

Company announcement for the first nine months of 2023

Kamilla Hammerich Skytte, CEO, comments on the third quarter of 2023:

“The results for the third quarter are in line with expectations. We saw some improvement in sales activity in the housing market compared to the first half year of 2023, however new lending remained subdued in the sector. Interest in green initiatives continues to be sizeable in the commercial real estate market, while interest in energy improvements is lower among personal customers, partly due to the decline in energy prices over the summer and higher financing costs. Despite the continued rise in interest rates, our customers have maintained sound personal finances, and they have so far been able to absorb the rise in interest payments. We expect rate hikes to have peaked. At the same time, we see a fall in inflation, relatively high salary increases and a continuation of low unemployment, which all favour the housing market and the financial situation of homeowners. The proposed systemic risk buffer for commercial real estate exposures in Denmark is expected to impact activity in the market for commercial properties, where activity is already challenged.

At Realkredit Danmark and Danske Bank, we expect future regulation to encourage the real estate market for corporate customers to include energy efficiency and other sustainability factors. Therefore, we have taken the first steps towards differentiating the terms and conditions we offer on the basis of the energy efficiency of the property, and this process starts with a dialogue with our corporate customers. We want to help customers get started with the sustainable transition. An example is that Realkredit Danmark and Danske Bank have entered into a partnership with a number of leading players in the property industry to establish a free, open-source ESG reporting template for the entire real estate industry value chain, which will make it easier to report ESG aspects.

Realkredit Danmark has initiated a campaign with the purpose of attracting personal customers. We want to make Realkredit Danmark more visible in the competition. We believe that we have a competitive offer to customers, who are in the market for mortgage financing.”

Mortgage market

Despite lower growth in the economy in Denmark, the labour market is still in good shape and the inflationary pressure has abated. However, the underlying inflationary pressure is still relatively high in Denmark and in the euro area, and this means that a significant drop in interest rates is hardly just around the corner.

Overall, the housing market has seen a rebound in 2023. Activity levels in terms of transactions are approximately in line with past ten-year averages, however lending volumes remain subdued. Although the new preliminary property valuations have made headlines recently and have caused uncertainty among homeowners, the property tax reform will generally be relatively neutral for the housing market. We see, however, that especially in the market for owner-occupied flats in Copenhagen, there seems to be an inclination to accelerate home purchases in order to take ownership before the turn of the year and thus obtain a permanent tax discount. Precisely in this sub-segment in the market, the property tax reform may entail a risk of falling prices, as after the turn of the year, new owners will have to pay higher taxes than is the case today.

Despite the significant increase in activity and the price increases on the housing market in recent months, we cannot ignore the fact that there is still considerable uncertainty about house prices. We have not yet seen the full impact of the rise in interest rates, and this could cause renewed headwinds for the housing market. Alternatively, the economy could slow down significantly, and we do not get the soft landing that is currently included in most forecasts for both the global economy and Denmark.

On the commercial real estate market, however, we still see relatively low activity. The rise in interest rates has increased the uncertainty around the valuation of the properties, while other investors have turned their eyes to bonds after interest rates have risen considerably.

First nine months of 2023

The Realkredit Danmark Group recorded a net profit of DKK 3,218 million in the first nine months of 2023, against DKK 2,617 million in the same period of 2022. The increase was primarily attributable to income from higher interest rate levels and lower loan impairment charges.

Expenses amounted to DKK 766 million, against DKK 812 million in the first nine months of 2022. The decrease was due to a one-off in 2022 of DKK 48 million for Realkredit Danmark's part of debt collection remediation.

Credit quality remained solid and loan impairment charges amounted to an income of DKK 18 million. 2022 was affected by charges related to Realkredit Danmark's share of debt collection write-offs of DKK 174 million. The total allowance account at 30 September 2023 amounted to DKK 2,843 million, against DKK 2,912 million at 31 December 2022.

