Mortgage-credit institutions

Market developments 2013

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Market developments for mortgage-credit institutions in 2013

1. Summary

Total profits before tax for mortgage-credit institutions decreased to DKK 8.2 bn. in 2013 against DKK 9.0 bn. in 2012. This decrease is particularly attributable to negative developments in net fee income and increased impairment charges, whereas net interest income has increased.

Net fee income fell from minus DKK 1.6 bn. in 2012 to minus DKK 2.4 in 2013. This development is attributable to a decrease in the fee and commission income of mortgage-credit institutions due to lower refinancing activity in 2013.

At the same time, impairment losses increased by 22.7% from around DKK 3.9 bn. in 2012 to DKK 4.8 bn. in 2013.

Finally, net interest income increased from DKK 20.3 bn. in 2012 to DKK 21.0 bn. in 2013, primarily due to raised contribution rates.

Interest-only mortgage-credit loans saw a limited decrease from 54.5% of total lending in 2012 to 54.2% in 2013 and remain the dominant loan type. A total of 78% of the total volume of interest-only loans are floating-rate loans.

Around 65% of total lending by mortgage-credit institutions is adjustable rate loans, whereas additionally 8% is floating-rate loans with an interest ceiling. In recent years, more people have chosen floating-rate loans with a longer fixed-interest period; a development which continued in 2013. However, the majority of loans - corresponding to 65% of floating rate loans - still have a maturity of up to and including 1 year.

At the end of 2013, mortgage-credit institutions with covered bonds (SDO)/covered mortgage-credit bonds (SDRO) authorization had placed DKK 132 bn. as statutory supplementary collateral in addition to the supplementary collateral of DKK 130 bn.

On 1 April 2014, the first part of the Danish Refinancing Act *("refinansieringsloven")* entered into force. The Act regulates situations with unsuccessful refinancing auctions, or where the auction leads to interest-rate increases of more than 5 percentage points from the time of the most recent refinancing. In the event of an unsuccessful auction, bonds are extended by 12 months at a time until new buyers come into play. Bonds will also be extended for 12 months in the event of interest-rate increases; the interest rate is fixed as the effective interest rate at the most recent refinancing with an additional 5 percentage points.

2. Main trends in the financial statements of mortgage-credit institutions

In 2013 mortgage-credit institutions had total net profits after tax of DKK 6.4 bn., corresponding to a decrease of 8.2% compared with 2012, see table 1. The decrease can primarily be ascribed to an increase in impairment charges of 22.7%, as well as falling net fee and commission income, whereas net interest income has increased.

Table 1: Financial statements of mortgage-credit institutions 2009-2013

						Change	
DKK mill.	*2009*	*2010*	*2011*	*2012*	*2013*	2009-2013	2012-2013
Profit and loss account							
Net income from interest	18,583	17,589	17,353	20,273	20,974	3.1%	3.5%
Dividends on investments	90	69	74	115	240	27.8%	108.7%
Net income from charges	-1,299	-1,526	-1,884	-1,636	-2,374	-16.3%	-45.1%
Net income from interest and charges	17,374	16,133	15,543	18,752	18,839	2.0%	0.5%
Market value adjustments	3,407	-1,222	-2,761	-952	-620	-	34.9%
Staff and administrative expenses	5,243	5,064	5,131	4,860	5,008	-1.1%	3.0%
Impairments on loans etc.	4,599	2,431	2,841	3,922	4,811	1.1%	22.7%
Income from holdings	-3,403	2,640	650	668	685	-	2.5%
Profit before tax	7,023	9,542	4,812	9,002	8,190	3.9%	-9.0%
Tax	2,154	1,714	884	1,998	1,758	-5.0%	-12.0%
Net profit for the year	4,870	7,827	3,929	7,004	6,433	7.2%	-8.2%
Balance sheet (extract)							
Claims on credit institutions	542,598	585,169	623,011	677,770	714,365	7.1%	5.4%
Loans	2,327,574	2,409,608	2,501,477	2,587,598	2,589,292	2.7%	0.1%
Bonds	164,265	175,771	188,376	177,186	195,020	4.4%	10.1%
Shares, etc.	5,015	5,705	4,265	4,120	3,831	-6.5%	-7.0%
Debt to credit institutions	612,182	633,018	663,536	660,380	669,549	2.3%	1.4%
Issued bonds	2,249,942	2,362,252	2,473,733	2,609,150	2,664,798	4.3%	2.1%
Subordinated debt	26,646	23,294	23,954	19,392	16,914	-10.7%	-12.8%
Equity	138,815	146,719	150,429	158,140	162,521	4.0%	2.8%
Balance	3,101,744	3,239,355	3,387,676	3,512,976	3,565,792	3.5%	1.5%

Source: Reports to the Danish FSA.

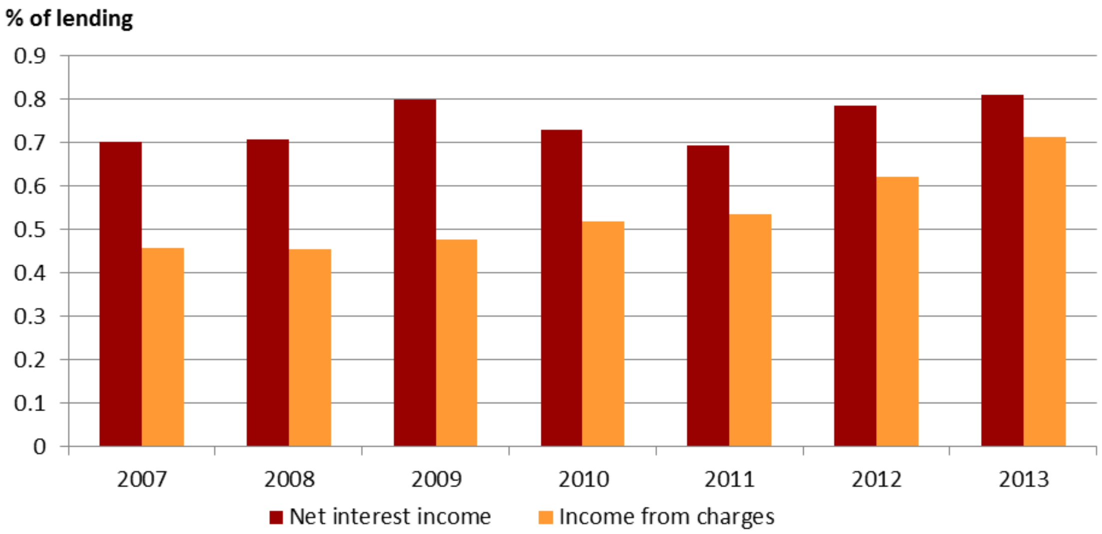
Total net interest income rose by 3.5% from DKK 20.3 bn. in 2012 to DKK 21.0 bn. in 2013. The increase is attributable to an increase in contribution income of 15%, whereas other interest income has fallen. This trend corresponds to previous years, where the increasing contribution income was offset by a fall in other interest income. In 2013, total net interest income as a percentage of loans was at par with 2009, see figure 1.

