

Interim Report – First Nine Months 2016



REALKREDIT
Danmark

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Interim Report – First Nine Months 2016 is a translation of the original report in the Danish language (Delårsrapport – 1.-3. kvartal 2016). In case of discrepancies, the Danish version prevails.

Financial highlights – Realkredit Danmark Group

NET PROFIT FOR THE PERIOD (DKK millions)	Q1-Q3 2016	Q1-Q3 2015	Index 16/15	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Full year 2015
Administration margin	4,342	4,324	100	1,454	1,445	1,443	1,446	1,441	5,770
Net interest income	71	127	56	40	15	16	69	22	196
Net fee income	-438	-368	119	-157	-140	-141	-141	-132	-509
Income from investment portfolios	511	512	100	94	183	234	150	-47	662
Other income	105	121	87	32	38	35	71	34	192
Total income	4,591	4,716	97	1,463	1,541	1,587	1,595	1,318	6,311
Expenses	583	587	99	192	196	195	200	197	787
Profit before loan impairment charges	4,008	4,129	97	1,271	1,345	1,392	1,395	1,121	5,524
Loan impairment charges	181	442	41	98	62	21	-10	123	432
Profit before tax	3,827	3,687	104	1,173	1,283	1,371	1,405	998	5,092
Tax	842	867	97	258	282	302	335	235	1,202
Net profit for the period	2,985	2,820	106	915	1,001	1,069	1,070	763	3,890

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	44,584	28,553	156	44,584	29,932	30,902	28,696	28,553	28,696
Mortgage loans	768,079	742,853	103	768,079	759,785	751,382	744,383	742,853	744,383
Bonds and shares	54,767	61,852	89	54,767	59,307	56,183	59,827	61,852	59,827
Other assets	3,748	3,994	94	3,748	3,694	4,538	3,668	3,994	3,668
Total assets	871,178	837,252	104	871,178	852,718	843,005	836,574	837,252	836,574
Due to credit institutions etc.	16,419	20,400	80	16,419	17,949	20,795	16,611	20,400	16,611
Issued mortgage bonds	783,330	736,895	106	783,330	764,970	751,359	745,223	736,895	745,223
Issued senior debt	17,618	25,207	70	17,618	17,639	17,655	17,721	25,207	17,721
Other liabilities	5,651	7,054	80	5,651	4,795	6,861	8,273	7,054	8,273
Shareholders' equity	48,160	47,696	101	48,160	47,365	46,335	48,746	47,696	48,746
Total liabilities and equity	871,178	837,252	104	871,178	852,718	843,005	836,574	837,252	836,574

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	8.2	7.9		7.7	8.5	9.0	8.9	6.5	8.1
Impairment charges as % p.a. of mortgage lending	0.03	0.08		0.05	0.03	0.01	-0.01	0.07	0.06
Cost/income ratio (%)	12.7	12.4		13.1	12.7	12.3	12.5	14.9	12.5
Total capital ratio (%)	31.2	37.5		31.2	32.5	31.5	38.8	37.5	38.8
Tier 1 capital ratio (%)	30.7	37.0		30.7	32.0	31.0	38.3	37.0	38.3
Full-time-equivalent staff (end of period)	238	234		238	239	238	239	234	239

Overview, first nine months 2016

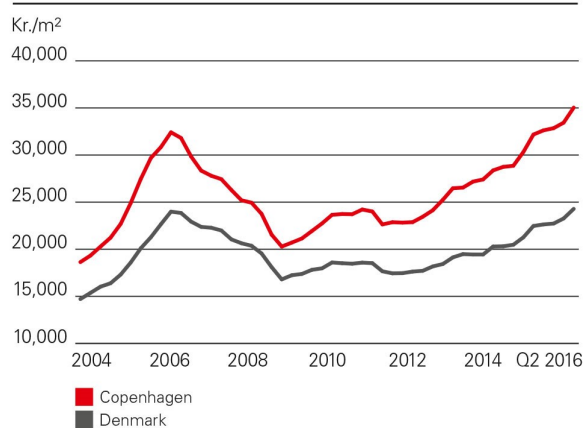
- Realkredit Danmark recorded a net profit of DKK 2,985 million in the first nine months of 2016, against DKK 2,820 million in the same period of 2015. The profit for the first nine months of 2016 was supported by a low level of impairments, while remortgaging activity was lower than in the first nine months of 2015.
- Impairments amounted to DKK 181 million in the first nine months of 2016, against DKK 442 million in the year-earlier period.
- There was an increase in remortgaging activity in the third quarter with particularly strong demand for fixed-rate loans with a 2% coupon and FlexLån® loans with refinancing intervals of 5 year or more. Lending to personal customers saw a satisfactory development, rising DKK 5 billion in the third quarter of 2016.
- Realkredit Danmark still expects the profit for 2016 to be at the same level as in 2015.

