

# Risk Report 2011Q2

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The Risk Report has been prepared by Realkredit Danmark`s analysts for information purposes only. Realkredit Danmark will publish an updated Risk Report quarterly.

The Risk Report offers an update on the performance of mortgage collateral supporting mortgage bonds and mortgage covered bonds (covered bonds) issued by Realkredit Danmark.

Contents of the report falls into two parts. The first part contains general market information relevant to the performance of mortgage collateral. The second part contains Realkredit Danmark specific information. Contents of the report are:

1. Key Market Indicators
  - ❑ House Prices
  - ❑ Homeowners Equity
  - ❑ Unemployment and Real Wage Growth
  - ❑ Homeowner Affordability
  - ❑ Foreclosures
  - ❑ Danish economic outlook
  - ❑ Geographical Dispersion
2. Key Collateral Indicators
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  - ❑ Mortgage Collateral Breakdowns – Total and Capital Centre S
  - ❑ Borrower Exposure to interest rates
  - ❑ Arrears and Repossessions
  - ❑ Over Collateralisation and Capitalisation
  - ❑ Supplementary Collateral
  - ❑ Guarantees
  - ❑ Market Risk Exposures and Liquidity

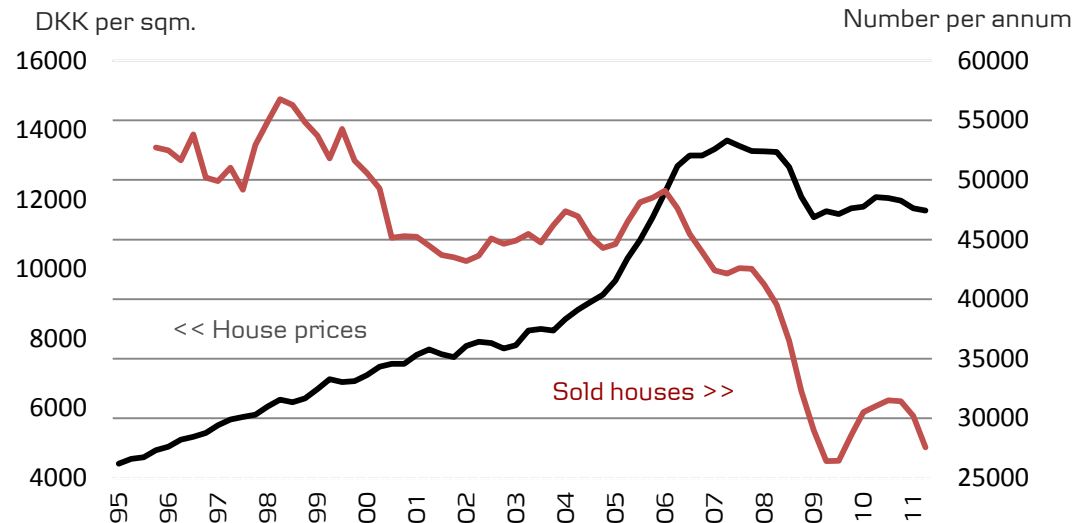
# Key Market Indicators

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General Market Information

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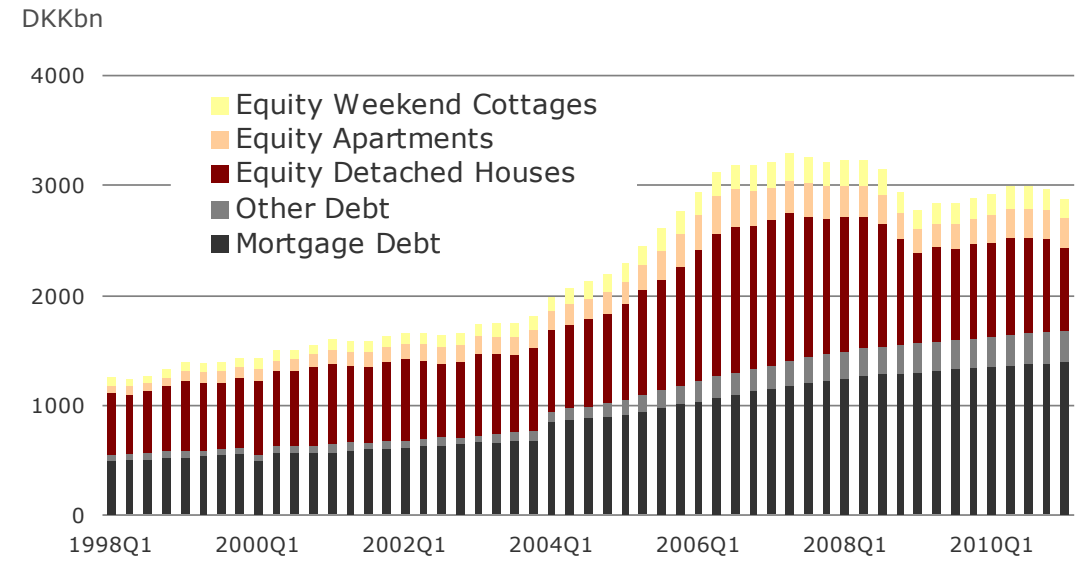
# 1 House Prices and Homeowners Equity



- ### House Price Trends
- ❑ Signs of weakness in the housing market, currently a very sensitive market
  - ❑ House prices are down 14.7 percent for detached housing from the peak mid 2007 and 21.4 per cent for apartments from the peak mid 2006
  - ❑ Expectations are a minor deflation from the current level – but uncertainty is high

