

Interim Report – First Quarter 2019



REALKREDIT
Danmark

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Interim Report – First Quarter 2019 is a translation of the original report in the Danish language (Delårsrapport – 1. kvartal 2019). In case of discrepancies, the Danish version prevails.

Financial highlights – Realkredit Danmark Group

NET PROFIT FOR THE PERIOD (DKK millions)	Q1 2019	Q1 2018	Index 19/18	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Full year 2018
Administration margin	1,535	1,559	98	1,535	1,552	1,555	1,556	1,559	6,222
Net interest income	22	38	58	22	35	34	35	38	142
Net fee income	-154	-160	96	-154	-156	-150	-151	-160	-617
Income from investment portfolios	223	231	97	223	169	22	155	231	577
Other income	27	34	79	27	30	28	33	34	125
Total income	1,653	1,702	97	1,653	1,630	1,489	1,628	1,702	6,449
Expenses	190	183	104	190	183	172	165	183	703
Profit before loan impairment charges	1,463	1,519	96	1,463	1,447	1,317	1,463	1,519	5,746
Loan impairment charges	134	-83	-	134	11	-24	-108	-83	-204
Profit before tax	1,329	1,602	83	1,329	1,436	1,341	1,571	1,602	5,950
Tax	292	353	83	292	308	295	345	353	1,301
Net profit for the period	1,037	1,249	83	1,037	1,128	1,046	1,226	1,249	4,649

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	28,421	24,222	117	28,421	21,446	15,356	7,116	24,222	21,446
Mortgage loans	801,409	788,200	102	801,409	796,045	794,573	794,178	788,200	796,045
Bonds and shares	46,661	51,008	91	46,661	51,158	55,215	54,038	51,008	51,158
Other assets	4,029	3,966	102	4,029	2,568	2,964	3,068	3,966	2,568
Total assets	880,520	867,396	102	880,520	871,217	868,108	858,400	867,396	871,217
Due to credit institutions etc.	12,175	4,083	298	12,175	778	1,732	1,513	4,083	778
Issued mortgage bonds	810,608	804,777	101	810,608	809,091	807,214	799,313	804,777	809,091
Issued senior debt	5,346	5,951	90	5,346	5,952	5,952	5,952	5,951	5,952
Other liabilities	5,734	6,053	95	5,734	5,481	4,420	3,877	6,053	5,481
Shareholders' equity	46,657	46,532	100	46,657	49,915	48,790	47,745	46,532	49,915
Total liabilities and equity	880,520	867,396	102	880,520	871,217	868,108	858,400	867,396	871,217

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	8.6	10.4		8.6	9.1	8.7	10.4	10.4	9.3
Impairment charges as % p.a. of mortgage lending	0.07	-0.04		0.07	0.01	-0.01	-0.05	-0.04	-0.03
Cost/income ratio (%)	11.5	10.8		11.5	11.2	11.6	10.1	10.8	10.9
Total capital ratio (%)	29.9	28.6		29.9	30.6	30.0	28.9	28.6	30.6
Tier 1 capital ratio (%)	29.7	28.3		29.7	30.3	29.8	28.6	28.3	30.3
Full-time-equivalent staff (end of period)	228	232		228	229	228	230	232	229

Throughout the Management's report, Realkredit Danmark's performance is assessed on the basis of the financial highlights and segment reporting, which represent the financial information regularly provided to management. The financial highlights are alternative performance measures which deviate from the presentation according to IFRS. See note 2 for an explanation of the differences and a reconciliation between these measures and IFRS.

Overview, first quarter 2019

- The Realkredit Danmark Group recorded a net profit of DKK 1,037 million in the first quarter of 2019, against DKK 1,249 million in the first quarter of 2018. The profit was affected by higher impairments.
- Impairments amounted to an expense of DKK 134 million in the first quarter of 2019, against an income of DKK 83 million in the first quarter of 2018. The development was mainly due to an update and specification of statistical loss models.
- In the first quarter of 2019, borrower demand centred primarily on fixed-rate loans, FlexLån® loans with 5-year refinancing intervals and FlexLife® loans, which resulted in a small drop in administration margin income.
- Realkredit Danmark is launching green funding for commercial property.
- Realkredit Danmark complies with all threshold values of the supervisory diamond for mortgage credit institutions.
- Realkredit Danmark expects net profit to be at the same level in 2019 as net profit for 2018.

Green funding of commercial property

Realkredit Danmark is the first Danish mortgage credit institution to launch green bonds for large business customers for the funding of eco-friendly property such as new office buildings, residential rental property or wind farms. Named RD Cibor6® Green, the bond may be issued to fund properties with documentation of energy efficiency.

Launching the new loans, Realkredit Danmark aims to contribute to the green transition in Denmark, and we expect that customers and investors alike will welcome our green initiative.

The first loan offers were made in April 2019.

Mortgage credit market

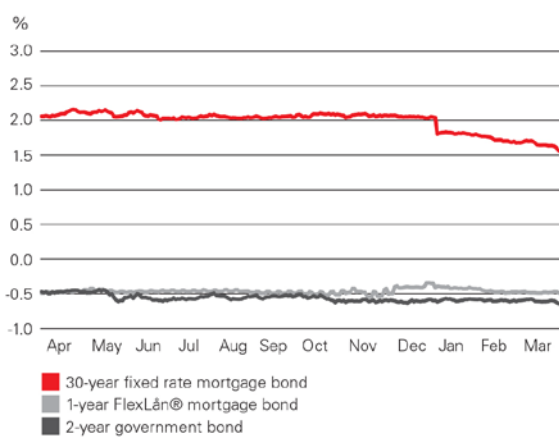
The Danish economy expanded at a modest rate in 2018, but in spite of growth of a mere 1.2%, Denmark remains in a moderate economic recovery. In 2018, economic growth was adversely affected by an extraordinarily warm and dry summer, which resulted in a poor harvest. Moreover, as a patent sale in the pharmaceutical industry had lifted growth in 2017, GDP contracted by 0.4% in 2018.

