

Interim Report – First Half 2016



REALKREDIT
Danmark

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

Financial highlights – Realkredit Danmark Group

NET PROFIT FOR THE PERIOD (DKK millions)	First half 2016	First half 2015	Index 16/15	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Full year 2015
Administration margin	2,888	2,883	100	1,445	1,443	1,446	1,441	1,442	5,770
Net interest income	31	105	30	15	16	69	22	58	196
Net fee income	-281	-236	119	-140	-141	-141	-132	-104	-509
Income from investment portfolios	417	559	75	183	234	150	-47	145	662
Other income	73	87	84	38	35	71	34	51	192
Total income	3,128	3,398	92	1,541	1,587	1,595	1,318	1,592	6,311
Expenses	391	390	100	196	195	200	197	188	787
Profit before loan impairment charges	2,737	3,008	91	1,345	1,392	1,395	1,121	1,404	5,524
Loan impairment charges	83	319	26	62	21	-10	123	91	432
Profit before tax	2,654	2,689	99	1,283	1,371	1,405	998	1,313	5,092
Tax	584	632	92	282	302	335	235	309	1,202
Net profit for the period	2,070	2,057	101	1,001	1,069	1,070	763	1,004	3,890

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	29,932	53,349	56	29,932	30,902	28,696	28,553	53,349	28,696
Mortgage loans	759,785	740,212	103	759,785	751,382	744,383	742,853	740,212	744,383
Bonds and shares	59,307	60,156	99	59,307	56,183	59,827	61,852	60,156	59,827
Other assets	3,694	4,258	87	3,694	4,538	3,668	3,994	4,258	3,668
Total assets	852,718	857,975	99	852,718	843,005	836,574	837,252	857,975	836,574
Due to credit institutions etc.	17,949	26,812	67	17,949	20,795	16,611	20,400	26,812	16,611
Issued mortgage bonds	764,970	753,256	102	764,970	751,359	745,223	736,895	753,256	745,223
Issued senior debt	17,639	25,234	70	17,639	17,655	17,721	25,207	25,234	17,721
Other liabilities	4,795	5,782	83	4,795	6,861	8,273	7,054	5,782	8,273
Shareholders' equity	47,365	46,891	101	47,365	46,335	48,746	47,696	46,891	48,746
Total liabilities and equity	852,718	857,975	99	852,718	843,005	836,574	837,252	857,975	836,574

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	8.6	8.7		8.5	9.0	8.9	6.5	8.7	8.1
Impairment charges as % p.a. of mortgage lending	0.02	0.09		0.03	0.01	-0.01	0.07	0.05	0.06
Cost/income ratio (%)	12.5	11.5		12.7	12.3	12.5	14.9	11.8	12.5
Total capital ratio (%)	32.5	36.3		32.5	31.5	38.8	37.5	36.3	38.8
Tier 1 capital ratio (%)	32.0	35.8		32.0	31.0	38.3	37.0	35.8	38.3
Full-time-equivalent staff (end of period)	239	231		239	238	239	234	231	239

Overview, First Half 2016

- The Realkredit Danmark Group recorded a net profit of DKK 2,070 million in the first half of 2016, against DKK 2,057 million in the first half of 2015. The profit for the first half of 2016 was supported by a low level of impairments, while the profit in the same half of 2015 was supported by income from strong remortgaging activity.
- Impairments amounted to DKK 83 million in the first half of 2016, against DKK 319 million in the first half of 2015.
- As announced in May, effective from 1 October 2016, Realkredit Danmark will adjust its administration margin on F1-F4 FlexLån® loans, as both the authorities and Realkredit Danmark wish to reduce the volumes of these loans at the refinancing auctions in order to ensure that the Danish mortgage credit system remains robust. Prices on all fixed-rate loans and a number of other loan products, including FlexKort® and FlexLån® F5, will remain unchanged.
- The proportion of interest-only loans fell from 38.1% at 30 June 2015 to 36.8% at the end of June 2016.
- Realkredit Danmark still expects the profit for 2016 to be at the same level as in 2015.