Mortgage-credit institutions pay net commissions, as customers often take out mortgage-credit loans through banks, which then carry out much of the administration for mortgage-credit institutions. In 2013, mortgage-credit institutions had net fee expenses of DKK 2.4 bn. against DKK 1.6 bn. in 2012. The increase is attributable to a decrease in fee and commission income, whereas costs remained at a fairly stable level. The increase also reflects lower refinancing activity in 2013 compared with 2012.

In total, net interest and fee income rose by 0.5% in 2013 compared with 2012; an increase triggered by a slightly higher increase in net interest income and dividends from shares than in net fee expenses.

Value adjustments constitute a loss of DKK 0.6 bn. against a loss of DKK 1.0 bn. in the previous year. Among other things, this improvement is attributable to capital gains on bond portfolios.

Figure 1: Development in net interest income and contribution income 2007-2013



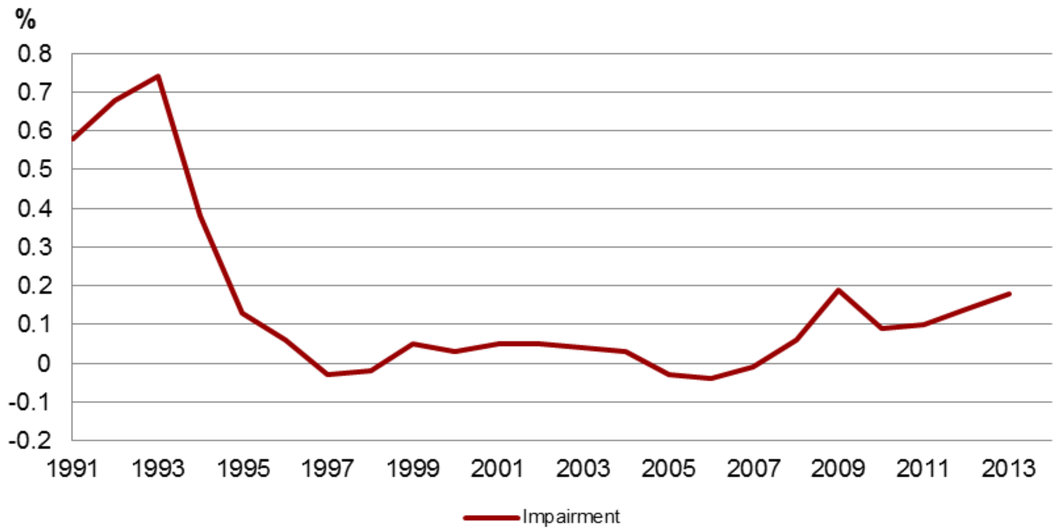
Source: Reports to the Danish FSA.

Profit from equity investments (i.e. subsidiary undertakings and participating interests) rose by 2.5% from DKK 0.67 bn. in 2012 to DKK 0.69 bn. in 2013. This increase can particularly be ascribed to one specific mortgage-credit institution, in which the profit from equity investments is a considerable percentage of the profit of the sector as a whole.

The balance sheet total of mortgage-credit institutions amounted to DKK 3,566 bn. at the end of 2013, corresponding to a growth of 1.5% compared to the previous year. Equity rose by 2.8% from DKK 158 bn. in 2012 to DKK 163 bn. at the end of 2013.

In 2013 impairment losses was DKK 4.8 bn., corresponding to an increase of 22.7% or DKK 0.9 bn. compared with 2012. The impairment loss ratio for the year was 0.18% of total lending against 0.15% in 2012, see figure 2. The increased impairment loss is mainly attributable to a single bank which in 2013 increased its collective impairment.

Figure 2: Impairment loss ratio of mortgage-credit institutions 1991-2013



Source: Annual reports and reports to the Danish FSA.

Selected financial ratios

The solvency and core capital ratio rose by 0.2 percentage points from the end of 2012 to the end of 2013, see table 2. This is primarily due to an increase in the own funds and in tier 1 capital. .

Table 2: Selected financial ratios 2008-2013

%	2009	2010	2011	2012	2013
Income/cost ratio	1.67	2.17	1.55	1.94	1.76
Return on equity before tax	5.16	6.69	3.25	5.84	5.09
Solvency ratio	20.37	19.95	18.87	19.36	19.55
Tier 1 capital ratio	19.80	19.59	18.52	18.92	19.13

Source: Reports to the Danish FSA.

The ratio of operating income to operating expenses for mortgage-credit institutions (i.e. number of crowns earned for each crown spent) fell from DKK 1.94 in 2012 to DKK 1.76 in 2013. The return on equity before tax (i.e. profit before tax in relation to equity) fell correspondingly from 5.8% in 2012 to 5.1% in 2013. This decrease is due to profits for the year being lower than in the previous year.

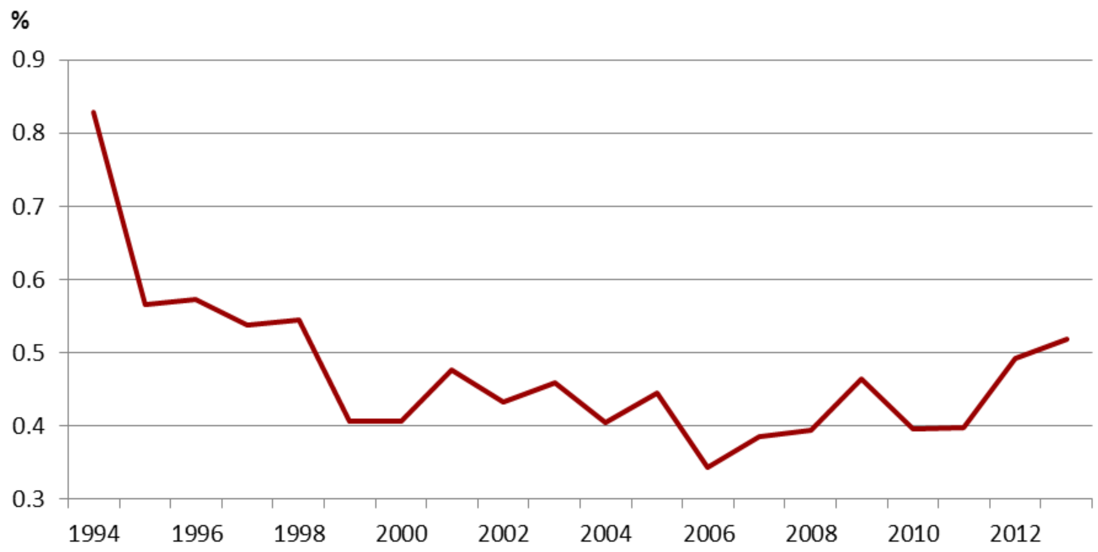
Core earnings

Core earnings are the mortgage-credit institutions' profits/losses before impairment losses, market value adjustments, and profits/losses on participating interests. Core earnings should be able to cover the expected losses on lending activities such that only large unexpected losses need to be absorbed by equity.

