

# Contents

## Management's report

Financial highlights	2
Financial review	3
The year 2015	3
Results	3
Balance sheet	4
Capital and solvency	4
Fourth quarter 2015	4
Outlook for 2016	5
Property market	6
Lending	8
Funding	11
Capital and risk management	13
Organisation and management	16

## Financial statements

Income statement and Comprehensive income	17
Balance sheet	18
Statement of capital	19
Cash flow statement	23
Notes	24

## Statement and reports

Statement by the management	59
Auditor's report	60

## Directorships

Board of Directors	61
Executive Board	62

## Supplementary information

	63
--	----

Annual Report 2015 is a translation of the original report in the Danish language (Årsrapport 2015). In case of discrepancies, the Danish version prevails.

# 5-year financial highlights – Realkredit Danmark Group

## NET PROFIT FOR THE YEAR

(DKK millions)	2015	2014	2013	2012	2011
Administration margin	5,770	5,704	5,491	4,724	3,564
Net interest income	196	62	-24	235	660
Net fee income	-509	-524	-540	-469	-488
Income from investment portfolios	662	645	750	862	650
Other income	192	129	123	111	105
Total income	6,311	6,016	5,800	5,463	4,491
Expenses	787	815	852	870	934
Profit before loan impairment charges	5,524	5,201	4,948	4,593	3,557
Loan impairment charges	432	1,171	1,471	1,319	1,057
Profit before tax	5,092	4,030	3,477	3,274	2,500
Tax	1,202	974	865	820	626
Net profit for the year	3,890	3,056	2,612	2,454	1,874

## BALANCE SHEET (AT 31 DECEMBER)

(DKK millions)	2015	2014	2013	2012	2011
Due from credit institutions etc.	28,696	25,882	51,004	18,727	32,556
Mortgage loans	744,383	744,502	730,901	735,494	723,754
Bonds and shares	59,827	59,817	61,156	35,966	17,300
Other assets	3,668	4,354	5,073	3,940	2,950
Total assets	836,574	834,555	848,134	794,127	776,560
Due to credit institutions etc.	16,611	10,018	32,501	10,079	20,668
Issued mortgage bonds	745,223	739,358	725,159	701,373	695,080
Issued senior debt	17,721	27,415	32,089	21,687	-
Other liabilities	8,273	9,893	11,501	14,636	14,010
Subordinated debt	-	-	-	-	2,045
Shareholders' equity	48,746	47,871	46,884	46,352	44,757
Total liabilities and equity	836,574	834,555	848,134	794,127	776,560

## RATIOS AND KEY FIGURES

Net profit for the year as % of avg. shareholders' equity	8.1	6.5	5.6	5.4	4.3
Cost/income ratio (%)	12.5	13.5	14.7	15.9	20.8
Total capital ratio (%)	38.8	34.5	34.0	34.3	35.8
Tier 1 capital ratio (%)	38.3	34.0	33.5	33.7	35.4
Full-time-equivalent staff, end of year	239	237	249	250	303

# Financial review

## Overview

- In 2015, the Realkredit Danmark Group recorded a net profit of DKK 3,890 million. The improvement of DKK 834 million, or 27%, relative to 2014, is satisfactory. The positive profit performance was driven especially by lower impairments and income from strong remortgaging activity in the first half of 2015. This income was lower in the second half of the year when remortgaging activity declined noticeably.
- Impairments fell to DKK 432 million from DKK 1,171 million in 2014.
- In 2015, customers showed particularly strong interest in Realkredit Danmark's fixed-rate products and mortgage loans with principal repayments. Disbursements of fixed-rate loans amounted to DKK 97 billion in 2015, corresponding to 63% of disbursed loans.
- In aggregate, Realkredit Danmark customers who have remortgaged fixed-rate loans and refinanced FlexLån® loans in 2015 will save more than DKK 1.6 billion annually in interest expenses. In 2015, Realkredit Danmark disbursed loans with a negative interest rate to 758 customers.
- The proportion of customers with 1-year FlexLån® loans fell from 13% at 31 December 2014 to 9% at the end of 2015, with the fall being driven especially by remortgaging in connection with refinancing in the first quarter. The proportion of interest-only loans fell 2 percentage points to 38% at the end of 2015.
- In 2015, more than 5,000 customers reduced their administration margin on remortgaging their FlexLån® loans to a fixed-rate loan, and about 6,000 customers with interest-only loans reduced their administration margin as a result of rising property prices.
- Realkredit Danmark expects the profit for 2016 to be at the same level as in 2015.

## The year 2015

In 2015, Realkredit Danmark continued to improve its financial performance, remaining one of the strongest financial brands in Denmark.

The year was characterised by very strong remortgaging activity in the first half, which saw strong demand for 30-year fixed-rate loans with coupons of 2% and 2.5%. Combined with strong interest in fixed-rate loans, Realkredit Danmark's product price differentiation contributed to a sharp decline in the portfolio of 1- and 2-year FlexLån® loans in 2015 as well. This helped Realkredit Danmark mitigate the refinancing risk.

