

Interim Report - First Half 2017



REALKREDIT
Danmark

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Interim Report – First Half 2017 is a translation of the original report in the Danish language (Delårsrapport – 1. halvår 2017). In case of discrepancies, the Danish version prevails.

Financial highlights – Realkredit Danmark Group

NET PROFIT FOR THE PERIOD (DKK millions)	First half 2017	First half 2016	Index 17/16	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Full year 2016
Administration margin	3,075	2,888	106	1,537	1,538	1,548	1,454	1,445	5,890
Net interest income	6	31	19	-1	7	52	40	15	123
Net fee income	-280	-281	100	-148	-132	-173	-157	-140	-611
Income from investment portfolios	350	417	84	104	246	275	94	183	786
Other income	105	73	144	69	36	36	32	38	141
Total income	3,256	3,128	104	1,561	1,695	1,738	1,463	1,541	6,329
Expenses	362	391	93	185	177	207	192	196	790
Profit before loan impairment charges	2,894	2,737	106	1,376	1,518	1,531	1,271	1,345	5,539
Loan impairment charges	122	83	147	85	37	1	98	62	182
Profit before tax	2,772	2,654	104	1,291	1,481	1,530	1,173	1,283	5,357
Tax	610	584	104	284	326	334	258	282	1,176
Net profit for the period	2,162	2,070	104	1,007	1,155	1,196	915	1,001	4,181

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	10,040	29,932	34	10,040	33,867	31,491	44,584	29,932	31,491
Mortgage loans	773,959	759,785	102	773,959	772,045	767,695	768,079	759,785	767,695
Bonds and shares	63,993	59,307	108	63,993	53,782	59,582	54,767	59,307	59,582
Other assets	3,587	3,694	97	3,587	4,206	3,909	3,748	3,694	3,909
Total assets	851,579	852,718	100	851,579	863,900	862,677	871,178	852,718	862,677
Due to credit institutions etc.	9,530	17,949	53	9,530	8,377	6,355	16,419	17,949	6,355
Issued mortgage bonds	779,312	764,970	102	779,312	784,955	782,526	783,330	764,970	782,526
Issued senior debt	10,722	17,639	61	10,722	17,294	17,318	17,618	17,639	17,318
Other liabilities	4,334	4,795	90	4,334	6,585	7,131	5,651	4,795	7,131
Shareholders' equity	47,681	47,365	101	47,681	46,689	49,347	48,160	47,365	49,347
Total liabilities and equity	851,579	852,718	100	851,579	863,900	862,677	871,178	852,718	862,677

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	8.9	8.6		8.5	9.6	9.8	7.7	8.5	8.5
Impairment charges as % p.a. of mortgage lending	0.03	0.02		0.04	0.02	0.00	0.05	0.03	0.02
Cost/income ratio (%)	11.1	12.5		11.9	10.4	11.9	13.1	12.7	12.5
Total capital ratio (%)	28.4	32.5		28.4	30.6	30.1	31.2	32.5	30.1
Tier 1 capital ratio (%)	27.9	32.0		27.9	30.1	29.6	30.7	32.0	29.6
Full-time-equivalent staff (end of period)	235	239		235	235	235	238	239	235

Overview, First Half 2017

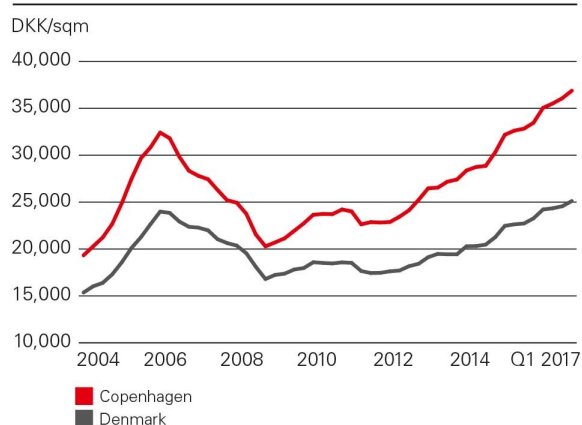
- The Realkredit Danmark Group recorded a net profit of DKK 2,162 million in the first half of 2017, against DKK 2,070 million in the first half of 2016. The profit for the first half of 2017 was supported by rising administration margin income driven primarily by a larger loan portfolio.
- Impairments remained low at DKK 122 million in the first half of 2017, against DKK 83 million in the first half of 2016.
- In the first half of 2017, there was demand for fixed-rate loans with a 2% coupon and FlexLån® loans with refinancing intervals of 5 year or more.
- Interest rates on 1-year FlexLån® loans remain low. In 2017 to date, Realkredit Danmark has disbursed loans with a negative interest rate to more than 2,300 customers.
- Realkredit Danmark complies with all threshold values of the supervisory diamond for mortgage credit institutions.
- Realkredit Danmark still expects the profit for 2017 to be at the same level as in 2016.