Mortgage-credit institutions are generally characterized by having lower core earnings in relation to lending than banks. Historically, credit losses in mortgage-credit institutions have been lower than credit losses in banks. For example, as a simple average, impairment losses over the past 20 years for mortgage-credit institutions have been 0.07% of total lending compared with a 20-year average of 0.7% in banks.

Figure 3 shows a simple average of the core earnings of mortgage-credit institutions over the past 20 years measured in relation to lending. Core earnings in relation to lending were decreasing throughout the 90s and became more stable at the beginning of 2000 with around 0.4-0.5% (excluding LR Realkredit). In 2013, the core earnings of mortgage-credit institutions in relation to lending rose to 0.52% against 0.49% in 2012.

Figure 3: Core earnings in relation to lending, 1994-2013.



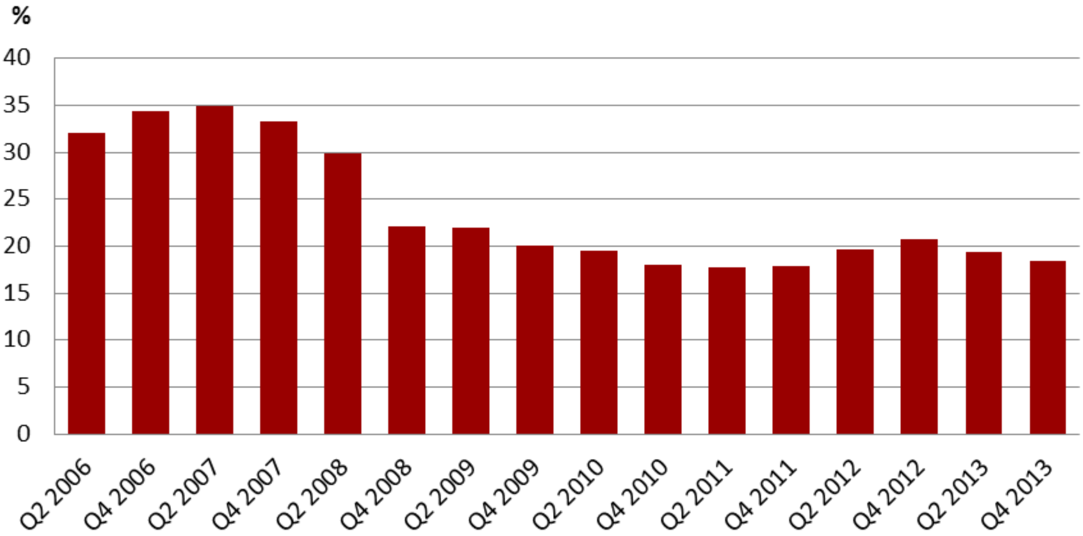
Note: Core earnings contain all income-statement items except impairments on loans, market value adjustments and profits/losses on participating interests. In the 90s, LR Realkredit had very high core earnings in relation to lending and is not included in the average.
Source: Reports to the Danish FSA.

Coverage ratio

Coverage ratio is a measurement of the extent of write-downs on impairment loans. The financial ratio is calculated as total accumulated impairment losses (on individually assessed loans) in relation to the part of the loan portfolio which has been subject to impairment. The larger the coverage ratio, the greater the coverage in the form of write-downs on the bad loans.

At the end of 2013, mortgage-credit institutions saw a coverage ratio of 18.5% against 20.7% at the end of the previous year, see figure 4. The decrease is because the extent of lending subject to impairment charges has increased by more than the impairment charges themselves.

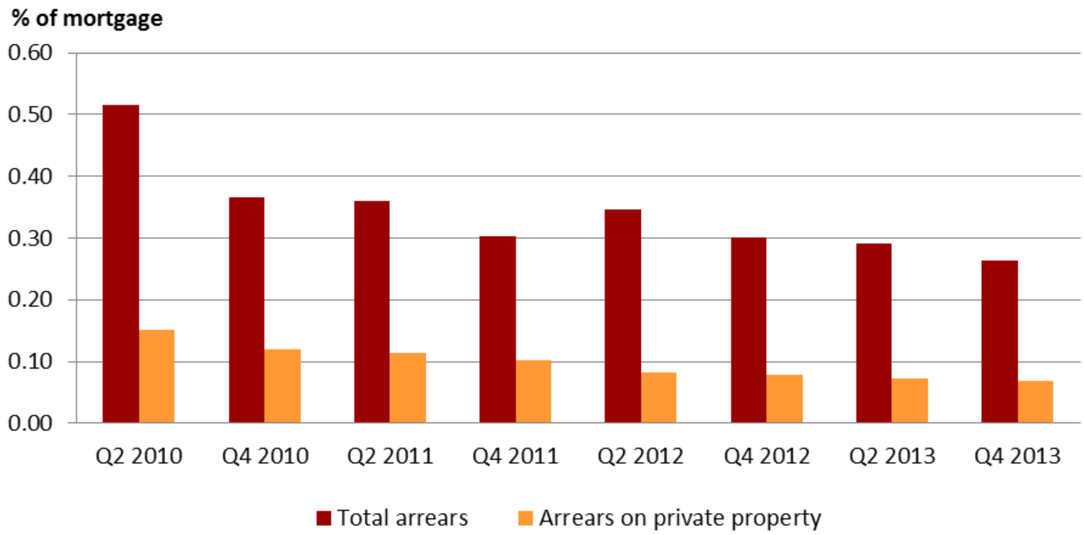
Figure 4: Coverage ratio for mortgage-credit institutions



Note: The level shift in coverage ratio in 2008 is attributable to the fact that the volume of impaired loans increased considerably during 2008.
Source: The Danish FSA.

In contrast, the extent of arrears (i.e. instalments which have not been paid on time) fell from 0.30% of total outstanding mortgage payments in 2012 to 0.26% in 2013, see figure 5. The fact that the extent of impaired loans has increased even though the extent of arrears has fallen is because impairment charges have been made on loans which have no current arrears.

Figure 5: Developments in the arrears of mortgage-credit institutions in relation to mortgage payments



Note: Arrears are calculated as the sum of arrears of 3½ months, 6½ months and 12½ months.
Source: Reports to the Danish FSA.

Capital buffers

The resilience of mortgage-credit institutions to credit losses can be measured in relation to excess coverage of capital. The excess coverage is measured as the difference between the own funds of the institutions[1] and their capital need (solvency need); both set in relation to the total risk exposure. At the end of 2013, mortgage-credit institutions had an average excess coverage of 11.6 percentage points in relation to the minimum capital requirement of 8.0% of total risk exposures, and an average excess coverage of 9.2 percentage points in relation to the solvency needs of the institutions, see table 3. This is an increase in relation to the 8% requirement whereas falling excess coverage in relation to the solvency need is due to a general increase in the solvency needs of mortgage-credit institutions.

