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Quarterly report First quarter of 2004

REALKREDIT
Danmark

Realkredit Danmark Group - financial highlights

CORE EARNINGS AND NET PROFIT FOR THE PERIOD	Q1 2004	Q1 2003	Index 04/03	Full year 2003
DKr m				
Administration margin	571	544	105	2.216
Net interest income, exclusive of earnings from investment portfolios	232	324	72	1.216
Fee and commission income, net	33	70	47	186
Other core income	76	86	88	157
Total core income	912	1.024	89	3.775
Operating expenses and depreciation	324	331	98	1.454
Core earnings before provisions	588	693	85	2.321
Provisions for bad and doubtful debts	2	26	-	24
Core earnings	586	667	88	2.297
Earnings from investment portfolios	127	81	157	229
Profit before tax	713	748	95	2.526
Tax	186	195	95	609
Net profit for the period	527	553	95	1.917

BALANCE SHEET

DKr m

Assets

Due from credit institutions, etc.	22.401	53.506	42	14.914
Lending	503.133	477.720	105	498.037
Bonds and shares, etc.	33.154	25.551	130	128.323
Other assets	2.551	3.345	76	5.872
Total assets	561.239	560.122	100	647.146

Liabilities and equity

Due to credit institutions, etc.	-	868	-	874
Issued bonds	526.253	524.803	100	603.120
Other liabilities	7.222	8.578	84	15.915
Shareholders' equity	27.764	25.873	107	27.237
Total liabilities and equity	561.239	560.122	100	647.146

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of avg. shareh. equity	7,7	8,7		7,3
Core earnings as % p.a. of avg. shareholders' equity	8,5	10,4		8,8
Cost/core income ratio, %	35,5	32,3		38,5
Solvency ratio (excl. of net profit for the period), %	10,3	10,2		10,4
Core (tier 1) cap. ratio (excl. of net profit for the period), %	10,2	10,1		10,3
Number of full-time employees at March 31	973	984		981
Rating of bonds - Moody's	Aaa	Aaa		Aaa
Rating of bonds - Standard & Poor's	AAA	AAA		AAA

MANAGEMENT'S REPORT

Highlights of performance in the first quarter of 2004

The performance of the Realkredit Danmark Group in the first quarter of 2004 can be summarised as follows:

- For the first quarter of this year, the Realkredit Danmark Group's pre-tax profit was DKr713m, against DKr748m for the first quarter of 2003.
- Core earnings amounted to DKr586m, against DKr667m the year before, when refinancing activity in the Danish mortgage credit market in the first quarter was stronger than ever before.
- Mortgage lending rose to DKr503bn at the end of the first quarter, against DKr498bn at January 1, 2004.
- The market share of net new lending was 25.4% in the first quarter of 2004, against 31.0% in the fourth quarter of 2003. The fall should be viewed in light of the extraordinarily large volume of lending to the corporate market in the fourth quarter of last year.
- On March 31, 2004, the solvency ratio was 10.3%, against the statutory minimum requirement of 8.0%.

Results

Core income amounted to DKr912m for the first quarter of 2004, against DKr1,024m the year before. It includes a higher administration margin as a result of the increasing loan portfolio. Income is affected by the sound refinancing activity in the first quarter, which did not, however, reach the same high level as last year. The decline in interest rates since the first quarter of 2003 also resulted in a fall in the Group's return on securities holdings and liquid funds.

Operating expenses and depreciation totalled DKr324m in the first quarter of 2004, which was on a par with the first quarter 2003.

Core earnings before provisions for bad and doubtful debts totalled DKr588m in the first quarter of 2004, against DKr693m the year before.

Provisions for bad and doubtful debts amounted to DKr2m in the first quarter of 2004, against DKr26m the year before. In general, the need for provisions has not increased in 2004, partly because loans in arrears are still at a very low level.

Earnings from investment portfolios equal the profits on proprietary investment portfolios after deduction of funding costs – calculated on the basis of short-term money market rates – and administration costs. These earnings totalled DKr127m for the first quarter, against DKr81m the year before. Proprietary investment portfolios are defined as the part of the investment portfolio not relating to lending activities.

Tax is paid on the basis of current joint taxation rules on allocation of the Danish tax payable by the Danske Bank Group. This means that Realkredit Danmark's effective tax rate for 2004 is expected to be 26%.