Realkredit Danmark's portfolio of interest-only loans also declined in the course of 2015, as several customers started to make principal repayments on their loans.

Realkredit Danmark complies with all the threshold values set out in the supervisory diamond announced by the Danish FSA in the fourth quarter of 2014. In order to continue to comply with the threshold value for loans with short-term funding, Realkredit Danmark continues its efforts to reduce the volume of loans with refinancing.

In the first quarter of 2015, Fitch Ratings conducted its annual review of Realkredit Danmark's loan portfolio. As a result of the review, Fitch lowered its overcollateralisation requirement for both of Realkredit Danmark's SDRO capital centres, and this allowed Realkredit Danmark to reduce the

volume of issued senior debt by DKK 10 billion over the course of the year.

Realkredit Danmark is working alongside society in general to ensure that financing continues to be available for homes in the more sparsely populated areas of Denmark. Realkredit Danmark still offers mortgage loans for homes in these areas to customers with sustainable personal finances and stable-value properties.

## Results

In 2015, the Realkredit Danmark Group recorded a net profit of DKK 3,890 million, against DKK 3,056 million the year before. Net profit was 27% higher than in 2014 and in line with expectations.

The profit improvement was driven especially by lower impairments and income from strong remortgaging activity in the first half of 2015.

The administration margin rose DKK 66 million, driven by a larger nominal loan portfolio.

Net interest income rose DKK 134 million, driven especially by lower senior debt expenses and the strong remortgaging activity.

Income from the investment portfolio rose to DKK 662 million from DKK 645 million in 2014 and also benefited from the high remortgaging activity in the form of trading margins

on loan disbursements. Income also benefited from income from the refinancing of Cibur6® loans in the second quarter of the year.

Total income rose 5% relative to 2014.

At DKK 787 million, expenses were 3% lower than in 2014. Expenses rose DKK 28 million because of payments to the Resolution Fund that was established in connection with the implementation of the EU Bank Recovery and Resolution Directive. The expenses for the new fund were more than offset by a decline in expenses for IT development and lower other operating expenses.

Impairments amounted to DKK 432 million, against DKK 1,171 million in 2014. Total impairments declined as a result of a general improvement of macroeconomic conditions in Denmark. Furthermore, impairments in 2014 were affected by provisions in connection with clarified requirements from the Danish FSA concerning impairment of loans to customers whose repayment ability is based on the cash flow from the mortgaged asset.

Total impairments equalled 0.06% of total mortgage lending, against 0.16% at the end of 2014. Of total impairments, 64% related to personal customer loans, while 36% related to business loans.

The delinquency rate fell marginally from the level at end-2014.

The tax charge totalled DKK 1,202 million. The effective tax rate was 23.6%.

#### **Balance sheet**

Gross lending amounted to DKK 155 billion, against DKK 121 billion in 2014. Mortgage lending at fair value amounted to DKK 744 billion, and was thus at the same level as at end-2014. The nominal outstanding bond debt rose DKK 14 billion to DKK 739 billion at the end of 2015.

The loan-to-value (LTV) ratio stood at 65% at the end of 2015, which was 6 percentage points lower than at the end of 2014. The decline was attributable to rising property prices and a decrease in market value adjustments of mortgage loans.

In 2015, Realkredit Danmark had 78 foreclosures and sold 90 properties. In 2014, there were 108 foreclosures, and 160 properties were sold. The number of foreclosures at the end of the year was 58, against 70 at end-2014. The value of

the foreclosures was DKK 76 million at 31 December 2015, against DKK 106 million at end-2014.

Issued mortgage bonds rose DKK 6 billion to DKK 745 billion. The nominal value of issued mortgage bonds rose DKK 20 billion to DKK 736 billion. The amounts are exclusive of holdings of own mortgage bonds.

Realkredit Danmark is subject to the specific principle of balance and therefore has very limited exposure to market risks. At the end of 2015, Realkredit Danmark's interest rate risk and exchange rate risk amounted to DKK 1,088 million and DKK 1 million, respectively.

#### **Capital and solvency**

At the end of 2015, shareholders' equity stood at DKK 48.7 billion, against DKK 47.9 billion at the end of 2014. The increase in equity equalled the profit for the year less dividends paid for 2014 of DKK 3.0 billion. The Board is recommending that dividends of DKK 3.5 billion be paid for 2015. 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 38.8%. At 31 December 2014, the corresponding figures were DKK 45.5 billion and 34.5%, respectively.

Realkredit Danmark uses the internal ratings-based (IRB) approach to calculate the risk exposure amount for credit risks. The total risk exposure amount (REA) was DKK 118.1 billion at 31 December 2015, against DKK 131.9 billion at the end of 2014.

The decrease in REA was due primarily to a fall in the positive market value adjustment of loans and an increase in the value of collateral because of rising property prices.