Meanwhile, the upswing in consumer spending remains modest, and recent months' turmoil in the financial markets and geopolitical events have weighed on consumer confidence. The labour market, on the other hand, remains buoyant, and employment has surpassed previous peaks and remains at a record high level. However, concerns about the labour market overheating have subsided as the number of companies reporting a shortage of labour has declined somewhat lately, in both the manufacturing and construction sectors. However, the risk of bottleneck problems and, by extension, a potential soft patch in the economic recovery, persists.

The favourable macroeconomic climate of rising employment, higher household incomes and mortgage loan rates repeatedly falling to new record lows continue to contribute to housing market improvements, albeit at a somewhat more moderate pace. Trading

activity remains high in a historical context, although it declined slightly from 2017 to 2018 on a national level. House prices are expected to rise by between 2.5% and 4% in 2019 relative to 2018. The rising house prices are broadly based across Denmark.

Trend in interest rates past 12 months

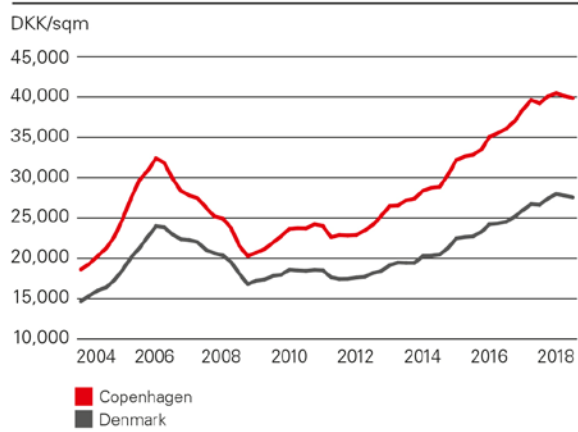


Recent years' large variations in price developments of residential property across Denmark, with the country's most expensive areas experiencing the largest relative price increases, have reversed. During the past year or so, the most expensive housing areas of Denmark, notably the market for owner-occupied flats in Copenhagen, have in fact seen prices sliding, and trading activity for owner-occupied flats in Copenhagen fell 18% in 2018 relative to the year before.

Despite the new trends in the Copenhagen market for owner-occupied flats, trading activity remains at a reasonable level in a historical context, the housing supply is not particularly high, time on market is at a low level and price reductions are still relatively small.

We expect the large cities to continue to see unchanged to slightly falling prices of residential property.

Development in prices of owner-occupied flats



In the market for commercial property, transaction volumes remain high, although the level of activity in 2018 was lower than the record-highs of 2017. In the Copenhagen area, demand centres on office property, and vacancy rates continue to decline and are now at their lowest level since 2009, and Aarhus is also witnessing strong demand for office property and low, but not record-low, vacancy rates. In the rest of Denmark, however, investors have been less keen to buy office property, focusing instead on residential rental properties.

The strong interest in office and residential rental properties in and around Copenhagen is expected to continue this year, but retail properties may be challenged in 2019.

Foreign investors remain very active in the commercial property market, accounting for 45% of the transaction volume in 2018. By comparison, foreign investors accounted for 56% of the transactions in 2017.

Results

For the first quarter of 2019, Realkredit Danmark's net profit was DKK 1,037 million, against DKK 1,249 million in the same period of 2018. The net profit in 2018 is exclusive of a DKK 400 million transition effect of IFRS 9 and tax thereof in the amount of DKK 88 million, for a net amount of DKK 312 million, which is included in the IFRS financial statements of the Realkredit Danmark Group. In the IFRS financial statements, the net profit for the first quarter of 2018 is thus DKK 937 million.

Developments in the net profit for the period was primarily due to higher loan impairments. Remortgaging activity was at a lower level than in the first quarter of 2018.

Administration margin income fell DKK 24 million, especially due to lower average administration margins because an increasing number of customers opt out of interest-only loans and into loans with longer refinancing intervals.

Other income fell DKK 25 million in the first quarter of 2019.

Total income was on a level with the first quarter of 2018.

Expenses amounted to DKK 190 million, against DKK 183 million in the first quarter of 2018.

Impairments totalled an expense of DKK 134 million in the first quarter of 2019, compared with an income of DKK 83 million in the same period of 2018. The higher impairments were mainly due to an update and specification of the statistical loss models used to calculate expected credit losses. The underlying credit quality remains strong with low delinquencies and adequate collateral.

In 2018, the impairment principles of IFRS 9 resulted in a transition effect of DKK 400 million, which amount was expensed in the IFRS financial statements but recognised as a reduction of equity at 1 January 2018 in the financial highlights. In the IFRS financial statements, the impairments amounted to DKK 317 million.

After a challenging year in 2018 with drought, low pork prices and high feed prices, Danish agriculture, and pig farmers in particular, remained under pressure in the first quarter of 2019 due to low pork prices and high feed prices. However, higher exports of pork to China and Japan and a small decrease in EU pig stocks make markets expect pork prices to have reached the trough of the cycle. Still, the risk of African swine fever spreading to the large pork-producing nations in Europe persists and could further aggravate the situation for Danish pig farmers, and the situation is therefore being monitored closely.

