

Interim Report – First Nine Months 2014



REALKREDIT
Danmark

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Interim Report – First Nine Months 2014 is a translation of the original report in the Danish language (Delårsrapport – 1.-3. kvartal 2014). In case of discrepancies, the Danish version prevails.

Financial highlights – Realkredit Danmark Group

NET PROFIT FOR THE PERIOD (DKK millions)	Q1-Q3 2014	Q1-Q3 2013	Index 14/13	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Full year 2013
Administration margin	4,255	4,109	104	1,446	1,425	1,384	1,382	1,376	5,491
Net interest income	22	-26	-	14	10	-2	2	2	-24
Net fee income	-389	-360	108	-131	-130	-128	-180	-125	-540
Income from investment portfolios	417	376	111	99	81	237	374	49	750
Other income	98	94	104	32	35	31	29	31	123
Total income	4,403	4,193	105	1,460	1,421	1,522	1,607	1,333	5,800
Expenses	592	611	97	191	196	205	241	207	852
Profit before loan impairment charges	3,811	3,582	106	1,269	1,225	1,317	1,366	1,126	4,948
Loan impairment charges	833	1,151	72	264	325	244	320	264	1,471
Profit before tax	2,978	2,431	123	1,005	900	1,073	1,046	862	3,477
Tax	719	607	118	236	220	263	258	215	865
Net profit for the period	2,259	1,824	124	769	680	810	788	647	2,612

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	24,831	5,397	460	24,831	34,360	30,409	51,004	5,397	51,004
Mortgage loans	747,147	729,881	102	747,147	743,017	739,825	730,901	729,881	730,901
Bonds and shares	68,452	43,543	157	68,452	61,155	62,323	61,156	43,543	61,156
Other assets	3,668	3,289	112	3,668	3,075	3,524	5,073	3,289	5,073
Total assets	844,098	782,110	108	844,098	841,607	836,081	848,134	782,110	848,134
Due to credit institutions etc.	16,630	6,468	257	16,630	20,177	21,538	32,501	6,468	32,501
Issued mortgage bonds	743,035	693,529	107	743,035	739,953	727,949	725,159	693,529	725,159
Issued senior debt	28,651	27,070	106	28,651	28,634	32,608	32,089	27,070	32,089
Other liabilities	8,737	8,916	98	8,737	6,565	8,371	11,501	8,916	11,501
Shareholders' equity	47,045	46,127	102	47,045	46,278	45,615	46,884	46,127	46,884
Total liabilities and equity	844,098	782,110	108	844,098	841,607	836,081	848,134	782,110	848,134

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	6.4	5.3		6.6	5.9	7.0	6.8	5.7	5.6
Impairment charges as % of mortgage lending	0.15	0.21		0.14	0.18	0.13	0.18	0.15	0.20
Cost/income ratio (%)	13.4	14.6		13.1	13.8	13.5	15.0	15.5	14.7
Total capital ratio (%)	35.4	35.1		35.4	34.3	34.2	34.0	35.1	34.0
Tier 1 capital ratio (%)	34.9	34.6		34.9	33.8	33.7	33.5	34.6	33.5
Full-time-equivalent staff (end of period)	243	248		243	242	243	249	248	249

