

Company announcement for the first quarter of 2024

Kamilla Hammerich Skytte, CEO, comments on the first quarter of 2024:

“In the first quarter of 2024, Realkredit Danmark recorded a stable result of DKK 1,005 million. The positive development in the top line was attributable to the rise in interest rate levels. Net profit for the period was down DKK 58 million because of an increase in model-based loan impairment charges.

As expected, housing market activity was low early in the year as a consequence of the property tax reform, which meant that many housing trades had been brought forward to late 2023. Towards the end of the first quarter of 2024, however, we saw an increase in the number of housing trades. We expect to see moderate rises in general house prices across Denmark in 2024. A fair increase in salaries and the consequent recovery in consumer purchasing power combined with low unemployment and prospects of reasonable economic activity in society will have a positive effect on the housing market. Conversely, the interest rate level is significantly higher than a few years ago, just as purchasing power has not yet recovered to the level before the substantial rise in inflation, which will contribute to putting a damper on price developments and housing market activity.

As in the private market, the business market has been characterised by falling activity recently, and buyers and sellers have found it difficult to meet. In the first quarter, there was a decline in demand for green financing of commercial property, which to some extent is connected to few investment property transactions and fewer constructions being completed. Our business customers increasingly focus on the green transition, ESG reporting requirements and the EBPD directive recently adopted by the EU Commission. In the first quarter, we contributed to the launch of an industry initiative to standardise ESG reporting for property companies to make reporting easier and cheaper for the individual property owner – an initiative that we continue to support. We continue our efforts to strengthen our advisory services regarding green financing for personal customers.

As part of the Danske Bank Group’s Forward ’28 strategy, we are working, among other things, to strengthen our advisory services and financial solutions across home financing from bank and mortgage institution to ensure that customers get the best and most competitive solutions.”

Mortgage credit market

As other European countries, Denmark is essentially in a state of economic stagnation, with the one caveat that pharma giant Novo Nordisk’s growth is pushing the overall activity level up, while much of the remaining industrial sector and housing construction have contracted.

Despite the stalled economy, employment has continued to rise, boosting overall household incomes, and the inflationary pressure has abated. However, the underlying inflationary pressure is still relatively high in Denmark and in the euro area, and this means that a significant drop in mortgage interest rates is hardly just around the corner.

The housing market went into reverse in January, with a decline in activity and falling house prices. This was as expected given the fact that the property tax reform had brought forward activity to 2023. However, activity improved somewhat in February, and prices of single-family houses showed a stable trend while prices in the market for owner-occupied flats saw a small increase – also in Copenhagen.

This highlights the fact that the housing market appears to be developing reasonably in the wake of the transition to the new housing tax system. This also supports our expectation that house prices will generally rise across Denmark in 2024. It is still too early, however, to write off the risk of price falls in the Copenhagen market for owner-occupied flats – especially in the first half of 2024. This is due to prices having gone up by just over 10% over the past year and the combination of the hunt for tax rebates in 2023, higher housing taxes for new buyers in 2024 and a housing expense ratio that is close to a record-high level.

On the commercial real estate market, activity remains relatively low. The rise in interest rates has increased the uncertainty around the valuation of the properties, and potential buyers and sellers are challenged in terms of finding each other in the market. However, a sound macroeconomic environment supports both vacancy rates and rental prices.

First quarter of 2024

The Realkredit Danmark Group recorded a net profit of DKK 1,005 million in the first quarter of 2024 (Q1 2023: DKK 1,063 million). The topline increased, driven by the higher interest rate levels, although this increase was more than offset by model-based loan impairment charges.

Expenses increased to DKK 278 million (Q1 2023: DKK 252 million), due primarily to ongoing compliance efforts.

Credit quality remained solid. Loan impairment charges amounted to DKK 199 million in the first quarter of 2024 (Q1 2023: DKK 52 million). Loan impairment charges were affected by a planned model change of DKK 100 million and a net increase in post-model adjustments of DKK 40 million, which related mainly to the agriculture segment to counter potential CO2 taxation. At 31 March 2024, the total allowance account amounted to DKK 2,898 million (31 December 2023: DKK 2,738 million).

