

Interim Report – First Half 2015



REALKREDIT
Danmark

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Interim Report – First Half 2015 is a translation of the original report in the Danish language (Delårsrapport – 1. halvår 2015). In case of discrepancies, the Danish version prevails.

Financial highlights – Realkredit Danmark Group

NET PROFIT FOR THE PERIOD (DKK millions)	First half 2015	First half 2014	Index 15/14	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Full year 2014
Administration margin	2,883	2,809	103	1,442	1,441	1,449	1,446	1,425	5,704
Net interest income	105	8	-	58	47	40	14	10	62
Net fee income	-236	-258	91	-104	-132	-135	-131	-130	-524
Income from investment portfolios	559	318	176	145	414	228	99	81	645
Other income	87	66	132	51	36	31	32	35	129
Total income	3,398	2,943	115	1,592	1,806	1,613	1,460	1,421	6,016
Expenses	390	401	97	188	202	223	191	196	815
Profit before loan impairment charges	3,008	2,542	118	1,404	1,604	1,390	1,269	1,225	5,201
Loan impairment charges	319	569	56	91	228	338	264	325	1,171
Profit before tax	2,689	1,973	136	1,313	1,376	1,052	1,005	900	4,030
Tax	632	483	131	309	323	255	236	220	974
Net profit for the period	2,057	1,490	138	1,004	1,053	797	769	680	3,056

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	53,349	34,360	155	53,349	43,302	25,882	24,831	34,360	25,882
Mortgage loans	740,212	743,017	100	740,212	748,720	744,502	747,147	743,017	744,502
Bonds and shares	60,156	61,155	98	60,156	61,160	59,817	68,452	61,155	59,817
Other assets	4,258	3,075	138	4,258	6,201	4,354	3,668	3,075	4,354
Total assets	857,975	841,607	102	857,975	859,383	834,555	844,098	841,607	834,555
Due to credit institutions etc.	26,812	20,177	133	26,812	18,354	10,018	16,630	20,177	10,018
Issued mortgage bonds	753,256	739,953	102	753,256	759,829	739,358	743,035	739,953	739,358
Issued senior debt	25,234	28,634	88	25,234	27,445	27,415	28,651	28,634	27,415
Other liabilities	5,782	6,565	88	5,782	7,802	9,893	8,737	6,565	9,893
Shareholders' equity	46,891	46,278	101	46,891	45,953	47,871	47,045	46,278	47,871
Total liabilities and equity	857,975	841,607	102	857,975	859,383	834,555	844,098	841,607	834,555

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	8.7	6.4		8.7	9.0	6.7	6.6	5.9	6.5
Impairment charges as % p.a. of mortgage lending	0.09	0.15		0.05	0.12	0.18	0.14	0.18	0.16
Cost/income ratio (%)	11.5	13.6		11.8	11.2	13.8	13.1	13.8	13.5
Total capital ratio (%)	36.3	34.3		36.3	35.1	34.5	35.4	34.3	34.5
Tier 1 capital ratio (%)	35.8	33.8		35.8	34.6	34.0	34.9	33.8	34.0
Full-time-equivalent staff (end of period)	231	242		231	231	237	243	242	237

Overview, First Half 2015

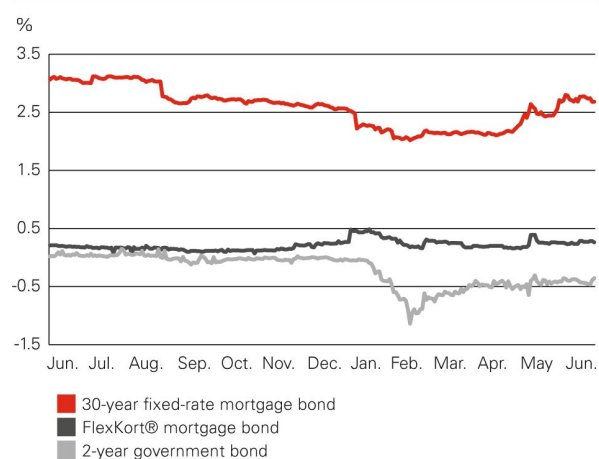
- The Realkredit Danmark Group recorded a net profit of DKK 2,057 million in the first half of 2015, against DKK 1,490 million in the first half of 2014. The improvement was driven especially by lower impairments and income from strong remortgaging activity.
- In the first half of 2015, customers showed increasing interest in Realkredit Danmark's fixed-rate products and mortgage loans with principal repayments. Disbursements of fixed-rate loans amounted to DKK 78 billion in the first half, corresponding to 76% of total gross lending.
- In aggregate, customers who have remortgaged fixed-rate loans and refinanced FlexLån® in 2015 will save more than DKK 1.5 billion annually in interest expenses.
- The proportion of customers with 1-year FlexLån® loans fell from 14.2% at 30 June 2014 to 10.0% at 30 June 2015. Customers continue to show interest in setting their mortgage rates for longer periods.
- The proportion of interest-only loans fell from 40.0% at 30 June 2014 to 38.1% at the end of June 2015.
- Realkredit Danmark still expects a higher profit in 2015 than in 2014.

