

Risk Report 2012Q2

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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:

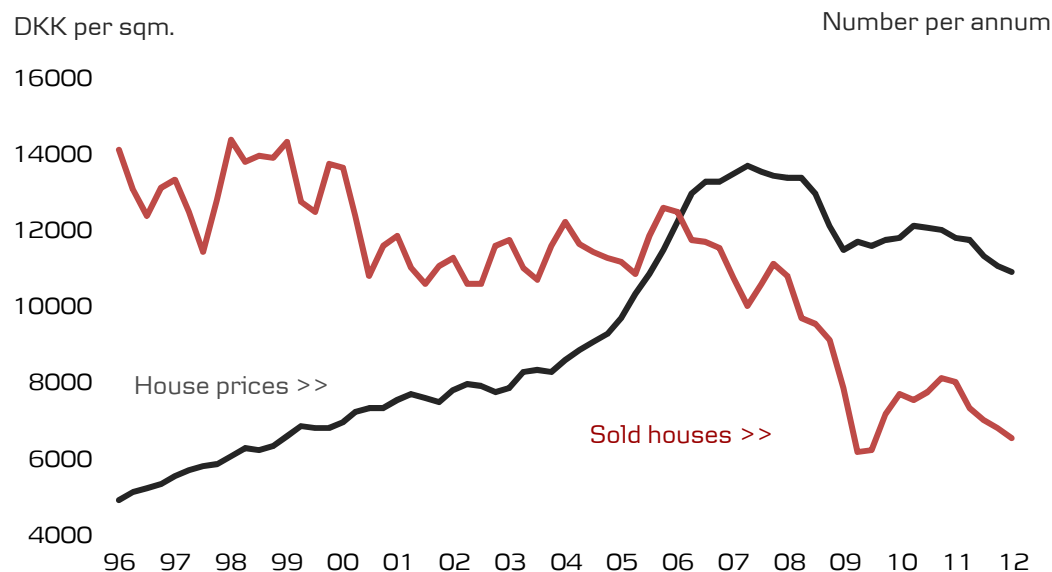
1. Key Market Indicators
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Key Market Indicators

General Market Information

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1 House Prices and Homeowners Equity

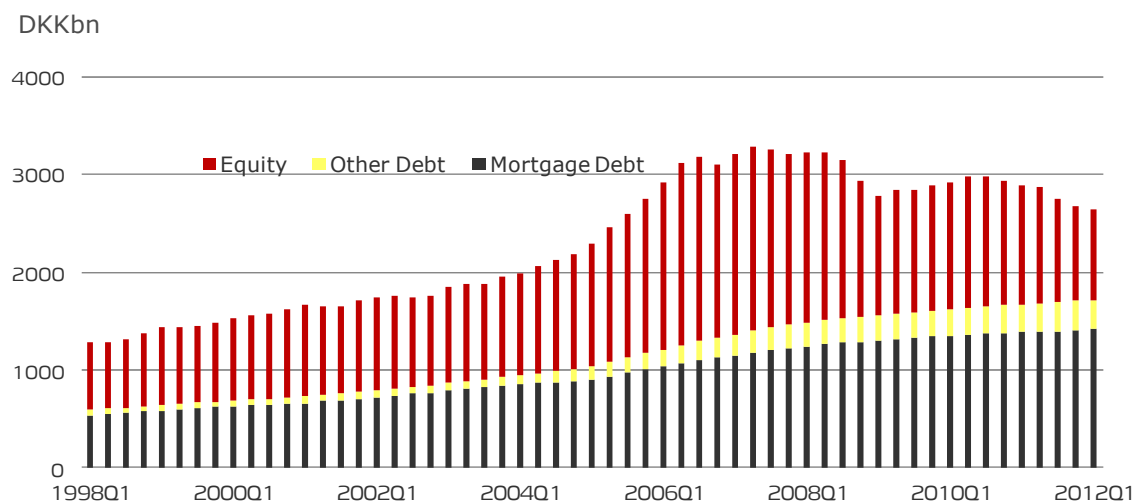


House Price Trends

- ❑ Renewed fall in house prices since early 2011. However, house prices have stabilised through Q2
- ❑ House prices are down 20 percent for detached housing from the peak mid 2007
- ❑ Expectations are for house prices to continue the current stabilization – but uncertainty is high

