

Interim Report – First Nine Months 2019



REALKREDIT
Danmark

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Financial highlights – Realkredit Danmark Group

INCOME STATEMENT (DKK millions)	Q1-Q3 2019	Q1-Q3 2018	Index 19/18	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Full year 2018
Administration margin	4,572	4,670	98	1,515	1,522	1,535	1,552	1,555	6,222
Net interest income	138	107	129	77	39	22	35	34	142
Net fee income	-431	-461	93	-140	-137	-154	-156	-150	-617
Income from investment portfolios	663	408	163	253	187	223	169	22	577
Other income	87	95	92	31	29	27	30	28	125
Total income	5,029	4,819	104	1,736	1,640	1,653	1,630	1,489	6,449
Expenses	590	520	113	193	207	190	183	172	703
Profit before loan impairment charges	4,439	4,299	103	1,543	1,433	1,463	1,447	1,317	5,746
Loan impairment charges	294	-215	-	7	153	134	11	-24	-204
Profit before tax	4,145	4,514	92	1,536	1,280	1,329	1,436	1,341	5,950
Tax	912	993	92	338	282	292	308	295	1,301
Net profit for the period	3,233	3,521	92	1,198	998	1,037	1,128	1,046	4,649

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	86,606	15,356	564	86,606	57,150	28,421	21,446	15,356	21,446
Mortgage loans	808,181	794,573	102	808,181	803,966	801,409	796,045	794,573	796,045
Bonds and shares	50,040	55,215	91	50,040	44,832	46,661	51,158	55,215	51,158
Other assets	4,691	2,964	158	4,691	4,581	4,029	2,568	2,964	2,568
Total assets	949,518	868,108	109	949,518	910,529	880,520	871,217	868,108	871,217
Due to credit institutions etc.	8,265	1,732	477	8,265	7,220	12,175	778	1,732	778
Issued mortgage bonds	884,499	807,214	110	884,499	848,707	810,608	809,091	807,214	809,091
Issued senior debt	3,182	5,952	53	3,182	3,182	5,346	5,952	5,952	5,952
Other liabilities	4,737	4,420	107	4,737	3,777	5,734	5,481	4,420	5,481
Shareholders' equity	48,835	48,790	100	48,835	47,643	46,657	49,915	48,790	49,915
Total liabilities and equity	949,518	868,108	109	949,518	910,529	880,520	871,217	868,108	871,217

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	8.7	9.5		9.9	8.5	8.6	9.1	8.7	9.3
Impairment charges as % p.a. of mortgage lending	0.05	-0.04		0.01	0.08	0.07	0.01	-0.01	-0.03
Cost/income ratio (%)	11.7	10.8		11.1	12.6	11.5	11.2	11.6	10.9
Total capital ratio (%)	29.9	30.0		29.9	30.2	29.9	30.6	30.0	30.6
Tier 1 capital ratio (%)	29.6	29.8		29.6	29.8	29.7	30.3	29.8	30.3
Full-time-equivalent staff (end of period)	231	228		231	230	228	229	228	229

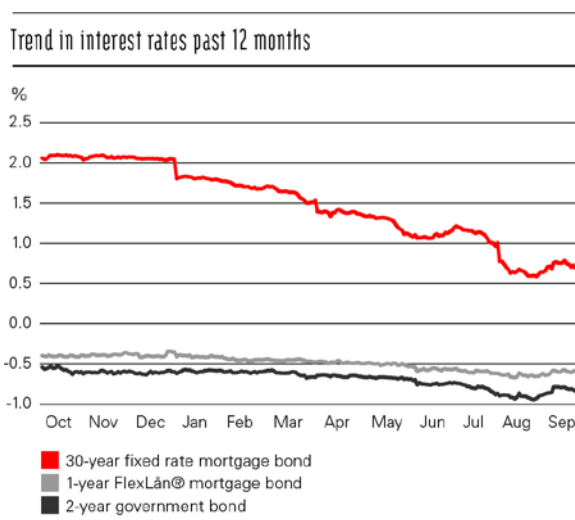
Throughout the Management's report, Realkredit Danmark's performance is assessed on the basis of the financial highlights and segment reporting, which represent the financial information regularly provided to management. The financial highlights are alternative performance measures which deviate from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

Overview, first nine months 2019

- The Realkredit Danmark Group recorded a net profit of DKK 3,233 million in the first nine months of 2019, against DKK 3,521 million in the first nine months of 2018. The profit was affected by higher impairments.
- Impairments amounted to an expense of DKK 294 million in the first nine months of 2019, against an income of DKK 215 million in the first nine months of 2018. The development was due to an update and specification of statistical loss models.
- With interest rates falling to all-time low levels, borrowers have remortgaged their loans to an extent never seen before. Loans with a total value of DKK 185 billion were remortgaged across all mortgage banks in the third quarter. Realkredit Danmark has remortgaged loans for DKK 58 billions in the third quarter.
- In the first nine months of 2019, borrower demand centred primarily on fixed-rate loans and FlexLån® with 5-year refinancing intervals, and customers are increasingly making repayments on their loans. This resulted in a small drop in administration margin income.
- For the first time ever, Realkredit Danmark customers are now offered 15-year and 20-year mortgage loans with a coupon of 0.0%.
- Realkredit Danmark has launched green funding for commercial property in April and has to date disbursed RD Cibor6® Green with a total value of DKK 815 million.
- Realkredit Danmark expects net profit for 2019 to be at a lower level than in 2018.