Table 3: Capital excess coverage

Percentage point	*2009*	*2010*	*2011*	*2012*	*2013*
Excess coverage in relation to the 8 % requirement	12.4	12.0	10.9	11.4	11.6
Excess coverage in relation to the solvency need	9.6	9.7	8.7	9.8	9.2
Excess coverage in relation to loans and guaantees (%)	3.1	3.2	3.0	3.2	3.0

Note: Excess coverage is calculated as a weighted average. Excess coverage in relation to loans and guarantees (before impairment losses) is the excess coverage in relation to the solvency needs of the institutions.
Source: The Danish FSA.

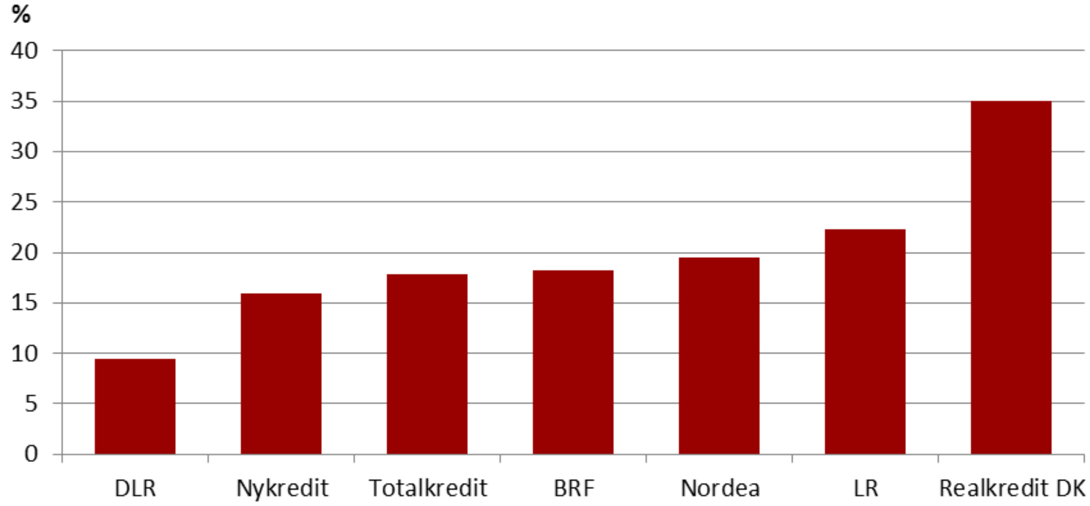
At the end of 2013, mortgage-credit institutions could lose 3.0% of their loans and guarantees before their excess coverage would fall below the solvency need.

The excess coverage of mortgage-credit institutions can be measured in several ways, and introduction of the new CRR/CRD IV regulations has generated new requirements for capital level and capital composition. With the new regulations, the minimum capital requirement for common equity tier 1 capital is now 4.5% of the total risk exposure. Additional tier 1 capital and tier 2 capital can be injected up to the minimum capital requirement of 8% of the total risk exposure.[2] To this can be added the individual solvency need (pillar II supplement) which generally needs to be met with common equity tier 1 capital. Moreover, there will be requirements for the common equity tier 1 capital in the form of a capital preservation buffer of 2.5% fully phased in and a SIFI buffer in the interval 1-3% fully phased in.

Danish mortgage-credit institutions are generally characterized by their relatively high levels of common equity tier 1 capital, see figure 6, whereas they have fewer other capital elements. In 2013, all mortgage-credit institutions had sufficient common equity tier 1 capital to be able to meet the minimum capital requirement of 4.5%, a capital preservation buffer of 2.5% as well as to meet the pillar II supplement with common equity tier 1 capital.

[1] The own funds of mortgage-credit institutions consists of common equity tier 1 capital, additional tier 1 capital and tier 2 capital.
[2] For more information about the new capital requirements, see the 2012 market development article on mortgage-credit institutions.

Figure 6: Common equity tier 1 capital in relation to total risk exposures broken down by mortgage-credit institutions, at the end of 2013



Source: Reports to the Danish FSA.

3. Risks

Recent years’ developments in the mortgage-credit institution area and in the economy in general continue to challenge the institutions. One challenge is mortgage-credit institutions' large holdings of adjustable rate loans resulting in increased credit risk related to interest-rate increases. Another challenge is that the requirement for supplementary collateral on the basis of legislation regarding covered bonds (SDO) may set higher standards for raising funds to be used as supplementary collateral, particularly in periods with falling property prices.

Finally, the dependence, scope and frequency of refinancing auctions pose a potential risk when selling large quantities of refinancing bonds. Spreading refinancing times more evenly over the year will render the mortgage-credit system more robust and stable in relation to problems arising in terms of refinancing, for example in a period with financial difficulties.

The Refinancing Act creates clarity of situations where refinancing auctions are unsuccessful, or where a significant increase in interest rates has occurred since the most recent auction. The Refinancing Act will be followed up by further measures such as a supervisory diamond for mortgage-credit institutions, which may prevent institutions from ending in situations where the Refinancing Act is necessary.

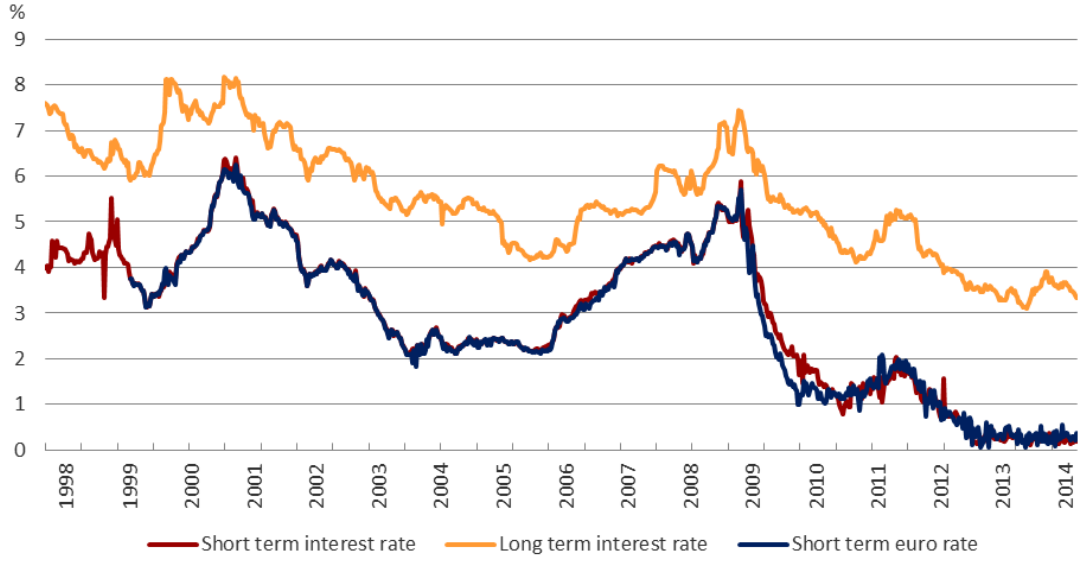
Adjustable rate loans

Adjustable rate loans were introduced in 1996. Characteristic of the loans is that the interest rate on the loan is adjusted regularly when the bonds behind the loan are replaced by new bonds at the refinancing auctions.[3] This means that the interest rate on the new bonds fixes the interest rate in the period until the next refinancing auction. This interest rate adjustment may be made at different time intervals, e.g. 1, 3, 5 or 10 years.

