

Interim Report – First Quarter 2018



REALKREDIT
Danmark

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Interim Report – First Quarter 2018 is a translation of the original report in the Danish language (Delårsrapport – 1. kvartal 2018). In case of discrepancies, the Danish version prevails.

Financial highlights – Realkredit Danmark Group

NET PROFIT FOR THE PERIOD (DKK millions)	Q1 2018	Q1 2017	Index 18/17	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Full year 2017
Administration margin	1,559	1,538	101	1,559	1,560	1,551	1,537	1,538	6,186
Net interest income	38	7	543	38	35	18	-1	7	59
Net fee income	-160	-132	121	-160	-158	-163	-148	-132	-601
Income from investment portfolios	231	246	94	231	184	128	104	246	662
Other income	34	36	94	34	36	39	69	36	180
Total income	1,702	1,695	100	1,702	1,657	1,573	1,561	1,695	6,486
Expenses	183	177	103	183	192	182	185	177	736
Profit before loan impairment charges	1,519	1,518	100	1,519	1,465	1,391	1,376	1,518	5,750
Loan impairment charges	-83	37	-	-83	54	-29	85	37	147
Profit before tax	1,602	1,481	108	1,602	1,411	1,420	1,291	1,481	5,603
Tax	353	326	108	353	313	312	284	326	1,235
Net profit for the period	1,249	1,155	108	1,249	1,098	1,108	1,007	1,155	4,368

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	24,222	33,867	72	24,222	30,072	29,575	10,040	33,867	30,072
Mortgage loans	788,200	772,045	102	788,200	788,765	786,207	773,959	772,045	788,765
Bonds and shares	51,008	53,782	95	51,008	54,851	52,105	63,993	53,782	54,851
Other assets	3,966	4,206	94	3,966	3,202	2,991	3,587	4,206	3,202
Total assets	867,396	863,900	100	867,396	876,890	870,878	851,579	863,900	876,890
Due to credit institutions etc.	4,083	8,377	49	4,083	4,294	9,654	9,530	8,377	4,294
Issued mortgage bonds	804,777	784,955	103	804,777	810,050	797,741	779,312	784,955	810,050
Issued senior debt	5,951	17,294	34	5,951	6,616	9,896	10,722	17,294	6,616
Other liabilities	6,053	6,585	92	6,053	6,039	4,799	4,334	6,585	6,039
Shareholders' equity	46,532	46,689	100	46,532	49,891	48,788	47,681	46,689	49,891
Total liabilities and equity	867,396	863,900	100	867,396	876,890	870,878	851,579	863,900	876,890

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	10.4	9.6		10.4	8.9	9.2	8.5	9.6	8.8
Impairment charges as % p.a. of mortgage lending	-0.04	0.02		-0.04	0.03	-0.01	0.04	0.02	0.02
Cost/income ratio (%)	10.8	10.4		10.8	11.6	11.6	11.9	10.4	11.3
Total capital ratio (%)	28.6	30.6		28.6	28.3	28.5	28.4	30.6	28.3
Tier 1 capital ratio (%)	28.3	30.1		28.3	28.1	28.2	27.9	30.1	28.1
Full-time-equivalent staff (end of period)	232	235		232	232	233	235	235	232

Throughout the Management's report, Realkredit Danmark's performance is assessed on the basis of the financial highlights and segment reporting, which represent the financial information regularly provided to management. The financial highlights are alternative performance measures which deviate from the presentation according to IFRS. See note 2 for an explanation of the differences and a reconciliation between these measures and IFRS.

Overview, first quarter 2018

- The Realkredit Danmark Group recorded a net profit of DKK 1,249 million in the first quarter of 2018, against DKK 1,155 million in the first quarter of 2017. The profit for the first quarter of 2018 was supported by a larger loan portfolio.
- Impairments amounted to an income of DKK 83 million in the first quarter of 2018, against an expense of DKK 37 million in the first quarter of 2017.
- In September 2017, Realkredit Danmark launched a new mortgage loan product called FlexLife®. FlexLife® was very well received by the customers, and at 31 March 2018, Realkredit Danmark had issued loan offers for DKK 10 billion.
- In the first quarter of 2018, borrower demand centred primarily on fixed-rate loans and FlexLån® loans with refinancing intervals of 5 years.
- Realkredit Danmark complies with all threshold values of the supervisory diamond for mortgage credit institutions.
- Realkredit Danmark still expects the profit for 2018 to be at the same level as in 2017.

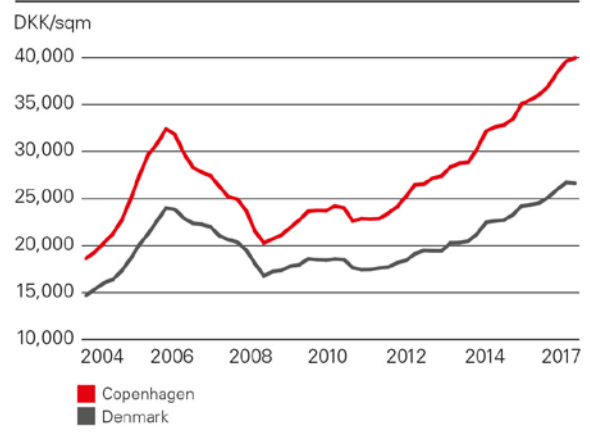
Mortgage credit market

The Danish economy expanded by 2.1% in 2017, which was the highest growth rate for more than ten years, and employment numbers are now above pre-financial crisis levels. The economic recovery is expected to continue in 2018 with a growth rate of close to 2% and employment continuing to rise.

