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# Interim Report – First Half 2011

Interim Report – First Half 2011 is a translation of the original report in the Danish language (Delårsrapport – 1. Halvår 2011).  
In case of discrepancies, the Danish version prevails

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## Financial highlights – Realkredit Danmark Group

<b>NET PROFIT FOR THE PERIOD</b> (DKK millions)	First half 2011	First half 2010	Index 11/10	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Full year 2010
Administration margin	1,759	1,687	104	881	878	873	863	845	3,423
Net interest income	230	260	88	143	87	198	156	113	614
Net fee income	-244	-240	102	-128	-116	-129	-132	-120	-501
Income from investment portfolios	65	444	-	120	-55	-132	151	210	463
Other income	61	107	57	31	30	31	30	49	168
<b>Total income</b>	<b>1,871</b>	<b>2,258</b>	<b>83</b>	<b>1,047</b>	<b>824</b>	<b>841</b>	<b>1,068</b>	<b>1,097</b>	<b>4,167</b>
Expenses	487	446	109	243	244	237	214	233	897
Profit before loan impairment charges	1,384	1,812	76	804	580	604	854	864	3,270
Loan impairment charges	476	587	81	279	197	168	221	268	976
Profit before tax	908	1,225	74	525	383	436	633	596	2,294
Tax	227	304	75	131	96	110	159	147	573
<b>Net profit for the period</b>	<b>681</b>	<b>921</b>	<b>74</b>	<b>394</b>	<b>287</b>	<b>326</b>	<b>474</b>	<b>449</b>	<b>1,721</b>

### BALANCE SHEET (END OF PERIOD)

(DKK millions)

Due from credit institutions etc.	7,880	53,456	15	7,880	5,464	28,889	53,526	53,456	28,889
Mortgage loans	699,101	706,659	99	699,101	693,617	704,449	710,537	706,659	704,449
Bonds and shares	4,176	1,806	231	4,176	5,415	21,688	10,881	1,806	21,688
Other assets	2,347	2,745	86	2,347	2,693	2,595	3,683	2,745	2,595
<b>Total assets</b>	<b>713,504</b>	<b>764,666</b>	<b>93</b>	<b>713,504</b>	<b>707,189</b>	<b>757,621</b>	<b>778,627</b>	<b>764,666</b>	<b>757,621</b>
Due to credit institutions etc.	18,818	35,786	53	18,818	18,650	27,408	41,290	35,786	27,408
Issued mortgage bonds	640,729	675,195	95	640,729	636,199	671,644	680,527	675,195	671,644
Other liabilities	8,350	9,528	88	8,350	7,126	13,625	12,187	9,528	13,625
Subordinated debt	2,043	2,074	99	2,043	2,044	2,061	2,066	2,074	2,061
Shareholders' equity	43,564	42,083	104	43,564	43,170	42,883	42,557	42,083	42,883
<b>Total liabilities and equity</b>	<b>713,504</b>	<b>764,666</b>	<b>93</b>	<b>713,504</b>	<b>707,189</b>	<b>757,621</b>	<b>778,627</b>	<b>764,666</b>	<b>757,621</b>

### RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity (%)	3.2	4.4		3.6	2.7	3.1	4.5	4.3	4.1
Cost/income ratio (%)	26.0	19.8		23.2	29.6	28.2	20.0	21.2	21.5
Total capital ratio (%)	34.9	45.5		34.9	35.9	39.4	41.7	45.5	39.4
Tier 1 capital ratio (%)	34.5	44.9		34.5	35.5	38.8	41.1	44.9	38.8
Full-time-equivalent staff (end of period)	308	311		308	304	320	316	311	320

## Overview, first half

- The Realkredit Danmark Group recorded a net profit of DKK 681 million in the first half of 2011, against DKK 921 million in the first half of 2010. In spite of significant improvement in the second quarter, the profit for the first half was slightly lower than expected and did not reflect the true earnings potential of Realkredit Danmark. The decline was due to a lower return on the bond portfolio and higher funding costs.
- The number of foreclosures fell from 179 at the end of the first quarter to 164 at 30 June. Delinquency rates for loans granted to homeowners edged down, while rates for loans to business customers showed a slightly increasing trend.
- As a result of rising funding costs, Realkredit Danmark will raise its prices for mortgage lending with effect from the end of 2011.
- Realkredit Danmark terminated its collaboration with the Moody's rating agency due to disagreement over the fundamentals of the model used by Moody's for rating Danish mortgage bonds and a requirement for overcollateralisation. Realkredit Danmark maintains an AAA rating with Standard & Poor's.
- Realkredit Danmark has strengthened its service offering towards customers in the housing and property market through a number of initiatives.
- Realkredit Danmark's total capital ratio calculated according to the CRD remained very high at 34.9%, against 39.4% at the end of 2010
- Profit expectations for the full year 2011 are unchanged.

## Financial results for the first half of 2011

For the first half of 2011, the Realkredit Danmark Group's net profit was DKK 681 million, against DKK 921 million for the same period of 2010. In spite of rising administration margins, the profit for the period was down 26%. The primary reason for the decline was a lower return on bonds in the proprietary portfolio and higher funding costs.

Primarily as a result of an increase in average administration margins on business loans, the total administration margin increased by DKK 72 million.

Net fee expenses amounted to DKK 244 million, which was in line with the year-earlier figure.

Income from the investment portfolio amounted to DKK 65 million, against DKK 444 million in the first half of 2010. Income from the investment portfolio included value adjustments of securities and the yield on the proprietary investment portfolio after deduction of funding costs – calculated by reference to short-term money market rates. The decline was due primarily to a lower return on the bond portfolio.

Other income was down DKK 46 million. The decline was caused mainly by a refund of excess financial services employer tax paid in the years 2001-2006 that was recognised in the first half of 2010.

Total income fell 17% relative to the first half of 2010.