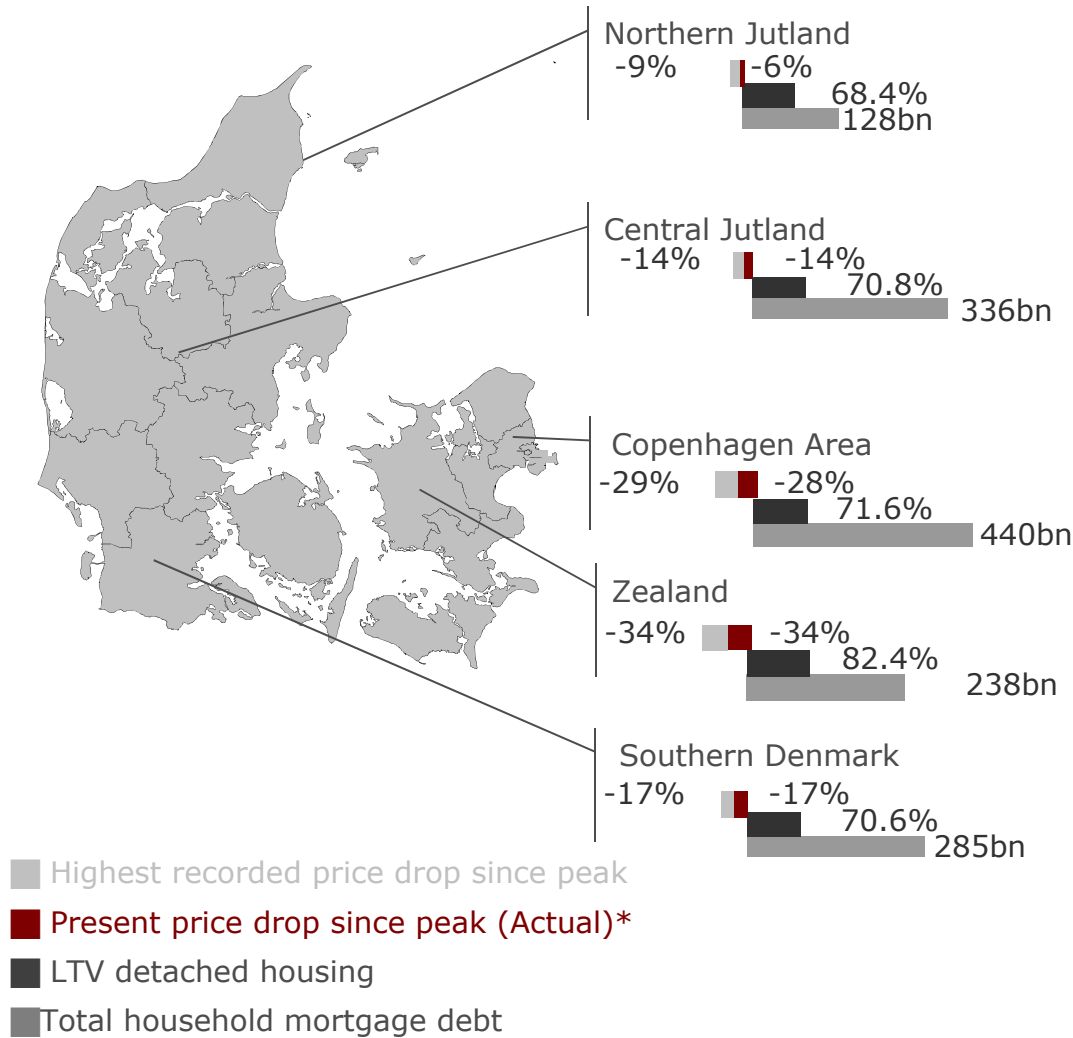
Homeowners Equity

- ❑ Homeowners' equity peaked 2006Q3 at 1,887bn. Since then equity has dropped by 959bn
- ❑ 75 percent of the drop can be explained by house price deflation – 25 per cent is due to additional lending



1 Geographical Dispersion

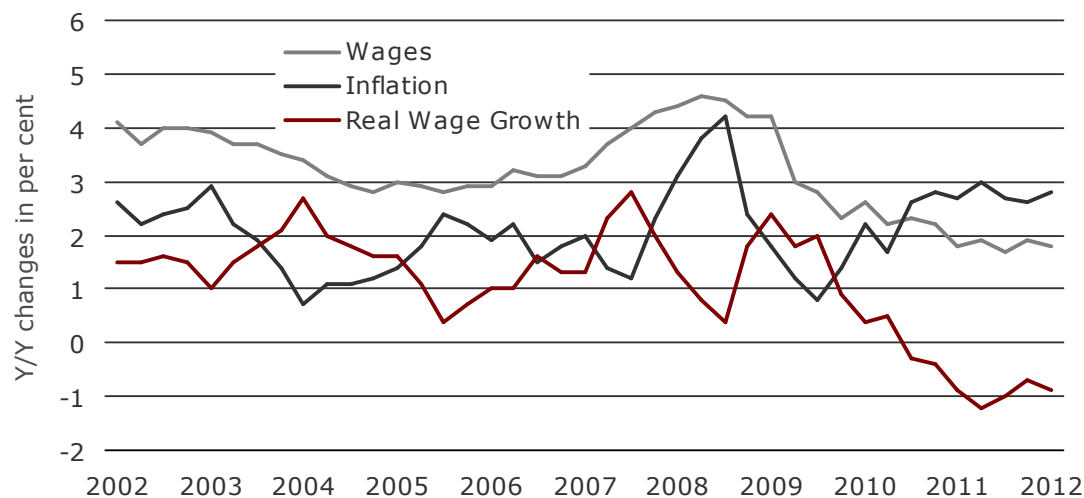
Private lending in Denmark in total



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

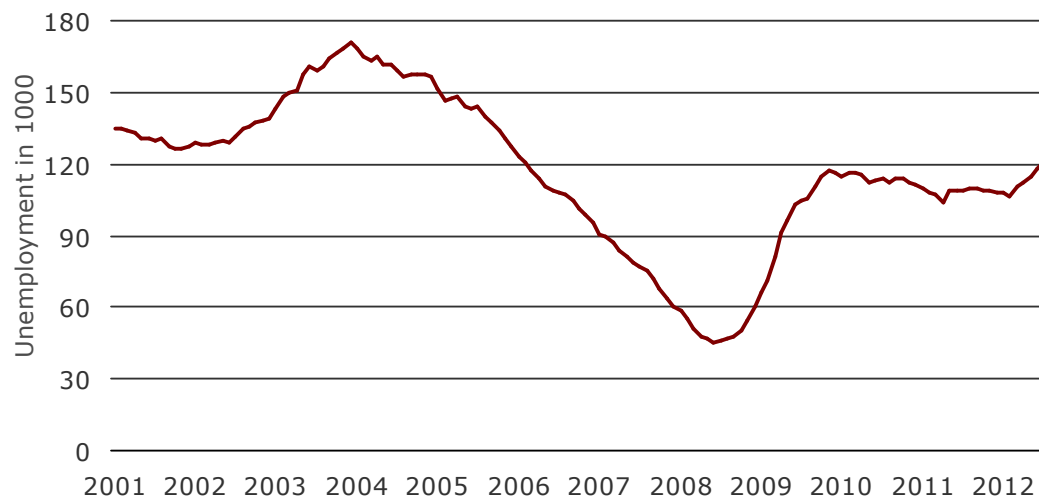
- ❑ House prices are now on a 2005 level
- ❑ The Copenhagen area was the first to suffer from house price deflation, following a decade of soaring house prices. Prices are now 28 per cent down from the peak in mid 2006
- ❑ The recent deflation in the Copenhagen area has reversed the rebound in house prices during 2009 and 2010

1 Unemployment and Real Wage Growth



Real Wage Growth

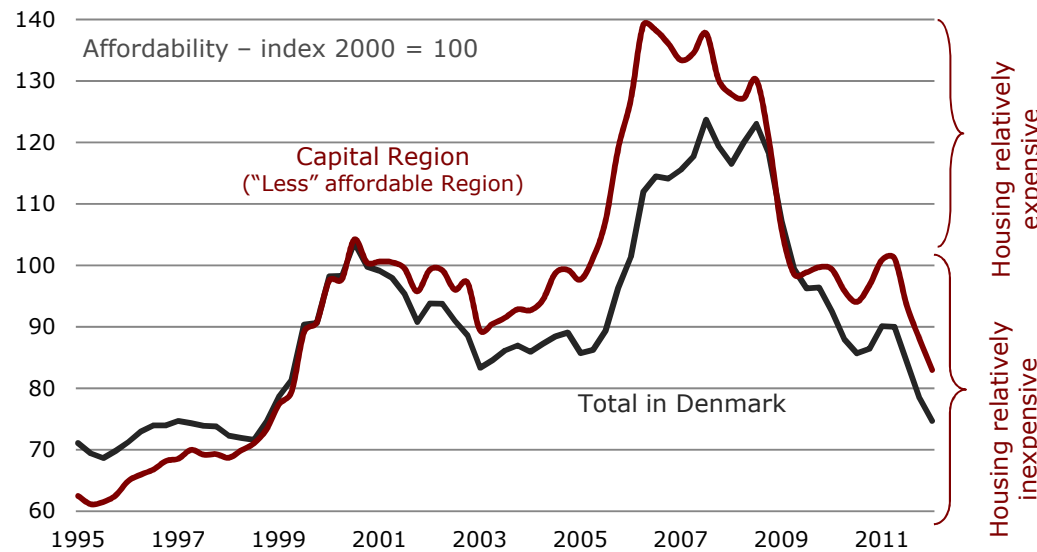
- ❑ Real wage growth is negative in Q1 due to quite high inflation outpacing the growth in nominal wages
- ❑ Wage development will be close to the inflation rate in 2012