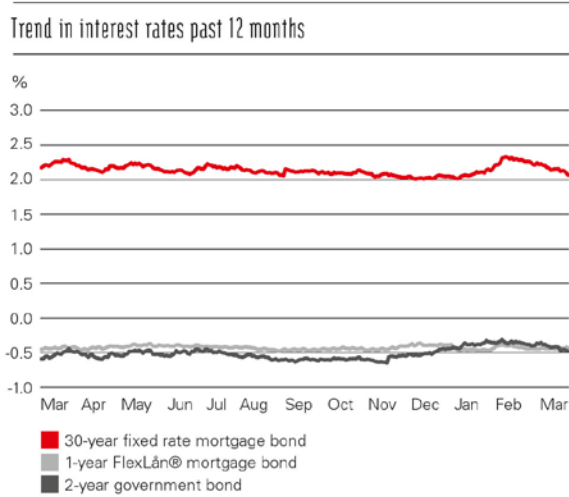
The favourable macroeconomic setting combined with continued low interest rates continue to support the housing market. Prices of houses and owner-occupied flats have trended upward in the early months of 2018, and trading activity remains at a relatively high level in a historical context. For 2018 as a whole, house prices are expected to rise by roughly 3-4%.

For a long time, steep price increases for owner-occupied flats in Copenhagen have given rise to concerns of the market overheating. On the basis of price developments during the final months of 2017 and early parts of 2018, the rate of price increases has dropped marginally compared with large parts of 2017. However, prices in the Copenhagen housing market remain quite buoyant. The “New guidelines for home loans to households with large mortgage debt”, which took effect on 1 January 2018, are expected to help stabilise house prices in the most expensive areas of Denmark.

Development in prices of owner-occupied flats



In the early months of the year, rising interest rates have been given much attention, but they have subsequently edged down for an overall modest rise in rates. Interest rates remain low, and the 30-year fixed-rate 2% loan with repayment of principal remains an attractive option for borrowers. Interest rates are expected to edge up over the next 12 months. Rate hikes in the USA and the European Central Bank’s tapering of its bond buyback programme, expectedly towards the end of 2018, are expected to impact Danish mortgage rates.



The market for commercial property has witnessed an increase in activity. In 2017, the market set a new record at close to DKK 90 billion in terms of total transaction volume. For the first time ever, foreign investors accounted for a little more than half of the property investments. The favourable economic climate and low interest rates are expected to continue to underpin the Danish market for commercial property in the first half of 2018. As a result of the rising prices of commercial property, Realkredit Danmark remains focused on adequate self-financing and on maintaining an unchanged risk profile in its loan portfolio.

Results

For the first quarter of 2018, Realkredit Danmark's net profit was DKK 1,249 million, against DKK 1,155 million in the same period of 2017. The results for the period are exclusive of a DKK 400 million transition effect of IFRS 9 and tax hereof in the amount of DKK 88 million, which is included in the IFRS financial statements of the Realkredit Danmark Group. The profit performance was driven by lending growth and a resulting rise in administration margin income. Remortgaging activity was at the same level as in the first quarter of 2017.

The administration margin income rose DKK 21 million, driven by a larger loan portfolio.

Other income fell DKK 14 million in the first quarter of 2018, driven especially by lower income from the investment portfolio.

Total income was on a level with the first quarter of 2017.

Expenses amounted to DKK 183 million the first quarter of 2018, against DKK 177 million in the same period of 2017.

Impairments totalled an income of DKK 83 million in the first quarter of 2018, compared with an expense of DKK 37 million in the same period of 2017. In the first quarters of both 2017 and 2018, net provisions for

bad debts were reversed, primarily on corporate customers. In addition, the new impairment principles of IFRS 9 have resulted in a transition effect of DKK 400 million in the first quarter of 2018, which amount has been expensed in the IFRS financial statements of the Realkredit Danmark Group, but recognised as a reduction of equity at 1 January 2018 in the financial highlights to show the actual activity during the quarter.

In 2017, the Danish agricultural sector experienced low grain prices, while selling prices of milk and pork have peaked in their current pricing cycle. Pork and milk prices have started at a lower level in 2018, and that is a trend we expect will continue. Unfortunately, the period of high selling prices was relatively short-lived, and as the sector remains challenged by high debts, it has proven necessary to maintain the impairment level.

Impairments equalled -0.04% p.a. of total mortgage lending, which was on a level with 2017. The delinquency rate at 31 March 2018 was unchanged from the level at end-2017.

