

# **REALKREDIT** **Danmark**

## **Quarterly Report** **First nine months of 2001**

Realkredit Danmark A/S

Jarmers Plads 2

DK-1590 Copenhagen V

Tel. +45 70 12 53 00

Fax +45 33 39 31 71

[www.rd.dk](http://www.rd.dk)

CVR No. 13399174

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## Realkredit Danmark Group

Core earnings and net profit for the period (DKr m)	Q1-Q3 2001	Pro forma		Full year 2000
		Q1-Q3 2000	Index 01/00	
Contribution income	1,475	1,413	104	1,894
Net interest income, excl. earnings from investment portfolios	975	635	154	879
Fee and commission income, net	65	23	283	21
Trading income	123	-1	-	18
Other core income	112	87	129	123
<b>Total core income</b>	<b>2,750</b>	<b>2,157</b>	<b>127</b>	<b>2,935</b>
Operating expenses and depreciation	969	950	102	1,310
<b>Core earnings before provisions</b>	<b>1,781</b>	<b>1,207</b>	<b>148</b>	<b>1,625</b>
Provisions for bad and doubtful debts	-35	-13	269	-62
<b>Core earnings</b>	<b>1,816</b>	<b>1,220</b>	<b>149</b>	<b>1,687</b>
Earnings from investment portfolios	125	423	30	503
Merger costs, etc.	104	5	-	112
<b>Profit on ordinary operations before tax</b>	<b>1,837</b>	<b>1,638</b>	<b>112</b>	<b>2,078</b>
Tax	456	492	93	618
<b>Net profit for the period</b>	<b>1,381</b>	<b>1,146</b>	<b>121</b>	<b>1,460</b>

### Balance sheet (DKr m)

Assets:				
Due from credit institutions, etc.	33,737	12,269	275	10,820
Lending	437,726	420,480	104	421,266
Bonds and shares, etc.	17,857	27,102	66	77,587
Other assets	3,207	2,623	122	2,457
<b>Total assets</b>	<b>492,527</b>	<b>462,474</b>	<b>106</b>	<b>512,130</b>
Liabilities:				
Due to credit institutions, etc.	8,555	814	1,051	6,312
Issued bonds	450,201	428,103	105	471,209
Other liabilities	11,063	9,558	116	10,280
Subordinated debt	-	3,000	-	3,000
Shareholders' equity	22,708	20,999	108	21,329
<b>Total liabilities</b>	<b>492,527</b>	<b>462,474</b>	<b>106</b>	<b>512,130</b>

### Ratios and key figures

Net profit for the period as % p.a. of average shareholders' equity	8.4	7.5	7.1
Core earnings as % p.a. of average shareholders' equity	11.0	8.0	8.2
Cost/core income ratio, %	35.2	44.0	44.6
Solvency ratio, % (excl. net profit for the period)	9.7	10.5	11.2
Core (tier 1) capital ratio, % (excl. net profit for the period)	9.5	9.1	9.7
Number of full-time employees, end of period	952	1,106	1,024
Bond rating – Moody's	Aaa	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 P/L 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 2001 implies a rise in core earnings and a corresponding reduction in earnings from investment portfolios.

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

## Performance in the first nine months of 2001

The performance of the Realkredit Danmark Group in the first nine months of 2001 may be summed up as follows:

- The Realkredit Danmark Group recorded a profit after tax of DKr1,381m for the first nine months of 2001, against a pro forma profit of DKr1,146m for the same period in 2000.
- Core earnings rose by DKr596m to DKr1,816m.
- Earnings from investment portfolios fell by DKr298m to DKr125m.
- The mortgage loan portfolio showed continued growth and totalled DKr438bn at the end of the third quarter of 2001, against DKr420bn at the end of 2000.
- In September 2001, Moody's Investors Service upgraded its rating of Realkredit Danmark's bonds from Aa1 to the highest obtainable rating, Aaa – the same rating as applies to Danish government bonds.

Core earnings in the first nine months of 2001 were up from DKr1,220m last year to DKr1,816m this year. The improvement is owing to an increase in contribution income attributable to the growing loan portfolio and an increase in net interest income because of the redemption in mid-April 2001 of DKr3bn subordinated debt which carried interest at a rate of 10.2% p.a. Finally, an adjustment of the core earnings model has resulted in a rise in core earnings in 2001 and a corresponding reduction in earnings from investment portfolios.

For the first nine months of 2001, operating expenses, including depreciation, amounted to DKr969m, against DKr950m in the same period of 2000.

Provisions for bad and doubtful debts are still at a low level. As a result of recovery of debts previously written off, the P/L item for the first nine months of 2001 shows a net income of DKr35m.