Mortgage credit market

House prices have generally witnessed a rising trend in 2016 to date. Based on market indices from Danish housing website Boligsiden.dk, selling prices of single-family houses until August 2016 showed a 5% year-on-year increase. On a positive note, price increases have spread to most parts of Denmark. The increase in house prices has coincided with a marginal drop in selling activity.

In the market for owner-occupied flats in Copenhagen, prices continue to rise. In August 2016, prices were 8% above the year-earlier level.

Development in prices of owner-occupied flats

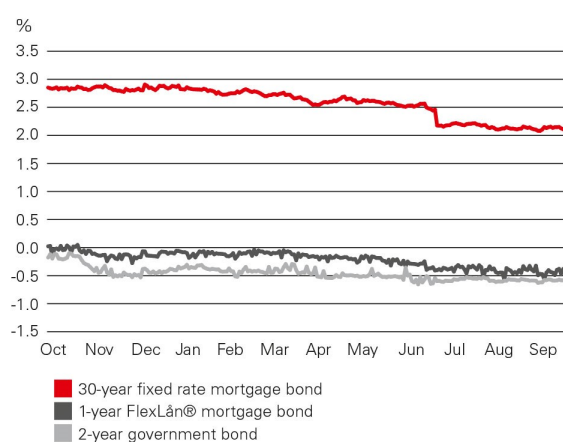


The Danish government's 2025 plan has fuelled some debate about future rules on housing taxation. Uncertainty about the future tax model in the housing area could dampen the level of activity in the near term. However, the housing remark remains underpinned by very low interest rates.

Interest rates on floating-rate and fixed-rate loans remained very low in the third quarter, and interest rates on 1-year and 3-year FlexLån® loans were negative. In the third quarter, Realkredit Danmark thus disbursed 1,016 loans with a negative interest rate. In addition, continuing labour market improvements and an increase in household disposable income have positively affected the Danish housing market.

As a result, the number of foreclosures in 2016 will most likely be at the lowest since 2007.

Trend in interest rates past 12 months



The market for commercial property has developed well in 2016, driven by, among other things, low interest rates and persistently strong interest from financially strong Danish and international investors. In recent years, Realkredit Danmark has experienced moderately strong growth in lending for commercial property.

Results

Realkredit Danmark recorded a net profit of DKK 2,985 million in the first nine months of 2016, against DKK 2,820 million in the same period of last year. The profit performance was attributable primarily to lower impairments, which were largely offset by lower income from remortgaging activity.

The administration margin was unchanged.

Lower income from remortgaging activity triggered a 36% decline in other income in the first nine months of 2016.

Expenses were marginally lower. Exclusive of provisions for payments to the Resolution Fund, expenses fell 4%. Among other things, this was due to lower remortgaging activity.

Impairments fell to DKK 181 million from DKK 442 million in the same period of 2015. Total impairments declined as a result of a general improvement of

macroeconomic conditions in Denmark and reversal of previous provisions for bad debts on corporate customers. The Danish agricultural sector remains challenged, and many farmers are experiencing selling prices that are lower than their production costs. As a result, it was necessary to increase impairments on the agricultural segment.

Impairments equalled 0.03% p.a. of total mortgage lending, against 0.06% in 2015. At the end of September 2016, the delinquency rate was slightly lower than in 2015, except for the agricultural segment.