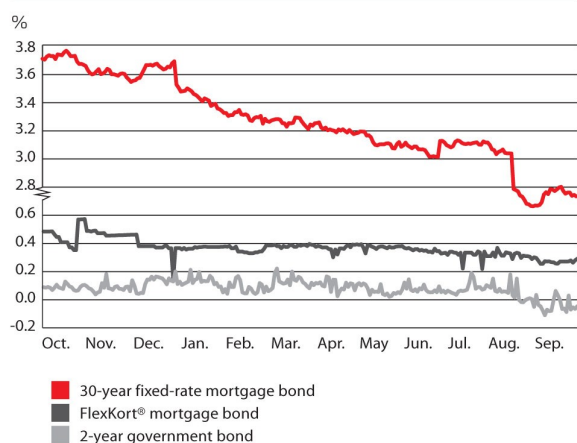
Overview, first nine months 2014

- Realkredit Danmark recorded a net profit of DKK 2,259 million in the first nine months of 2014, against DKK 1,824 million in the same period of 2013. The 24% improvement was driven especially by lower impairments and a slight increase in administration margins. Administration margins rose on the back of a larger loan portfolio and marginally higher average margins.
- Customer interest in FlexKort® loans remained strong. Gross lending in the first nine months of 2014 amounted to DKK 11 billion.
- In the third quarter, Realkredit Danmark was able to offer its customers fixed-rate loans with historically low interest rates, including a 30-year mortgage with a coupon of 2.5%.
- The proportion of customers with 1-year FlexLån® loans fell from 22.3% at 30 September 2013 to 13.8% at the end of September 2014.
- The total capital ratio according to the CRR was 35.4%, against 34.0% at the end of 2013.
- The positive trends of the first three quarters of the year are expected to continue into the fourth quarter.

Mortgage credit market

In the first nine months of 2014, the Danish housing market was characterised by rising house prices and an increase in trading activity. Sales numbers from estate agent “home” show that total sales of residential units in the first seven months of the year were about 15% higher than in the same period of 2013, while house prices in July were up 4.6% on the year-earlier level. The improved housing market trends are attributable especially to the historically low interest rates. The improvement does not, however, mean that the Danish housing market is experiencing a general recovery as large geographical differences persist in terms of both prices and trading activity. Especially the peripheral areas of Denmark continue to experience weak demand for residential units and falling prices.

Trend in interest rates past 12 months



Interest rates remain very low, and Danish mortgage credit institutions have recently launched new fixed-rate loans with historically low coupons. These loans include a 30-year fixed-rate loan with a coupon of 2.5% and a 10-year fixed-rate loan with a coupon of 1%.

The market for commercial property has also witnessed increasing activity. Unlike the situation in recent years, there are now signs of growing optimism among property investors. Investors are attracted to properties generating a stable cash flow.

Results

Realkredit Danmark recorded a net profit of DKK 2,259 million in the first nine months of 2014, against DKK 1,824 million in the same period of last year. The profit was higher especially because of lower impairments and higher administration margins.

Administration margins rose 4% on the back of a larger loan portfolio and marginally higher average margins.

In the first nine months of 2014, net interest income benefited from returns on holdings of securities with long maturities. Conversely, net interest income was adversely affected by rising net expenses for senior debt.

Income from the investment portfolio amounted to DKK 417 million, against DKK 376 million in the first nine months of 2013.

Total income rose 5% over income in the first nine months of 2013.

Expenses in the first nine months fell 3% relative to the level in the first nine months of 2013.

Impairments fell to DKK 833 million from DKK 1,151 million in the same period of 2013. Total impairments improved partly as a result of a slowly improving housing market in Denmark. Impairments equalled 0.15% p.a. of total mortgage lending, against 0.20% p.a. in 2013.

The delinquency rate fell slightly from the level at 30 September 2013.

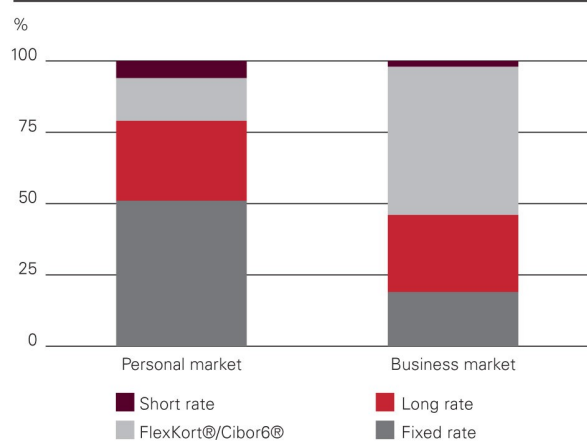
The tax charge totalled DKK 719 million. The effective tax rate for the period was 24.5%.

