

Stock Exchange Announcement No. 7  
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# **Quarterly report First nine months of 2004**

***REALKREDIT*  
D/****Danmark**

## Realkredit Danmark Group - financial highlights

<b>CORE EARNINGS AND NET PROFIT FOR THE PERIOD</b>	<b>Q1-Q3 2004</b>	Q1-Q3 2003	Index 04/03	Full year 2003
DKr m				
Administration margin	<b>1,731</b>	1,652	105	2,216
Net interest income, exclusive of earnings from investment portfolios	<b>719</b>	949	76	1,216
Fee and commission income, net	<b>74</b>	139	53	186
Other core income	<b>253</b>	93	272	157
<b>Total core income</b>	<b>2,777</b>	2,833	98	3,775
Operating expenses and depreciation	<b>921</b>	1,073	86	1,454
<b>Core earnings before provisions</b>	<b>1,856</b>	1,760	105	2,321
Provisions for bad and doubtful debts	<b>3</b>	5	60	24
<b>Core earnings</b>	<b>1,853</b>	1,755	106	2,297
Earnings from investment portfolios	<b>166</b>	216	77	229
<b>Profit before tax</b>	<b>2,019</b>	1,971	102	2,526
Tax	<b>521</b>	493	106	609
<b>Net profit for the period</b>	<b>1,498</b>	1,478	101	1,917

### BALANCE SHEET

DKr m

#### Assets

Due from credit institutions, etc.	<b>17,545</b>	32,869	53	14,914
Lending	<b>509,531</b>	489,471	104	498,037
Bonds and shares, etc.	<b>45,523</b>	43,802	104	128,323
Other assets	<b>3,139</b>	3,444	91	5,872
<b>Total assets</b>	<b>575,738</b>	569,586	101	647,146

#### Liabilities and equity

Due to credit institutions, etc.	<b>15</b>	20	75	874
Issued bonds	<b>535,618</b>	530,350	101	603,120
Other liabilities	<b>11,370</b>	12,418	92	15,915
Shareholders' equity	<b>28,735</b>	26,798	107	27,237
<b>Total liabilities and equity</b>	<b>575,738</b>	569,586	101	647,146

### RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of avg. shareh. equity	<b>7.1</b>	7.6		7.3
Core earnings as % p.a. of avg. shareholders' equity	<b>8.8</b>	9.0		8.8
Cost/core income ratio, %	<b>33.2</b>	37.9		38.5
Solvency ratio (excl. of net profit for the period), %	<b>10.1</b>	9.9		10.4
Core (tier 1) cap. ratio (excl. of net profit for the period), %	<b>10.1</b>	9.8		10.3
Number of full-time employees at September 30	<b>985</b>	982		981
Rating of bonds - Moody's	<b>Aaa</b>	Aaa		Aaa
Rating of bonds - Standard & Poor's	<b>AAA</b>	AAA		AAA

## **MANAGEMENT'S REPORT**

### **Highlights of performance in the first nine months of 2004**

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

- The Realkredit Danmark Group recorded a pre-tax profit of DKr2,019m for the first nine months of 2004, against DKr1,971m for the same period in 2003.
- Core earnings amounted to DKr1,853m, against DKr1,755m for the first nine months of 2003.
- Mortgage lending rose to DKr509bn at the end of the third quarter, against DKr498bn at January 1, 2004.
- The Group's market share of gross lending rose to 31.6% in the third quarter of 2004 from 29.8% in the second quarter. Its market share of the loan portfolio was 34.0% at the end of the third quarter of 2004, against 34.3% at the end of the second quarter.
- On September 30, 2004, the solvency ratio was 10.1%, against the statutory minimum requirement of 8.0%.

### **Results**

Core income amounted to DKr2,777m for the first nine months of 2004, against DKr2,833m the year before. It includes a higher administration margin as a result of the increasing loan portfolio. On the other hand, income was affected by the somewhat lower level of market activity compared with 2003, when especially refinancing activity was high. In addition, the decline in interest rates in 2004 resulted in a fall in the Group's return on securities holdings and liquid funds. In 2003, the investment of liquidity in short-term, high-yield bonds at a price above par lifted net interest income. Negative market value adjustments relating to this investment of liquid funds are reflected in the item "Other core income".

Operating expenses and depreciation amounted to DKr921m and were 14% lower than in the first nine months of 2003, mainly because of lower expenses for the development of new IT systems.

Core earnings before provisions for bad and doubtful debts totalled DKr1,856m in the first nine months of 2004, against DKr1,760m the year before. This matches the expectations announced in the Interim Report for the first half of 2004.

Provisions for bad and doubtful debts amounted to DKr3m in the first nine months of 2004, against DKr5m the year before. Loans in arrears were still at a very low level, and the need for provisions was modest in the first nine months of 2004.