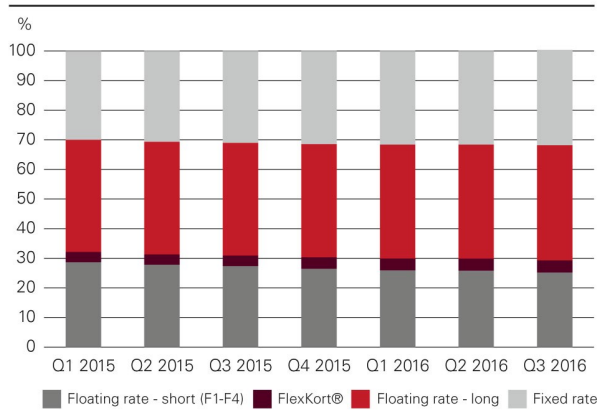
The tax charge totalled DKK 842 million. The amount is lower than in the same period of 2015, primarily because of a lower corporate tax rate in 2016. The effective tax rate for the period was 22.0%.

Balance sheet

Gross lending amounted to DKK 84 billion, against DKK 123 billion in the first nine months of 2015. Mortgage lending at fair value rose DKK 24 billion to DKK 768 billion. The development in mortgage lending at fair value is composed of an increase in the nominal outstanding bond debt of DKK 11 billion and a DKK 13 billion increase in the market value adjustment in the same period.

In the first nine months of 2016, fixed-rate loans accounted for close to half of all disbursed loans, while about two-thirds of all floating-rate loans were disbursed with refinancing intervals of 5 year or more.

Development in loan portfolio by loan type (%)



Following an increase in short-term FlexLån® loans at the beginning of the year, the portfolio of these loans is once again on a downward trend. A new price structure and continuing low interest rates have made customers lock-in the interest rate on their loan for a longer period.

At 30 September 2016, the average loan-to-value (LTV) ratio stood at 65%, which was unchanged compared to the end of 2015. An increase in loans calculated at market value was offset by rising property prices.

The number of new foreclosures was 58 in the first nine months of 2016. The number of foreclosures fell marginally in the first nine months to 56 at the end of September 2016, of which 41 were owner-occupied dwellings and 15 were commercial properties. The value of the foreclosures was DKK 115 million.

Issued mortgage bonds rose DKK 38 billion to DKK 783 billion. The nominal value of issued bonds was DKK 761 billion, which was DKK 26 billion more than at the end of 2015. The amounts are exclusive of holdings of own mortgage bonds. In the first nine months of 2016, Realkredit Danmark issued bonds for DKK 84 billion, not including bonds issued for the refinancing auctions.

Capital and solvency

At the end of September 2016, shareholders' equity stood at DKK 48.2 billion, against DKK 48.7 billion at end-2015. The ordinary dividend payment of DKK 3.5 billion and the consolidation of the net profit for the period accounted for the change.

Realkredit Danmark's total capital amounted to DKK 46.1 billion, and the total capital ratio calculated in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) was 31.2%. At 31 December 2015, the corresponding figures were DKK 45.8 billion and 38.8%, 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 148.0 billion at 30 September 2016, against DKK 118.1 billion at the end of 2015. The increase was due primarily to a methodology change of the Danske Bank Group's IRB models, which took effect in the first quarter of 2016.

Calculated on the basis of the transitional rules of the CRR/CRD IV, the capital need for 2016 must, as a minimum, amount to 80% of the requirement calculated under the previous rules, corresponding to DKK 27.2 billion and a solvency need ratio of 18.4%. Realkredit Danmark thus has a capital buffer of DKK 18.9 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 predefined limits, which are 80% for residential property and 60% for commercial property.

At the end of September 2016, the requirement for supplementary collateral for mortgage-covered bonds was DKK 29.7 billion, against DKK 33.9 billion at end-2015.