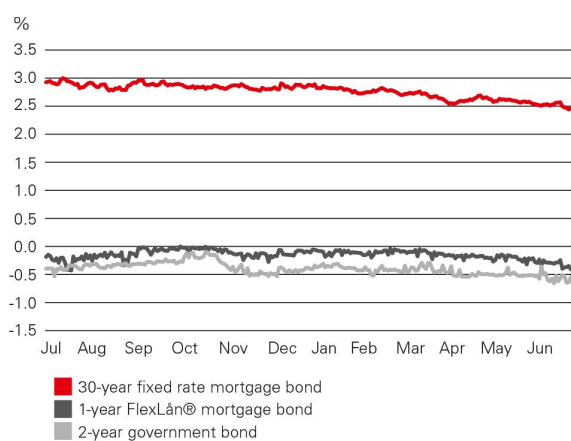
Mortgage credit market

There was a rising trend in house prices at the beginning of 2016, and as in recent years the biggest price increases were seen in owner-occupied flats, whereas price developments were more subdued in the market for single-family houses. In the first half of 2016, the price increases spread to most parts of Denmark.

Trading activity in the housing market was stagnant to slightly decreasing in the first part of 2016 relative to the latter part of 2015. However, trading activity is still relatively strong compared with the past five years.

The housing market remains underpinned by very low interest rates, rising disposable household income and labour market improvements. However, economic growth has been relatively subdued for the past 12 months or so, and the economic recovery remains fragile. Overall, Realkredit Danmark expects price increases of owner-occupied dwellings to the tune of 3-4% in 2016, against approximately 6% in 2015.

Trend in interest rates past 12 months



In the commercial property market, activity has picked up in 2016 relative to an already high level of activity in 2015. This development is driven by factors such as very low interest rates and growing interest from Danish and international investors.

Results

Realkredit Danmark recorded a net profit of DKK 2,070 million in the first half of 2016, against DKK 2,057 million in the same period of last year. The profit performance was attributable primarily to lower impairments, which were largely offset by lower income from remortgaging activity.

The administration margin was unchanged.

Lower income from remortgaging activity triggered a decline in net interest income.

Income from the investment portfolio fell 25% because this income in the first half of 2015 benefited from income deriving from the high level of remortgaging activity.

Expenses were at an unchanged level. Exclusive of provisions for payments to the Resolution Fund of DKK 28 million, expenses fell 7%. Among other things, this was due to lower remortgaging activity.

Impairments fell to DKK 83 million in the first half of 2016 from DKK 319 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 impairments on corporate customers. In other words, the positive trend of the fourth quarter of 2015 continued into the first half of 2016. However, due to low selling prices, especially pork and milk prices, the agricultural sector is facing the challenge of falling prices of agricultural property. As a result, it was necessary to increase impairments on the agricultural segment in the first half of 2016. Impairments equalled 0.02% p.a. of total mortgage lending, against 0.06% in 2015. At the end of June 2016, the delinquency rate was slightly lower than in 2015, except for the agricultural segment.

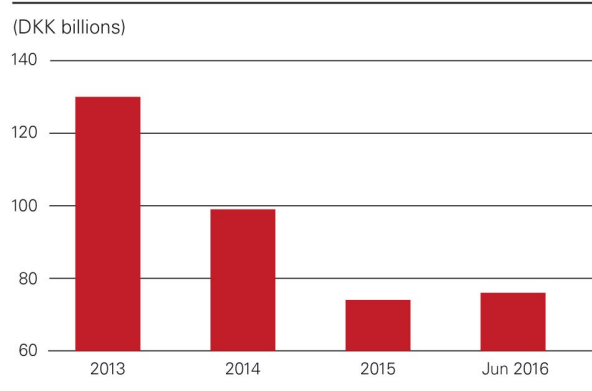
The tax charge totalled DKK 584 million. The effective tax rate for the period was 22.0%.

Balance sheet

Gross lending amounted to DKK 47 billion, against DKK 103 billion in the first half of 2015. Mortgage lending at fair value rose DKK 15 billion to DKK 760 billion. The development in mortgage lending at fair value is composed of an increase in the nominal outstanding bond debt of DKK 4 billion and an DKK 11 billion increase in the market value adjustment in the same period.

In the first half of 2016, 1-year and 2-year FlexLån® loans represented 9% of gross lending, against 5% in 2015.

Loan portfolio - development in 1 and 2-year FlexLån® loans



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

At 30 June 2016, the average loan-to-value (LTV) ratio stood at 65%, which was unchanged compared to the end of 2015. An increase in loans calculated at market value was offset by rising property prices.