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 DKr166m for the first nine months of 2004, against DKr216m 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	September 30 2004*	September 30 2003*	December 31 2003
Core capital, less statutory deductions	27,071	25,140	27,062
Supplementary capital, less statutory deductions	198	243	218
Capital base	27,269	25,383	27,280
Total weighted items	269,291	257,612	263,336
Solvency ratio, %	10.1	9.9	10.4
Core (tier 1) capital ratio, %	10.1	9.8	10.3

\* Excl. of net profit for the period

On September 30, 2004, the Realkredit Danmark Group's capital base stood at DKr27,269m. The solvency ratio was 10.1%, thus exceeding the statutory minimum solvency requirement of 8.0% by DKr5,726m.

In the first nine months of 2004, shareholders' equity increased by the profit for the period of DKr1,498m. Shareholders' equity subsequently totalled DKr28,735m.

## The mortgage credit market

Total gross lending in the Danish mortgage credit market amounted to DKr312bn for the first nine months of 2004, against the very high level of DKr396bn in the same period last year. Activity declined because refinancing business was not driven by falling interest rates to the same extent as the year before. In 2004, interest-only loans accounted for a significant part of gross lending. As in 2003, mortgage lending activity in the third quarter of 2004 was somewhat lower than in the previous two quarters.

In the first nine months of 2004, yields on short- as well as long-term bonds fluctuated only moderately. At the end of the third quarter of 2004, the rate of interest on a 30-year fixed-rate loan stood at 5.2%, and the rate of interest on FlexLån<sup>®</sup> with full annual interest reset was 2.5%. 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 31.6% in the third quarter of 2004, against 29.8% in the second quarter, and the highest level this year. The Group's market share of the loan portfolio was 34.0% at the end of the third quarter, against 34.3% at the end of the second quarter.

Quarter-on-quarter movements were as follows:

MARKET SHARE, ALL MARKETS %	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003
Gross lending	31.6	29.8	31.3	38.5	31.1
Loan portfolio	34.0	34.3	34.7	34.9	34.9

Realkredit Danmark holds about one third of the loan portfolio on the mortgage credit market. The slightly declining market share should be seen in light of the property loans sold by Danske Bank and BG Bank. Against this background, the development must be considered satisfactory.

In the first nine months of 2004, Realkredit Danmark's loan portfolio rose by DKr11bn to DKr509bn. Of this total rise in lending, the private market accounted for 61%, urban trade for 12%, agriculture for 6% and residential rental property for 21%.

In the first nine months of 2004, FlexLån<sup>®</sup> accounted for 68% of all loans disbursed, against 52% for the whole of 2003. This increase reflects, among other things, that a large proportion of interest-only loans are raised as FlexLån<sup>®</sup>. At the end of the third quarter of 2004, FlexLån<sup>®</sup> accounted for 47% of the loan portfolio, against 40% at the beginning of the year. At the end of the third quarter of 2004, interest-only loans accounted for 18% of the loan portfolio on the private market.

In the first nine months of 2004, the Group's subsidiary home a/s, which is franchiser for the real-estate agents in the 'home' chain, realised its best result ever because of a very high activity level at the 'home' estate agencies.

### **Funding**

Realkredit Danmark finances its loans to borrowers by issuing mortgage bonds listed on the Copenhagen Stock Exchange. At the end of the third quarter of 2004, Realkredit Danmark had issued mortgage bonds for a total of DKr536bn.

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 87%, 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 and the Interim Report for the first half of 2004.

Net interest and fee income is likely to fall in 2004 as a result of a slowdown in refinancing activity, whereas the increase in the loan portfolio will boost the administration margin.

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

<b>CORE EARNINGS AND NET PROFIT FOR THE PERIOD</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>
DKr m	<b>2004</b>	2004	2004	2003	2003
Administration margin	<b>582</b>	578	571	564	558
Net interest income, exclusive of earnings from investment portfolios	<b>257</b>	230	232	267	337
Fee and commission income, net	<b>7</b>	34	33	47	28
Other core income	<b>91</b>	86	76	64	-16
<b>Total core income</b>	<b>937</b>	928	912	942	907
Operating expenses and depreciation	<b>290</b>	307	324	381	380
<b>Core earnings before provisions</b>	<b>647</b>	621	588	561	527
Provisions for bad and doubtful debts	<b>-</b>	1	2	19	-19
<b>Core earnings</b>	<b>647</b>	620	586	542	546
Earnings from investment portfolios	<b>82</b>	-43	127	13	11
<b>Profit before tax</b>	<b>729</b>	577	713	555	557
Tax	<b>189</b>	146	186	116	146
<b>Net profit for the period</b>	<b>540</b>	431	527	439	411