Liquidity Coverage Ratio

The effective requirement for Realkredit Danmark's buffer of liquid assets resulting from the Liquidity Coverage Ratio is 2.5% of Realkredit Danmark's total mortgage lending. At the end of September 2016, this corresponded to DKK 19 billion. Realkredit Danmark has liquid assets of DKK 52 billion, and after haircuts this translates into liquid assets of DKK 49 billion. Realkredit Danmark thus has a buffer of DKK 30 billion relative to the requirement.

Supervisory diamond for mortgage credit institutions

Realkredit Danmark currently complies with all threshold values.

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 2016

Realkredit Danmark expects that economic growth will remain moderate in Denmark during the remainder of 2016. Interest rates in Denmark are expected to remain low for the rest of 2016, supporting activity in the Danish housing market.

Realkredit Danmark expects income to remain unchanged, supported by marginally higher administration margin income following the adjustment of administration margins on FlexLån® F1-F4 loans, while a decline in income from remortgaging activity will have downward effect.

Total expenses are expected to be at the same level as in 2015.

Expenses exclusive of payments to the Resolution Fund are expected to fall as a result of focus on tight cost control and lower remortgaging activity.

Loan impairment charges are expected to be slightly lower than in 2015.

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

Income statement and Comprehensive income – Realkredit Danmark Group

Note	(DKK millions)	Q1-Q3 2016	Q1-Q3 2015	Q3 2016	Q3 2015	Full year 2015
	Income statement					
	Interest income	14,632	16,677	4,764	5,172	21,886
	Interest expense	9,650	11,412	3,107	3,417	14,821
	Net interest income	4,982	5,265	1,657	1,755	7,065
	Dividends from shares	-	1	-	-	1
	Fee and commission income	348	524	150	106	649
	Fee and commission expense	786	892	307	238	1,158
	Net fee and commission income	4,544	4,898	1,500	1,623	6,557
	Value adjustments	-58	-302	-68	-339	-441
	Other operating income	105	121	32	34	192
	Staff costs and administrative expenses	581	584	192	196	784
	Impairment, depreciation and amortisation charges	2	3	-	1	3
3	Loan impairment charges	181	442	98	123	432
	Income from associates and group undertakings	-	-1	-1	-	3
	Profit before tax	3,827	3,687	1,173	998	5,092
	Tax	842	867	258	235	1,202
	Net profit for the period	2,985	2,820	915	763	3,890
	Comprehensive income					
	Net profit for the period	2,985	2,820	915	763	3,890
	Other comprehensive income					
	Items that will not be reclassified to profit or loss					
	Actuarial gains/losses on defined benefit plans	-92	6	-154	54	-19
	Tax	21	-1	34	-12	4
	Total other comprehensive income	-71	5	-120	42	-15
	Total comprehensive income for the period	2,914	2,825	795	805	3,875

Balance sheet – Realkredit Danmark Group

Note	(DKK millions)	30 September 2016	31 December 2015	30 September 2015
ASSETS				
	Cash in hand and demand deposits with central banks	330	207	189
	Due from credit institutions and central banks	44,254	28,489	28,364
	Bonds at fair value	24,028	30,210	25,768
	Bonds at amortised cost	30,719	29,597	36,069
4	Mortgage loans at fair value	768,079	744,383	742,853
4	Loans and other amounts due at amortised cost	748	783	796
	Shares etc.	2	2	1
	Holdings in associates	18	18	14
	Land and buildings	-	-	89
	Domicile property	-	-	89
	Other tangible assets	9	10	9
	Current tax assets	241	-	375
	Deferred tax assets	-	-	-
	Assets temporarily taken over	160	122	97
4	Other assets	2,566	2,743	2,614
	Prepayments	24	10	14
Total assets		871,178	836,574	837,252
LIABILITIES AND EQUITY				
AMOUNTS DUE				
	Due to credit institutions and central banks	16,419	16,611	20,400
	Issued mortgage bonds at fair value	783,330	745,223	736,895
5	Issued bonds at amortised cost	17,618	17,721	25,207
	Current tax liabilities	-	25	-
	Deferred tax liabilities	49	69	67
	Other liabilities	5,602	8,179	6,987
	Deferred income	-	-	-
Total amounts due		823,018	787,828	789,556
SHAREHOLDERS' EQUITY				
	Share capital	630	630	630
	Other reserves			
	Reserves in series	42,613	42,613	43,693
	Other reserves	4,917	2,003	3,373
	Proposed dividends	-	3,500	-
Total shareholders' equity		48,160	48,746	47,696
Total liabilities and equity		871,178	836,574	837,252