Balance sheet

Gross lending amounted to DKK 72 billion, against DKK 67 billion in the first nine months of 2013. Mortgage lending at fair value rose DKK 16 billion to DKK 747 billion. The nominal outstanding bond debt rose DKK 5 billion.

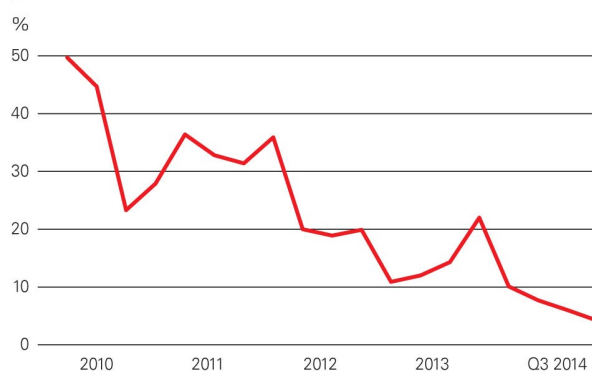
The sharp decline in 1-year and 2-year FlexLån® loans continued in the first nine months of 2014, spurred by the FlexKort® product consolidating its position as the preferred loan with short interest reset intervals.

Gross lending – loan types first nine months 2014



In the personal customer market, FlexKort® accounted for 15% of gross lending in the first nine months, while other short-term, floating-rate loans represented 6%. In the business market, FlexKort®/Cibor6® loans accounted for 52% of gross lending, while other short-term, floating-rate loans represented 2%.

Gross loans private market - share of 1-year and 2-year FlexLån® loans



The proportion of gross lending in the personal customer market of 1-year and 2-year FlexLån® loans has fallen considerably over the past five years, and in the third quarter of 2014, it was 4%.

The total volume of 1-year FlexLån® loans fell from DKK 122 billion to DKK 100 billion during the first nine months of 2014.

At 30 September 2014, the average loan-to-value (LTV) ratio stood at 71%, the same level as at the end of 2013.

The number of new foreclosures was 85 in the first nine months of 2014. At 30 September, the total num-

ber of foreclosures was 71, or 51 fewer than at 1 January. The value of the foreclosures was DKK 105 million.

Issued mortgage bonds rose DKK 18 billion to DKK 743 billion. The nominal value of issued bonds rose DKK 8 billion to DKK 717 billion. The amounts are exclusive of holdings of own bonds.

Capital and solvency

At 30 September 2014, shareholders' equity stood at DKK 47.0 billion, against DKK 46.9 billion at end-2013. The ordinary dividend payment of DKK 2.1 billion and the consolidation of the net profit for the period accounted for the change.

Realkredit Danmark's total capital amounted to DKK 45.9 billion, and the total capital ratio calculated in accordance with the CRR was 35.4%. At 31 December 2013, the corresponding figures were DKK 45.5 billion and 34.0%, respectively.

Realkredit Danmark uses the internal ratings-based (IRB) approach to calculate risk-weighted assets for credit risks. Risk-weighted assets (RWA) amounted to DKK 129.5 billion at 30 September 2014, against DKK 133.9 billion at end-2013. Calculated on the basis of the transitional rules of the CRR, the solvency need for 2014 must, as a minimum, amount to 80% of the requirement calculated under the previous rules, corresponding to DKK 26.8 billion or a solvency need ratio of 20.7%. Realkredit Danmark thus has a capital buffer of DKK 19.1 billion.

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

As part of the Danske Bank Group, Realkredit Danmark has participated in an Asset Quality Review (AQR) under the auspices of the Danish Financial Supervisory Authority (FSA). All relevant information regarding the stress test and the AQR is available at danskebank.com/ir.

Supplementary collateral

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

At the end of September 2014, the requirement for supplementary collateral for mortgage-covered bonds was DKK 42.9 billion.