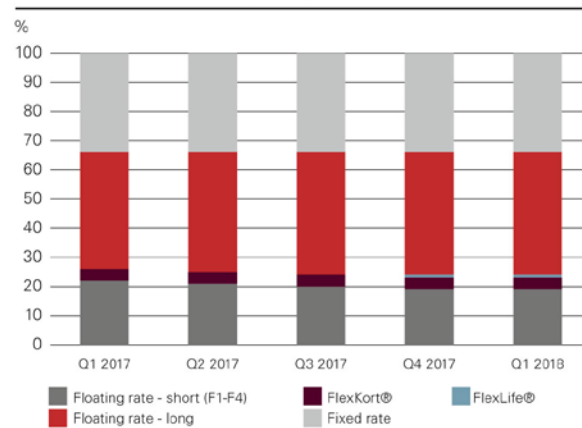
The tax charge totalled DKK 353 million. The effective tax rate for the period was 22.0%.

Balance sheet

Gross lending amounted to DKK 36 billion, against DKK 32 billion in the first quarter of 2017. Mortgage lending at fair value fell DKK 1 billion to DKK 788 billion in the first quarter of 2018. The development in mortgage lending at fair value is composed of an increase in the nominal outstanding bond debt of DKK 3 billion and a DKK 4 billion decline in the market value adjustment in the same period.

FlexLife®, Realkredit Danmark's new product, was very well received by the customers, and at 31 March 2018, Realkredit Danmark had issued loan offers for DKK 10 billion.

Development in loan portfolio by loan type (%)



In the first quarter of 2018, fixed-rate loans accounted for approximately 37% of all disbursed loans, while

about 75% of all floating-rate loans were disbursed with refinancing intervals of five years.

A new price structure and continuing low interest rates have made more customers lock-in the interest rate on their loan for a longer period.

At 31 March 2018, the average loan-to-value (LTV) ratio stood at 62%, which was on a level with the end of 2017. An increase in loans calculated at market value was offset by rising property prices.

The number of new foreclosures was 12 in the first quarter of 2018. The number of foreclosures was unchanged from year-end 2017, standing at 31, of which 28 were owner-occupied dwellings and 3 were commercial properties. The value of the foreclosures was DKK 39 million.

Issued mortgage bonds declined by DKK 5 billion in the first quarter of 2018 to DKK 805 billion. The nominal value of issued mortgage bonds was DKK 785 billion, which was DKK 2 billion less than at the end of 2017. The amounts are exclusive of holdings of own mortgage bonds. In the first quarter of 2018, Realkredit Danmark issued bonds for DKK 36 billion, not including bonds issued for the refinancing auctions.

Capital and solvency

At the end of March 2018, shareholders' equity stood at DKK 46.5 billion, against DKK 49.9 billion at end-2017. The ordinary dividend payment of DKK 4.3 billion and the consolidation of the net profit for the period accounted for the change.

Realkredit Danmark's total capital amounted to DKK 45.9 billion, and the total capital ratio calculated in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) was 28.6%. At 31 December 2017, the corresponding figures were DKK 45.9 billion and 28.3%, 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 160.6 billion at 31 March 2018, against DKK 161.9 billion at the end of 2017.

The transitional rules of the CRR/CRD IV were finally phased out at the end of 2017. The binding capital requirement is subsequently the solvency need ratio plus the combined buffer requirement. At 31 March 2018, the capital requirement was calculated at DKK 23.5 billion and 14.6% of the REA. Realkredit Danmark thus has a capital buffer of DKK 22.4 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 March 2018, the requirement for supplementary collateral for mortgage-covered bonds was DKK 20.5 billion, against DKK 22.7 billion at end-2017.

Liquidity Coverage Ratio

The effective requirement for Realkredit Danmark's buffer of liquid assets resulting from the Liquidity Coverage Ratio is 2.5% of total mortgage lending. At the end of March 2018, this corresponded to approximately DKK 20 billion. Realkredit Danmark has liquid assets of DKK 36 billion after haircuts and thus has a buffer of DKK 16 billion relative to the requirement.

Rating

Realkredit Danmark's mortgage bonds and mortgage-covered bonds issued from capital centres S and T and under the Other reserves series continue to hold a AAA rating from S&P Global.

Ratings assigned by Fitch Ratings to capital centres S and T are also unchanged at AAA and AA+, respectively.

Realkredit Danmark holds an issuer rating of A from Fitch Ratings.

Supervisory diamond for mortgage credit institutions

Realkredit Danmark complies with all threshold values.

Threshold value	Q1 2018	Limit
Growth in lending¹		
Owner-occupied dwellings and holiday homes	0.6%	15%
Residential rental property	0.7%	15%
Agriculture	-0.8%	15%
Other	0.1%	15%
Borrower interest-rate risk²		
Properties for residential purposes	9.2%	25%
Interest-only option³		
Owner-occupied dwellings and holiday homes	8.0%	10%
Loans with short-term funding⁴		
Refinancing, annually	14.0%	25%
Refinancing, quarterly	7.4%	12.5%
Large exposures⁵		
Loans relative to shareholders' equity	43%	100%

¹ Annual growth must be lower than 15% unless the size of the segment is smaller than the institution's total capital.

² 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.

³ 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.

⁴ The proportion of lending to be refinanced must be less than 12.5% per quarter and less than 25% of the total loan portfolio.