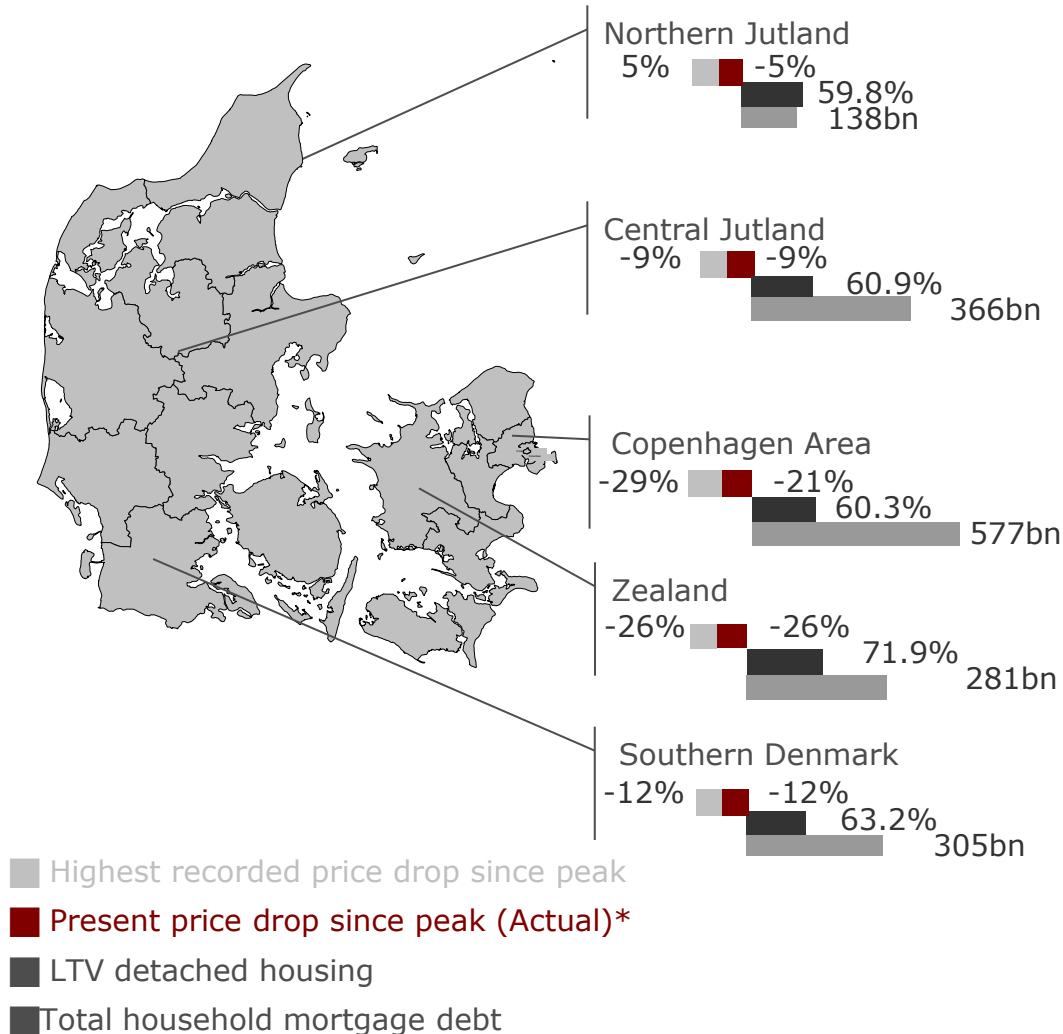
### Homeowners Equity

- ❑ Homeowners' equity peaked 2006Q3 at 1,888bn. Since then equity has dropped by 683bn (notice that due to new collection methods concerning house prices, the levels has changed compared to previously versions of our risk report)
- ❑ Only 19 per cent of the drop can be explained by house price deflation – 81 per cent is due to additional lending



# 1 Geographical Dispersion

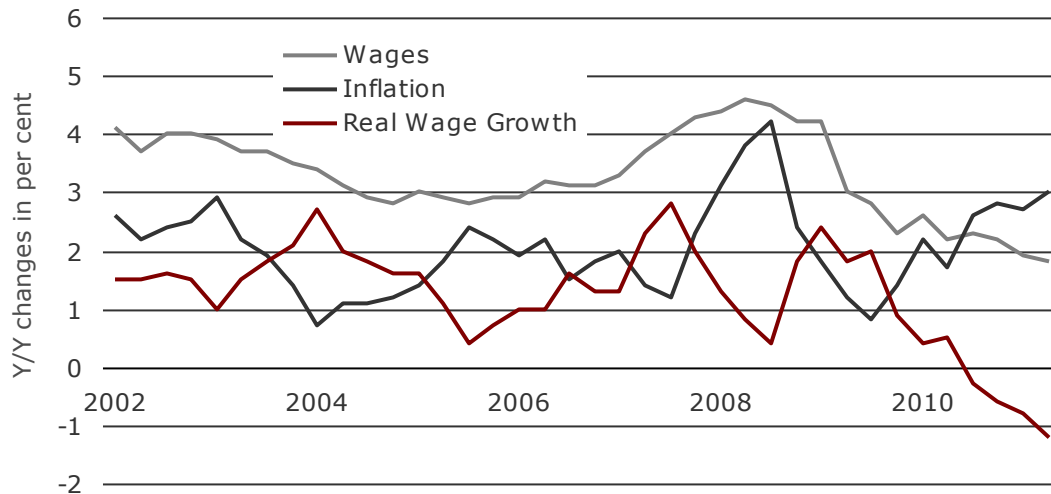
## Private lending in Denmark in total



\* If actual price drop is lower than the highest recorded price drop it means that prices are recovering

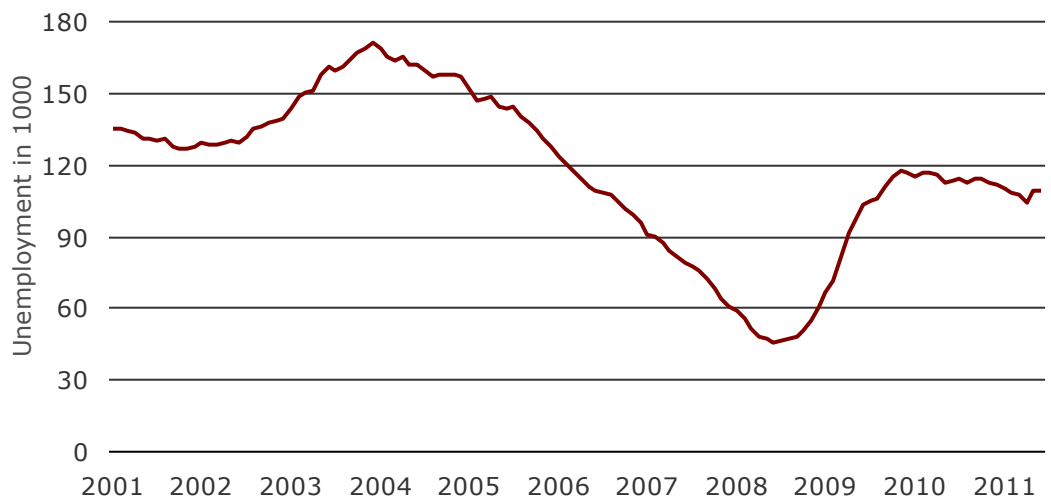
- From the beginning of 2009 we have seen house prices stabilizing throughout Denmark, but the last two quarters have shown consecutive decline in prices
- The Copenhagen area was the first to suffer from house price deflation, following a decade of soaring house prices. Prices are now 21.1 percent down from the peak in mid 2006
- Despite deflation in house prices for the last two quarters, prices are still up by 11.8 percent since the bottom in the start of 2009