Expenses climbed DKK 41 million to DKK 487 million. Realkredit Danmark's intensified efforts to strengthen its brand triggered an increase in marketing costs. Furthermore, IT costs rose owing partly to the implementation of a number of digitalisation projects aimed at facilitating customer service and making it more efficient.

Impairment charges totalled DKK 476 million in the first half of 2011, a decline of 19% relative to the year-earlier period. However, loan impairment charges increased from DKK 197 million in the first quarter of 2011 to DKK 279 million in the second quarter. The increase was attributable primarily to individual charges against facilities to business customers (residential rental and office/retail). The charges corresponded to 0.14% p.a. of total mortgage lending, which was unchanged from the full year 2010.

Delinquencies as a percentage of mortgage payments declined throughout 2010. The decline continued into the first quarter of 2011, whereas the three-month delinquency rate rose slightly in the second quarter. For personal customers, there was a marginal decline in delinquencies, whereas the business segment recorded a small increase.

The total tax charge for the first half of 2011 amounted to DKK 227 million, corresponding to an effective tax rate of 25%.

### Balance sheet

There was subdued activity in the mortgage bond market with gross lending amounting to DKK 31 billion in the first half of 2011, down from DKK 53 billion in the year-earlier period. Mortgage lending at fair value declined by DKK 5 billion to DKK 699 billion due to lower bond prices. At DKK 703 billion, the nominal outstanding bond debt was largely unchanged.

Realkredit Danmark's average loan-to-value (LTV) ratio calculated on the basis of the last krone lent for every property did not change in the second quarter and was 65% at the end of the first half of 2011.

During the past few quarters, Realkredit Danmark has had about 60 foreclosures. The level was slightly lower in the second quarter of 2011 at 50 foreclosures. The number of foreclosures thus fell to 164 at the end of the second quarter from 179 at 31 March 2011. The value of the foreclosures was DKK 273 million.

Issued mortgage bonds declined by DKK 31 billion in the first half of 2011 to DKK 641 billion. The nominal value of issued bonds fell DKK 25 billion to DKK 642 billion. The amounts are exclusive of holdings of own mortgage bonds.

Realkredit Danmark's refinancing of FlexLån<sup>®</sup>, which previously took place primarily at auctions in December, is now more evenly spread across the year. Spreading the refinancing reduces the risk of turmoil in the financial markets affecting all borrowers at the same time. The total volume of bonds issued in connection with the most recent refinancing at 1 April 2011 was DKK 30 billion.

Realkredit Danmark is subject to the specific principle of balance and therefore has very limited exposure to market risks. At the end of the first half of 2011, Realkredit Danmark's interest rate risk and foreign exchange risk amounted to DKK 350 million and DKK 0 million, respectively. In addition, Realkredit Danmark's liquidity risk is very limited as it finances lending by issuing bonds.

### Capital and solvency need

At the end of June 2011, shareholders' equity stood at DKK 43.6 billion, against DKK 42.9 billion at end-2010. The increase in equity equalled the net profit for the period.

The Group's capital base including hybrid capital amounted to DKK 45.9 billion, and the total capital ratio calculated according to the Capital Requirements Directive (CRD) was 34.9%. At 31 December 2010,

the corresponding figures were DKK 45.4 billion and 39.4 %.

The Realkredit Danmark Group uses the advanced internal ratings-based (IRB) approach to calculate risk-weighted assets for credit risks. Risk-weighted assets (RWA) amounted to DKK 131.7 billion at 30 June 2011, against DKK 115.3 billion at end-2010. The increase in RWA was due especially to improved credit risk models.

Calculated on the basis of the transitional rules of the CRD, the solvency need for 2011 must, as a minimum, amount to 80% of the requirement calculated under the previous rules, corresponding to DKK 24.8 billion or a solvency need ratio of 18.9%.

Under Danish law, the Group must publish its solvency need on a quarterly basis ([www.rd.dk](http://www.rd.dk) provides further information).

### Supplementary collateral and rating

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

The requirement for supplementary collateral for mortgage-covered bonds declined slightly from DKK 32.9 billion at 31 March 2011 to DKK 31.6 billion at 30 June.

Furthermore, external rating agencies require that issuers of mortgage bonds meet additional overcollateral (OC) requirements if the mortgage bonds are to receive the highest rating.

During 2010 and 2011, Moody's successively tightened its requirements for issuers of Danish mortgage bonds. Realkredit Danmark consequently obtained a DKK 17 billion loan from Danske Bank to fund the overcollateralisation necessary to meet the criteria set by Moody's for maintaining an AAA rating.

In June, Realkredit Danmark terminated its collaboration with Moody's. The reason was disagreement over the fundamentals of the model used by Moody's for rating Danish mortgage bonds. In Realkredit Danmark's opinion, the overcollateralisation requirement was unnecessarily high.

Moody's discontinued its rating of Realkredit Danmark mortgage bonds and mortgage-covered bonds in July 2011.

Realkredit Danmark's mortgage bonds and mortgage-covered bonds issued through Capital Centre S and

under the Other reserves series still hold an AAA rating from Standard & Poor's.

### Price increases

Higher requirements for supplementary collateral for mortgage-covered bonds resulted in higher funding costs for Realkredit Danmark in the first half of 2011. Realkredit Danmark expects funding costs to increase further in the upcoming period.

Because of the higher funding costs, Realkredit Danmark feels compelled to raise its prices on mortgage loans.

Realkredit Danmark will raise its prices for personal customers at the end of the year. The pricing will be differentiated in such a way that the increase will reflect the risk profile of the individual loan types. Administration margins in the business segment rose throughout the first half of 2011. This trend is expected to continue into the second half.

Effective from the end of 2011, Realkredit Danmark will charge a margin for refinancing or when issuing new FlexLån®.