## BALANCE SHEET

DKr m

<b>Assets</b>					
Due from credit institutions, etc.	<b>17,545</b>	30,345	22,401	14,914	32,869
Lending	<b>509,531</b>	507,780	503,133	498,037	489,471
Bonds and shares, etc.	<b>45,523</b>	42,673	33,154	128,323	43,802
Other assets	<b>3,139</b>	2,657	2,551	5,872	3,444
<b>Total assets</b>	<b>575,738</b>	583,455	561,239	647,146	569,586
<b>Liabilities and equity</b>					
Due to credit institutions, etc.	<b>15</b>	2,303	-	874	20
Issued bonds	<b>535,618</b>	542,230	526,253	603,120	530,350
Other liabilities	<b>11,370</b>	10,727	7,222	15,915	12,418
Shareholders' equity	<b>28,735</b>	28,195	27,764	27,237	26,798
<b>Total liabilities and equity</b>	<b>575,738</b>	583,455	561,239	647,146	569,586

## Realkredit Danmark Group

<b>MOVEMENTS IN SHAREHOLDERS' EQUITY</b>			
DKr m	<b>Q1-Q3 2004</b>	Q1-Q3 2003	Full year 2003
Shareholders' equity at January 1	<b>27,237</b>	25,248	25,248
Revaluation of unlisted shares	-	72	72
Net profit for the period	<b>1,498</b>	1,478	1,917
<b>Shareholders' equity at September 30</b>	<b>28,735</b>	26,798	27,237

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

### Accounting policies

The report for the first nine months of 2004 has been prepared in compliance with the Copenhagen Stock Exchange guidelines for issuers of listed bonds. The Group has not changed its accounting policies from those followed in the Annual Report for 2003 and the Interim Report for the first half of 2004.

### International Financial Reporting Standards (IFRS)

The Realkredit Danmark Group expects to present its report for the first quarter of 2005 in accordance with IFRS.

In the spring of 2004, the International Accounting Standards Board (IASB) issued an exposure draft of proposed amendment to IAS 39 about the valuation of financial instruments. The Group plans to employ the restricted fair value option for issued mortgage bonds and mortgage loans because this ensures a true and fair view of the mortgage finance activities. The procedure complies with the draft accounting standards for mortgage finance activities in Denmark prepared by the Danish Financial Supervisory Authority.

According to the timetables published, the IASB expects to reach a conclusion on IAS 39 by the end of the fourth quarter of 2004.

The European Commission still has not endorsed all the international accounting standards; a few, most notably IAS 39, remain outstanding. The Commission has announced that it will not endorse IAS 39 in its present form; rather a few provisions are expected to be carved out temporarily, including the fair value option for liabilities. However, it is still uncertain whether the amendments proposed by the Commission will mean that issued mortgage bonds and mortgage loans cannot be stated at fair value.

Apart from the substantial uncertainty about the accounting rules for mortgage finance activities, the Group's preparations for the IFRS implementation are proceeding as planned. The Group expects to announce the financial effect of the implementation of the IFRS to come into force on January 1, 2005, in its Annual Report for 2004. However, the accounting rules for mortgage finance activities must be clarified soon if they are to be implemented on time.

## Realkredit Danmark Group

### CORE EARNINGS AND EARNINGS FROM INVESTMENT PORTFOLIOS

DKr m	Q1-Q3 2004			
	Core earnings	Earnings from investm. portf.	Eliminations	Total*
Administration margin	1,731	-	-	1,731
Net interest income	719	535	-	1,254
Dividends from shares	-	14	-	14
Fee and commission income	74	-	108	182
<b>Net interest and fee income</b>	<b>2,524</b>	<b>549</b>	<b>108</b>	<b>3,181</b>
Securities and foreign exchange income	132	-383	-	-251
Other operating income	121	-	-	121
Staff costs and administrative expenses	913	3	108	1,024
Depreciation and write-downs	8	-	-	8
Provisions for bad and doubtful debts	3	-	-	3
Income from associated and subsidiary undertakings	-	3	-	3
<b>Profit before tax</b>	<b>1,853</b>	<b>166</b>	<b>-</b>	<b>2,019</b>

	Q1-Q3 2003			
	Core earnings	Earnings from investm. portf.	Eliminations	Total*
Administration margin	1,652	-	-	1,652
Net interest income	949	425	-	1,374
Dividends from shares	-	7	-	7
Fee and commission income	139	-	103	242
<b>Net interest and fee income</b>	<b>2,740</b>	<b>432</b>	<b>103</b>	<b>3,275</b>
Securities and foreign exchange income	-17	-214	-	-231
Other operating income	110	-	-	110
Staff costs and administrative expenses	1,066	3	103	1,172
Depreciation and write-downs	7	-	-	7
Provisions for bad and doubtful debts	5	-	-	5
Income from associated and subsidiary undertakings	-	1	-	1
<b>Profit before tax</b>	<b>1,755</b>	<b>216</b>	<b>-</b>	<b>1,971</b>

\* The statutory 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 three quarters of 2004, core earnings for the business area Mortgage Finance is stated at DKr1,685m, compared with DKr1,853m 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 DKr168m 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.

Several of the Danske Bank Group's administrative functions relating to property finance are gathered at Realkredit Danmark, which 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 DKr108m, which amount has 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 calendar**

Realkredit Danmark expects to publish its 2004 announcement of financial results and annual report on February 10, 2005.

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**Relevant links**

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