Remortgaging

With interest rates falling to all-time low levels and the introduction of zero-coupon fixed rate loans, borrowers have remortgaged their loans to an extent never seen before. Loans with a total value of DKK 185 billion were remortgaged across all mortgage banks in the third quarter, and we expect the high remortgaging activity to continue in the months to come as interest rates are expected to stay low. Realkredit Danmark has remortgaged loans for DKK 58 billions in the third quarter. The effect on earnings in Realkredit Danmark has been modest.



Mortgage credit market

Denmark remains in a moderate economic expansion, and we expect the recovery to continue albeit at a slower pace than in previous years. However, we see an increasing risk of stagnation of economic growth due to the slowdown in both the Chinese and European economies and the increased uncertainty about Brexit and the US/China trade war among other risk factors.

While the expansion in consumer spending remains modest, recent months’ financial market turmoil and geopolitical events have weighed on consumer confidence, which, nevertheless, remains in positive territory. Employment levels have surpassed previous peaks, but signs of a slowdown on the labour market are beginning to show. Concerns about the labour market overheating have subsided as the number of companies reporting a shortage of labour has declined somewhat lately, in both the manufacturing and construction sectors.

The favourable macroeconomic climate of high employment, rising household incomes and mortgage loan rates continuously falling to new record lows all contribute to housing market improvements, albeit at a somewhat more moderate pace. Trading activity remains high in a historical context, although it has declined slightly since 2017 on a national level. House prices broadly based across Denmark are expected to rise by between 2.5% and 4% in 2019 relative to 2018.

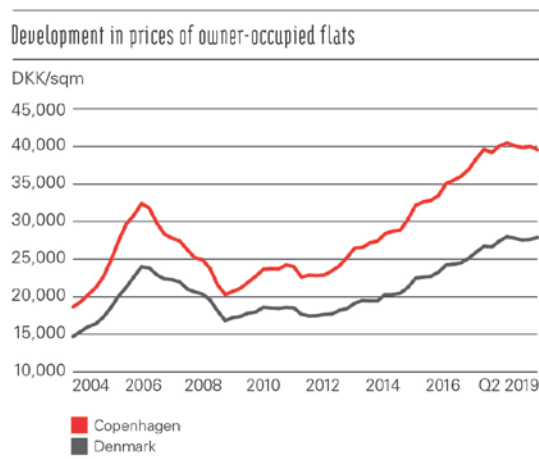
Recent years’ large variations in price developments of residential property across Denmark, with the country’s most expensive areas experiencing the largest relative price increases, have reversed.

During the past 18 months, the most expensive housing areas of Denmark, notably the market for owner-occupied flats in Copenhagen, have in fact seen prices slide, although there have been signs of improvement in the past couple of months. The activity level for owner-occupied flats in Copenhagen is now moving sideways, as is the price level. Time on market is still at a low level and price reductions are no longer increasing.

The fact that falling prices are turning into sideways movements could relate to the recent months' decreasing interest rates, as the total costs of being a house owner have fallen.

New regulations implemented in recent years have had an influence on the activity level in the Copenhagen market. With limitations on choice of loan type and stress tests on home buyer wealth if debt to income is above four, many potential buyers have turned their backs on the most expensive housing markets, and the demand in these areas have thus fallen.

Uncertainty about coming housing taxes from 2021 also has an adverse effect on the decision making of potential house buyers in expensive areas.



Realkredit Danmark believes the regulations ensure a more sound development of the housing market.

We expect flats in the large cities to continue to see unchanged to slightly falling prices of residential property through 2019.

In the market for commercial property, transaction volumes remain high, although not record-high. In the Copenhagen area, demand centres on office properties and residential rental properties, and vacancy rates on offices are at a low level. Aarhus is also witnessing strong demand for office property and low vacancy rates.

The strong interest in office and residential rental properties in and around Copenhagen is expected to continue, but retail properties may be challenged. Foreign investors remain very active in the commercial property market, accounting for approximately 40% of the transaction volume. Yet foreign investor interest in Copenhagen is higher, accounting for as much as 60% of the transactions.

After a challenging year for Danish agriculture in 2018, the outlook for 2019 is far more positive, and particularly for pig farmers. Pork prices have increased significantly due to a severe outbreak of African swine fever in China, and dairy farmers are benefiting from stable milk prices. Preliminary reports show a better-than-normal harvest in Denmark, and grain prices have declined to a lower and more normal level. This will lead to lower feed costs for producers of animal products compared to last harvest year.