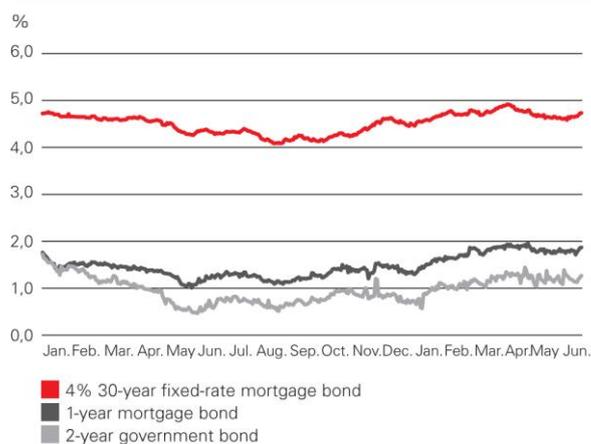
Mortgage payments will in future be based on twelve payment dates. Customers wishing to make quarterly payments will be charged an extra fee. For the vast majority of the customers, this means that monthly mortgage payments will still be the cheapest alternative.

### New capital centre for financing FlexLån®

Realkredit Danmark has decided to establish a new capital centre for financing FlexLån®. The decision was made to continue to be able to issue bonds at the lowest possible coupons and to continue to offer customers competitive home loans.

The new capital centre will be used to issue mortgage-covered bonds for the financing of new FlexLån® and for refinancing FlexLån® already disbursed. Realkredit Danmark will seek to obtain as high a rating as possible for the new capital centre.

Movements in interest rates in 2010-2011



### Mortgage credit market

In the first half of 2011, the owner-occupied housing market was characterised by limited trading activity, a record-high number of houses for sale and squeezed property prices. There were major regional differences in the owner-occupied housing market with activity centring on the large cities, whereas activity remained very low outside of the large cities.

Activity in the commercial property market fell slightly during the first half of 2011, but sentiment remained optimistic in the market for investment properties. There is investor interest in prime-location investment properties offering stable returns.

The agricultural sector remains under pressure following recent years' changing economic climate. The sector has shifted its focus from production expansion to consolidation and efficiency improvements. Considering the economic retrenchment and substantial adjustments of prices on agricultural properties and land, the sector has so far witnessed relatively few bankruptcies.

### Best choice for homes and property

In the first half of 2011, Realkredit Danmark, Danske Bank and home implemented a number of new measures to strengthen the Danske Bank Group's position in property finance and property trading in Denmark.

In collaboration with Danske Bank, Realkredit Danmark has established 11 new units which will serve personal customers who only have loans with Realkredit Danmark. Moreover, the group has recruited additional home finance advisers in Danske Bank's branch network and the Home hotline.

As a result, Realkredit Danmark now offers more optional contact points to its customers, who can obtain professional advice about home and property finance and have any doubts about financial solutions resolved.

Realkredit Danmark emphasises having a product range realigned to the needs of the market. Similarly, the Group invests in measures to ensure more swift case processing.

The aim is to give customers an even better experience when they use Realkredit Danmark as their mortgage credit institution.

### **Regulation**

In July 2011, the European Commission published its proposals for a revision of the capital requirements directive, including rules on liquidity risk management. The proposal is based on the Basel III rules, which have been strongly criticised by the mortgage credit sector, among others.

The Commission proposes a definition of liquid assets that is slightly less restrictive than that of the Basel Committee. Under the Basel definition, mortgage bonds may not be included in the liquidity buffer in line with government bonds. The final criteria remain to be determined, but the fact that market criteria will now determine whether a bond is liquid is a positive development.

At the same time, it is positive that the Basel Committee's thoughts about a long-term liquidity target (NSFR), that would render short-term interest-reset loans impossible have not been included in the proposal. The EU Commission still intends to introduce a long-term liquidity target in 2018, but the definition of such a target awaits a final report by the Basel Committee, among other things.

The European Commission's proposal will now be considered by the European Parliament and the Council of the European Union. The final directive is expected to be adopted in 2012.

### **Outlook for 2011**

Following a period of negative growth in the Danish economy, Realkredit Danmark expects an improvement in the second half of 2011, but GDP growth for the full year is forecast to be lower than in 2010.

Interest rates in Denmark are forecast to remain low in spite of the recent rate hikes by the Danish central bank. However, the owner-occupied housing market is also expected to be characterised by moderate activity in the second half due to the overall economic uncertainty and the upcoming general elections in Denmark.

In spite of continuing moderate activity in the housing market and higher funding costs, Realkredit Danmark retains its profit forecast for 2011.

Realkredit Danmark has announced price increases due to higher funding costs. The full effect of the price increases will not materialise until in 2012.

## Income statement – Realkredit Danmark Group

Note	(DKK millions)	First half 2011	First half 2010	Q2 2011	Q2 2010	Full year 2010
	Interest income	13,180	14,364	6,609	7,130	28,254
	Interest expense	10,959	12,121	5,484	6,012	23,321
	Net interest income	2,221	2,243	1,125	1,118	4,933
	Dividends from shares	-	8	-	8	8
	Fee and commission income	159	247	75	118	548
	Fee and commission expense	403	487	203	238	1,049
	Net fee and commission income	1,977	2,011	997	1,006	4,440
	Value adjustments	-167	136	19	39	-446
	Other operating income	61	107	31	49	168
	Staff costs and administrative expenses	484	444	241	232	892
	Impairment, depreciation and amortisation charges	3	2	2	1	5
3	Loan impairment charges	476	587	279	268	976
	Income from associated undertakings	-	4	-	3	5
	Profit before tax	908	1,225	525	596	2,294
	Tax	227	304	131	147	573
	Net profit for the period	681	921	394	449	1,721
	<b>Comprehensive income</b>					
	Net profit for the period	681	921	394	449	1,721
	Other comprehensive income	-	-	-	-	-
	Total comprehensive income for the period	681	921	394	449	1,721