Calculated on the basis of the transitional rules of the CRR/CRD IV, the capital need for 2015 must, as a minimum, amount to 80% of the requirement calculated under the previous rules, corresponding to DKK 26.2 billion and 22.2% of REA. Realkredit Danmark has total capital of DKK 45.8 billion, and thus a capital buffer of DKK 19.6 billion.

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

#### **Fourth quarter 2015**

Realkredit Danmark recorded a pre-tax profit of DKK 1,405 million in the fourth quarter of 2015, against DKK 998 million in the third quarter. The higher pre-tax profit was attributable primarily to income from refinancing in the fourth quarter

and lower impairments. Detracting from performance were value adjustments of senior debt in connection with loan prepayments in the fourth quarter.

### **Outlook for 2016**

Realkredit Danmark expects that subdued growth and low interest rates will continue to characterise the Danish economy in 2016. Low interest rates will support the positive trend in house prices and lead to increasing activity in the housing market.

Realkredit Danmark expects income to be at the same level as in 2015 as income will be supported by moderate growth in the loan portfolio, while a decline in income from remortgaging activity will have downward effect.

Through a persistent focus on cost control in 2016, Realkredit Danmark aims to curb its expenses, but the full-year effect of payments to the Resolution Fund, which was set up in the second half of 2015, will lead to an overall increase in expenses.

Loan impairment charges are expected to be at the same level as in 2015.

Overall, Realkredit Danmark therefore expects the profit for 2016 to be at the same level as in 2015.

# Property market

## Economic recovery 2015

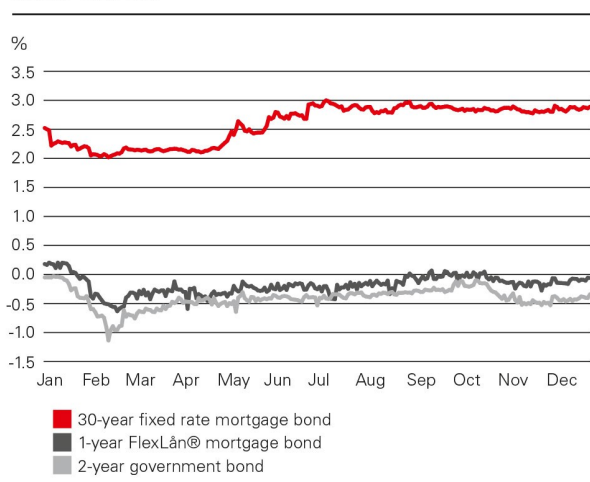
The economic recovery in Denmark gathered momentum in 2015 relative to 2014, and employment levels rose for the second year running. The recovery slowed down in the second half of 2015, however, because of factors such as the economic slowdown in China and signs of weakness in other growth economies affected by falling commodity prices. These factors contributed to slowing down economic activity – directly via the effect on export-oriented sectors but also via greater uncertainty about the strength of the recovery. Overall, the outlook for a continuation of the moderate, but fragile, upswing remained intact at the end of 2015.

## Strong improvement in the housing market in 2015

Strong demand for Danish kroner in early 2015 resulted in negative interest rates on FlexLån® loans and the launch of fixed-rate 30-year loans with coupons of 1.5% and 2%. Combined with a buoyant labour market and strong consumer confidence, this helped trigger a major increase in housing market activity in the first half of the year. This in turn led to major price increases in the housing market, and the vast majority of Denmark's municipalities experienced an increase in house prices.

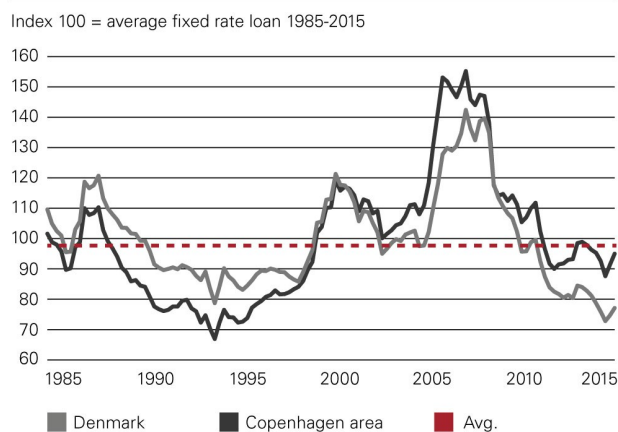
Activity in the housing market slowed down in the second half of the year, however, leading to more subdued price increases. A key explanation of this tendency was the surprise interest rate increases in May and June, when the benchmark coupon on 30-year fixed-rate loans rose from 2% to 3% and 3.5% during a short period of time. Coupons have since fallen again, and towards the end of 2015, 2.5% and 3% loans once again prevailed.