⁵ The sum of the 20 largest exposures must be less than core equity tier 1 capital.

Outlook for 2018

Realkredit Danmark expects that low interest rates will continue to characterise the Danish economy in 2018 with moderately rising growth relative to the past few years. Low interest rates will continue to support the upward trend in house prices and general housing market activity.

Realkredit Danmark expects income to be at the same level as in 2017, as income will be supported by moderate growth in the average loan portfolio, while a decline in income from remortgaging activity and lower returns on the bond portfolios will have downward effect.

Through a persistent focus on cost control in 2018, Realkredit Danmark aims to curb its expenses.

Loan impairment charges are expected to remain at a low level in 2018.

Overall, Realkredit Danmark therefore expects net profit to be at the same level in 2018 as in 2017.

Income statement and Comprehensive income – Realkredit Danmark Group

Note	(DKK millions)	Q1 2018	Q1 2017	Full year 2017
Income statement				
	Interest income	4,424	4,688	18,206
	Interest expense	2,720	3,014	11,266
	Net interest income	1,704	1,674	6,940
	Dividends from shares	-	-	-
	Fee and commission income	144	148	572
	Fee and commission expense	304	280	1,173
	Net fee and commission income	1,544	1,542	6,339
	Value adjustments	124	118	-32
	Other operating income	34	36	180
	Staff costs and administrative expenses	182	176	733
	Impairment, depreciation and amortisation charges	1	1	3
3	Loan impairment charges	317	37	147
	Income from associates and group undertakings	-	-1	-1
	Profit before tax	1,202	1,481	5,603
	Tax	265	326	1,235
	Net profit for the period	937	1,155	4,368
Comprehensive income				
	Net profit for the period	937	1,155	4,368
	Other comprehensive income			
	Items that will not be reclassified to profit or loss			
	Actuarial gains/losses on defined benefit plans	5	-17	-30
	Tax	-1	4	6
	Total other comprehensive income	4	-13	-24
	Total comprehensive income for the period	941	1,142	4,344

Balance sheet – Realkredit Danmark Group

Note	(DKK millions)	31 March 2018	31 December 2017	31 March 2017
ASSETS				
	Cash in hand and demand deposits with central banks	270	273	326
	Due from credit institutions and central banks	23,952	29,799	33,541
	Bonds at fair value	21,307	23,626	23,220
	Bonds at amortised cost	29,699	31,223	30,543
4	Mortgage loans at fair value	788,200	788,765	772,045
4	Loans and other amounts due at amortised cost	543	627	708
	Shares etc.	2	2	2
	Holdings in associates	-	-	17
	Other tangible assets	7	7	8
	Current tax assets	858	13	834
	Deferred tax assets	-	-	-
	Assets temporarily taken over	39	38	106
4	Other assets	2,505	2,509	2,536
	Prepayments	14	8	14
Total assets		867,396	876,890	863,900
LIABILITIES AND EQUITY				
AMOUNTS DUE				
	Due to credit institutions and central banks	4,083	4,294	8,377
	Issued mortgage bonds at fair value	804,777	810,050	784,955
5	Issued bonds at amortised cost	5,951	6,616	17,294
	Current tax liabilities	-	-	-
	Deferred tax liabilities	42	41	47
	Other liabilities	6,011	5,998	6,538
	Deferred income	-	-	-
Total amounts due		820,864	826,999	817,211
SHAREHOLDERS' EQUITY				
	Share capital	630	630	630
	Other reserves			
	Reserves in series	43,171	43,171	44,611
	Other reserves	2,731	1,790	1,448
	Proposed dividends	-	4,300	-
Total shareholders' equity		46,532	49,891	46,689
Total liabilities and equity		867,396	876,890	863,900

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 2018	630	43,171	1,790	4,300	49,891
Net profit for the period	-	-	937	-	937
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	5	-	5
Tax	-	-	-1	-	-1
Total comprehensive income for the period	-	-	941	-	941
Dividends paid	-	-	-	-4,300	-4,300
Shareholders' equity at 31 March 2018	630	43,171	2,731	-	46,532
Shareholders' equity at 1 January 2017	630	44,611	306	3,800	49,347
Net profit for the period	-	-	1,155	-	1,155
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-17	-	-17
Tax	-	-	4	-	4
Total comprehensive income for the period	-	-	1,142	-	1,142
Dividends paid	-	-	-	-3,800	-3,800
Shareholders' equity at 31 March 2017	630	44,611	1,448	-	46,689

At 31 March 2018, 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)	31 March 2018	31 December 2017	31 March 2017
Shareholders' equity	45,591	49,891	45,547
Revaluation of domicile property at fair value	-	-	39
Tax effect	-	-	-8
Total equity calculated in accordance with the rules of the Danish FSA	45,591	49,891	45,578
Proposed/expected dividends	-	-4,300	-
Revaluation reserve	-	-	-
Deferred tax assets	-	-	-
Prudent valuation	-8	-7	-24
Defined benefit pension fund assets	-177	-138	-144
Common equity tier 1 capital	45,406	45,446	45,410
Difference between expected losses and impairment charges	-	-	-
Tier 1 capital	45,406	45,446	45,410
Reserves in series subject to a reimbursement obligation	-	-	-
Revaluation reserve	-	-	-
Difference between expected losses and impairment charges	458	428	791
Total capital	45,864	45,874	46,201
Risk exposure amount	160,577	161,902	151,113
Common equity tier 1 capital ratio (%)	28.3	28.1	30.1
Tier 1 capital ratio (%)	28.3	28.1	30.1
Total capital ratio (%)	28.6	28.3	30.6

At 31 March 2018, the total capital and the total risk exposure amount is calculated in accordance with the Capital Requirements Directive (CRR/CRD IV).