Unemployment

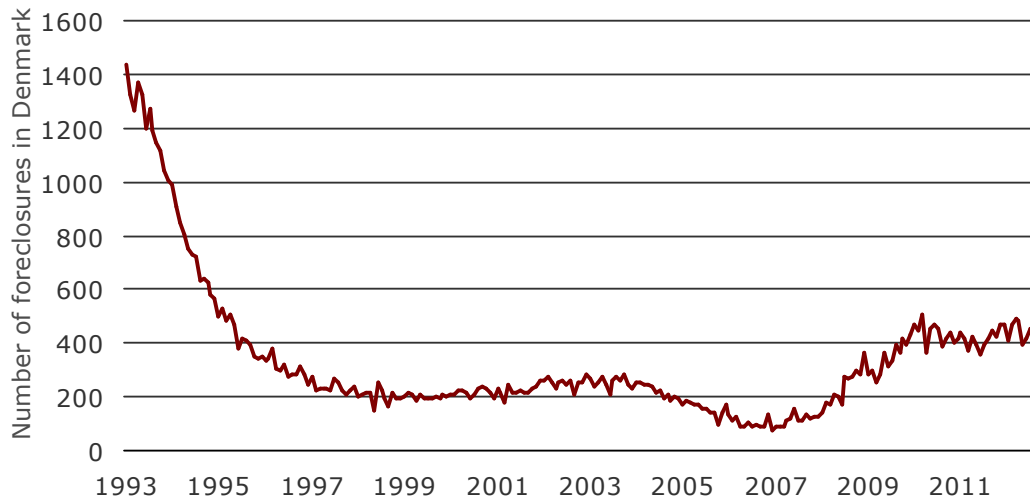
- ❑ Unemployment stood at 120,785 end Q2 2012 up from a historical low of 44,949 in mid 2008
- ❑ This is equivalent to an unemployment (net) rate of 6.2 per cent which is expected to stay at the current level in 2012

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 at the lowest level since end 1990's



Foreclosures

- ❑ The number of foreclosed properties in Denmark in June 2012 was 451
- ❑ We expect the numbers to stay at the current level throughout the year 2012
- ❑ 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 ■	2011		2012		2013	
GDP	0.8	1.5	0.9	-0.4	1.2	0.5
Private Consumption	-0.8	0.2	1.3	-0.6	1.3	0.0
Fixed investments	0.2	1.6	3	-2.9	0.7	0.2
Export	7	6.4	1.2	1.3	2.5	2.3
Unemployment %	6.2	10.2	6.2	11.2	6.2	11.7

Source: Danske Bank, August 2012

Danish Economy Outlook

- ❑ The growth in the Danish economy is expected to be around 1.0 per cent in 2012
- ❑ We have seen a stabilisation of the labour market in 2011
- ❑ Exports are expected to drop in 2012
- ❑ Signs of slower global growth is a concern to the Danish economy which is highly dependent on exports
- ❑ Interest rates are a key element in the household economy. We still expect very low interest rates in the near future

Key Collateral Indicators

Realkredit Danmark Specific Information

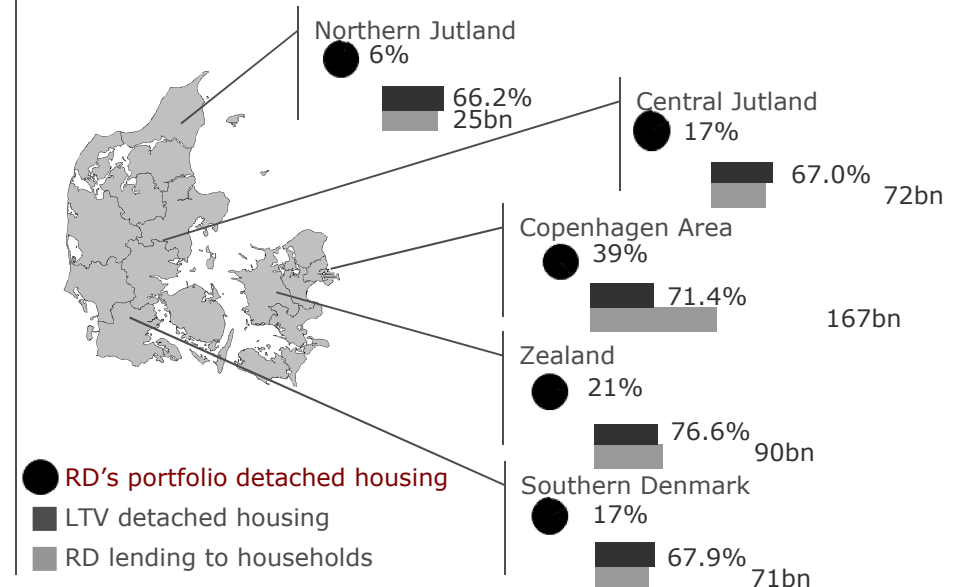
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2 Dispersion and Loan to Value Ratios

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 a large increase
- ❑ Although the affordability ratio in the capital region is expected to rise it is still below index 100
- ❑ A minor increase in the household mortgage debt was recorded in 2012 Q1

