Personal customer market

Customers generally tended to opt for more security in 2013. Fixed-rate loans accounted for no less than 48% of total gross lending, corresponding to DKK 29 billion.

Private market: Gross lending - loan types in 2013



Furthermore, customers who combined had 1-year FlexLån[®] loans for about DKK 6 billion chose to lock in their mortgage rate for the next three or five years by changing the repayment profile of their FlexLån[®]. In addition, in connection with the refinancing, customers holding loans for about DKK 3 billion chose to replace their FlexLån[®] loans with FlexKort[®] loans. In 2013, lending activity was marked by the persistently low number of property transactions and lower remortgaging activity than in 2012. In addition, the proportion of interest-only loans of the total loan portfolio declined in 2013.

Several customers chose to remortgage to Realkredit Danmark's type T FlexLån[®] loan which provides a high degree of security with respect to future mortgage payments, while taking advantage of the low short-term interest rates to reduce the debt more quickly. Fluctuating interest rates thus lead to a change in the term to maturity instead of a change in mortgage payments.

In the years ahead, the interest-only option will expire for a number of customers. Realkredit Danmark will consider extension of the interest-only option on an individual basis, but customers with an LTV ratio above 80% should expect to start making principal repayments on their loans.

Commercial property market

Loans for the business market rose 3% to DKK 304 billion, corresponding to 42% of Realkredit Danmark's loan portfolio.

In the commercial property market, the low level of interest rates also made a number of customers seek more security by opting for loans with longer refinancing intervals.

Of the total volume of lending, more than half of all loans disbursed were fixed-rate loans.

Remortgaging activity has been relatively subdued in the commercial property market, including all of the sub-segments.

Activities and portfolio	Gross lending		Net new lending		Loan portfolio			
	2013	2012	2013	2012	31 Dec. 2013	%	31 Dec. 2012	%
DKK millions								
Personal customer market	59,939	88,743	8,459	6,438	415,678	58	419,567	59
Business market	55,641	48,870	15,972	12,755	303,681	42	296,135	41
Total (nominal value)	115,580	137,613	24,431	19,193	719,359	100	715,702	100

Lending broken down by loan type	Share of gross lending		Share of loan portfolio		
	%	2013	2012	31 Dec. 2013	31 Dec. 2012
FlexLån®		33	42	54	59
FlexKort®		10	-	2	-
Fixed-rate loans		39	49	29	29
FlexGaranti® ect.		-	1	4	4
RD Cibor6® ect.		18	8	11	8
Total		100	100	100	100

Funding

Bond issuance

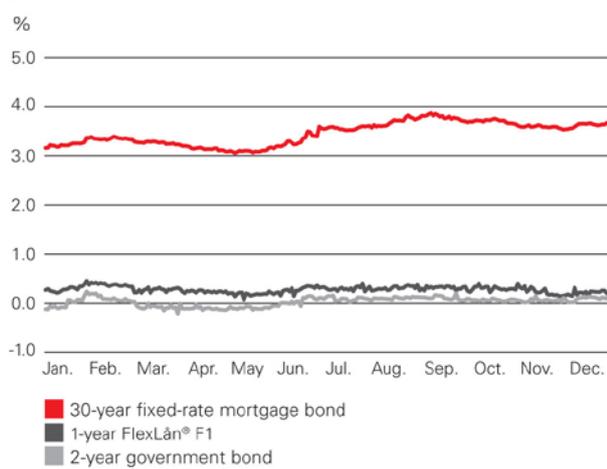
Realkredit Danmark is subject to the specific principle of balance and funds its lending to borrowers by issuing mortgage-covered bonds, which are listed on NASDAQ OMX Copenhagen.

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

Bonds issued in 2013

Realkredit Danmark issued bonds for a total of DKK 119 billion exclusive of bonds issued for the refinancing auctions. This represents a decrease of 14% relative to 2012. Of bonds issued in 2013, about 44% were callable and 56% were non-callable bonds, unlike in 2012 when most of the bonds issued were callable bonds as a result of high re-mortgaging activity in relation to fixed-rate loans.

Movements in interest rates in 2013



Annual refinancing of FlexLån® and RD Euribor3®

With the aim of diversifying the risk of refinancing of FlexLån®, Realkredit Danmark held two auctions in March and November 2013. Since March 2010, all new FlexLån® have been issued with 1 April as the payment date. The volume of bonds issued in connection with the refinancing of FlexLån® at 1 April 2013 amounted to DKK 72 billion, against DKK 47 billion in 2012.

The portion of FlexLån® refinanced at 1 January is still larger than the portion refinanced at 1 April, although the

difference is declining. Issued bonds amounted to DKK 93 billion in connection with the refinancing of FlexLån® at 1 January 2014, against DKK 161 billion at 1 January 2013.