## Balance sheet – Realkredit Danmark Group

Note	(DKK millions)	30 Jun. 2011	31 Dec. 2010	30 Jun. 2010
<b>ASSETS</b>				
	Cash in hand and demand deposits with central banks	2	4	3
	Due from credit institutions and central banks	7,878	28,885	53,453
	Bonds at fair value	4,166	21,679	1,743
4	Mortgage loans at fair value	699,101	704,449	706,659
4	Loans and other amounts due at amortised cost	831	893	893
	Shares	2	1	55
	Holdings in associated undertakings	8	8	8
	Land and buildings	93	93	94
	Domicile property	93	93	94
	Other tangible assets	12	10	11
	Current tax assets	26	26	-
	Deferred tax assets	-	-	-
	Assets temporarily taken over	273	282	242
4	Other assets	1,032	1,259	1,356
	Prepayments	80	32	149
<b>Total assets</b>		<b>713,504</b>	<b>757,621</b>	<b>764,666</b>
<b>LIABILITIES AND EQUITY</b>				
<b>AMOUNTS DUE</b>				
	Due to credit institutions and central banks	18,818	27,408	35,786
	Issued mortgage bonds at fair value	640,729	671,644	675,195
	Current tax liabilities	223	-	164
	Deferred tax liabilities	51	47	9
	Other liabilities	8,073	13,576	9,355
	Deferred income	3	2	-
<b>Total amounts due</b>		<b>667,897</b>	<b>712,677</b>	<b>720,509</b>
<b>SUBORDINATED DEBT</b>				
	Subordinated debt	2,043	2,061	2,074
<b>Total liabilities</b>		<b>669,940</b>	<b>714,738</b>	<b>722,583</b>
<b>SHAREHOLDERS' EQUITY</b>				
	Share capital	630	630	630
	Other reserves			
	Reserves in series	31,182	31,182	15,587
	Other reserves	11,752	11,071	25,866
<b>Total shareholders' equity</b>		<b>43,564</b>	<b>42,883</b>	<b>42,083</b>
<b>Total liabilities and equity</b>		<b>713,504</b>	<b>757,621</b>	<b>764,666</b>

## Statement of capital – Realkredit Danmark Group

<b>CHANGES IN SHAREHOLDERS' EQUITY</b> (DKK millions)	Share capital	Reserves in series	Other reserves	Total
Shareholders' equity at 1 January 2011	630	31,182	11,071	42,883
Net profit for the period	-	-	681	681
Other comprehensive income	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>681</b>	<b>681</b>
Shareholders' equity at 30 June 2011	630	31,182	11,752	43,564
Shareholders' equity at 1 January 2010	630	15,587	24,945	41,162
Net profit for the period	-	-	921	921
Other comprehensive income	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>921</b>	<b>921</b>
Shareholders' equity at 30 June 2010	630	15,587	25,866	42,083

The share capital is made up of 6,300,000 shares of DKK 100 each. The company is wholly-owned by Danske Bank A/S, Copenhagen.

For as long as the Danish state holds hybrid capital in Realkredit Danmark, Realkredit Danmark may distribute dividends if such dividends can be paid in full out of the profit.

<b>CAPITAL BASE AND TOTAL CAPITAL RATIO</b> (DKK millions)	30 June 2011	31 Dec. 2011	30 June 2010
Shareholders' equity	43,564	42,883	42,083
Expected dividends	-	-	-
Revaluation of domicile property	64	62	60
Pension obligations at fair value	-257	-241	-218
Tax effect	48	44	39
Shareholders' equity calculated in accordance with the rules of the Danish FSA	43,419	42,748	41,964
Revaluation reserve	-50	-48	-47
Deferred tax assets	-	-	-30
Core tier 1 capital	43,369	42,700	41,887
Hybrid capital	2,043	2,061	2,074
Difference between expected losses and impairment charges	-	-	-
<b>Total tier 1 capital</b>	<b>45,412</b>	<b>44,761</b>	<b>43,961</b>
Reserves in series subject to a reimbursement obligation	55	58	58
Revaluation reserve	50	48	47
Difference between expected losses and impairment charges	416	559	513
<b>Capital base</b>	<b>45,933</b>	<b>45,426</b>	<b>44,579</b>
<b>Total risk-weighted assets</b>	<b>131,671</b>	<b>115,270</b>	<b>97,966</b>
Core tier 1 capital ratio (%)	32.9	37.0	42.8
Tier 1 capital ratio (%)	34.5	38.8	44.9
<b>Total capital ratio (%)</b>	<b>34.9</b>	<b>39.4</b>	<b>45.5</b>

The total capital and tier 1 capital ratios are calculated in accordance with the CRD.

In accordance with transitional rules, the minimum requirement for the total capital ratio at 30 June 2011 was 18.9%.

At 31 December 2010, the minimum requirement was 22.0%.

## Cash flow statement – Realkredit Danmark Group

(DKK millions)	First half 2011	First half 2010	Full year 2010
<b>Cash flow from operating activities</b>			
Net profit for the period	681	921	1,721
Adjustment for non-cash operating items	-4,108	-5,921	-69
Cash flow from operating capital	-17,582	9,490	-21,728
<b>Total</b>	<b>-21,009</b>	<b>4,490</b>	<b>-20,076</b>
<b>Cash flow from investing activities</b>			
Acquisition/sale of tangible assets	-	-	-1
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-1</b>
<b>Cash flow from financing activities</b>			
Change in hybrid capital	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents, beginning of period	28,889	48,966	48,966
Change during the period	-21,009	4,490	-20,077
Cash and cash equivalents, end of period	7,880	53,456	28,889

# Notes - Realkredit Danmark Group

Note

## 1 Significant accounting policies

The Group's interim report for the first half of 2011 has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU, and additional Danish disclosure requirements for interim reports of issuers of listed bonds.

