

REALKREDIT **Danmark**

Quarterly Report First quarter of 2001

Realkredit Danmark A/S

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Realkredit Danmark Group

Core earnings and net profit for the period (DKr m)	Pro forma			
	Q1 2001	Q1 2000	Index 01/00	Full year 2000
Contribution income	483	466	104	1,894
Net interest income excl. earnings from investment portfolios	311	174	179	879
Fees and commission income, net	12	8	150	21
Trading income	47	2	-	18
Other core income	44	27	163	123
Total core income	897	677	132	2,935
Operating expenses and depreciation	309	291	106	1,310
Core earnings before provisions	588	386	152	1,625
Provisions for bad and doubtful debts	-19	2	-	-62
Core earnings	607	384	158	1,687
Earnings from investment portfolios	77	353	22	503
Merger costs, etc.	58	1	-	112
Profit on ordinary operations before tax	626	736	85	2,078
Tax	158	229	69	618
Net profit for the period	468	507	92	1,460

Balance sheet (DKr m)

Assets:				
Due from credit institutions, etc.	23,621	11,995	197	10,820
Lending	426,782	411,952	104	421,266
Bonds and shares, etc.	18,688	26,886	70	77,587
Other assets	2,463	2,305	107	2,457
Total assets	471,554	453,138	104	512,130
Liabilities				
Due to credit institutions, etc.	1,062	1,006	106	6,312
Issued bonds	437,342	419,080	104	471,209
Other liabilities	8,356	9,689	86	10,280
Subordinated debt	3,000	3,000	100	3,000
Shareholders' equity	21,794	20,363	107	21,329
Total liabilities	471,554	453,138	104	512,130

Ratios and key figures

Net profit for the period as % p.a. of avg. shareholders' equity	8.7	10.0	7.1
Core earnings in % p.a. of avg. shareholders' equity	11.3	7.6	8.2
Cost/core income ratio, %	34.4	43.0	44.6
Solvency ratio (excl. net profit for the period)	10.3	10.6	10.9
Core (Tier 1) capital ratio (excl. net profit for the period)	9.7	9.1	9.4
Number of full-time employees at March 31	1,001	1,143	1,024
Rating – Moody's (long-term)	Aa1	Aa3	Aa3

At January 1, 2001, Realkredit Danmark A/S merged with Danske Kredit Realkreditaktieselskab and BG Kredit A/S with Realkredit Danmark A/S as the continuing company. The above amounts for periods before January 1, 2001 are pro forma statements for the merged companies and their subsidiaries. At January 1, 2001, Realkredit Danmark A/S' subsidiary, home a/s, merged with Danske Bo A/S, a subsidiary of Danske Bank A/S, with home a/s as the continuing company. Figures for Danske Bo A/S are not included in the above pro forma statement for 2000.

The stated pro forma items for 2000 have been adjusted to the core earnings model applied to date by the parent company, Danske Bank. As of 2001, an adjustment of the calculation and distribution method for core earnings and earnings from investment portfolios has been made, which for the first quarter of 2001 implies a rise in core earnings of around DKr100m and a corresponding reduction of earnings from investment portfolios.

The accounting policies applied are the same as those for the annual accounts ended December 31, 2000.

Merger

At January 1, 2001, Realkredit Danmark A/S merged with its former subsidiary, BG Kredit A/S, and with Danske Kredit Realkreditaktieselskab with Realkredit Danmark A/S as the continuing company. Until the merger, Danske Kredit Realkreditaktieselskab was directly owned by the parent company of Realkredit Danmark A/S, Danske Bank A/S. The merger was adopted at the companies' general meetings at the end of March 2001, creating Denmark's largest mortgage credit institution with total assets of DKr472bn at March 31, 2001.

Moreover, Realkredit Danmark A/S' subsidiary, home a/s, merged with Danske Bo A/S, a subsidiary of Danske Bank A/S, at January 1, 2001 with home a/s as the continuing company.

With a view to optimising synergies in the Danske Bank Group, Realkredit Danmark is reorganising customer-oriented activities. In order to enhance efficiency within administration and operations, these functions will be centralised in the course of the year – enabling customer-oriented regional and branch offices to focus even more on sales.

As previously announced, Realkredit Danmark expects to realise cost reductions of some DKr200m annually as a result of the merger, primarily through a reduction in the number of employees. Staff reductions will be realised as the companies in the group are brought onto the same IT platform, and economies of scale will be achieved through the mentioned centralisation of administration and operations. This process is proceeding according to plan and related synergies are being realised as expected.

First quarter of 2001

(DKr m)	Pro forma	
	Q1 2001	Q1 2000
Core income	897	677
Operating expenses and depreciation	309	291
Core earnings before provisions	588	386
Provisions for bad and doubtful debts	-19	2
Core earnings	607	384
Earnings from investment portfolios	77	353
Merger costs, etc.	58	1
Profit on ordinary operations before tax	626	736
Tax	158	229
Net profit for the period	468	507

With effect from 2001, an adjustment of the calculation and distribution method of core earnings and earnings from investment portfolios has been made. This means that all income and expenses related to lending activities are now included in core earnings. For the first quarter of 2001, this change implies a rise in core earnings of some DKr100m and a corresponding reduction of earnings from investment portfolios.

