

# Interim Report – First Quarter 2016



REALKREDIT  
**Danmark**

<b>Management's report</b>	
Financial highlights – Realkredit Danmark Group	3
Overview, first quarter 2016	4
Mortgage credit market	4
Results	4
Balance sheet	5
Capital and solvency	5
Supplementary collateral	5
Liquidity Coverage Ratio	5
Supervisory diamond	5
Future rules	6
Rating	6
Outlook for 2016	6
<b>Interim financial statements – Realkredit Danmark Group</b>	
Income statement and Comprehensive income	7
Balance sheet	8
Statement of capital	9
Cash flow statement	10
Notes	11
<b>Statement by the management</b>	16
<b>Supplementary information</b>	17

Interim Report – First Quarter 2016 is a translation of the original report in the Danish language (Delårsrapport – 1. kvartal 2016). In case of discrepancies, the Danish version prevails.

## Financial highlights – Realkredit Danmark Group

NET PROFIT FOR THE PERIOD (DKK millions)	Q1 2016	Q1 2015	Index 16/15	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Full year 2015
Administration margin	1,443	1,441	100	1,443	1,446	1,441	1,442	1,441	5,770
Net interest income	16	47	34	16	69	22	58	47	196
Net fee income	-141	-132	107	-141	-141	-132	-104	-132	-509
Income from investment portfolios	234	414	57	234	150	-47	145	414	662
Other income	35	36	97	35	71	34	51	36	192
Total income	1,587	1,806	88	1,587	1,595	1,318	1,592	1,806	6,311
Expenses	195	202	97	195	200	197	188	202	787
Profit before loan impairment charges	1,392	1,604	87	1,392	1,395	1,121	1,404	1,604	5,524
Loan impairment charges	21	228	9	21	-10	123	91	228	432
Profit before tax	1,371	1,376	100	1,371	1,405	998	1,313	1,376	5,092
Tax	302	323	93	302	335	235	309	323	1,202
Net profit for the period	1,069	1,053	102	1,069	1,070	763	1,004	1,053	3,890

### BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	30,902	43,302	71	30,902	28,696	28,553	53,349	43,302	28,696
Mortgage loans	751,382	748,720	100	751,382	744,383	742,853	740,212	748,720	744,383
Bonds and shares	56,183	61,160	92	56,183	59,827	61,852	60,156	61,160	59,827
Other assets	4,538	6,201	73	4,538	3,668	3,994	4,258	6,201	3,668
Total assets	843,005	859,383	98	843,005	836,574	837,252	857,975	859,383	836,574
Due to credit institutions etc.	20,795	18,354	113	20,795	16,611	20,400	26,812	18,354	16,611
Issued mortgage bonds	751,359	759,829	99	751,359	745,223	736,895	753,256	759,829	745,223
Issued senior debt	17,655	27,445	64	17,655	17,721	25,207	25,234	27,445	17,721
Other liabilities	6,861	7,802	88	6,861	8,273	7,054	5,782	7,802	8,273
Shareholders' equity	46,335	45,953	101	46,335	48,746	47,696	46,891	45,953	48,746
Total liabilities and equity	843,005	859,383	98	843,005	836,574	837,252	857,975	859,383	836,574

### RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	9.0	9.0		9.0	8.9	6.5	8.7	9.0	8.1
Impairment charges as % p.a. of mortgage lending	0.01	0.12		0.01	-0.01	0.07	0.05	0.12	0.06
Cost/income ratio (%)	12.3	11.2		12.3	12.5	14.9	11.8	11.2	12.5
Total capital ratio (%)	31.5	35.1		31.5	38.8	37.5	36.3	35.1	38.8
Tier 1 capital ratio (%)	31.0	34.6		31.0	38.3	37.0	35.8	34.6	38.3
Full-time-equivalent staff (end of period)	238	231		238	239	234	231	231	239

## Overview, first quarter 2016

- The Realkredit Danmark Group recorded a net profit of DKK 1,069 million in the first quarter of 2016, against DKK 1,053 million in the first quarter of 2015. The profit for the first quarter of 2016 was supported by a low level of impairments, while the profit in the same quarter of 2015 was supported by income from strong re-mortgaging activity and a relatively high return on the bond portfolio.
- Impairments amounted to DKK 21 million in the first quarter of 2016, against DKK 228 million in the first quarter of 2015.
- Customer interest in FlexLån® loans with short refinancing intervals has been growing in the past few quarters, and at the two most recent refinancing dates, there has been a net increase in loans with short refinancing intervals.
- The proportion of interest-only loans fell from 38.5% at 31 March 2015 to 37.1% at the end of March 2016.
- Realkredit Danmark still expects the profit for 2016 to be at the same level as in 2015.