# 1 Unemployment and Real Wage Growth



## Real Wage Growth

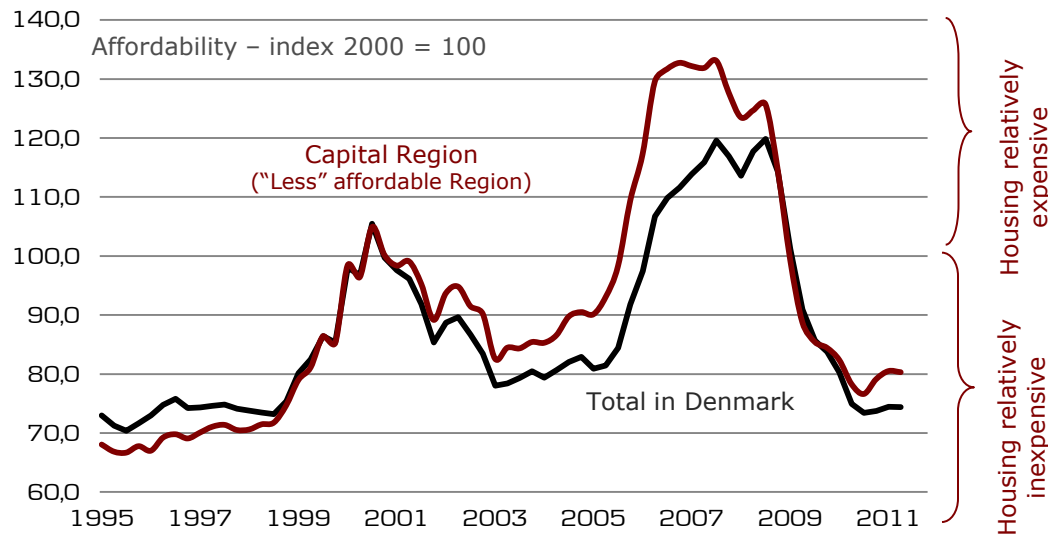
- ❑ Real wage growth is negative in Q2 due to quite high inflation outpacing the growth in nominal wages
- ❑ Disposable income for households will have a minor decline in 2011. There are smaller tax increases but on the other hand very low interest rates will mitigate some of the negative effect. Wage development will be close to the inflation rate in 2011



## Unemployment

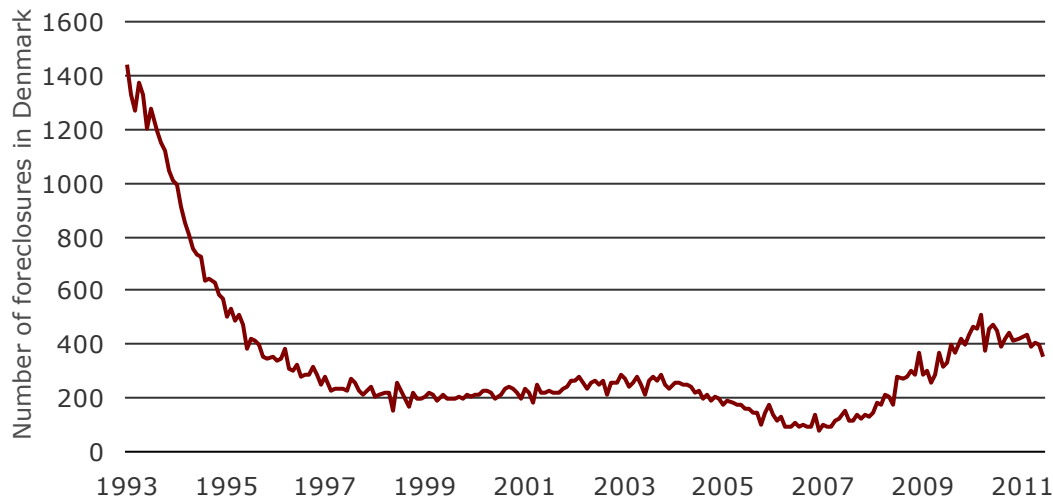
- ❑ Unemployment stood at 108,500 end Q2 2011 up from a historical low of 45,400 in mid 2008
- ❑ This is equivalent to an unemployment (net) rate of 4.1 per cent which is expected to stay at the current level in 2011
- ❑ Present unemployment equals structural unemployment levels in Denmark (NAIRU)

# 1 Homeowner Affordability and Foreclosures



## Homeowner Affordability

- ❑ House price deflation and lower interest rates has made housing more affordable even in the Copenhagen area
- ❑ Housing costs are now close to the lowest level since 2004
- ❑ We expect housing affordability to increase due to very low interest rates and a small decline in house prices



## Foreclosures

- ❑ The number of foreclosed properties in Denmark in August 2011 was 407
- ❑ There is an stabilizing trend in the numbers of foreclosed properties recorded and we expect the numbers to stay at this level throughout the year
- ❑ The duration of a foreclosure is approx. 6 months from missed payments to completion

Note: Seasonally adjusted, all product categories included

# 1 Political measures and outlook

Denmark	Euro Zone	2010	2011	2012		
GDP	1,7	1,8	1,4	1,6	2,0	1,1
Private Consumption	2,3	0,8	0,0	0,4	2,8	0,5
Fixed investments	-3,2	-1,0	-0,5	2,4	4,0	1,9
Export	3,8	10,6	7,0	6,3	2,6	4,2
Unemployment %	6,0	10,1	5,8	9,9	5,6	10,1

Source: Danske Bank, September 2011

## Danish Economy Outlook

- ❑ The growth in the Danish economy is expected to be around 1.5 per cent in 2012
- ❑ We have seen a stabilisation of the labour market in 2011H1.
- ❑ Exports are also in better shape helped by a rebound in international trade and the economic upswing in especially Germany and Sweden
- ❑ However the latest development on the financial markets and signs of slower global growth is a concern to the Danish economy which is highly dependent on exports. Forecasts will probably see a downward revision in the coming months
- ❑ Interest rates are a key element in the household economy. We expect still very low interest rates – but the level will slowly increase during the next 12 months



# Key Market Indicators

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Realkredit Danmark Specific Information

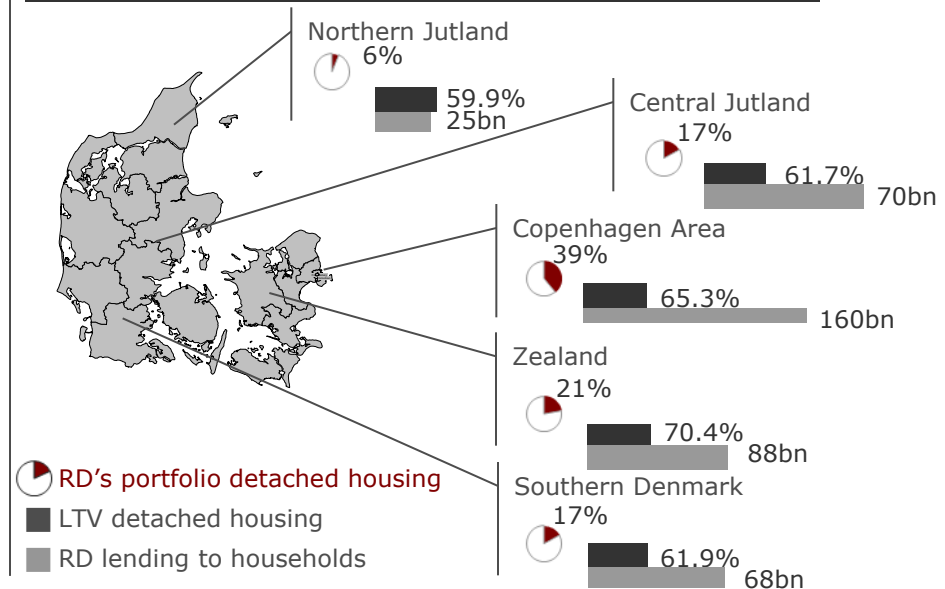
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## 2 Dispersion and Loan to Value Ratios