Still, the risk of African swine fever spreading to the large pork-producing nations in Europe persists and could aggravate the situation for Danish pig farmers. The situation is therefore being monitored closely.

The agricultural sector is in general vulnerable to fluctuations due to its high debt, but the positive outlook for pig sector earnings, and low interest rates have reduced the need for impairments.

Brexit may have a significant impact on agriculture in Denmark, depending on the final outcome.

Green funding of commercial property

In April Realkredit Danmark was the first among Danish mortgage credit institutions to launch green covered bond in Denmark. Named RD Cibor6® Green, the bond is issued to fund properties with documentation of energy efficiency.

The green loan is available for large business customers for the funding of eco-friendly property such as new office buildings, residential rental property or wind farms.

RD Cibor6® Green loans with a total value of DKK 815 million have been disbursed to date.

With the launch of the green bonds Realkredit Danmark aims to contribute to the green transition in Denmark. Customer responses have been very positive, and investors have welcomed our green initiative by pricing the bonds slightly better than similar non-green bonds.

Results

For the first nine months of 2019, Realkredit Danmark's net profit was DKK 3,233 million, against DKK 3,521 million in the same period of 2018. In the IFRS financial statements, the net profit for the first nine months of 2018 was DKK 3,209 million. The net profit in 2018 was exclusive of a DKK 312 million transition effect of IFRS 9.

Developments in the net profit for the period were primarily due to higher loan impairments.

Administration margin income fell DKK 98 million, especially due to lower average administration margins because an increasing number of customers opt out of interest-only loans and into loans with longer refinancing intervals.

Other income rose DKK 308 million in the first nine months of 2019, driven especially by higher income from the investment portfolio.

Total income was on a level with the first nine months of 2018.

Expenses amounted to DKK 590 million, against DKK 520 million in the first nine months of 2018.

Impairments totalled an expense of DKK 294 million in the first nine months of 2019, compared to an income of DKK 215 million in the same period of 2018. The higher impairments were mainly due to an update and specification of the statistical loss models used to calculate expected credit losses. The underlying credit quality remains strong with low delinquencies and robust collateral.

In 2018, the impairment principles of IFRS 9 resulted in a transition effect of DKK 400 million, which amount was expensed in the IFRS financial statements but recognised as a reduction of equity at 1 January 2018 in the financial highlights. In the IFRS financial statements, the impairments amounted to DKK 185 million in the first nine months of 2018.

Impairments equalled 0.05% p.a. of total mortgage lending, against -0.03% at the end of 2018.

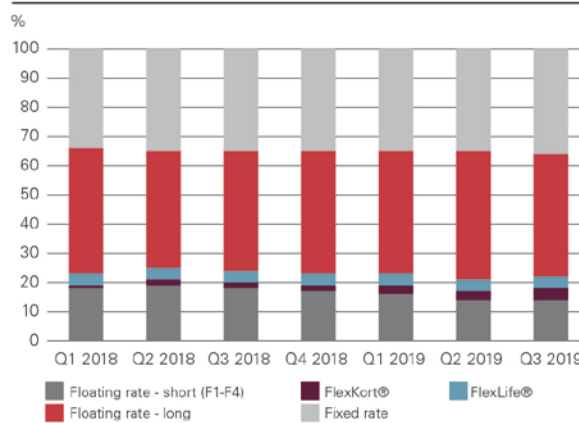
The tax charge totalled DKK 912 million. The effective tax rate for the period was 22.0%.

Balance sheet

Gross lending amounted to DKK 162 billion, against DKK 87 billion in the first nine months of 2018. Mortgage lending at fair value rose DKK 12 billion to DKK 808 billion. The development in mortgage lending at fair value is composed of an increase in the nominal outstanding bond debt of DKK 2 billion and a DKK 10 billion increase in market value adjustments in the same period.

In the first nine months of 2019, fixed-rate loans accounted for approximately 70% of all disbursed loans, while about 85% of all floating-rate loans were disbursed with refinancing intervals of five years.

Development in loan portfolio by loan type (%)



Low interest rates have made more customers lock-in the interest rate on their loan for a longer period.

At 30 September 2019, the average loan-to-value (LTV) ratio stood at 61%, which was at par with last year's ratio. An increase in loans calculated at market value was offset by rising property prices.

The number of new foreclosures was 16 in the first nine months of 2019. The number of foreclosures fell from year-end 2018, standing at 17, of which 11 were owner-occupied dwellings and 6 were commercial properties. The value of the foreclosures was DKK 16 million. The delinquency rate at 30 September 2019 was unchanged from the level at the end of 2018, and at a persistently low level.