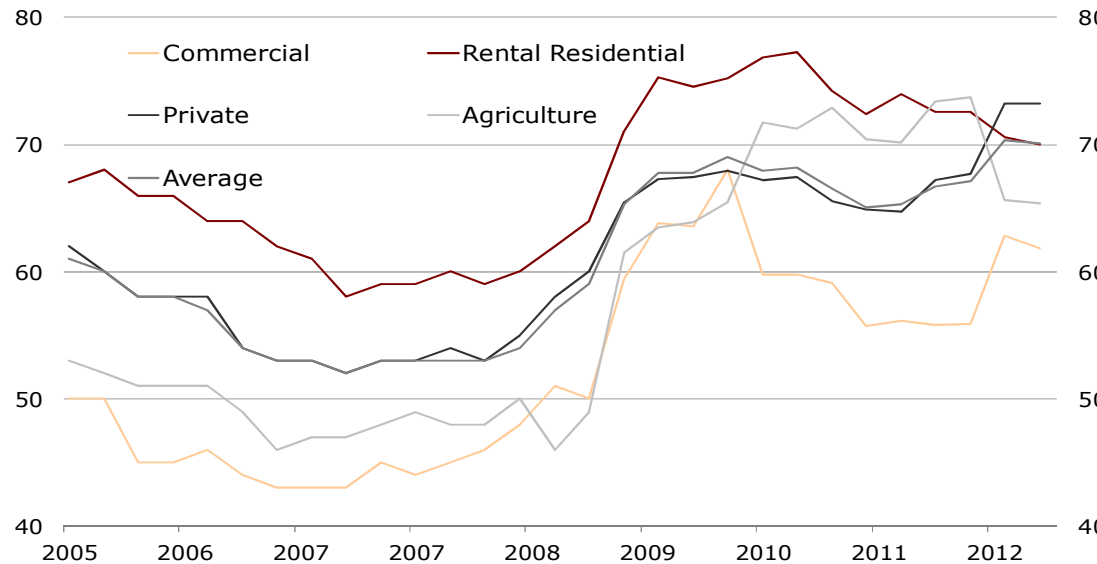
Geographical Dispersion in Realkredit Danmark



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
- ❑ 34 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 62 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 70 per cent in Q2 2012 compared to 65 per cent in Q2 2011

DKKbn	Rating Category (Scaled 1-11)			
LTV	1-3	4-7	8-11	Total
0-20 %	56	162	29	246
20-40 %	39	138	26	202
40-60 %	25	104	21	150
60-80 %	13	61	13	87
> 80 %	9	25	7	41
Total	142	489	96	727

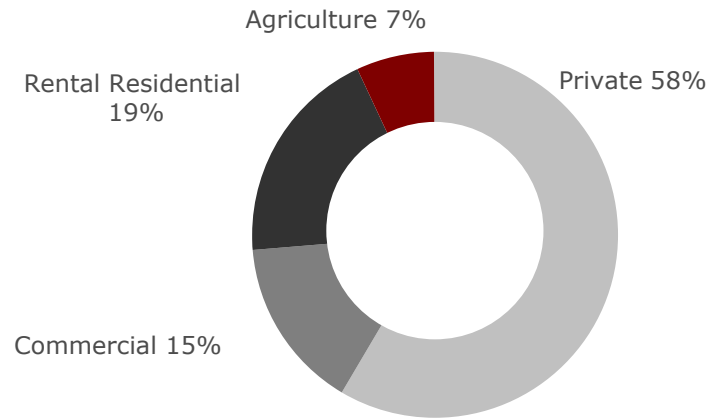
Note: RD total

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

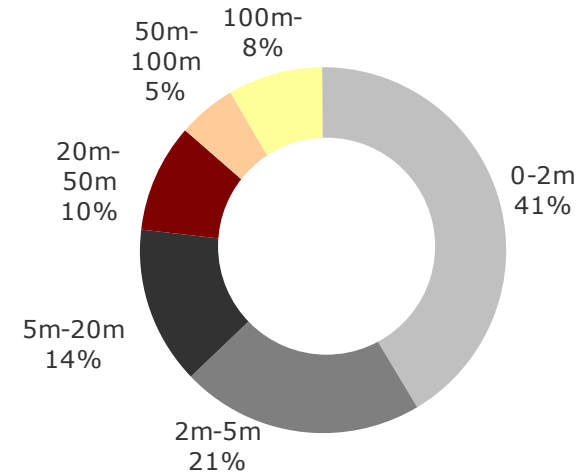
2 Collateral Breakdowns – Total portfolio

Borrower Segmentation



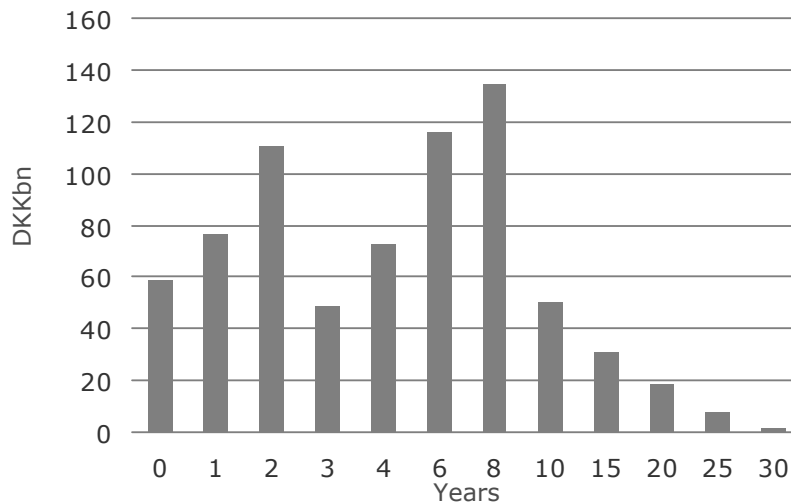
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning

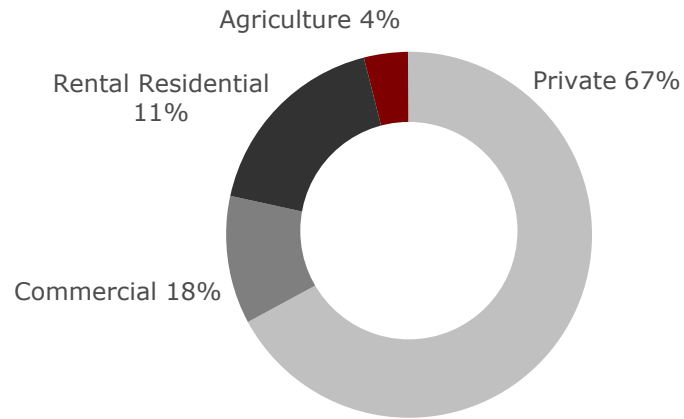


Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	136	119	91	57	22	425
Commercial	40	33	23	10	4	111
Agriculture	18	15	10	4	2	51
Rental Residential	51	35	26	16	13	141
Weighted dist.	34%	28%	21%	12%	6%	100 %
Total, DKKbn	246	202	150	87	41	727