Legislative changes

The Danish FSA has submitted its supervisory diamond for mortgage credit institutions for consultation. The supervisory diamond defines benchmarks for lending growth, borrowers' interest rate exposure, interest-only loans, the extent of loans with short fund-

ing and large exposures. Realkredit Danmark has already taken a number of steps to support the supervisory diamond. Prices are already structured in such a way that higher-risk loans have higher prices – that is, loans with an interest-only option, high LTV ratio or frequent refinancing. In addition, for a number of years, Realkredit Danmark has focused on advising its customers on the possibility of remortgaging to loans with longer interest reset intervals, thereby capitalising on the low level of interest rates and the relatively flat interest rate structure to set their mortgage rates for longer periods.

On 10 October, the European Commission adopted a delegated act on liquidity rules for credit institutions. The delegated act implements the Liquidity Coverage Ratio (LCR), the details of which have now been finalised. Danish mortgage bonds can be counted in the LCR on a par with other extremely high quality liquid assets in Europe and that is good news for the Danish mortgage credit system. Particularly liquid mortgage bonds with an issue size of at least EUR 500 million may constitute up to 70% of the liquidity buffer of a credit institution, while liquid mortgage bonds with an issue size of at least EUR 250 million may constitute up to 40%. The remaining 30% must be in the form of government bonds, certificates of deposit or cash.

Rating

Realkredit Danmark's mortgage bonds and mortgage-covered bonds issued from capital centres S and T and under the Other reserves series still hold a AAA rating from Standard & Poor's. Furthermore, bonds issued from capital centre S hold a AAA rating from Fitch Ratings, while bonds issued from capital centre T hold a AA+ rating from the same agency. Realkredit Danmark holds an issuer rating of A from Fitch Ratings.

Outlook for 2014

Realkredit Danmark expects that growth will be moderate in the Danish economy in 2014 and that interest rates will stay low for the rest of the year. These developments will support the ongoing improvement in the Danish housing market.

Realkredit Danmark still expects to achieve a higher profit in 2014 than it did in 2013.

Income statement and Comprehensive income – Realkredit Danmark Group

Note	(DKK millions)	Q1-Q3 2014	Q1-Q3 2013	Q3 2014	Q3 2013	Full year 2013
	Income statement					
	Interest income	17,899	18,756	5,877	6,025	25,005
	Interest expense	12,816	13,354	4,203	4,244	17,724
	Net interest income	5,083	5,402	1,674	1,781	7,281
	Dividends from shares	-	-	-	-	-
	Fee and commission income	282	286	117	84	397
	Fee and commission expense	671	646	248	209	937
	Net fee and commission income	4,694	5,042	1,543	1,656	6,741
	Value adjustments	-391	-945	-115	-354	-1,067
	Other operating income	98	94	32	31	123
	Staff costs and administrative expenses	589	608	190	206	848
	Impairment, depreciation and amortisation charges	3	3	1	1	4
3	Loan impairment charges	833	1,151	264	264	1,471
	Income from associates and group undertakings	2	2	-	-	3
	Profit before tax	2,978	2,431	1,005	862	3,477
	Tax	719	607	236	215	865
	Net profit for the period	2,259	1,824	769	647	2,612
	Comprehensive income					
	Net profit for the period	2,259	1,824	769	647	2,612
	Other comprehensive income					
	Items that will not be reclassified to profit or loss					
	Actuarial gains/losses on defined benefit plans	3	-65	-2	8	-107
	Tax	-1	16	-	-3	27
	Total other comprehensive income	2	-49	-2	5	-80
	Total comprehensive income for the period	2,261	1,775	767	652	2,532