The number of new foreclosures was 39 in the first half of 2016. The number of foreclosures fell marginally in the first half of 2016 to 56 at the end of June 2016, of which 44 were owner-occupied dwellings and 12 were commercial properties. The value of the foreclosures was DKK 98 million.

Issued mortgage bonds rose DKK 20 billion to DKK 765 billion. The nominal value of issued bonds was DKK 745 billion, which was DKK 9 billion more than at the end of 2015. The amounts are exclusive of holdings of own mortgage bonds. In the first half of 2016, Realkredit Danmark issued bonds for DKK 47 billion, not including bonds issued for the refinancing auctions.

Capital and solvency

At the end of June 2016, shareholders' equity stood at DKK 47.4 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 46.1 billion, and the total capital ratio calculated in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) was 32.5%. 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 141.6 billion at 30 June 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 26.8 billion and a solvency need ratio of 18.9%. 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 June 2016, the requirement for supplementary collateral for mortgage-covered bonds was DKK 29.3 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 June 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.

Price increases on FlexLån® F1-F4 loans

Realkredit Danmark has given notice of price increases on its F1, F2, F3 and F4 FlexLån® loans effective from 1 October 2016.

The authorities and Realkredit Danmark aim to reduce the size of the refinancing auctions in order to continue to safeguard a robust mortgage credit system in Denmark. Customers affected by the price increases will be offered the opportunity to refinance to another loan type such as FlexKort® or fixed-rate loans without paying any fees.

Supervisory diamond for mortgage credit institutions

Realkredit Danmark currently complies with all threshold values. However, given the current demand for loans with short refinancing intervals, it will be difficult to comply with all of the threshold values in the years to come.

The notified price increases on F1-F4 FlexLån® loans are expected to ensure that Realkredit Danmark will continue to comply with the supervisory diamond's refinancing volumes, which will otherwise be challenged by the existing loan portfolio.

Future rules

Realkredit Danmark continues to monitor developments in the Basel Committee's proposed amendments to the capital calculation models that will replace the transitional rules when they expire in 2017. The wording of the final rules remains subject to a high degree of uncertainty.

Rating

Realkredit Danmark's mortgage bonds and mortgage-covered bonds issued from capital centres S and T and under the Other reserves series still hold a AAA rating from Standard & Poor's. Furthermore, bonds issued from capital centre S hold a AAA rating from Fitch Ratings, while bonds issued from capital centre T hold a AA+ rating from the same agency. Realkredit Danmark holds an issuer rating of A from Fitch Ratings.

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 marginally higher administration margin income following the adjustment of administration margins on FlexLån® F1-F4 loans, 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 slightly lower than 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)	First half 2016	First half 2015	Q2 2016	Q2 2015	Full year 2015
	Income statement					
	Interest income	9,868	11,505	4,822	5,603	21,886
	Interest expense	6,543	7,995	3,230	3,848	14,821
	Net interest income	3,325	3,510	1,592	1,755	7,065
	Dividends from shares	-	1	-	1	1
	Fee and commission income	198	418	109	192	649
	Fee and commission expense	479	654	249	296	1,158
	Net fee and commission income	3,044	3,275	1,452	1,652	6,557
	Value adjustments	10	37	49	-110	-441
	Other operating income	73	87	38	51	192
	Staff costs and administrative expenses	389	388	195	187	784
	Impairment, depreciation and amortisation charges	2	2	1	1	3
3	Loan impairment charges	83	319	62	91	432
	Income from associates and group undertakings	1	-1	2	-1	3
	Profit before tax	2,654	2,689	1,283	1,313	5,092
	Tax	584	632	282	309	1,202
	Net profit for the period	2,070	2,057	1,001	1,004	3,890
	Comprehensive income					
	Net profit for the period	2,070	2,057	1,001	1,004	3,890
	Other comprehensive income					
	Items that will not be reclassified to profit or loss					
	Actuarial gains/losses on defined benefit plans	62	-48	36	-86	-19
	Tax	-13	11	-7	20	4
	Total other comprehensive income	49	-37	29	-66	-15
	Total comprehensive income for the period	2,119	2,020	1,030	938	3,875