## Interest rates 2015



The year 2015 was characterised by the debate on the risk of a price bubble, especially for owner-occupied flats in Copenhagen. This debate subsided as price increases slowed down over the course of the summer, and there were months of stable to slightly falling prices. Furthermore, new accepted practice rules were introduced on 1 November. The new rules generally entail that home owners must provide a minimum down payment of 5%. Other things being equal, this will reduce the possibilities of speculating in the housing market. It should be noted, however, that especially in Denmark's most expensive areas, the housing market is vulnerable to rising interest rates in the future.

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



The market for co-operative housing also improved in 2015. Although distressed co-operating housing societies sometimes get extensive media coverage, the vast majority of the co-operative housing market appears to be robust, and the associations generally have a relatively low level of indebtedness. The Copenhagen area, which accounts for the bulk of the co-operative housing market, saw particularly strong demand for co-operative housing.

The number of foreclosures was reasonably stable in 2015 relative to the number in 2014 and is now at an average level in a historical context.

**Investor interest in the commercial market still strong**

Combined with low interest rates, the positive economic trends attracted more investors to the commercial property market. Investment in real property offering prospects of more stable long-term returns than conventional asset classes has therefore characterised demand for large portfolios of office and retail property and residential rental property. Parts of the commercial property market are also expected to be vulnerable to future interest rate increases.

Professional investors, including a growing number of foreign investors, primarily focused on Copenhagen in 2015, preferring prime-location property. Other investors also looked for property in the other major cities in Denmark, whereas demand for property in the small and medium-sized towns is more regionally based with more subdued price developments and greater price variations.

# Lending

## An unusual year of negative mortgage rates

As a result of the European Central Bank's (ECB) extensive bond buying programme and the Swiss National Bank's decision to stop defending the Swiss franc against an appreciation against the euro, the Danish krone faced a massive appreciation pressure at the beginning of the year. This led to a surge in foreign currency reserves when the Danish central bank sold Danish kroner and implemented a number of independent rate cuts. The CD rate was lowered to -0.75%, and this level was maintained throughout 2015.

The developments described above directly affected mortgage rates, which reached new all-time lows. Notably, borrowers at some point paid negative interest rates on their FlexLån® loans. When interest rates were at their lowest, 1-year and 3-year FlexLån® loans carried negative interest rates, while the rate on 5-year FlexLån® loans dropped to close to zero. Throughout the period of negative interest rates on FlexLån® loans, Realkredit Danmark issued loan offers and disbursed loans. During this period, Realkredit Danmark disbursed 758 FlexLån® loans with negative interest rates to home owners and businesses. At the last refinancing auction of the year in November, the interest rate on 1-year FlexLån® loans, including the trading margin, was 0.24% at 1 January. Net of the trading margin, however, the actual interest rate payable by investors remained negative.

The negative interest rates were not fully reflected in Realkredit Danmark's floating-rate bond loans such as FlexKort® and RD Cibor6® loans. In our existing bond and loan terms and conditions, a floor has been defined for the nominal rate of interest that prevents the interest rate from falling below zero. Going forward, however, Realkredit Danmark will be able to change these terms and conditions. Handling negative coupon rates is undoubtedly an unusual situation for investors. If floating-rate bonds without an interest rate floor become the market standard for investors, Realkredit Danmark will adapt to market conditions and issue bonds without a rate floor. This wait-and-see approach helps ensure the best possible terms and conditions for borrowers.

## Total lending

As a result of movements in interest rates, a major remortgaging wave continued into 2015 following a relatively large volume of remortgaging towards the end of 2014. Overall, Realkredit Danmark experienced the largest remortgaging wave and the highest level of lending activity for ten years in

2015. Remortgaging activity reached DKK 86 billion in 2015, against DKK 66 billion in 2014.

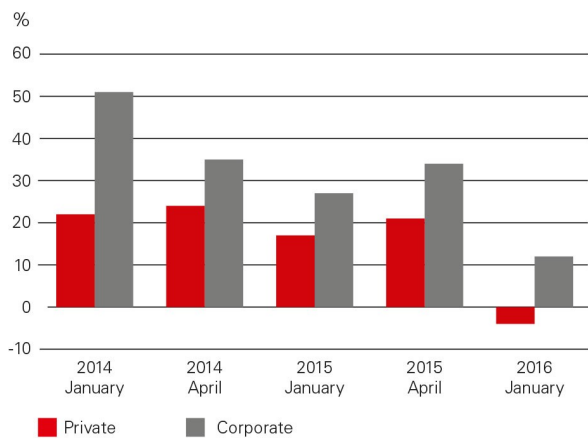
Net new lending rose to DKK 30 billion from DKK 23 billion in 2014, reflecting the rise in lending activity in both the personal customer market and the business market.

In addition, in connection with the refinancing of FlexLån® loans at 1 April 2015, 26% of Realkredit Danmark's customers took the opportunity to secure a low and fixed interest rate for a longer period. The volume of 1-year FlexLån® loans was reduced by a net DKK 5.7 billion in favour of FlexLån® loans with longer refinancing intervals.