Balance sheet – Realkredit Danmark Group

Note	(DKK millions)	30 September 2014	31 December 2013	30 September 2013
ASSETS				
	Cash in hand and demand deposits with central banks	282	872	21
	Due from credit institutions and central banks	24,549	50,132	5,376
	Bonds at fair value	31,702	32,396	43,527
	Bonds at amortised cost	36,733	28,744	-
4	Mortgage loans at fair value	747,147	730,901	729,881
4	Loans and other amounts due at amortised cost	933	973	984
	Shares etc.	2	2	2
	Holdings in associates	15	14	14
	Land and buildings	90	91	91
	Domicile property	90	91	91
	Other tangible assets	10	10	10
	Current tax assets	-	77	-
	Deferred tax assets	-	-	-
	Assets temporarily taken over	105	193	230
4	Other assets	2,517	3,720	1,958
	Prepayments	13	9	16
Total assets		844,098	848,134	782,110
LIABILITIES AND EQUITY				
AMOUNTS DUE				
	Due to credit institutions and central banks	16,630	32,501	6,468
	Issued mortgage bonds at fair value	743,035	725,159	693,529
5	Issued bonds at amortised cost	28,651	32,089	27,070
	Current tax liabilities	614	-	588
	Deferred tax liabilities	45	16	37
	Other liabilities	8,078	11,485	8,291
	Deferred income	-	-	-
Total amounts due		797,053	801,250	735,983
SHAREHOLDERS' EQUITY				
	Share capital	630	630	630
	Other reserves			
	Reserves in series	42,292	42,292	39,453
	Other reserves	4,123	1,862	6,044
	Proposed dividends	-	2,100	-
Total shareholders' equity		47,045	46,884	46,127
Total liabilities and equity		844,098	848,134	782,110

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 2014	630	42,292	1,862	2,100	46,884
Net profit for the period	-	-	2,259	-	2,259
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	3	-	3
Tax	-	-	-1	-	-1
Total comprehensive income for the period	-	-	2,261	-	2,261
Dividends paid	-	-	-	-2,100	-2,100
Shareholders' equity at 30 September 2014	630	42,292	4,123	-	47,045
Shareholders' equity at 1 January 2013	630	39,453	4,269	2,000	46,352
Net profit for the period	-	-	1,824	-	1,824
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-65	-	-65
Tax	-	-	16	-	16
Total comprehensive income for the period	-	-	1,775	-	1,775
Dividends paid	-	-	-	-2,000	-2,000
Shareholders' equity at 30 September 2013	630	39,453	6,044	-	46,127

At 30 September 2014, the share capital was made up of 6,300,000 shares of DKK 100 each. The company has one share class, and all shares carry equal rights. The company is wholly-owned by Danske Bank A/S, Copenhagen.

TOTAL CAPITAL AND TOTAL CAPITAL RATIO (DKK millions)	30 September 2014	31 December 2013	30 September 2013
Shareholders' equity	47,045	46,884	46,127
Revaluation of domicile property at fair value	52	50	46
Tax effect	-13	-12	-11
Total equity calculated in accordance with the rules of the Danish FSA	47,084	46,922	46,162
Expected/proposed dividends	-1,800	-2,100	-1,450
Revaluation reserve	-	-34	-31
Deferred tax assets	-	-	-
Defined benefit pension fund assets	-49	-	-
Common equity tier 1 capital	45,235	44,788	44,681
Difference between expected losses and impairment charges	-	-	-
Tier 1 capital	45,235	44,788	44,681
Reserves in series subject to a reimbursement obligation	-	45	45
Revaluation reserve	-	34	31
Difference between expected losses and impairment charges	656	665	669
Total capital	45,891	45,532	45,426
Total risk-weighted assets	129,463	133,867	129,241
Common equity tier 1 capital ratio (%)	34.9	33.5	34.6
Tier 1 capital ratio (%)	34.9	33.5	34.6
Total capital ratio (%)	35.4	34.0	35.1

Total capital and risk-weighted assets at 30 September 2014 have been calculated in accordance with the rules applicable under the CRR taking transitional rules into account as stipulated by the Danish FSA. Total capital and risk-weighted assets at 31 December 2013 were calculated in accordance with the Danish Financial Business Act. A new filter will be introduced for deduction from common equity tier 1 capital of additional value adjustments of assets and liabilities measured at fair value (prudent valuation). The European Banking Authority (EBA) has submitted its final standard for adoption by the European Commission, which is expected during the fourth quarter of 2014. The final stipulations of the standard may lead to a small reduction in common equity tier 1 capital.