- The profit after tax for the Realkredit Danmark Group amounted to DKr468m for the first quarter of 2001 compared to the pro forma figure of DKr507m for the same period in 2000.
- Core earnings rose by DKr223m to DKr607m.
- Earnings from investment portfolios fell by DKr276m to DKr77m.
- The net profit is influenced by merger costs in the amount of DKr58m, primarily for severance pay. In Danske Bank, provisions for these costs have been made in the 2000 annual accounts.

Core earnings rose from Dkr384m last year to Dkr607m for the first quarter of 2001. The increase is due, among other things, to the above-mentioned adjustment of the core earnings model and a rise in contribution income resulting from the increase in the loan portfolio.

Operating costs, inclusive of depreciation, amounted to Dkr309m for the quarter against Dkr291m for the first quarter of 2000. The rise of Dkr18m corresponds to 6.2%.

Provisions for bad and doubtful debts are still at a low level with a positive effect on operations of Dkr19m.

Earnings from investment portfolios, consisting of interest on and value adjustments of that part of the securities portfolio which is not related to lending activities, fell from Dkr353m last year to Dkr77m this year. This decline is due mainly to last year's income including unusually large capital gains on equities and to the above-mentioned adjustment of the core earnings model.

For 2001, Realkredit Danmark is taxed jointly with Danske Bank. Applicable joint taxation rules for allocation of Danish tax in the group results in an effective tax rate for 2001 for Realkredit Danmark of an expected 25%.

Capital and solvency

(Exclusive of the profit for the period) (DKr m)	Q1	<u>Pro forma</u>
	<u>2001</u>	Q1 2000
Core (Tier 1) capital after deductions	21,164	19,854
Supplementary capital after deductions	1,105	3,293
Capital base	22,269	23,147
<u>Total weighted items</u>	<u>217,329</u>	<u>218,915</u>
Solvency ratio	10.3	10.6
<u>Core (Tier 1) capital ratio</u>	<u>9.7</u>	<u>9.1</u>

Calculated exclusive of the net profit for the period, the Realkredit Danmark Group had a capital base of Dkr22,269m at March 31, 2001, resulting in a solvency ratio of 10.3% - the statutory requirement being 8.0%. At March 31, 2001, the excess cover was thus Dkr4,883m.

In 1992, Realkredit Danmark raised a loan of Dkr3bn as supplementary capital. The loan was repaid on April 17, 2001, following which the solvency ratio is at the same level as the core (Tier 1) capital ratio.

The Danske Bank Group regularly assesses the capital requirements of the companies in the Group, and in this context also the requirement for capital contribution to Realkredit Danmark.

The mortgage credit market

The level of activity in the mortgage credit sector rose throughout the first quarter of 2001, continuing the trend from late 2000. The number of loan applications from customers of Realkredit Danmark almost doubled compared with the fourth quarter of 2000.

The rise in activities should be viewed, among other things, in light of the fall in interest rates that characterised the first quarter of 2001. During this period, the interest on a 30-year fixed-interest loan came down from 7.3% to 6.5% p.a., ie. 0.8 percentage points. Similarly, the rate of interest on F1 FlexLån® (flex loans) with annual interest reset fell almost 0.3 percentage point. In early March, the coupon rate of the "benchmark bond" for fixed-interest loans changed from 7% to 6% as the price of 30-year bonds with a coupon rate of 7% rose above par.

According to the statistics of the *Realkreditrådet* (Association of Danish Mortgage Banks), prices of real property continue to rise. At national level, average prices per square metre for single-family and terraced houses are up 2.2% from the fourth quarter of 2000 to the first quarter this year. Prices of owner-occupied flats have climbed 3.3%, while prices of holiday homes have fallen 0.8% over the same period.

Market position

On the basis of the merger, Realkredit Danmark is well positioned to be competitive in the Danish mortgage credit market. The possibility of marketing mortgage credit loans through the nation-wide branch network of Danske Bank has considerably strengthened Realkredit Danmark's distribution power. The merger also enables Realkredit Danmark to offer customers an even wider range of financial products – through joint as well as cross sales.

Following the merger, the group's estate agent distribution will take place primarily through home a/s, now including Danske Bo. For this reason, among others, the co-operation agreement that existed between Realkredit Danmark and RealMæglerne has been terminated. For the time being, however, the parties will continue the co-operation on arrangement of mortgage credit loans in the same way as Realkredit Danmark co-operates with other estate agents.

The trend in Realkredit Danmark's market shares is satisfactory. For gross lending, the market share for all markets as a whole has reached 33.3% compared to 32.6% in the fourth quarter of 2000. The market share of net new lending, with transfers and extraordinary redemptions being deducted from gross lending, is 31.9% against 26.6% in the fourth quarter of 2000.