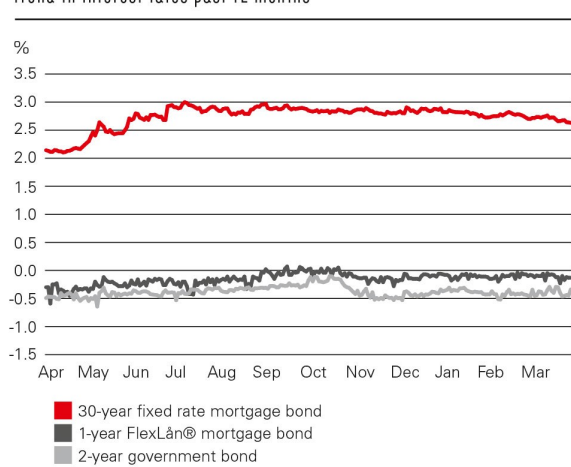
## Mortgage credit market

Activity in the housing market declined in the second half of 2015 and house prices remained stagnant in the period.

The trend was driven especially by rising interest rates in the second quarter, weakening economic growth in Denmark and greater uncertainty about the economic outlook. The latter was also reflected in consumer confidence, which has dropped from a historical high to a lower, albeit still a positive level.

In spite of the drop in housing market trading activity in the second half of 2015, activity in the early part of 2016 has been at a notably higher level than in the preceding years, with house prices remaining stable over the course of the past few months. Prices of owner-occupied flats are no longer rising at the pace seen in the preceding years. One explanation for the lower level of activity could be that the new accepted practice rules and a down payment minimum of 5% for owner-occupied dwellings introduced on 1 November have weighed on the market for owner-occupied flats, in particular. So far, however, it is too early to draw any final conclusions in this regard. Nevertheless, low interest rates do support some market activity.

Trend in interest rates past 12 months



The market for commercial property has witnessed an increase in activity over the course of the past year. Investors remain focused primarily on prime-location properties with good rental prospects, especially in Copenhagen and Aarhus, that will provide stable, regular earnings. The very low level of interest rates has attracted more investors to the commercial property market.

## Results

Realkredit Danmark recorded a net profit of DKK 1,069 million in the first quarter of 2016, against DKK 1,053 million in the same period of last year. The profit performance was attributable primarily to lower impairments, which were offset by lower returns on the bond portfolio and lower remortgaging activity.

The administration margin and net interest income were unchanged.

Income from the investment portfolio fell 43% because this income in the first quarter of 2015 benefited from income deriving from the high level of remortgaging activity. In addition, there was a high return on the bond portfolio in the first quarter of 2015 driven by the falling interest rates during that period.

Expenses fell 3% in the first quarter of 2016. Exclusive of provisions for payments to the Resolution Fund of DKK 14 million, expenses fell 10%. Among other things, this was due to lower remortgaging activity.

Impairments fell to DKK 21 million from DKK 228 million in the same period of 2015. Total impairments declined as a result of a general improvement of macroeconomic conditions in Denmark and reversal of previous provisions for bad debts on corporate customers. In other words, the positive trend of the fourth quarter of 2015 continued into the first quarter of 2016. Impairments equalled 0.01% p.a. of total mortgage lending, against 0.06% in 2015. At the end of March 2016, the delinquency rate was at the same level as in 2015.

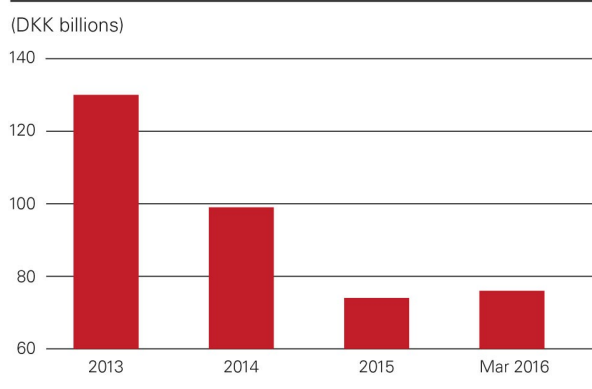
The tax charge totalled DKK 302 million. The effective tax rate for the period was 22.0%.

### Balance sheet

Gross lending amounted to DKK 22 billion, against DKK 55 billion in the first quarter of 2015. Mortgage lending at fair value rose DKK 7 billion to DKK 751 billion. The development in mortgage lending at fair value is composed of an increase in the nominal outstanding bond debt of DKK 1 billion and a DKK 6 billion increase in the market value adjustment in the same period.

In the first quarter of 2016, 1-year and 2-year FlexLån® loans represented 6% of gross lending, which marks an increase relative to 2015.

Loanportfolio - development in 1 and 2-year FlexLoan® loans



The decline in the volume of 1-year FlexLån® ended towards the end of 2015, and the total volume of 1-year FlexLån® loans rose DKK 2 billion in the first quarter of 2016 to DKK 69 billion.

At 31 March 2016, the average loan-to-value (LTV) ratio stood at 66%, which was slightly higher than at the end of 2015. This is due to unchanged property prices and an increase in loans calculated at fair value.

