

Risk Report 2013Q4

Published 21 February 2014

Contents

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
- Geographical Dispersion
- Unemployment and Real Wage Growth
- Homeowner Affordability
- Foreclosures
- Danish economic outlook

2 Key Collateral Indicators

- Dispersions Loan to Value Ratios
- Loan to Value Ratios and Borrower Classifications
- Mortgage Collateral Breakdowns — Total, Capital Centre S and Capital Centre T
- Borrower Exposure to Interest Rates
- Arrears and Repossessions
- Over Collateralisation and Capitalisation
- Supplementary Collateral
- Guarantees
- Market Risk Exposures and Liquidity

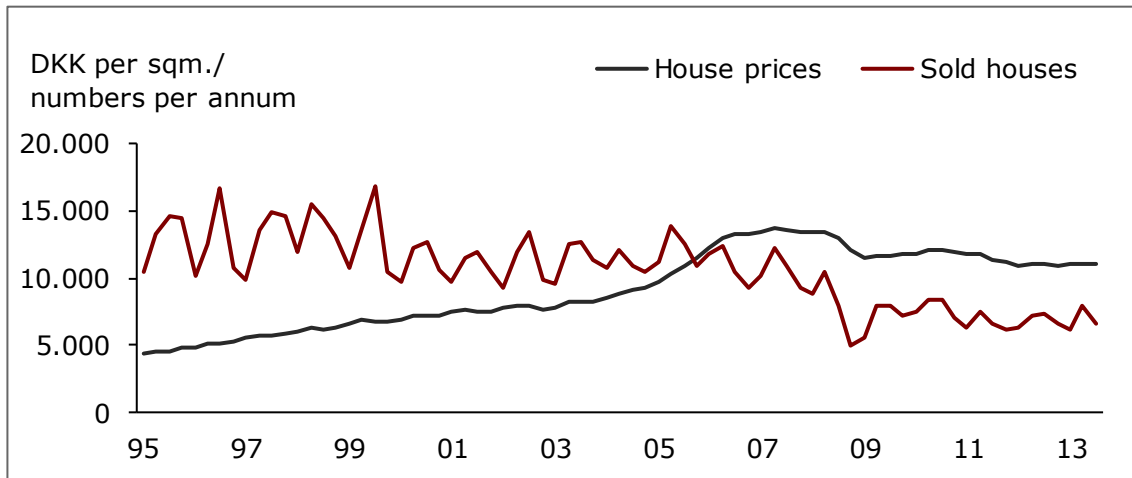
Key Market Indicators

General Market Information

1 House Prices and Homeowners Equity

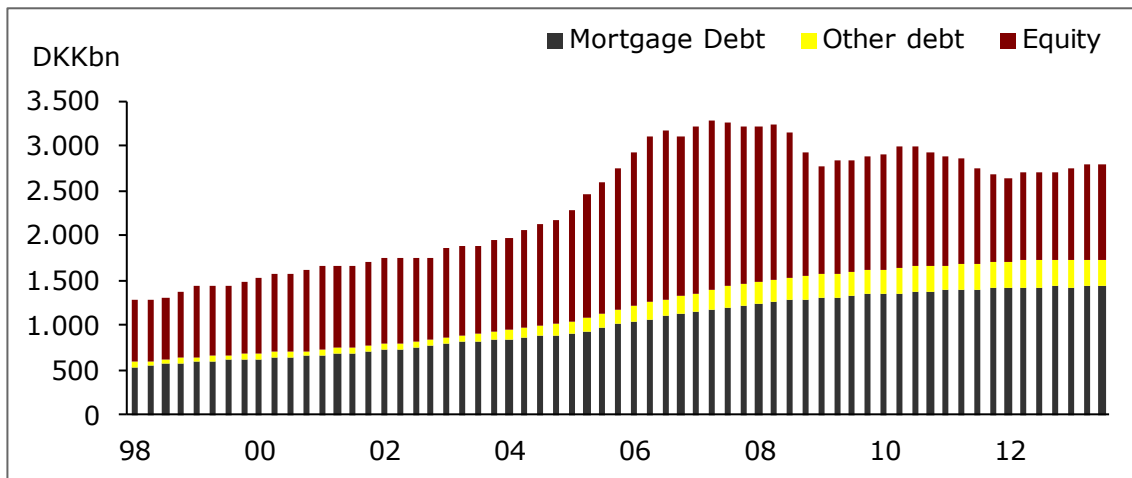
House Price Trends

- House prices are now stable
- House prices are down 19% for detached housing from the peak mid 2007
- Expectations are for house prices to continue the current stabilization
- Number of houses sold is still low and decreasing



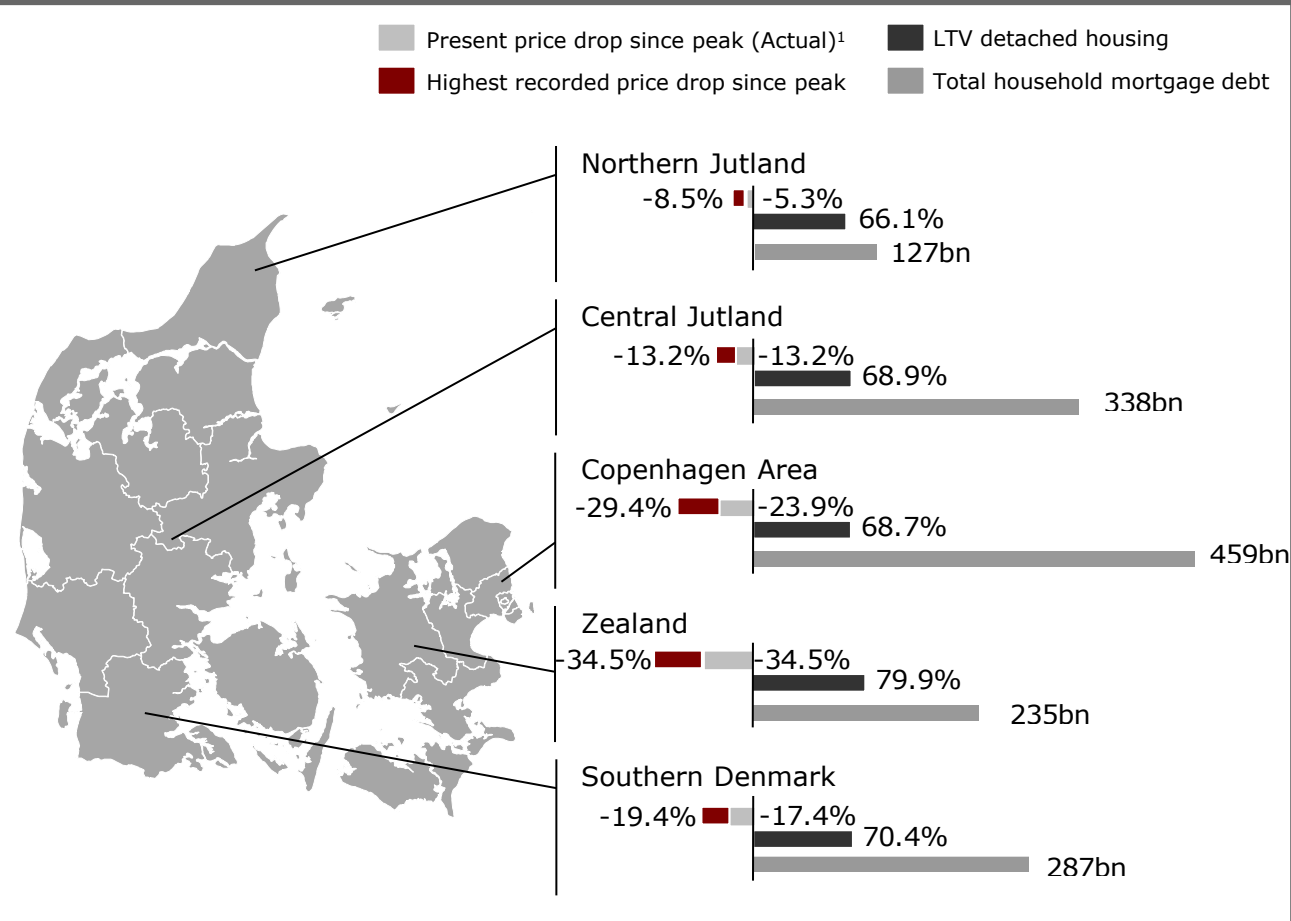
Homeowners Equity

- Homeowners' equity was 1.050bn end 2013Q3 – down by 837bn since the peak in 2006Q3
- In the same period total lending increased by 445bn
- Hence, 53% of the drop in homeowners' equity can be explained by additional lending. 47% is due to house price deflation