Capital and solvency

At the end of September 2019, shareholders' equity stood at DKK 48.8 billion, against DKK 49.9 billion at the end of 2018. 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 46.1 billion, and the total capital ratio calculated in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) was 29.9%. At 31 December 2018, the corresponding figures were DKK 45.8 billion and 30.6%, 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 153.8 billion at 30 September 2019, against DKK 149.8 billion at the end of 2018.

The binding capital requirement is the solvency need ratio plus the combined buffer requirement. At end-September 2019, the capital requirement was calculated at DKK 25.9 billion and 16.8% of the REA. Realkredit Danmark thus has a capital buffer of DKK 20.2 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 2019, the requirement for supplementary collateral for mortgage-covered bonds was DKK 15.1 billion, against DKK 16.7 billion at the end of 2018.

Liquidity Coverage Ratio

The Danish Financial Supervisory Authority has set a floor of 2.5% of total mortgage lending for the buffer needed to comply with the Liquidity Coverage Ratio. This corresponds 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

The European rating agency Scope Ratings, Fitch Ratings and S&P Global all rate Realkredit Danmark's mortgage-covered bonds.

Scope Ratings and S&P Global have both assigned the bonds issued from capital centres S and T their highest rating, AAA. The bonds issued from capital centre S are rated AAA by Fitch Ratings, while the bonds issued from capital centre T have been assigned a rating of AA+.

In addition, S&P Global rates the bonds issued from the Other reserves series, which also hold the highest rating of AAA.

Realkredit Danmark has an A+ issuer rating (negative outlook) from Scope Ratings, with Fitch Ratings assigning an A rating (stable outlook).

All ratings from Scope Ratings were confirmed during the third quarter of 2019.

Realkredit Danmark continues to pursue a strategy of having its issues rated by at least two rating agencies.

Supervisory diamond for mortgage credit institutions

Realkredit Danmark complies with all threshold values.

Threshold value	Q3 2019	Limit
Growth in lending¹		
Owner-occupied dwellings and holiday homes	-0.5%	15%
Residential rental property	7.3%	15%
Agriculture	-1.8%	15%
Other	-3.7%	15%
Borrower interest-rate risk²		
Properties for residential purposes	8.1%	25%
Interest-only option³		
Owner-occupied dwellings and holiday homes	7.3%	10%
Loans with short-term funding⁴		
Refinancing, annually	15.4%	25%
Refinancing, quarterly	0.4%	12.5%
Large exposures⁵		
Loans relative to shareholders' equity	42%	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% per year of the total loan portfolio.

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

Management

Christian Baltzer, board member, resigned from the Board of Directors of Realkredit Danmark.

On 1 October at an extraordinary general meeting Berit Behring was elected as member of the Board of Directors of Realkredit Danmark A/S.

Sonia Khan, board member elected by the employees, resigned from the Board of Directors of Realkredit Danmark. On 1 October alternate member, Anna-Marie Mikkelsen, joined the Board of Directors.

Outlook for 2019

Realkredit Danmark expects that the Danish economy will continue to see moderate growth in 2019 relative to the past few years. Low interest rates will continue to support house prices.

In 2019, Realkredit Danmark expects income to be at a lower level than in 2018 due to lower average administration margins.

Through a persistent focus on cost control in 2019, Realkredit Danmark aims to keep expenses at a low level.

Loan impairment charges are expected to be at a higher level in 2019 than in 2018.

Realkredit Danmark therefore expects net profit to be at a lower level than in 2018.

Income statement and Comprehensive income – Realkredit Danmark Group

Note	(DKK millions)	Q1-Q3 2019	Q1-Q3 2018	Q3 2019	Q3 2018	Full year 2018
	Income statement					
	Interest income	12,753	13,237	4,222	4,310	17,578
	Interest expense	7,622	7,986	2,489	2,576	10,570
	Net interest income	5,131	5,251	1,733	1,734	7,008
	Dividends from shares	-	-	-	-	-
	Fee and commission income	598	378	293	118	512
	Fee and commission expense	1,029	839	433	268	1,129
	Net fee and commission income	4,700	4,790	1,593	1,584	6,391
	Value adjustments	242	-66	112	-123	-67
	Other operating income	87	95	31	28	125
	Staff costs and administrative expenses	589	519	193	172	702
	Impairment, depreciation and amortisation charges	1	1	-	-	1
3	Loan impairment charges	294	185	7	-24	196
	Income from associates and group undertakings	-	-	-	-	-
	Profit before tax	4,145	4,114	1,536	1,341	5,550
	Tax	912	905	338	295	1,213
	Net profit for the period	3,233	3,209	1,198	1,046	4,337
	Comprehensive income					
	Net profit for the period	3,233	3,209	1,198	1,046	4,337
	Other comprehensive income					
	Items that will not be reclassified to profit or loss					
	Actuarial gains/losses on defined benefit plans	-16	-13	-7	-1	-17
	Tax	3	3	1	-	4
	Total other comprehensive income	-13	-10	-6	-1	-13
	Total comprehensive income for the period	3,220	3,199	1,192	1,045	4,324