The number of new foreclosures was 17 in the first quarter of 2016. The number of foreclosures fell marginally in the first quarter of 2016 to 57 at the end of March 2016, of which 47 were owner-occupied dwellings and 10 were commercial properties. The value of the foreclosures was DKK 78 million.

Issued mortgage bonds rose DKK 6 billion to DKK 751 billion. The nominal value of issued bonds was DKK 736 billion, which was unchanged from 2015. The amounts are exclusive of holdings of own mortgage bonds. In the first quarter of 2016, Realkredit Danmark issued bonds for DKK 22 billion, not including bonds issued for the refinancing auctions.

### Capital and solvency

At the end of March 2016, shareholders' equity stood at DKK 46.3 billion, against DKK 48.7 billion at end-2015. The ordinary dividend payment of DKK 3.5 billion and the consolidation of the net profit for the period accounted for the change.

Realkredit Danmark's total capital amounted to DKK 46.0 billion, and the total capital ratio calculated in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) was 31.5%. At 31 December 2015, the corresponding figures were DKK 45.8 billion and 38.8%, respectively.

Realkredit Danmark uses the internal ratings-based (IRB) approach to calculate the risk exposure amount for credit risks. The total risk exposure amount (REA) was DKK 145.8 billion at 31 March 2016, against DKK 118.1 billion at the end of 2015. The increase was due primarily to a methodology change of the Danske Bank Group's IRB models, which took effect in the first quarter of 2016.

Calculated on the basis of the transitional rules of the CRR/CRD IV, the capital need for 2016 must, as a minimum, amount to 80% of the requirement calculated under the previous rules, corresponding to DKK 26.7 billion and a solvency need ratio of 18.3%. Realkredit Danmark thus has a capital buffer of DKK 19.3 billion.

Under Danish law, Realkredit Danmark must publish its total capital and solvency need on a quarterly basis. The rd.dk site provides further information.

### Supplementary collateral

Realkredit Danmark issues mortgage-covered bonds. Under Danish law, it must provide supplementary collateral to the bondholders when the LTV ratio exceeds predefined limits, which are 80% for residential property and 60% for commercial property.

At the end of March 2016, the requirement for supplementary collateral for mortgage-covered bonds was DKK 31.0 billion, against DKK 33.9 billion at end-2015.

### Liquidity Coverage Ratio

The effective requirement for Realkredit Danmark's buffer of liquid assets resulting from the Liquidity Coverage Ratio is 2.5% of Realkredit Danmark's total mortgage lending. At the end of March 2016, this corresponded to DKK 19 billion. With liquid assets of DKK 51 billion, Realkredit Danmark has a buffer of DKK 32 billion relative to the requirement.

### Supervisory diamond

Realkredit Danmark currently complies with all the threshold values.

At the two most recent refinancing dates, however, customers have shown mounting interest in FlexLån® loans with short refinancing intervals. If this trend continues, it may challenge Realkredit Danmark's long-term compliance with the supervisory diamond.

**Future rules**

Realkredit Danmark's binding capital need are the transitional rules of CRR/CRD IV, which determines that the capital need must be at least 80% of the capital need calculated according to the previous rules. In the first quarter of 2016, the Basel Committee proposed amendments to the capital calculation models that will replace the transitional rules when they expire in 2017. It is not the Basel Committee's intention to raise the combined capital requirements, but the proposed amendments, if implemented, may lead to significantly higher requirements for portfolios with a low risk of loss. A low risk of loss is a characteristic of Danish mortgage bonds, so any amendments to the models could potentially have a substantial impact on Realkredit Danmark's capital need. However, the wording of the final rules remains subject to a high degree of uncertainty.

**Rating**

In the first quarter of 2016, Fitch Ratings conducted its annual review of Realkredit Danmark's portfolio. Fitch affirmed its AAA rating of capital centre S, and capital centre T retained a rating of AA+ but now with a positive outlook.

The overcollateralisation requirement for capital centre S was lowered from 8% to 7.5%. For capital centre T, the overcollateralisation requirement remained unchanged at 8%. Fitch Ratings found that, other things being equal, the capital centre could be upgraded to a AAA rating when at least 90% of the bonds of the capital centre are covered by the act on maturity extension (L244). This will reduce the refinancing risk in the capital centre sufficiently so as not to prevent a AAA rating. Realkredit Danmark's projections show that the 90% requirement will be complied with by 2019 at the latest.

Standard & Poor's also issues a rating of capital centres S and T and the Other reserves series. All bonds issued by these centres still carry a rating of AAA.

**Outlook for 2016**

Realkredit Danmark expects that economic growth will remain moderate in Denmark in 2016. Interest rates in Denmark are expected to remain low for the rest of 2016, supporting activity in the Danish housing market.