1 Geographical Dispersion

Private lending in Denmark in total



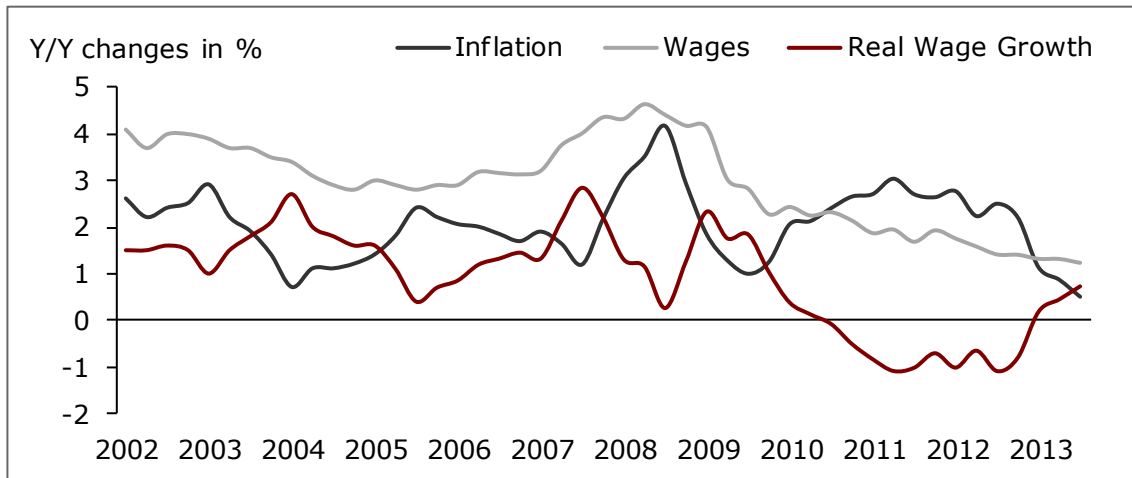
- House prices are now on a 2005 level
- The Copenhagen area was the first to suffer from house price deflation during the crisis in 2008. Prices are now 24% down from the peak in mid 2006
- Total mortgage debt in the Copenhagen area is the highest in the country. However, LTV is only 68.7% and house prices are recovering
- Zealand is getting close to an LTV of 80% and prices are not recovering yet

¹ If present price drop is lower than the highest recorded price drop it means that prices are recovering

1 Unemployment and Real Wage Growth

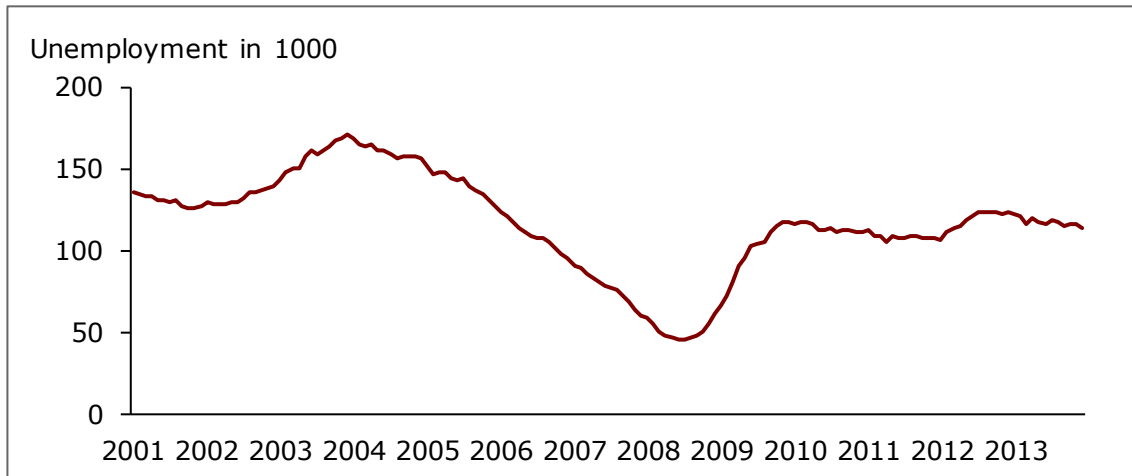
Real Wage Growth

- Real wage growth in Q3 is still increasing after a period with negative growth rates



Unemployment

- Net unemployment stood at 114,073 end Q4 2013 up from a historical low of 45,000 in mid 2008
- This is equivalent to an unemployment (net) rate of 4.3%. Gross unemployment rate¹ is 5.6% end Q4 2013

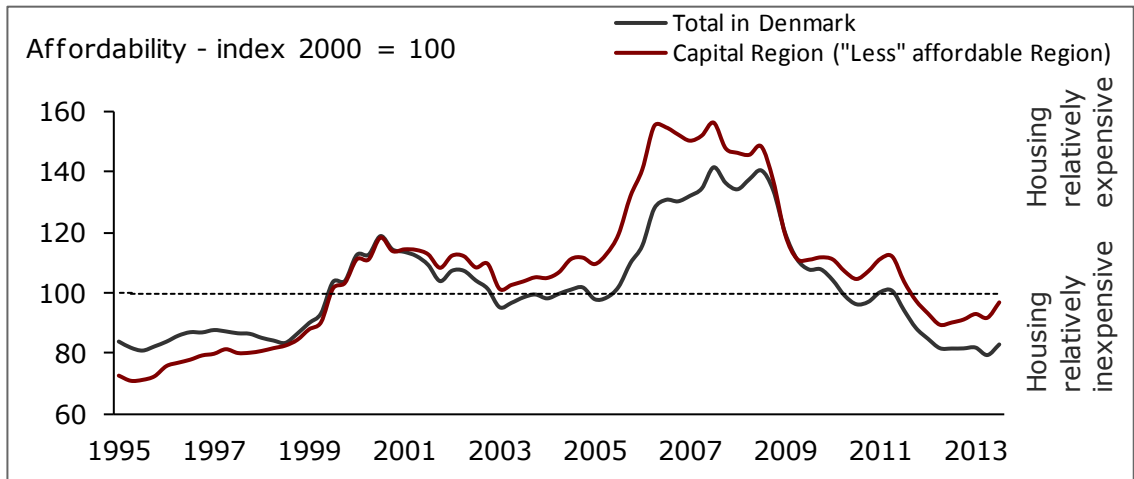


¹. Gross unemployment rate defined as net unemployment plus persons in activation schemes