Balance sheet – Realkredit Danmark Group

Note	(DKK millions)	30 September 2019	31 December 2018	30 September 2018
ASSETS				
	Cash in hand and demand deposits with central banks	49	161	151
	Due from credit institutions and central banks	86,557	21,285	15,205
	Bonds at fair value	18,249	19,375	22,096
	Bonds at amortised cost	31,789	31,781	33,117
4, 9	Mortgage loans at fair value	808,181	796,045	794,573
4	Loans and other amounts due at amortised cost	577	549	557
	Shares etc.	2	2	2
	Other tangible assets	6	7	7
	Current tax assets	299	1	217
	Deferred tax assets	-	-	-
	Assets temporarily taken over	16	26	24
4	Other assets	3,774	1,978	2,135
	Prepayments	19	7	24
Total assets		949,518	871,217	868,108
LIABILITIES AND EQUITY				
AMOUNTS DUE				
	Due to credit institutions and central banks	8,265	778	1,732
	Issued mortgage bonds at fair value	884,499	809,091	807,214
5	Issued bonds at amortised cost	3,182	5,952	5,952
	Current tax liabilities	-	-	-
	Deferred tax liabilities	37	41	38
	Other liabilities	4,700	5,440	4,382
Total amounts due		900,683	821,302	819,318
SHAREHOLDERS' EQUITY				
	Share capital	630	630	630
	Reserves in series	44,654	44,654	43,171
	Other reserves	3,551	331	4,989
	Proposed dividends	-	4,300	-
Total shareholders' equity		48,835	49,915	48,790
Total liabilities and equity		949,518	871,217	868,108

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 2019	630	44,654	331	4,300	49,915
Net profit for the period	-	-	3,233	-	3,233
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-16	-	-16
Tax	-	-	3	-	3
Total comprehensive income for the period	-	-	3,220	-	3,220
Dividends paid	-	-	-	-4,300	-4,300
Shareholders' equity at 30 September 2019	630	44,654	3,551	-	48,835
Shareholders' equity at 1 January 2018	630	43,171	1,790	4,300	49,891
Net profit for the period	-	-	3,209	-	3,209
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-13	-	-13
Tax	-	-	3	-	3
Total comprehensive income for the period	-	-	3,199	-	3,199
Dividends paid	-	-	-	-4,300	-4,300
Shareholders' equity at 30 September 2018	630	43,171	4,989	-	48,790

At 30 September 2019, 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 2019	31 December 2018	30 September 2018
Shareholders' equity	45,615	49,915	45,591
Tax effect	-	-	-
Total equity calculated in accordance with the rules of the Danish FSA	45,615	49,915	45,591
Proposed/expected dividends	-	-4,300	-
Revaluation reserve	-	-	-
Deferred tax assets	-	-	-
Prudent valuation	-2	-5	-15
Defined benefit pension fund assets	-152	-162	-165
Common equity tier 1 capital	45,461	45,448	45,411
Difference between expected losses and impairment charges	-	-	-
Tier 1 capital	45,461	45,448	45,411
Reserves in series subject to a reimbursement obligation	-	-	-
Revaluation reserve	-	-	-
Difference between expected losses and impairment charges	591	320	261
Total capital	46,052	45,768	45,672
Risk exposure amount	153,774	149,772	152,326
Common equity tier 1 capital ratio (%)	29.6	30.3	29.8
Tier 1 capital ratio (%)	29.6	30.3	29.8
Total capital ratio (%)	29.9	30.6	30.0

At 30 September 2019, the total capital and the total risk exposure amount is calculated in accordance with the Capital Requirements Directive (CRR/CRD IV).

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-Q3 2019	Q1-Q3 2018	Full year 2018
Cash flow from operations			
Profit before tax	4,145	4,114	5,550
Tax paid	-1,209	-1,109	-1,197
Adjustment for non-cash operating items	70	-263	-363
Cash flow from operating capital	66,454	-13,158	-8,315
Total	69,460	-10,416	-4,325
Cash flow from investing activities			
Acquisition/sale of tangible assets	-	-	-1
Total	-	-	-1
Cash flow from financing activities			
Dividends	-4,300	-4,300	-4,300
Total	-4,300	-4,300	-4,300
Cash and cash equivalents at 1 January	21,446	30,072	30,072
Change in cash and cash equivalents	65,160	-14,716	-8,626
Cash and cash equivalents, end of period	86,606	15,356	21,446
Cash and cash equivalents, end of period			
Cash in hand and demand deposits with central banks	49	151	161
Amounts due from credit institutions and central banks within 3 months	86,557	15,205	21,285
Total	86,606	15,356	21,446

Notes – Realkredit Danmark Group

Note

1 Significant accounting policies

and significant accounting estimates and assessments

The Group's interim report for the first nine months of 2019 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.