Capital and solvency

Movements in the capital base and solvency ratio were as follows:

CAPITAL BASE AND SOLVENCY RATIO DKr m	March 31 2004*	March 31 2003*	December 31 2003
Core capital, less statutory deductions	27.062	25.133	27.062
Supplementary capital, less statutory deductions	218	255	218
Capital base	27.280	25.388	27.280
Total weighted items	264.223	249.573	263.336
Solvency ratio, %	10,3	10,2	10,4
Core (tier 1) capital ratio, %	10,2	10,1	10,3

* Excl. of net profit for the period

On March 31, 2004, the Realkredit Danmark Group's capital base stood at DKr27,280m. The solvency ratio was 10.3%, thus exceeding the statutory minimum solvency requirement of 8% by DKr6,142m.

In the first quarter of 2004, shareholders' equity increased by the profit for the period of DKr527m. Shareholders' equity subsequently totalled DKr27,764m.

The mortgage credit market

Total gross lending in the Danish mortgage credit market amounted to DKr111bn in the first quarter of 2004, against the very high level of DKr168bn in the first quarter of 2003. Activity declined because refinancing business was not driven by falling interest rates to the same extent as the year before. However, also in the first quarter of 2004, many customers decided to refinance their current loans with interest-only loans.

The first quarter of 2004 was characterised by falling yields on short- as well as long-term bonds. At the end of the quarter, the rate of interest on a 30-year fixed-rate loan stood at 5.2%, and the rate of interest on FlexLån[®] with full annual interest reset was 2.1%. At the beginning of the year, these rates were 5.4% and 2.5%, respectively.

Competition

Realkredit Danmark's market share of gross lending was 31.3% in the first quarter of 2004, against 38.5% in the fourth quarter of 2003. The market share of net new lending was 25.4% in the first quarter of 2004, against 31.0% in the fourth quarter of 2003. Net new lending is defined as gross lending less repayment of loans with or without the raising of new loans.

Quarter-on-quarter movements were as follows:

MARKET SHARE, ALL MARKETS %	Q1 2004	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Gross lending	31.3	38.5	31.1	30.4	30.0
Net new lending	25.4	31.0	25.9	28.0	27.0

Gross and net new lending reflect the continuation of the positive trend in corporate lending, whereas lending to the private market is still negatively affected by bank-based housing loans sold by Danske Bank and BG Bank. The fall from the fourth quarter of 2003 to the first quarter this year should be viewed in light of the extraordinarily large volume of lending to the corporate market in the fourth quarter.

In the first quarter of 2004, Realkredit Danmark's loan portfolio rose by DKr5bn to DKr503bn. Of this total rise in lending, the private market accounted for 18%, urban trade for 21%, agriculture for 16% and residential rental property for 45%.

Interest-only loans, which were introduced to the private-market segment on October 1, 2003, continued to account for a large share of private-market activity in the first quarter of 2004. Since their introduction, Realkredit Danmark has disbursed a total of DKr35bn worth of interest-only loans. Measured in terms of the portfolio, this corresponded to a market share of 40.7% at the end of the quarter. Almost all interest-only loans were disbursed as FlexLån[®].

In the first quarter of 2004, FlexLån[®] accounted for 75% of all loans disbursed, against 52% for the whole of 2003. At the end of the first quarter of 2004, FlexLån[®] accounted for 44% of the loan portfolio, against 40% at the beginning of the year.

Funding

Realkredit Danmark finances its loans to borrowers by issuing mortgage bonds listed on the Copenhagen Stock Exchange. At the end of the first quarter of 2004, Realkredit Danmark had issued bonds worth DKr526bn, or 33% of mortgage bonds issued on the Danish market.

All new bond issues from Realkredit Danmark carry Aaa and AAA ratings, which are the highest possible ratings awarded by the credit rating agencies Moody's Investors Service and Standard & Poor's. The ratings of Moody's Investors Service and Standard & Poor's apply to 90% and 85%, respectively, of all bonds issued by Realkredit Danmark.

Outlook for 2004

The outlook for 2004 is unchanged compared with the statements made in the Annual Report for 2003.

The increase in the volume of lending will boost the administration margin in 2004. Net interest and fee income is likely to decline as a result of a slowdown in refinancing activity.

Costs are expected to fall since fewer resources will be spent on developing new IT systems.

Against this background, core earnings before provisions for bad and doubtful debts are expected to be at around the same level as in 2003.

Provided that the economic climate remains unchanged, provisions for bad and doubtful debts are expected to remain at a low level.

Earnings from investment portfolios will depend largely on the level of securities prices at the end of 2004.