RD Euribor3® were refinanced at 1 July 2013. Unlike FlexLån®, for which customers determine the interest reset intervals, Realkredit Danmark determines the maturity of the bonds and thus the timing of the next refinancing of RD Euribor3®. In view of the current market environment, Realkredit Danmark assessed that it would provide its customers with the optimum refinancing by issuing bonds with a term to maturity of three years. The volume of bonds to be issued was DKK 3.9 billion.

The auction was satisfactory, and substantial investor interest meant that interest rates remained low.

At end-2013, Realkredit Danmark had issued mortgage bonds for a total amount of DKK 773 billion, of which mortgage-covered bonds accounted for DKK 658 billion.

Senior debt issuance

In 2013, in view of higher lending and rating agencies' stricter overcollateralisation requirements, Realkredit Danmark issued senior debt for DKK 7.0 billion pursuant to section 15 of the Mortgage Credit Loans and Mortgage Credit Bonds Act. At the end of 2013, Realkredit Danmark also refinanced expired senior debt for DKK 3.5 billion. Overall, at the end of 2013, Realkredit Danmark had outstanding senior debt totalling DKK 32.0 billion, of which senior debt of DKK 3.5 billion will mature in January 2014. The senior debt has a term to maturity of up to about five years.

In addition to ensuring that Realkredit Danmark meets rating agencies' overcollateralisation requirements, the proceeds from senior debt issues are used to cover the need for supplementary collateral.

The bonds have been assigned an A- rating by Standard & Poor's, on a par with Danske Bank's issuer rating. Realkredit Danmark expects that the rating of the senior debt will be raised if Danske Bank's issuer rating is raised.

Investor distribution

Foreign investors continued to show strong interest in Danish mortgage bonds in 2013 because these bonds were considered to offer better security than similar European securities. In particular, non-callable bonds with a term to maturity of up to one year attracted the most interest. At 31 December 2013, foreign investors thus held about 17% of all bonds at sector level, against some 15% at end-2012.

Realkredit Danmark issues all EUR-denominated mortgage-covered bonds via VP Lux. Having been approved by the ECB as eligible for use as collateral, these bonds are attractive to foreign investors, and this gives Realkredit Danmark a larger investor base and sales channel and thus better pricing for these mortgage-covered bonds.

Rating

Realkredit Danmark is one of only two mortgage credit institutions in Denmark whose bonds are rated by two rating agencies. Realkredit Danmark has been rated by Standard &

Poor's for a number of years, and the bonds still hold the top Standard & Poor's rating of AAA, which covers 98% of all bonds issued by Realkredit Danmark.

Bonds issued from Realkredit Danmark's capital centres S and T are also rated by Fitch Ratings. In capital centre S, the bonds hold the AAA rating, and in capital centre T AA+ because of Fitch Rating's assessment of the refinancing risk. Bonds issued from capital centre T are used for the refinancing of FlexLån® and other loans with a refinancing element.

Standard and Poor's and Fitch Ratings both increased their capital centre overcollateralisation requirements during 2013. Fitch Ratings has the strictest requirement, which is covered primarily by funds from Realkredit Danmark's shareholders' equity and senior debt issued.

Bonds issued as at 31 December (nominal value)

Bond type (DKK billions)	Currency	Mortgage- covered bonds		Mortgage bonds	
		2013	2012	2013	2012
Fixed-rate	DKK	139	117	49	75
FlexLån®	DKK	395	407	8	10
FlexLån®	EUR	35	40	-	-
FlexKort®	DKK	12	-	-	-
Index-linked loans	DKK	-	-	26	28
FlexGaranti®	DKK	6	6	23	25
RenteDyk™	DKK	1	1	-	-
RD Cibar6®	DKK	51	40	9	9
RD Nibor3®	NOK	1	1	-	-
RD Stibor3®	SEK	8	5	-	-
RD Euribor3®	EUR	10	7	-	-
Total DKK		658	624	115	147

The calculation has been adjusted to reflect double-funding of DKK 93 billion because of the refinancing of FlexLån® loans.

Capital and risk management

Capital management

The purpose of capital management is to ensure that the Realkredit Danmark Group has adequate capital to cover the risks associated with its operations. Moreover, the Group aims to retain the current AAA ratings from Standard & Poor's and AAA/AA+ ratings from Fitch Ratings, which are in line with those assigned to comparable issuers.

At 31 December 2013, the capital base of DKK 45.5 billion consists of conventional equity after statutory deductions.