Mortgage credit market

The housing market remains buoyant, underpinned by low interest rates, rising disposable household income and positive labour market trends.

Having stabilised towards the tail end of 2016, house prices have risen throughout the first part of 2017, especially in the Copenhagen area and Aarhus. To reduce more risky lending in growth areas, the Danish government and The Systemic Risk Council have requested credit institutions to limit new residential lending in the Copenhagen area and Aarhus to borrowers whose total debt exceeds four times their annual income before tax and whose loans within the 80% LTV ratio limit are interest-only or floating rate loans to 15% of total new lending. Realkredit Danmark intends to comply with the request from the government and The Systemic Risk Council.

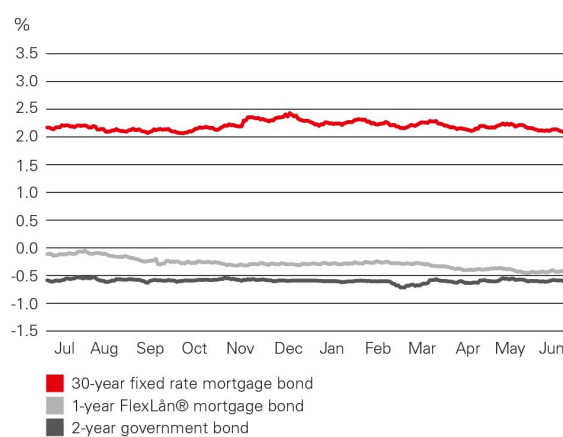
Development in prices of owner-occupied flats



The Danish market for holiday homes has witnessed soft growth rates in recent years. On 1 May, the Danish parliament adopted a proposal to allow mortgage loans of up to 75% of the value of the holiday home, against the previous cap of 60%. Combined with more lenient requirements allowing retirees to use holiday homes as their all-year residence, this is expected to boost activity in the market for holiday homes.

Following extensive political negotiations, an agreement on future property taxes was reached in early May. The tax agreement is generally considered to have a neutral impact on the Danish housing market as a whole. When the new system takes effect in 2021, it is expected to increase the tax burden on the market for owner-occupied flats, which in turn will have a dampening effect on prices.

Trend in interest rates past 12 months



Interest rates stabilised during the spring months with negative interest rates on short-term floating-rate loans, while the benchmark coupon on 30-year fixed-rate loans was 2%.

In the commercial property market, activity remains quite strong, underpinned by the very low level of interest rates and a favourable economic climate. In recent years, investor interest has centred on Copenhagen and Aarhus, but investors are increasingly focused on the potential offered by other large towns and cities in Denmark.

Results

For the first half of 2017, Realkredit Danmark's net profit was DKK 2,162 million, against DKK 2,070 million in the same period of 2016. The profit performance was attributable primarily to rising administration margin income. Remortgaging activity was at the same level as in the first half of 2016.

The administration margin income rose DKK 187 million, driven primarily by a larger loan portfolio and a small increase in average administration margins.

Other income fell DKK 59 million compared with the first half of 2016, driven especially by lower income from the investment portfolio.

Total income rose 4% over income in the first half of 2016.

Expenses amounted to DKK 362 million in the first half of 2017, against DKK 391 million in the first half of 2016. The decline was partly attributable to lower IT costs.

Impairments totalled DKK 122 million in the first half of 2017, up from the year-earlier level of DKK 83 million. In the first halves of both 2016 and 2017, previous provisions for bad debts on corporate customers were reversed. Impairments remain at a low level.

The Danish agricultural sector is experiencing higher selling prices for milk and pork and low prices of grain. However, as the sector remains challenged by high debts, it was necessary to retain impairments.

Impairments equalled 0.03% p.a. of total mortgage lending, which was on a level with 2016. At the end of June 2017, the delinquency rate was slightly lower than in 2016, except for the agricultural segment.

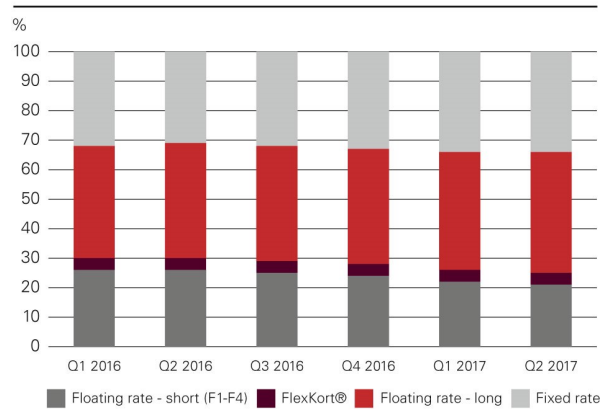
The tax charge totalled DKK 610 million. The effective tax rate for the period was 22.0%.