Mortgage credit market

The Danish housing market continued the strong trends of 2014 with a high level of activity. In the first quarter of 2015 alone, prices rose 3.4% for single-family houses and 4.0% for owner-occupied flats. Relative to the first quarter of 2014, prices were 6.3% and 9.6% higher, respectively, in the first quarter of 2015. The continuation of a historically low interest rate level combined with economic recovery triggered buoyant trends in the Danish housing market.

Short- and long-term mortgage rates have risen since February, when they dipped to an all-time low. During this period, Realkredit Danmark disbursed 764 FlexLån® loans with a negative interest rate. Mortgage rates remain historically low, and Danish home owners still have access to the cheapest and most secure mortgage loans in Europe.

Trend in interest rates past 12 months



In the first half of 2015, activities in the period ahead of the 30 April 2015 notification deadline resulted in the biggest remortgaging wave in ten years, illustrating that Danish home owners and businesses have exploited the historically low interest rates on a large scale.

The market for commercial property continued to witness an increase in activity, driven by factors such as the all-time low interest rates. While the level of activity was high in the first half of 2015, it remained significantly below that of the 2004-2008 period. Over the past year, properties in the Greater Copenhagen area have seen a surge in demand from foreign investors.

Results

Realkredit Danmark recorded a net profit of DKK 2,057 million in the first half of 2015, against DKK 1,490 million in the same period of last year. The improvement was driven especially by a decline in impairments, income from strong remortgaging activity and a small increase in administration margins.

Administration margins rose 3% as a result of an increase in the loan portfolio and slightly higher average margins.

In the first half of 2015, net interest income and income from the investment portfolio benefited from income deriving from the high level of remortgaging activity.

Expenses in the first half of 2015 were marginally lower than those incurred in the first half of 2014.

Impairments fell to DKK 319 million in the first half of 2015 from DKK 569 million in the same period of 2014. Total impairments declined as a result of a general improvement of macroeconomic conditions in Denmark. Impairments equalled 0.09% p.a. of total mortgage lending, against 0.16% in 2014. At the end of June 2015, the delinquency rate was at the same level as in 2014.

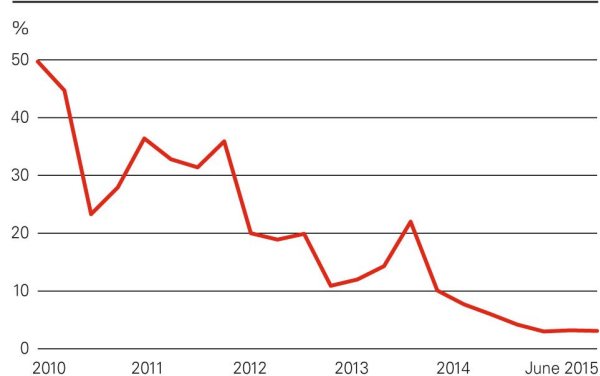
The tax charge totalled DKK 632 million. The effective tax rate for the period was 23.5%.

Balance sheet

Gross lending amounted to DKK 103 billion, against DKK 46 billion in the first half of 2014. Mortgage lending at fair value fell DKK 4 billion to DKK 740 billion. The development in mortgage lending at fair value is composed of an increase in the nominal outstanding bond debt of DKK 6 billion and a DKK 10 billion decrease in the market value adjustment in the same period.

In the first half of 2015, fixed-rate loans accounted for 76% of gross lending, while short-term, floating-rate loans represented only 3%. In the personal customer market, the share of 1-year and 2-year FlexLån® loans has declined substantially over the past five years, and they accounted for only 3% of total lending in the first half of 2015.

Gross loans private market - share of 1-year and 2-year FlexLån® loans



The total volume of 1-year FlexLån® loans fell from DKK 93 billion to DKK 73 billion during the first half of 2015.

At 30 June 2015, the average loan-to-value (LTV) ratio stood at 68%, which was 3 percentage points lower than at the end of 2014. The decline was attributable to rising property prices and a decline in loans calculated at fair value.

The number of new foreclosures was 41 in the first half of 2015. At 30 June 2015, the total number of foreclosures was 67, or 3 fewer than at 1 January. The value of the foreclosures was DKK 94 million.

Issued mortgage bonds rose DKK 14 billion to DKK 753 billion. The nominal value of issued bonds rose DKK 24 billion to DKK 740 billion. The amounts are exclusive of holdings of own bonds. In the first half of 2015, Realkredit Danmark issued bonds for DKK 108 billion, not including bonds issued for the refinancing auctions.

Capital and solvency

At the end of June 2015, shareholders' equity stood at DKK 46.9 billion, against DKK 47.9 billion at end-2014. The ordinary dividend payment of DKK 3.0 billion and the consolidation of the net profit for the

period accounted for the change. Realkredit Danmark's total capital amounted to DKK 45.4 billion, and the total capital ratio calculated in accordance with the Capital Requirements Directive (CRR/CRD IV) was 36.3%. 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 risk. The total risk exposure amount (REA) was DKK 125.0 billion at 30 June 2015, against DKK 131.9 billion at the end of 2014. 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 25.8 billion and a solvency need ratio of 20.6%. Realkredit Danmark thus has 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.