The Group has not changed its significant accounting policies from those followed in Annual Report 2010, which provides a full description of the Group's significant accounting policies. The Group has made changes to note disclosures to comply with IAS 34 as amended by IASB's Improvements to IFRSs 2010.

### Critical 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 estimates and assumptions that are deemed critical to the consolidated financial statements are

- the fair value measurement of mortgage loans
- the fair value measurement of financial instruments

The estimates and assumptions are based on premises 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 mortgage bonds adjusted for changes in the fair value of the credit risk on borrowers. For mortgage loans granted to customers in rating categories 10 and 11 (all loans with objective evidence of impairment), such adjustment equals the difference between the carrying amount and the present value of the expected future cash flow of the asset, including the net realisable value of collateral held. A collective assessment is also made to determine the need for changes to reflect fair value adjustments of the credit risk of the remaining portion of the portfolio.

#### *Fair value measurement of financial instruments*

Measurements of financial instruments based on prices quoted in an active market or based on generally accepted models employing observable market data are not subject to critical estimates.

Measurements of financial instruments that are only to a limited extent based on observable market data, such as unlisted shares and certain bonds for which there is no active market, are subject to estimates.

Annual Report 2010 provides a detailed description of the Group's significant risks and the external factors that may affect the Group.

The interim report has not been reviewed or audited.

### *Standards and interpretations not yet in force*

The International Accounting Standards Board (IASB) has issued a number of amendments to international accounting

standards that have not yet come into force. The paragraphs below list the standards and interpretations that are likely to affect the Group's financial reporting.

In October 2010, the IASB reissued IFRS 9, Financial Instruments. This version of the standard is the first step to replace the requirements of IAS 39 in 2011. After implementation of phase 1, IFRS 9 deals with classification of financial instruments and derecognition, while the next phases will address impairment, hedge accounting and offsetting of financial assets and liabilities. The transitional rules adopted in IFRS 9 (phase 1) imply implementation of the standard by 2013. A postponement of the implementation deadline until 2015 is currently under consideration, however. The EU has decided to postpone adoption of IFRS 9 until the details of the remaining phases are known.

The Group does not expect IFRS 9 (phase 1) to materially affect the measurement of its financial instruments. Meaningful classification and measurement of financial instruments are not possible without information about the future content of IFRS 9 to clarify the overall accounting effects of the standard and the time of implementation.

The IASB ended its project on consolidation in May 2011 by issuing a number of new accounting standards (IFRS 10, IFRS 11 and IFRS 12) and revised accounting standards (IAS 27 and IAS 28). The IASB has established a uniform concept of control to be used for determining whether an entity should be consolidated and has introduced enhanced disclosure requirements for consolidated and unconsolidated entities, joint arrangements and associated undertakings. The standards, which have not yet been adopted by the EU, must be implemented in 2013 at the latest. The Realkredit Danmark Group does not expect the new requirements to significantly change its consolidation of undertakings.

In May 2011, the IASB issued IFRS 13, Fair Value Measurement. The standard introduces a new definition of fair value and provides guidance on how to measure and disclose fair value. IFRS 13 applies when another standard requires fair value to be used or disclosed. The standard, which has not yet been adopted by the EU, must be implemented in 2013 at the latest. The Group does not expect IFRS 13 to significantly affect its financial results.

In June 2011, the IASB issued an amended IAS 19, Employee Benefits. The amended standard eliminates the option to defer the recognition of actuarial gains and losses on defined benefit pension plans, known as the "corridor method". The present value of net pension assets and obligations must instead be recognised in the balance sheet. The amended standard, which has not yet been adopted by the EU, must be implemented in 2013 at the latest. At 30 June 2011, the new requirements would have reduced shareholders' equity by DKK 193 million (the amount deferred under the corridor method net of tax). The effect on the net profit will be immaterial, as actuarial gains and losses are recognised in other comprehensive income. Other comprehensive income and shareholders' equity items will become more volatile, though. The Statement of capital will not be affected as it is already prepared without the use of the corridor method.

## Notes - Realkredit Danmark Group

Note (DKK millions)

### 2 Profit broken down by activity

FIRST HALF 2011	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
Administration margin	1,759	-	1,759	-	1,759
Net interest income	230	232	462	-232	230
Dividends from shares	-	-	-	-	-
Net fee income	-244	-	-244	-	-244
Income from investment portfolios	-	-	-	65	65
Value adjustments	58	-225	-167	167	-
Other income	61	-	61	-	61
<b>Total income</b>	<b>1,864</b>	<b>7</b>	<b>1,871</b>	<b>-</b>	<b>1,871</b>
<b>Expenses</b>	<b>485</b>	<b>2</b>	<b>487</b>	<b>-</b>	<b>487</b>
Profit before loan impairment charges	1,379	5	1,384	-	1,384
Loan impairment charges	476	-	476	-	476
Income from associated undertakings	-	-	-	-	-
<b>Profit before tax</b>	<b>903</b>	<b>5</b>	<b>908</b>	<b>-</b>	<b>908</b>

FIRST HALF 2010	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
Administration margin	1,687	-	1,687	-	1,687
Net interest income	260	296	556	-296	260
Dividends from shares	-	8	8	-8	-
Net fee income	-240	-	-240	-	-240
Income from investment portfolios	-	-	-	444	444
Value adjustments	-57	193	136	-136	-
Other income	107	-	107	-	107
<b>Total income</b>	<b>1,757</b>	<b>497</b>	<b>2,254</b>	<b>4</b>	<b>2,258</b>
<b>Expenses</b>	<b>444</b>	<b>2</b>	<b>446</b>	<b>-</b>	<b>446</b>
Profit before loan impairment charges	1,313	495	1,808	4	1,812
Loan impairment charges	587	-	587	-	587
Income from associated undertakings	-	4	4	-4	-
<b>Profit before tax</b>	<b>726</b>	<b>499</b>	<b>1,225</b>	<b>-</b>	<b>1,225</b>

Mortgage finance encompasses property financing services provided in Denmark 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 Customers at Realkredit Danmark. The segment also includes mediation of real estate transactions offered through the home real-estate agency chain. Under the Danish Financial Business Act, at least 60% of the capital base of a mortgage credit institution must be invested in bonds, etc. Own holdings comprise the net return on the part of the securities portfolio not relating to the mortgage finance business. Income from trading activities and own holdings is carried in the income statement under net interest income, value adjustments, etc. In the consolidated highlights, this income is reclassified to income from investment portfolios.