Realkredit Danmark Group

CORE EARNINGS AND NET PROFIT FOR THE PERIOD	Q1	Q4	Q3	Q2	Q1
DKr m	2004	2003	2003	2003	2003
Administration margin	571	564	558	550	544
Net interest income, exclusive of earnings from investment portfolios	232	267	337	288	324
Fee and commission income, net	33	47	28	41	70
Other core income	76	64	-16	23	86
Total core income	912	942	907	902	1.024
Operating expenses and depreciation	324	381	380	362	331
Core earnings before provisions	588	561	527	540	693
Provisions for bad and doubtful debts	2	19	-19	-2	26
Core earnings	586	542	546	542	667
Earnings from investment portfolios	127	13	11	124	81
Profit before tax	713	555	557	666	748
Tax	186	116	146	152	195
Net profit for the period	527	439	411	514	553

BALANCE SHEET

DKr m

Assets					
Due from credit institutions, etc.	22.401	14.914	32.869	48.379	53.506
Lending	503.133	498.037	489.471	484.464	477.720
Bonds and shares, etc.	33.154	128.323	43.802	26.343	25.551
Other assets	2.551	5.872	3.444	2.858	3.345
Total assets	561.239	647.146	569.586	562.044	560.122
Liabilities and equity					
Due to credit institutions, etc.	-	874	20	13	868
Issued bonds	526.253	603.120	530.350	525.141	524.803
Other liabilities	7.222	15.915	12.418	10.503	8.578
Shareholders' equity	27.764	27.237	26.798	26.387	25.873
Total liabilities and equity	561.239	647.146	569.586	562.044	560.122

Accounting policies

The report for the first quarter of 2004 has been prepared in accordance with the guidelines of the Copenhagen Stock Exchange A/S for issuers of listed bonds. The Group has not changed its accounting policies from those followed in the Annual Report for 2003.

Realkredit Danmark Group

MOVEMENTS IN SHAREHOLDERS' EQUITY

DKr m	Q1 2004	Q1 2003	Full year 2003
Shareholders' equity at January 1	27.237	25.248	25.248
Revaluation of unlisted shares	-	72	72
Net profit for the period	527	553	1.917
Shareholders' equity at March 31	27.764	25.873	27.237

The share capital comprises 6,250,000 shares of Dkr100 each and is wholly owned by Danske Bank A/S.

Realkredit Danmark Group

CORE EARNINGS AND EARNINGS FROM INVESTMENT PORTFOLIOS

DKr m	Q1 2004			
	Core earnings	Earnings from investm. portf.	Eliminations	Total*
Administration margin	571	-	-	571
Net interest income	232	152	-	384
Dividends from shares	-	-	-	-
Fee and commission income	33	-	33	66
Net interest and fee income	836	152	33	1.021
Securities and foreign exchange income	35	-24	-	11
Other operating income	41	-	-	41
Staff costs and administrative expenses	322	1	33	356
Depreciation and write-downs	2	-	-	2
Other operating expenses	-	-	-	-
Provisions for bad and doubtful debts	2	-	-	2
Income from associated and subsidiary undertakings	-	-	-	-
Profit before tax	586	127	-	713
	Q1 2003			
	Core earnings	Earnings from inv. portf.	Eliminations	Total*
Administration margin	544	-	-	544
Net interest income	324	116	-	440
Dividends from shares	-	-	-	-
Fee and commission income	70	-	32	102
Net interest and fee income	938	116	32	1.086
Securities and foreign exchange income	48	-34	-	14
Other operating income	38	-	-	38
Staff costs and administrative expenses	329	1	32	362
Depreciation and write-downs	2	-	-	2
Provisions for bad and doubtful debts	26	-	-	26
Income from associated and subsidiary undertakings	-	-	-	-
Profit before tax	667	81	-	748

* The accounting format of the Danish Financial Supervisory Authority.

The business area Mortgage Finance in the Danske Bank Group is identical to the activities carried out by the Realkredit Danmark Group. In Danske Banks' report for the first quarter of 2004, core earnings for the business area Mortgage Finance is stated at DKr535m, compared with DKr586m in Realkredit Danmark. In order to make business areas in the Danske Bank Group comparable, interest income for a business area is calculated on the basis of the area's risk-weighted items. The difference in core earnings of DKr51m between the business area Mortgage Finance and Realkredit Danmark is mainly due to the fact that the calculated basis for return on capital for the business area is lower than Realkredit Danmark's shareholders' equity.

In 2002, several of the Danske Bank Group's administrative functions relating to property finance were gathered at Realkredit Danmark. Realkredit Danmark still pays fees to Danske Bank to cover, among other things, the costs of this administration. Danske Bank therefore reimburses Realkredit Danmark for these costs. For 2004, reimbursements from Danske Bank totalled DKr33m, which have been set off against costs in the statement of core earnings and earnings from investment portfolios. In the official accounts, the reimbursements are included under fees.

Financial reports for 2004

The half-year report for 2004 is expected to be published on August 17, 2004.

The report for the first nine months of 2004 is expected to be published on October 26, 2004.

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