Supplementary collateral

Realkredit Danmark issues mortgage-covered bonds. Under Danish law, it must provide supplementary collateral to the bondholders when the LTV ratio exceeds the predefined limits, which are 80% for residential property and 60% for commercial property.

At the end of June 2015, the requirement for supplementary collateral for mortgage-covered bonds was DKK 36.6 billion.

Supervisory diamond for mortgage credit institutions

Realkredit Danmark continues the work to ensure compliance with the supervisory diamond before it takes effect in 2018/2020. Throughout the first half of 2015, customers have shown particularly strong interest in fixed-rate loans with principal repayments. The change in customer behaviour contributes positively to Realkredit Danmark's compliance with the threshold values of the supervisory diamond. Realkredit Danmark already complies with the threshold values for lending growth, borrower's interest rate exposure and large exposures.

Realkredit Danmark still does not fully comply with the other two threshold values concerning short funding and interest-only loans.

The volume of loans with short funding continues to decrease, and the annual volume of refinancing is expected to exceed the threshold value for a single year only in the period until 2020. Realkredit Danmark is still working to adjust its funding relative to the current composition of loans.

The volume of interest-only loans is decreasing because Realkredit Danmark's customers use the interest-only option to a lesser extent than previously.

Realkredit Danmark therefore expects to comply with the remaining two threshold values before full implementation of the supervisory diamond.

Legislative changes

The EU rules on the recovery and resolution of credit institutions were implemented in the second quarter of 2015. The purpose of the new directive is partly to prevent credit institutions from defaulting, partly to establish a legal framework for the resolution of failing credit institutions.

Further, a resolution fund has been established, and each credit institution must make contributions to the fund on the basis of its size and risk relative to other credit institutions in Denmark. The resolution fund must amount to at least 1% of the covered deposits of all Danish credit institutions by 31 December 2024 at the latest.

Realkredit Danmark's contribution for 2015 is expected to be just under DKK 50 million and up to DKK 1 billion over the course of the next ten years.

Rating

Realkredit Danmark's mortgage bonds and mortgage-covered bonds issued from capital centres S and T and under the Other reserves series still hold a AAA rating from Standard & Poor's. Furthermore, bonds issued from capital centre S hold a AAA rating from Fitch Ratings, while bonds issued from capital centre T hold a AA+ rating from the same agency. Realkredit Danmark holds an issuer rating of A from Fitch Ratings.

Outlook for 2015

Realkredit Danmark expects that economic growth will remain moderate in Denmark in 2015. Interest rates in Denmark are expected to remain low for the rest of 2015, supporting the ongoing improvement in the Danish housing market.

Realkredit Danmark still expects to achieve a higher profit in 2015 than it did in 2014, driven not least by lower impairments and income from the strong re-mortgaging activity.

Income statement and Comprehensive income – Realkredit Danmark Group

Note	(DKK millions)	First half 2015	First half 2014	Q2 2015	Q2 2014	Full year 2014
	Income statement					
	Interest income	11,505	12,022	5,603	5,793	23,896
	Interest expense	7,995	8,613	3,848	4,274	16,904
	Net interest income	3,510	3,409	1,755	1,519	6,992
	Dividends from shares	1	-	1	-	-
	Fee and commission income	418	165	192	85	478
	Fee and commission expense	654	423	296	215	1,002
	Net fee and commission income	3,275	3,151	1,652	1,389	6,468
	Value adjustments	37	-276	-110	-5	-583
	Other operating income	87	66	51	35	129
	Staff costs and administrative expenses	388	399	187	195	811
	Impairment, depreciation and amortisation charges	2	2	1	1	4
3	Loan impairment charges	319	569	91	325	1,171
	Income from associates and group undertakings	-1	2	-1	2	2
	Profit before tax	2,689	1,973	1,313	900	4,030
	Tax	632	483	309	220	974
	Net profit for the period	2,057	1,490	1,004	680	3,056
	Comprehensive income					
	Net profit for the period	2,057	1,490	1,004	680	3,056
	Other comprehensive income					
	Items that will not be reclassified to profit or loss					
	Actuarial gains/losses on defined benefit plans	-48	5	-86	-22	41
	Tax	11	-1	20	5	-10
	Total other comprehensive income	-37	4	-66	-17	31
	Total comprehensive income for the period	2,020	1,494	938	663	3,087