### Dispersion of RD's portfolio

- ❑ RD's loan portfolio is concentrated in the Copenhagen area and on Zealand where prices have been reduced the most
- ❑ Homeowner equity remains highest in the Copenhagen area although LTV ratios have been exposed to the largest increase
- ❑ All though the affordability ratio in the capital region is expected to rise it is still below index 100
- ❑ The highest growth in household mortgage debt is recorded in the Copenhagen area

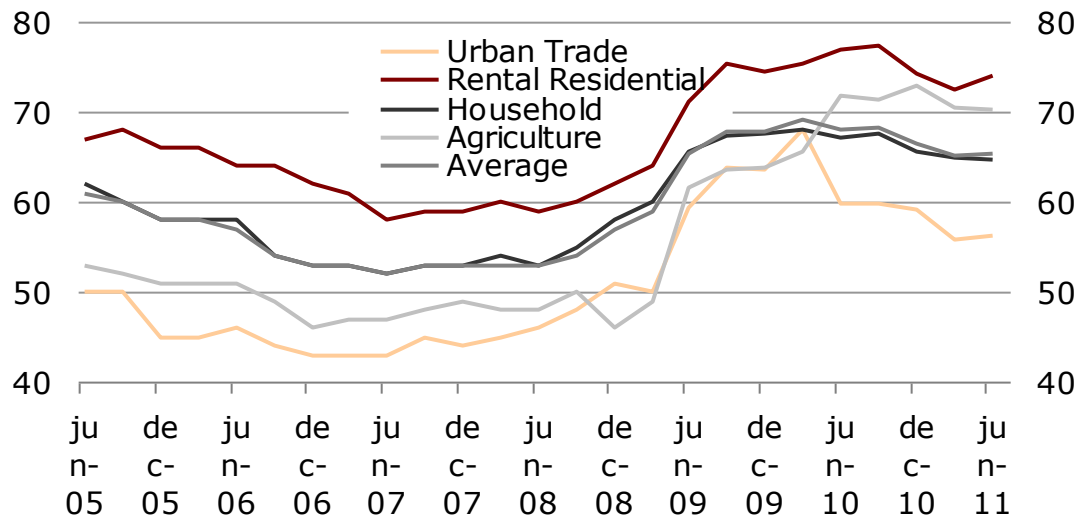
### Geographical Dispersion in Realkredit Danmark



### Loan To Value Ratios

- ❑ Covered bonds are secured by a first claim on the mortgage collateral and the reserves of the issuer
- ❑ Loan to value ratios of the mortgage collateral are maximised by legislation at 80 per cent in residential segments and 60 per cent in commercial segments (70 per cent if the outmost 10 per cent are secured by additional collateral). Lending beyond these limits is prohibited
- ❑ Loan to value ratios are monitored on an ongoing basis based on current market values of the property and current prepayment value of the mortgages
- ❑ 36 per cent of mortgage collateral securing covered bonds issued by Realkredit Danmark has a current loan to value ratio of 20 per cent or less. More than 65 per cent has a current loan to value ratio lower than 40 per cent
- ❑ Foreclosure costs are typically less than 15 per cent of the outstanding loan balance

## 2 Loan To Value and Borrower Classifications



- ### Loan to Value
- ❑ Average loan to value ratios across market segments are 65 per cent in Q2 2011 compared to 69 per cent in Q12010
  - ❑ With house price stability and even inflation observed in some parts of Denmark LTV ratios are now decreasing.
  - ❑ LTV for private household has stabilised over the last year and we expect this trend to continue in 2011

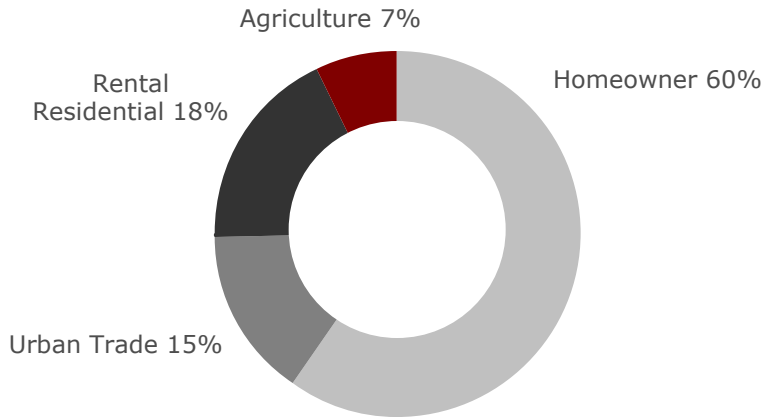
DKKbn	Rating Category (Scaled 1-11)			Total
	1-3	4-7	8-11	
LTV				
0-20 %	56	165	30	251
20-40 %	38	138	27	203
40-60 %	22	99	22	144
60-80 %	10	52	13	75
<b>&gt; 80 %</b>	<b>7</b>	<b>15</b>	<b>7</b>	<b>28</b>
Total	133	469	99	701

- ### Borrower Classifications
- ❑ Borrowers' financial strength is classified on a scale from 1 to 11, 1 being the highest score
  - ❑ Approx. 7bn of total lending is secured by mortgages above the 80% LTV limit for which the borrowers' financial strength is classified 8-11 – equivalent to 1 per cent of the portfolio

Note: RD total

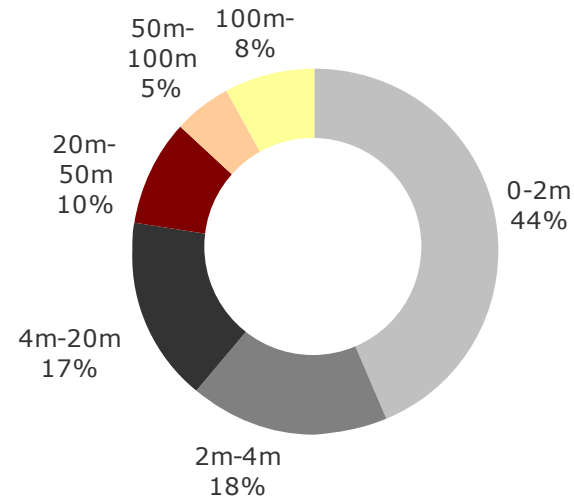
## 2 Collateral Breakdowns – Total portfolio