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 2016	630	42,613	2,003	3,500	48,746
Net profit for the period	-	-	2,985	-	2,985
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-92	-	-92
Tax	-	-	21	-	21
Total comprehensive income for the period	-	-	2,914	-	2,914
Dividends paid	-	-	-	-3,500	-3,500
Shareholders' equity at 30 September 2016	630	42,613	4,917	-	48,160
Shareholders' equity at 1 January 2015	630	43,693	548	3,000	47,871
Net profit for the period	-	-	2,820	-	2,820
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	6	-	6
Tax	-	-	-1	-	-1
Total comprehensive income for the period	-	-	2,825	-	2,825
Dividends paid	-	-	-	-3,000	-3,000
Shareholders' equity at 30 September 2015	630	43,693	3,373	-	47,696

At 30 September 2016, the share capital was made up of 6,300,000 shares of DKK 100 each. All shares carry the same rights; there is thus only one class of shares. The company is wholly-owned by Danske Bank A/S, Copenhagen. Realkredit Danmark A/S and group undertakings are included in the consolidated financial statements of Danske Bank A/S, Copenhagen.

TOTAL CAPITAL AND TOTAL CAPITAL RATIO (DKK millions)	30 September 2016	31 December 2015	30 September 2015
Shareholders' equity	48,160	48,746	47,696
Revaluation of domicile property at fair value	40	40	51
Tax effect	-9	-9	-13
Total equity calculated in accordance with the rules of the Danish FSA	48,191	48,777	47,734
Expected/proposed dividends	-2,690	-3,500	-2,800
Revaluation reserve	-	-	-
Deferred tax assets	-	-	-
Prudent valuation	-24	-	-
Defined benefit pension fund assets	-119	-106	-113
Common equity tier 1 capital	45,358	45,171	44,821
Difference between expected losses and impairment charges	-	-	-
Tier 1 capital	45,358	45,171	44,821
Reserves in series subject to a reimbursement obligation	-	-	-
Revaluation reserve	-	-	-
Difference between expected losses and impairment charges	772	601	596
Total capital	46,130	45,772	45,417
Risk exposure amount	147,966	118,092	121,210
Common equity tier 1 capital ratio (%)	30.7	38.3	37.0
Tier 1 capital ratio (%)	30.7	38.3	37.0
Total capital ratio (%)	31.2	38.8	37.5

Total capital and the total risk exposure amount at 30 September 2016 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 has been 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 Commission has approved the standard submitted by the European Banking Authority (EBA), which has been adopted from February 2016.

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

Cash flow statement – Realkredit Danmark Group

(DKK millions)	Q1-Q3 2016	Q1-Q3 2015	Full year 2015
Cash flow from operations			
Profit before tax	3,827	3,687	5,092
Tax paid	-1,109	-1,106	-1,036
Adjustment for non-cash operating items	-278	-117	-271
Cash flow from operating capital	20,524	3,208	-3,537
Total	22,964	5,672	248
Cash flow from investing activities			
Acquisition/sale of tangible assets	-	-1	-2
Total	-	-1	-2
Cash flow from financing activities			
Dividends	-3,500	-3,000	-3,000
Total	-3,500	-3,000	-3,000
Cash and cash equivalents at 1 January	23,128	25,882	25,882
Change in cash and cash equivalents	19,464	2,671	-2,754
Cash and cash equivalents, end of period	42,592	28,553	23,128
Cash and cash equivalents, end of period			
Cash in hand and demand deposits with central banks	330	189	207
Amounts due from credit institutions and central banks within 3 months	42,262	28,364	22,921
Total	42,592	28,553	23,128

Notes – Realkredit Danmark Group

Note

1 **Significant accounting policies**

and significant accounting estimates and assessments

Realkredit Danmark's interim report for the first nine months of 2016 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 2015, 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 or in case of assets financing.