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

Cash flow statement – Realkredit Danmark Group

(DKK millions)	Q1-Q3 2014	Q1-Q3 2013	Full year 2013
Cash flow from operations			
Profit before tax	2,978	2,431	3,477
Tax paid	-	-	-934
Adjustment for non-cash operating items	430	590	697
Cash flow from operating capital	-27,480	-14,350	31,039
Total	-24,072	-11,329	34,279
Cash flow from investing activities			
Acquisition/sale of tangible assets	-1	-1	-2
Total	-1	-1	-2
Cash flow from financing activities			
Dividends	-2,100	-2,000	-2,000
Total	-2,100	-2,000	-2,000
Cash and cash equivalents at 1 January	51,004	18,727	18,727
Change in cash and cash equivalents	-26,173	-13,330	32,277
Cash and cash equivalents, end of period	24,831	5,397	51,004

Notes – Realkredit Danmark Group

Note

1 Significant accounting policies

and significant accounting estimates and assessments

Realkredit Danmark's interim report for the first nine months of 2014 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 adopted IFRS 10, Consolidated Financial Statements. With the exception of this change, the Group has not changed its significant accounting policies from those followed in Annual Report 2013, which provides a full description of the significant accounting policies.

Change in accounting policies

On 1 January 2014, the Group adopted IFRS 10, Consolidated Financial Statements. IFRS 10 replaces IAS 27 and establishes a uniform definition of control. Control is based on the concepts of power, variability of returns and their linkage. Realkredit Danmark consolidates an entity if it has control over that entity. Control exists if Realkredit Danmark is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns by exercising its power over the entity. The adoption of IFRS 10 did not change its consolidation of businesses.

Significant accounting estimates and assessments

Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the Group's consolidated financial statements. The amount most influenced by critical estimates and assessments is the fair value measurement of mortgage loans.

The estimates and assumptions are based on assumptions that management finds reasonable but which are inherently uncertain and unpredictable.

The premises may be incomplete, unexpected future events or situations may occur and other parties may arrive at other estimated values.

Fair value measurement of mortgage loans

The fair value of mortgage loans is based on the fair value of the underlying issued mortgage bonds adjusted for changes in the fair value of the credit risk on borrowers. For mortgage loans granted to customers in rating categories 10 and 11 (loans with objective evidence of impairment), such adjustment is made to the amount which the borrower is expected to be able to repay after a financial restructuring. Loans are written down to the fair value of the collateral if financial restructuring is not possible.

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 2013.

The interim report has not been reviewed or audited.

Notes – Realkredit Danmark Group

Note (DKK millions)

2 Profit broken down by activity

Q1-Q3 2014	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
Administration margin	4,255	-	4,255	-	4,255
Net interest income	-116	944	828	-806	22
Dividends from shares	-	-	-	-	-
Net fee income	-389	-	-389	-	-389
Income from investment portfolios	-	-	-	417	417
Value adjustments	248	-639	-391	391	-
Other income	98	-	98	-	98
Total income	4,096	305	4,401	2	4,403
Expenses	587	5	592	-	592
Profit before loan impairment charges	3,509	300	3,809	2	3,811
Loan impairment charges	833	-	833	-	833
Income from associates	-	2	2	-2	-
Profit before tax	2,676	302	2,978	-	2,978

Q1-Q3 2013	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
Administration margin	4,109	-	4,109	-	4,109
Net interest income	-26	1,319	1,293	-1,319	-26
Dividends from shares	-	-	-	-	-
Net fee income	-360	-	-360	-	-360
Income from investment portfolios	-	-	-	376	376
Value adjustments	190	-1,135	-945	945	-
Other income	94	-	94	-	94
Total income	4,007	184	4,191	2	4,193
Expenses	606	5	611	-	611
Profit before loan impairment charges	3,401	179	3,580	2	3,582
Loan impairment charges	1,151	-	1,151	-	1,151
Income from associates	-	2	2	-2	-
Profit before tax	2,250	181	2,431	-	2,431