### Borrower Segmentation



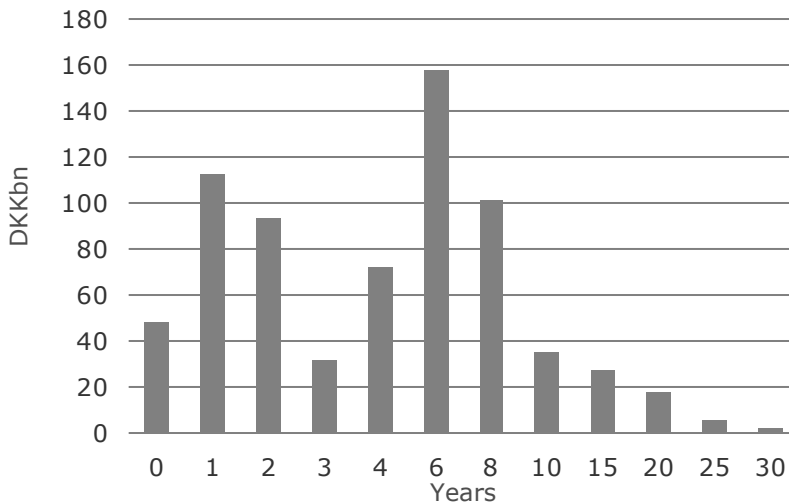
Note: Total lending distributed on segments

### Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

### Portfolio Seasoning

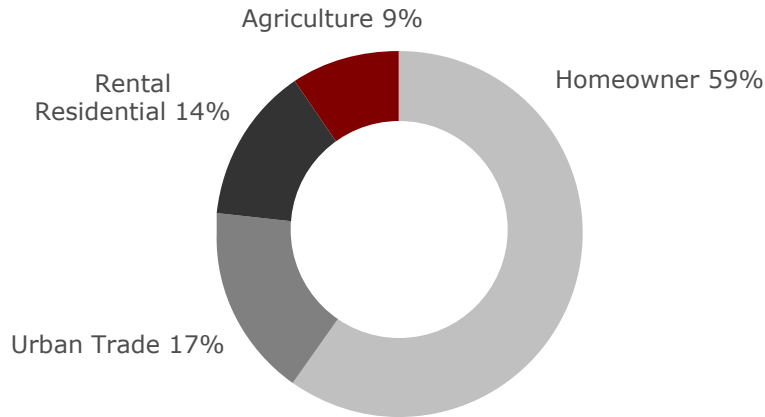


### Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Household	144	122	88	47	11	413
Urban trade	42	34	22	7	2	107
Agriculture	17	14	10	5	3	50
Rental Residential	47	33	24	15	12	131
Weighted dist.	36%	29%	21%	11%	4%	100 %
Total, DKKbn	251	203	144	75	28	701

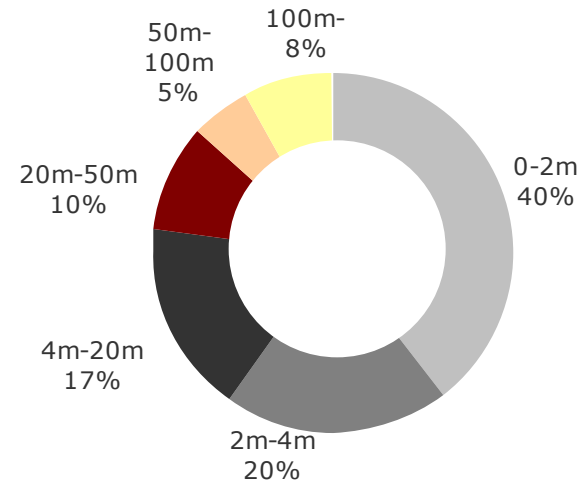
## 2 Collateral Breakdowns – Capital Centre S

### Borrower Segmentation



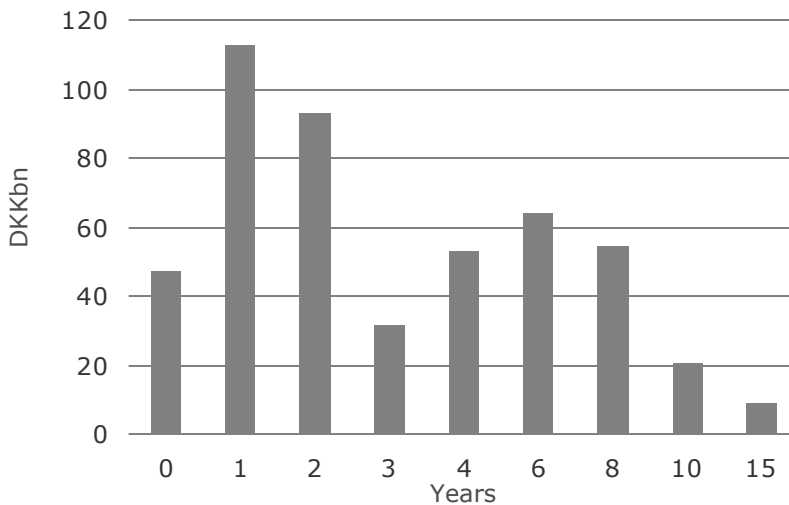
Note: Total lending distributed on segments

### Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

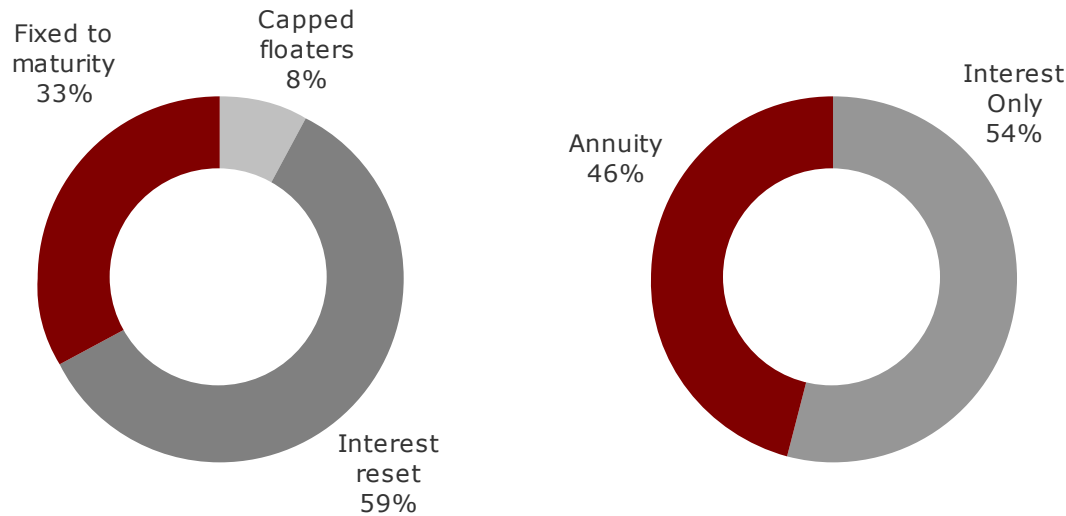
### Portfolio Seasoning



### Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	> 80%	Total DKKbn
Household	91	83	66	38	9	287
Urban trade	32	26	17	6	1	82
Agriculture	14	13	9	5	3	44
Rental Residential	22	19	14	9	6	70
Weighted dist.	33%	29%	22%	12%	4%	100 %
Total, DKKbn	159	140	107	58	19	483