The immediate financial advantage for borrowers in selecting adjustable rate loans is that the interest rate is typically lower than the interest rate on fixed rate loans. Due to the low short-term interest rate since the end of 2008, see figure 7, many borrowers have chosen adjustable rate loans instead of fixed rate loans. On the other hand, borrowers do not know the future payments on the loan as the interest rate changes when the loan is up for refinancing at agreed intervals. Borrowers who are not sufficiently robust financially thus may have difficulty repaying the new instalments.

[3] A adjustable rate loan can be redeemed at price 100 every time a new interest rate adjustment takes place. The alternative is to redeem the adjustable rate loan - like with fixed-interest mortgage-credit loans - by buying the bonds behind the loan at market terms.

Figure 7: Bond yields

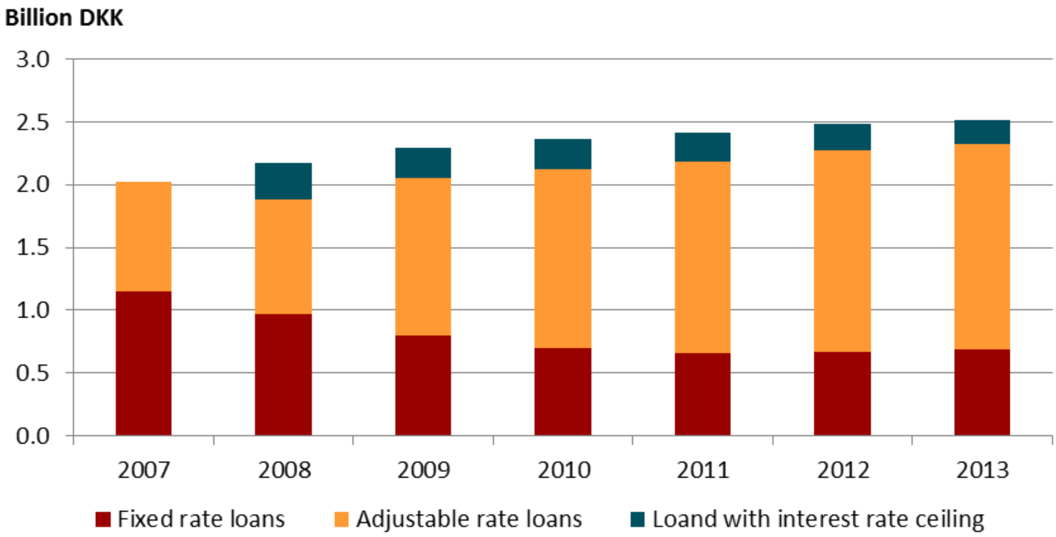


Source: Association of Danish mortgage banks.

For a mortgage-credit institution, a large portfolio of adjustable rate loans increases credit risk. If the interest rate increases, certain borrowers are likely no longer to be able to meet their payment obligations to mortgage-credit institutions and this may result in losses if there is insufficient mortgage coverage.

About 65% of the total mortgage lending was adjustable rate loans at the end of 2013, which is almost the same as in 2012, see figure 8. However, the percentage of floating-rate loans with an interest ceiling fell by about 0.6 percentage points from 2012 to 2013, whereas the percentage of fixed rate loans rose by about 0.6 percentage points.

Figure 8: Mortgage-credit institutions' total lending 2007-2013



Source: Association of Danish mortgage banks, The Danish Mortgage Banks Federation and the Danish FSA.

The percentage of borrowers with floating-rate loans with a fixed rate period of more than one year now constitute 34.6% of total lending with floating rate against 23.5% in 2008, see table 4.

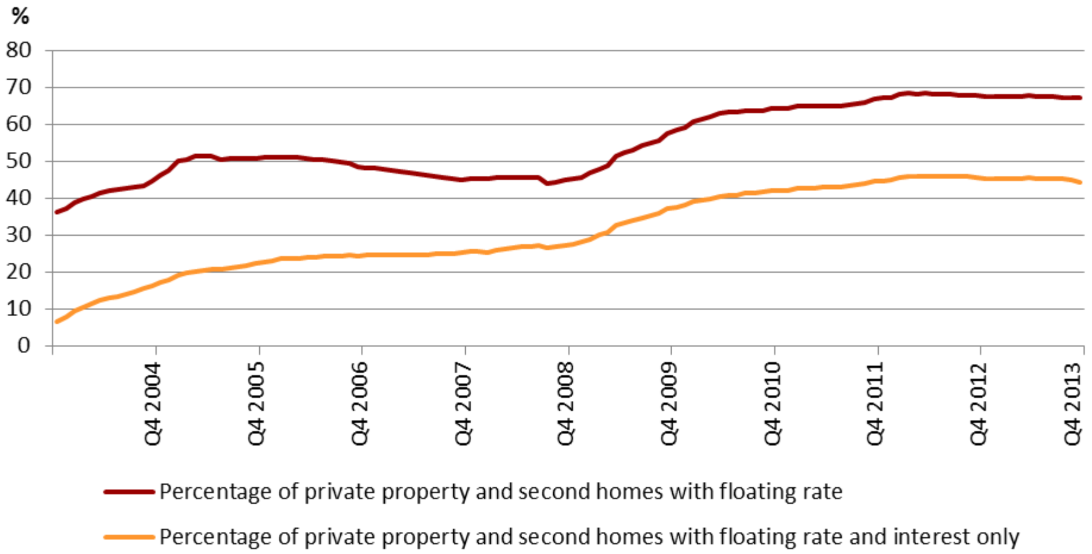
Table 4: The percentage of floating-rate loans with a fixed rate period up to and including one year, 2004-2013

%	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Term to maturity up to and including one year	57.9	72.1	75.7	76.2	76.5	75.8	73.1	71.7	69.9	65.4
Term to maturity over one year	42.1	27.9	24.3	23.8	23.5	24.2	26.9	28.3	30.1	34.6

Note: floating-rate loans are ordinary adjustable rate loans as well as floating rate loans with an interest ceiling.
Source: Danmarks Nationalbank (Denmark's central bank) and the Danish FSA.