## Notes - Realkredit Danmark Group

Note (DKK millions)	First half 2011	First half 2010
<b>3 Loan impairment charges</b>		
Impairment charges etc.	466	729
Reversals of impairment charges etc. for previous years	423	328
Losses incurred	459	230
Received on claims previously written off	26	44
<b>Total</b>	<b>476</b>	<b>587</b>

### 4 Loans etc.

Of the total fair value adjustment for the credit risk on mortgage loans, charges were recognised as an expense of DKK 1,916 million at 30 June 2011, against DKK 1,829 million at the beginning of the year.

Of the total loan impairment charges for the credit risk on loans and other amounts due at amortised cost, charges were recognised as an expense of DKK 392 million at 30 June 2011, against DKK 436 million at the beginning of the year.

	Loans, individual impairment	Loans, collective impairment	Total
Impairment charges etc. at 1 January 2010	1,544	66	1,610
Impairment charges etc. during the period	1,188	201	1,389
Reversals of impairment charges etc. for previous years	731	3	734
Impairment charges etc. at 31 December 2010	2,001	264	2,265
Impairment charges etc. during the period	465	1	466
Reversals of impairment charges etc. for previous years	373	50	423
Impairment charges etc. at 30 June 2011	2,093	215	2,308

Value adjustment of assets taken over amounted to DKK 3 million at 30 June 2011, against DKK 17 million at end 2010.

The fair value model used for calculating mainly the credit risk on mortgage loans was improved during the first half of 2011. The change had no impact on the financial results at 30 June 2011.

### 5 Assets deposited as collateral

At June 30, 2011, the Group had deposited securities worth DKK 15,531 million as collateral with the Danish central bank (end of 2010: DKK 32,584 million).

In connection with repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet, and the 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 June 30, 2011, the carrying amount of such securities totalled DKK 1,061 million (end of 2010: DKK 9,153 million). Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

Mortgage loans at a fair value of DKK 699,101 million were deposited as collateral for issued mortgage bonds, including mortgage-covered bonds, at 30 June 2011 (end of 2010: DKK 704,449 million).

## Notes - Realkredit Danmark Group

Note	(DKK millions)				
6	<b>Financial instruments at fair value</b>				
	30 June 2011	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	4,166	-	-	4,166
	Mortgage loans at fair value	-	699,101	-	699,101
	Shares	-	-	2	2
	Derivatives	-	29	-	29
	<b>Total</b>	<b>4,166</b>	<b>699,130</b>	<b>2</b>	<b>703,298</b>
	Issued mortgage bonds at fair value	640,729	-	-	640,729
	Derivatives	-	8	-	8
	<b>Total</b>	<b>640,729</b>	<b>8</b>	<b>-</b>	<b>640,737</b>
	31 December 2010				
	Bonds at fair value	21,679	-	-	21,679
	Mortgage loans at fair value	-	704,449	-	704,449
	Shares	-	-	1	1
	Derivatives	-	310	-	310
	<b>Total</b>	<b>21,679</b>	<b>704,759</b>	<b>1</b>	<b>726,439</b>
	Issued mortgage bonds at fair value	671,644	-	-	671,644
	Derivatives	-	87	-	87
	<b>Total</b>	<b>671,644</b>	<b>87</b>	<b>-</b>	<b>671,731</b>

Note 37 of Annual Report 2010 provides a description of the valuation techniques used for financial instruments.

### 7 Contingent liabilities

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

As the sponsoring employer, Realkredit Danmark is liable for the pension obligations of Kreditforeningen Danmarks Pensionsafviklingskasse.

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 table below shows guarantees and indemnities issued by the Group, irrevocable loan commitments regarding reverse mortgages and other commitments not recognised on the balance sheet.

(DKK millions)	30 June 2011	31 Dec. 2010	30 June 2010
<b>Guarantees etc.</b>			
Other guarantees	4	4	4
<b>Total</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>Other contingent liabilities</b>			
Irrevocable loan commitments regarding reverse mortgages	308	414	437
Other commitments	116	106	106
<b>Total</b>	<b>424</b>	<b>520</b>	<b>543</b>
<b>Total contingent liabilities</b>	<b>428</b>	<b>524</b>	<b>547</b>

### Realkredit Danmark as lessee

Realkredit Danmark is the lessee in a number of operating leases. Under such leases, the Group is entitled to use an asset for a specific period of time against lease payments, but it does not take over the major risks associated with the asset nor does it benefit from any returns.

The leases involve mainly cars. The minimum lease payments at 30 June 2011 were DKK 2 million (31 December 2010: DKK 2 million).

## Interim financial statements – Realkredit Danmark A/S

(DKK millions)

The financial statements of the Parent Company, Realkredit Danmark A/S, are prepared in accordance with the provisions of the Danish Financial Business Act, including the Danish FSA's executive order on financial reports of credit institutions, investment companies, etc. The valuation is identical to the Group's valuation principles under IFRS, with the exception that:

- domicile property is measured (revalue) at its estimated fair value; and
- the corridor method is not applied to pension obligations.

The estimated fair value of domicile properties is determined in accordance with schedule 8 to the Danish FSA's executive order on financial reports of credit institutions, investment companies, etc.