Changes to significant accounting policies

On 1 January 2019, the Group implemented the following amendments to IFRS: IFRS 16, Leases, amendments to various standards (IFRS 9, Prepayment Features with Negative Compensation, Annual Improvements to IFRS Standards Cycle 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23), IAS 19, Plan Amendment, Curtailment or Settlement and IAS 28, Long-term Interests in Associates and Joint Ventures) and IFRIC 23, Uncertainty over Income Tax Treatments. The implementation of changes to IFRS not mentioned below had no impact on the Group's financial statements.

IFRS 16, Leases

As a result of the implementation of IFRS 16, at 1 January 2019 lease assets and lease liabilities were recognised in the amount of DKK 132 million. The implementation has no impact on shareholders' equity at 1 January 2019, and the net profit for the first nine months of 2019 is unaffected. In accordance with transitional provisions, comparative figures have not been restated. Lease liabilities are recognised under Other liabilities, while lease assets are recognised under Other tangible assets, except for assets deriving from financial sub-leases, which are recognised under Other assets.

From 2019, lease contracts in which the Group acts as lessee are recognised in the balance sheet, except for leases of low value assets and contracts with terms of 12 months or less. On initial recognition of a lease agreement, future lease payments are recognised as a lease liability and a lease asset at the present value using the Group's borrowing rate. The lease liability is subsequently adjusted to reflect accrued interest, instalments and correction due to modification or reassessment. The lease asset is measured at cost less depreciation and impairment charges. Lease assets are depreciated on a straight-line basis over the lease term. However, for sub-lease contracts classified as finance leases, the future lease payments are made up by interest and instalments.

IFRS 9, Prepayment Features with Negative Compensation
 Under IFRS 9, compensation in connection with the exercise of a prepayment option is consistent with the SPPI test if the compensation, positive or negative, reflects changes to the relevant benchmark interest rate.

The amendment does not change the fact that the prepayment option included in mortgage loans continues to be inconsistent with the cash flow test as changes in the fair value of the underlying bonds reflect other factors than interest rate developments. Consequently, implementation of the standard has no effect.

Other than this, the Group has not changed its significant accounting policies from those followed in Annual Report 2018, which provides a full description of the Group's significant accounting policies. The interim report has not been reviewed or audited.

Notes – Realkredit Danmark Group

Note

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

cont'd

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. Adjustments are made for changes in the fair value of the credit risk on borrowers using the impairment model in IFRS 9, which is based on expected credit losses.

The expected credit loss is calculated for all individual facilities as a function of PD, EaD and LGD and incorporates forward-looking information. The forward-looking information reflects management's expectations and involves the creation of scenarios (base case, upside and downside), including an assessment of the probability for each scenario. In addition to the expected credit losses, a collective assessment determines the need for adjustments to reflect other components in the fair value measurement, such as an assessment of an investor's risk premium, compensation for administrative costs related to the loans and the possibility to increase the credit margin if the credit risk increases.

At the end of the first nine months of 2019, the fair value adjustment of the credit risk on mortgage loans was calculated at DKK 2,858 million (end 2018: DKK 2,792 million.), which has reduced the value of mortgage loans. The base case scenario enters with a probability of 60% (end-2018: 70%), the downside scenario with a probability of 30% (end-2018: 15%) and the upside scenario with a probability of 10% (end-2018: 15%). If the base case scenario was assigned a probability of 100%, the fair value adjustment would be DKK 2,725 million (end-2018: DKK 2,750 million). The fair value adjustment would increase to DKK 3,275 million (end 2018: DKK 3,575 million) if the downside scenario was assigned a probability of 100%. If instead the upside scenario was assigned a probability of 100%, the fair value adjustment would decrease to DKK 2,600 million (end-2018: DKK 2,700 million). It should be noted that the expected credit losses in the individual scenarios do not reflect forecasts of the Group's expected credit losses.

The Group's principal risks and the external factors that may affect the Group are described in greater detail in Annual Report 2018.

Notes – Realkredit Danmark Group

Note (DKK millions)

2 Profit broken down by activity

Q1-Q3 2019	Mortgage finance	Own holdings	Highlights	Reclassification	IFRS
Administration margin	4,572	-	4,572	-	4,572
Net interest income	-70	208	138	421	559
Dividends from shares	-	-	-	-	-
Net fee income	-431	-	-431	-	-431
Income from investment portfolios	549	114	663	-663	-
Value adjustments	-	-	-	242	242
Other income	87	-	87	-	87
Total income	4,707	322	5,029	-	5,029
Expenses	587	3	590	-	590
Profit before loan impairment charges	4,120	319	4,439	-	4,439
Loan impairment charges	294	-	294	-	294
Income from associates	-	-	-	-	-
Profit before tax	3,826	319	4,145	-	4,145
Tax	-	-	912	-	912
Net profit for the period			3,233	-	3,233
Total assets	902,091	47,427	949,518	-	949,518
Q1-Q3 2018	Mortgage finance	Own holdings	Highlights	Reclassification	IFRS
Administration margin	4,670	-	4,670	-	4,670
Net interest income	-159	266	107	474	581
Dividends from shares	-	-	-	-	-
Net fee income	-461	-	-461	-	-461
Income from investment portfolios	357	51	408	-408	-
Value adjustments	-	-	-	-66	-66
Other income	95	-	95	-	95
Total income	4,502	317	4,819	-	4,819
Expenses	516	4	520	-	520
Profit before loan impairment charges	3,986	313	4,299	-	4,299
Loan impairment charges	-215	-	-215	400	185
Income from associates	-	-	-	-	-
Profit before tax	4,201	313	4,514	-400	4,114
Tax	-	-	993	-88	905
Net profit for the period			3,521	-312	3,209
Total assets	816,083	52,025	868,108	-	868,108