Balance sheet – Realkredit Danmark Group

Note	(DKK millions)	30 June 2015	31 December 2014	30 June 2014
ASSETS				
	Cash in hand and demand deposits with central banks	543	244	243
	Due from credit institutions and central banks	52,806	25,638	34,117
	Bonds at fair value	27,671	29,292	24,276
	Bonds at amortised cost	32,470	30,508	36,862
4	Mortgage loans at fair value	740,212	744,502	743,017
4	Loans and other amounts due at amortised cost	828	919	969
	Shares etc.	1	2	2
	Holdings in associates	14	15	15
	Land and buildings	89	90	90
	Domicile property	89	90	90
	Other tangible assets	10	10	11
	Current tax assets	615	141	-
	Deferred tax assets	-	-	-
	Assets temporarily taken over	94	106	149
4	Other assets	2,606	3,080	1,840
	Prepayments	16	8	16
Total assets		857,975	834,555	841,607
LIABILITIES AND EQUITY				
AMOUNTS DUE				
	Due to credit institutions and central banks	26,812	10,018	20,177
	Issued mortgage bonds at fair value	753,256	739,358	739,953
5	Issued bonds at amortised cost	25,234	27,415	28,634
	Current tax liabilities	-	-	406
	Deferred tax liabilities	61	72	17
	Other liabilities	5,721	9,821	6,142
	Deferred income	-	-	-
Total amounts due		811,084	786,684	795,329
SHAREHOLDERS' EQUITY				
	Share capital	630	630	630
	Other reserves			
	Reserves in series	43,693	43,693	42,292
	Other reserves	2,568	548	3,356
	Proposed dividends	-	3,000	-
Total shareholders' equity		46,891	47,871	46,278
Total liabilities and equity		857,975	834,555	841,607

Statement of capital – Realkredit Danmark Group

CHANGES IN SHAREHOLDERS' EQUITY (DKK millions)	Share capital	Reserves in series	Other reserves	Proposed dividends	Total
Shareholders' equity at 1 January 2015	630	43,693	548	3,000	47,871
Net profit for the period	-	-	2,057	-	2,057
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-48	-	-48
Tax	-	-	11	-	11
Total comprehensive income for the period	-	-	2,020	-	2,020
Dividends paid	-	-	-	-3,000	-3,000
Shareholders' equity at 30 June 2015	630	43,693	2,568	-	46,891
Shareholders' equity at 1 January 2014	630	42,292	1,862	2,100	46,884
Net profit for the period	-	-	1,490	-	1,490
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	5	-	5
Tax	-	-	-1	-	-1
Total comprehensive income for the period	-	-	1,494	-	1,494
Dividends paid	-	-	-	-2,100	-2,100
Shareholders' equity at 30 June 2014	630	42,292	3,356	-	46,278

At 30 June 2015, the share capital was made up of 6,300,000 shares of DKK 100 each. All shares carry the same rights; there is thus only one class of shares. The company is wholly-owned by Danske Bank A/S, Copenhagen.

TOTAL CAPITAL AND TOTAL CAPITAL RATIO (DKK millions)	30 June 2015	31 December 2014	30 June 2014
Shareholders' equity	46,891	47,871	46,278
Revaluation of domicile property at fair value	51	50	52
Tax effect	-13	-12	-13
Total equity calculated in accordance with the rules of the Danish FSA	46,929	47,909	46,317
Expected/proposed dividends	-2,050	-3,000	-1,200
Revaluation reserve	-	-	-
Deferred tax assets	-	-	-
Defined benefit pension fund assets	-96	-55	-47
Common equity tier 1 capital	44,783	44,854	45,070
Difference between expected losses and impairment charges	-	-	-
Tier 1 capital	44,783	44,854	45,070
Reserves in series subject to a reimbursement obligation	-	-	-
Revaluation reserve	-	-	-
Difference between expected losses and impairment charges	619	676	658
Total capital	45,402	45,530	45,728
Risk exposure amount	124,977	131,875	133,149
Common equity tier 1 capital ratio (%)	35.8	34.0	33.8
Tier 1 capital ratio (%)	35.8	34.0	33.8
Total capital ratio (%)	36.3	34.5	34.3

Total capital and the total risk exposure amount at 30 June 2015 have been calculated in accordance with the rules applicable under the CRR/CRD IV taking transitional rules into account as stipulated by the Danish FSA. A new filter will be introduced for deduction from common equity tier 1 capital of additional value adjustments of assets and liabilities measured at fair value (prudent valuation). The European Banking Authority (EBA) has submitted its final standard for adoption by the European Commission. Adoption is still pending but is expected in the near future. The final stipulations of the standard are expected to lead to a small reduction in common equity tier 1 capital.

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

Cash flow statement – Realkredit Danmark Group

(DKK millions)	First half 2015	First half 2014	Full year 2014
Cash flow from operations			
Profit before tax	2,689	1,973	4,030
Tax paid	-1,106	-	-991
Adjustment for non-cash operating items	-54	309	651
Cash flow from operating capital	28,939	-16,825	-26,710
Total	30,468	-14,543	-23,020
Cash flow from investing activities			
Acquisition/sale of tangible assets	-1	-1	-2
Total	-1	-1	-2
Cash flow from financing activities			
Dividends	-3,000	-2,100	-2,100
Total	-3,000	-2,100	-2,100
Cash and cash equivalents at 1 January	25,882	51,004	51,004
Change in cash and cash equivalents	27,467	-16,644	-25,122
Cash and cash equivalents, end of period	53,349	34,360	25,882

Notes – Realkredit Danmark Group

Note

1 Significant accounting policies

and critical accounting estimates and assessments

Realkredit Danmark's interim report for the first half of 2015 has been prepared 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.

The Group has not changed its significant accounting policies from those followed in Annual Report 2014, which provides a full description of the significant accounting policies.

Significant accounting estimates and assessments

Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the Group's consolidated financial statements. The amount most influenced by critical estimates and assessments is the fair value measurement of mortgage loans.

The estimates and assumptions are based on assumptions that management finds reasonable but which are inherently uncertain and unpredictable.