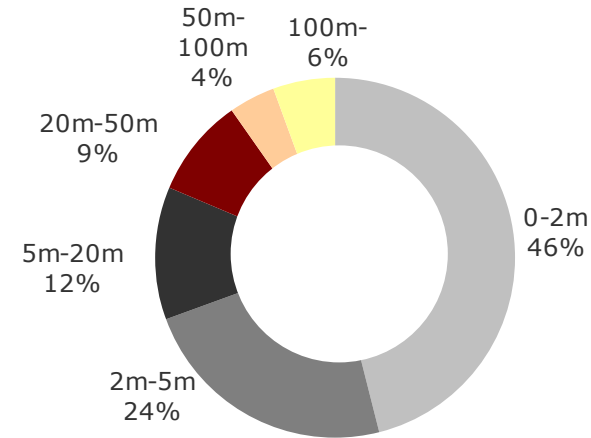
2 Collateral Breakdowns – Capital Centre S

Borrower Segmentation



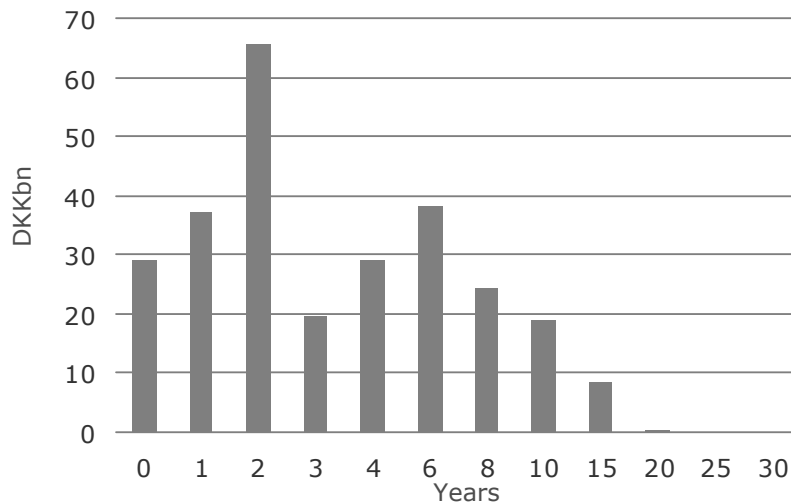
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning

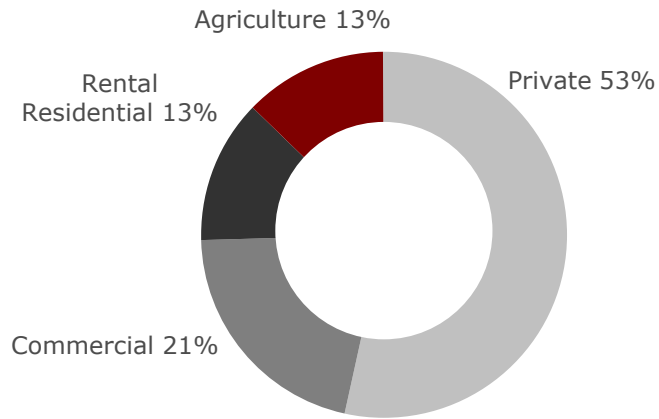


Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	54	50	40	27	11	182
Commercial	9	9	7	3	2	31
Agriculture	4	3	2	1	0	10
Rental Residential	17	13	9	5	3	48
Weighted dist.	31%	28%	22%	13%	6%	100 %
Total, DKKbn	84	75	59	36	16	271

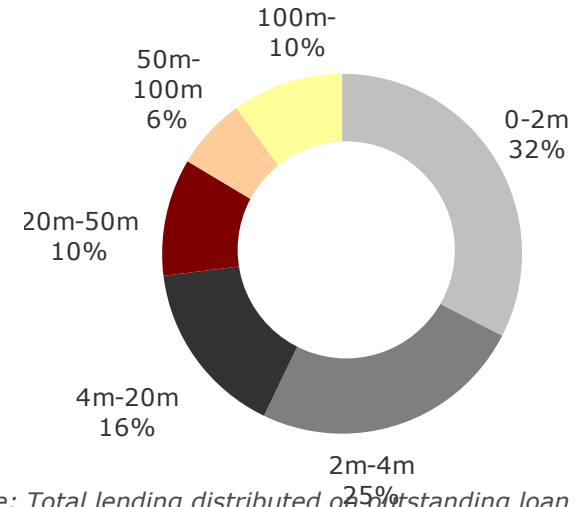
2 Collateral Breakdowns – Capital Centre T

Borrower Segmentation



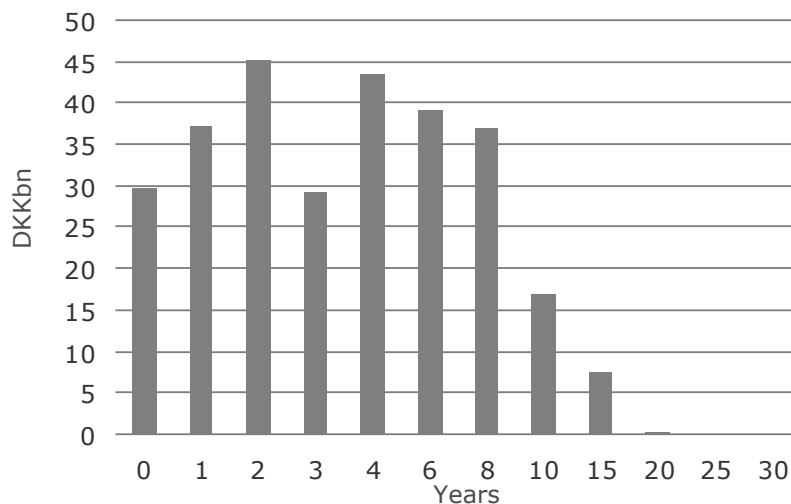
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

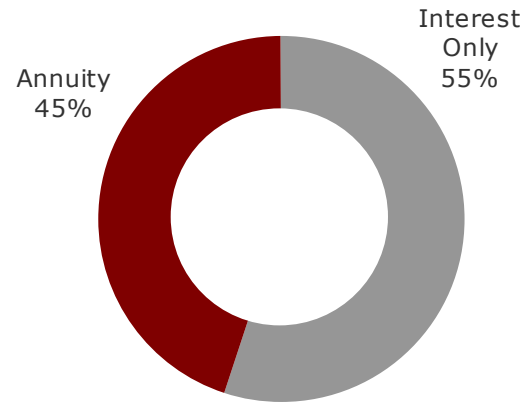
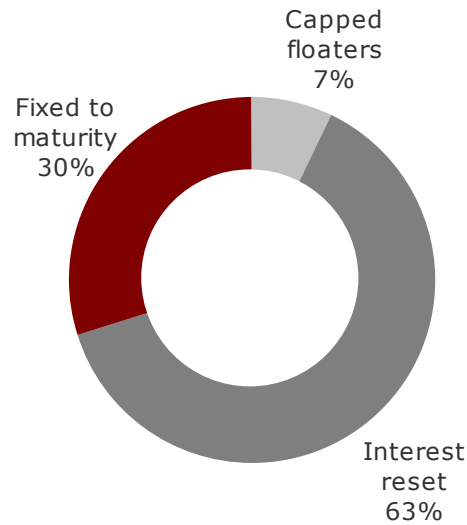
Portfolio Seasoning



Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	46	42	34	23	8	152
Commercial	23	18	13	5	1	60
Agriculture	12	11	8	3	2	36
Rental Residential	12	10	8	5	2	37
Weighted dist.	33%	28%	22%	12%	5%	100 %
Total, DKKbn	93	81	62	35	13	285

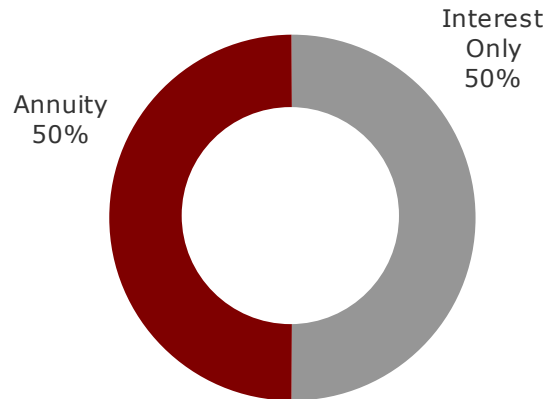
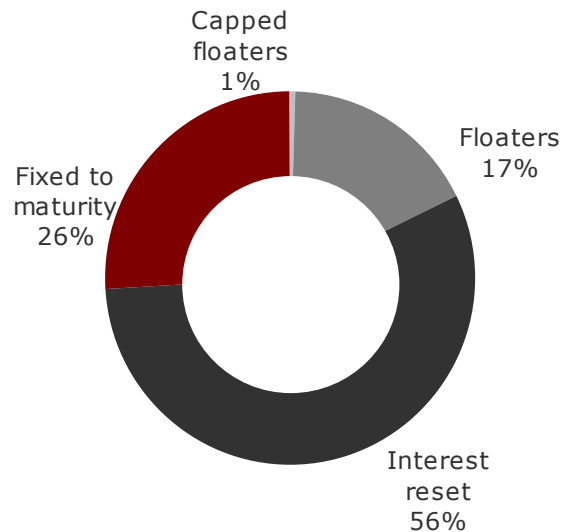
2 Borrower Exposure to Interest Rates



Note: Outstanding loan balances

Private Segment

- ❑ Homeowners must be able to service a 30-year fixed rate annuity loan for Realkredit Danmark to underwrite
- ❑ For the past decade borrowers have remortgaged from fixed rate into interest reset – now accounting for 63 per cent of the loan book. Expectations are for this trend to reverse from fixed rates reaching an all time low of 3 per cent



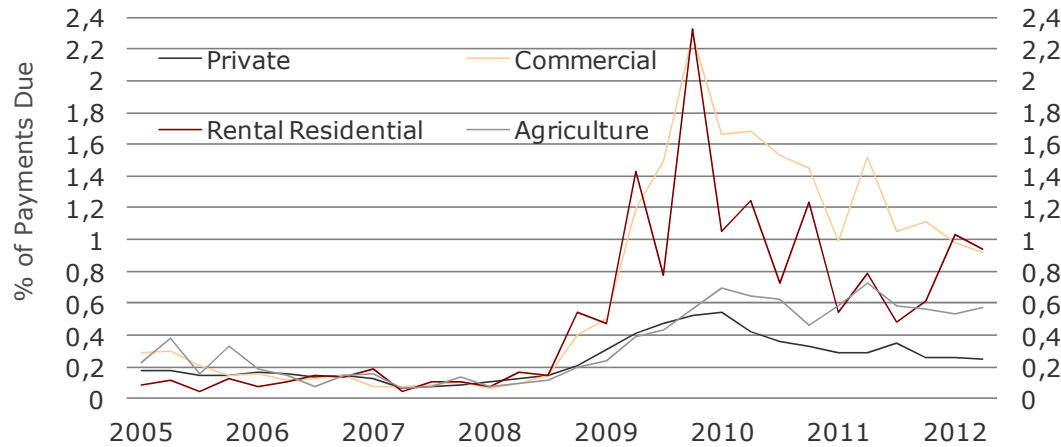
Note: Outstanding loan balances

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

Corporate Segments

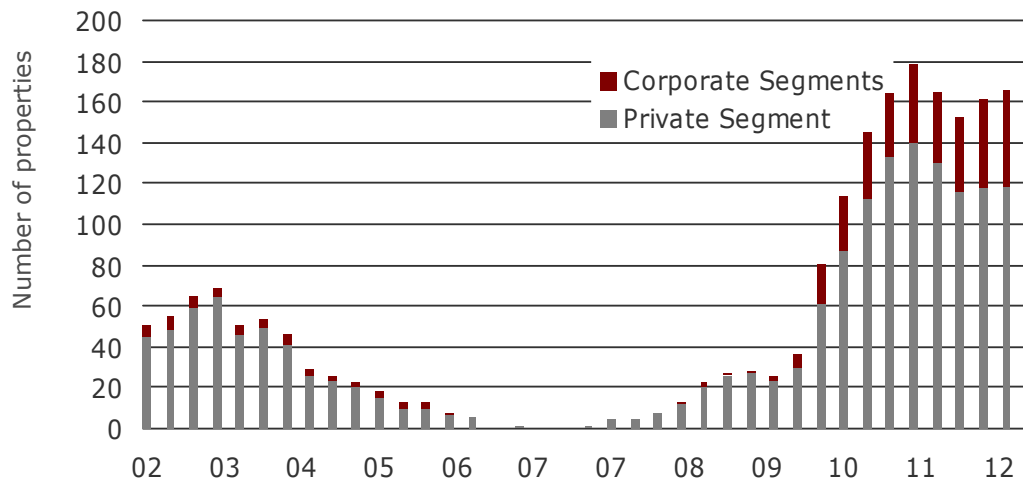
- ❑ 26 per cent of all lending in corporate segments is fixed rate to maturity
- ❑ More than 70 per cent are either interest reset (typically, rates are reset every year or every third year) or floating rate (base rates are either 6M CIBOR or 3M EURIBOR)
- ❑ Bullets and Interest only loans make up 50 per cent of corporate lending