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.

Notes – Realkredit Danmark Group

Note (DKK millions)

2 Profit broken down by activity
cont'd

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). However, the IFRS 13 measurement of the fair value of the credit risk on mortgage loans, which is required by IFRS 9, should from 1 January 2018 be made on the basis of the models prepared by the Danske Bank Group in connection with the implementation of the model in IFRS 9. This has caused a change to the estimate of the fair value of the credit risk on mortgage loans at 1 January 2018, leading to a reduction of the fair value of mortgage loans of DKK 400 million. 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 in 2018 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-Q3 2019	Q1-Q3 2018
3	Loan impairment charges		
	IFRS 9 transitional impact on implementation, 1 January 2018	-	400
	ECL on new assets	154	67
	ECL on assets derecognised	299	235
	Impact of remeasurement	450	-51
	Losses incurred	22	39
	Received on claims previously written off	33	35
	Total	294	185

4 Loans etc.

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 2,858 million at 30 September 2019, against DKK 2,792 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 62 million at 30 September 2019, against DKK 63 million at the beginning of the year.

For loan commitments, expected credit losses at 30 September 2019 amounted to DKK 13 million, against DKK 8 million at the beginning of the year.

Reconciliation of total allowance account				
	Stage 1	Stage 2	Stage 3	Total
ECL at 1 January 2018 incl. impact at mortgage loan	552	412	2,663	3,627
Transferred to stage 1 during the period	238	-159	-79	-
Transferred to stage 2 during the period	-66	350	-284	-
Transferred to stage 3 during the period	-36	-36	72	-
ECL on new assets	25	12	43	80
ECL on assets derecognised	43	66	349	458
Impact of remeasurement	6	29	147	182
Write-offs, allowance account	10	8	550	568
Impairment charges at 31 December 2018	666	534	1,663	2,863
Transferred to stage 1 during the period	154	-129	-25	-
Transferred to stage 2 during the period	-390	501	-111	-
Transferred to stage 3 during the period	-27	-165	192	-
ECL on new assets	14	110	30	154
ECL on assets derecognised	70	105	124	299
Impact of remeasurement	-29	258	221	450
Write-offs, allowance account	2	14	219	235
Impairment charges at 30 September 2019	316	990	1,627	2,933

Value adjustments of assets taken over amounted to DKK 0 million at 30 September 2019, against DKK 0 million at end-2018.

Notes – Realkredit Danmark Group

Note (DKK millions)

5	Issued bonds at amortised cost	30 September		31 December	
		2019		2018	
	Nominal value of issued bonds	3,182		5,952	
	Premium/discount	-		-	
	Total issued bonds	3,182		5,952	
		1 January		30 September	
	Nominal value	2019	Issued	Redeemed	2019
	Total issued bonds	5,952	-	2,770	3,182

Issued bonds at amortised cost consist of issued senior debt.

6 **Assets deposited as collateral**

At 30 September 2019, Realkredit Danmark had deposited securities worth DKK 11,252 million (end-2018: DKK 10,522 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 2019, the carrying amount of such securities totalled DKK 8,265 million (end-2018: DKK 778 million). Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

At 30 September 2019, mortgage lending totalling DKK 808,181 million and other assets totalling DKK 15,144 million were registered as security for issued mortgage bonds, including mortgage-covered bonds, and issued bonds at amortised cost (end-2018: DKK 796,045 million and DKK 16,675 million).

Notes – Realkredit Danmark Group

Note	(DKK millions)				
7	Financial instruments at fair value				
	30 September 2019	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	15,883	2,366	-	18,249
	Mortgage loans at fair value	-	808,181	-	808,181
	Shares	-	-	2	2
	Derivatives	-	98	-	98
	Total	15,883	810,645	2	826,530
	Issued mortgage bonds at fair value	884,499	-	-	884,499
	Derivatives	-	32	-	32
	Total	884,499	32	-	884,531
	31 December 2018				
	Bonds at fair value	13,016	6,359	-	19,375
	Mortgage loans at fair value	-	796,045	-	796,045
	Shares	-	-	2	2
	Derivatives	-	66	-	66
	Total	13,016	802,470	2	815,488
	Issued mortgage bonds at fair value	809,091	-	-	809,091
	Derivatives	-	68	-	68
	Total	809,091	68	-	809,159

Negative interest income and interest expenses due to negative interest rates were insignificant during the first nine months of 2019. The amounts are offset against interest income and interest expenses, respectively.