At the end of 2013 holders of private property and second homes accounted for around 58% of total lending by mortgage-credit institutions. Adjustable rate loans and other floating rate loans made up 67% of total lending for private property and second homes and out of this, 66% was with interest-only, see figure 9. Out of total lending for private property and second homes, 55% was with interest-only.

Figure 9: The percentage of floating-rate loans for private property and second homes in relation to total lending of mortgage-credit institutions for private property and second homes, 2004-2013.

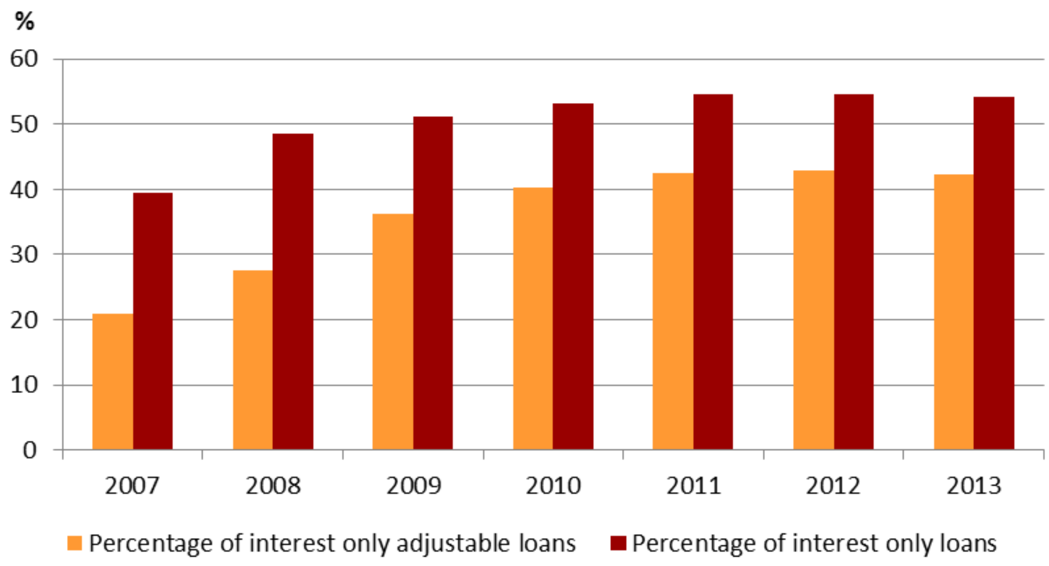


Note: Both percentages are in relation to total lending of mortgage-credit institutions for private property and second homes.
Source: Danmarks Nationalbank and the Danish FSA.

Interest-only loans

Interest-only loans amounted to 54% of total mortgage loans at the end of 2013, and 78% of total interest-only loans are floating-rate loans, see figure 10. The percentage of interest-only loans has been fairly stable in recent years.

Figure 10: The percentage of interest-only loans and interest-only adjustable rate loans in mortgage-credit institutions' total lending 2007-2013



Source: Danmarks Nationalbank (Denmark's central bank) and the Danish FSA.

At 60%, loans for private property and second homes constitute by far the largest percentage of interest-only loan and of these 68% are with adjustable rates. After this, lending for private rental housing and agriculture each constitute just over 12% of interest-only loans. For these, by far the majority are adjustable rate loans (more than 90%).

Table 5: Percentage of interest-only loans in total stock of interest-only loans by sector

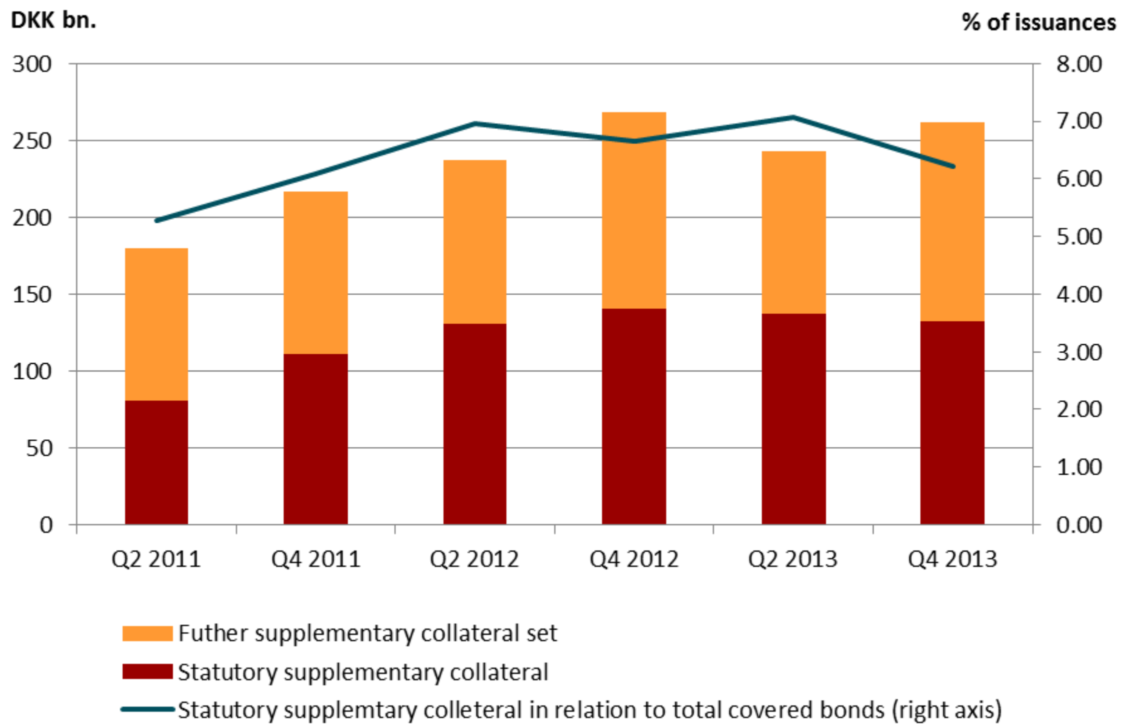
%	*Private rental housing*	*Private property and second homes*	*Agriculture*	*Office and retail*	*Others*	*Total*
Percentage of interest-only loan	12.8	60.0	12.6	11.7	2.9	100.0
- of which, with adjustabel rate	90.2	67.8	93.6	97.0	97.0	78.2

Source: The Danish Mortgage Banks Federation and the Danish FSA.

Supplementary collateral

Since 2007, mortgage-credit institutions have been allowed to finance their loans with the covered bonds (SDOs/SDROs). For investors, these bonds are more secure than traditional mortgage bonds and thereby weight less in the calculation of the investors' risk-weighted assets. Conversely, mortgage-credit institutions issuing SDOs/SDROs must put up supplementary collateral in connection with drops in property prices.