Holdings in subsidiary undertakings are measured on the basis of the equity method, and tax payable by these undertakings is expensed under "Income from associated and group undertakings".

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

	Net profit	Net profit	Shareholders' equity	Shareholders' equity
	first half	first half	30 Jun.	31 Dec.
	2011	2010	2011	2010
Consolidated financial statements (IFRSs)	681	921	43,564	42,883
Domicile property	-	-	64	62
Pension obligations	-16	31	-257	-241
Tax effect	4	-8	48	44
Parent company financial statements (Danish FSA rules)	669	944	43,419	42,748

## Income statement - Realkredit Danmark A/S

Note	(DKK millions)	First half 2011	First half 2010
	Interest income	13,178	14,362
	Interest expense	10,959	12,121
	Net interest income	2,219	2,241
	Dividends from shares	-	8
	Fee and commission income	159	247
	Fee and commission expense	403	487
	Net fee and commission income	1,975	2,009
1	Value adjustments	-167	136
	Other operating income	1	45
	Staff costs and administrative expenses	441	355
	Impairment, depreciation and amortisation charges	2	2
	Loan impairment charges	475	586
	Income from associated and group undertakings	1	7
	Profit before tax	892	1,254
	Tax	223	310
	Net profit for the period	669	944
	<b>Comprehensive income</b>		
	Net profit for the period	669	944
	Other comprehensive income	2	-
	Total comprehensive income for the period	671	944

## Balance sheet - Realkredit Danmark A/S

Note	(DKK millions)	30 Jun. 2011	31 Dec. 2010	30 Jun. 2010
<b>ASSETS</b>				
	Cash in hand and demand deposits with central banks	2	4	3
	Due from credit institutions and central banks	7,782	28,787	53,370
	Bonds at fair value	4,166	21,679	1,743
2	Mortgage loans at fair value	699,101	704,449	706,659
2	Loans and other amounts due at amortised cost	779	839	838
	Shares	-	-	53
	Holdings in associated undertakings	8	8	8
	Holdings in group undertakings	201	200	192
	Land and buildings	157	155	153
	Domicile property	157	155	153
	Other tangible assets	6	7	8
	Current tax assets	29	29	2
	Deferred tax assets	-	-	21
	Assets temporarily taken over	273	282	242
2	Other assets	725	969	1,091
	Prepayments	78	30	147
<b>Total assets</b>		<b>713,307</b>	<b>757,438</b>	<b>764,530</b>
<b>LIABILITIES AND EQUITY</b>				
<b>AMOUNTS DUE</b>				
	Due to credit institutions and central banks	18,818	27,408	35,786
	Issued mortgage bonds at fair value	640,728	671,644	675,195
	Current tax liabilities	223	-	172
	Deferred tax liabilities	12	-	-
	Other liabilities	7,867	13,358	9,131
	Deferred income	3	2	-
<b>Total amounts due</b>		<b>667,651</b>	<b>712,412</b>	<b>720,284</b>
<b>PROVISIONS</b>				
	Deferred tax	-	11	-
	Reserves in early series subject to a reimbursement obligation	194	206	208
<b>Total provisions</b>		<b>194</b>	<b>217</b>	<b>208</b>
<b>SUBORDINATED DEBT</b>				
	Subordinated debt	2,043	2,061	2,074
<b>Total liabilities</b>		<b>669,888</b>	<b>714,690</b>	<b>722,566</b>
<b>SHAREHOLDERS' EQUITY</b>				
	Share capital	630	630	630
	Revaluation reserve	50	48	47
	Reserves in series	31,182	31,182	15,627
	Other reserves	11,557	10,888	25,660
<b>Total shareholders' equity</b>		<b>43,419</b>	<b>42,748</b>	<b>41,964</b>
<b>Total liabilities and equity</b>		<b>713,307</b>	<b>757,438</b>	<b>764,530</b>

## Statement of capital – Realkredit Danmark A/S

<b>CHANGES IN SHAREHOLDERS' EQUITY</b> (DKK millions)	Share capital	Revaluation reserve	Reserves in series	Other reserves	Total
Shareholders' equity at 1 January 2011	630	48	31,182	10,888	42,748
Net profit for the period	-	-	-	669	669
Other comprehensive income	-	2	-	-	2
Total comprehensive income for the period	-	2	-	669	671
Shareholders' equity at 30 June 2011	630	50	31,182	11,557	43,419
Shareholders' equity at 1 January 2010	630	47	15,627	24,716	41,020
Net profit for the period	-	-	-	944	944
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	944	944
Shareholders' equity at 30 June 2010	630	47	15,627	25,660	41,964

The share capital is made up of 6,300,000 shares of DKK 100 each. The company is wholly-owned by Danske Bank A/S, Copenhagen.

For as long as the Danish state holds hybrid capital in Realkredit Danmark, Realkredit Danmark may distribute dividends if such dividends can be paid in full out of the profit.

## Notes - Realkredit Danmark A/S

Note	(DKK millions)	First half 2011	First half 2010
1	<b>Value adjustments</b>		
	Mortgage loans	-3,635	12,723
	Bonds	-22	37
	Shares	-	-8
	Currency	2	6
	Derivatives	-338	-297
	Issued mortgage bonds	3,807	-12,289
	Subordinated debt	19	-36
	<b>Total</b>	<b>-167</b>	<b>136</b>

### 2 Loans etc.

Of the total fair value adjustment for the credit risk on mortgage loans, charges were recognised as an expense of DKK 1,916 million at 30 June 2011, against DKK 1,829 million at the beginning of the year.

Of the total loan impairment charges for the credit risk on loans and other amounts due at amortised cost, charges were recognised as an expense of DKK 389 million at 30 June 2011, against DKK 435 million at the beginning of the year.