1 Homeowner Affordability and Foreclosures

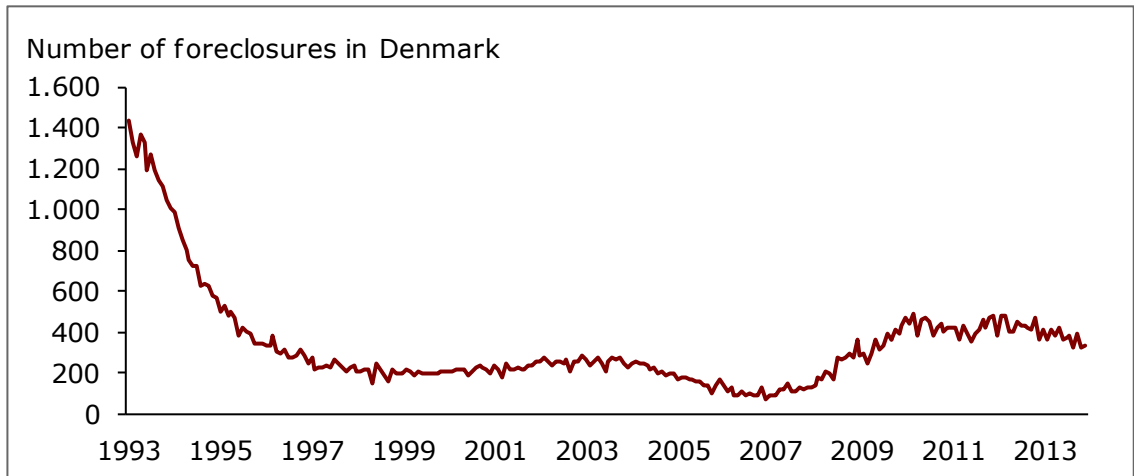
Homeowner Affordability

- House price deflation and lower interest rates has made housing more affordable even in the Copenhagen area
- Average housing costs are now at the lowest level since the middle of the 1990's
- In Copenhagen the affordability index is getting very close to 100



Foreclosures

- The number of foreclosed properties in Denmark in December 2013 was 334
- The duration of a foreclosure is approx. 6 months from missed payments to completion



1 Political measures and outlook

Denmark ■ Euro Zone ■	2012		2013		2014	
GDP	-0.4	-0.6	0.4	-0.4	1.5	1.3
Private Consumption	-0.1	-1.4	0.5	-0.6	0.9	0.7
Fixed investments	0.8	-3.8	1.5	-3.8	-0.8	1.2
Export	0.4	2.7	0.6	1.2	3.1	4.2
Unemployment %	6.1	11.4	5.8	12.1	5.6	12.0

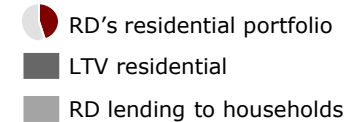
Danish Economy Outlook

- The growth in the Danish economy is expected to increase to approx. 1.5 per cent in 2014
- European growth is expected to increase to 1.3 per cent in 2014
- Danish economy is highly dependent on exports which is expected to increase to 3.1 per cent in 2014
- 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

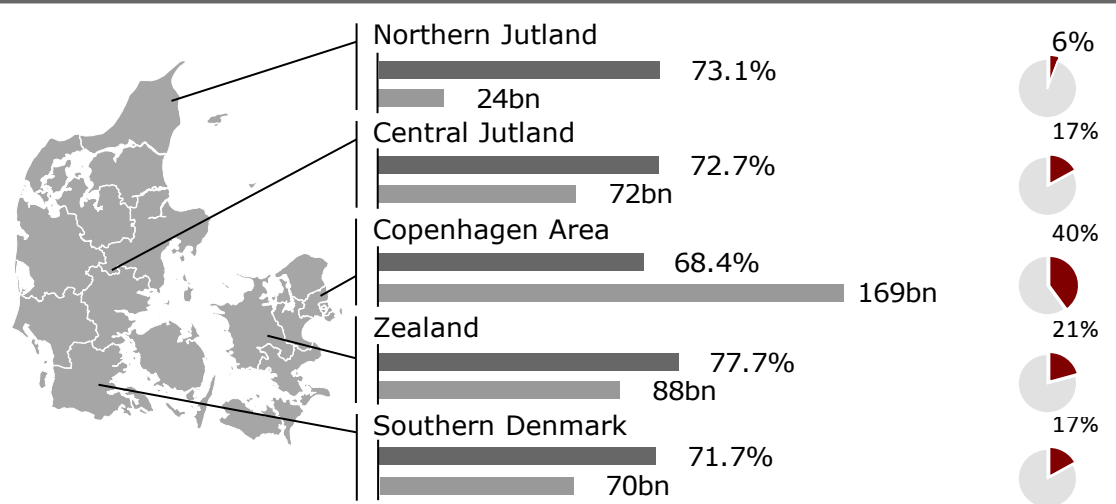
2 Dispersion and Loan to Value Ratios



Dispersion of RD's residential 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 which also is the region with the smallest LTV
- Although the affordability ratio in the capital region is rising it is still below index 100
- Household mortgage debt in Q4 2013 was recorded at similar levels as Q3 2013

Geographical Dispersion in Realkredit Danmark



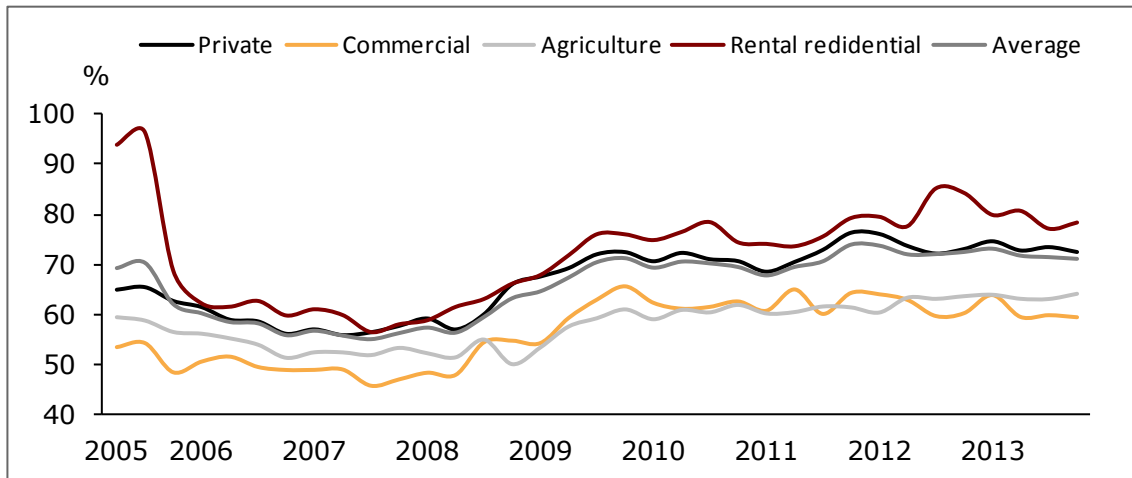
Loan To Value Ratios

- Covered bonds are secured by a first claim on the mortgage collateral and the reserves of the issuer
- LTV ratios of the mortgage collateral are maximised by legislation at 80% in residential segments and 60% in commercial segments (70% if the outmost 10% are secured by additional collateral). Lending beyond these limits is prohibited
- LTV ratios are monitored on an ongoing basis based on current market values of the property and current prepayment value of the mortgages
- 34% of mortgage collateral securing covered bonds issued by Realkredit Danmark has a current LTV ratio of 20% or less. More than 62% has a current loan to value ratio lower than 40%
- Foreclosure costs are typically less than 15% of the outstanding loan balance

2 Loan To Value and Borrower Classifications

Loan to Value

- Average loan to value ratios across market segments are 71% in Q4 2013 compared to 72% in Q4 2012
- LTV's for Commercial and Agriculture are based on few observations to confirm correct price levels