In connection with the refinancing of FlexLån® loans at 1 January 2016, personal customers have not to the same extent as previously switched away from 1-year FlexLån® loans. This was the first time in many years that a higher number of personal customers switched to rather than away from 1-year FlexLån® loans. About 40% of the customers with 3-year FlexLån® loans who opted to switch to 1-year FlexLån® loans were customers who had used nine years of their interest-only period and who needed to shorten their mortgage profile to 1-year FlexLån® loans in order to utilise their last interest-only year.

Finally, the housing market improvement has made more home owners consider selling their home, and it may be an advantage to switch into 1-year FlexLån® loans in connection with the sale of a home.

Net share of volume of loans shifting away from 1 year FlexLån® loans in connection with the auctions for the refinancing of FlexLån® loans



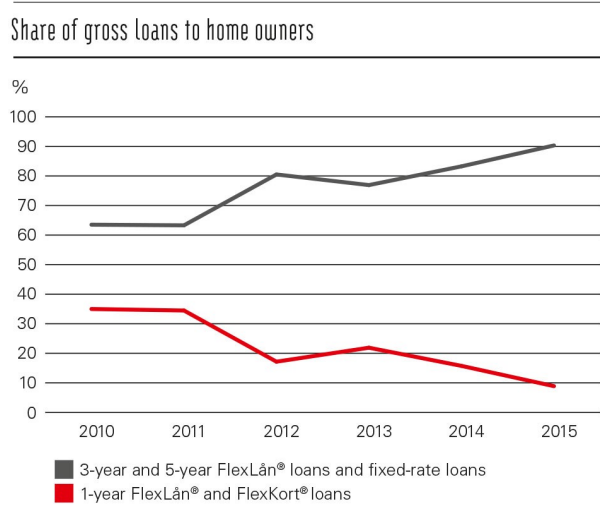


Business customers, however, continued to switch away from 1-year FlexLån® loans with a net 12% opting for longer-term loans.

### Personal customer market

Fixed-rate loans continued to attract interest in 2015. Of all new loans, 69% were fixed-rate, and customers opting for these loans preferred a 2% coupon. However, because of interest rate movements in 2015, the timing of borrowers' decision to remortgage or have new loans disbursed had an impact on the fixed-rate bond chosen.

Floating-rate loans amounted to 31% of total gross lending in 2015, corresponding to DKK 29 billion. Floating-rate loans now account for 65% of the total personal customer loan portfolio. Customers continued to opt for FlexLån® loans with longer refinancing intervals, and FlexLån® loans with 3-5-year refinancing intervals thus accounted for 22% of total gross lending. 1-year and 2-year FlexLån® loans and FlexKort® loans represented 8% of gross lending. Overall, the tendency of home owners to opt for longer refinancing intervals continued, making them more robust to future interest rate increases.



### Business market

Loans for the business market rose 3% to DKK 315 billion, corresponding to 43% of Realkredit Danmark's total loan portfolio.

The tendency of customers to opt for loans with lower interest rate sensitivity continued in 2015. New fixed-rate loans and long-term floating-rate loans with refinancing intervals of three years or more now account for 79% of gross lending to business customers, while 1-year and 2-year FlexLån® loans account for 1% of gross lending.

Remortgaging activity was also quite strong in the business market. Remortgaging naturally occurred in fixed-rate loans, but customers with floating-rate loans also opted to remortgage to fixed-rate loans or loans with longer refinancing intervals.

### 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 and that Realkredit Danmark is accessible when the customers need it. To that end, Realkredit Danmark is working to digitalise some of its interaction with customers while also providing services and advice through physical channels. For example, in 2015, it became possible for business customers and even more personal customers to gather a number of documents digitally stored in eBooks. In 2016, an increasing number of documents will be sent digitally, and more customers, including business customers, will be able to sign loan agreements digitally.

Realkredit Danmark's personal customers are served at Danske Bank primarily by home advisers. Home Direct serves customers over the telephone during extended opening hours, including Monday through Thursday in the evening and during the weekend. Customers preferring personal contact are served at Danske Bank branches or at Realkredit Danmark's Personal Centres.

Large Real Estate, a nationwide unit, serves the largest property customers in Denmark, the largest administrators of cooperative housing and owner associations and all customers within Subsidised Housing. In addition, the unit is 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. Small and medium-sized customers are offered a range of access points. Customers can choose which of Danske Bank's business units, including finance and agricultural centres, they wish to use. In the spring of 2015, more customers were offered the option of receiving advice over the telephone and other services through Realkredit Business Direct.