Dairy farmers experienced stable milk prices of close to the long-term average in the first quarter, and based on a healthy supply/demand balance on the global market, the stable prices are expected to continue for some time yet.

Grain prices are still higher than they were before the drought but are expected to gradually decline to a lower level given normal weather conditions as global grain stocks remain high. Other things being equal, that will reduce feed prices for producers of animal products, but it will not necessarily reduce plant breeders' earnings from the upcoming harvest if yields normalise and are not affected by drought.

Combined with high debts, the continuing pressure on agricultural sector earnings have resulted in a need for additional impairments.

Impairments equalled 0.07% p.a. of total mortgage lending, against -0.03% at end-2018. The delinquency rate at 31 March 2019 was unchanged from the level at end-2018.

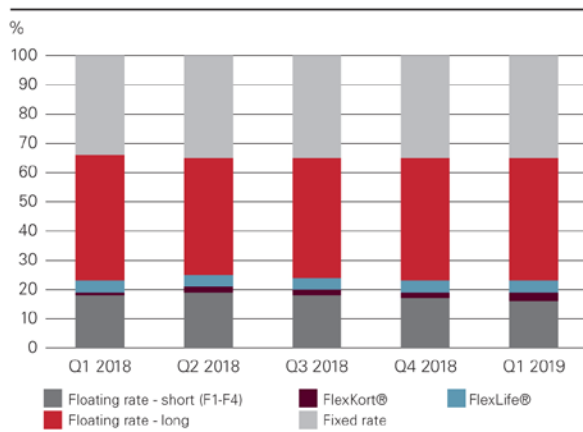
The tax charge totalled DKK 292 million. The effective tax rate for the period was 22.0%.

Balance sheet

Gross lending amounted to DKK 28 billion, against DKK 36 billion in the first quarter of 2018. Mortgage lending at fair value rose DKK 5 billion to DKK 801 billion. The development in mortgage lending at fair value is composed of a fall in the nominal outstanding bond debt of DKK 3 billion and a DKK 8 billion increase in the market value adjustment in the same period.

In the first quarter of 2019, fixed-rate loans accounted for approximately 41% of all disbursed loans, while about 75% of all floating-rate loans were disbursed with refinancing intervals of five years.

Development in loan portfolio by loan type (%)



Low interest rates have made more customers lock-in the interest rate on their loan for a longer period.

At 31 March 2019, the average loan-to-value (LTV) ratio stood at 61%, which was on a level with the end of 2018. An increase in loans calculated at market value was offset by rising property prices.

The number of new foreclosures was 7 in the first quarter of 2019. The number of foreclosures fell from year-end 2018, standing at 28, of which 24 were owner-occupied dwellings and 4 were commercial properties. The value of the foreclosures was DKK 21 million.

Capital and solvency

At the end of March 2019, shareholders' equity stood at DKK 46.7 billion, against DKK 49.9 billion at end-2018. The ordinary dividend payment of DKK 4.3 billion and the consolidation of the net profit for the period accounted for the change.

Realkredit Danmark's total capital amounted to DKK 45.8 billion, and the total capital ratio calculated in accordance with the Capital Requirements Regulation and Directive (CRR/CRD IV) was 29.9%. At 31

December 2018, the corresponding figures were DKK 45.8 billion and 30.6%, 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 153.3 billion at 31 March 2019, against DKK 149.8 billion at the end of 2018.

The binding capital requirement is the solvency need ratio plus the combined buffer requirement. At end-March 2019, the capital requirement was calculated at DKK 24.8 billion and 16.2% of the REA. Realkredit Danmark thus has a capital buffer of DKK 21.0 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 2019, the requirement for supplementary collateral for mortgage-covered bonds was DKK 15.2 billion, against DKK 16.7 billion at end-2018.

Liquidity Coverage Ratio

The effective requirement for Realkredit Danmark's buffer of liquid assets resulting from the Liquidity Coverage Ratio is 2.5% of total mortgage lending. At the end of March 2019, this corresponded to approximately DKK 20 billion. Realkredit Danmark has liquid assets of DKK 37 billion after haircuts and thus has a buffer of DKK 17 billion relative to the requirement.

Rating

Realkredit Danmark's mortgage-covered bonds issued from capital centres S and T are rated by the European rating agency Scope Ratings and by S&P Global and Fitch Ratings. Scope Ratings and S&P Global have assigned all the bonds their highest rating, AAA. Fitch Ratings has also assigned its highest rating to bonds issued from capital centre S, while bonds in capital centre T have been assigned a rating of AA+.

S&P Global also rates the bonds issued under the Other reserves series, which also hold the highest rating of AAA.

Realkredit Danmark also has an A+ issuer rating from Scope Ratings, with Fitch Ratings assigning an A rating.

Realkredit Danmark continues to pursue a strategy of having its issues rated by at least two rating agencies.

Supervisory diamond for mortgage credit institutions

Realkredit Danmark complies with all threshold values.

Threshold value	Q1 2019	Limit
Growth in lending¹		
Owner-occupied dwellings and holiday homes	-0.7%	15%
Residential rental property	1.6%	15%
Agriculture	-0.2%	15%
Other	-1.4%	15%
Borrower interest-rate risk²		
Properties for residential purposes	8.2%	25%
Interest-only option³		
Owner-occupied dwellings and holiday homes	7.8%	10%
Loans with short-term funding⁴		
Refinancing, annually	13.3%	25%
Refinancing, quarterly	7.8%	12.5%
Large exposures⁵		
Loans relative to shareholders' equity	44%	100%

¹ Annual growth must be lower than 15% unless the size of the segment is smaller than the institution's total capital.