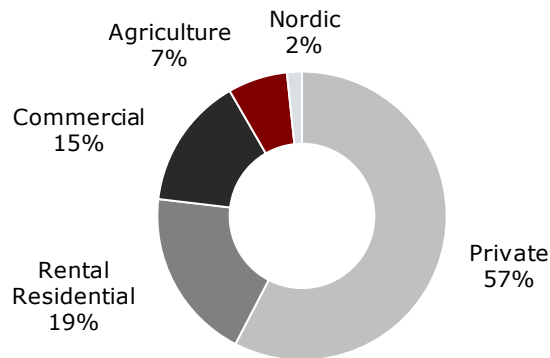
Borrower Classifications

- Borrowers' financial strength is classified on a scale from 1 to 11, 1 being the highest score
- Approx. 9bn 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% of the portfolio

DKKbn	Rating Category (Scaled 1-11)			
	1-3	4-7	8-11	Total
LTV				
0-20 %	50	183	19	252
20-40 %	34	155	18	206
40-60 %	21	115	15	152
60-80 %	10	62	10	81
> 80 %	7	27	9	43
Total	122	541	71	734

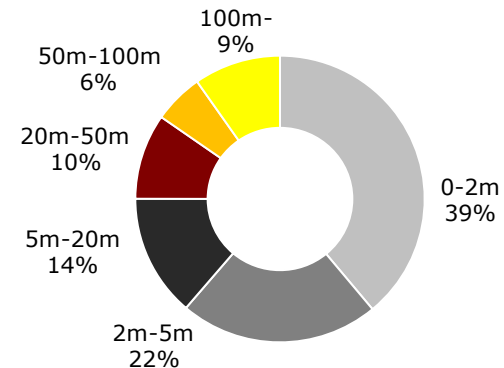
2 Collateral Breakdowns — Total portfolio

Borrower Segmentation



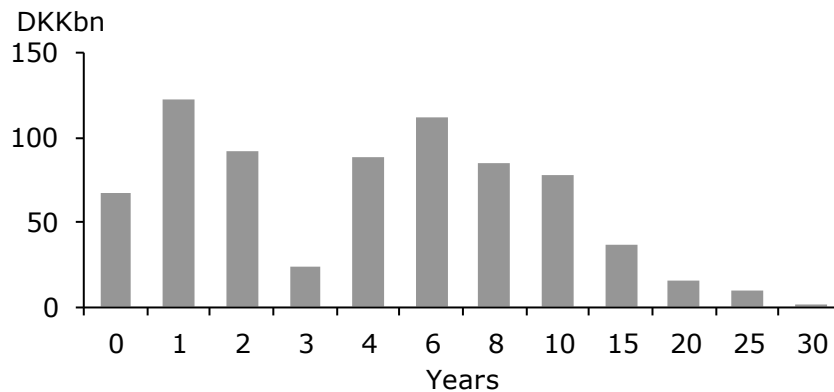
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning



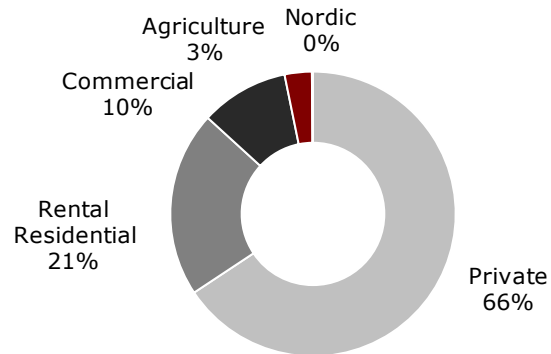
Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	136	118	91	54	23	423
Commercial	45	37	26	8	5	120
Agriculture	18	15	10	4	2	49
Rental Residential	53	36	25	15	13	142
Weighted dist.	34%	28%	21%	11%	6%	100%
Total, DKKbn	252	206	152	81	43	734

Average LTV: 70.0%

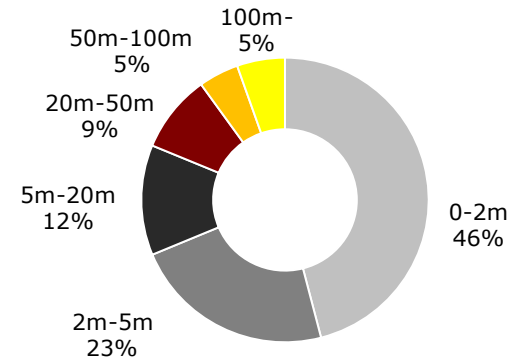
2 Collateral Breakdowns — Capital Centre S

Borrower Segmentation



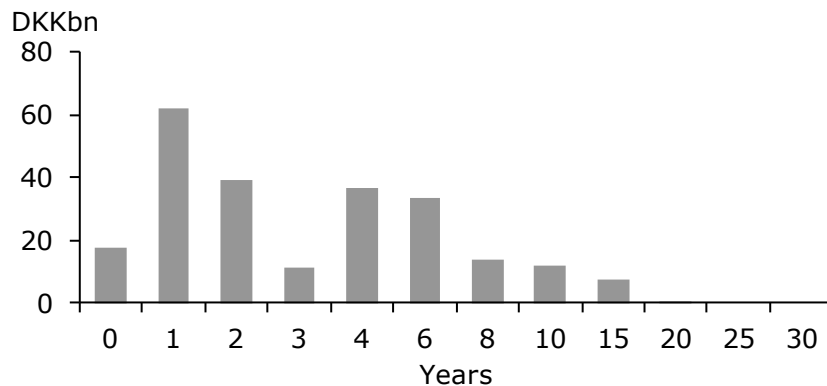
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning



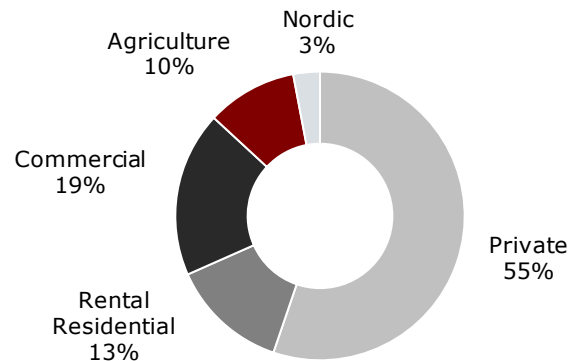
Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	47	44	34	20	8	154
Commercial	8	7	5	2	1	23
Agriculture	3	2	1	1	0	7
Rental Residential	20	13	8	5	4	50
Weighted dist.	33%	28%	21%	12%	6%	100%
Total, DKKbn	78	66	49	28	14	234

Average LTV: 67.7%

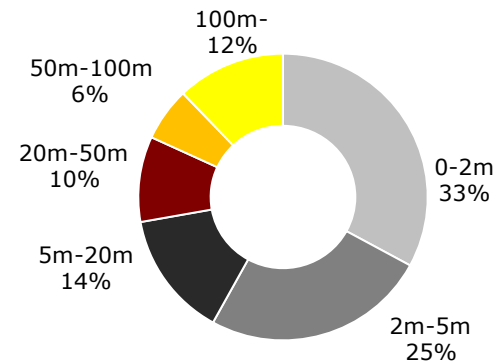
2 Collateral Breakdowns — Capital Centre T