Balance sheet – Realkredit Danmark Group

Note	(DKK millions)	30 June 2016	31 December 2015	30 June 2015
ASSETS				
	Cash in hand and demand deposits with central banks	329	207	543
	Due from credit institutions and central banks	29,603	28,489	52,806
	Bonds at fair value	29,243	30,210	27,671
	Bonds at amortised cost	30,044	29,597	32,470
4	Mortgage loans at fair value	759,785	744,383	740,212
4	Loans and other amounts due at amortised cost	770	783	828
	Shares etc.	2	2	1
	Holdings in associates	18	18	14
	Land and buildings	-	-	89
	Domicile property	-	-	89
	Other tangible assets	9	10	10
	Current tax assets	499	-	615
	Deferred tax assets	-	-	-
	Assets temporarily taken over	144	122	94
4	Other assets	2,232	2,743	2,606
	Prepayments	40	10	16
Total assets		852,718	836,574	857,975
LIABILITIES AND EQUITY				
AMOUNTS DUE				
	Due to credit institutions and central banks	17,949	16,611	26,812
	Issued mortgage bonds at fair value	764,970	745,223	753,256
5	Issued bonds at amortised cost	17,639	17,721	25,234
	Current tax liabilities	-	25	-
	Deferred tax liabilities	83	69	61
	Other liabilities	4,712	8,179	5,721
	Deferred income	-	-	-
Total amounts due		805,353	787,828	811,084
SHAREHOLDERS' EQUITY				
	Share capital	630	630	630
	Other reserves			
	Reserves in series	42,613	42,613	43,693
	Other reserves	4,122	2,003	2,568
	Proposed dividends	-	3,500	-
Total shareholders' equity		47,365	48,746	46,891
Total liabilities and equity		852,718	836,574	857,975

Statement of capital – Realkredit Danmark Group

CHANGES IN SHAREHOLDERS' EQUITY (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	-	-	2,070	-	2,070
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	62	-	62
Tax	-	-	-13	-	-13
Total comprehensive income for the period	-	-	2,119	-	2,119
Dividends paid	-	-	-	-3,500	-3,500
Shareholders' equity at 30 June 2016	630	42,613	4,122	-	47,365
Shareholders' equity at 1 January 2015	630	43,693	548	3,000	47,871
Net profit for the period	-	-	2,057	-	2,057
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	-48	-	-48
Tax	-	-	11	-	11
Total comprehensive income for the period	-	-	2,020	-	2,020
Dividends paid	-	-	-	-3,000	-3,000
Shareholders' equity at 30 June 2015	630	43,693	2,568	-	46,891

At 30 June 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.

TOTAL CAPITAL AND TOTAL CAPITAL RATIO (DKK millions)	30 June 2016	31 December 2015	30 June 2015
Shareholders' equity	47,365	48,746	46,891
Revaluation of domicile property at fair value	40	40	51
Tax effect	-9	-9	-13
Total equity calculated in accordance with the rules of the Danish FSA	47,396	48,777	46,929
Expected/proposed dividends	-1,860	-3,500	-2,050
Revaluation reserve	-	-	-
Deferred tax assets	-	-	-
Prudent valuation	-29	-	-
Defined benefit pension fund assets	-191	-106	-96
Common equity tier 1 capital	45,316	45,171	44,783
Difference between expected losses and impairment charges	-	-	-
Tier 1 capital	45,316	45,171	44,783
Reserves in series subject to a reimbursement obligation	-	-	-
Revaluation reserve	-	-	-
Difference between expected losses and impairment charges	736	601	619
Total capital	46,052	45,772	45,402
Risk exposure amount	141,599	118,092	124,977
Common equity tier 1 capital ratio (%)	32.0	38.3	35.8
Tier 1 capital ratio (%)	32.0	38.3	35.8
Total capital ratio (%)	32.5	38.8	36.3

Total capital and the total risk exposure amount at 30 June 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)	First half 2016	First half 2015	Full year 2015
Cash flow from operations			
Profit before tax	2,654	2,689	5,092
Tax paid	-1,109	-1,106	-1,036
Adjustment for non-cash operating items	-244	-54	-271
Cash flow from operating capital	6,006	28,939	-3,537
Total	7,307	30,468	248
Cash flow from investing activities			
Acquisition/sale of tangible assets	-	-1	-2
Total	-	-1	-2
Cash flow from financing activities			
Dividends	-3,500	-3,000	-3,000
Total	-3,500	-3,000	-3,000
Cash and cash equivalents at 1 January	23,128	25,882	25,882
Change in cash and cash equivalents	3,807	27,467	-2,754
Cash and cash equivalents, end of period	26,935	53,349	23,128
Cash and cash equivalents, end of period			
Cash in hand and demand deposits with central banks	329	543	207
Amounts due from credit institutions and central banks within 3 months	26,606	52,806	22,921
Total	26,935	53,349	23,128