² The proportion of loans for which the loan-to-value ratio is at least 75% of the statutory maximum loan limit and for which the interest rate has been locked for up to two years must not represent more than 25% of the total loan portfolio.

³ The proportion of interest-only loans for which the loan-to-value ratio is more than 75% of the statutory maximum loan limit must represent less than 10% of the total loan portfolio.

⁴ The proportion of lending to be refinanced must be less than 12.5% per quarter and less than 25% of the total loan portfolio.

⁵ The sum of the 20 largest exposures must be less than core equity tier 1 capital.

Outlook for 2019

Realkredit Danmark expects that the Danish economy will continue to see moderate growth in 2019 relative to the past few years. Low interest rates will continue to support house prices.

In 2019, Realkredit Danmark expects income to be at the same level as in 2018 driven by a stable loan portfolio and expectations for higher remortgaging activity.

Through a persistent focus on cost control in 2019, Realkredit Danmark aims to keep expenses at a low level.

Loan impairment charges are expected to remain at a low level in 2019.

Overall, Realkredit Danmark therefore expects net profit to be at the same level for 2019 as net profit for 2018.

Income statement and Comprehensive income – Realkredit Danmark Group

Note	(DKK millions)	Q1 2019	Q1 2018	Full year 2018
Income statement				
	Interest income	4,282	4,424	17,578
	Interest expense	2,566	2,720	10,570
	Net interest income	1,716	1,704	7,008
	Dividends from shares	-	-	-
	Fee and commission income	116	144	512
	Fee and commission expense	270	304	1,129
	Net fee and commission income	1,562	1,544	6,391
	Value adjustments	64	124	-67
	Other operating income	27	34	125
	Staff costs and administrative expenses	190	182	702
	Impairment, depreciation and amortisation charges	-	1	1
3	Loan impairment charges	134	317	196
	Income from associates and group undertakings	-	-	-
	Profit before tax	1,329	1,202	5,550
	Tax	292	265	1,213
	Net profit for the period	1,037	937	4,337
Comprehensive income				
	Net profit for the period	1,037	937	4,337
	Other comprehensive income			
	Items that will not be reclassified to profit or loss			
	Actuarial gains/losses on defined benefit plans	7	5	-17
	Tax	-2	-1	4
	Total other comprehensive income	5	4	-13
	Total comprehensive income for the period	1,042	941	4,324

Balance sheet – Realkredit Danmark Group

Note	(DKK millions)	31 March 2019	31 December 2018	31 March 2018
ASSETS				
	Cash in hand and demand deposits with central banks	148	161	270
	Due from credit institutions and central banks	28,273	21,285	23,952
	Bonds at fair value	15,706	19,375	21,307
	Bonds at amortised cost	30,953	31,781	29,699
4, 9	Mortgage loans at fair value	801,409	796,045	788,200
4	Loans and other amounts due at amortised cost	556	549	543
	Shares etc.	2	2	2
	Holdings in associates	-	-	-
	Other tangible assets	6	7	7
	Current tax assets	918	1	858
	Deferred tax assets	-	-	-
	Assets temporarily taken over	21	26	39
4	Other assets	2,514	1,978	2,505
	Prepayments	14	7	14
Total assets		880,520	871,217	867,396
LIABILITIES AND EQUITY				
AMOUNTS DUE				
	Due to credit institutions and central banks	12,175	778	4,083
	Issued mortgage bonds at fair value	810,608	809,091	804,777
5	Issued bonds at amortised cost	5,346	5,952	5,951
	Current tax liabilities	-	-	-
	Deferred tax liabilities	42	41	42
	Other liabilities	5,692	5,440	6,011
	Deferred income	-	-	-
Total amounts due		833,863	821,302	820,864
SHAREHOLDERS' EQUITY				
	Share capital	630	630	630
	Other reserves			
	Reserves in series	44,654	44,654	43,171
	Other reserves	1,373	331	2,731
	Proposed dividends	-	4,300	-
Total shareholders' equity		46,657	49,915	46,532
Total liabilities and equity		880,520	871,217	867,396

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 2019	630	44,654	331	4,300	49,915
Net profit for the period	-	-	1,037	-	1,037
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	7	-	7
Tax	-	-	-2	-	-2
Total comprehensive income for the period	-	-	1,042	-	1,042
Dividends paid	-	-	-	-4,300	-4,300
Shareholders' equity at 31 March 2019	630	44,654	1,373	-	46,657
Shareholders' equity at 1 January 2018	630	43,171	1,790	4,300	49,891
Net profit for the period	-	-	937	-	937
Other comprehensive income					
Actuarial gains/losses on defined benefit plans	-	-	5	-	5
Tax	-	-	-1	-	-1
Total comprehensive income for the period	-	-	941	-	941
Dividends paid	-	-	-	-4,300	-4,300
Shareholders' equity at 31 March 2018	630	43,171	2,731	-	46,532

At 31 March 2019, 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.

