

Issuing principles

Guiding principles for Realkredit Danmark issuance of covered bonds

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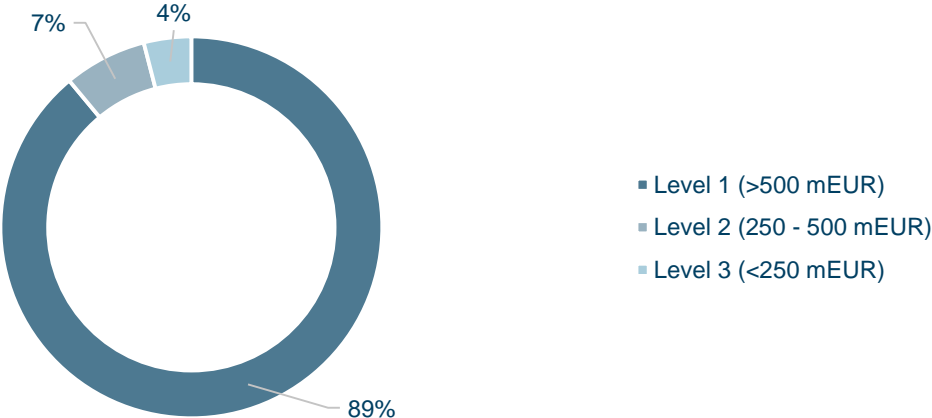
Majority of issues are level 1

The liquidity coverage requirement (LCR) became binding regulation on 1 October 2015 for financial institutions. In accordance with the LCR mortgage covered bonds (SDRO, SDO or RO) may account for up to 70 percent of all holdings of high quality liquid assets provided an outstanding volume of at least EUR 500m (level 1). The limit is at 40 percent provided an outstanding volume of at least EUR 250m (level 2A).

Financial institutions represent a significant investor group. Hence, the LCR regulation has an effect on the demand for mortgage covered bonds.

Realkredit Danmark is aiming at issuing as many mortgage covered bonds as possible that comply with the minimum volume.

End 2017 89 percent of Realkredit Danmarks issues were level 1 and 7 percent were level 2.



Issuance and redemption of bonds

Realkredit Danmark is operating in accordance with the specific balance principle under chapter 3 of the Executive order on the Issuance of bonds by Mortgage Credit Institutions, the balance principle and risk management.

Realkredit Danmark offers borrowers fixed rate loans, interest reset loans (FlexLån® and FlexLife®) and floating rate loans. It is estimated that customer demand for the different loan types is sufficient to ensure the liquidity in the corresponding mortgage covered bonds. However, going forward Realkredit Danmark will phase out products with limited demand, e.g. FlexLån® in euro with interest reset every 2 years (F2) or every 4 to 10 years (F4 to F10) as well as FlexLån® P in euro.

Realkredit Danmark tap issues mortgage covered bonds with the same characteristics as the underlying loans when disbursing or refinancing loans as well as when fixed rate agreements are entered into. Only in specific situations, e.g. at refinancing auctions, Realkredit Danmark will issue en bloc.

Realkredit Danmark offers borrowers to prepay at market price and/or at par if callable or when refinanced. If the ISIN only has a limited amount outstanding and the ISIN cannot be obtained on market terms, Realkredit Danmark might make use of the option to redeem the loan using a mortgage covered bond with similar cash flows cf. §21 of the Executive order on the Issuance of bonds by Mortgage Credit Institutions, the balance principle and risk management.

Fixed rate callable mortgage covered bonds

Realkredit Danmark's fixed rate callable mortgage covered bonds will normally reach a volume that fulfils the minimum requirements of the LCR.

In bonds open for issuance the activity has been high which is counteracted by the frequent changes in interest rates leading to issuance in several ISIN's.

Fixed rate callable mortgage covered bonds with maturity of 30 years is issued as annuities with or without an interest only option (IO). The price difference is approx. 1.25 points between the two → Realkredit Danmark will continue to split the issue in annuities with and without interest only, respectively. This will make loans without interest only as attractive as possible.

Fixed rate callable mortgage covered bonds are issued with as high a coupon as possible (bond price below 100) to minimize the capital loss of the borrowers. The price difference between coupon rates depend on the interest rate; the lower the interest rate, the higher the price difference → To balance the considerations of capital losses of mortgage owners as well as the liquidity of the bonds Realkredit Danmark will issue fixed rate callable mortgage covered bonds with half and full coupons up to a coupon of 4 percent and mortgage covered bonds with full coupons at higher interest levels.

In the shorter maturities the volume is limited and it might be necessary to combine the issuance in these maturities into fewer ISIN's → Realkredit Danmark is pursuing to only issue one ISIN in each maturity.

Fixed rate non-callable mortgage covered bonds

Realkredit Danmark issues fixed rate non-callable mortgage covered bonds for the funding of FlexLån® and FlexLife®. The volume in most ISIN's open for issuance is below the long-term target. Realkredit Danmark opened new mortgage covered bonds when establishing capital centre T (2011) and as the failed refinancing trigger was introduced by law (2014). In 2018 new mortgage covered bonds were opened in a new capital centre A for the funding of subsidised housing with Government guarantee. All of these initiatives has led to more and smaller bond series.

FlexLån® with a two-year interest reset period (F2) requires a separate bond due to legal requirement of maturity extension if interest rates increase. These bonds will not obtain sufficient volume → If the regulation is not amended on this matter Realkredit Danmark will phase out FlexLån® F2.

From 2020 refinancing volume will be subject to the Supervisory Diamond introduced by the Danish FSA. Realkredit Danmark does not benefit from refinancing FlexLån® more frequently than twice a year since the Supervisory Diamond limits the quarterly refinancing volumes to half of the limit of the yearly refinancing volumes → Realkredit Danmark will continue to offer FlexLån® with refinancing on 1 April. At a future point in time Realkredit Danmark will resume offering FlexLån® with refinancing on 1 January in order to equalize the size of the two refinancings.

Other kinds of loans will not be offered with refinancing on 1 January or 1 April after 2020.

FlexLån® in Euro meets only limited demand → Realkredit Danmark intends to reduce the offerings of FlexLån® in Euro to F1 and F3 due to the lack of volume.

Floating rate mortgage covered bonds

Realkredit Danmark is planning to issue floating rate mortgage covered bonds in DKK in order to reach a volume in each ISIN between DKK 10bn and 20bn. At the current issuance level the issuance of 6M CIBOR bonds will be divided in three to four maturities while the issuance of 6M CITA bonds will be divided in two to three maturities.

Realkredit Danmark plans to issue floating rate mortgage covered bonds in EUR to reach a volume in each ISIN of EUR 500m to 1bn. Thus, the issuance of 3M EURIBOR bonds will be compiled in a single maturity at the current issuance level.

Realkredit Danmark intends to issue floating rate mortgage covered bonds in SEK and NOK to reach a volume in each ISIN of approx. SEK 5bn and NOK 2.5bn, respectively. The issuance of 3M STIBOR will be divided in four maturities and the issuance of 3M NIBOR on two to three maturities at the current issuance level.

In the future, Realkredit Danmark will decide whether a new bond will be issued with or without an interest rate floor when opening the bond. The decision will be made from time to time and will be announced to the market when opening the bond

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