Balance sheet

Gross lending amounted to DKK 56 billion, against DKK 47 billion in the first half of 2016. Mortgage lending at fair value rose DKK 6 billion to DKK 774 billion. The development in mortgage lending at fair value is composed of an increase in the nominal outstanding bond debt of DKK 3 billion and a DKK 3 billion increase in the market value adjustment in the same period.

In the first half of 2017, fixed-rate loans accounted for approximately 45% of all disbursed loans, while about 80% of all floating-rate loans were disbursed with refinancing intervals of five year or more.

Development in loan portfolio by loan type (%)



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

At 30 June 2017, the average loan-to-value (LTV) ratio stood at 64%, the same level as at the end of 2016. An increase in loans calculated at market value was offset by rising property prices.

The number of new foreclosures was 32 in the first half of 2017. The number of foreclosures fell in the first half of 2017 to 45 at the end of June 2017, of which 36 were owner-occupied dwellings and 9 were commercial properties. The value of the foreclosures was DKK 64 million.

Issued mortgage bonds fell DKK 3 billion to DKK 779 billion. The nominal value of issued mortgage bonds was DKK 759 billion, which was DKK 5 billion less than at the end of 2016. The amounts are exclusive of holdings of own mortgage bonds. In the first half of 2017, Realkredit Danmark issued bonds for DKK 56 billion, not including bonds issued for the refinancing auctions.

Capital and solvency

At the end of June 2017, shareholders' equity stood at DKK 47.7 billion, against DKK 49.3 billion at end-2016. The ordinary dividend payment of DKK 3.8 billion and the consolidation of the net profit for the period accounted for the change.

Realkredit Danmark's total capital amounted to DKK 46.3 billion, and the total capital ratio calculated in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) was 28.4%. At 31 December 2016, the corresponding figures were DKK 46.2 billion and 30.1%, 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 162.9 billion at 30 June 2017, against DKK 153.6 billion at the end of 2016.

Calculated on the basis of the transitional rules of the CRR/CRD IV, the capital need for 2017 must, as a minimum, amount to 80% of the requirement calculated under the previous rules, corresponding to DKK 27.4 billion and 16.8% of REA. Realkredit Danmark thus has a capital buffer of DKK 18.9 billion.

Under Danish law, Realkredit Danmark must publish its total capital and solvency need on a quarterly basis. The rd.dk site provides further information.

Supplementary collateral

Realkredit Danmark issues mortgage-covered bonds. Under Danish law, it must provide supplementary collateral to the bondholders when the LTV ratio exceeds predefined limits, which are 80% for residential property and 60% for commercial property. At the end of June 2017, the requirement for supplementary collateral for mortgage-covered bonds was DKK 25.0 billion, against DKK 28.5 billion at end-2016.

Supervisory diamond for mortgage credit institutions

Realkredit Danmark complies with all threshold values.

Threshold value	2017 Q2	Limit
Growth in lending¹		
Owner-occupied dwellings and holiday homes	0.7%	15%
Residential rental property	1.2%	15%
Agriculture	-0.9%	15%
Other	-0.6%	15%
Borrower interest-rate risk²		
Properties for residential purposes	10.4%	25%
Interest-only option³		
Owner-occupied dwellings and holiday homes	8.7%	10%
Loans with short-term funding⁴		
Refinancing, annually	18.4%	25%
Refinancing, quarterly	0.2%	12.5%
Large exposures⁵		
Sum of large exposures relative to common equity tier 1 capital	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% of the total loan portfolio.

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

Liquidity Coverage Ratio

The effective requirement for Realkredit Danmark's buffer of liquid assets resulting from the Liquidity Coverage Ratio is 2.5% of total mortgage lending. At the end of June 2017, this corresponded to approximately DKK 19 billion. Realkredit Danmark has liquid assets of DKK 54 billion, and after haircuts this translates into liquid assets of DKK 51 billion. Realkredit Danmark thus has a buffer of DKK 32 billion relative to the requirement.

Rating

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

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

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

Outlook for 2017

Realkredit Danmark expects that low interest rates will continue to characterise the Danish economy in 2017 with moderately rising growth relative to the past few years. Low interest rates are expected to support the positive trend in house prices and general housing market activity.

Realkredit Danmark expects income to be at the same level as in 2016, as income will be supported by moderate growth in the loan portfolio, while a decline in income from remortgaging activity and lower returns on the bond portfolios will have downward effect.

Through a persistent focus on cost control in 2017, Realkredit Danmark expects to maintain expenses at the same level as in 2016.

Loan impairment charges are expected to remain at a low level in 2017.

Overall, Realkredit Danmark therefore expects the profit for 2017 to be at the same level as in 2016.