TOTAL CAPITAL AND TOTAL CAPITAL RATIO (DKK millions)	31 March 2019	31 December 2018	31 March 2018
Shareholders' equity	45,615	49,915	45,591
Tax effect	-	-	-
Total equity calculated in accordance with the rules of the Danish FSA	45,615	49,915	45,591
Proposed/expected dividends	-	-4,300	-
Revaluation reserve	-	-	-
Deferred tax assets	-	-	-
Prudent valuation	-3	-5	-8
Defined benefit pension fund assets	-168	-162	-177
Common equity tier 1 capital	45,444	45,448	45,406
Difference between expected losses and impairment charges	-	-	-
Tier 1 capital	45,444	45,448	45,406
Reserves in series subject to a reimbursement obligation	-	-	-
Revaluation reserve	-	-	-
Difference between expected losses and impairment charges	319	320	458
Total capital	45,763	45,768	45,864
Risk exposure amount	153,250	149,772	160,577
Common equity tier 1 capital ratio (%)	29.7	30.3	28.3
Tier 1 capital ratio (%)	29.7	30.3	28.3
Total capital ratio (%)	29.9	30.6	28.6

At 31 March 2019, the total capital and the total risk exposure amount is calculated in accordance with the Capital Requirements Directive (CRR/CRD IV).

The profit for the period will not be recognised in the statement of total capital and total capital ratio until in connection with the audited full-year financial statements. The statement of total capital and total capital ratio will therefore be based on shareholders' equity at 1 January reduced by the dividend distributed in March.

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

Cash flow statement – Realkredit Danmark Group

(DKK millions)	Q1 2019	Q1 2018	Full year 2018
Cash flow from operations			
Profit before tax	1,329	1,202	5,550
Tax paid	-1,209	-1,109	-1,197
Adjustment for non-cash operating items	54	69	-363
Cash flow from operating capital	11,101	-1,712	-8,315
Total	11,275	-1,550	-4,325
Cash flow from investing activities			
Acquisition/sale of tangible assets	-	-	-1
Total	-	-	-1
Cash flow from financing activities			
Dividends	-4,300	-4,300	-4,300
Total	-4,300	-4,300	-4,300
Cash and cash equivalents at 1 January	21,446	30,072	30,072
Change in cash and cash equivalents	6,975	-5,850	-8,626
Cash and cash equivalents, end of period	28,421	24,222	21,446
Cash and cash equivalents, end of period			
Cash in hand and demand deposits with central banks	148	270	161
Amounts due from credit institutions and central banks within 3 months	28,273	23,952	21,285
Total	28,421	24,222	21,446

Notes – Realkredit Danmark Group

Note

1 Significant accounting policies

and significant accounting estimates and assessments

The Group's interim report for the first quarter of 2019 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.

Changes to significant accounting policies

On 1 January 2019, the Group implemented the following amendments to IFRS: IFRS 16, Leases, amendments to various standards (IFRS 9, Prepayment Features with Negative Compensation, Annual Improvements to IFRS Standards Cycle 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23), IAS 19, Plan Amendment, Curtailment or Settlement and IAS 28, Long-term Interests in Associates and Joint Ventures) and IFRIC 23, Uncertainty over Income Tax Treatments.

IFRS 16, Leases

As a result of the implementation of IFRS 16, at 1 January 2019 lease assets and lease liabilities were recognised in the amount of DKK 132 million. The implementation has no impact on shareholders' equity at 1 January 2019, and the net profit for the first quarter of 2019 is unaffected. In accordance with transitional provisions, comparative figures have not been restated. Lease liabilities are recognised under Other liabilities, while lease assets are recognised under Other tangible assets, except for assets deriving from financial sub-leases, which are recognised under Other assets.

From 2019, lease contracts in which the Group acts as lessee are recognised in the balance sheet, except for leases of low value assets and contracts with terms of 12 months or less. On initial recognition of a lease agreement, future lease payments are recognised as a lease liability and a lease asset at the present value using the Group's borrowing rate. The lease liability is measured at amortised cost, reflecting changes when the lease contract is modified or the lease term is changed. The lease asset is measured at cost less depreciation and impairment charges. Lease assets are depreciated on a straight-line basis over the lease term. However, for sub-lease contracts classified as finance leases, the future lease payments are made up by interest and instalments.

IFRS 9, Prepayment Features with Negative Compensation
 Under IFRS 9, compensation in connection with the exercise of a prepayment option is consistent with the SPPI test if the compensation, positive or negative, reflects changes to the relevant benchmark interest rate.

The amendment does not change the fact that the prepayment option included in mortgage loans continues to be inconsistent with the cash flow test as changes in the fair value of the underlying bonds reflect other factors than interest rate developments. Consequently, implementation of the standard has no effect.

The forward-looking elements of the calculation reflect the current unbiased expectations of the management. The process consists of the creation of macroeconomic scenarios (base case, upside and downside), including an assessment of the probability for each scenario, by the Danske Bank Group's independent macroeconomic research unit, the review and sign-off of the scenarios (throughout the organisation) and a process for adjusting scenarios given new information during the quarter. Management's approval of scenarios can include adjustments to the scenarios, probability weighting and management overlays to cover the outlook for particular high-risk portfolios, which are not provided by the Group's macroeconomists. The approved scenarios are used to calculate the impairment levels. Technically, the forward-looking information is used directly in the PDs through an estimate of general changes to the PDs and the LGDs in the expected credit loss calculation. However, for significant exposures in stage 3, an individual assessment of the scenarios, changes to expected credit losses and the related probabilities are performed by senior credit officers.

On top of the calculation of expected credit losses according to the principles of IFRS 9, some adjustments are made to reflect the measurement basis being fair value and not amortised cost. The recognition of 12 months' expected credit losses at initial recognition is inconsistent with fair value and is therefore not recognised. On the other hand, increases in lifetime credit losses are considered for the purpose of fair value even if an increase in credit risk is insignificant.