### Real-estate business

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

Activities and portfolio (DKK millions)	Gross lending		Net new lending		Loan portfolio			
	2015	2014	2015	2014	31 Dec. 2015	%	31 Dec. 2014	%
Personal customer market	91,915	73,659	14,255	11,164	423,845	57	418,542	58
Business market	63,021	46,906	15,719	11,919	315,344	43	306,969	42
Total (nominal value)	154,936	120,565	29,974	23,083	739,189	100	725,511	100

Lending broken down by loan type (%)	Share of gross lending		Share of loan portfolio	
	2015	2014	31 Dec. 2015	31 Dec. 2014
FlexLån®	25	32	50	53
FlexKort®	4	11	4	3
Fixed-rate loans	63	44	31	29
FlexGaranti® etc.	-	-	3	3
RD Cibor6® etc.	8	13	12	12
Total	100	100	100	100

# Funding

## Bond issuance

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

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

## Bonds issued in 2015

Realkredit Danmark issued bonds for a total of DKK 154 billion exclusive of bonds issued for the refinancing auctions. This represents an increase of 27% relative to 2014. Of bonds issued in 2015, 37% were non-callable bonds and 63% were callable bonds – unlike in 2014 when there was a small overweight of non-callable bonds.

## Annual refinancing of FlexLån® and RD Cibor3®

In order to continue to spread the risk of refinancing FlexLån® loans, Realkredit Danmark held two refinancing auctions, in February and November 2015. Since March 2010, all new FlexLån® loans have been issued with 1 April as the payment date. The volume of bonds issued in connection with the refinancing of FlexLån® loans at 1 April 2015 amounted to DKK 54 billion, against DKK 55 billion in 2014.

The portion of FlexLån® loans refinanced at 1 January is still larger than the portion refinanced at 1 April, although the gap is narrowing. Issued bonds amounted to DKK 67 billion in connection with the refinancing of FlexLån® loans at 1 January 2016, against DKK 71 billion at 1 January 2015.

In May, Realkredit Danmark also held an auction amounting to DKK 42.4 billion for the funding of RD Cibor6®. The auctions were held over the course of four days, and investors were invited to make bids for the price based on a premium to Cibor 6M of 0.20% p.a. defined by Realkredit Danmark. The bonds were issued with an interest rate floor of 0.00% but with a shorter maturity than usual, which gives Realkredit Danmark an opportunity, during the intermediate period, to assess whether bonds without a rate floor will become the market standard for both issuers and investors. If that is the case, Realkredit Danmark will quickly be able to offer its customers this type of financing.

At end-2015, Realkredit Danmark had issued mortgage bonds for a total amount of DKK 774 billion, of which mortgage-covered bonds accounted for DKK 705 billion.

## Act on refinancing

On 1 January 2015, the Danish Act on Refinancing entered into force for all loans that must be refinanced during their term. This means that all FlexLån® loans and floating-rate loans will have an attached refinancing trigger. 1- and 2-year FlexLån® loans will also have interest rate triggers.

The act applies to all new issuance after the effective date of the act and will therefore take full effect only when the underlying loans are refinanced. At the end of 2015, 46.5% of all bonds used for funding loans to be refinanced were funded using bonds issued on the basis of the new act.

## Senior debt issuance

Realkredit Danmark has senior debt pursuant to section 15 of the Mortgage Credit Loans and Mortgage Credit Bonds Act for a nominal amount of DKK 17.6 billion.

The overcollateralisation requirement from Fitch Ratings was lowered in 2015, and Realkredit Danmark therefore has a large buffer relative to the requirement. As a result, Realkredit Danmark bought back senior debt for DKK 4.5 billion, and as senior debt of DKK 5.2 billion expired in 2015, the volume of issued senior debt fell from DKK 27.3 billion at the end of 2014 to DKK 17.6 billion. Realkredit Danmark has a buffer of DKK 6 billion relative to the overcollateralisation requirement.

The senior debt has a term to maturity of up to about four years and has been upgraded to an AA- rating from Standard & Poor's. In addition to ensuring that Realkredit Danmark meets rating agency overcollateralisation requirements, the proceeds from senior debt issues are used to cover the need for supplementary collateral.

## Investor distribution

Foreign investors continued to show strong interest in Danish mortgage bonds in 2015 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 considerable interest. At 31 December 2015, foreign investors thus held about 21% of all bonds, against some 18% at end-2014.

Realkredit Danmark has so far issued all EUR-denominated mortgage-covered bonds via VP Lux for these bonds to be eligible for use as collateral to the ECB. During 2015, it also became possible to issue EUR-denominated bonds in Denmark which are approved by the ECB as eligible for use as collateral. Accordingly, Realkredit Danmark started to issue EUR bonds via VP Securities in Denmark in 2015. Bonds approved by the ECB as eligible for use as collateral are attractive to foreign investors, and this gives Realkredit Danmark a larger investor base and sales channel and thus ensures a better pricing of 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.

98% of all bonds issued by Realkredit Danmark are rated by Standard & Poor's and hold the top rating of AAA.

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

This risk is reduced on an ongoing basis because of the decrease in the volume of loans with a refinancing element, less frequent refinancing and the fact that more bonds are covered by the Act on Refinancing.