As from 2001, Realkredit Danmark is taxed jointly with Danske Bank. As a result of the current joint taxation rules on allocation of the Danish tax payable by the Danske Bank Group, Realkredit Danmark's effective tax rate for 2001 is expected to be about 25%.

## Capital and solvency

(Exclusive of net profit for the period) (DKr m)	<u>Sept. 30, 2001</u>	<u>Pro forma Sept. 30, 2000</u>
Core capital, less statutory deductions	21,164	19,858
Supplementary capital, less statutory deductions	335	3,246
Capital base	21,499	23,104
<u>Total weighted items</u>	<u>222,422</u>	<u>219,372</u>
Solvency ratio (%)	9.7	10.5
<u>Core (tier 1) capital ratio (%)</u>	<u>9.5</u>	<u>9.1</u>

Exclusive of the net profit for the period, the Realkredit Danmark Group's capital base stood at DKr21,499m at the end of the third quarter of 2001. The solvency ratio was 9.7%, thus exceeding the statutory minimum requirement of 8.0% by DKr3,705m at September 30, 2001.

In April 2001, Realkredit Danmark redeemed a loan of DKr3bn raised in 1992 as supplementary capital. As shown above, the solvency ratio is now at the same level as the core capital ratio.

## Merger follow-up

At the beginning of the year, Realkredit Danmark A/S merged with BG Kredit A/S and Danske Kredit Realkreditaktieselskab and is now a wholly-owned subsidiary of Danske Bank A/S. The merger created Denmark's largest mortgage credit institution. At the end of the nine months to September 30, 2001, total assets stood at DKr493bn.

To achieve the expected merger synergies, Realkredit Danmark has restructured its organisation. In order to make operations and loan administration more efficient, these activities have been centralised. This step has enabled branch and regional offices to focus mainly on advice and sales to customers. The restructuring was completed by the end of September 2001.

At the end of August this year, new computer systems were implemented in BG Bank, and all branches of Danske Bank and BG Bank now share the same IT platform for serving personal customers. Hence, all banking branches now offer most of Realkredit Danmark's products to personal customers.

Realkredit Danmark still expects to achieve merger synergies in the region of DKr200m a year, chiefly through a reduction in the number of employees. Staff reductions will primarily be realised as the companies in the group are brought onto a joint 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 the related synergies in Realkredit Danmark are being realised as expected.

## The mortgage credit market

Activity in the mortgage credit sector increased during the first nine months of 2001, thus continuing the trend from the last part of 2000. The number of loan applications to Realkredit Danmark has shown strong growth compared with previous years.

The growing activity is in part attributable to falling interest rates, witnessed in 2001 on short-term bonds in particular. The interest rate on FlexLån® with annual interest adjustment has fallen during 2001 by about one percentage point, the largest fall occurring in the third quarter. Consequently, it has become more favourable to choose FlexLån®, both for new loans and for remortgaging.

The interest rate fall on short-term bonds should be seen in the light of the repeated interest rate cuts made by the central banks to head off uncertainty on the international capital markets.

Of total loans disbursed in the third quarter of 2001, FlexLån® accounted for 57%. On the private market alone, FlexLån® represented 51%.

## Competition

The possibility of selling mortgage loans through the countrywide branch networks of Danske Bank and BG Bank has significantly increased Realkredit Danmark's distribution power. Already in the first three quarters of the year, Realkredit Danmark received a large number of loan applications through the banking branches of the Danske Bank Group. Sales through these channels also provide an opportunity to offer customers an even wider range of financial products.

The Group's distribution via real-estate agencies takes place primarily through "home". Activities at "home's" 166 outlets increased, in part as a result of their collaboration with the banking branches of the Danske Bank Group.

Realkredit Danmark's market share of both gross lending and net new lending has developed positively. The market share of gross lending was raised to 34.1% and that of net new lending to 32.8% in the third quarter. For both gross lending and net new lending, this is Realkredit Danmark's largest share in the past 12

months. In the calculation of net new lending, transfers and extraordinary redemptions have been subtracted from gross lending, and net new lending thus gives a better picture of the real competitive power. The figures for each quarter appear from the table below:

Market share, all markets (%)	Q3 2001	Q2 2001	Q1 2001	Q4 2000
Gross lending	34.1	32.9	33.5	32.6
Net new lending	32.8	31.4	30.3	26.6

Realkredit Danmark's loan portfolio is rising, and the growth is generated by each of the three distribution channels: Realkredit Danmark's offices and corporate centres, the branches of Danske Bank and BG Bank and the real-estate agency chain "home". Lending represented DKr438bn at the end of the third quarter of 2001, against DKr420bn at December 31, 2000. Of this increase, 61% was attributable to the private housing market, 22% to subsidised and private residential rental property, 5% to agriculture and 12% to urban trades.