The regulatory framework for Realkredit Danmark's capital management is rooted in the Capital Requirements Directive (CRD). The CRD consists of three pillars:

- Pillar I contains a set of rules for calculating the capital requirement (8% of risk-weighted assets for credit risk, market risk and operational risk).
- Pillar II describes the ICAAP (Internal Capital Adequacy Assessment Process) framework and the supervisory review. The ICAAP determines the solvency need (see below).
- Pillar III deals with market discipline and sets forth disclosure requirements for risk and capital management and the solvency need. Realkredit Danmark is included in the Danske Bank Group's Risk Management 2013 Report, to which reference is made.

ICAAP

Since 1 January 2008, Realkredit Danmark has applied the advanced internal ratings-based (IRB) approach to calculate risk-weighted assets for credit risk.

With respect to credit risk, the capital requirement is calculated on the basis of parameters from Realkredit Danmark's internal risk models. The calculation is based on the probability of customers defaulting on their payment obligations, expected losses in case of default, the size of the loan at default and other factors.

Pillar II takes into consideration the institution's individual characteristics, and all relevant risk types are included, irrespective of whether they are included in Pillar I or not. In the ICAAP, management performs a number of assessments of the risk profile and calculates the solvency need. In addition, ICAAP contains capital planning to ensure that Realkredit Danmark has sufficient capital to comply with the capital requirement in a number of stress tests.

Solvency need

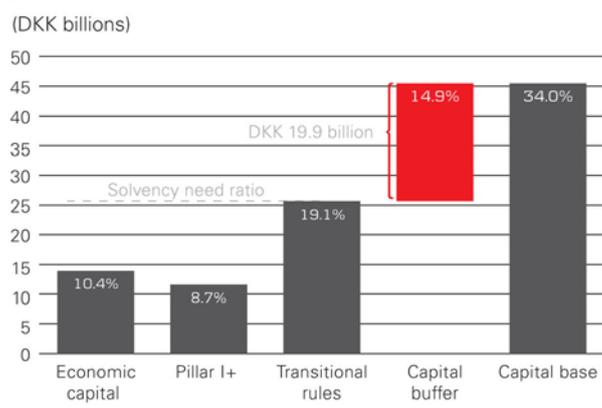
Like other Danish banks and mortgage credit institutions, Realkredit Danmark must comply with special requirements in Danish legislation to publish its solvency need each quar-

ter. The solvency need is the capital considered sufficient to cover Realkredit Danmark's risks. The calculation of the solvency need is an internal process in which management makes a number of assessments of Realkredit Danmark's overall risks.

The solvency need is calculated on the basis of a number of factors, including the highest of the following measurements:

- The capital requirement according to an internal economic capital model
- The capital requirement under Pillar I plus a supplement to address the risks that are not captured by Pillar II (Pillar I+)
- The capital requirement under the transitional rules of Basel I

Solvency need ratio and total capital, end 2013



The Pillar I+ requirement includes an add-on to reflect the risks not adequately covered under Pillar I, for example pension risk and business risk. Both the Pillar I+ requirement and the capital needed according to the internal economic capital model are supplemented by add-ons to reflect any uncertainty of the risk models, and the capital level is subject to ongoing qualitative adequacy assessments.

At the end of 2013, Realkredit Danmark's solvency need was calculated according to the Basel I rules (the transitional rules). The solvency need amounted to DKK 25.6 billion, or 19.1% of risk-weighted assets. As the actual capital base stood at DKK 45.5 billion and the total capital ratio at 34.0% at the end of the year, Realkredit Danmark had a massive capital buffer of DKK 19.9 billion.

In the second quarter of 2013, Danske Bank received orders from the Danish FSA requiring an increase in the capital used to cover credit risks. Danske Bank has decided to meet the requirement with a temporary solution with a view to developing and implementing a more permanent solution in 2014. The temporary solution resulted in a marginal increase only in Realkredit Danmark's risk-weighted assets.

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 2013, 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 loans are secured is at a level that causes the LTV ratio to rise above 80% for housing property and 60% for commercial property. In 2013, issuance of mortgage-covered bonds rose DKK 34 billion to DKK 658 billion. At the end of 2013, the need for supplementary collateral was DKK 42.2 billion, against DKK 43.9 billion at end-2012.

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 50 billion of the loan portfolio at 31 December 2013. This amount includes DKK 12 billion in the form of supplementary collateral for mortgage-covered bonds.

Risk management

Realkredit Danmark'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 Realkredit Danmark's assets and liabilities.

Risk management is described in the note on risk management.

Future rules

The revision of the Capital Requirements Directive (CRD IV) in the EU, which implements Basel III, was presented in its

final form in 2013. However, due to prolonged political processing, it has been necessary to deviate from the original plan that the rules were to take effect at the beginning of 2013.