Realkredit Danmark expects income to remain unchanged, supported by moderate growth in the loan portfolio, while a decline in income from remortgaging activity will have downward effect.

As a result of the full-year effect of payments to the Resolution Fund, total expenses are expected to rise. Expenses exclusive of payments to the Resolution Fund are expected to fall as a result of lower remortgaging activity and focus on cost control.

Loan impairment charges are expected to be at the same level as in 2015.

Realkredit Danmark therefore still expects the profit for 2016 to be at the same level as in 2015.

## Income statement and Comprehensive income – Realkredit Danmark Group

Note	(DKK millions)	Q1 2016	Q1 2015	Full year 2015
<b>Income statement</b>				
	Interest income	5,046	5,902	21,886
	Interest expense	3,313	4,147	14,821
	Net interest income	1,733	1,755	7,065
	Dividends from shares	-	-	1
	Fee and commission income	89	226	649
	Fee and commission expense	230	358	1,158
	Net fee and commission income	1,592	1,623	6,557
	Value adjustments	-39	147	-441
	Other operating income	35	36	192
	Staff costs and administrative expenses	194	201	784
	Impairment, depreciation and amortisation charges	1	1	3
3	Loan impairment charges	21	228	432
	Income from associates and group undertakings	-1	-	3
	Profit before tax	1,371	1,376	5,092
	Tax	302	323	1,202
	Net profit for the period	1,069	1,053	3,890
<b>Comprehensive income</b>				
	Net profit for the period	1,069	1,053	3,890
	Other comprehensive income			
	Items that will not be reclassified to profit or loss			
	Actuarial gains/losses on defined benefit plans	26	38	-19
	Tax	-6	-9	4
	Total other comprehensive income	20	29	-15
	Total comprehensive income for the period	1,089	1,082	3,875

## Balance sheet – Realkredit Danmark Group

Note	(DKK millions)	31 March 2016	31 December 2015	31 March 2015
	<b>ASSETS</b>			
	Cash in hand and demand deposits with central banks	127	207	369
	Due from credit institutions and central banks	30,775	28,489	42,933
	Bonds at fair value	26,519	30,210	30,733
	Bonds at amortised cost	29,646	29,597	30,410
4	Mortgage loans at fair value	751,382	744,383	748,720
4	Loans and other amounts due at amortised cost	712	783	840
	Shares etc.	2	2	2
	Holdings in associates	16	18	15
	Land and buildings	-	-	89
	Domicile property	-	-	89
	Other tangible assets	10	10	10
	Current tax assets	782	-	923
	Deferred tax assets	-	-	-
	Assets temporarily taken over	124	122	102
4	Other assets	2,897	2,743	4,222
	Prepayments	13	10	15
	<b>Total assets</b>	<b>843,005</b>	<b>836,574</b>	<b>859,383</b>
	<b>LIABILITIES AND EQUITY</b>			
	<b>AMOUNTS DUE</b>			
	Due to credit institutions and central banks	20,795	16,611	18,354
	Issued mortgage bonds at fair value	751,359	745,223	759,829
5	Issued bonds at amortised cost	17,655	17,721	27,445
	Current tax liabilities	-	25	-
	Deferred tax liabilities	75	69	81
	Other liabilities	6,786	8,179	7,721
	Deferred income	-	-	-
	<b>Total amounts due</b>	<b>796,670</b>	<b>787,828</b>	<b>813,430</b>
	<b>SHAREHOLDERS' EQUITY</b>			
	Share capital	630	630	630
	Other reserves			
	Reserves in series	42,613	42,613	43,693
	Other reserves	3,092	2,003	1,630
	Proposed dividends	-	3,500	-
	<b>Total shareholders' equity</b>	<b>46,335</b>	<b>48,746</b>	<b>45,953</b>
	<b>Total liabilities and equity</b>	<b>843,005</b>	<b>836,574</b>	<b>859,383</b>



## Statement of capital – Realkredit Danmark Group

<b>CHANGES IN SHAREHOLDERS' EQUITY</b> (DKK millions)	Share capital	Reserves in series	Other reserves	Proposed dividends	Total
Shareholders' equity at 1 January 2016	630	42,613	2,003	3,500	48,746
Net profit for the period	-	-	1,069	-	1,069
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	26	-	26
Tax	-	-	-6	-	-6
Total comprehensive income for the period	-	-	1,089	-	1,089
Dividends paid	-	-	-	-3,500	-3,500
Shareholders' equity at 31 March 2016	630	42,613	3,092	-	46,335
Shareholders' equity at 1 January 2015	630	43,693	548	3,000	47,871
Net profit for the period	-	-	1,053	-	1,053
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	38	-	38
Tax	-	-	-9	-	-9
Total comprehensive income for the period	-	-	1,082	-	1,082
Dividends paid	-	-	-	-3,000	-3,000
Shareholders' equity at 31 March 2015	630	43,693	1,630	-	45,953

At 31 March 2016, the share capital was made up of 6,300,000 shares of DKK 100 each. All shares carry the same rights; there is thus only one class of shares. The company is wholly-owned by Danske Bank A/S, Copenhagen. Realkredit Danmark A/S and group undertakings are included in the consolidated financial statements of Danske Bank A/S, Copenhagen.