The mortgage loan portfolio amounted to DKr425bn at March 31, 2001 against DKr420bn at December 31, 2000. Of this increase of some DKr5bn, the private market accounts for slightly more than 56%.

Mortgage bonds

The merger of Realkredit Danmark and Danske Kredit Realkreditaktieselskab offers the possibility in future of obtaining the necessary funding by issuing bonds in fewer series. This is because, as of the autumn of 2001, offers will be made solely on the basis of Realkredit Danmark bonds – leading to larger and thus more liquid series.

Twice in the course of January 2001, Moody's lifted its rating of Realkredit Danmark's bonds, from Aa3 to Aa2 and then to Aa1. This is currently the highest rating achieved by Danish mortgage bonds. Moody's has announced that they have placed Realkredit Danmark's bonds on their Watchlist for a further upgrade to Aaa.

As a result, foreign investors show increasing interest in Realkredit Danmark's bonds. This supports Realkredit Danmark's objective of increasing bond sales to foreign investors.

Outlook

The outlook for 2001 is unchanged relative to the statements made in the annual report for 2000.

Total core income is expected to rise relative to 2000. Costs are expected to stay at the 2000 level as a result of more extensive activities combined with the realisation of planned cost cuts as a consequence of the merger. Provisions for bad and doubtful debts are expected to stay at a low level, provided that economic activity sees only a certain slowdown.

Against this background, core earnings are expected to be somewhat higher in 2001 than in 2000.

Copenhagen, May 3, 2001

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Realkredit Danmark Group

Core earnings and net profit for the period

(DKr m)	Pro forma					
	Q1 2001	Q4 2000	Q3 2000	Q2 2000	Q1 2000	Full year 2000
Contribution income	483	481	476	471	466	1,894
Net interest income excl. earnings from investment portfolios	311	244	179	282	174	879
Fees and commission income, net	12	-2	4	11	8	21
Trading income	47	19	12	-15	2	18
Other core income	44	36	31	29	27	123
Total core income	897	778	702	778	677	2,935
Operating expenses and depreciation	309	360	302	357	291	1,310
Core earnings before provisions	588	418	400	421	386	1,625
Provisions for bad and doubtful debts	-19	-49	-	-15	2	-62
Core earnings	607	467	400	436	384	1,687
Earnings from investment portfolios	77	80	353	-283	353	503
Merger costs, etc.	58	107	1	3	1	112
Profit on ordinary operations before tax	626	440	752	150	736	2,078
Tax	158	126	212	51	229	618
Net profit for the period	468	314	540	99	507	1,460

Balance sheet (DKr m)

Assets:						
Due from credit institutions, etc.	23,621	10,820	12,269	14,902	11,995	10,820
Lending	426,782	421,266	420,480	415,758	411,952	421,266
Bonds and shares, etc.	18,688	77,587	27,102	27,185	26,886	77,587
Other assets	2,463	2,457	2,623	2,066	2,305	2,457
Total assets	471,554	512,130	462,474	459,911	453,138	512,130
Liabilities:						
Due to credit institutions, etc.	1,062	6,312	814	1,586	1,006	6,312
Issued bonds	437,342	471,209	428,103	425,334	419,080	471,209
Other liabilities	8,356	10,280	9,558	9,531	9,689	10,280
Subordinated debt	3,000	3,000	3,000	3,000	3,000	3,000
Shareholders' equity	21,794	21,329	20,999	20,460	20,363	21,329
Total liabilities	471,554	512,130	462,474	459,911	453,138	512,130

At January 1, 2001, Realkredit Danmark A/S merged with Danske Kredit Realkreditaktieselskab and BG Kredit A/S with Realkredit Danmark A/S as the continuing company. The above amounts for periods before January 1, 2001 are pro forma statements for the merged companies and their subsidiaries. At January 1, 2001, Realkredit Danmark A/S' subsidiary, home a/s, merged with Danske Bo A/S, a subsidiary of Danske Bank A/S, with home a/s as the continuing company. Figures for Danske Bo A/S are not included in the above pro forma statement for 2000.

The stated pro forma items for 2000 have been adjusted to the core earnings model applied to date by the parent company, Danske Bank. As of 2001, an adjustment of the calculation and distribution method for core earnings and earnings from investment portfolios has been made, which for the first quarter of 2001 implies a rise in core earnings of around DKr100m and a corresponding reduction of earnings from investment portfolios.

The accounting policies applied are the same as those for the annual accounts ended December 31, 2000.

Shareholders' equity

(DKr m)	Q1	<u>Pro forma</u>
	<u>2001</u>	Q1 2000
Shareholders' equity, January 1	17,320	19,906
Addition on merger	4,009	-
Write-down of intangible assets	-3	-50
Net profit for the period	468	507
Shareholders' equity, March 31	21,794	20,363

At January 1, 2001, the share capital was increased by DKr125m as a result of the merger with Danske Kredit Realkreditatieselskab and BG Kredit A/S. The share capital subsequently consists of 6,250,000 shares of DKr100 each and is wholly-owned by Danske Bank A/S.

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