From 1 January 2017, the profit for the period will not be recognised in the statement of total capital and total capital ratio until in connection with the audited full-year financial statements. The statement of total capital and total capital ratio will therefore be based on shareholders' equity at 1 January reduced by the dividend distributed in March.

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

Cash flow statement – Realkredit Danmark Group

(DKK millions)	Q1 2018	Q1 2017	Full year 2017
Cash flow from operations			
Profit before tax	1,202	1,481	5,603
Tax paid	-1,109	-1,182	-1,274
Adjustment for non-cash operating items	69	-57	-275
Cash flow from operating capital	-1,712	7,926	319
Total	-1,550	8,168	4,373
Cash flow from investing activities			
Acquisition/sale of tangible assets	-	-	-
Total	-	-	-
Cash flow from financing activities			
Dividends	-4,300	-3,800	-3,800
Total	-4,300	-3,800	-3,800
Cash and cash equivalents at 1 January	30,072	29,499	29,499
Change in cash and cash equivalents	-5,850	4,368	573
Cash and cash equivalents, end of period	24,222	33,867	30,072
Cash and cash equivalents, end of period			
Cash in hand and demand deposits with central banks	270	326	273
Amounts due from credit institutions and central banks within 3 months	23,952	33,541	29,799
Total	24,222	33,867	30,072

Notes – Realkredit Danmark Group

Note

1 Significant accounting policies

and significant accounting estimates and assessments

The Group's interim report for the first quarter of 2018 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.

Implementation of IFRS 9 and IFRS 15

On 1 January 2018, the Group implemented IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers.

Under IFRS 9, financial assets, including loans, are classified on the basis of the business model adopted for managing the assets and on their contractual cash flow characteristics (including embedded derivatives, if any) into one of the following measurement categories:

- Amortised cost if the assets are held exclusively for the purpose of collecting contractual cash flows and if the cash flows are payments of principal and interest on the principal amount outstanding solely.
- Fair value through other comprehensive income if the assets are held for the purpose of both collecting contractual cash flows and selling and if cash flows are payments of principal and interest on the principal amount outstanding solely.
- Fair value through profit or loss for all other financial assets.

Implementation of the classification principles of IFRS 9 has not resulted in reclassifications between amortised cost and fair value in the Realkredit Danmark Group, and no financial assets are recognised at fair value through other comprehensive income. Accordingly, there are no changes to the valuation of financial liabilities. As a result, mortgage loans and issued mortgage bonds are still recognised at fair value through profit or loss. However, there is a knock-on effect from IFRS 9 on the calculation of the fair value of credit risk on mortgage loans (see below).

Also, 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. As previously, such adjustment is made on the basis of the IFRS impairment principles that apply to loans at amortised cost. From 1 January 2018, the fair value of this credit risk is thus measured on the basis of the expected credit loss approach of IFRS 9, including the allocation of the loans between stage 1, stage 2 and stage 3.

Stage 1: If the credit risk has not increased significantly, the impairment equals the expected credit losses resulting from default events that are possible within the next 12 months.

Stage 2: If the credit risk has increased significantly, the loan is transferred to stage 2 and an impairment equal to the lifetime expected credit losses is recognised. A significant credit risk increase is considered to occur when the following increase in the probability of default (PD) is observed:

- For loans originated below 1% in PD: An increase in the loan's 12-month PD of at least 0.5 percentage points since origination and a doubling of the loan's lifetime PD since origination
- For loans originated above 1% in PD: An increase in the loan's 12-month PD of 2 percentage points since origination or a doubling of the loan's lifetime PD since origination
- Further, loans that are more than 30 days past due are moved from stage 1 to stage 2. Finally, customers subject to forbearance measures are placed at stage 2, if the Group, in the most likely outcome, expects no loss or the customers are in the 2-year probation period for performing forbearance exposures.

Stage 3: If a loan is in default or otherwise credit-impaired, it is transferred to stage 3, which is the same as stage 2, except that interest income on loans recognised at amortised cost must be recognised at the net carrying amount. The Realkredit Danmark Group has opted to continue to recognise interest income on mortgage loans measured at fair value on the basis of the contractual interest rates.

The major change from IAS 39 is the calculation of expected credit losses (either as 12 months expected credit losses or lifetime expected credit losses depending on whether loans are at stage 1, 2 or 3) and the inclusion of forward-looking elements.

The expected credit loss is calculated for all individual loans as a function of the probability of default (PD), the exposure at default (EaD) and the loss given default (LGD). In general, the Group's IFRS 9 models and parameters draw on the Realkredit Danmark Group's existing internal models in order to ensure alignment of models across the Group. New models and calculations have been developed especially for IFRS 9 purposes, including models for lifetime PD, prepayment and forward-looking LGD.