<b>TOTAL CAPITAL AND TOTAL CAPITAL RATIO</b> (DKK millions)	31 March 2016	31 December 2015	31 March 2015
Shareholders' equity	46,335	48,746	45,953
Revaluation of domicile property at fair value	40	40	50
Tax effect	-9	-9	-12
Total equity calculated in accordance with the rules of the Danish FSA	46,366	48,777	45,991
Expected/proposed dividends	-950	-3,500	-1,050
Revaluation reserve	-	-	-
Deferred tax assets	-	-	-
Prudent valuation	-27	-	-
Defined benefit pension fund assets	-172	-106	-122
Common equity tier 1 capital	45,217	45,171	44,819
Difference between expected losses and impairment charges	-	-	-
Tier 1 capital	45,217	45,171	44,819
Reserves in series subject to a reimbursement obligation	-	-	-
Revaluation reserve	-	-	-
Difference between expected losses and impairment charges	758	601	655
Total capital	45,975	45,772	45,474
Risk exposure amount	145,811	118,092	129,710
Common equity tier 1 capital ratio (%)	31.0	38.3	34.6
Tier 1 capital ratio (%)	31.0	38.3	34.6
Total capital ratio (%)	31.5	38.8	35.1

Total capital and the total risk exposure amount at 31 March 2016 have been calculated in accordance with the rules applicable under the CRR/CRD IV taking transitional rules into account as stipulated by the Danish FSA. A new filter has been introduced for deduction from common equity tier 1 capital of additional value adjustments of assets and liabilities measured at fair value (prudent valuation). The European Commission has approved the standard submitted by the European Banking Authority (EBA), which has been adopted from February 2016.

The solvency need calculation is described in more detail on rd.dk.

## Cash flow statement – Realkredit Danmark Group

(DKK millions)	Q1 2016	Q1 2015	Full year 2015
<b>Cash flow from operations</b>			
Profit before tax	1,371	1,376	5,092
Tax paid	-1,109	-1,106	-1,036
Adjustment for non-cash operating items	-163	4	-271
Cash flow from operating capital	6,156	20,146	-3,537
Total	6,255	20,420	248
<b>Cash flow from investing activities</b>			
Acquisition/sale of tangible assets	-	-	-2
Total	-	-	-2
<b>Cash flow from financing activities</b>			
Dividends	-3,500	-3,000	-3,000
Total	-3,500	-3,000	-3,000
<b>Cash and cash equivalents at 1 January</b>	23,128	25,882	25,882
Change in cash and cash equivalents	2,755	17,420	-2,754
Cash and cash equivalents, end of period	25,883	43,302	23,128
Cash and cash equivalents, end of period			
Cash in hand and demand deposits with central banks	127	369	207
Amounts due from credit institutions and central banks within 3 months	25,756	42,933	22,921
Total	25,883	43,302	23,128

## Notes – Realkredit Danmark Group

Note

**1 Significant accounting policies**

**and significant accounting estimates and assessments**

Realkredit Danmark's interim report for the first quarter of 2016 has 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.

The Group has not changed its significant accounting policies from those followed in Annual Report 2015, which provides a full description of the significant accounting policies.

*Significant accounting estimates and assessments*

Management's estimates and assumptions of future events that will significantly affect the carrying amounts of assets and liabilities underlie the preparation of the Group's consolidated financial statements. The amount most influenced by critical estimates and assessments is the fair value measurement of mortgage loans.

The estimates and assumptions are based on assumptions that management finds reasonable but which are inherently uncertain and unpredictable. The premises may be incomplete, unexpected future events or situations may occur and other parties may arrive at other estimated values.

*Fair value measurement of mortgage loans*

The fair value of mortgage loans is based on the fair value of the underlying issued mortgage bonds adjusted for changes in the fair value of the credit risk on borrowers.

For mortgage loans granted to customers in rating categories 10 and 11 (loans with objective evidence of impairment), such adjustment is made to the amount which the borrower is expected to be able to repay after a financial restructuring. Loans are written down to the fair value of the collateral if financial restructuring is not possible or in case of assets financing.

A collective assessment also determines the need for changes to reflect fair value adjustments of the credit risk of the remaining portion of the portfolio. No changes are made if it is possible to raise the administration margin on loans (credit margin) sufficiently to compensate for the higher credit risk and market risk premiums on mortgage loans. If it is not possible to raise the administration margin sufficiently or at all, a collective adjustment is made, reflecting trends in expected losses, unexpected losses (volatility) and the possibility of raising administration margins in the future. The expected future cash flows are discounted at the current market rate with the addition of a risk premium.