The increasing mortgage rates have fuelled remortgaging, however, activity is stagnating. Our customers have reduced nominal outstanding debt by DKK 5.2 billion in the first nine months of 2023. Mortgage lending at nominal value increased by DKK 5.9 billion in the first nine months of 2023. Gross lending amounted to DKK 75 billion, against DKK 121 billion in the first nine months of 2022. Total green bond lending amounted to DKK 27.6 billion at 30 September 2023.

Realkredit Danmark has a proprietary portfolio of DKK 49.3 billion, of which DKK 30.5 billion is managed through a hold-to-maturity portfolio. This portfolio is reported at amortised cost and at 30 September 2023, the market value was DKK 1.7 billion lower (DKK 2.0 billion at 31 December 2022).

Realkredit Danmark expects net profit to be higher than in 2022, driven primarily by the higher interest rate levels.

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Financial highlights – Realkredit Danmark Group

INCOME STATEMENT (DKK millions)	Q1-Q3 2023	Q1-Q3 2022	Index 23/22	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Full year 2022
Administration margin	4,200	4,323	97	1,394	1,396	1,410	1,410	1,423	5,733
Net interest income	724	-6	-	314	252	158	99	10	93
Net fee income	-85	-5	-	-87	-50	52	23	-33	18
Income from investment portfolios	139	-25	-	42	11	86	73	-6	48
Other income	62	68	91	23	20	19	16	18	84
Total income	5,040	4,355	116	1,686	1,629	1,725	1,621	1,412	5,976
Expenses	766	812	94	250	264	252	293	290	1,105
Profit before loan impairment charges	4,274	3,543	121	1,436	1,365	1,473	1,328	1,122	4,871
Loan impairment charges	-18	174	-	-4	-66	52	38	201	212
Profit before tax	4,292	3,369	127	1,440	1,431	1,421	1,290	921	4,659
Tax	1,074	752	143	363	353	358	281	203	1,033
Net profit for the period	3,218	2,617	123	1,077	1,078	1,063	1,009	718	3,626

BALANCE SHEET (END OF PERIOD) (DKK millions)

Due from credit institutions etc.	13,759	9,505	145	13,759	6,877	13,491	8,761	9,505	8,761
Mortgage loans	726,741	706,695	103	726,741	725,360	729,966	724,438	706,695	724,438
Bonds and shares	45,827	45,648	100	45,827	47,559	47,668	46,722	45,648	46,722
Other assets	1,803	1,317	137	1,803	1,470	1,834	2,307	1,317	2,307
Total assets	788,130	763,165	103	788,130	781,266	792,959	782,228	763,165	782,228
Due to credit institutions etc.	2,000	2,000	100	2,000	2,000	2,000	2,000	2,000	2,000
Issued mortgage bonds	728,989	707,784	103	728,989	725,714	737,694	724,105	707,784	724,105
Other liabilities	8,064	4,919	164	8,064	5,548	6,312	6,646	4,919	6,646
Shareholders' equity	49,077	48,462	101	49,077	48,004	46,953	49,477	48,462	49,477
Total liabilities and equity	788,130	763,165	103	788,130	781,266	792,959	782,228	763,165	782,228

RATIOS AND KEY FIGURES

Net profit for the period as % p.a. of average shareholders' equity	8.7	7.1		8.9	9.1	8.8	8.2	6.0	7.3
Impairment charges as % p.a. of mortgage lending	-0.01	0.03		-0.01	-0.04	0.03	0.02	0.11	0.03
Cost/income ratio (%)	15.2	18.6		14.8	16.2	14.6	18.1	20.5	18.5
Total capital ratio (%)	29.3	31.2		29.3	29.1	28.8	29.1	31.2	29.1
Tier 1 capital ratio (%)	28.8	30.8		28.8	28.6	28.3	28.6	30.8	28.6
Mortgage loans, nominal value	807,956	803,362		807,956	804,362	802,883	802,024	803,362	802,024
Full-time-equivalent staff (end of period)	231	228		231	229	228	227	228	227

The company announcement for the first nine months of 2023 has not been presented 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.