Mortgage finance encompasses property financing services provided in Denmark, Sweden and Norway to personal and business customers. The mediation of property financing services is made through Danske Bank's branch network and finance centres and through Corporate & Institutional Mortgage Finance at Realkredit Danmark. The segment also includes mediation of real estate transactions in Denmark offered through the "home" real-estate agency chain. Under the Danish Financial Business Act, at least 60% of the total capital of a mortgage credit institution must be invested in bonds, etc. Own holdings comprise the net return on the part of the securities portfolio not relating to the mortgage finance business. Income from trading activities and own holdings is carried in the income statement under net interest income and value adjustments, etc. In the consolidated highlights, this income, except for interest on bonds at amortised cost, is reclassified to income from investment portfolios. Realkredit Danmark has no branch offices or subsidiaries outside Denmark.

Notes – Realkredit Danmark Group

Note	(DKK millions)	Q1-Q3 2014	Q1-Q3 2013
3	Loan impairment charges		
	Impairment charges etc.	1,368	1,370
	Reversals of impairment charges etc. for previous years	941	783
	Losses incurred	452	618
	Received on claims previously written off	46	54
	Total	833	1,151

4 Loans etc.

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 3,758 million at 30 September 2014, against DKK 3,341 million at the beginning of the year.

Of total loan impairments for the credit risk on loans and other amounts due at amortised cost, impairments were recognised as an expense of DKK 323 million at 30 September 2014, against DKK 313 million at the beginning of the year.

	Loans, individual impairment	Loans, collective impairment	Total
Impairment charges at 1 January 2013	2,747	214	2,961
Impairment charges during the period	1,598	311	1,909
Reversals of impairment charges etc. for previous periods	1,104	112	1,216
Impairment charges at 31 December 2013	3,241	413	3,654
Impairment charges during the period	1,254	114	1,368
Reversals of impairment charges etc. for previous periods	855	86	941
Impairment charges at 30 September 2014	3,640	441	4,081

Value adjustments of assets taken over amounted to DKK 3 million at 30 September 2014, against DKK -16 million at end-2013.

5 Issued bonds at amortised cost

	30 September 2014	31 December 2013
Nominal value of issued bonds	28,500	32,000
Fair value hedging of interest rate risk	122	50
Premium/discount	29	39
Total issued bonds	28,651	32,089

	1 January 2014	Issued	Redeemed	30 September 2014
Nominal value				
Total issued bonds	32,000	4,000	7,500	28,500

Issued bonds at amortised cost consist of issued senior debt.

6 Assets deposited as collateral

At 30 September 2014, Realkredit Danmark had deposited securities worth DKK 14,953 million (end-2013: DKK 19,242 million) as collateral with the Danish central bank.

In connection with repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet, and amounts received are recognised as due to credit institutions and central banks. Repo transaction securities are treated as assets provided as collateral for liabilities. At 30 September 2014, the carrying amount of such securities totalled DKK 16,607 million (end-2013: DKK 32,434 million). Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

At 30 September 2014, mortgage lending totalling DKK 747,147 million and other assets totalling DKK 42,932 million (end-2013: DKK 730,901 million and DKK 42,199 million) were registered as security for issued mortgage bonds, including mortgage-covered bonds, and issued bonds at amortised cost.

Notes – Realkredit Danmark Group

Note	(DKK millions)				
7	Financial instruments at fair value				
	30 September 2014	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	31,702	-	-	31,702
	Mortgage loans at fair value	-	747,147	-	747,147
	Shares	-	-	2	2
	Derivatives	-	221	-	221
	Total	31,702	747,368	2	779,072
	Issued mortgage bonds at fair value	743,035	-	-	743,035
	Derivatives	-	4	-	4
	Total	743,035	4	-	743,039
	31 December 2013				
	Bonds at fair value	32,396	-	-	32,396
	Mortgage loans at fair value	-	730,901	-	730,901
	Shares	-	-	2	2
	Derivatives	-	501	-	501
	Total	32,396	731,402	2	763,800
	Issued mortgage bonds at fair value	725,159	-	-	725,159
	Derivatives	-	22	-	22
	Total	725,159	22	-	725,181

Note 37 to Annual Report 2013 provides a description of the valuation techniques used for financial instruments. Financial market developments did not result in reclassification of bonds between listed prices and observable input during the first nine months of 2014.

