

Company Announcement for the First Quarter of 2023

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

“Realkredit Danmark reported a solid financial result for the first quarter. The increase was topline driven primarily due to income from higher interest rate levels.

Rising interest rates affected the Danish housing market in the first quarter of 2023. Persistently low losses illustrate that homeowners generally have robust personal finances that enable them to cope with higher interest rates and the ongoing downward correction in housing prices, which we expect will continue for the rest of 2023.

The financial uncertainty has made us sharpen our focus on helping customers who may be or already are affected by the situation. We have taken some initiatives to improve the financial security of our customers, amongst other we have lowered the administration margin for interest-only loans with a loan-to-value ratio above 60%. Furthermore, Realkredit Danmark has, together with Danske Bank, entered into a partnership with Tryg, which means homeowners in Denmark now can insure their mortgage payments against loss of income for up to 12 months.

As part of the Danske Bank Group, we are fully committed to our Climate Action Plan of reducing funded emissions on commercial real estate and personal mortgages in Denmark by 75% towards 2030. ESG will become one of the most important strategic focus areas for Realkredit Danmark in the years ahead. In the first quarter, we have set up a new entity in Realkredit Danmark, which in the years ahead will be undertaking the very important societal and commercial task of developing strong and sustainable customer solutions, while also embedding sustainability in the way we run our business.”

Mortgage Market

Activity in the Danish economy remains high, and employment has continued to increase into 2023. Inflation is on the way down driven by falling energy prices, but inflation is still high and the underlying inflationary pressure has been increasing. Combined with the prospect of higher wage growth in the coming years in the wake of this year’s collective bargaining, this may entail that inflation remain elevated for some time. The same trends have been seen in the euro area, leading further interest rate hikes from the ECB in the first quarter.

Growing financial turbulence in the course of March 2023 sent the interest rate pendulum swinging the other way for a while, and coupons for 30-year fixed-rate mortgages moved between 4% and 5% during the quarter. Remortgaging activity shifted down a gear, due to a combination of many homeowners already having remortgaged to reduce their debt, and rising interest rates on variable rate loans reducing the incentive to remortgage from a fixed to a variable rate.

Activity in the housing market stabilised at the beginning of the year after a clear downturn in 2022. An ongoing downward correction for the housing prices is however still expected, and prices for detached houses have so far nationwide dropped almost 10% from the peak in 2022. While the market is still adjusting to the surge in interest rates, the outlook is brighter than it was in autumn 2022, when energy prices and inflation were elevated at very high levels.

First Quarter of 2023

The Realkredit Danmark Group recorded a net profit of DKK 1,063 million in the first quarter of 2023, against DKK 961 million in the same period of 2022. The increase was topline driven primarily due to income from higher interest rate levels. Expenses decreased DKK 4 million, despite expense of DKK 32 million from termination of Danske Bank’s VAT group.

Credit quality remained solid with loan impairment charges at a low level of DKK 52 million. The total allowance account at 31 March 2023 amounted to DKK 2,943 million, against DKK 2,912 million at 31 December 2022.

The steeply increasing mortgage rates have fuelled remortgaging activity from 2022, and our customers reduced nominal outstanding debt by DKK 2.6 billion in the first quarter of 2023. Mortgage lending at nominal value increased by DKK 0.9 billion but measured at fair value, the increase was DKK 5.5 billion. The latter was attributable to higher bond prices. Gross lending amounted to DKK 31 billion, against DKK 47 billion in the first quarter of 2022. Green bond total lending amounted to DKK 22.7 billion at 31 March 2023.

Realkredit Danmark has a proprietary portfolio of DKK 46.9 billion of which DKK 32.9 billion is managed through a hold-to-maturity portfolio. This portfolio is reported at amortised cost and as of Q1 2023 the market value was DKK 1.8 billion lower.

Realkredit Danmark expects net profit to be somewhat higher than in 2022, due to persistent higher interest rate levels.

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Financial highlights – Realkredit Danmark Group

INCOME STATEMENT (DKK millions)	Q1 2023	Q1 2022	Index 23/22	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Full year 2022
Administration margin	1,410	1,458	97	1,410	1,410	1,423	1,442	1,458	5,733
Net interest income	158	6	-	158	99	10	-22	6	93
Net fee income	52	57	91	52	23	-33	-29	57	18
Income from investment portfolios	86	-27	-	86	73	-6	8	-27	48
Other income	19	25	76	19	16	18	25	25	84
Total income	1,725	1,519	114	1,725	1,621	1,412	1,424	1,519	5,976
Expenses	252	256	98	252	293	290	266	256	1,105
Profit before loan impairment charges	1,473	1,263	117	1,473	1,328	1,122	1,158	1,263	4,871
Loan impairment charges	52	31	168	52	38	201	-58	31	212
Profit before tax	1,421	1,232	115	1,421	1,290	921	1,216	1,232	4,659
Tax	358	271	132	358	281	203	278	271	1,033
Net profit for the period	1,063	961	111	1,063	1,009	718	938	961	3,626

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	13,491	18,688	72	13,491	8,761	9,505	5,515	18,688	8,761
Mortgage loans	729,966	779,211	94	729,966	724,438	706,695	739,996	779,211	724,438
Bonds and shares	47,668	45,523	105	47,668	46,722	45,648	46,179	45,523	46,722
Other assets	1,834	3,322	55	1,834	2,307	1,317	1,873	3,322	2,307
Total assets	792,959	846,744	94	792,959	782,228	763,165	793,563	846,744	782,228
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	737,694	792,508	93	737,694	724,105	707,784	740,480	792,508	724,105
Other liabilities	6,312	5,403	117	6,312	6,646	4,919	3,330	5,403	6,646
Shareholders' equity	46,953	46,833	100	46,953	49,477	48,462	47,753	46,833	49,477
Total liabilities and equity	792,959	846,744	94	792,959	782,228	763,165	793,563	846,744	782,228

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	8.8	8.0		8.8	8.2	6.0	7.9	8.0	7.3
Impairment charges as % p.a. of mortgage lending	0.03	0.02		0.03	0.02	0.11	-0.03	0.02	0.03
Cost/income ratio (%)	14.6	16.9		14.6	18.1	20.5	18.7	16.9	18.5
Total capital ratio (%)	28.8	27.9		28.8	29.1	31.2	30.1	27.9	29.1
Tier 1 capital ratio (%)	28.3	27.6		28.3	28.6	30.5	29.7	27.6	28.6
Mortgage loans, nominal value	802,883	809,465		802,883	802,024	803,362	804,115	809,465	802,024
Full-time-equivalent staff (end of period)	228	228		228	227	228	228	228	227

The company announcement for the first quarter of 2023 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.