Borrower Segmentation



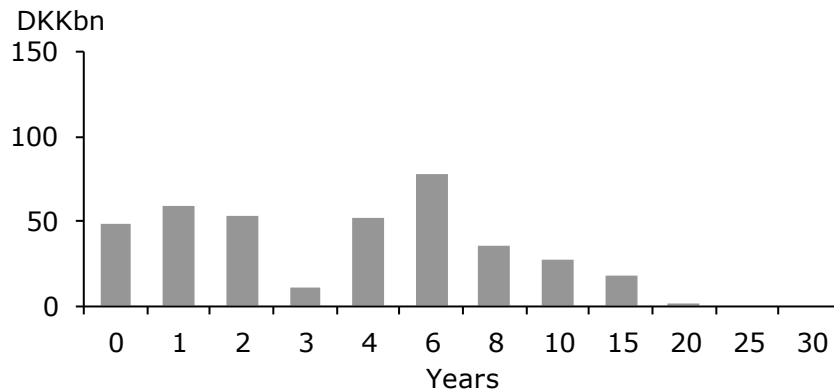
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning



Outstanding Debt in DKKbn by LTV ratio

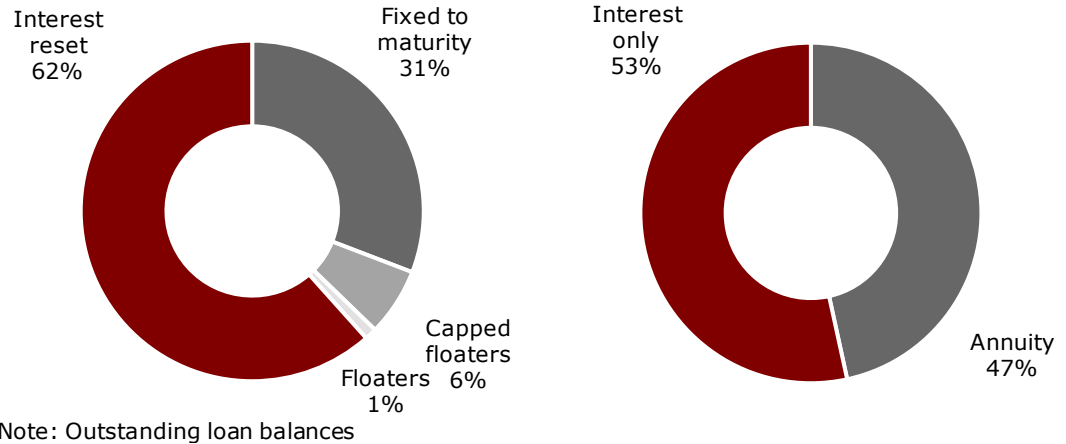
Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	65	59	47	29	13	213
Commercial	32	27	17	5	2	83
Agriculture	14	12	8	3	2	39
Rental Residential	16	13	11	7	5	51
Weighted dist.	33%	29%	22%	11%	6%	100%
Total, DKKbn	127	110	83	44	22	386

Average LTV: 68.9%

2 Borrower Exposure to Interest Rates

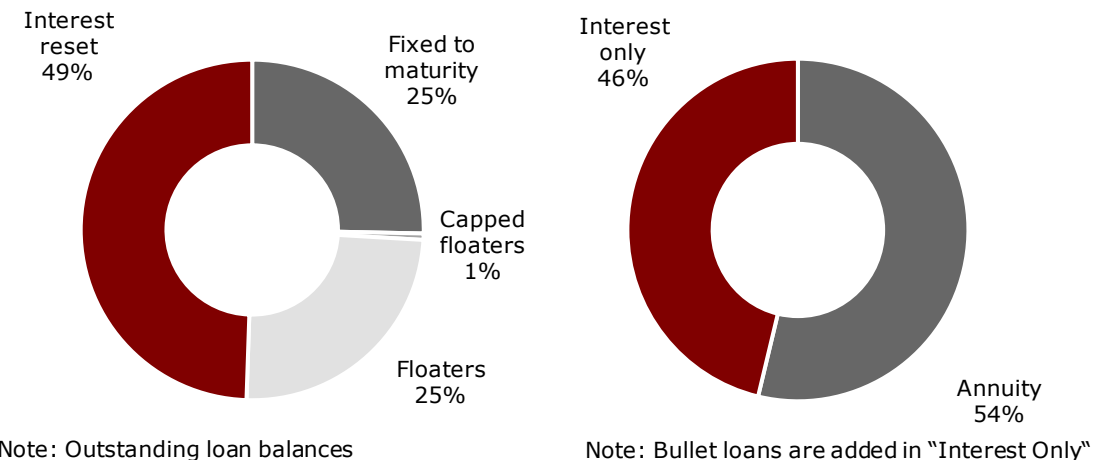
Private Segment

- 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% of the loan book
- Expectations are for this trend to reverse since fixed rates are now 3.5% and FlexKort® (floater) is now offered as an alternative to interest reset loans
- 53% of the loans are interest only



Corporate Segments

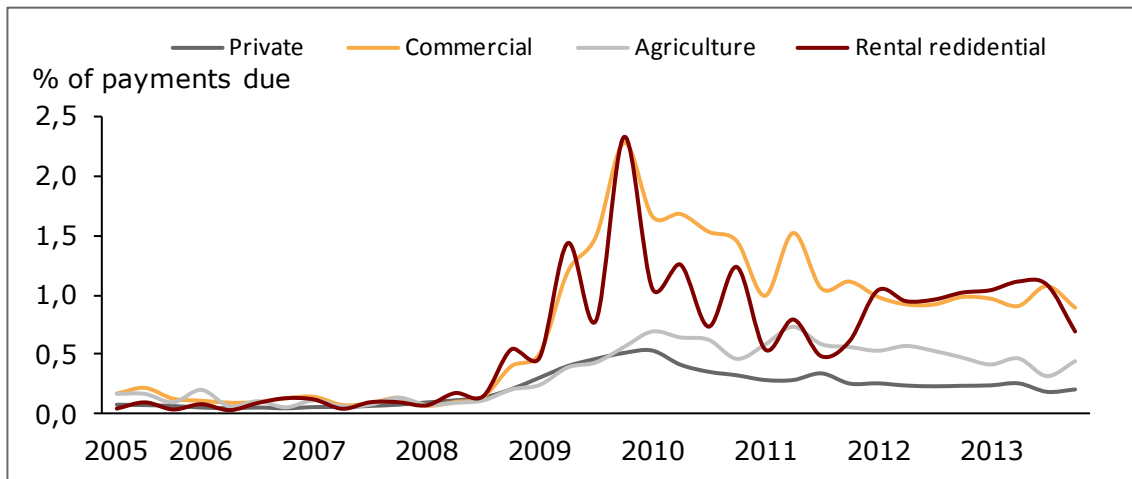
- 25% of all lending in corporate segments is fixed rate to maturity
- More than 74% are either interest reset (typically, rates are reset every year or every third year) or floating rate (base rates are either 6M CIBOR, 3M EURIBOR or 6M CITA)
- Bullets and Interest only loans make up 46% of corporate lending



2 Arrears and Repossessions

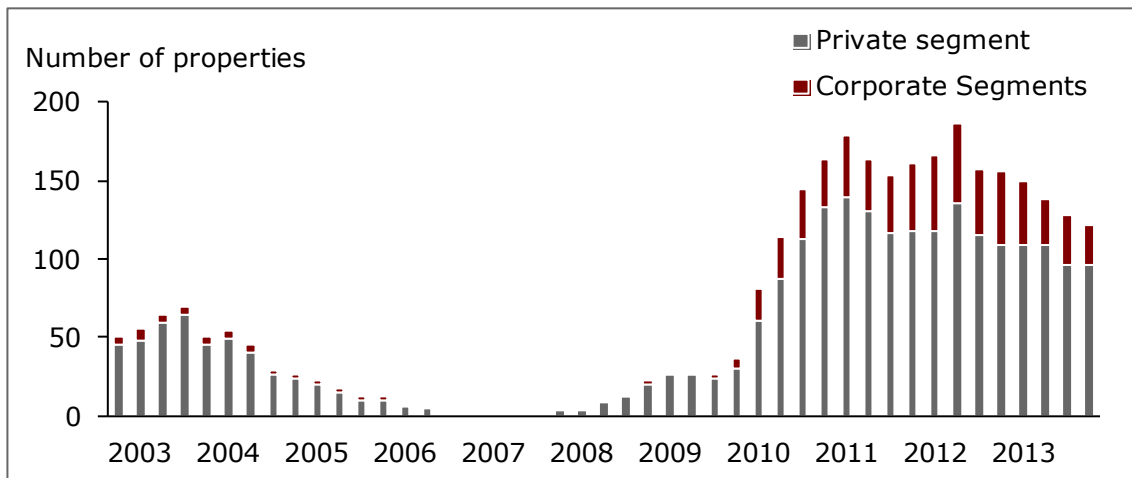
Arrears (3 months)