Figure 11: Total supplementary collateral for SDO/SDRO issues 2011-2013



Source: Reports to the Danish FSA.

At the end of 2013, as a consequence of exceeding lending limits on loans financed by mortgage-credit institutions with SDOs/SDROs, statutory supplementary collateral was established for just over DKK 132 bn., see figure 11. In relative terms, this corresponds to 6.3% of total issues. Statutory supplementary collateral for private property amounts to 53% of this collateral.

In addition to the statutory supplementary collateral, mortgage-credit institutions put up additional supplementary collateral for DKK 130 bn. in Q4 2013 in order to obtain satisfactory investor assessments of the bonds.

Supplementary collateral has increased since 2011 and in Q4 2012 reached its highest level at DKK 269 bn.; not far from the level in Q4 2013.

The Refinancing Act

The risk in mortgage-credit institution's wide spread of adjustable rate loans, and the problems which may arise when trying to ensure that all loans can be refinanced, led to the introduction of the Refinancing Act.[4] The first part of the Refinancing Act entered into force on 1 April 2014, and the last part will enter into force on 1 January 2015, see box 1. The Refinancing Act was adopted to create clarity over a situation where an institution has no

[4] The Refinancing Act was adopted by a broad political majority, consisting of the Government, the Socialist People's Party (SF), the Liberals (V) and the Conservative People's Party (K). The Bill was adopted in its 3rd hearing on 11 March 2014 by votes from the parties behind the majority, as well as the Danish People's Party (DF). The Act are named no. 244 of 19 March 2014.

buyers for all bonds on a refinancing, or where the auction leads to very large interest-rate increases for the borrower in terms of loans financed through short-term maturity bonds (less than 24 months).

Situations in which a mortgage-credit institution is unable to sell its bonds constitute either extensive institution-specific or market problems which the Act in itself cannot prevent. The Act should therefore be seen in connection with other initiatives to future-proof Danish mortgage credit, including the work on designing a supervisory diamond for mortgage-credit institutions.

Box 1: The Refinancing Act for banks and mortgage-credit institutions

The first part of the Refinancing Act entered into force on 1 April 2014 and comprises mortgage-credit loans where the term to maturity on the loan is longer than the term to maturity on the underlying bonds, and where the underlying bonds have fixed interest rates and a maturity of up to and including 12 months. The rest of the Bill enters into force on 1 January 2015 and comprises all mortgage-credit loans where the term to maturity on the loan is longer than the term to maturity on the underlying bonds. In relation to interest-rate increases, the Act covers mortgage-credit loans where the term to maturity on the loan is longer than the term to maturity on the underlying bonds, and where the underlying bonds either carry fixed-rates or variable rates and have a term to maturity of up to and including 24 months.

Specifically, the Act covers situations where:

- The effective interest rate in connection with refinancing is more than 5 percentage points higher than the effective interest rate determined in connection with the most recent refinancing. In this situation, bonds are extended for 12 months and the interest rate is locked against the interest rate at the most recent interest-setting plus 5 percentage points.

- There are no buyers for all bonds in a refinancing. The bonds may be extended by 12 months at a time until there are buyers again.

- There are no buyers for the required number of bonds to carry out refinancing with bonds with a term to maturity of more than 12 months. The mortgage-credit institution may attempt to refinance with short-term-maturity bonds.

- A mortgage-credit institution is being wound up (financial reconstruction or liquidation). The liquidator has the option to extend existing bonds rather than attempting to refinance, if it is considered possible to cover such bonds. The bonds may be extended by 12 months at a time for as long as it is necessary.

The legal provisions have been drafted such that there are standard terms for banks and mortgage-credit institutions in relation to housing financed by bonds although without standardising regulation for the two business types. This means inserting a ban on banks issuing covered bonds with a term to maturity of less than 24 months.

4. About the statistics

This article on market developments has been based on financial statements etc. submitted for mortgage-credit institutions in Denmark. Figures are at institution level, unless otherwise stated.

This article focuses on developments in selected accounts items and financial ratios at sector level and on the underlying developments in the individual mortgage-credit institutions. The Danish FSA has published "Statistical data for mortgage-credit institutions". This publication will contain more data from mortgage-credit institutions' submissions for 2013. Moreover an update will follow of financial ratios in the five-year financial summary analyzed by the individual institutions in the financial ratios database on the Danish FSA website.

All mortgage-credit institutions are covered by the statistics.

5. Appendices

Appendix 1: Financial statements of mortgage-credit institutions 2009-2013

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Loans	2,327,574	2,409,608	2,501,477	2,587,598	2,589,292	2.7%	0.1%
Bonds	164,265	175,771	188,376	177,186	195,020	4.4%	10.1%
Shares, etc.	5,015	5,705	4,265	4,120	3,831	-6.5%	-7.0%
Equity investments in associated undertaking	28,265	29,300	29,998	31,363	32,146	3.3%	2.5%
Assets held temporarily	1,386	1,640	1,835	1,337	1,005	-7.7%	-24.8%
Other assets	23,348	24,909	27,130	25,066	22,227	-1.2%	-11.3%
Total assets	3,101,744	3,239,355	3,387,676	3,512,976	3,565,792	3.5%	1.5%
Debt to credit institutions	612,182	633,018	663,536	660,380	669,549	2.3%	1.4%
Issued bonds	2,249,942	2,362,252	2,473,733	2,609,150	2,664,798	4.3%	2.1%
Other non-derivative financial liabilities at fair value	3,812	4,394	4,421	2,025	862	-31.0%	-57.4%
Current tax liabilities	1,299	421	228	43	25	-62.8%	-41.9%
Other liabilities	67,456	65,460	67,536	60,375	50,218	-7.1%	-16.8%
Total debt	2,934,709	3,067,944	3,211,921	3,334,387	3,385,481	3.6%	1.5%
Provisions	1,574	1,398	1,371	1,057	876	-13.6%	-17.1%
Sudordinated debt	26,646	23,294	23,954	19,392	16,914	-10.7%	-12.8%
Share/cooperative/guarantee capital	5,236	5,260	5,275	5,388	5,324	0.4%	-1.2%
Other reserves	94,097	106,222	121,769	121,911	112,204	4.5%	-8.0%
Retained profits or losses	39,298	35,053	23,199	29,801	44,813	3.3%	50.4%
Equity	138,815	146,719	150,429	158,140	162,521	4.0%	2.8%
Balance	3,101,744	3,239,355	3,387,676	3,512,976	3,565,792	3.5%	1.5%

Source: Reports to the Danish FSA.