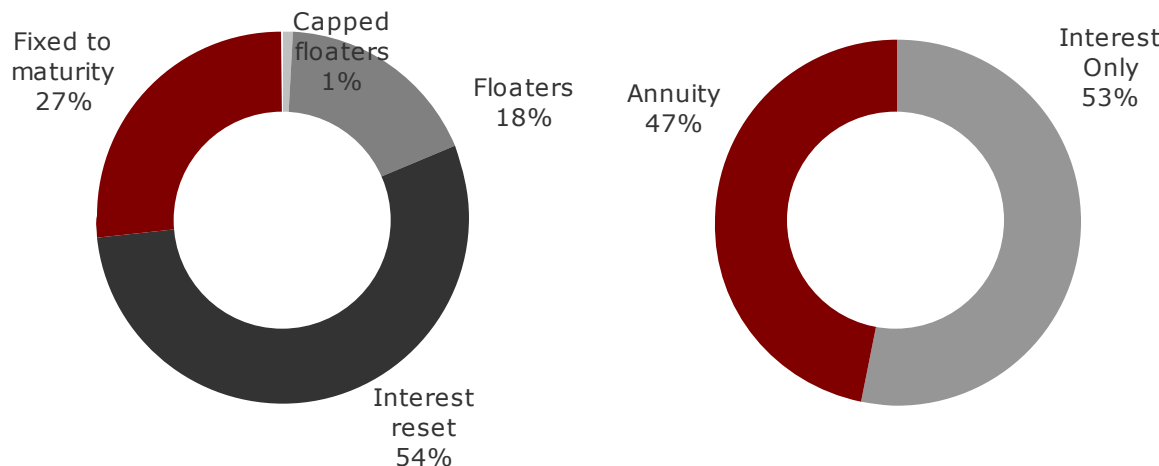
## 2 Borrower Exposure to Interest Rates



### Homeowner Segment

- ❑ Homeowners must be able to service a 30-year fixed rate annuity loan for Realkredit Danmark to underwrite
- ❑ The impact of remortgaging from fixed to floating is mirrored in the chart by interest reset by 59 per cent
- ❑ Annuity and interest only loans are almost equally divided in the homeowner segment

*Note: Outstanding loan balances*



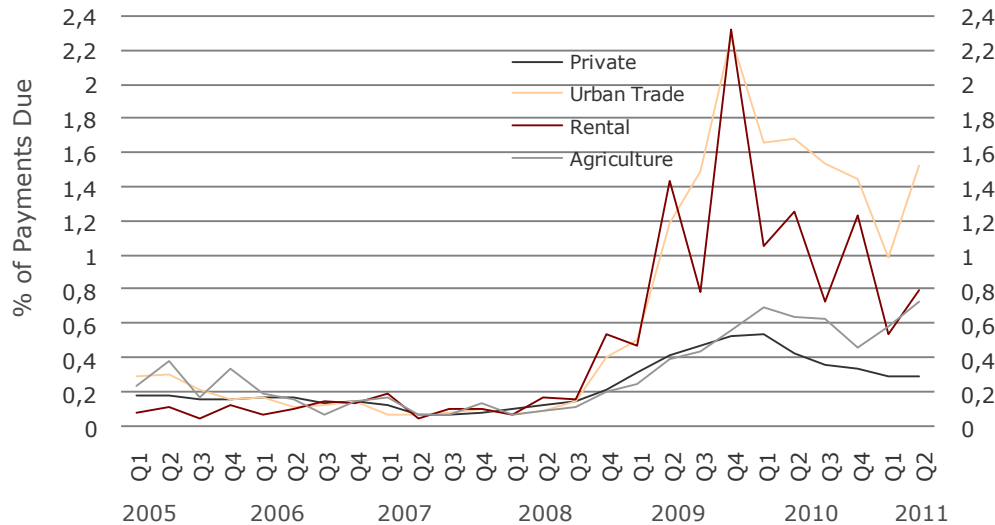
### Corporate Segments

- ❑ 27 per cent of all lending in corporate segments is fixed rate to maturity
- ❑ More than 70 per cent are either interest reset (typically, rates are reset every year or every third year) or floating rate (base rates are either 6M CIBOR or 3M EURIBOR)
- ❑ Bullets and Interest only loans make up 53 per cent of corporate lending

*Note: Outstanding loan balances*

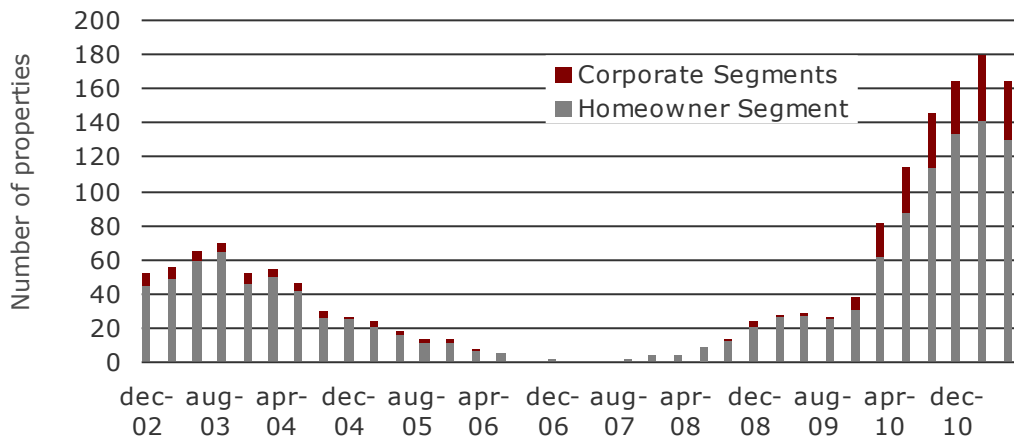
*Note: Bullet loans are added in "Interest Only" as of 2009Q4*