Of total loans disbursed in the first three quarters of 2001, FlexLån® have now grown to almost 50%, and euro-denominated loans have risen to just over 10%. On the private market alone, FlexLån® represented just over 40% and loans in euros about 5%.

## Mortgage bonds

The merger of Realkredit Danmark and Danske Kredit now offers the possibility of issuing bonds in fewer series. Since the end of August this year, offers have been made solely on the basis of Realkredit Danmark bonds – leading to larger and thus more liquid series.

In September 2001, Moody's Investors Service upgraded its rating of Realkredit Danmark's bonds from Aa1 to the highest obtainable rating, Aaa – the same rating as applies to Danish government bonds. It was the third upgrading this year.

As a result, foreign investors show increasing interest in Realkredit Danmark's bonds. In the coming months this planned-for effect will be followed up by marketing activities targeted at foreign investors.

## Outlook

For the whole year of 2001, total core income is expected to rise significantly 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 remain at a low level, but will depend on economic trends.

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

## Announcement of financial results and annual report

The announcement of the financial results and the annual report for 2001 is expected to be published on February 21, 2002.

Copenhagen, October 25, 2001

Contact persons at Realkredit Danmark:

Kjeld Jørgensen, Member of the Executive Board of Danske Bank, Chairman of the Board of Directors, tel. +45 33 64 93 00

Sven Holm, Chairman of the Executive Board and Chief Executive Officer, tel. +45 33 39 30 11

## Realkredit Danmark Group

Core earnings and net profit for the period (DKr m)	Q3 2001	Q2 2001	Q1 2001	Pro forma		
				Q4 2000	Q3 2000	Full year 2000
Contribution income	503	489	483	481	476	1,894
Net interest income, excl. earnings from investment portfolios	348	316	311	244	179	879
Fee and commission income, net	34	19	12	-2	4	21
Trading income	45	31	47	19	12	18
Other core income	32	36	44	36	31	123
<b>Total core income</b>	<b>962</b>	<b>891</b>	<b>897</b>	<b>778</b>	<b>702</b>	<b>2,935</b>
Operating expenses and depreciation	324	336	309	360	302	1,310
<b>Core earnings before provisions</b>	<b>638</b>	<b>555</b>	<b>588</b>	<b>418</b>	<b>400</b>	<b>1,625</b>
Provisions for bad and doubtful debts	3	-19	-19	-49	-	-62
<b>Core earnings</b>	<b>635</b>	<b>574</b>	<b>607</b>	<b>467</b>	<b>400</b>	<b>1,687</b>
Earnings from investment portfolios	83	-35	77	80	353	503
Merger costs, etc.	17	29	58	107	1	112
<b>Profit on ordinary operations before tax</b>	<b>701</b>	<b>510</b>	<b>626</b>	<b>440</b>	<b>752</b>	<b>2,078</b>
Tax	176	122	158	126	212	618
<b>Net profit for the period</b>	<b>525</b>	<b>388</b>	<b>468</b>	<b>314</b>	<b>540</b>	<b>1,460</b>

## Balance sheet (DKr m)

Assets:						
Due from credit institutions, etc.	33,737	28,686	23,621	10,820	12,269	10,820
Lending	437,726	431,101	426,782	421,266	420,480	421,266
Bonds and shares, etc.	17,857	16,602	18,688	77,587	27,102	77,587
Other assets	3,207	1,737	2,463	2,457	2,623	2,457
<b>Total assets</b>	<b>492,527</b>	<b>478,126</b>	<b>471,554</b>	<b>512,130</b>	<b>462,474</b>	<b>512,130</b>
Liabilities:						
Due to credit institutions, etc.	8,555	1,119	1,062	6,312	814	6,312
Issued bonds	450,201	444,881	437,342	471,209	428,103	471,209
Other liabilities	11,063	9,941	8,356	10,280	9,558	10,280
Subordinated debt	-	-	3,000	3,000	3,000	3,000
Shareholders' equity	22,708	22,185	21,794	21,329	20,999	21,329
<b>Total liabilities</b>	<b>492,527</b>	<b>478,126</b>	<b>471,554</b>	<b>512,130</b>	<b>462,474</b>	<b>512,130</b>

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.

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## Shareholders' equity

(DKr m)	<b>Q1-Q3</b>	Pro forma
		Q1-Q3
	<b>2001</b>	2000
Shareholders' equity at January 1	17,320	19,906
Addition on merger	4,009	-
Write-down on intangible assets	-2	-53
Net profit for the period	1,381	1,146
<b>Shareholders' equity at September 30</b>	<b>22,708</b>	<b>20,999</b>

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

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