The implementation of the new method for measuring the fair value of credit risk on mortgage loans has increased the allowance account by DKK 400 million at 1 January 2018. This increase is recognised as a change of an accounting estimate in the IFRS income statement in the first quarter of 2018 and results in a DKK 312 million reduction of the net profit for the period.

The implementation of IFRS 15 has not resulted in any significant changes. However, income and expenses are offset when Realkredit Danmark acts as agent and handles the re-invoicing of expenses incurred. In the first quarter of 2019, this led to a DKK 8 million reduction in Other operating income and Staff costs and administrative expenses.

Other than this, the Group has not changed its significant accounting policies from those followed in Annual Report 2018, which provides a full description of the Group's significant accounting policies. The interim report has not been reviewed or audited.

Notes – Realkredit Danmark Group

Note

1 **Significant accounting policies
and significant accounting estimates and assessments**

cont'd

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 assessments 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. Adjustments are made for changes in the fair value of the credit risk on borrowers using the impairment model in IFRS 9, which is based on expected credit losses.

The expected credit loss is calculated for all individual facilities as a function of PD, EaD and LGD and incorporates forward-looking information. The forward-looking information reflects management's expectations and involves the creation of scenarios (base case, upside and downside), including an assessment of the probability for each scenario. In addition to the expected credit losses, a collective assessment determines the need for adjustments to reflect other components in the fair value measurement, such as an assessment of an investor's risk premium, compensation for administrative costs related to the loans and the possibility to increase the credit margin if the credit risk increases.

At the end of the first quarter of 2019, the fair value adjustment of the credit risk on mortgage loans was calculated at DKK 2,837 million (end 2018: DKK 2,792 million.), which has reduced the value of mortgage loans. The base case scenario enters with a probability of 70%, the downside scenario with a probability of 15% and the upside scenario with a probability of 15%. If the base case scenario was assigned a probability of 100%, the fair value adjustment would be DKK 2,790 million (end-2018: DKK 2,750 million). The fair value adjustment would increase to DKK 3,630 million (end 2018: DKK 3,575 million) if the downside scenario was assigned a probability of 100%. If instead the upside scenario was assigned a probability of 100%, the fair value adjustment would decrease to DKK 2,780 million (end-2018: DKK 2,700 million). It should be noted that the expected credit losses in the individual scenarios do not reflect forecasts of the Group's expected credit losses.

The Group's principal risks and the external factors that may affect the Group are described in greater detail in Annual Report 2018.

Notes – Realkredit Danmark Group

Note (DKK millions)

2 Profit broken down by activity

Q1 2019	Mortgage finance	Own holdings	Highlights	Reclassi- fication	IFRS
Administration margin	1,535	-	1,535	-	1,535
Net interest income	-47	69	22	159	181
Dividends from shares	-	-	-	-	-
Net fee income	-154	-	-154	-	-154
Income from investment portfolios	206	17	223	-223	-
Value adjustments	-	-	-	64	64
Other income	27	-	27	-	27
Total income	1,567	86	1,653	-	1,653
Expenses	189	1	190	-	190
Profit before loan impairment charges	1,378	85	1,463	-	1,463
Loan impairment charges	134	-	134	-	134
Income from associates	-	-	-	-	-
Profit before tax	1,244	85	1,329	-	1,329
Tax	-	-	292	-	292
Net profit for the period			1,037	-	1,037
Total assets	830,901	49,619	880,520	-	880,520
Q1 2018	Mortgage finance	Own holdings	Highlights	Reclassi- fication	IFRS
Administration margin	1,559	-	1,559	-	1,559
Net interest income	-46	84	38	107	145
Dividends from shares	-	-	-	-	-
Net fee income	-160	-	-160	-	-160
Income from investment portfolios	225	6	231	-231	-
Value adjustments	-	-	-	124	124
Other income	34	-	34	-	34
Total income	1,612	90	1,702	-	1,702
Expenses	182	1	183	-	183
Profit before loan impairment charges	1,430	89	1,519	-	1,519
Loan impairment charges	-83	-	-83	400	317
Income from associates	-	-	-	-	-
Profit before tax	1,513	89	1,602	-400	1,202
Tax	-	-	353	-88	265
Net profit for the period			1,249	-312	937
Total assets	817,221	50,175	867,396	-	867,396

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. Own holdings comprise the net return on the part of the securities portfolio not relating to the mortgage finance business. Under the Danish Financial Business Act, at least 60% of the total capital of a mortgage credit institution must be invested in bonds, etc.

Notes – Realkredit Danmark Group

Note (DKK millions)

2 **Profit broken down by activity**
cont'd

Alternative performance measures

Financial highlights and reporting for the two business segments correspond to the information incorporated in the Management's report, which is regularly sent to management. The presentation in the financial highlights deviates in certain areas from the financial statements prepared under IFRS and therefore represents alternative performance measures. There are generally no adjusting items, which means that net profit is the same in the financial highlights and in the IFRS financial statements. However, in 2018 there is one adjusting item deriving from the implementation of IFRS 9. Mortgage loans are recognised at fair value (both under IAS 39 and under IFRS 9). However, the IFRS 13 measurement of the fair value of the credit risk on mortgage loans, which is required by IFRS 9, should from 1 January 2018 be made on the basis of the models prepared by the Danske Bank Group in connection with the implementation of the model in IFRS 9. This has caused a change to the estimate of the fair value of the credit risk on mortgage loans at 1 January 2018, leading to a reduction of the fair value of mortgage loans of DKK 400 million. In the IFRS income statement, the effect of the new impairment principles is recognised as a change of an accounting estimate. To better reflect current earnings in 2018, the effect in the financial highlights and reporting for the two business segments is recognised as a reduction in shareholders' equity at 1 January 2018. As a result, the profit for the period in 2018 is DKK 312 million higher in the financial highlights than in the IFRS income statement.