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 2015.

The interim report has not been reviewed or audited.

Notes – Realkredit Danmark Group

Note (DKK millions)

2 Profit broken down by activity

Q1-Q3 2016	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
Administration margin	4,342	-	4,342	-	4,342
Net interest income	-201	841	640	-569	71
Dividends from shares	-	-	-	-	-
Net fee income	-438	-	-438	-	-438
Income from investment portfolios	-	-	-	511	511
Value adjustments	355	-413	-58	58	-
Other income	105	-	105	-	105
Total income	4,163	428	4,591	-	4,591
Expenses	579	4	583	-	583
Profit before loan impairment charges	3,584	424	4,008	-	4,008
Loan impairment charges	181	-	181	-	181
Income from associates	-	-	-	-	-
Profit before tax	3,403	424	3,827	-	3,827
Total assets	807,597	63,581	871,178	-	871,178
Q1-Q3 2015	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
Administration margin	4,324	-	4,324	-	4,324
Net interest income	-134	1,075	941	-814	127
Dividends from shares	-	1	1	-1	-
Net fee income	-368	-	-368	-	-368
Income from investment portfolios	-	-	-	512	512
Value adjustments	402	-704	-302	302	-
Other income	121	-	121	-	121
Total income	4,345	372	4,717	-1	4,716
Expenses	583	4	587	-	587
Profit before loan impairment charges	3,762	368	4,130	-1	4,129
Loan impairment charges	442	-	442	-	442
Income from associates	-	-1	-1	1	-
Profit before tax	3,320	367	3,687	-	3,687
Total assets	766,912	70,340	837,252	-	837,252

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)	Q1-Q3 2016	Q1-Q3 2015
3	Loan impairment charges		
	Impairment charges etc. during the period	715	968
	Reversals of impairment charges etc. for previous years	995	1,088
	Losses incurred	500	606
	Received on claims previously written off	39	44
	Total	181	442

4 Loans etc.

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 3,537 million at 30 September 2016, against DKK 3,826 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 210 million at 30 September 2016, against DKK 201 million at the beginning of the year.

	Loans, individual impairment	Loans, collective impairment	Total
Impairment charges at 1 January 2015	3,590	711	4,301
Impairment charges during the period	912	330	1,242
Reversals of impairment charges for previous periods	1,447	69	1,516
Impairment charges at 31 December 2015	3,055	972	4,027
Impairment charges during the period	627	88	715
Reversals of impairment charges for previous periods	795	200	995
Impairment charges at 30 September 2016	2,887	860	3,747

Value adjustments of assets taken over amounted to DKK -2 million at 30 September 2016, against DKK -1 million at end-2015.

5 Issued bonds at amortised cost

	30 September 2016	31 December 2015
Nominal value of issued bonds	17,572	17,622
Fair value hedging of interest rate risk	42	85
Premium/discount	4	14
Total issued bonds	17,618	17,721

	1 January 2016	Issued	Redeemed	30 September 2016
Nominal value				
Total issued bonds	17,622	-	50	17,572

Issued bonds at amortised cost consist of issued senior debt.

6 Assets deposited as collateral

At 30 September 2016, Realkredit Danmark had deposited securities worth DKK 10,692 million (end-2015: DKK 9,410 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 September 2016, the carrying amount of such securities totalled DKK 16,399 million (end-2015: DKK 16,567 million). Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

At 30 September 2016, mortgage lending totalling DKK 768,079 million and other assets totalling DKK 29,651 million (end-2015: DKK 744,383 million and DKK 33,859 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 September 2016	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	24,028	-	-	24,028
	Mortgage loans at fair value	-	768,079	-	768,079
	Shares	-	-	2	2
	Derivatives	-	106	-	106
	Total	24,028	768,185	2	792,215
	Issued mortgage bonds at fair value	783,330	-	-	783,330
	Derivatives	-	1	-	1
	Total	783,330	1	-	783,331
	31 December 2015				
	Bonds at fair value	30,210	-	-	30,210
	Mortgage loans at fair value	-	744,383	-	744,383
	Shares	-	-	2	2
	Derivatives	-	328	-	328
	Total	30,210	744,711	2	774,923
	Issued mortgage bonds at fair value	745,223	-	-	745,223
	Derivatives	-	41	-	41
	Total	745,223	41	-	745,264

Negative interest income and interest expenses due to negative interest rates were insignificant during the first nine months of 2016. The amounts are offset against interest income and interest expenses, respectively.