## 2 Arrears and Repossessions



### Arrears (3 months)

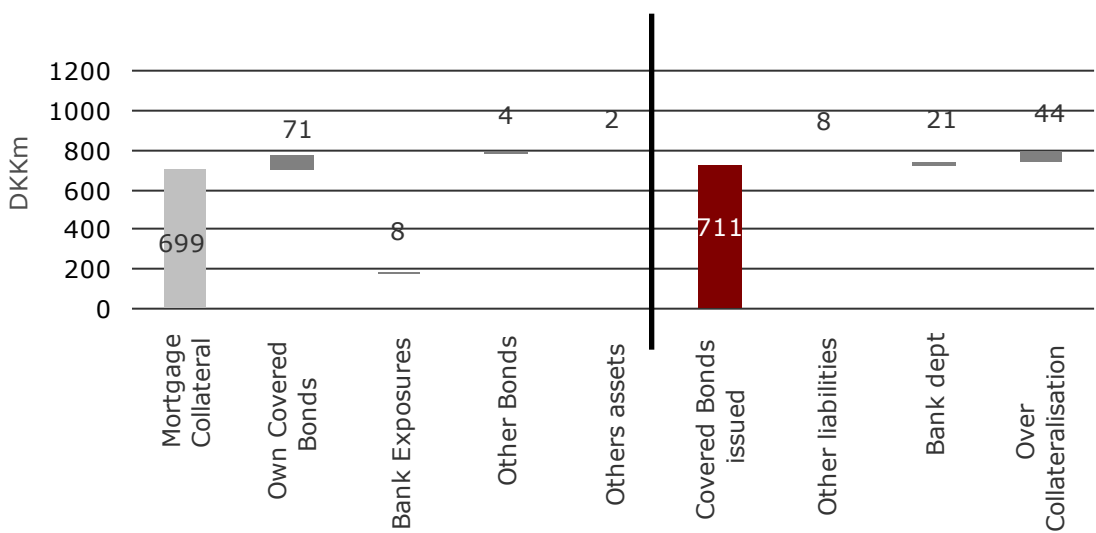
- ❑ Arrears are down considerably from Q4 2009 to Q2 2011 in Urban Trade and Rental due to individual programmes introduced to minimize arrears.
- ❑ The arrears in the Private segments are falling, while Agriculture has experienced a small increase the last quarter



### Repossessions

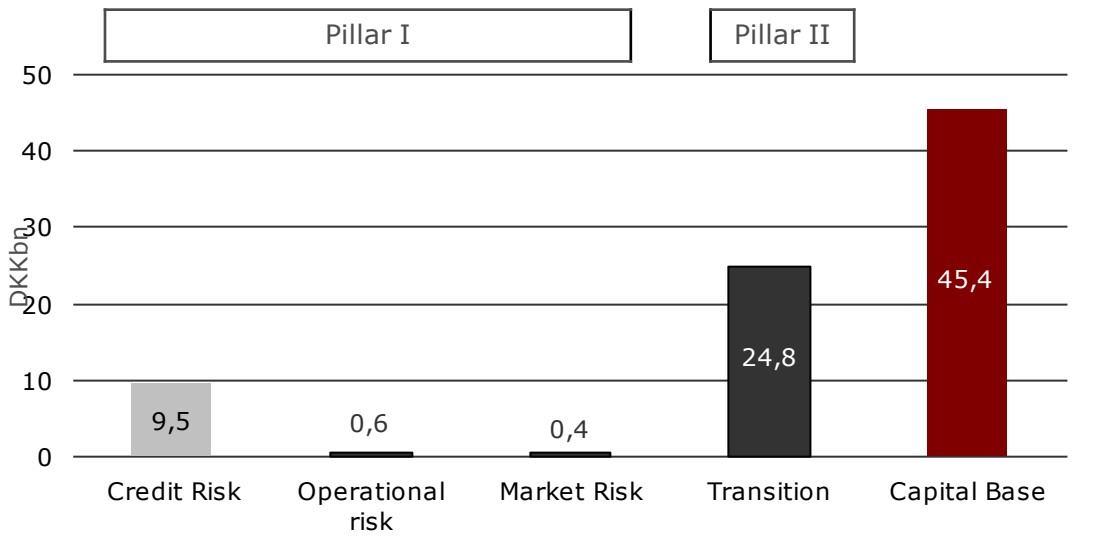
- ❑ The stock of repossessed properties stood at 164 end 2011Q2 – down 15 from 2011Q1
- ❑ This compares to a total stock of mortgages collateral at 406,000

## 2 Over Collateralisation and Capitalisation



- ### Over Collateralisation
- ❑ Covered bonds issued by Realkredit Danmark are secured by mortgage collateral and reserves
  - ❑ Reserves are invested in government exposures, covered bonds and bank exposures
  - ❑ In case of bankruptcy Over Collateralisation will also be comprised by bondholders preferential claim

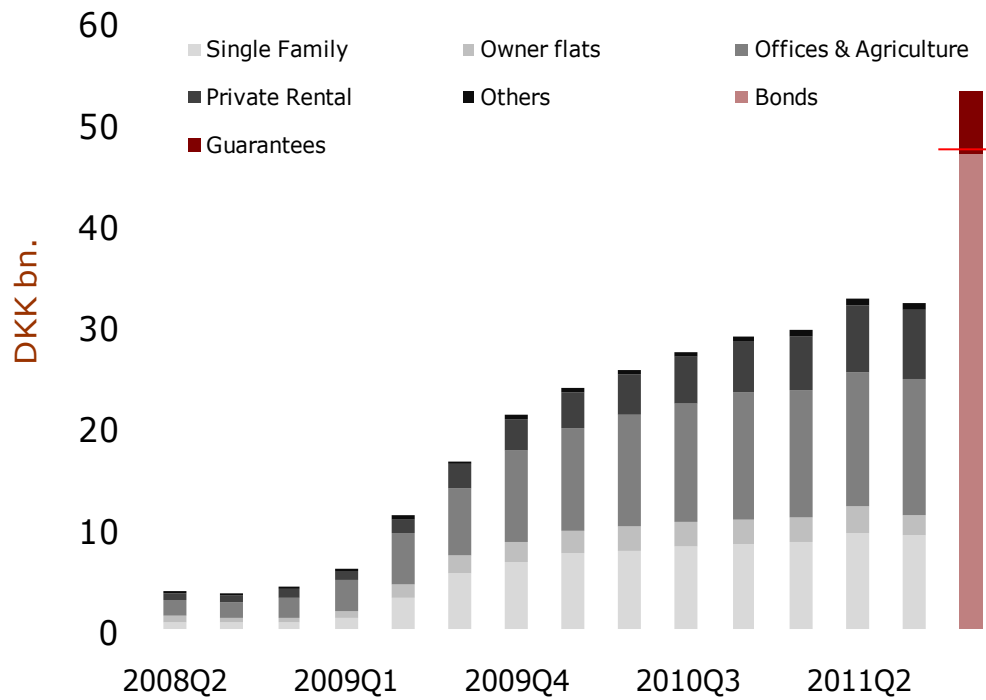
Note: Nominal values



- ### Capitalisation
- ❑ The solvency ratio stood at 34.9 per cent end 2011Q2 (CRD definition)
  - ❑ Realkredit Danmark has obtained hybrid core capital in volume of DKK 2 bn under the Act of State-Funded Capital Injections
  - ❑ If not obtained the solvency ratio stood at 32.9 per cent