Income statement and Comprehensive income – Realkredit Danmark Group

Note	(DKK millions)	First half 2017	First half 2016	Q2 2017	Q2 2016	Full year 2016
	Income statement					
	Interest income	9,229	9,868	4,541	4,822	19,581
	Interest expense	5,842	6,543	2,828	3,230	12,721
	Net interest income	3,387	3,325	1,713	1,592	6,860
	Dividends from shares	-	-	-	-	-
	Fee and commission income	264	198	116	109	524
	Fee and commission expense	544	479	264	249	1,135
	Net fee and commission income	3,107	3,044	1,565	1,452	6,249
	Value adjustments	45	10	-73	49	-61
	Other operating income	105	73	69	38	141
	Staff costs and administrative expenses	361	389	185	195	787
	Impairment, depreciation and amortisation charges	1	2	-	1	3
3	Loan impairment charges	122	83	85	62	182
	Income from associates and group undertakings	-1	1	-	2	-
	Profit before tax	2,772	2,654	1,291	1,283	5,357
	Tax	610	584	284	282	1,176
	Net profit for the period	2,162	2,070	1,007	1,001	4,181
	Comprehensive income					
	Net profit for the period	2,162	2,070	1,007	1,001	4,181
	Other comprehensive income					
	Items that will not be reclassified to profit or loss					
	Actuarial gains/losses on defined benefit plans	-36	62	-19	36	-103
	Tax	8	-13	4	-7	23
	Total other comprehensive income	-28	49	-15	29	-80
	Total comprehensive income for the period	2,134	2,119	992	1,030	4,101

Balance sheet – Realkredit Danmark Group

Note	(DKK millions)	30 June 2017	31 December 2016	30 June 2016
ASSETS				
	Cash in hand and demand deposits with central banks	3	206	329
	Due from credit institutions and central banks	10,037	31,285	29,603
	Bonds at fair value	33,531	25,999	29,243
	Bonds at amortised cost	30,460	33,563	30,044
4	Mortgage loans at fair value	773,959	767,695	759,785
4	Loans and other amounts due at amortised cost	774	702	770
	Shares etc.	2	2	2
	Holdings in associates	-	18	18
	Other tangible assets	8	9	9
	Current tax assets	559	-	499
	Deferred tax assets	-	-	-
	Assets temporarily taken over	64	110	144
4	Other assets	2,136	3,070	2,232
	Prepayments	46	18	40
Total assets		851,579	862,677	852,718
LIABILITIES AND EQUITY				
AMOUNTS DUE				
	Due to credit institutions and central banks	9,530	6,355	17,949
	Issued mortgage bonds at fair value	779,312	782,526	764,970
5	Issued bonds at amortised cost	10,722	17,318	17,639
	Current tax liabilities	-	22	-
	Deferred tax liabilities	51	51	83
	Other liabilities	4,283	7,058	4,712
	Deferred income	-	-	-
Total amounts due		803,898	813,330	805,353
SHAREHOLDERS' EQUITY				
	Share capital	630	630	630
	Other reserves			
	Reserves in series	44,611	44,611	42,613
	Other reserves	2,440	306	4,122
	Proposed dividends	-	3,800	-
Total shareholders' equity		47,681	49,347	47,365
Total liabilities and equity		851,579	862,677	852,718

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 2017	630	44,611	306	3,800	49,347
Net profit for the period	-	-	2,162	-	2,162
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-36	-	-36
Tax	-	-	8	-	8
Total comprehensive income for the period	-	-	2,134	-	2,134
Dividends paid	-	-	-	-3,800	-3,800
Shareholders' equity at 30 June 2017	630	44,611	2,440	-	47,681
Shareholders' equity at 1 January 2016	630	42,613	2,003	3,500	48,746
Net profit for the period	-	-	2,070	-	2,070
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	62	-	62
Tax	-	-	-13	-	-13
Total comprehensive income for the period	-	-	2,119	-	2,119
Dividends paid	-	-	-	-3,500	-3,500
Shareholders' equity at 30 June 2016	630	42,613	4,122	-	47,365

At 30 June 2017, the share capital was made up of 6,300,000 shares of DKK 100 each. All shares carry the same rights; there is thus only one class of shares. The company is wholly-owned by Danske Bank A/S, Copenhagen.