The premises may be incomplete, unexpected future events or situations may occur and other parties may arrive at other estimated values.

Fair value measurement of mortgage loans

The fair value of mortgage loans is based on the fair value of the underlying issued mortgage bonds adjusted for changes in the fair value of the credit risk on borrowers.

For mortgage loans granted to customers in rating categories 10 and 11 (loans with objective evidence of impairment), such adjustment is made to the amount which the borrower is expected to be able to repay after a financial restructuring. Loans are written down to the fair value of the collateral if financial restructuring is not possible.

A collective assessment also determines the need for changes to reflect fair value adjustments of the credit risk of the remaining portion of the portfolio. No changes are made if it is possible to raise the administration margin on loans (credit margin) sufficiently to compensate for the higher credit risk and market risk premiums on mortgage loans. If it is not possible to raise the administration margin sufficiently or at all, a collective adjustment is made, reflecting trends in expected losses, unexpected losses (volatility) and the possibility of raising administration margins in the future. The expected future cash flows are discounted at the current market rate with the addition of a risk premium.

Realkredit Danmark's principal risks and external factors that may affect Realkredit Danmark are described in more detail in Annual Report 2014.

The interim report has not been reviewed or audited.

Notes – Realkredit Danmark Group

Note (DKK millions)

2 Profit broken down by activity

First half 2015	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
Administration margin	2,883	-	2,883	-	2,883
Net interest income	-60	687	627	-522	105
Dividends from shares	-	1	1	-1	-
Net fee income	-236	-	-236	-	-236
Income from investment portfolios	-	-	-	559	559
Value adjustments	422	-385	37	-37	-
Other income	87	-	87	-	87
Total income	3,096	303	3,399	-1	3,398
Expenses	387	3	390	-	390
Profit before loan impairment charges	2,709	300	3,009	-1	3,008
Loan impairment charges	319	-	319	-	319
Income from associates	-	-1	-1	1	-
Profit before tax	2,390	299	2,689	-	2,689

First half 2014	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
Administration margin	2,809	-	2,809	-	2,809
Net interest income	-84	684	600	-592	8
Dividends from shares	-	-	-	-	-
Net fee income	-258	-	-258	-	-258
Income from investment portfolios	-	-	-	318	318
Value adjustments	205	-481	-276	276	-
Other income	66	-	66	-	66
Total income	2,738	203	2,941	2	2,943
Expenses	398	3	401	-	401
Profit before loan impairment charges	2,340	200	2,540	2	2,542
Loan impairment charges	569	-	569	-	569
Income from associates	-	2	2	-2	-
Profit before tax	1,771	202	1,973	-	1,973

Mortgage finance encompasses property financing services provided in Denmark, Sweden and Norway to personal and business customers. The mediation of property financing services is made through Danske Bank's branch network and finance centres and through Corporate & Institutional Mortgage Finance at Realkredit Danmark. The segment also includes mediation of real estate transactions in Denmark offered through the "home" real-estate agency chain. Under the Danish Financial Business Act, at least 60% of the total capital of a mortgage credit institution must be invested in bonds, etc. Own holdings comprise the net return on the part of the securities portfolio not relating to the mortgage finance business. Income from trading activities and own holdings is carried in the income statement under net interest income and value adjustments, etc. In the consolidated highlights, this income, except for interest on bonds at amortised cost, is reclassified to income from investment portfolios.

Realkredit Danmark has no branch offices or subsidiaries outside Denmark.

Notes – Realkredit Danmark Group

Note	(DKK millions)	First half 2015	First half 2014
3	Loan impairment charges		
	Impairment charges etc. during the period	747	869
	Reversals of impairment charges etc. for previous years	803	563
	Losses incurred	403	295
	Received on claims previously written off	28	32
	Total	319	569

4 Loans etc.

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 3,985 million at 30 June 2015, against DKK 3,998 million at the beginning of the year.

Of total loan impairments for the credit risk on loans and other amounts due at amortised cost, impairments were recognised as an expense of DKK 260 million at 30 June 2015, against DKK 303 million at the beginning of the year.

	Loans, individual impairment	Loans, collective impairment	Total
Impairment charges at 1 January 2014	3,241	413	3,654
Impairment charges during the period	1,895	418	2,313
Reversals of impairment charges etc. for previous periods	1,546	120	1,666
Impairment charges at 31 December 2014	3,590	711	4,301
Impairment charges during the period	552	195	747
Reversals of impairment charges etc. for previous periods	777	26	803
Impairment charges at 30 June 2015	3,365	880	4,245

Value adjustments of assets taken over amounted to DKK -1 million at 30 June 2015, against DKK 3 million at end-2014.

5 Issued bonds at amortised cost

	30 June 2015	31 December 2014
Nominal value of issued bonds	25,100	27,275
Fair value hedging of interest rate risk	115	115
Premium/discount	19	25
Total issued bonds	25,234	27,415

	1 January 2015	Issued	Redeemed	30 June 2015
Nominal value				
Total issued bonds	27,275	-	2,175	25,100

Issued bonds at amortised cost consist of issued senior debt.

