

Company Announcement for the First Nine Months of 2022

Kamilla Hammerich Skytte, CEO, comments on the financial results:

“The result for the first nine months of 2022 is solid in a turbulent period, characterised by stable administration margin income but also by a decline in income from investment portfolios. Markedly higher interest rates, rising inflation driven by high energy prices affected developments in the third quarter, in which, among other things, we saw a decline in housing market activity with a slight impact on prices. The average loan-to-value for customers is down to 46%, which is the lowest level in decades. Generally speaking, our customers are well equipped to handle financial headwinds. Our focus is directed towards helping our customers during this period of increased uncertainty, through bringing clarity to their financing options.”

We expect lending activity to continue to decrease in the coming period as a result of the uncertainty in the market. Buyers and sellers are still transitioning to changed market dynamics, with declining house prices being the most likely scenario for the coming quarters.”

Mortgage Market

Growth in the Danish economy has slowed this year, both as a reaction to the surge in activity last year and in the wake of an ever more uncertain economic climate. Historically high inflation has eroded purchasing power among both firms and consumers, and soaring consumer prices have also sparked a sharp rise in interest rates in financial markets. In terms of Danish mortgage rates, September brought a 30-year loan with a fixed rate of 5% and 6% in the beginning of October, up from 1.5% at the beginning of the year. We have not seen as significant a rise in mortgage rates in such a short space of time for many years, and this goes for both short and long rates. Rising interest rates are also helping to put a damper on economic activity.

Unsurprisingly, the housing market has been hit by the erosion of purchasing power and rising interest rates. Activity has dropped off considerably during the year, the supply of housing is growing, sellers are giving bigger discounts, and we have also now begun to see a real fall in selling prices. For now, however, it is worth remembering that homeowners in Realkredit Danmark, with an average loan-to-value at 44%, are in a good position to deal with the substantial headwinds which are now buffeting the housing market and look like continuing to do so for some time.

First Nine Months of 2022

The Realkredit Danmark Group recorded a net profit of DKK 2,617 million in the first nine months of 2022, against DKK 2,786 million in the same period of 2021. The profit was affected by higher income relating to lending activity, lower income from investment portfolios, higher costs and lower loan impairment charges. The impact of the lower average loan-to-value was a decrease in administration margin by DKK 73 million.

Expenses increased DKK 124 million, mainly due to a DKK 48 million provision for Realkredit Danmark's part of the debt collection legacy remediation and DKK 69 million from termination of Danske Bank's VAT group. Loan impairment charges decreased by DKK 84 million in spite of charges related to Realkredit Danmark's share of debt collection write-offs at DKK 174 million in third quarter. The total allowance account at 30 September 2022 amounted to DKK 2,888 million, against DKK 2,971 million at 31 December 2021. The post-model adjustment of DKK 0.7 billion booked in Q1 2020 for COVID-19 related losses has been rolled back and fully repurposed into post-model adjustments related to Global Tension, energy crisis and inflation has been booked to cover the impact from increased economic uncertainty.

The steeply increasing mortgage rates has fuelled remortgaging activity during 2022, and our customers have reduced nominal outstanding debt by DKK 5.4 billion in the first nine months of 2022. Mortgage lending at nominal value decreased by 1% but measured at fair value, the decrease was 13%. The latter attributable to lower bond prices due to the rising interest rate levels. Gross lending amounted to DKK 121 billion, against DKK 110 billion in the first nine months of 2021.

In the first nine months of 2022, Realkredit Danmark maintained its focus on green bond initiatives. Customer responses are still very positive, and at 30 September 2022, total green lending amounted to DKK 21 billion.

Realkredit Danmark expects net profit for 2022 to be somewhat lower than net profit for 2021.

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Financial highlights – Realkredit Danmark Group

INCOME STATEMENT (DKK millions)	Q1-Q3 2022	Q1-Q3 2021	Index 22/21	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Full year 2021
Administration margin	4,323	4,396	98	1,423	1,442	1,458	1,461	1,460	5,857
Net interest income	-6	43	-	10	-22	6	3	1	46
Net fee income	-5	-81	6	-33	-29	57	-46	-86	-127
Income from investment portfolios	-25	48	-	-6	8	-27	7	-1	55
Other income	68	111	61	18	25	25	25	35	136
Total income	4,355	4,517	96	1,412	1,424	1,519	1,450	1,409	5,967
Expenses	812	688	118	290	266	256	307	241	995
Profit before loan impairment charges	3,543	3,829	93	1,122	1,158	1,263	1,143	1,168	4,972
Loan impairment charges	174	258	67	201	-58	31	11	94	269
Profit before tax	3,369	3,571	94	921	1,216	1,232	1,132	1,074	4,703
Tax	752	785	96	203	278	271	249	236	1,034
Net profit for the period	2,617	2,786	94	718	938	961	883	838	3,669

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	9,505	21,270	45	9,505	5,515	18,688	18,643	21,270	18,643
Mortgage loans	706,695	803,643	88	706,695	739,996	779,211	810,139	803,643	810,139
Bonds and shares	45,648	42,840	107	45,648	46,179	45,523	46,435	42,840	46,435
Other assets	1,317	2,062	64	1,317	1,873	3,322	1,782	2,062	1,782
Total assets	763,165	869,815	88	763,165	793,563	846,744	876,999	869,815	876,999
Due to credit institutions etc.	2,000	2,000	100	2,000	2,000	2,000	2,000	2,000	2,000
Issued mortgage bonds	707,784	815,427	87	707,784	740,480	792,508	820,950	815,427	820,950
Other liabilities	4,919	3,809	129	4,919	3,330	5,403	4,577	3,809	4,577
Shareholders' equity	48,462	48,579	100	48,462	47,753	46,833	49,472	48,579	49,472
Total liabilities and equity	763,165	869,815	88	763,165	793,563	846,744	876,999	869,815	876,999

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	7.1	7.6		6.0	7.9	8.0	7.2	7.0	7.4
Impairment charges as % p.a. of mortgage lending	0.03	0.04		0.11	-0.03	0.02	0.01	0.05	0.03
Cost/income ratio (%)	18.6	15.2		20.5	18.7	16.9	21.2	17.1	16.7
Total capital ratio (%)	31.2	27.3		31.2	30.1	27.9	25.3	27.3	25.3
Tier 1 capital ratio (%)	30.8	26.9		30.8	29.7	27.6	24.9	26.9	24.9
Mortgage loans, nominal value	803,362	802,448		803,362	804,115	809,465	807,621	802,448	807,621
Full-time-equivalent staff (end of period)	228	216		228	228	228	217	216	217

The company announcement for the first nine months of 2022 has not 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.