TOTAL CAPITAL AND TOTAL CAPITAL RATIO (DKK millions)	30 June 2017	31 December 2016	30 June 2016
Shareholders' equity	45,578	49,347	47,365
Revaluation of domicile property at fair value	-	39	40
Tax effect	-	-8	-9
Total equity calculated in accordance with the rules of the Danish FSA	45,578	49,378	47,396
Proposed/expected dividends	-	-3,800	-1,860
Revaluation reserve	-	-	-
Deferred tax assets	-	-	-
Prudent valuation	-17	-26	-29
Defined benefit pension fund assets	-133	-115	-191
Common equity tier 1 capital	45,428	45,437	45,316
Difference between expected losses and impairment charges	-	-	-
Tier 1 capital	45,428	45,437	45,316
Reserves in series subject to a reimbursement obligation	-	-	-
Revaluation reserve	-	-	-
Difference between expected losses and impairment charges	854	729	736
Total capital	46,282	46,166	46,052
Risk exposure amount	162,892	153,597	141,599
Common equity tier 1 capital ratio (%)	27.9	29.6	32.0
Tier 1 capital ratio (%)	27.9	29.6	32.0
Total capital ratio (%)	28.4	30.1	32.5

Total capital and the total risk exposure amount at 30 June 2017 have been calculated in accordance with the rules applicable under the CRR/CRD IV taking transitional rules into account as stipulated by the Danish FSA.

From 1 January 2017, the profit for the period will not be recognised in the statement of total capital and total capital ratio until in connection with the audited full-year financial statements. During 2017, the statement of total capital and total capital ratio will therefore be based on shareholders' equity at 31 December 2016 (including the reassessment of domicile property at fair value realised in the second quarter of 2017) reduced by the dividend distributed in March 2017. In 2016, the profit for the period less expected dividends was recognised in the statement of total capital and total capital ratio during the year.

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

Cash flow statement – Realkredit Danmark Group

(DKK millions)	First half 2017	First half 2016	Full year 2016
Cash flow from operations			
Profit before tax	2,772	2,654	5,357
Tax paid	-1,182	-1,109	-1,172
Adjustment for non-cash operating items	-81	-244	-519
Cash flow from operating capital	-17,168	6,006	6,206
Total	-15,659	7,307	9,872
Cash flow from investing activities			
Acquisition/sale of tangible assets	-	-	-1
Total	-	-	-1
Cash flow from financing activities			
Dividends	-3,800	-3,500	-3,500
Total	-3,800	-3,500	-3,500
Cash and cash equivalents at 1 January	29,499	23,128	23,128
Change in cash and cash equivalents	-19,459	3,807	6,371
Cash and cash equivalents, end of period	10,040	26,935	29,499
Cash and cash equivalents, end of period			
Cash in hand and demand deposits with central banks	3	329	206
Amounts due from credit institutions and central banks within 3 months	10,037	26,606	29,293
Total	10,040	26,935	29,499

Notes – Realkredit Danmark Group

Note

1 Significant accounting policies

and critical accounting estimates and assessments

Realkredit Danmark's interim report for the first half of 2017 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 2016, which provides a full description of the significant accounting policies. The interim report has not been reviewed or audited.

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 amount most influenced by critical estimates and assessments is the fair value measurement of mortgage loans.

The estimates and assumptions are based on assumptions that management finds reasonable but which are inherently uncertain and unpredictable. The premises may be incomplete, unexpected future events or situations may occur and other parties may arrive at other estimated values.

Fair value measurement of mortgage loans

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

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

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

Realkredit Danmark's principal risks and external factors that may affect Realkredit Danmark are described in more detail in Annual Report 2016.

Notes – Realkredit Danmark Group

Note (DKK millions)

2 Profit broken down by activity

First half 2017	Mortgage finance	Own holdings	Highlights	Reclassi- fication	IFRS
Administration margin	3,075	-	3,075	-	3,075
Net interest income	-170	176	6	306	312
Dividends from shares	-	-	-	-	-
Net fee income	-280	-	-280	-	-280
Income from investment portfolios	273	77	350	-350	-
Value adjustments	-	-	-	45	45
Other income	105	-	105	-	105
Total income	3,003	253	3,256	1	3,257
Expenses	359	3	362	-	362
Profit before loan impairment charges	2,644	250	2,894	1	2,895
Loan impairment charges	122	-	122	-	122
Income from associates	-	-	-	-1	-1
Profit before tax	2,522	250	2,772	-	2,772
Total assets	794,931	56,648	851,579	-	851,579
First half 2016	Mortgage finance	Own holdings	Highlights	Reclassi- fication	IFRS
Administration margin	2,888	-	2,888	-	2,888
Net interest income	-145	176	31	406	437
Dividends from shares	-	-	-	-	-
Net fee income	-281	-	-281	-	-281
Income from investment portfolios	284	133	417	-417	-
Value adjustments	-	-	-	10	10
Other income	73	-	73	-	73
Total income	2,819	309	3,128	-1	3,127
Expenses	388	3	391	-	391
Profit before loan impairment charges	2,431	306	2,737	-1	2,736
Loan impairment charges	83	-	83	-	83
Income from associates	-	-	-	1	1
Profit before tax	2,348	306	2,654	-	2,654
Total assets	790,018	62,700	852,718	-	852,718

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.