Notes – Realkredit Danmark Group

Note

1 Significant accounting policies

and critical accounting estimates and assessments

Realkredit Danmark's interim report for the first half 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

	Mortgage finance	Own holdings	Total	Reclassi- fication	Highlights
First half 2016					
Administration margin	2,888	-	2,888	-	2,888
Net interest income	-145	582	437	-406	31
Dividends from shares	-	-	-	-	-
Net fee income	-281	-	-281	-	-281
Income from investment portfolios	-	-	-	417	417
Value adjustments	284	-274	10	-10	-
Other income	73	-	73	-	73
Total income	2,819	308	3,127	1	3,128
Expenses	388	3	391	-	391
Profit before loan impairment charges	2,431	305	2,736	1	2,737
Loan impairment charges	83	-	83	-	83
Income from associates	-	1	1	-1	-
Profit before tax	2,348	306	2,654	-	2,654
Total assets	790,018	62,700	852,718	-	852,718
First half 2015					
Administration margin	2,883	-	2,883	-	2,883
Net interest income	-60	687	627	-522	105
Dividends from shares	-	1	1	-1	-
Net fee income	-236	-	-236	-	-236
Income from investment portfolios	-	-	-	559	559
Value adjustments	422	-385	37	-37	-
Other income	87	-	87	-	87
Total income	3,096	303	3,399	-1	3,398
Expenses	387	3	390	-	390
Profit before loan impairment charges	2,709	300	3,009	-1	3,008
Loan impairment charges	319	-	319	-	319
Income from associates	-	-1	-1	1	-
Profit before tax	2,390	299	2,689	-	2,689
Total assets	787,312	70,663	857,975	-	857,975

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)	First half 2016	First half 2015
3	Loan impairment charges		
	Impairment charges etc. during the period	482	747
	Reversals of impairment charges etc. for previous years	728	803
	Losses incurred	358	403
	Received on claims previously written off	29	28
	Total	83	319

4 Loans etc.

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 3,643 million at 30 June 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 138 million at 30 June 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 for previous periods	1,447	69	1,516
Impairment charges at 31 December 2015	3,055	972	4,027
Impairment charges during the period	419	63	482
Reversals of impairment charges for previous periods	556	172	728
Impairment charges at 30 June 2016	2,918	863	3,781

Value adjustments of assets taken over amounted to DKK 0 million at 30 June 2016, against DKK -1 million at end-2015.

5 Issued bonds at amortised cost

	30 June 2016	31 December 2015
Nominal value of issued bonds	17,572	17,622
Fair value hedging of interest rate risk	60	85
Premium/discount	7	14
Total issued bonds	17,639	17,721

	1 January 2016	Issued	Redeemed	30 June 2016
Nominal value				
Total issued bonds	17,622	-	50	17,572

Issued bonds at amortised cost consist of issued senior debt.

6 Assets deposited as collateral

At 30 June 2016, Realkredit Danmark had deposited securities worth DKK 7,847 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 30 June 2016, the carrying amount of such securities totalled DKK 17,942 million (end-2015: DKK 16,567 million). Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

At 30 June 2016, mortgage lending totalling DKK 759,785 million and other assets totalling DKK 29,285 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	Financial instruments at fair value				
	30 June 2016	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	29,243	-	-	29,243
	Mortgage loans at fair value	-	759,785	-	759,785
	Shares	-	-	2	2
	Derivatives	-	87	-	87
	Total	29,243	759,872	2	789,117
	Issued mortgage bonds at fair value	764,970	-	-	764,970
	Derivatives	-	43	-	43
	Total	764,970	43	-	765,013
	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
	Total	30,210	744,711	2	774,923
	Issued mortgage bonds at fair value	745,223	-	-	745,223
	Derivatives	-	41	-	41
	Total	745,223	41	-	745,264

Negative interest income and interest expenses due to negative interest rates were insignificant during the first six months of 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 six months of 2016.