- Total arrears stood at 0.41% end Q4 2013
- Arrears are rather volatile in the Rental residential segment. However, arrears are down considerably from Q4 2009
- Arrears in the Commercial segment is stabilising around 0.9%. Down from 2.3% in 2009, but up from normal levels of around 0.1% before 2009
- Arrears in the Private segments has been rather stable for the last years



Repossessions

- The stock of repossessed properties stood at 122 end Q4 2013 — down 6 from Q3 2013
- This compares to a total stock of mortgages collateral at 499,870

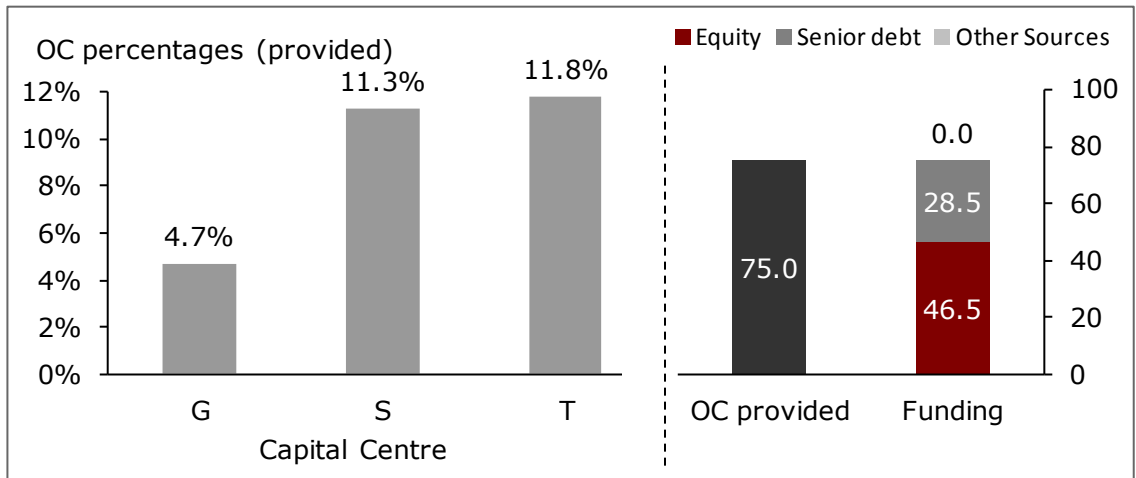


2 Over Collateralization and Capitalization

Over Collateralisation

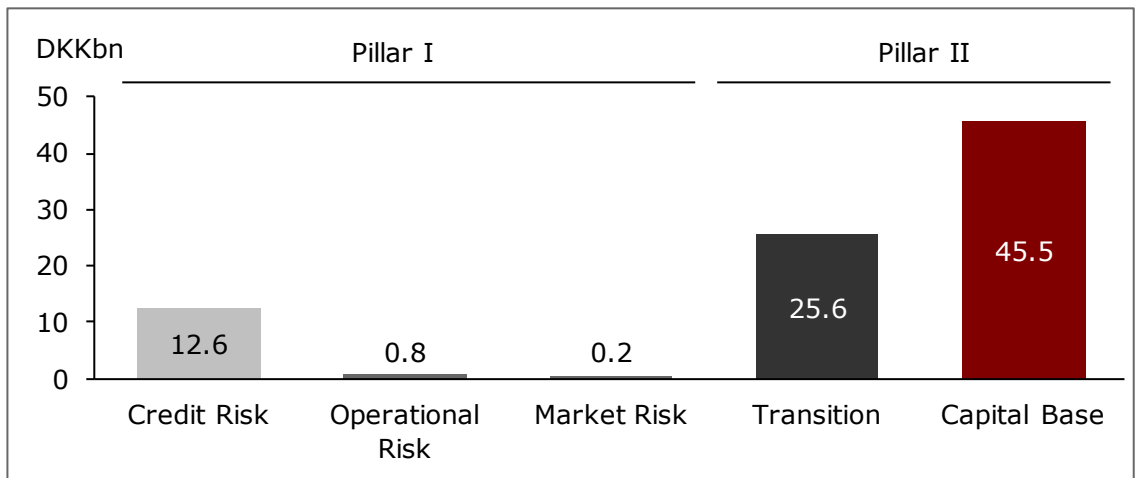
- Covered bonds issued by Realkredit Danmark are secured by mortgage collateral and reserves
- Reserves are invested in government exposures, covered bonds and bank exposures
- In case of bankruptcy Over Collateralisation will also be comprised by bondholders preferential claim

Note: Numbers per 31 December 2013



Capitalisation

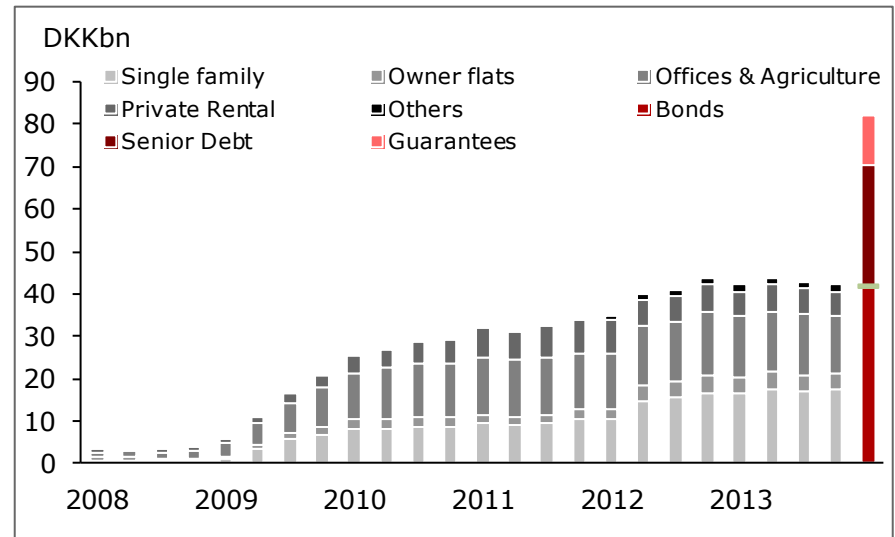
- The solvency ratio stood at 19.1% end Q4 2013 (CRD definition)
- Realkredit Danmark started issuing senior debt in Q1 2012 to strengthen the capital base



Supplementary Collateral — Total in S and T

Buffer in Capital Centres S and T

- End Q4 total OC provided was DKK 70.4bn in Capital Centres S and T of which 28.5bn was Senior debt
- Supplementary Collateral of DKK 42.2bn is required end Q4 2013 in Capital Centres S and T
- Loss Guarantees of DKK 11.9bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centres S and T is DKK 40.1bn
- 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% limitation of issued bonds