Financial highlights and reporting for the two business segments correspond to the information incorporated in the Management's report, and which is regularly sent to the management. The reclassification column shows the reconciliation between the presentation in the highlights and in the IFRS financial statements. The difference 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.

Realkredit Danmark has no branch offices or subsidiaries outside Denmark.

Notes – Realkredit Danmark Group

Note	(DKK millions)	First half 2017	First half 2016
3	Loan impairment charges		
	Impairment charges etc. during the period	453	482
	Reversals of impairment charges etc. for previous years	534	728
	Losses incurred	233	358
	Received on claims previously written off	30	29
	Total	122	83

4 Loans etc.

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 3,298 million at 30 June 2017, against DKK 3,403 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 126 million at 30 June 2017, against DKK 102 million at the beginning of the year.

	Loans, individual impairment	Loans, collective impairment	Total
Impairment charges at 1 January 2016	3,055	972	4,027
Impairment charges during the period	653	96	749
Reversals of impairment charges for previous periods	1,018	253	1,271
Impairment charges at 31 December 2016	2,690	815	3,505
Impairment charges during the period	393	60	453
Reversals of impairment charges for previous periods	498	36	534
Impairment charges at 30 June 2017	2,585	839	3,424

Value adjustments of assets taken over amounted to DKK -5 million at 30 June 2017, against DKK 0 million at end-2016.

5 Issued bonds at amortised cost

	30 June 2017	31 December 2016
Nominal value of issued bonds	10,724	17,297
Fair value hedging of interest rate risk	-	20
Premium/discount	-2	1
Total issued bonds	10,722	17,318

	1 January 2017	Issued	Redeemed	30 June 2017
Nominal value	17,297	-	6,573	10,724

Issued bonds at amortised cost consist of issued senior debt.

6 Assets deposited as collateral

At 30 June 2017, Realkredit Danmark had deposited securities worth DKK 5,656 million (end-2016: DKK 8,304 million) as collateral with the Danish central bank.

In connection with repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet, and amounts received are recognised as due to credit institutions and central banks. Repo transaction securities are treated as assets provided as collateral for liabilities. At 30 June 2017, the carrying amount of such securities totalled DKK 9,505 million (end-2016: DKK 6,346 million). Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

At 30 June 2017, mortgage lending totalling DKK 773,959 million and other assets totalling DKK 25,038 million (end-2016: DKK 767,695 million and DKK 28,493 million) were registered as security for issued mortgage bonds, including mortgage-covered bonds, and issued bonds at amortised cost.

Notes – Realkredit Danmark Group

Note	(DKK millions)				
7	Financial instruments at fair value				
		Quoted prices	Observable input	Non-observable input	Total
	30 June 2017				
	Bonds at fair value	25,905	7,626	-	33,531
	Mortgage loans at fair value	-	773,959	-	773,959
	Shares	-	-	2	2
	Derivatives	-	15	-	15
	Total	25,905	781,600	2	807,507
	Issued mortgage bonds at fair value	779,312	-	-	779,312
	Derivatives	-	4	-	4
	Total	779,312	4	-	779,316
	31 December 2016				
	Bonds at fair value	21,277	4,722	-	25,999
	Mortgage loans at fair value	-	767,695	-	767,695
	Shares	-	-	2	2
	Derivatives	-	231	-	231
	Total	21,277	772,648	2	793,927
	Issued mortgage bonds at fair value	782,526	-	-	782,526
	Derivatives	-	85	-	85
	Total	782,526	85	-	782,611

Negative interest income and interest expenses due to negative interest rates were insignificant during the first six months of 2017. The amounts are offset against interest income and interest expenses, respectively.

Note 36 to Annual Report 2016 provides a description of the valuation techniques used for financial instruments. Financial market developments did not result in reclassification of bonds between listed prices and observable input during the first six months of 2017.

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.

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 June 2017	31 December 2016	30 June 2016
Other contingent liabilities			
Irrevocable loan commitments regarding reverse mortgages	6	11	12
Other commitments	89	96	94
Total	95	107	106

In addition to credit exposure from lending activities, loan offers made by the Group amounted to DKK 35,804 million (end-2016: DKK 28,366 million). These items are included in the calculation of the total risk amount in accordance with the CRR/CRD IV.

Notes – Realkredit Danmark Group

Note

9 Risk management

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

Credit risk

As a mortgage credit institution, Realkredit Danmark provides loans secured on real property. The credit risk on a mortgage loan basically derives from two factors; the risk that the borrower is unable to repay the loan and the expected loss if the customer does not repay the loan. The latter depends largely on the value of the mortgaged property. The table below shows a breakdown of the loan portfolio on customer classification by creditworthiness (rating categories) and loan-to-value (LTV) ratios. Loans to customers with an LTV ratio of more than 80% in the four lowest rating categories total DKK 4 billion, which corresponds to 0.5% of the total loan portfolio.