Realkredit Danmark's principal risks and external factors that may affect Realkredit Danmark are described in more detail in Annual Report 2015.

The interim report has not been reviewed or audited.

## Notes – Realkredit Danmark Group

Note (DKK millions)

### 2 Profit broken down by activity

Q1 2016	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
Administration margin	1,443	-	1,443	-	1,443
Net interest income	-70	360	290	-274	16
Dividends from shares	-	-	-	-	-
Net fee income	-141	-	-141	-	-141
Income from investment portfolios	-	-	-	234	234
Value adjustments	184	-223	-39	39	-
Other income	35	-	35	-	35
<b>Total income</b>	<b>1,451</b>	<b>137</b>	<b>1,588</b>	<b>-1</b>	<b>1,587</b>
Expenses	194	1	195	-	195
Profit before loan impairment charges	1,257	136	1,393	-1	1,392
Loan impairment charges	21	-	21	-	21
Income from associates	-	-1	-1	1	-
<b>Profit before tax</b>	<b>1,236</b>	<b>135</b>	<b>1,371</b>	<b>-</b>	<b>1,371</b>
<b>Total assets</b>	<b>780,803</b>	<b>62,202</b>	<b>843,005</b>	<b>-</b>	<b>843,005</b>
<b>Q1 2015</b>	<b>Mortgage finance</b>	<b>Own holdings</b>	<b>Total</b>	<b>Reclassi- fication</b>	<b>Highlights</b>
Administration margin	1,441	-	1,441	-	1,441
Net interest income	-32	346	314	-267	47
Dividends from shares	-	-	-	-	-
Net fee income	-132	-	-132	-	-132
Income from investment portfolios	-	-	-	414	414
Value adjustments	257	-110	147	-147	-
Other income	36	-	36	-	36
<b>Total income</b>	<b>1,570</b>	<b>236</b>	<b>1,806</b>	<b>-</b>	<b>1,806</b>
Expenses	201	1	202	-	202
Profit before loan impairment charges	1,369	235	1,604	-	1,604
Loan impairment charges	228	-	228	-	228
Income from associates	-	-	-	-	-
<b>Profit before tax</b>	<b>1,141</b>	<b>235</b>	<b>1,376</b>	<b>-</b>	<b>1,376</b>
<b>Total assets</b>	<b>786,780</b>	<b>72,603</b>	<b>859,383</b>	<b>-</b>	<b>859,383</b>

Mortgage finance encompasses property financing services provided in Denmark, Sweden and Norway to personal and business customers. The mediation of property financing services is made through Danske Bank's branch network and finance centres and through Corporate & Institutional Mortgage Finance at Realkredit Danmark. The segment also includes mediation of real estate transactions in Denmark offered through the "home" real-estate agency chain. Under the Danish Financial Business Act, at least 60% of the total capital of a mortgage credit institution must be invested in bonds, etc. Own holdings comprise the net return on the part of the securities portfolio not relating to the mortgage finance business. Income from trading activities and own holdings is carried in the income statement under net interest income and value adjustments, etc. In the consolidated highlights, this income, except for interest on bonds at amortised cost, is reclassified to income from investment portfolios. Realkredit Danmark has no branch offices or subsidiaries outside Denmark.

## Notes – Realkredit Danmark Group

Note	(DKK millions)	Q1 2016	Q1 2015
3	<b>Loan impairment charges</b>		
	Impairment charges etc. during the period	198	395
	Reversals of impairment charges etc. for previous years	362	392
	Losses incurred	199	234
	Received on claims previously written off	14	9
	<b>Total</b>	<b>21</b>	<b>228</b>

### 4 Loans etc.

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 3,673 million at 31 March 2016, against DKK 3,826 million at the beginning of the year.

Of total loan impairments for the credit risk on loans and other amounts due at amortised cost, impairments were recognised as an expense of DKK 190 million at 31 March 2016, against DKK 201 million at the beginning of the year.

	Loans, individual impairment	Loans, collective impairment	Total
Impairment charges at 1 January 2015	3,590	711	4,301
Impairment charges during the period	912	330	1,242
Reversals of impairment charges etc. for previous periods	1,447	69	1,516
Impairment charges at 31 December 2015	3,055	972	4,027
Impairment charges during the period	196	2	198
Reversals of impairment charges etc. for previous periods	318	44	362
Impairment charges at 31 March 2016	2,933	930	3,863

Value adjustments of assets taken over amounted to DKK -1 million at 31 March 2016, against DKK -1 million at end-2015.

### 5 Issued bonds at amortised cost

	31 March 2016	31 December 2015
Nominal value of issued bonds	17,572	17,622
Fair value hedging of interest rate risk	72	85
Premium/discount	11	14
<b>Total issued bonds</b>	<b>17,655</b>	<b>17,721</b>

	1 January 2016	Issued	Redeemed	31 March 2016
Nominal value				
<b>Total issued bonds</b>	<b>17,622</b>	<b>-</b>	<b>50</b>	<b>17,572</b>

Issued bonds at amortised cost consist of issued senior debt.