2 Arrears and Repossessions



Arrears (3 months)

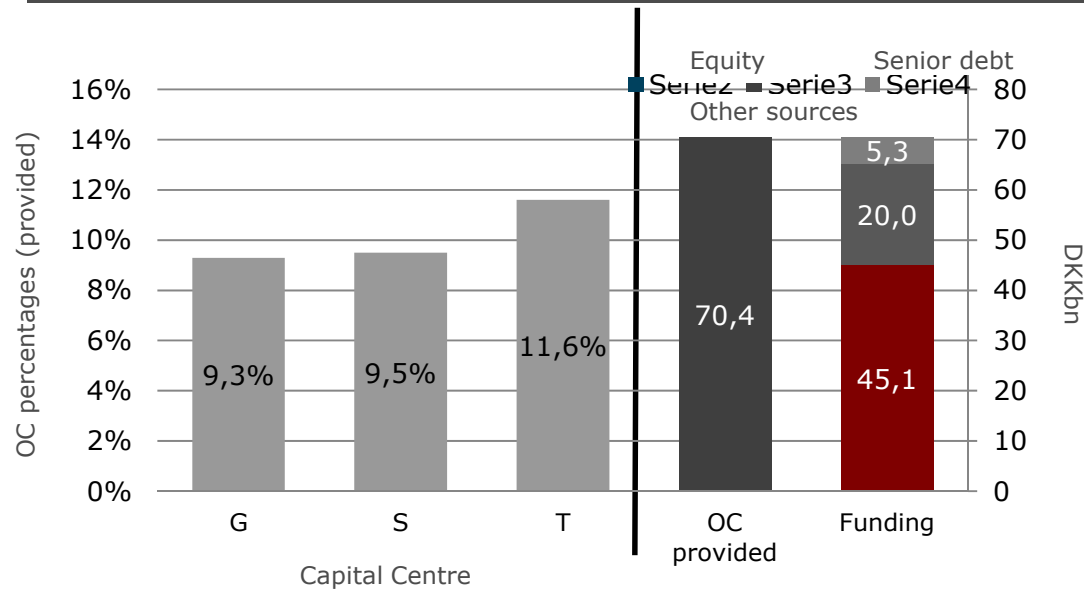
- ❑ Arrears are down considerably from Q4 2009 in Commercial and Rental Residential
- ❑ Arrears in the Private segments and Agriculture are stabilising
- ❑ Total arrears stood at 0.47 % end Q2 2012



Repossessions

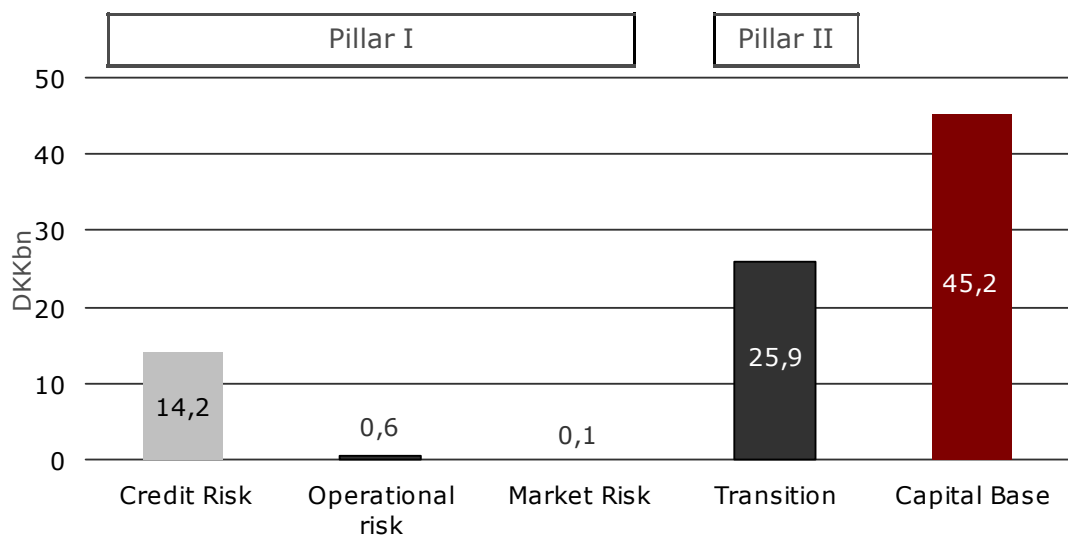
- ❑ The stock of repossessed properties stood at 186 end 2012Q2 – up 20 from 2012Q1
- ❑ This compares to a total stock of mortgages collateral at 524,000

2 Over Collateralisation and Capitalisation



Over Collateralisation

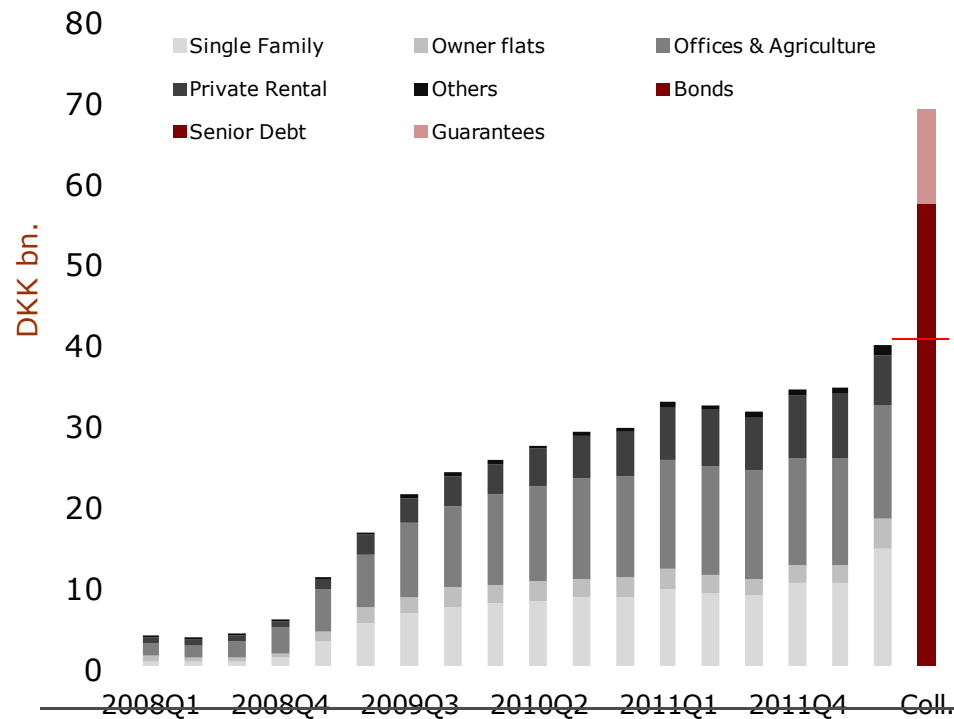
- Covered bonds issued by Realkredit Danmark are secured by mortgage collateral and reserves
- Reserves are invested in government exposures, covered bonds and bank exposures
- In case of bankruptcy Over Collateralisation will also be comprised by bondholders preferential claim