Portfolio broken down by LTV ratio and rating category
30 June 2017

Rating category	LTV ratio					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	80%-	
1	-	-	-	-	-	-
2	7	4	2	-	-	13
3	67	44	26	11	7	155
4	82	64	38	15	5	204
5	61	53	37	16	4	171
6	39	34	24	10	3	110
7	25	23	17	7	2	74
8	8	7	6	3	1	25
9	1	1	1	1	1	5
10	3	3	3	2	1	12
11	2	2	2	1	1	8
Total	295	235	156	66	25	777

Portfolio broken down by LTV ratio value and rating category
31 December 2016

Rating category	LTV ratio					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	80%-	
1	-	-	-	-	-	-
2	7	4	2	-	-	13
3	63	42	24	10	6	145
4	77	60	38	14	5	194
5	61	54	38	16	5	174
6	40	35	25	11	3	114
7	26	24	18	8	2	78
8	8	8	6	3	1	26
9	2	1	1	1	1	6
10	3	3	3	2	2	13
11	2	2	2	1	1	8
Total	289	233	157	66	26	771

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

Market risk

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

The statutory principle of balance eliminates most of the interest rate, exchange rate and liquidity risks on Realkredit Danmark's loans. Realkredit Danmark's other assets and liabilities involve some degree of market risk, mainly in the form of interest rate risk. Realkredit Danmark uses derivatives to hedge the interest rate risk on some of the bonds in the proprietary portfolio and on fixed-rate liabilities in the form of issued senior debt. The derivatives and the hedged bonds are recognised at fair value, and fair value hedge accounting is used to the effect that the hedged interest rate risk on the issued senior debt is also recognised at fair value in the financial statements. Realkredit Danmark has placed DKK 30,460 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 2016.

Interim financial statements – Realkredit Danmark A/S

Note (DKK millions)

The financial statements of the parent company, Realkredit Danmark A/S, have been prepared in accordance with the Danish Financial Business Act and the Danish FSA's Executive Order no. 281 dated 26 March 2014 on Financial Reports of Credit Institutions and Investment Companies, etc. as amended by Executive Order no. 707 of 1 June 2016.

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

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

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

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

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

	Net profit First half 2017	Net profit First half 2016	Shareholders' equity 30 June 2017	Shareholders' equity 31 December 2016
Consolidated financial statements (IFRS)	2,162	2,070	47,681	49,347
Domicile property	-39	-	-	39
Tax effect	8	-	-	-8
Consolidated financial statements (Danish FSA rules)	2,131	2,070	47,681	49,378

Income statement and Comprehensive income – Realkredit Danmark A/S

Note	(DKK millions)	First half 2017	First half 2016
	Income statement		
	Interest income	9,229	9,868
	Interest expense	5,842	6,543
	Net interest income	3,387	3,325
	Dividends from shares	-	-
	Fee and commission income	264	198
	Fee and commission expense	544	479
	Net fee and commission income	3,107	3,044
1	Value adjustments	45	10
	Other operating income	-	1
	Staff costs and administrative expenses	318	337
	Impairment, depreciation and amortisation charges	-	-
	Loan impairment charges	122	83
	Income from associated and group undertakings	16	15
	Profit before tax	2,728	2,650
	Tax	597	580
	Net profit for the period	2,131	2,070
	Comprehensive income		
	Net profit for the period	2,131	2,070
	Other comprehensive income		
	Items that will not be reclassified to profit or loss		
	Actuarial gains/losses on defined benefit plans	-36	62
	Fair value adjustment of domicile property	-	-
	Realised fair value adjustment of domicile property	-	-
	Tax	8	-13
	Total comprehensive income	-28	49
	Total comprehensive income for the period	2,103	2,119