8 Contingent liabilities

Owing to its size and business volume, 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)	30 June 2016	31 December 2015	30 June 2015
Other contingent liabilities			
Irrevocable loan commitments regarding reverse mortgages	12	22	27
Other commitments	94	91	90
Total	106	113	117

In addition to credit exposure from lending activities, loan offers made by the Group amounted to DKK 31,521 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
30 June 2016

Rating category	LTV ratio					Total DKK billions
	0-20%	20-40%	40-60%	60-80%	80-100%	
1	-	-	-	-	-	-
2	7	5	2	1	-	15
3	59	40	23	10	6	138
4	75	59	37	15	5	191
5	61	52	37	17	5	172
6	39	34	24	11	3	111
7	26	24	18	8	3	79
8	9	8	7	3	1	28
9	1	1	1	1	1	5
10	4	4	3	2	2	15
11	2	2	2	1	2	9
Total	283	229	154	69	28	763

Portfolio broken down by LTV ratio value 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
Total	274	222	155	68	29	748

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 30,044 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.

Interim financial statements – Realkredit Danmark A/S

Note (DKK millions)

The financial statements of the parent company, Realkredit Danmark A/S, are prepared in accordance with the Danish Financial Business Act and the Danish FSA's executive order no. 281 dated 26 March 2014 on Financial Reports of Credit Institutions and Investment companies, etc.

The rules are consistent with the Group's measurement principles under IFRS with the exception that

- Domicile properties are valued at estimated fair value (revalued amount) through other comprehensive income

The estimated fair value of domicile properties is determined in accordance with the Danish FSA's executive order of Financial Reports for Credit Institutions and Investment Companies, etc. Available-for-sale financial assets are measured at fair value through profit or loss.

The format of the parent company's financial statements is not identical to the format of the consolidated financial statements prepared in accordance with IFRSs.

The table below shows the differences in net profit and shareholders' equity between the IFRS consolidated financial statements and the parent company's financial statements presented in accordance with Danish FSA rules.

	Net profit First half 2016	Net profit First half 2015	Shareholders' equity 30 June 2016	Shareholders' equity 31 December 2015
Consolidated financial statements (IFRS)	2,070	2,057	47,365	48,746
Domicile property	-	-	40	40
Tax effect	-	-	-9	-9
Consolidated financial statements (Danish FSA rules)	2,070	2,057	47,396	48,777

Income statement and Comprehensive income – Realkredit Danmark A/S

Note	(DKK millions)	First half 2016	First half 2015
	Income statement		
	Interest income	9,868	11,504
	Interest expense	6,543	7,995
	Net interest income	3,325	3,509
	Dividends from shares	-	-
	Fee and commission income	198	418
	Fee and commission expense	479	654
	Net fee and commission income	3,044	3,273
1	Value adjustments	10	37
	Other operating income	1	12
	Staff costs and administrative expenses	337	334
	Impairment, depreciation and amortisation charges	-	1
	Loan impairment charges	83	319
	Income from associated and group undertakings	15	16
	Profit before tax	2,650	2,684
	Tax	580	627
	Net profit for the period	2,070	2,057
	Comprehensive income		
	Net profit for the period	2,070	2,057
	Other comprehensive income		
	Items that will not be reclassified to profit or loss		
	Actuarial gains/losses on defined benefit plans	62	-48
	Fair value adjustment of domicile property	-	1
	Tax	-13	10
	Total comprehensive income	49	-37
	Total comprehensive income for the period	2,119	2,020