Appendix 2: Financial statements for mortgage-credit institutions at institution level, 2013

DKK mill.	Nykredit Realkredit	Realkredit Danmark	BRFKredit	Totalkredit	DLR Kredit	LR Realkredit	Nordea Kredit	All
Profit and loss account								
Net income from interest	4,415	7,278	1,860	3,461	1,449	155	2,355	*20,973*
Dividends on investments	228	0	6	0	1	5	0	*240*
Net income from charges	565	-540	82	-1,646	-221	-19	-596	*-2,375*
Net income from interest and charges	5,208	6,738	1,948	1,815	1,229	141	1,760	*18,839*
Market value adjustments	779	-1,067	-213	-97	-296	56	218	*-620*
Staff and administrative expenses	2,580	742	847	397	204	28	210	*5,008*
Impairments on loans etc.	1,837	1,469	415	567	113	20	390	*4,811*
Income from holdings	738	12	-67	0	0	0	2	*685*
Profit before tax	1,389	3,474	413	754	629	149	1,383	*8,191*
Tax	58	862	107	189	159	38	346	*1,759*
Net profit for the year	1,331	2,612	306	565	471	111	1,037	*6,433*
Balance sheet (extract)								
Cash in hand and demand deposits with central banks	1,761	872	50	0	252	0	250	*3,185*
Due from credit institutions and central banks	589,406	50,081	1,895	16,263	3,361	487	52,873	*714,366*
Loans	597,866	731,836	205,764	540,788	133,910	15,378	363,751	*2,589,293*
Bonds	26,925	61,139	18,155	79,357	8,803	640	0	*195,019*
Shares etc.	2,514	0	300	0	72	945	0	*3,831*
Equity investments in associated undertaking	117	14	0	0	0	0	13	*144*
Equity investments in group undertaking	30,866	139	1,141	0	0	0	0	*32,146*
Total land and buildings	18	141	390	0	76	0	0	*625*
Other tangible assets	310	5	11	0	6	1	0	*333*
Current tax assets	46	76	0	38	0	1	1	*162*
Deferred tax assets	154	0	18	2	2	6	0	*182*
Assets held temporarily	436	193	263	28	43	6	37	*1,006*
Other assets	14,105	3,673	622	3,342	353	23	108	*22,226*
Prepayments	190	7	28	7	17	0	5	*254*
Total assets	1,267,720	848,176	228,653	639,824	146,894	17,487	417,039	*3,565,793*
Debt to credit institutions and central banks	12,668	32,501	12,176	565,734	0	0	46,470	*669,549*
Issued bonds	1,164,219	757,248	202,567	46,568	131,438	13,684	349,074	*2,664,798*
Other non-derivative financial liabilities at fair	862	0	0	0	0	0	0	*862*
Current tax liabilities	0	0	2	0	10	0	13	*25*
Other liabilities	19,963	11,397	3,324	8,761	2,381	418	3,973	*50,217*
Accruals	0	0	2	0	4	0	10	*16*
Total debt	1,197,713	801,146	218,085	621,064	133,832	14,103	399,540	*3,385,483*
Total provision	557	108	204	6	0	0	0	*875*
Subordinated debt	10,734	0	2	3,100	3,078	0	0	*16,914*
Share/cooperative/guarantee capital	1,182	630	306	848	570	70	1,717	*5,323*
Share premium	0	0	102	0	0	0	0	*102*
Accumulated value changes	2	34	18	0	24	0	0	*78*
Other reserves	35,956	46,258	9,629	14,806	2,338	3,203	13	*112,203*
Retained earnings or losses	21,576	0	306	0	7,052	111	15,768	*44,813*
Equity	58,716	46,922	10,362	15,654	9,984	3,384	17,498	*162,520*
Balance	1,267,720	848,176	228,653	639,824	146,894	17,487	417,039	*3,565,793*

Note: Nykredit Realkredit A/S issues bonds which finance lending by Totalkredit. This is included as a receivable from credit institutions in the balance sheet.
Source: Reports to the Danish FSA.

Appendix 3: Developments in capital and risk-weighted items 2009-2013

						Changes	
DKK mill.	*2009*	*2010*	*2011*	*2012*	2013	*2009-2013*	*2012-2013*
Tier 1 capital	151,625	158,437	161,494	162,187	163,959	*2.0%*	*1.1%*
Own funds	156,106	161,287	164,602	165,867	167,643	*1.8%*	*1.1%*
Total risk exposures	766,066	808,009	871,528	856,380	857,073	*2.8%*	*0.1%*
Balance	3,101,744	3,239,355	3,387,676	3,512,976	3,565,792	*3.5%*	*1.5%*

Source: The Danish FSA.

Appendix 4: Financial ratios of mortgage-credit institutions 2009-2013

%	*2009*	*2010*	*2011*	*2012*	*2013*
Solvency ratio	20.37	19.95	18.87	19.36	19.55
Tier 1 capital ratio	19.80	19.59	18.52	18.92	19.13
Return on equity before tax	5.16	6.69	3.25	5.84	5.09
Return on equity after tax	3.60	5.48	2.64	4.53	4.01
Income/cost ratio	1.67	2.17	1.55	1.94	1.76
Currency position	3.09	1.72	2.24	1.68	1.32
Accumulated write-down ratio	0.22	0.25	0.28	0.30	0.37
Loss and impairmedt loss ratio for the year	0.20	0.09	0.10	0.15	0.18
Growth in loans for the year	5.38	3.21	2.03	2.64	1.11
Loans in relation to equity	16.75	16.43	16.57	16.34	15.91

Note: Financial ratios are calculated on the basis of the mortgage-credit institutions which existed in the individual years. Growth in loans for the year is based on nominal values.
Source: Reports to the Danish FSA.

Appendix 5: Glossary

Before CRD IV/CRR, see the Danish Financial Business Act until 31 March 2014 (Danish)	*After CRD IV/CRR, see section 5(6) of the Danish Financial Business Act from 31 March 2014 (Danish)*	*CRR (English)*
Basiskapital	Kapitalgrundlag, see section 5(6), no. 6 of the Danish Financial Business Act	Own funds, see Article 4(1) no. 118 of CRR
Egentlig kernekapital	Egentlig kernekapital, see section 5(6), no. 7 of the Danish Financial Business Act	Common Equity Tier 1 capital (CET1), see Article 26 of CRR
Hybrid kernekapital	Hybrid kernekapital, see section 5(6), no. 10 of the Danish Financial Business Act	Additional Tier 1 capital, see Article 61 of CRR
Kernekapital	Kernekapital, see section 5(6), no. 8 of the Danish Financial Business Act	Tier 1 capital, see Article 25 of CRR
Supplerende kapital	Supplerende kapital, see section 5(6), no. 9 of the Danish Financial Business Act	Tier 2 capital, see Article 71 of CRR
Ansvarlig lånekapital	Supplerende kapitalinstrumenter, see section 5(6), no. 12 of the Danish Financial Business Act	Tier 2 instruments, see Article 63 of CRR
Risikovægtede poster	Den samlede risikoeksponering, see section 5(6), no. 16 of the Danish Financial Business Act	Total risk exposure (amount), see Article 92(3) of CRR