### 6 Assets deposited as collateral

At 31 March 2016, Realkredit Danmark had deposited securities worth DKK 8,382 million (end-2015: DKK 9,410 million) as collateral with the Danish central bank.

In connection with repo transactions, which involve selling securities to be repurchased at a later date, the securities remain on the balance sheet, and amounts received are recognised as due to credit institutions and central banks. Repo transaction securities are treated as assets provided as collateral for liabilities. At 31 March 2016, the carrying amount of such securities totalled DKK 20,780 million (end-2015: DKK 16,567 million). Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

At 31 March 2016, mortgage lending totalling DKK 751,382 million and other assets totalling DKK 30,966 million (end-2015: DKK 744,383 million and DKK 33,859 million) were registered as security for issued mortgage bonds, including mortgage-covered bonds, and issued bonds at amortised cost.

## Notes – Realkredit Danmark Group

Note	(DKK millions)				
7	<b>Financial instruments at fair value</b>				
	31 March 2016	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	26,519	-	-	26,519
	Mortgage loans at fair value	-	751,382	-	751,382
	Shares	-	-	2	2
	Derivatives	-	413	-	413
	<b>Total</b>	<b>26,519</b>	<b>751,795</b>	<b>2</b>	<b>778,316</b>
	Issued mortgage bonds at fair value	751,359	-	-	751,359
	Derivatives	-	172	-	172
	<b>Total</b>	<b>751,359</b>	<b>172</b>	<b>-</b>	<b>751,531</b>
	31 December 2015				
	Bonds at fair value	30,210	-	-	30,210
	Mortgage loans at fair value	-	744,383	-	744,383
	Shares	-	-	2	2
	Derivatives	-	328	-	328
	<b>Total</b>	<b>30,210</b>	<b>744,711</b>	<b>2</b>	<b>774,923</b>
	Issued mortgage bonds at fair value	745,223	-	-	745,223
	Derivatives	-	41	-	41
	<b>Total</b>	<b>745,223</b>	<b>41</b>	<b>-</b>	<b>745,264</b>

Negative interest income and interest expenses due to negative interest rates were insignificant during first quarter 2016. The amounts are offset against interest income and interest expenses, respectively.

Note 36 to Annual Report 2015 provides a description of the valuation techniques used for financial instruments. Financial market developments did not result in reclassification of bonds between listed prices and observable input during the first quarter of 2016.

### 8 Contingent liabilities

Owing to its size and business volume, the Realkredit Danmark Group is continually a party to various disputes. The Group does not expect the outcomes of the disputes pending to have any material effect on its financial position.

As the sponsoring employer, Realkredit Danmark is liable for the pension obligations of Kreditforeningen Danmarks Pensionsafvklingskasse. The pension fund and the Group's defined benefit plan have not accepted new members since 1971.

In connection with implementation of the EU Bank Recovery and Resolution Directive, a Danish resolution fund has been established. The resolution fund must amount to 1% of the covered deposits of all Danish credit institutions by 31 December 2024. The first contribution to the fund was made at 31 December 2015. The individual institution must make contributions to the fund on the basis of its size and risk relative to other credit institutions in Denmark. The contribution for 2016 of a little over DKK 50 million will be accrued over the four quarters of the year. The intention is that losses should be covered by the annual contributions made by the participating credit institutions. If sufficient means are not available in the resolution fund, extraordinary contributions can be required of up to three times the latest annual contribution.

The company is registered jointly with all major Danish subsidiaries of the Danske Bank Group for financial services employer tax and VAT, for which it is jointly and severally liable.

The company is jointly taxed with all Danish companies in the Danske Bank Group and are jointly and severally liable for their Danish income tax, withholding tax, etc.

Guarantees and indemnities issued by the Group, irrevocable loan commitments regarding reverse mortgages and other commitments not recognised in the balance sheet amount to:

(DKK millions)	31 March 2016	31 December 2015	31 March 2015
<b>Other contingent liabilities</b>			
Irrevocable loan commitments regarding reverse mortgages	12	22	27
Other commitments	90	91	107
<b>Total</b>	<b>102</b>	<b>113</b>	<b>134</b>

In addition to credit exposure from lending activities, loan offers made by the Group amounted to DKK 27,241 million (end-2015: DKK 24,088 million). These items are included in the calculation of the total risk amount in accordance with the CRR/CRD IV.

## Notes – Realkredit Danmark Group

Note

### 9 Risk management

The Board of Directors defines Realkredit Danmark's risk management framework, while the Executive Board monitors Realkredit Danmark's risks and ensures compliance with the framework. The principal risk faced by Realkredit Danmark is the credit risk on mortgage loans. Realkredit Danmark has only limited exposure to market risk.