The reclassification column shows the reconciliation between the presentation in the highlights and in the IFRS financial statements. Other than the above-mentioned adjusting item concerning the fair value of the credit risk on mortgage loans in 2018, the difference between the presentation in the financial highlights and in the IFRS financial statements is due to the fact that income from trading activities in mortgage credit activities and income from own holdings, except for interest on bonds at amortised cost, is carried in the consolidated highlights as income from investment portfolios, while in the income statement according to IFRS it is carried under net interest income, value adjustments, etc.

As the distribution of income between the various income line items in the IFRS income statement can vary considerably from one year to the next, depending on the underlying transactions and market conditions, the net presentation in the financial highlights is considered to better reflect income in those areas.

Notes – Realkredit Danmark Group

Note	(DKK millions)	Q1 2019	Q1 2018
3	Loan impairment charges		
	IFRS 9 transitional impact on implementation, 1 January 2018	-	400
	ECL on new assets	19	28
	ECL on assets derecognised	80	45
	Impact of remeasurement	194	-67
	Impairment charges etc. during the period	-	-
	Reversals of impairment charges etc. for previous years	-	-
	Losses incurred	15	21
	Received on claims previously written off	14	20
	Total	134	317

4 **Loans etc.**

Of the total fair value adjustment for the credit risk on mortgage loans, impairments were recognised as an expense of DKK 2,837 million at 31 March 2019, against DKK 2,792 million at the beginning of the year.

Of total loan charges for the credit risk on loans and other amounts due at amortised cost, charges were recognised as an expense of DKK 72 million at 31 March 2019, against DKK 63 million at the beginning of the year.

For loan commitments, expected credit losses at 31 March 2019 amounted to DKK 8 million, against DKK 8 million at the beginning of the year.

Reconciliation of total allowance account				
	Stage 1	Stage 2	Stage 3	Total
ECL at 1 January 2018 incl. impact at mortgage loan	552	412	2,663	3,627
Transferred to stage 1 during the period	238	-159	-79	-
Transferred to stage 2 during the period	-66	350	-284	-
Transferred to stage 3 during the period	-36	-36	72	-
ECL on new assets	25	12	43	80
ECL on assets derecognised	43	66	349	458
Impact of remeasurement	6	29	147	182
Write-offs, allowance account	10	8	550	568
Impairment charges at 31 December 2018	666	534	1,663	2,863
Transferred to stage 1 during the period	51	-44	-7	-
Transferred to stage 2 during the period	-25	46	-21	-
Transferred to stage 3 during the period	-6	-112	118	-
ECL on new assets	4	4	11	19
ECL on assets derecognised	21	24	35	80
Impact of remeasurement	67	59	68	194
Write-offs, allowance account	1	4	74	79
Impairment charges at 31 March 2019	735	459	1,723	2,917

Value adjustments of assets taken over amounted to DKK 0 million at 31 March 2019, against DKK 0 million at end-2018.

Notes – Realkredit Danmark Group

Note (DKK millions)

5	Issued bonds at amortised cost	31 March	31 December
		2019	2018
	Nominal value of issued bonds	5,346	5,952
	Premium/discount	-	-
	Total issued bonds	5,346	5,952

	1 January	Issued	Redeemed	31 March
	2019			2019
Nominal value				
Total issued bonds	5,952	-	606	5,346

Issued bonds at amortised cost consist of issued senior debt.

6 **Assets deposited as collateral**

At 31 March 2019, Realkredit Danmark had deposited securities worth DKK 9,319 million (end-2018: DKK 10,522 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 2019, the carrying amount of such securities totalled DKK 12,175 million (end-2018: DKK 778 million). Counterparties are entitled to sell the securities or deposit them as collateral for other loans.

At 31 March 2019, mortgage lending totalling DKK 801,409 million and other assets totalling DKK 15,237 million were registered as security for issued mortgage bonds, including mortgage-covered bonds, and issued bonds at amortised cost (end-2018: DKK 796,045 million and DKK 16,675 million).

Notes – Realkredit Danmark Group

Note	(DKK millions)				
7	Financial instruments at fair value				
	31 March 2019	Quoted prices	Observable input	Non-observable input	Total
	Bonds at fair value	12,875	2,831	-	15,706
	Mortgage loans at fair value	-	801,409	-	801,409
	Shares	-	-	2	2
	Derivatives	-	89	-	89
	Total	12,875	804,329	2	817,206
	Issued mortgage bonds at fair value	810,608	-	-	810,608
	Derivatives	-	369	-	369
	Total	810,608	369	-	810,977
	31 December 2018				
	Bonds at fair value	13,016	6,359	-	19,375
	Mortgage loans at fair value	-	796,045	-	796,045
	Shares	-	-	2	2
	Derivatives	-	66	-	66
	Total	13,016	802,470	2	815,488
	Issued mortgage bonds at fair value	809,091	-	-	809,091
	Derivatives	-	68	-	68
	Total	809,091	68	-	809,159

Negative interest income and interest expenses due to negative interest rates were insignificant during first quarter of 2019. The amounts are off-set against interest income and interest expenses, respectively.

Note 35 to Annual Report 2018 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 2019.

Notes – Realkredit Danmark Group

Note (DKK millions)

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 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. Realkredit Danmark pays an annual contribution to the resolution fund.

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.

Realkredit Danmark operates out of leased premises. Leases are concluded by the parent company. Realkredit Danmark pays monthly rent to the parent company.