6 Assets deposited as collateral

At 30 June 2015, Realkredit Danmark had deposited securities worth DKK 11,342 million (end-2014: DKK 13,451 million) as collateral with the Danish central bank.

In connection with repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet, and amounts received are recognised as due to credit institutions and central banks. Repo transaction securities are treated as assets provided as collateral for liabilities. At 30 June 2015, the carrying amount of such securities totalled DKK 26,463 million (end-2014: DKK 9,986 million). Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

At 30 June 2015, mortgage lending totalling DKK 740,212 million and other assets totalling DKK 36,573 million (end-2014: DKK 744,502 million and DKK 41,050 million) were registered as security for issued mortgage bonds, including mortgage-covered bonds, and issued bonds at amortised cost.

Notes – Realkredit Danmark Group

Note	(DKK millions)				
7	Financial instruments at fair value				
	30 June 2015	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	27,671	-	-	27,671
	Mortgage loans at fair value	-	740,212	-	740,212
	Shares	-	-	1	1
	Derivatives	-	193	-	193
	Total	27,671	740,405	1	768,077
	Issued mortgage bonds at fair value	753,256	-	-	753,256
	Derivatives	-	63	-	63
	Total	753,256	63	-	753,319
	31 December 2014				
	Bonds at fair value	29,292	-	-	29,292
	Mortgage loans at fair value	-	744,502	-	744,502
	Shares	-	-	2	2
	Derivatives	-	451	-	451
	Total	29,292	744,953	2	774,247
	Issued mortgage bonds at fair value	739,358	-	-	739,358
	Derivatives	-	20	-	20
	Total	739,358	20	-	739,378

Negative interest income and interest expenses due to negative interest rates were insignificant during the first six months of 2015. The amounts are offset against interest income and interest expenses, respectively.

Note 36 to Annual Report 2014 provides a description of the valuation techniques used for financial instruments. Financial market developments did not result in reclassification of bonds between listed prices and observable input during the first six months of 2015.

8 **Contingent liabilities**

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

As the sponsoring employer, Realkredit Danmark is liable for the pension obligations of Kreditforeningen Danmarks Pensionsafvilkingskasse. The pension fund and the Group's defined benefit plan have not accepted new members since 1971.

The company is registered jointly with all significant Danish entities in Danske Bank Group for financial services employer tax and VAT, for which it is jointly and severally liable.

The company is jointly taxed with all Danish entities in Danske Bank Group and is jointly and severally liable for payment of Danish corporate tax and withholding tax, etc.

Guarantees and indemnities issued by the Group, irrevocable loan commitments regarding reverse mortgages and other commitments not recognised in the balance sheet amount to:

(DKK millions)	30 June 2015	31 December 2014	30 June 2014
Other contingent liabilities			
Irrevocable loan commitments regarding reverse mortgages	27	56	58
Other commitments	90	108	107
Total	117	164	165

In addition to credit exposure from lending activities, loan offers made granted by the Group amounted to DKK 29,371 million (end-2014: DKK 21,256 million). These items are included in the calculation of the total risk amount in accordance with the CRR/CRD IV.

Notes – Realkredit Danmark Group

Note

9 Risk management

The Board of Directors defines Realkredit Danmark's risk management framework, while the Executive Board monitors Realkredit Danmark's risks and ensures compliance with the framework. The principal risk faced by Realkredit Danmark is the credit risk on mortgage loans. Realkredit Danmark has only limited exposure to market risk.

Credit risk

As a mortgage credit institution, Realkredit Danmark provides loans secured on real property. The credit risk on a mortgage loan basically derives from two factors; the risk that the borrower is unable to repay the loan and the expected loss if the customer does not repay the loan. The latter depends largely on the value of the mortgaged property. The table below shows a breakdown of the loan portfolio on customer classification by creditworthiness (rating categories) and loan-to-value (LTV) ratios. Loans to customers with an LTV ratio of more than 80% in the four lowest rating categories total DKK 7 billion, which corresponds to 0.9% of the total loan portfolio.

Portfolio broken down by LTV ratio and rating category
30 June 2015

Rating category	LTV ratio					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	80-100%	
1	-	-	-	-	-	-
2	5	3	2	-	-	10
3	50	35	22	10	7	124
4	70	55	36	16	6	183
5	56	51	36	17	7	167
6	36	31	23	11	5	106
7	28	25	20	10	3	86
8	10	9	7	4	2	32
9	2	2	2	1	1	8
10	5	4	4	3	2	18
11	2	2	2	2	2	10
Total	264	217	154	74	35	744

Portfolio broken down by LTV ratio value and rating category
31 December 2014

Rating category	LTV ratio					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	80-100%	
1	1	-	-	-	-	1
2	5	3	2	-	1	11
3	48	33	21	10	8	120
4	64	50	35	17	8	174
5	55	48	37	20	8	168
6	36	31	24	13	6	110
7	29	28	22	12	5	96
8	9	9	7	4	2	31
9	2	2	2	1	1	8
10	5	4	4	3	3	19
11	2	2	2	2	2	10
Total	256	210	156	82	44	748

In the financial statements, mortgage loans, and thus the associated credit risk, are recognised at fair value. Calculating the fair value of credit risk involves significant estimates and assumptions. This is described in detail in note 1. The total fair value adjustment of credit risk is described in note 4.