Note 36 to Annual Report 2015 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 nine months of 2016.

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 Pensionsafvklingskasse. The pension fund and the Group's defined benefit plan have not accepted new members since 1971.

In connection with implementation of the EU Bank Recovery and Resolution Directive, a Danish resolution fund has been established. The resolution fund must amount to 1% of the covered deposits of all Danish credit institutions by 31 December 2024. The first contribution to the fund was made at 31 December 2015. The individual institution must make contributions to the fund on the basis of its size and risk relative to other credit institutions in Denmark. The contribution for 2016 of a little over DKK 50 million will be accrued over the four quarters of the year. The intention is that losses should be covered by the annual contributions made by the participating credit institutions. If sufficient means are not available in the resolution fund, extraordinary contributions can be required of up to three times the latest annual contribution.

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 companies in the Danske Bank Group and are jointly and severally liable for their Danish income tax, 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 September 2016	31 December 2015	30 September 2015
Other contingent liabilities			
Irrevocable loan commitments regarding reverse mortgages	11	22	25
Other commitments	95	91	90
Total	106	113	115

In addition to credit exposure from lending activities, loan offers made by the Group amounted to DKK 31,272 million (end-2015: DKK 24,088 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 5 billion, which corresponds to 0.6% of the total loan portfolio.

Portfolio broken down by LTV ratio and rating category

30 September 2016

Rating category	LTV ratio					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	80-100%	
1	-	-	-	-	-	-
2	7	4	2	1	-	14
3	61	40	24	10	6	141
4	75	59	38	15	5	192
5	61	53	38	17	5	174
6	40	35	25	11	3	114
7	26	24	18	8	3	79
8	9	8	7	3	1	28
9	2	2	1	1	1	7
10	4	4	3	2	2	15
11	2	2	2	1	1	8
Total	287	231	158	69	27	772

Portfolio broken down by LTV ratio and rating category

31 December 2015

Rating category	LTV ratio					Total DKK. billions
	0-20%	20-40%	40-60%	60-80%	80-100%	
1	-	-	-	-	-	-
2	6	3	2	-	-	11
3	56	38	22	10	6	132
4	69	54	35	14	4	176
5	58	51	38	16	6	169
6	39	34	24	11	4	112
7	28	25	19	9	3	84
8	10	9	7	4	1	31
9	2	2	2	1	1	8
10	4	4	4	2	2	16
11	2	2	2	1	2	9
Total	274	222	155	68	29	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 30,719 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 2015.

Statement by the management

The Board of Directors and the Executive Board (management) have considered and approved Interim Report – First Nine Months 2016 of the Realkredit Danmark Group.

The consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU. 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 assets, liabilities, shareholders' equity and financial position at 30 September 2016 and of the results of the Group's operations and the consolidated cash flows for the period starting on 1 January 2016 and ending on 30 September 2016. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group.

Copenhagen, 28 October 2016

Executive Board

Carsten Nøddebo Rasmussen
Chairman of the Executive Board

Board of Directors

Tonny Thierry Andersen
Chairman

Lars Mørch
Vice Chairman

Kim Andersen

Jacob Aarup-Andersen

Henriette Fenger Ellekrog

Claus Bundgaard

Lisbeth Sahlertz Nielsen

Supplementary information

Financial calendar

- Annual Report 2016:
2 February 2017
- Annual General Meeting:
6 March 2017
- Interim Report – First Quarter 2017:
28 April 2017
- Interim Report – First Half 2017:
20 July 2017
- Interim Report – First Nine Months 2017:
2 November 2017

Contact


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