The lifetime expected credit losses cover the expected remaining lifetime of the loan. For most loans, the expected lifetime is limited to the remaining contractual maturity and adjusted for expected prepayment. For exposures with weak credit quality, the likelihood of prepayment is not included.

Notes – Realkredit Danmark Group

Note

1 **Significant accounting policies and significant accounting estimates and assessments**

cont'd

The forward-looking elements of the calculation reflect the current unbiased expectations of the management. The process consists of the creation of macroeconomic scenarios (base case, upside and downside), including an assessment of the probability for each scenario, by the Danske Bank Group's independent macroeconomic research unit in FICC, the review and sign-off of the scenarios (throughout the organisation) and a process for adjusting scenarios given new information during the quarter. Management's approval of scenarios can include adjustments to the scenarios, probability weighting and management overlays to cover the outlook for particular high-risk portfolios, which are not provided by the Group's macroeconomists. The approved scenarios are used to calculate the impairment levels. Technically, the forward-looking information is used directly in the PDs through an estimate of general changes to the PDs and the LGDs in the expected credit loss calculation. However, for significant exposures at stage 3, an individual assessment of the scenarios, changes to expected credit losses and the related probabilities are performed by senior credit officers.

On top of the calculation of expected credit losses according to the principles of IFRS 9, some adjustments are made to reflect the measurement basis being fair value and not amortised cost. The recognition of 12 months' expected credit losses at initial recognition is inconsistent with fair value and is therefore not recognised. On the other hand, increases in lifetime credit losses are considered for the purpose of fair value even if an increase in credit risk is insignificant.

The implementation of the new method for measuring the fair value of credit risk on mortgage loans has increased the allowance account by DKK 400 million at 1 January 2018. This increase is recognised as a change of an accounting estimate in the IFRS income statement in the first quarter of 2018 and results in a DKK 312 million reduction of the net profit for the period.

The implementation of IFRS 15 has not resulted in any significant changes. However, income and expenses are offset when Realkredit Danmark acts as agent and handles the re-invoicing of expenses incurred. In the first quarter of 2018, this led to a DKK 9 million reduction in Other operating income and Staff costs and administrative expenses.

Other than this, the Group has not changed its significant accounting policies from those followed in Annual Report 2017, which provides a full description of the Group's significant accounting policies. The interim report has not been reviewed or audited.

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 assessments 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. As described above, adjustments are made for changes in the fair value of the credit risk on borrowers using the new impairment model in IFRS 9, which is based on expected credit losses.

The expected credit loss is calculated for all individual loans as a function of PD, EaD and LGD and includes forward-looking elements. The forward-looking elements reflect management's expectations and involve the creation of scenarios (base case, upside and downside), including an assessment of the probability of each scenario. On the basis of these assessments, the fair value adjustment of credit risk on mortgage loans is calculated at DKK 3,180 million at 31 March 2018. The fair value adjustment would increase to DKK 3,300 million if the downside scenario was weighted at 100%. On the other hand, if the upside scenario was weighted at 100%, the fair value adjustment would decrease to DKK 3,060 million.

The Group's principal risks and external factors that may affect the Group are described in more detail in Annual Report 2017.

Notes – Realkredit Danmark Group

Note	(DKK millions)				
2	Profit broken down by activity				
Q1 2018	Mortgage finance	Own holdings	Highlights	Reclassi- fication	IFRS
Administration margin	1,559	-	1,559	-	1,559
Net interest income	-46	84	38	107	145
Dividends from shares	-	-	-	-	-
Net fee income	-160	-	-160	-	-160
Income from investment portfolios	225	6	231	-231	-
Value adjustments	-	-	-	124	124
Other income	34	-	34	-	34
Total income	1,612	90	1,702	-	1,702
Expenses	182	1	183	-	183
Profit before loan impairment charges	1,430	89	1,519	-	1,519
Loan impairment charges	-83	-	-83	400	317
Income from associates	-	-	-	-	-
Profit before tax	1,513	89	1,602	-400	1,202
Tax			353	-88	265
Net profit for the period			1,249	-312	937
Total assets	817,221	50,175	867,396	-	867,396
Q1 2017	Mortgage finance	Own holdings	Highlights	Reclassi- fication	IFRS
Administration margin	1,538	-	1,538	-	1,538
Net interest income	-81	88	7	129	136
Dividends from shares	-	-	-	-	-
Net fee income	-132	-	-132	-	-132
Income from investment portfolios	206	40	246	-246	-
Value adjustments	-	-	-	118	118
Other income	36	-	36	-	36
Total income	1,567	128	1,695	1	1,696
Expenses	176	1	177	-	177
Profit before loan impairment charges	1,391	127	1,518	1	1,519
Loan impairment charges	37	-	37	-	37
Income from associates	-	-	-	-1	-1
Profit before tax	1,354	127	1,481	-	1,481
Total assets	803,074	60,826	863,900	-	863,900

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. Own holdings comprise the net return on the part of the securities portfolio not relating to the mortgage finance business. Under the Danish Financial Business Act, at least 60% of the total capital of a mortgage credit institution must be invested in bonds, etc.