Market risk

Market risk comprises interest rate, equity market and exchange rate risks and, to a very limited extent, liquidity risk and operational risk. In addition, the Group is exposed to some degree to pension risk on defined benefit plans for current and/or former employees.

However, the statutory principle of balance eliminates most of the interest rate, exchange rate and liquidity risks on Realkredit Danmark's loans. Realkredit Danmark's other assets and liabilities involve some degree of market risk, mainly in the form of interest rate risk. Realkredit Danmark uses derivatives to hedge the interest rate risk on some of the bonds in the proprietary portfolio and on fixed-rate liabilities in the form of issued senior debt. The derivatives and the hedged bonds are recognised at fair value, and fair value hedge accounting is used to the effect that the hedged interest rate risk on the issued senior debt is also recognised at fair value in the financial statements. Realkredit Danmark has placed DKK 32,470 million of its proprietary portfolio in fixed-rate bonds, which are recognised in the financial statements as held-to-maturity investments and are thus measured at amortised cost. As a result, Realkredit Danmark knows the return on the portfolio until maturity, and the fixed-rate held-to-maturity portfolio is therefore not considered to entail an interest rate risk that needs to be hedged through derivatives.

The Group's management of credit risk and market risk is described in detail in the risk management note in Annual Report 2014.

Interim financial statements – Realkredit Danmark A/S

Note (DKK millions)

The financial statements of the parent company, Realkredit Danmark A/S, are prepared in accordance with the Danish Financial Business Act and the Danish FSA's executive order no. 281 dated 26 March 2014 on Financial Reports of Credit Institutions and Investment companies, etc.

The rules are consistent with the Group's measurement principles under IFRS with the exception that

- Domicile properties are valued at estimated fair value (revalued amount) through other comprehensive income

The estimated fair value of domicile properties is determined in accordance with the Danish FSA's executive order of Financial Reports for Credit Institutions and Investment Companies, etc. Available-for-sale financial assets are measured at fair value through profit or loss.

The format of the parent company's financial statements is not identical to the format of the consolidated financial statements prepared in accordance with IFRSs.

The table below shows the differences in net profit and shareholders' equity between the IFRS consolidated financial statements and the parent company's financial statements presented in accordance with Danish FSA rules.

	Net profit First half 2015	Net profit First half 2014	Shareholders' equity 30 June 2015	Shareholders' equity 31 December 2014
Consolidated financial statements (IFRS)	2,057	1,490	46,891	47,871
Domicile property	-	-	51	50
Tax effect	-	-	-13	-12
Consolidated financial statements (Danish FSA rules)	2,057	1,490	46,929	47,909

Income statement and Comprehensive income – Realkredit Danmark A/S

Note	(DKK millions)	First half 2015	First half 2014
	Income statement		
	Interest income	11,504	12,021
	Interest expense	7,995	8,613
	Net interest income	3,509	3,408
	Dividends from shares	-	-
	Fee and commission income	418	165
	Fee and commission expense	654	423
	Net fee and commission income	3,273	3,150
1	Value adjustments	37	-276
	Other operating income	12	1
	Staff costs and administrative expenses	334	344
	Impairment, depreciation and amortisation charges	1	1
	Loan impairment charges	319	569
	Income from associated and group undertakings	16	9
	Profit before tax	2,684	1,970
	Tax	627	480
	Net profit for the period	2,057	1,490
	Comprehensive income		
	Net profit for the period	2,057	1,490
	Other comprehensive income		
	Items that will not be reclassified to profit or loss		
	Actuarial gains/losses on defined benefit plans	-48	5
	Tax	11	-1
	Items that will not be reclassified to profit or loss	-37	4
	Items that are or may be reclassified to profit or loss		
	Fair value adjustment of domicile property	1	2
	Tax	-1	-1
	Items that are or may be reclassified to profit or loss	-	1
	Total comprehensive income	-37	5
	Total comprehensive income for the period	2,020	1,495

Balance sheet – Realkredit Danmark A/S

Note	(DKK millions)	30 June 2015	31 December 2014	30 June 2014
ASSETS				
	Cash in hand and demand deposits with central banks	543	244	243
	Due from credit institutions and central banks	52,772	25,594	34,077
	Bonds at fair value	27,671	29,292	24,276
	Bonds at amortised cost	32,470	30,508	36,862
2	Mortgage loans at fair value	740,212	744,502	743,017
2	Loans and other amounts due at amortised cost	792	883	933
	Holdings in associates	14	15	15
	Holdings in group undertakings	121	129	121
	Land and buildings	140	140	142
	Domicile property	140	140	142
	Other tangible assets	5	5	5
	Current tax assets	610	137	-
	Deferred tax assets	-	-	-
	Assets temporarily taken over	94	106	149
2	Other assets	2,550	3,030	1,789
	Prepayments	16	6	15
Total assets		858,010	834,591	841,644
LIABILITIES AND EQUITY				
AMOUNTS DUE				
	Due to credit institutions and central banks	26,812	10,018	20,177
	Issued mortgage bonds at fair value	753,256	739,358	739,953
	Issued bonds at amortised cost	25,234	27,415	28,634
	Current tax liabilities	-	-	405
	Other liabilities	5,647	9,744	6,054
	Deferred income	-	-	-
Total amounts due		810,949	786,535	795,223
PROVISIONS				
	Deferred tax	75	85	33
	Reserves in early series subject to a reimbursement obligation	57	62	71
Total provisions		132	147	104
SHAREHOLDERS' EQUITY				
	Share capital	630	630	630
	Revaluation reserve	33	33	35
	Reserves in series	43,693	43,693	42,292
	Other reserves	2,573	553	3,360
	Proposed dividends	-	3,000	-
Total shareholders' equity		46,929	47,909	46,317
Total liabilities and equity		858,010	834,591	841,644