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 2019	31 December 2018	31 March 2018
Other contingent liabilities			
Irrevocable loan commitments	38,061	36,830	40,933
Other commitments	23	24	34
Total	38,084	36,854	40,967

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 3 billion, which corresponds to 0.4% of the total loan portfolio.

Portfolio broken down by LTV ratio and rating category

31 March 2019

Rating category	LTV ratio					Total DKK billions
	0- 20%	20- 40%	40- 60%	60- 80%	>80%	
1	-	-	-	-	-	-
2	7	5	2	-	-	14
3	78	52	29	11	6	176
4	90	69	42	16	5	222
5	65	57	39	14	2	177
6	39	33	23	9	2	106
7	24	22	16	8	1	71
8	7	6	5	2	1	21
9	1	1	1	-	-	3
10	2	2	2	1	1	8
11	2	1	1	1	1	6
Total	315	248	160	62	19	804

Portfolio broken down by LTV ratio and rating category

31 December 2018

Rating category	LTV ratio					Total DKK. billions
	0- 20%	20- 40%	40- 60%	60- 80%	>80%	
1	-	-	-	-	-	-
2	7	4	2	-	-	13
3	77	52	29	10	6	174
4	90	69	42	14	4	219
5	65	57	38	14	3	177
6	39	34	23	9	2	107
7	24	23	16	7	1	71
8	7	6	5	2	1	21
9	1	1	1	-	-	3
10	2	2	2	1	1	8
11	2	1	1	1	1	6
Total	314	249	159	58	19	799

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.

Notes – Realkredit Danmark Group

Note

9 Risk management

Cont'd

In the table below, mortgage loans and the fair value of credit risk is broken down by 11 rating categories and stages 1, 2 and 3 of IFRS 9 (DKK billions):

31 March 2019

Rating category	PD level		Gross Exposure			Expected Credit Loss			Net Exposure		
	Lower	Upper	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	0.00	0.01	360	-	-	-	-	-	360	-	-
2	0.01	0.03	13,919	18	50	1	-	2	13,918	18	48
3	0.03	0.06	175,079	343	78	13	2	6	175,066	341	72
4	0.06	0.14	221,474	763	133	39	5	9	221,435	758	124
5	0.14	0.31	175,593	848	337	71	6	23	175,522	842	314
6	0.31	0.63	102,899	3,540	416	71	16	72	102,828	3,524	344
7	0.63	1.90	58,487	11,969	313	150	61	20	58,337	11,908	293
8	1.90	7.98	12,526	7,616	355	299	158	40	12,227	7,458	315
9	7.98	25.70	865	2,063	267	54	153	42	811	1,910	225
10	25.70	100.00	335	3,092	4,618	1	44	546	334	3,048	4,072
11	100.00	100.00	149	183	5,558	1	4	928	148	179	4,630
Total			761,686	30,435	12,125	700	449	1,688	760,986	29,986	10,437

31 December 2018

Rating category	PD level		Gross Exposure			Expected Credit Loss			Net Exposure		
	Lower	Upper	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
1	0.00	0.01	353	-	-	-	-	-	353	-	-
2	0.01	0.03	13,886	6	48	1	2	1	13,885	4	47
3	0.03	0.06	173,008	421	130	13	2	2	172,995	419	128
4	0.06	0.14	218,692	473	219	36	2	3	218,656	471	216
5	0.14	0.31	175,525	751	197	64	3	5	175,461	748	192
6	0.31	0.63	103,102	2,938	361	70	10	66	103,032	2,928	295
7	0.63	1.90	57,560	12,655	273	126	47	14	57,434	12,608	259
8	1.90	7.98	12,136	8,074	382	275	144	16	11,861	7,930	366
9	7.98	25.70	745	2,384	67	59	181	9	686	2,203	58
10	25.70	100.00	265	3,166	4,873	1	62	595	264	3,104	4,278
11	100.00	100.00	156	662	5,329	1	70	912	155	592	4,417
Total			755,428	31,530	11,879	646	523	1,623	754,782	31,007	10,256

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 30,953 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 2018.

Statement by the management

The Board of Directors and the Executive Board (management) have considered and approved Interim Report – First Quarter 2019 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 2019 and of the results of the Group's operations and the consolidated cash flows for the period starting on 1 January 2019 and ending on 31 March 2019. 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, 30 April 2019

Executive Board

Carsten Nøddebo Rasmussen
Chairman of the Executive Board

Klaus Kristiansen
Member of the Executive Board

Board of Directors

Jesper Nielsen
Chairman

Jacob Aarup-Andersen
Vice Chairman

Kim Andersen

Christian Baltzer

Carsten Rasch Egeriis

Jakob Groot

Sonia Khan

Lisbeth Sahlertz Nielsen

Majken Hammer Sløk

Supplementary information

Financial calendar

- Interim Report – First Half 2019:
18 July 2019
- Interim Report – First Nine Months 2019:
1 November 2019

Contact


Chairman of the Executive Board
and Chief Executive Officer
Carsten Nøddebo Rasmussen
Tel. +45 45 13 20 82

Address

Realkredit Danmark A/S
Lersø Parkallé 100
DK-2100 København Ø
Tel. +45 70 12 53 00
CVR-nr. 13 39 91 74 – København

Links

rd.dk
danskebank.dk
danskebank.com
home.dk



Realkredit Danmark A/S
Lersø Parkallé 100
DK-2100 København Ø
Telephone +45 70 12 53 00

rd.dk
E-mail rd@rd.dk