Realkredit Danmark has no branch offices or subsidiaries outside Denmark.

Notes – Realkredit Danmark Group

Note (DKK millions)

2 **Profit broken down by activity**
cont'd

Fees and other income

Fee income relates to mortgage credit activities and primarily concern income from the establishment and change of loans. These are recognised at the date of transaction as the loans are measured at fair value through profit or loss. In the business segment reporting and internal management, fees are presented as net figures, i.e. fee income and fee expenses are offset. Other income include franchise income, which is recognised over the term of the franchise agreement.

Alternative performance measures

Financial highlights and reporting for the two business segments correspond to the information incorporated in the Management's report, which is regularly sent to management. The presentation in the financial highlights deviates in certain areas from the financial statements prepared under IFRS and therefore represents alternative performance measures. There are generally no adjusting items, which means that net profit is the same in the financial highlights and in the IFRS financial statements. However, in 2018 there is one adjusting item deriving from the implementation of IFRS 9. Mortgage loans are recognised at fair value (both under IAS 39 and under IFRS 9). After the implementation of IFRS 9, the measurement of the fair value of the credit risk will continue to be based on the same approach as that used for impairment of loans recognised at amortised cost. In the IFRS income statement, the effect of the new impairment principles is recognised as a change of an accounting estimate. To better reflect current earnings in 2018, the effect in the financial highlights and reporting for the two business segments is recognised as a reduction in shareholders' equity at 1 January 2018. As a result, the profit for the period is DKK 312 million higher in the financial highlights than in the IFRS income statement.

The reclassification column shows the reconciliation between the presentation in the highlights and in the IFRS financial statements. Other than the above-mentioned adjusting item concerning the fair value of the credit risk on mortgage loans in 2018, the difference between the presentation in the financial highlights and in the IFRS financial statements is due to the fact that income from trading activities in mortgage credit activities and income from own holdings, except for interest on bonds at amortised cost, is carried in the consolidated highlights as income from investment portfolios, while in the income statement according to IFRS it is carried under net interest income, value adjustments, etc.

As the distribution of income between the various income line items in the IFRS income statement can vary considerably from one year to the next, depending on the underlying transactions and market conditions, the net presentation in the financial highlights is considered to better reflect income in those areas.

Notes – Realkredit Danmark Group

Note	(DKK millions)	Q1 2018	Q1 2017
3	Loan impairment charges		
	IFRS 9 transitional impact on implementation, 1 January 2018	400	-
	ECL on new assets	28	-
	ECL on assets derecognised	45	-
	Impact of remeasurement	-67	-
	Impairment charges etc. during the period	-	198
	Reversals of impairment charges etc. for previous years	-	255
	Losses incurred	21	114
	Received on claims previously written off	20	20
	Total	317	37

4 **Loans etc.**

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 3,180 million at 31 March 2018, against DKK 3,072 million at the beginning of the year.

Of total loan charges for the credit risk on loans and other amounts due at amortised cost, charges were recognised as an expense of DKK 116 million at 31 March 2018, against DKK 155 million at the beginning of the year.

	Loans, individual impairment	Loans, collective impairment	Total
Impairment charges at 1 January 2017	2,690	815	3,505
Impairment charges during the period	602	143	745
Reversals of impairment charges for previous periods	934	89	1,023
Impairment charges at 31 December 2017	2,358	869	3,227

Value adjustments of assets taken over amounted to DKK 8 million at 31 March 2018, against DKK -2 million at end-2017.

Reconciliation of total allowance account

31 March 2018	Stage 1	Stage 2	Stage 3	Total
Collective and individual impairment charges under IAS 39				3,227
Transition effect (ECL at 1 January), incl. impact on loans	551	412	2,664	400
Transferred to stage 1 during the period	75	-55	-20	-
Transferred to stage 2 during the period	-12	35	-23	-
Transferred to stage 3 during the period	-7	-10	17	-
ECL on new assets	-	4	24	28
ECL on assets derecognised	-	1	44	45
Impact of remeasurement	-16	-31	-20	-67
Write-offs, allowance account	3	2	242	247
Impairment charges at 31 March 2018	588	352	2,356	3,296

Notes – Realkredit Danmark Group

Note (DKK millions)

5 **Issued bonds at amortised cost**

	31 March 2018	31 December 2017
Nominal value of issued bonds	5,952	6,617
Premium/discount	-1	-1
Total issued bonds	5,951	6,616

	1 January 2018	Issued	Redeemed	31 March 2018
Nominal value				
Total issued bonds	6,617	-	665	5,952

Issued bonds at amortised cost consist of issued senior debt.

6 **Assets deposited as collateral**

At 31 March 2018, Realkredit Danmark had deposited securities worth DKK 10,960 million (end-2017: DKK 13,271 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 31 March 2018, the carrying amount of such securities totalled DKK 4,083 million (end-2017: DKK 4,289 million). Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

At 31 March 2018, mortgage lending totalling DKK 788,200 million and other assets totalling DKK 20,453 million were registered as security for issued mortgage bonds, including mortgage-covered bonds, and issued bonds at amortised cost (end-2017: DKK 788,765 million and DKK 22,665 million).