Balance sheet – Realkredit Danmark A/S

Note	(DKK millions)	30 June 2017	31 December 2016	30 June 2016
ASSETS				
	Cash in hand and demand deposits with central banks	3	206	329
	Due from credit institutions and central banks	9,984	31,225	29,561
	Bonds at fair value	33,531	25,999	29,243
	Bonds at amortised cost	30,460	33,563	30,044
2	Mortgage loans at fair value	773,959	767,695	759,785
2	Loans and other amounts due at amortised cost	742	668	737
	Holdings in associates	-	18	18
	Holdings in group undertakings	121	134	118
	Other tangible assets	5	5	5
	Current tax assets	557	-	496
	Deferred tax assets	-	-	-
	Assets temporarily taken over	64	149	183
2	Other assets	2,091	3,027	2,184
	Prepayments	44	16	39
Total assets		851,561	862,705	852,742
LIABILITIES AND EQUITY				
AMOUNTS DUE				
	Due to credit institutions and central banks	9,530	6,355	17,949
	Issued mortgage bonds at fair value	779,312	782,526	764,970
	Issued bonds at amortised cost	10,722	17,318	17,639
	Current tax liabilities	-	21	-
	Other liabilities	4,230	7,011	4,654
	Deferred income	-	-	-
Total amounts due		803,794	813,231	805,212
PROVISIONS				
	Deferred tax	53	61	92
	Reserves in early series subject to a reimbursement obligation	33	35	42
Total provisions		86	96	134
SHAREHOLDERS' EQUITY				
	Share capital	630	630	630
	Revaluation reserve	-	31	31
	Reserves in series	44,611	44,611	42,613
	Other reserves	2,440	306	4,122
	Proposed dividends	-	3,800	-
Total shareholders' equity		47,681	49,378	47,396
Total liabilities and equity		851,561	862,705	852,742

Statement of capital – Realkredit Danmark A/S

CHANGES IN SHAREHOLDERS' EQUITY (DKK millions)	Share capital	Revaluation reserve	Reserves in series	Other reserves	Proposed dividends	Total
Shareholders' equity at 1 January 2017	630	31	44,611	306	3,800	49,378
Net profit for the period	-	-	-	2,131	-	2,131
Other comprehensive income						
Actuarial gains/losses on defined benefit plans	-	-	-	-36	-	-36
Fair value adjustment of domicile property	-	-	-	-	-	-
Realised fair value adjustment of domicile property	-	-39	-	39	-	-
Tax	-	8	-	-	-	8
Total comprehensive income for the period	-	-31	-	2,134	-	2,103
Dividends paid	-	-	-	-	-3,800	-3,800
Shareholders' equity at 30 June 2017	630	-	44,611	2,440	-	47,681
Shareholders' equity at 1 January 2016	630	31	42,613	2,003	3,500	48,777
Net profit for the period	-	-	-	2,070	-	2,070
Other comprehensive income						
Actuarial gains/losses on defined benefit plans	-	-	-	62	-	62
Fair value adjustment of domicile property	-	-	-	-	-	-
Tax	-	-	-	-13	-	-13
Total comprehensive income for the period	-	-	-	2,119	-	2,119
Dividends paid	-	-	-	-	-3,500	-3,500
Shareholders' equity at 30 June 2016	630	31	42,613	4,122	-	47,396

At 30 June 2017, 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.

The revaluation reserves relate to fair value adjustment of domicile property.

Notes - Realkredit Danmark A/S

Note	(DKK millions)	First half 2017	First half 2016
1	Value adjustments		
	Mortgage loans	2,842	10,847
	Bonds	-189	-144
	Currency	-	-2
	Derivatives	-1,655	-622
	Other assets	6	9
	Issued mortgage bonds	-982	-10,110
	Other liabilities	23	32
	Total	45	10

2 Loans etc.

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 3,298 million at 30 June 2017, against DKK 3,403 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 122 million at 30 June 2017, against DKK 97 million at the beginning of the year.

	Loans, individual impairment	Loans, collective impairment	Total
Impairment charges at 1 January 2016	3,048	972	4,020
Impairment charges during the period	653	96	749
Reversals of impairment charges for previous periods	1,016	253	1,269
Impairment charges at 31 Dec. 2016	2,685	815	3,500
Impairment charges during the period	393	60	453
Reversals of impairment charges for previous periods	497	36	533
Impairment charges at 30 June 2017	2,581	839	3,420

Value adjustment of assets taken over amounted to DKK -5 million at 30 June 2017, against DKK 0 million at end-2016.

Statement by the management

The Board of Directors and the Executive Board (management) have considered and approved Interim Report – First Half 2017 of Realkredit Danmark Group.

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

In our opinion, the consolidated interim financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities, shareholders' equity and financial position at 30 June 2017 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 2017 and ending on 30 June 2017. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the Parent Company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

Copenhagen, 20 July 2017

Executive Board

Carsten Nøddebo Rasmussen
Chairman of the Executive Board

Board of Directors

Lars Mørch
Chairman

Jesper Nielsen
Vice Chairman

Kim Andersen

Jacob Aarup-Andersen

Henriette Fenger Ellekrog

Lisbeth Sahlertz Nielsen

Majken Hammer Sløk

Sonia Khan

Supplementary information

Financial calendar

- Interim Report – First Nine Months 2017:
2 November 2017
- Annual Report 2017:
2 February 2018
- Annual General Meeting:
9 March 2018
- Interim Report – First Quarter 2018:
26 April 2018
- Interim Report – First Half 2018:
18 July 2018
- Interim Report – First Nine Months 2018:
1 November 2018

Contact


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

Address

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

Links

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



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

rd.dk
E-mail rd@rd.dk