Capitalisation

- The solvency ratio stood at 20.8 per cent end 2012Q2 (CRD definition)
- In 2012 Q2 Realkredit Danmark repaid the hybrid core capital of DKK 2 bn obtained under the Act of State-Funded Capital Injections
- Realkredit Danmark started issuing senior debt in 2012 Q1 to strengthen the capital base

Supplementary Collateral – Total in S and T



Buffer in Capital Centre S and T

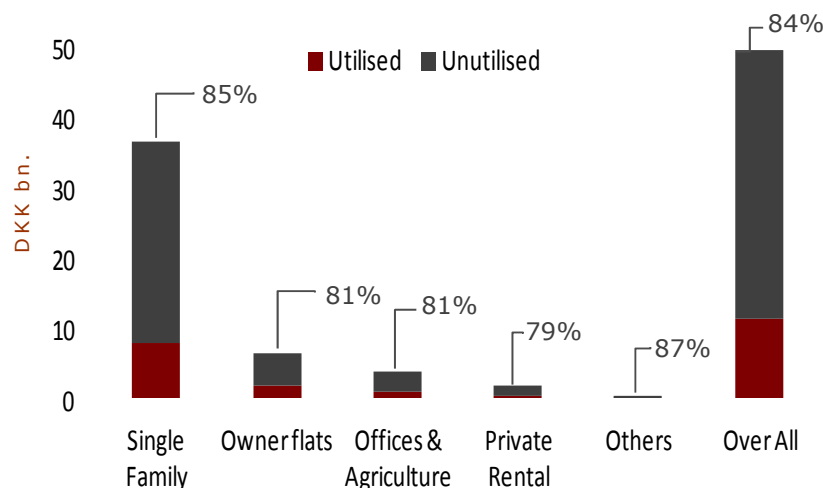
- ❑ For 2012 Q2 total OC provided was DKK 57.4bn in Capital Centres S and T of which 20.0bn was Senior debt
- ❑ Supplementary Collateral of DKK 39.9bn are required end Q2 2012 in Capital Centres S and T
- ❑ Loss Guarantees of DKK 11.7bn are utilised
- ❑ Buffer for further growth in need for supplementary Collateral in Capital Centre S and T is DKK 29.2bn
- ❑ If the OC 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

Utilisation of Loss Guarantee



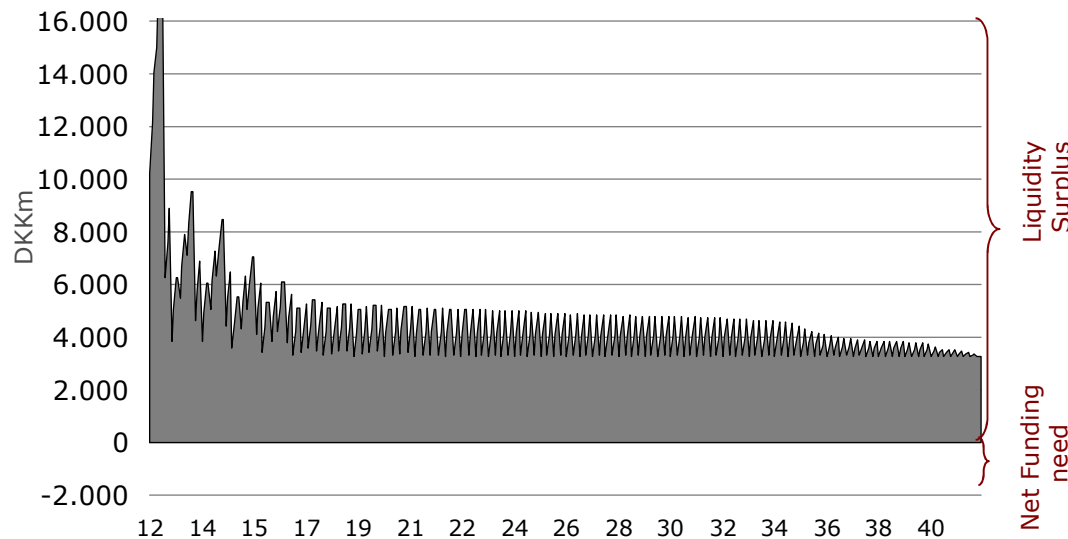
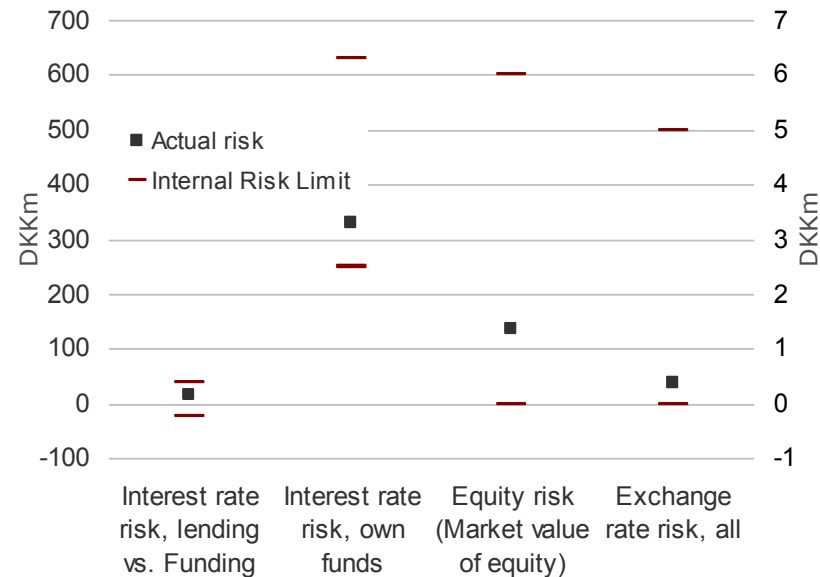
Loss Guarantees issued by Danske Bank (DKK 50 bn)

- RD loan disbursed through Danske 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 2012Q2 interest rate risk on lending vs. funding stood at DKK 18.1m
- ❑ 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

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