#### *Credit risk*

As a mortgage credit institution, Realkredit Danmark provides loans secured on real property. The credit risk on a mortgage loan basically derives from two factors; the risk that the borrower is unable to repay the loan and the expected loss if the customer does not repay the loan. The latter depends largely on the value of the mortgaged property. The table below shows a breakdown of the loan portfolio on customer classification by creditworthiness (rating categories) and loan-to-value (LTV) ratios. Loans to customers with an LTV ratio of more than 80% in the four lowest rating categories total DKK 6 billion, which corresponds to 0.8% of the total loan portfolio.

**Portfolio broken down by LTV ratio and rating category**  
31 March 2016

Rating category	LTV ratio					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	80-100%	
1	-	-	-	-	-	-
2	7	4	3	-	-	14
3	56	38	23	11	6	134
4	70	55	36	15	5	181
5	60	52	38	17	5	172
6	38	33	24	11	4	110
7	27	25	19	9	3	83
8	9	8	7	4	1	29
9	2	2	1	1	1	7
10	4	4	4	2	2	16
11	2	2	2	1	2	9
<b>Total</b>	<b>275</b>	<b>223</b>	<b>157</b>	<b>71</b>	<b>29</b>	<b>755</b>

**Portfolio broken down by LTV ratio and rating category**  
31 December 2015

Rating category	LTV ratio					Total DKK. billions
	0-20%	20-40%	40-60%	60-80%	80-100%	
1	-	-	-	-	-	-
2	6	3	2	-	-	11
3	56	38	22	10	6	132
4	69	54	35	14	4	176
5	58	51	38	16	6	169
6	39	34	24	11	4	112
7	28	25	19	9	3	84
8	10	9	7	4	1	31
9	2	2	2	1	1	8
10	4	4	4	2	2	16
11	2	2	2	1	2	9
<b>Total</b>	<b>274</b>	<b>222</b>	<b>155</b>	<b>68</b>	<b>29</b>	<b>748</b>

In the financial statements, mortgage loans, and thus the associated credit risk, are recognised at fair value. Calculating the fair value of credit risk involves significant estimates and assumptions. This is described in detail in note 1. The total fair value adjustment of credit risk is described in note 4.

#### *Market risk*

Market risk comprises interest rate, equity market and exchange rate risks and, to a very limited extent, liquidity risk and operational risk. In addition, the Group is exposed to some degree to pension risk on defined benefit plans for current and/or former employees.

However, the statutory principle of balance eliminates most of the interest rate, exchange rate and liquidity risks on Realkredit Danmark's loans. Realkredit Danmark's other assets and liabilities involve some degree of market risk, mainly in the form of interest rate risk. Realkredit Danmark uses derivatives to hedge the interest rate risk on some of the bonds in the proprietary portfolio and on fixed-rate liabilities in the form of issued senior debt. The derivatives and the hedged bonds are recognised at fair value, and fair value hedge accounting is used to the effect that the hedged interest rate risk on the issued senior debt is also recognised at fair value in the financial statements. Realkredit Danmark has placed DKK 29,646 million of its proprietary portfolio in fixed-rate bonds, which are recognised in the financial statements as held-to-maturity investments and are thus measured at amortised cost. As a result, Realkredit Danmark knows the return on the portfolio until maturity, and the fixed-rate held-to-maturity portfolio is therefore not considered to entail an interest rate risk that needs to be hedged through derivatives.

The Group's management of credit risk and market risk is described in detail in the risk management note in Annual Report 2015.

## Statement by the management

The Board of Directors and the Executive Board (management) have considered and approved Interim Report – First Quarter 2016 of the Realkredit Danmark Group.

The consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU. Furthermore, the interim report has been prepared in accordance with Danish disclosure requirements for interim reports of issuers of listed bonds.

In our opinion, the consolidated interim financial statements give a true and fair view of the Group's assets, liabilities, shareholders' equity and financial position at 31 March 2016 and of the results of the Group's operations and the consolidated cash flows for the period starting on 1 January 2016 and ending on 31 March 2016. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group.

Copenhagen, 29 April 2016

### **Executive Board**

Carsten Nøddebo Rasmussen  
Chairman of the Executive Board

### **Board of Directors**

Tonny Thierry Andersen  
Chairman

Lars Mørch  
Vice Chairman

Kim Andersen

Jacob Aarup-Andersen

Henriette Fenger Ellekrog

Claus Bundgaard

Lisbeth Sahlertz Nielsen



## Supplementary information

### **Financial calendar**

- Interim Report – First Half 2016:  
21 July 2016
- Interim Report – First Nine Months 2016:  
28 October 2016

### **Contact**


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### **Links**

[rd.dk](http://rd.dk)  
[danskebank.dk](http://danskebank.dk)  
[danskebank.com](http://danskebank.com)  
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