The rise in mortgage rates has fuelled remortgaging activity, however, activity is stagnating. Our customers reduced nominal outstanding debt by DKK 0.8 billion in the first quarter of 2024. Mortgage lending at nominal value decreased DKK 5.0 billion in the first quarter of 2024. Gross lending amounted to DKK 23 billion (Q1 2023: DKK 31 billion). Total green bond lending amounted to DKK 27.3 billion at 31 March 2024.

Realkredit Danmark has a proprietary portfolio of DKK 51.8 billion, of which DKK 31.6 billion is managed through a hold-to-collect portfolio. This portfolio is reported at amortised cost, and at 31 March 2024, the market value was DKK 0.9 billion lower (31 December 2023: DKK 0.8 billion).

The Systemic Risk Council has recommended that a systemic buffer of 7% be introduced for exposures to property companies. As a result, Realkredit Danmark will face increasing capital buffer requirements in 2024, although the exact impact is uncertain. Dividend for 2023 is consequently withheld until later in 2024 in order to ensure that Realkredit Danmark has the best possible capital structure.

Realkredit Danmark expects net profit in 2024 to be somewhat below net profit in 2023, primarily due to normalised impairment levels.

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Financial highlights – Realkredit Danmark Group

INCOME STATEMENT (DKK millions)	Q1 2024	Q1 2023	Index 24/23	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Full year 2023
Administration margin	1,387	1,410	98	1,387	1,393	1,394	1,396	1,410	5,593
Net interest income	367	158	232	367	390	314	252	158	1,114
Net fee income	50	52	96	50	15	-87	-50	52	-70
Income from investment portfolios	11	86	13	11	44	42	11	86	183
Other income	20	19	105	20	22	23	20	19	84
Total income	1,835	1,725	106	1,835	1,864	1,686	1,629	1,725	6,904
Expenses	278	252	110	278	289	250	264	252	1,055
Profit before loan impairment charges	1,557	1,473	106	1,557	1,575	1,436	1,365	1,473	5,849
Loan impairment charges	199	52	383	199	-96	-4	-66	52	-114
Profit before tax	1,358	1,421	96	1,358	1,671	1,440	1,431	1,421	5,963
Tax	353	358	99	353	495	363	353	358	1,569
Net profit for the period	1,005	1,063	95	1,005	1,176	1,077	1,078	1,063	4,394

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	16,632	13,491	123	16,632	11,618	13,759	6,877	13,491	11,618
Mortgage loans	746,880	729,966	102	746,880	753,624	726,741	725,360	729,966	753,624
Bonds and shares	53,949	47,668	113	53,949	49,580	45,827	47,559	47,668	49,580
Other assets	2,888	1,834	157	2,888	1,441	1,803	1,470	1,834	1,441
Total assets	820,349	792,959	103	820,349	816,263	788,130	781,266	792,959	816,263
Due to credit institutions etc.	2,005	2,000	100	2,005	2,000	2,000	2,000	2,000	2,000
Issued mortgage bonds	760,589	737,694	103	760,589	756,509	728,989	725,714	737,694	756,509
Other liabilities	6,529	6,312	103	6,529	7,531	8,064	5,548	6,312	7,531
Shareholders' equity	51,226	46,953	109	51,226	50,223	49,077	48,004	46,953	50,223
Total liabilities and equity	820,349	792,959	103	820,349	816,263	788,130	781,266	792,959	816,263

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	7.9	8.8		7.9	9.5	8.9	9.1	8.8	8.8
Impairment charges as % p.a. of mortgage lending	0.11	0.03		0.11	-0.05	-0.01	-0.04	0.03	-0.02
Cost/income ratio (%)	15.1	14.6		15.1	15.5	14.8	16.2	14.6	15.3
Total capital ratio (%)	31.4	28.8		31.4	31.5	29.3	29.1	28.8	31.5
Tier 1 capital ratio (%)	31.4	28.3		31.4	31.1	28.8	28.6	28.3	31.1
Mortgage loans, nominal value	801,172	802,883		801,172	806,154	807,956	804,362	802,883	806,154
Full-time-equivalent staff (end of period)	224	228		224	229	231	229	228	229

The company announcement for the first quarter of 2024 is not presented in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU, and additional Danish disclosure requirements for interim reports of issuers of listed bonds.