Balance sheet – Realkredit Danmark A/S

Note	(DKK millions)	30 June 2016	31 December 2015	30 June 2015
ASSETS				
	Cash in hand and demand deposits with central banks	329	207	543
	Due from credit institutions and central banks	29,561	28,434	52,772
	Bonds at fair value	29,243	30,210	27,671
	Bonds at amortised cost	30,044	29,597	32,470
2	Mortgage loans at fair value	759,785	744,383	740,212
2	Loans and other amounts due at amortised cost	737	749	792
	Holdings in associates	18	18	14
	Holdings in group undertakings	118	129	121
	Land and buildings	-	-	140
	Domicile property	-	-	140
	Other tangible assets	5	5	5
	Current tax assets	496	-	610
	Deferred tax assets	-	-	-
	Assets temporarily taken over	183	161	94
2	Other assets	2,184	2,693	2,550
	Prepayments	39	7	16
Total assets		852,742	836,593	858,010
LIABILITIES AND EQUITY				
AMOUNTS DUE				
	Due to credit institutions and central banks	17,949	16,611	26,812
	Issued mortgage bonds at fair value	764,970	745,223	753,256
	Issued bonds at amortised cost	17,639	17,721	25,234
	Current tax liabilities	-	24	-
	Other liabilities	4,654	8,109	5,647
	Deferred income	-	-	-
Total amounts due		805,212	787,688	810,949
PROVISIONS				
	Deferred tax	92	79	75
	Reserves in early series subject to a reimbursement obligation	42	49	57
Total provisions		134	128	132
SHAREHOLDERS' EQUITY				
	Share capital	630	630	630
	Revaluation reserve	31	31	33
	Reserves in series	42,613	42,613	43,693
	Other reserves	4,122	2,003	2,573
	Proposed dividends	-	3,500	-
Total shareholders' equity		47,396	48,777	46,929
Total liabilities and equity		852,742	836,593	858,010

Statement of capital – Realkredit Danmark A/S

CHANGES IN SHAREHOLDERS' EQUITY (DKK millions)	Share capital	Revaluation reserve	Reserves in series	Other reserves	Proposed dividends	Total
Shareholders' equity at 1 January 2016	630	31	42,613	2,003	3,500	48,777
Net profit for the period	-	-	-	2,070	-	2,070
Other comprehensive income						
Actuarial gains/losses on defined benefit plans	-	-	-	62	-	62
Fair value adjustment of domicile property	-	-	-	-	-	-
Tax	-	-	-	-13	-	-13
Total comprehensive income for the period	-	-	-	2,119	-	2,119
Dividends paid	-	-	-	-	-3,500	-3,500
Shareholders' equity at 30 June 2016	630	31	42,613	4,122	-	47,396
Shareholders' equity at 1 January 2015	630	33	43,693	553	3,000	47,909
Net profit for the period	-	-	-	2,057	-	2,057
Other comprehensive income						
Actuarial gains/losses on defined benefit plans	-	-	-	-48	-	-48
Fair value adjustment of domicile property	-	-	-	1	-	1
Tax	-	-	-	10	-	10
Total comprehensive income for the period	-	-	-	2,020	-	2,020
Dividends paid	-	-	-	-	-3,000	-3,000
Shareholders' equity at 30 June 2015	630	33	43,693	2,573	-	46,929

At 30 June 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.

The revaluation reserves relate to fair value adjustment of domicile property.

Notes - Realkredit Danmark A/S

Note	(DKK millions)	First half 2016	First half 2015
1	Value adjustments		
	Mortgage loans	10,847	-10,150
	Bonds	-144	-237
	Currency	-2	4
	Derivatives	-622	-1,371
	Other assets	9	-
	Issued mortgage bonds	-10,110	11,785
	Other liabilities	32	6
	Total	10	37

2 Loans etc.

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 3,643 million at 30 June 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 132 million at 30 June 2016, against DKK 194 million at the beginning of the year.

	Loans, individual impairment	Loans, collective impairment	Total
Impairment charges at 1 January 2015	3,581	711	4,292
Impairment charges during the period	912	330	1,242
Reversals of impairment charges for previous periods	1,445	69	1,514
Impairment charges at 31 Dec. 2015	3,048	972	4,020
Impairment charges during the period	420	63	483
Reversals of impairment charges for previous periods	556	172	728
Impairment charges at 30 June 2016	2,912	863	3,775

Value adjustment of assets taken over amounted to DKK 0 million at 30 June 2016, against DKK -1 million at end-2015.

Statement by the management

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

The consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU, and the Parent Company's interim financial statements have been prepared in accordance with the Danish Financial Business Act. 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 and the Parent Company's assets, liabilities, shareholders' equity and financial position at 30 June 2016 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the period starting on 1 January 2016 and ending on 30 June 2016. Moreover, in our opinion, the management's report includes a fair review of developments in the Group's and the Parent Company's operations and financial position and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

Copenhagen, 21 July 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 Nine Months 2016:
28 October 2016
- Annual Report 2016:
2 February 2017
- Annual General Meeting:
6 March 2017
- Interim Report – First Quarter 2017:
28 April 2017
- Interim Report – First Half 2017:
20 July 2017
- Interim Report – First Nine Months 2017:
2 November 2017

Contact


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