In 2013, Realkredit Danmark again followed the preparation of the CRD IV rules, focusing particularly on the proposed liquidity rules in the form of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

The LCR is scheduled to be implemented in 2015, while the NSFR is expected to become a requirement from 2018 at the earliest. In this connection, Realkredit Danmark, as part of the Danske Bank Group, participated in the Quantitative Impact Study (QIS), which consists of regular reporting to the supervisory authorities of the consequences of implementing LCR and NSFR in their present form.

It remains uncertain whether Danish mortgage bonds can be included in the liquidity buffer in line with securities such as Danish mortgage bonds when the LCR rules take effect, expectedly in 2015. The European Banking Authority will present its proposed criteria.

One drawback of the LCR rules is that the inclusion of the portfolio of own bonds in the liquidity resources is not expected to be allowed. As a result, Realkredit Danmark has extensively replaced own issued bonds with bonds issued by other mortgage credit institutions.

It is pivotal that mortgage bonds gain the status of extremely liquid and safe securities. If that is not the case, financial institutions, which are very large investors in Danish mortgage bonds, will be compelled to invest more of their funds in other assets such as Danish or foreign government bonds and foreign mortgage bonds. Other things being equal, this will reduce the investor base and lead to higher funding costs for borrowers. However, it remains to be seen which status the mortgage bonds will have under the new rules.

Systemically important financial institutions (SIFI)

As part of the Danske Bank Group, Realkredit Danmark has been designated a SIFI.

One of the consequences is a requirement for a stronger capital buffer, which for Danske Bank, and by extension Realkredit Danmark, amounts to 3% of risk-weighted assets. The requirement depends on the size of the institution and its market share. The requirement will be fully phased in by 2019, but Realkredit Danmark already has the required capital buffer.

Furthermore, a SIFI must fully comply with the LCR rules by early 2015, while the rules for other institutions will be gradually phased in. The rules also involve stricter requirements for the long-term funding of SIFIs by way of a simple version of the NSFR requirements. However, the final rules for both the LCR and NSFR still have not been finalised.

Amended mortgage credit legislation

At the end of 2013, a bill was tabled in Denmark to amend the conditions for offering ultra-short FlexLån[®], Cibor loans and FlexKort[®]. The bill includes requirements that, in case a refinancing auction fails or interest rates increase by more than 500 bps from the preceding refinancing period, the maturity of the bond can be extended by 12 months at a time. The bill was drafted to accommodate mounting rating agency concern about the refinancing risk in Denmark and to settle aspects concerning the winding up of an insolvent mortgage credit institution.

Realkredit Danmark supports the bill, which will create clarity with respect to the highly unlikely situation of a refinancing auction failing.

The position of the rating agencies on the bill remains unclear.

Rating and capital resources

In addition to legislative requirements on supplementary collateral, the external rating agencies require further overcollateralisation (OC) in order to assign the highest rating to mortgage bonds.

Realkredit Danmark expects relatively stable overcollateralisation requirements from the rating agencies in 2014, but if the requirements are tightened, Realkredit Danmark plans to issue senior debt in order to comply with the stricter requirements. Alternatively, Realkredit Danmark will raise loans on market terms to comply with the requirements.

Organisation and management

Management

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

After the annual general meeting on 7 March 2013, Tonny Thierry Andersen was appointed chairman and Lars Mørch vice chairman of the Board of Directors.

At the February election of employee representatives to the Board of Directors, Klaus Pedersen did not offer himself for reelection. Lisbeth Sahlertz Nielsen was elected as new employee representative.

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

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

Human resources

At the end of 2013, the number of full-time equivalent staff at Realkredit Danmark was 249.

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

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

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

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

Realkredit Danmark has implemented controls to counter identified financial reporting risks and regularly monitors changes in and compliance with relevant legislation and other financial reporting rules and regulations. Controls have

been established for the purpose of preventing, detecting and correcting any errors or irregularities in the financial reporting.

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

Internal Audit regularly examines processes for internal management reporting and interim and annual reporting. Internal Audit also conducts operational audits, focusing, among other things, on significant areas of Realkredit Danmark's risk management, including reporting on risk management.

The Executive Board regularly reports to the Board of Directors on compliance with the risk and investment framework set out and the statutory investment rules. The Board of Directors also receives accounting information on an ongoing basis. Compliance and Internal Audit regularly submit 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 it reports exclusively to the combined Board of Directors.

In 2013, the Audit Committee held five meetings.

Corporate responsibility

Realkredit Danmark is part of the Danske Bank Group, and more information about corporate responsibility at the Danske Bank Group is available at danskebank.com/responsibility. CR Report 2013 and CR Fact Book 2013 can be downloaded from this website.