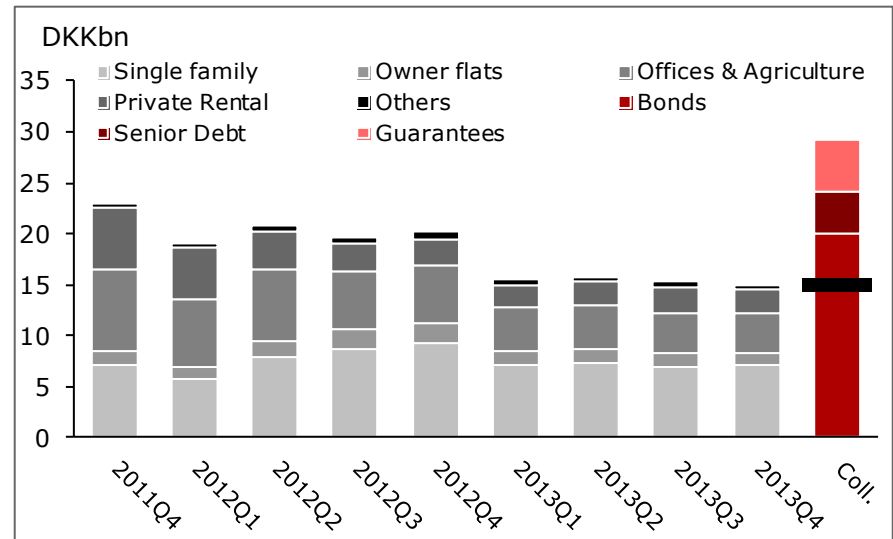
Supplementary Collateral requirements

- If LTV limits are breached during the term of the loan the mortgage loan will only be eligible with the part that comply with the LTV limits. If eligible collateral is insufficient, Supplementary Collateral must be provided
- Increased need for Supplementary Collateral is 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

Supplementary Collateral — S

Buffer in Capital Centre S

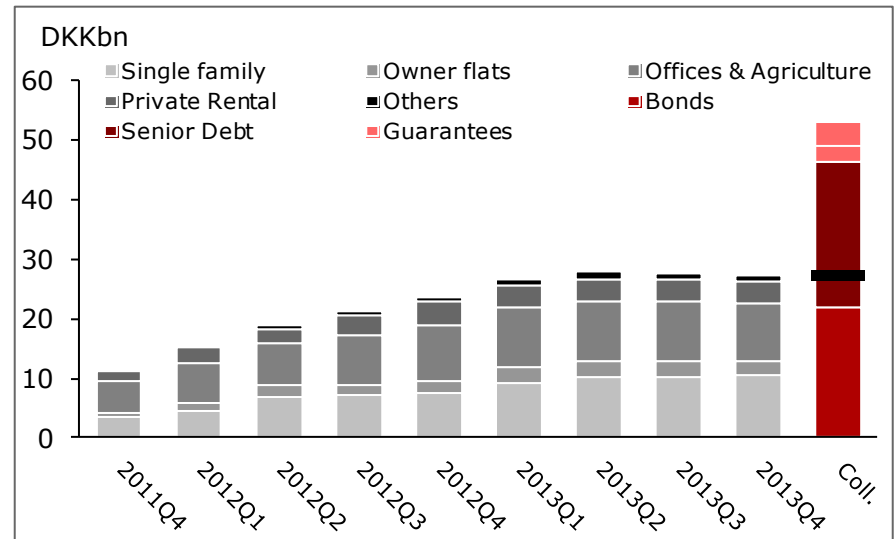
- End Q4 2013 total OC provided was DKK 24.1bn in Capital Centre S of which 4.0bn was Senior debt
- Supplementary Collateral of DKK 15.0bn is required end Q4 2013 in Capital Centre S
- Loss Guarantees of DKK 5.1bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centre S is DKK 14.2bn
- If the OC is insufficient to comply with Supplementary Collateral requirements, RD can transfer OC from the General Capital Centre or Capital Centre T or write Loss Guaranties within the 15% limitation of issued bonds



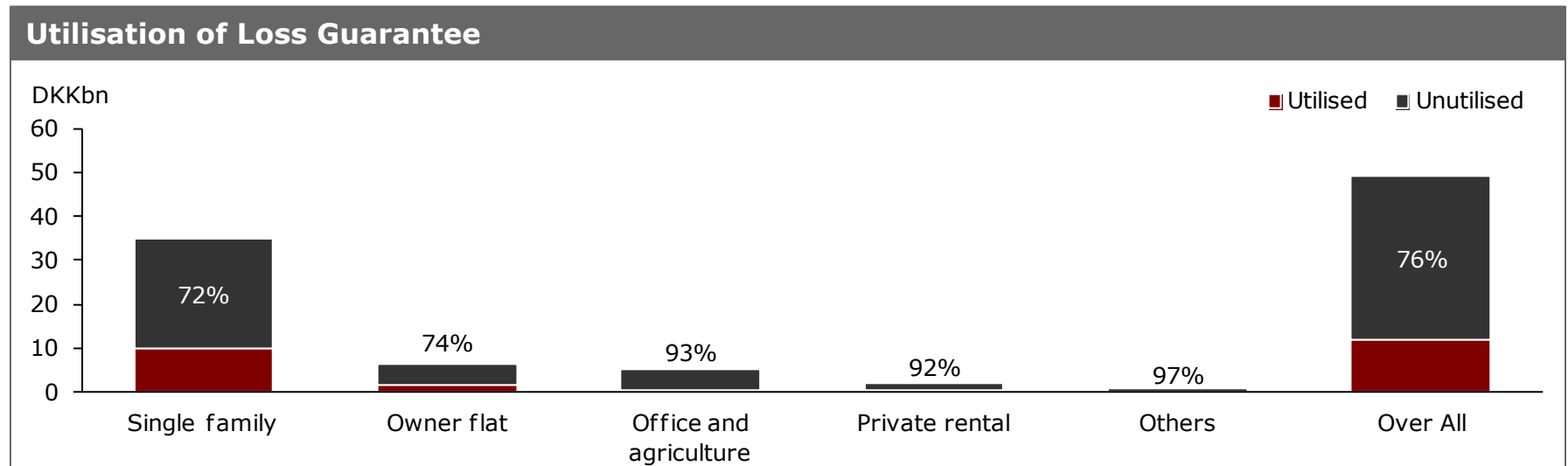
Supplementary Collateral — T

Buffer in Capital Centre T

- End Q4 2013 total OC provided was DKK 46.3bn in Capital Centre T of which 24.5bn was Senior debt
- Supplementary Collateral of DKK 27.2bn is required end Q4 2013 in Capital Centre T
- Loss Guarantees of DKK 6.8bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centre T is DKK 25.9bn
- If the OC is insufficient to comply with Supplementary Collateral requirements, RD can transfer OC from the General Capital Centre or Capital Centre S or write Loss Guaranties within the 15% limitation of issued bonds