8 **Contingent liabilities**

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

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.

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.

Guarantees and indemnities issued by the Group, irrevocable loan commitments regarding reverse mortgages and other commitments not recognised in the balance sheet amount to:

(DKK millions)	30 September 2014	31 December 2013	30 September 2013
Other contingent liabilities			
Irrevocable loan commitments regarding reverse mortgages	57	99	99
Other commitments	106	133	130
Total	163	232	229

In addition to credit exposure from lending activities, loan offers made granted by the Group amounted to DKK 21,015 million. These items are included in the calculation of risk-weighted assets in accordance with the CRR.

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 8 billion, which corresponds to 1.1% of the total loan portfolio.

Portfolio broken down by LTV ratio and rating category

30. September 2014

Rating- category	LTV ratio					Total DKK billions
	0- 20%	20- 40%	40- 60%	60- 80%	80- 100%	
1	-	-	-	-	-	-
2	5	3	2	-	-	10
3	49	33	22	12	9	125
4	64	50	35	17	9	175
5	52	45	36	18	8	159
6	38	33	25	14	6	116
7	30	28	22	12	5	97
8	9	9	7	4	2	31
9	3	2	2	1	1	9
10	5	5	3	3	3	19
11	2	2	2	2	2	10
Total	257	210	156	83	45	751

Portfolio broken down by LTV ratio value and rating category

31. December 2013

Rating- category	LTV ratio					Total DKK. billions
	0-20%	20- 40%	40- 60%	60- 80%	80- 100%	
1	-	-	-	-	-	-
2	5	3	2	-	-	10
3	45	31	20	9	7	112
4	58	45	32	16	6	157
5	54	46	34	18	8	160
6	40	34	25	15	7	121
7	31	29	23	13	7	103
8	10	9	7	5	3	34
9	2	2	2	1	1	8
10	5	5	4	3	3	20
11	2	2	2	1	2	9
Total	252	206	151	81	44	734

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

Market risk

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

However, the statutory principle of balance eliminates most of the interest rate, exchange rate and liquidity risks on Realkredit Danmark's loans. Realkredit Danmark's other assets and liabilities involve some degree of market risk, mainly in the form of interest rate risk. Realkredit Danmark uses derivatives to hedge the interest rate risk on some of the bonds in the proprietary portfolio and on fixed-rate liabilities in the form of issued senior debt. The derivatives and the hedged bonds are recognised at fair value, and fair value hedge accounting is used to the effect that the hedged interest rate risk on the issued senior debt is also recognised at fair value in the financial statements. Realkredit Danmark has placed DKK 36,733 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 2013.

Statement by the management

The Board of Directors and the Executive Board (management) have considered and approved Interim Report – First Nine Months 2014 of the Realkredit Danmark Group.

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

In our opinion, the consolidated interim financial statements give a true and fair view of the Group's assets, liabilities, shareholders' equity and financial position at 30 September 2014 and of the results of the Group's operations and the consolidated cash flows for the period starting on 1 January 2014 and ending on 30 September 2014. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group.

Copenhagen, 30 October 2014

Executive Board

Carsten Nøddebo Rasmussen
Chairman of the Executive Board

Board of Directors

Tonny Thierry Andersen
Chairman

Lars Mørch
Vice Chairman

Kim Andersen

Henrik Ramlau-Hansen

Claus Bundgaard

Lisbeth Sahlertz Nielsen

Supplementary information

Financial calendar

- Annual Report 2014:
3 February 2015
- Annual general meeting:
5 March 2015
- Interim Report – First Quarter 2015:
30 April 2015
- Interim Report – First Half 2015:
22 July 2015
- Interim Report – First Nine Months 2015:
29 October 2015

Contact


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