Notes – Realkredit Danmark Group

Note	(DKK millions)				
7	Financial instruments at fair value				
	31 March 2018	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	15,667	5,640	-	21,307
	Mortgage loans at fair value	-	788,200	-	788,200
	Shares	-	-	2	2
	Derivatives	-	119	-	119
	Total	15,667	793,959	2	809,628
	Issued mortgage bonds at fair value	804,777	-	-	804,777
	Derivatives	-	330	-	330
	Total	804,777	330	-	805,107
	31 December 2017				
	Bonds at fair value	17,327	6,299	-	23,626
	Mortgage loans at fair value	-	788,765	-	788,765
	Shares	-	-	2	2
	Derivatives	-	64	-	64
	Total	17,327	795,128	2	812,457
	Issued mortgage bonds at fair value	810,050	-	-	810,050
	Derivatives	-	10	-	10
	Total	810,050	10	-	810,060

Negative interest income and interest expenses due to negative interest rates were insignificant during first quarter of 2018. The amounts are off-set against interest income and interest expenses, respectively.

Note 35 to Annual Report 2017 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 quarter of 2018.

Notes – Realkredit Danmark Group

Note (DKK millions)

8 **Contingent liabilities**

Owing to its size and business volume, the 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 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 major Danish subsidiaries of the 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.

Realkredit Danmark operates out of leased premises. Leases are concluded by the parent company. Realkredit Danmark pays monthly rent to the parent company.

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)	31 March 2018	31 December 2017	31 March 2017
Other contingent liabilities			
Irrevocable loan commitments regarding reverse mortgages	2	6	6
Other commitments	34	46	95
Total	36	52	101

In addition to credit exposure from lending activities, loan offers made by the Group amounted to DKK 40,931 million (end-2017: DKK 37,470 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 3 billion, which corresponds to 0.4% of the total loan portfolio.

Portfolio broken down by LTV ratio and rating category

31 March 2018

Rating category	LTV ratio					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	>80%	
1	-	-	-	-	-	-
2	7	5	2	1	-	15
3	73	49	28	11	6	167
4	86	67	40	14	5	212
5	63	56	38	15	4	176
6	39	33	23	9	2	106
7	24	22	16	7	2	71
8	8	7	5	3	1	24
9	1	1	1	1	-	4
10	3	3	2	1	1	10
11	2	1	1	1	1	6
Total	306	244	156	63	22	791

Portfolio broken down by LTV ratio and rating category

31 December 2017

Rating category	LTV ratio					Total DKK. billions
	0-20%	20-40%	40-60%	60-80%	>80%	
1	-	-	-	-	-	-
2	7	5	2	1	-	15
3	70	47	27	11	6	161
4	85	66	39	15	6	211
5	64	56	39	15	3	177
6	39	33	23	10	2	107
7	25	23	17	7	2	74
8	8	7	6	3	1	25
9	1	1	1	1	-	4
10	3	3	2	2	1	11
11	2	2	1	1	1	7
Total	304	243	157	66	22	792

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.

Notes – Realkredit Danmark Group

Note

9 **Risk management**

Cont'd

In the table below, mortgage loans and the fair value of credit risk is broken down by 11 rating categories and stages 1, 2 and 3 of IFRS 9 (DKK billions):

Rating category	PD level		Gross Exposure			Expected Credit Loss			Net Exposure		
	Lower	Upper	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	0.00	0.01	1	-	-	-	-	-	1	-	-
2	0.01	0.03	14	-	-	-	-	-	14	-	-
3	0.03	0.06	154	1	-	-	-	-	154	1	-
4	0.06	0.14	206	2	1	-	-	-	206	2	1
5	0.14	0.31	172	2	1	-	-	-	172	2	1
6	0.31	0.63	114	4	1	-	-	-	114	4	1
7	0.63	1.90	63	7	2	-	-	-	63	7	2
8	1.90	7.98	17	6	1	1	-	-	16	6	1
9	7.98	25.70	2	1	1	-	-	-	2	1	1
10	25.70	100.00	1	1	10	-	-	1	1	1	9
11	100.00	100.00	-	-	6	-	-	1	-	-	5
Total			744	24	23	1	-	2	743	24	21

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 29,699 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 2017.

Statement by the management

The Board of Directors and the Executive Board (management) have considered and approved Interim Report – First Quarter 2018 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 31 March 2018 and of the results of the Group's operations and the consolidated cash flows for the period starting on 1 January 2018 and ending on 31 March 2018. 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, 26 April 2018

Executive Board

Carsten Nøddebo Rasmussen
Chairman of the Executive Board

Klaus Kristiansen
Member of the Executive Board

Board of Directors

Lars Mørch
Chairman

Jesper Nielsen
Vice Chairman

Kim Andersen

Jacob Aarup-Andersen

Henriette Fenger Ellekrog

Lisbeth Sahlertz Nielsen

Majken Hammer Sløk

Sonia Khan

Supplementary information

Financial calendar

- Interim Report – First Half 2018:
18 July 2018
- Interim Report – First Nine Months 2018:
1 November 2018

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