Statement of capital – Realkredit Danmark A/S

CHANGES IN SHAREHOLDERS' EQUITY (DKK millions)	Share capital	Revaluation reserve	Reserves in series	Other reserves	Proposed dividends	Total
Shareholders' equity at 1 January 2015	630	33	43,693	553	3,000	47,909
Net profit for the period	-	-	-	2,057	-	2,057
Other comprehensive income						
Actuarial gains/losses on defined benefit plans	-	-	-	-48	-	-48
Fair value adjustment of domicile property	-	-	-	1	-	1
Tax	-	-	-	10	-	10
Total comprehensive income for the period	-	-	-	2,020	-	2,020
Dividends paid	-	-	-	-	-3,000	-3,000
Shareholders' equity at 30 June 2015	630	33	43,693	2,573	-	46,929
Shareholders' equity at 1 January 2014	630	34	42,292	1,866	2,100	46,922
Net profit for the period	-	-	-	1,490	-	1,490
Other comprehensive income						
Actuarial gains/losses on defined benefit plans	-	-	-	5	-	5
Fair value adjustment of domicile property	-	1	-	1	-	2
Tax	-	-	-	-2	-	-2
Total comprehensive income for the period	-	1	-	1,494	-	1,495
Dividends paid	-	-	-	-	-2,100	-2,100
Shareholders' equity at 30 June 2014	630	35	42,292	3,360	-	46,317

At 30 June 2015, the share capital was made up of 6,300,000 shares of DKK 100 each. All shares carry the same rights; there is thus only one class of shares. The company is wholly-owned by Danske Bank A/S, Copenhagen.

The revaluation reserve concerns fair value adjustment of domicile property.

Notes – Realkredit Danmark A/S

Note	(DKK millions)	First half 2015	First half 2014
1	Value adjustments		
	Mortgage loans	-10,150	10,246
	Bonds	-237	-177
	Currency	4	-1
	Derivatives	-1,371	-1,953
	Other assets	-	-2
	Issued mortgage bonds	11,785	-8,339
	Other liabilities	6	-50
	Total	37	-276

2 **Loans etc.**

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 3,985 million at 30 June 2015, against DKK 3,998 million at the beginning of the year.

Of total loan impairments for the credit risk on loans and other amounts due at amortised cost, impairments were recognised as an expense of DKK 252 million at 30 June 2015, against DKK 294 million at the beginning of the year.

	Loans, individual impairment	Loans, collective impairment	Total
Impairment charges at 1 January 2014	3,233	413	3,646
Impairment charges during the period	1,894	418	2,312
Reversals of impairment charges etc. for previous periods	1,546	120	1,666
Impairment charges at 31 Dec. 2014	3,581	711	4,292
Impairment charges during the period	553	195	748
Reversals of impairment charges etc. for previous periods	777	26	803
Impairment charges etc. at 30 June 2015	3,357	880	4,237

Value adjustment of assets taken over amounted to DKK -1 million at 30 June 2015, against DKK 3 million at end-2014.

Statement by the management

The Board of Directors and the Executive Board (management) have considered and approved Interim Report – First Half 2015 of Realkredit Danmark Group.

The consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU, and the Parent Company's interim financial statements have been prepared in accordance with the Danish Financial Business Act. Furthermore, the interim report has been prepared in accordance with Danish disclosure requirements for interim reports of issuers of listed bonds.

In our opinion, the consolidated interim financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 30 June 2015 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the period starting on 1 January 2015 and ending on 30 June 2015. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the Parent Company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

Copenhagen, 22 July 2015

Executive Board

Carsten Nøddebo Rasmussen
Chairman of the Executive Board

Board of Directors

Tonny Thierry Andersen
Chairman

Lars Mørch
Vice Chairman

Kim Andersen

Henrik Ramlau-Hansen

Claus Bundgaard

Lisbeth Sahlertz Nielsen

Supplementary information

Financial calendar

- Interim Report – First Nine Months 2015:
29 October 2015
- Annual Report 2015:
2 February 2016
- Annual General Meeting:
3 March 2016
- Interim Report – First Quarter 2016:
29 April 2016
- Interim Report – First Half 2016:
21 July 2016
- Interim Report – First Nine Months 2016:
28 October 2016

Contact


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

Address

Realkredit Danmark A/S
Lersø Parkallé 100
DK-2100 København Ø
Tel. +45 70 12 53 00
CVR No. 13 39 91 74 – København

Links

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



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

rd.dk
E-mail rd@rd.dk