Note 35 to Annual Report 2018 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 2019.

Notes – Realkredit Danmark Group

Note (DKK millions)

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 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. Realkredit Danmark pays an annual contribution to the resolution fund.

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)	30 September 2019	31 December 2018	30 September 2018
Other contingent liabilities			
Irrevocable loan commitments	37,990	36,830	37,784
Other commitments	23	24	32
Total	38,013	36,854	37,816

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

30 September 2019

Rating category	LTV ratio					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	>80%	
1	-	-	-	-	-	-
2	10	7	3	1	-	21
3	81	55	31	11	6	184
4	86	64	38	14	5	207
5	68	61	40	14	3	186
6	39	33	23	9	2	106
7	24	22	16	7	1	70
8	7	6	5	2	1	21
9	1	1	1	-	-	3
10	2	2	2	1	1	8
11	1	1	1	1	1	5
Total	319	252	160	60	20	811

Portfolio broken down by LTV ratio and rating category

31 December 2018

Rating category	LTV ratio					Total DKK. billions
	0-20%	20-40%	40-60%	60-80%	>80%	
1	-	-	-	-	-	-
2	7	4	2	-	-	13
3	77	52	29	10	6	174
4	90	69	42	14	4	219
5	65	57	38	14	3	177
6	39	34	23	9	2	107
7	24	23	16	7	1	71
8	7	6	5	2	1	21
9	1	1	1	-	-	3
10	2	2	2	1	1	8
11	2	1	1	1	1	6
Total	314	249	159	58	19	799

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):

30 September 2019

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	351	-	-	-	-	-	351	-	-
2	0.01	0.03	20,552	12	4	2	-	-	20,550	12	4
3	0.03	0.06	184,093	345	49	13	2	3	184,080	343	46
4	0.06	0.14	207,491	465	244	38	3	6	207,453	462	238
5	0.14	0.31	185,697	1,179	136	67	6	5	185,630	1,173	131
6	0.31	0.63	98,353	6,438	293	54	18	9	98,299	6,420	284
7	0.63	1.90	51,391	17,673	633	87	139	16	51,304	17,534	617
8	1.90	7.98	6,017	13,342	338	29	511	23	5,988	12,831	315
9	7.98	25.70	279	2,566	152	2	234	11	277	2,332	141
10	25.70	100.00	164	2,974	4,087	-	53	553	164	2,921	3,534
11	100.00	100.00	100	108	5,513	1	6	967	99	102	4,546
Total			754,488	45,102	11,449	293	972	1,593	754,195	44,130	9,856

31 December 2018

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	353	-	-	-	-	-	353	-	-
2	0.01	0.03	13,886	6	48	1	2	1	13,885	4	47
3	0.03	0.06	173,008	421	130	13	2	2	172,995	419	128
4	0.06	0.14	218,692	473	219	36	2	3	218,656	471	216
5	0.14	0.31	175,525	751	197	64	3	5	175,461	748	192
6	0.31	0.63	103,102	2,938	361	70	10	66	103,032	2,928	295
7	0.63	1.90	57,560	12,655	273	126	47	14	57,434	12,608	259
8	1.90	7.98	12,136	8,074	382	275	144	16	11,861	7,930	366
9	7.98	25.70	745	2,384	67	59	181	9	686	2,203	58
10	25.70	100.00	265	3,166	4,873	1	62	595	264	3,104	4,278
11	100.00	100.00	156	662	5,329	1	70	912	155	592	4,417
Total			755,428	31,530	11,879	646	523	1,623	754,782	31,007	10,256

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 31,789 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 2018.

Statement by the management

The Board of Directors and the Executive Board (management) have considered and approved Interim Report – First Nine Months 2019 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 2019 and of the results of the Group's operations and the consolidated cash flows for the period starting on 1 January 2019 and ending on 30 September 2019. 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, 1 November 2019

Executive Board

Carsten Nøddebo Rasmussen
Chairman of the Executive Board

Klaus Kristiansen
Member of the Executive Board

Board of Directors

Jacob Aarup-Andersen
Chairman

Carsten Rasch Egeriis
Vice Chairman

Kim Andersen

Jakob Groot

Berit Behring

Anna-Marie Mikkelsen

Lisbeth Sahlertz Nielsen

Majken Hammer Sløk

Supplementary information

Financial calendar

- Annual Report 2019:
5 February 2020
- Annual General Meeting:
9 March 2020
- Interim Report – First Quarter 2020:
30 April 2020
- Interim Report – First Half 2020:
17 July 2020
- Interim Report – First Nine Months 2020:
4 November 2020

Contact


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