	Loans etc., individual impairment	Loans etc., collective impairment	Total
Impairment charges etc. at 1 January 2010	1,543	66	1,609
Impairment charges etc. during the period	1,188	201	1,389
Reversals of impairment charges etc. for previous years	731	3	734
Impairment charges etc. at 31 Dec. 2010	2,000	264	2,264
Impairment charges etc. during the period	463	1	464
Reversals of impairment charges etc. for previous years	373	50	423
Impairment charges etc. at 30 June 2011	2,090	215	2,305

Value adjustment of assets taken over amounted to DKK 3 million at 30 June 2011, against DKK 17 million at end 2010.

The fair value model used for calculating mainly the credit risk on mortgage loans was improved during the first half of 2011. The change had no impact on the financial results at 30 June 2011.

### 3 Developments in lending activities in Denmark in the first half of 2011

In May 2009, Realkredit Danmark raised subordinated loan capital in the form of hybrid capital of DKK 2 billion from the Danish state. Under Danish law, institutions that raise state-funded capital must publish semi-annual statements on developments in their Danish lending activities.

Realkredit Danmark grants loans against mortgages on all types of real property on the basis of the property value and an assessment of the borrower's ability and intention to repay the loan. In compliance with applicable law, mortgaged properties are valued at current market value with due consideration to price forecasts. Only in the event of default and the other causes for termination as stipulated in the mortgage document can Realkredit Danmark terminate a loan for repayment.

As a general rule, Realkredit Danmark provides loans up to statutory limits. However, Realkredit Danmark only provides loans to urban commercial and agricultural properties up to 60% of the valuation.

Personal customers must be able to demonstrate their ability to pay by documenting income sufficient to provide a reasonable amount available for consumption after deduction of loan payments. The calculations are based on a 30-year fixed-rate annuity loan. For loans for new houses, all customers must generally have sold their previous home, unless the customer can substantiate his ability to pay at a sale significantly below the offer price and with a long period of time on the market.

Business customers must demonstrate ability to pay by documenting sufficient positive cash flows from operations. With respect to loans for property types prone to large losses, Realkredit Danmark's requirements to customer creditworthiness are stricter. Such property types include properties with limited alternative uses and properties used by customers in weak or cyclical industries. The credit assessment focuses on customer liquidity, including the risk of vacancy.

## Notes - Realkredit Danmark A/S

Note (DKK millions)

Realkredit Danmark charges an administration margin as a percentage of the debt outstanding. In the personal customer market, this margin is based on the ranking of the collateral, while the customer's creditworthiness is the key parameter in the business customers market.

In the first half of 2011, Realkredit Danmark did not make any significant changes to its lending policy, neither to its guidelines for credit assessments or to prices and conditions.

Personal customers' demand for credit, measured in terms of the loan amounts applied for by personal customers, fell 19% in the first half of 2011 from the level in the second half of 2010. For existing customers, demand for credit, including remortgaging, fell 6%. The average loan amount sought rose in the first half of 2011. For new customers, demand rose in the same period. The share of approved applications was 92% in the first half of 2011. For existing customers, the share of approved applications was 94%. The share of approved applications for new customers fell in the first half of 2011.

Danish business customers' demand for credit rose in the first half of 2011. For existing customers, demand for credit was up 49%. For new customers, demand for credit also rose, and there was an increase in the number of loan applications. The share of approved applications from existing customers increased from the second half of 2010, and amounted to 93% in the first half of 2011. The share of approved applications for new customers also rose in the first half of 2011. The table below breaks down loans etc. on business customer segments.

The table below shows the trend in loans and advances, irrevocable loan commitments and guarantees before impairment for customers of Realkredit Danmark A/S secured on properties situated in Denmark. There was an increase of DKK 1.5 billion in the exposure to business customers in the first half of 2011, while the exposure to personal customers fell by DKK 5.6 billion.

Mortgage loans (DKK millions)	30 June 2011			31 Dec. 2010
	New customers	Existing customers	Total	Total
<b>Business customers</b>				
Commercial	3,132	101,506	104,638	102,531
Agricultural	995	48,920	49,915	50,477
Other	3,456	127,436	130,892	130,932
Total business customers	7,583	277,862	285,445	283,940
<b>Personal customers</b>				
Mortgages	13,123	396,440	409,563	415,121
Total	20,706	674,302	695,008	699,061

New customers are customers to whom Realkredit Danmark has not granted loans within the past 12 months.

In compliance with statutory requirements, this lending statement is available as a separate document at [www.rd.dk/Omrd](http://www.rd.dk/Omrd).

## Statement by the management

The Board of Directors and the Executive Board (the management) have considered and approved Interim Report – First half 2011 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, and the Parent Company's interim financial statements have been prepared in accordance with the Danish Financial Business Act. Furthermore, the interim report has been prepared in accordance with Danish disclosure requirements for interim reports of issuers of listed bonds.

In our opinion, the consolidated interim financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 30 June 2011 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the period starting on 1 January 2011 and ending on 30 June 2011. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the Parent Company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

Kgs. Lyngby, 9 August 2011

### **Executive Board**

Carsten Nøddebo Rasmussen  
Chairman of the Executive Board

Jens-Erik Corvinus  
Member of the Executive Board

### **Board of Directors**

Tonny Thierry Andersen  
Chairman

Per Skovhus  
Vice Chairman

Henrik Ramlau-Hansen

Max Jeppesen

Klaus Pedersen

## Supplementary information

### Financial calendar

- Interim Report – First Nine Months 2011:  
1 November 2011
- Annual Report 2011:  
9 February 2012
- Interim Report – First Quarter 2012:  
10 May 2012
- Interim Report – First Half 2012:  
7 August 2012
- Interim Report – First Nine Months 2012:  
30 October 2012
- Annual Report 2012:  
7 February 2013

### Contact

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### Useful links

[www.rd.dk](http://www.rd.dk)  
[www.danskebank.com](http://www.danskebank.com)  
[www.home.dk](http://www.home.dk)