# Supplementary Collateral



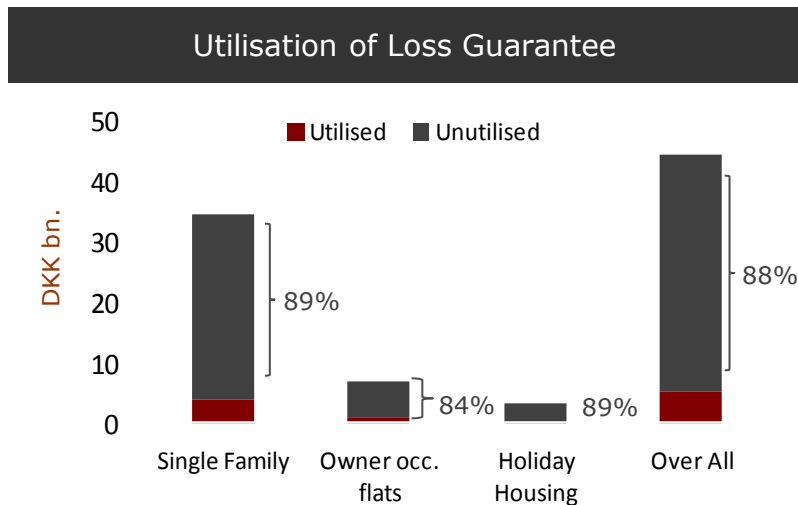
## Buffer in Capital Centre S

- ❑ Total OC of DKK 47.2 bn in Capital Centre S
- ❑ Supplementary Collateral of DKK 32.5 bn are required end Q2 2011 in Capital Centre S
- ❑ Loss Guarantees of DKK 6.2 bn are utilised
- ❑ Buffer for further growth in need for supplementary Collateral in Capital Centre S is DKK 21.0 bn
- ❑ If the OC in Capital Centre S is insufficient to comply with Supplementary Collateral requirements RD can transfer OC from the General Capital Centre or write Loss Guaranties within the 15 per cent limitation of issued bonds

## Supplementary Collateral requirements

- ❑ If LTV limits breached during the term of the loan the mortgage loan will only be eligible with the part that observes the LTV limits. If eligible collateral is insufficient Supplementary Collateral must be provided
- ❑ Increased need for Supplementary Collateral due to:
  - ❑ House price deflation
  - ❑ Properties selected for supervision
  - ❑ Refinancing and remortgaging of loans
  - ❑ Increased market value on bonds
- ❑ Loss Guaranties and eligible bonds can be used as Supplementary Collateral (bonds which also are used to comply with the solvency requirement) but no other asset types are eligible

# Guarantees

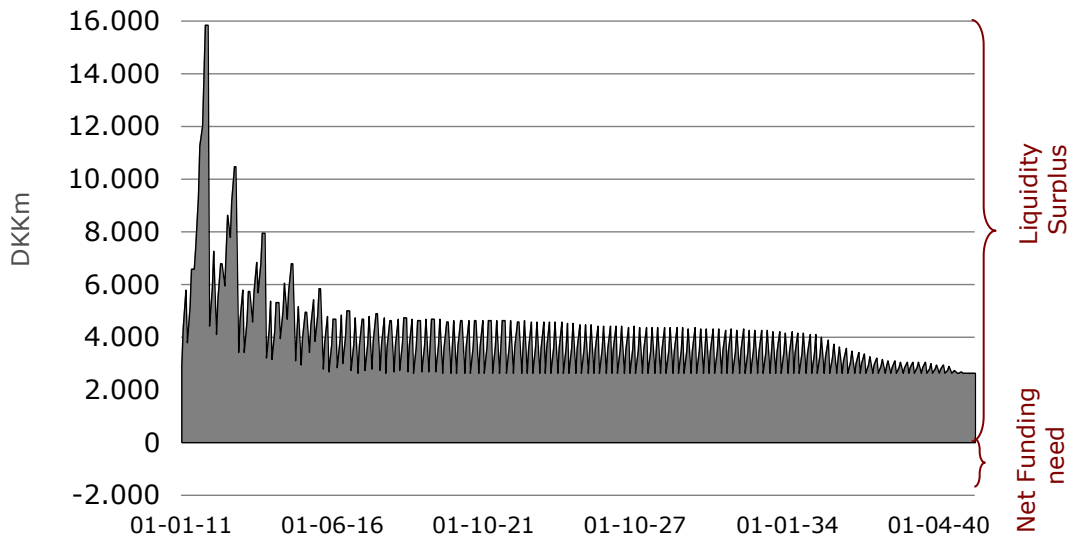
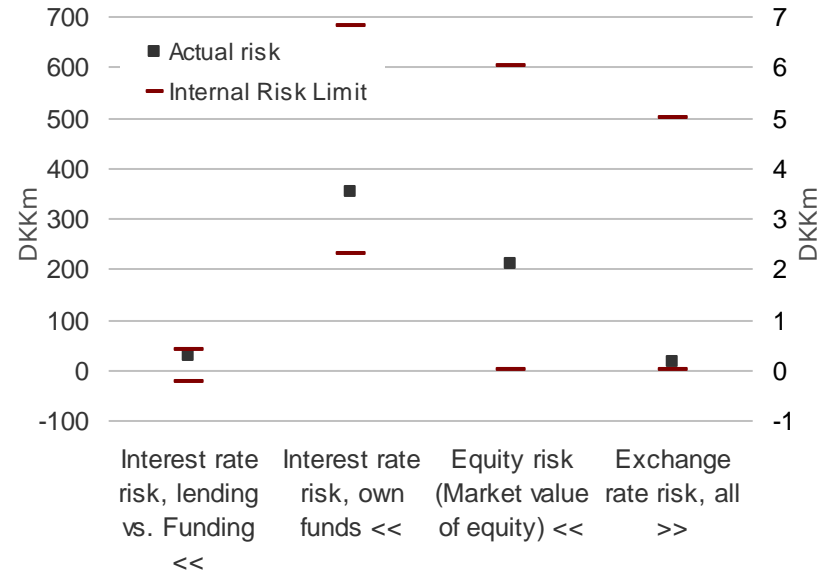


- ### Loss Guarantees issued by Danske Bank (DKK 50 bn)
- RD loan disbursed through Danske Bank and former BG Bank has a Loss Guarantee
  - Loss Guarantees covers the outmost LTV limited to 20 per cent of the maximum lending corresponding to LTV from 60-80 per cent for Single Family Housing and 40-60 per cent for Corporate and Holiday Housing
  - Maturity of 8 years with an amortisation equivalent to the covered loan
  - Loss Guarantee covers losses obtained from forced sales including cost

## 2 Market Risk Exposure and Liquidity

### Market Risk Exposures

- ❑ Realkredit Danmark operates subject to the specific balance principle
- ❑ In adherence with the principle Realkredit Danmark
  - ❑ Issues covered bonds on a daily basis to match loan origination
  - ❑ Employs a pass through structure i.e. bond terms mirror loan terms
- ❑ Market risk exposures are, therefore, limited. End 2011Q2 interest rate risk on lending vs. funding stood at DKK25.6m
- ❑ Derivatives are not employed for hedging imbalances on lending and funding



### Liquidity

- ❑ The pass through structure ensures a net inflow of liquidity from lending vs. funding i.e. Realkredit Danmark will not encounter a net funding need
- ❑ The liquidity inflow depicted in the chart does not include margin payments

# Disclaimer

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