The overcollateralisation requirements for the capital centres were lowered in 2015 and remained covered by funds from Realkredit Danmark's equity and issued senior debt.

Realkredit Danmark expects stable overcollateralisation requirements from the rating agencies in 2016, but if the requirements are tightened, Realkredit Danmark plans to issue senior debt in order to comply with the stricter requirements.

### Debt buffer

In 2016, the debt buffer requirement will be phased in, which means that Danish mortgage credit institutions must have a debt buffer equal to 2% of their lending by 2020. For Realkredit Danmark, this equals DKK 15 billion calculated on the basis of the current lending volume. Realkredit Danmark is already able to meet the requirement through excess shareholders' equity and therefore does not require additional funding.

### Bonds issued at 31 December (nominal value)

Bond type (DKK billions)	Currency	Mortgage-covered bonds		Mortgage bonds	
		2015	2014	2015	2014
Fixed-rate	DKK	200	177	16	36
FlexLån®	DKK	372	379	6	7
FlexLån®	EUR	18	22	-	-
FlexKort®	DKK	29	25	-	-
Index-linked loans	DKK	-	-	22	24
FlexGaranti®	DKK	5	5	17	21
RenteDyk™	DKK	1	1	-	-
RD Cibor6®	DKK	57	56	8	8
RD Nibor3®	NOK	2	2	-	-
RD Stibor3®	SEK	13	11	-	-
RD Euribor3®	EUR	8	8	-	-
Total DKK		705	686	69	96

In 2015, the calculation was adjusted to reflect double-funding of DKK 67 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 2015, 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 is rooted in the Capital Requirements Regulation and Directive (CRR/CRD IV), which consists of three pillars:

- Pillar I contains a set of rules for calculating the capital requirement (8 per cent of the risk exposure amount 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. The Realkredit Danmark Group is included in the Danske Bank Group's Risk Management 2015 Report, to which reference is made. The report is available at [danskebank.com/IR](http://danskebank.com/IR).

## ICAAP

Since 1 January 2008, the Group has applied the advanced internal ratings-based (IRB) approach to calculate the risk exposure amount 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, the ICAAP contains capital planning to ensure that the Group has sufficient capital to comply with the solvency requirement in a number of stress tests.

## Solvency need

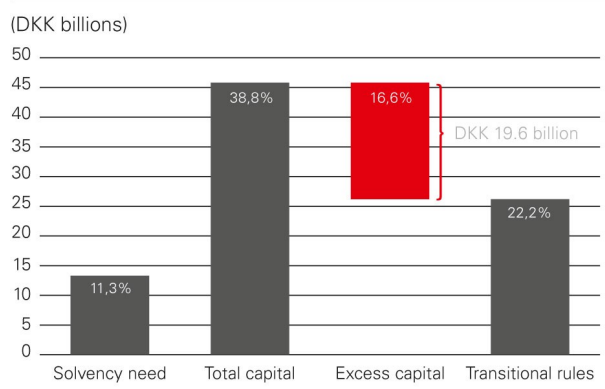
Like other Danish banks and mortgage credit institutions, the Group must comply with special requirements in Danish legislation to publish its solvency need each quarter.

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

The calculation is based on the capital requirement under Pillar I plus a Pillar II capital add-on. Pillar II reflects any uncertainty relating to the risk models, and the capital level is subject to ongoing qualitative adequacy assessments.

The capitalisation of Realkredit Danmark must also reflect the capital need under the Basel I transitional rules.

## Solvency need ratio and total capital ratio, end 2015



At the end of 2015, Realkredit Danmark's solvency need was calculated at DKK 13.3 billion, corresponding to 11.3% of the total risk exposure amount (REA). Calculated on the basis of the transitional rules, the capital need was DKK 26.2 billion, corresponding to 22.2% of REA. With total capital of DKK 45.8 billion and a total capital ratio of 38.8%, Realkredit Danmark Group had DKK 19.6 billion in excess of the requirement according to the transitional rules.

### **Leverage ratio**

CRR/CRD IV requires credit institutions to calculate, report on and monitor their leverage ratio, which is defined as tier 1 capital as a percentage of the total risk exposure amount (REA). Pursuant to this definition and the transitional rules, Realkredit Danmark's leverage ratio was 5.3% at 31 December 2015.

### **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 2015, Realkredit Danmark had three exposures that exceeded 10% of its capital base.

### **Supplementary collateral**

As an institute issuing mortgage-covered bonds, Realkredit Danmark must provide supplementary collateral if the value of the properties on which the loans are secured is such that the LTV ratio rises above 80% for residential property and 60% for commercial property. In 2015, issuance of mortgage-covered bonds rose DKK 19 billion to DKK 705 billion. At the end of 2015, the need for supplementary collateral was DKK 33.9 billion, against DKK 41.1 billion at end-2014.