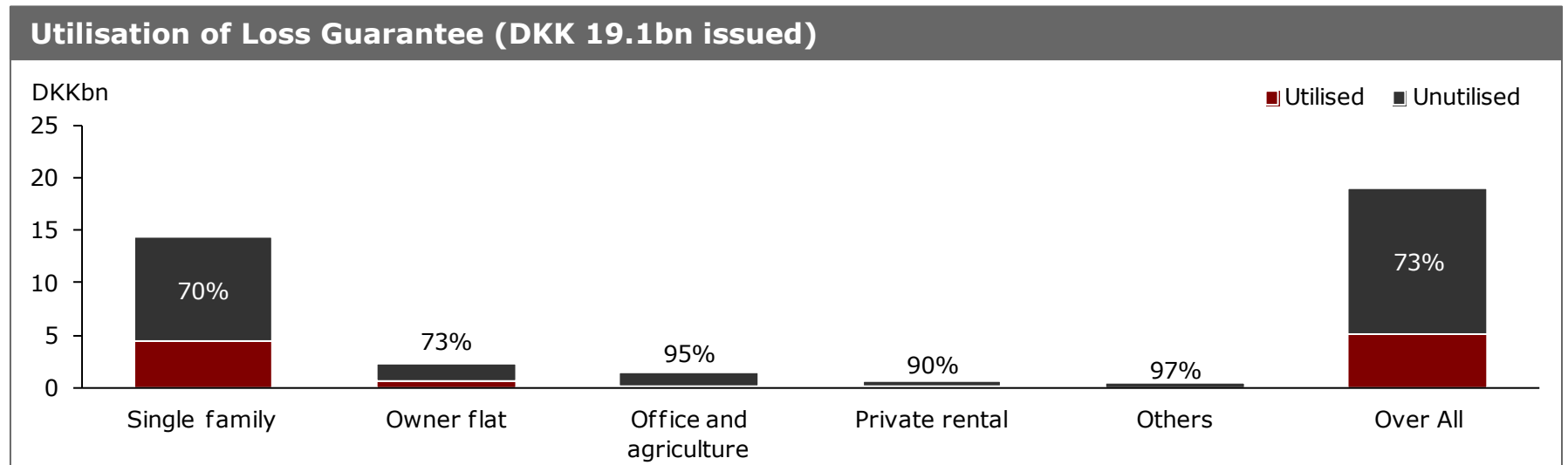
Guarantees — Total



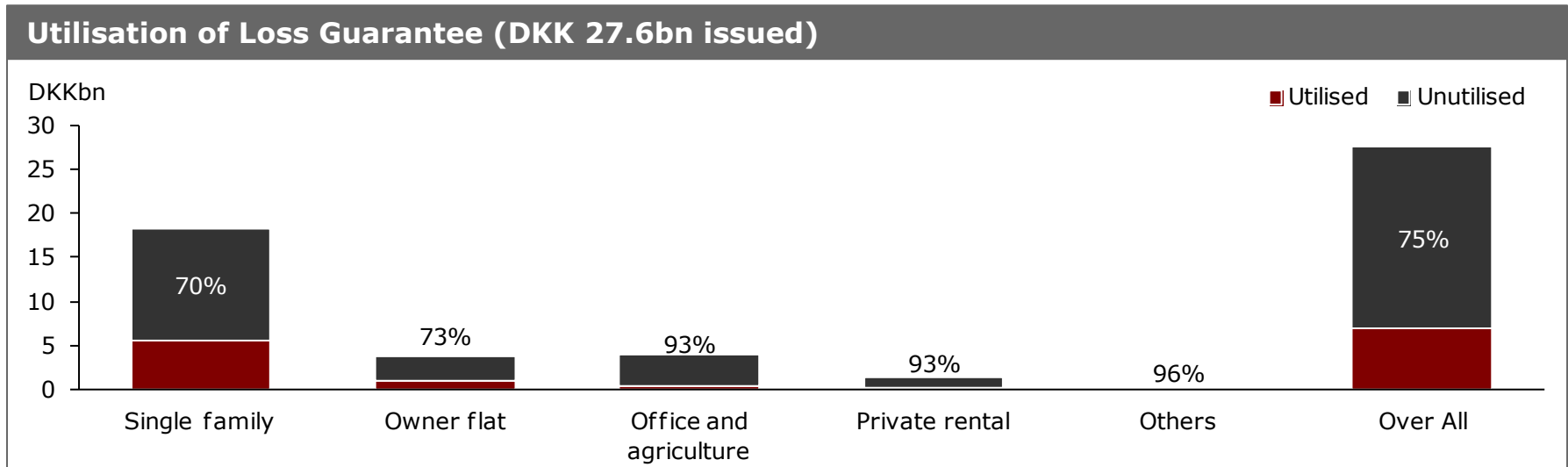
Loss Guarantees issued by Danske Bank (DKK 49.2bn)

- RD loan disbursed through Danske Bank has a Loss Guarantee
- Loss Guarantees covers the outmost LTV limited to 20% of the maximum lending corresponding to LTV from 60–80% for Single Family Housing and 40–60% for Corporate and Holiday Housing
- Maturity of 8 years with an amortization equivalent to the covered loan
- Loss Guarantee covers losses obtained from forced sales including cost

Guarantees — S



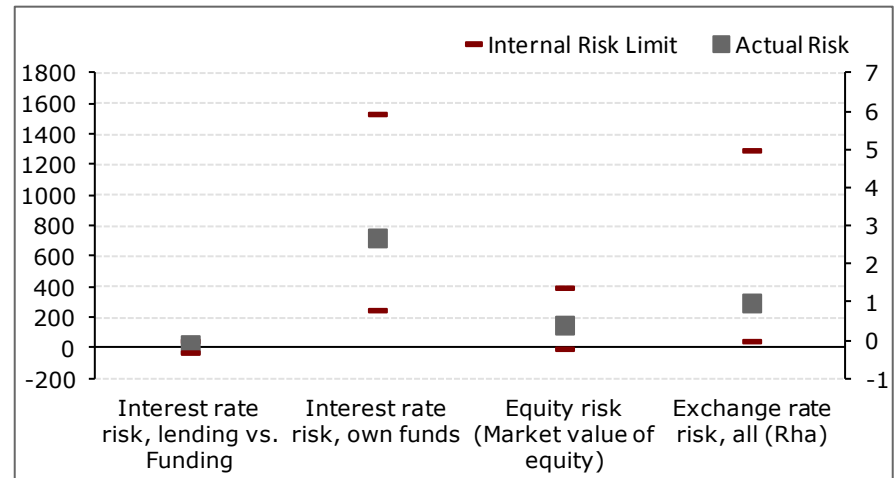
Guarantees — T



2 Market Risk Exposure and Liquidity

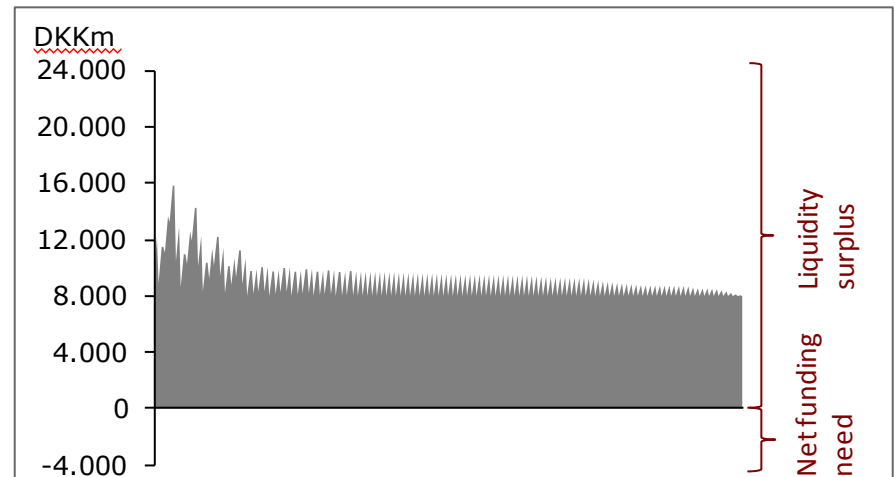
Market Risk Exposures

- 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 and employs a pass through structure i.e. bond terms mirror loan terms
- Market risk exposures are, therefore, limited. End Q4 2013 interest rate risk on lending vs. funding stood at DKK 27.3m
- 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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