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 2015. This amount includes DKK 8 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**

After the Liquidity Coverage Ratio entered into force on 1 October 2015, the effective requirement for Realkredit Danmark's buffer of liquid assets has been 2.5% of its total mortgage lending. At the end of 2015, this corresponded to DKK 19 billion. With liquid assets of DKK 47 billion, Realkredit Danmark has a buffer of DKK 28 billion relative to the requirement.

### **Future rules**

Realkredit Danmark monitors European and Danish implementation of future rules, including the Net Stable Funding Ratio (NSFR) and The Basel Committee's new standard method for credit risk, which is expected to become the predominantly used method in 2016 and onwards. Furthermore, Realkredit Danmark is looking into the consequences of legislation that has already been implemented, including the Liquidity Coverage Ratio, as this and other legislation have affected the liquidity of Danish mortgage bonds and led to major price differences between the bond series.

In January 2016, the Danish FSA approved Danske Bank Group's changed IRB models prepared to comply with the FSA's order of June 2013. The models will be implemented at the end of the first quarter of 2016, and this is expected to cause Realkredit Danmark's REA to increase.

### **Supervisory diamond for mortgage credit institutions**

Realkredit Danmark currently complies with all the threshold values. In order to continue to comply with the threshold value for loans with short-term funding, Realkredit Danmark is making an effort to reduce the volume of loans with refinancing, as the annual volume will otherwise exceed the threshold value.

The volume of loans with an interest-only option is declining steadily. Developments in the threshold value are to a large extent affected by the volume of demand for new interest-only loans, including the degree to which customers re-mortgage their loans to a new interest-only loan when their interest-only period expires. In 2015, 39% of Realkredit Danmark's new lending was secured on owner-occupied dwellings and holiday homes with an interest-only option. Furthermore, about two out of three customers whose interest-only option has expired have started to pay instalments on their loans. Realkredit Danmark expects this

pattern to continue, to the effect that the proportion will eventually be below the 9.1% recorded at the end of 2015.

The remaining three threshold values for lending growth, borrower's interest rate exposure and large exposures have so far not given rise to problems, and Realkredit Danmark does not expect to approach the limits in the coming years. 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	2015 Q4	Limit
<b>Growth in lending<sup>1</sup></b>		
Owner-occupied dwellings and holiday homes	-0.5%	15%
Residential rental property	1.3%	15%
Agriculture	-0.1%	15%
Other	2.2%	15%
<b>Borrower interest-rate risk<sup>2</sup></b>		
Properties for residential purposes	11.3%	25%
<b>Interest-only option<sup>3</sup></b>		
Owner-occupied dwellings and holiday homes	9.1%	10%
<b>Loans with short-term funding<sup>4</sup></b>		
Refinancing, annually	22.9%	25%
Refinancing, quarterly	9.1%	12.5%
<b>Large exposures<sup>5</sup></b>		
Sum of large exposures relative to common equity tier 1 capital	40%	100%

<sup>1</sup> The 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 the core equity tier 1 capital.

# Organisation and management

## Management

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

After the annual general meeting on 5 March 2015, Tonny Thierry Andersen was appointed chairman and Lars Mørch vice chairman of the Board of Directors.

The Board of Directors defines the overall principles for the Group's operations. The Executive Board is in charge of day-to-day management and must comply with the guidelines and directions given by the Board of Directors. The rules of procedure lay down the precise division of responsibilities between the Board of Directors and the Executive Board. Board members elected by the shareholders in general meeting are elected for terms of one year and are eligible for reelection. Employee representatives are elected for terms of four years (most recently in 2013) and are eligible for reelection.

## Employees

At the end of 2015, the number of full-time equivalent staff at the Realkredit Danmark Group was 239.

## Mortgage Credit Products unit

Realkredit Danmark has pooled the responsibility for developing and maintaining its product portfolio in a new unit called Mortgage Credit Products. The unit is to ensure that Realkredit Danmark consistently offers the market's best mortgage loans and services to personal and business customers alike. The unit is also responsible for ensuring that Realkredit Danmark complies with the increasing requirements and regulations.

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

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

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

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

are listed under Significant accounting estimates and assessments.

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

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

Internal Audit regularly examines operational processes for internal management reporting and audit, focusing, among other things, on significant areas of Realkredit Danmark's risk management, including reporting on this.

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

## Audit Committee

The Board of Directors has set up an audit committee to prepare the work of the Board of Directors on financial reporting and audit matters, including related risk matters, which the Board of Directors, the committee itself, the external auditors or the head of Internal Audit intend to review further. The committee works on the basis of clearly defined terms of reference. The committee is not authorised to make independent decisions; instead they report exclusively to the combined Board of Directors. In 2015, the Audit Committee held six meetings.

## Corporate responsibility

Realkredit Danmark is part of Danske Bank Group, and more information about corporate responsibility is available at [danskebank.com/responsibility](http://danskebank.com/responsibility). CR Report 2015 and CR Fact Book 2015 can be downloaded from this website.