

Risk Report 2014Q4

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

2 Key Collateral Indicators

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- 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

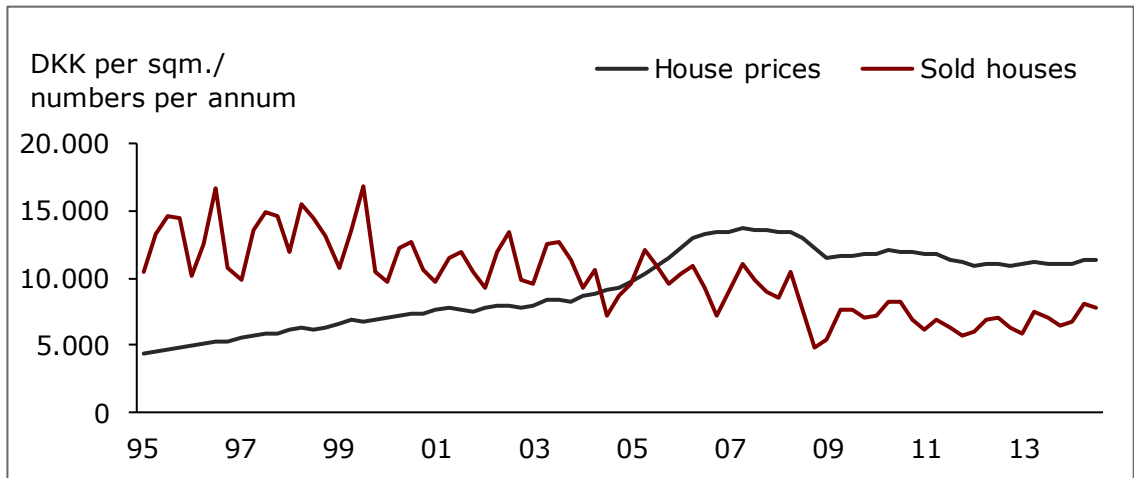
Key Market Indicators

General Market Information

1 House Prices and Homeowners Equity

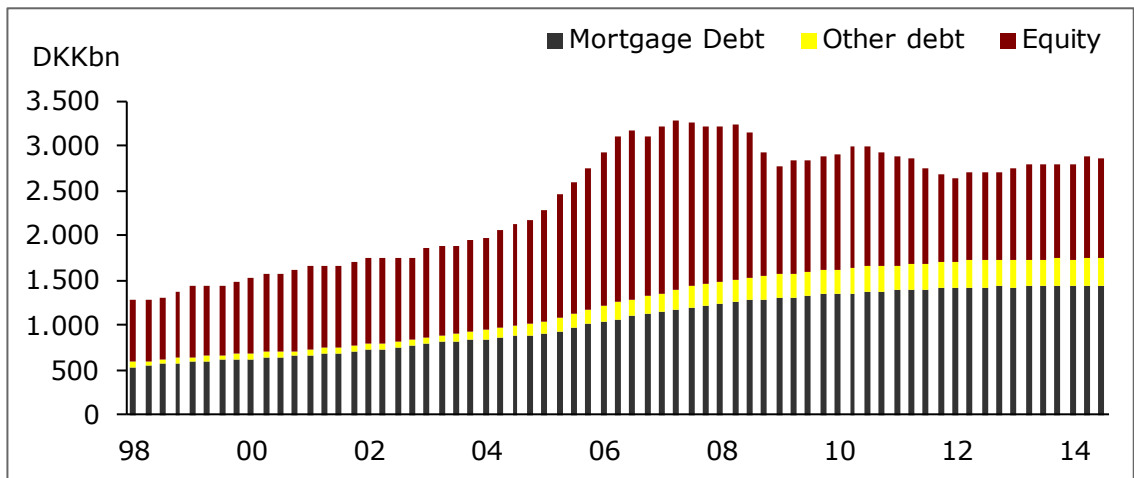
House Price Trends

- House prices are now stable
- House prices are down 18% 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



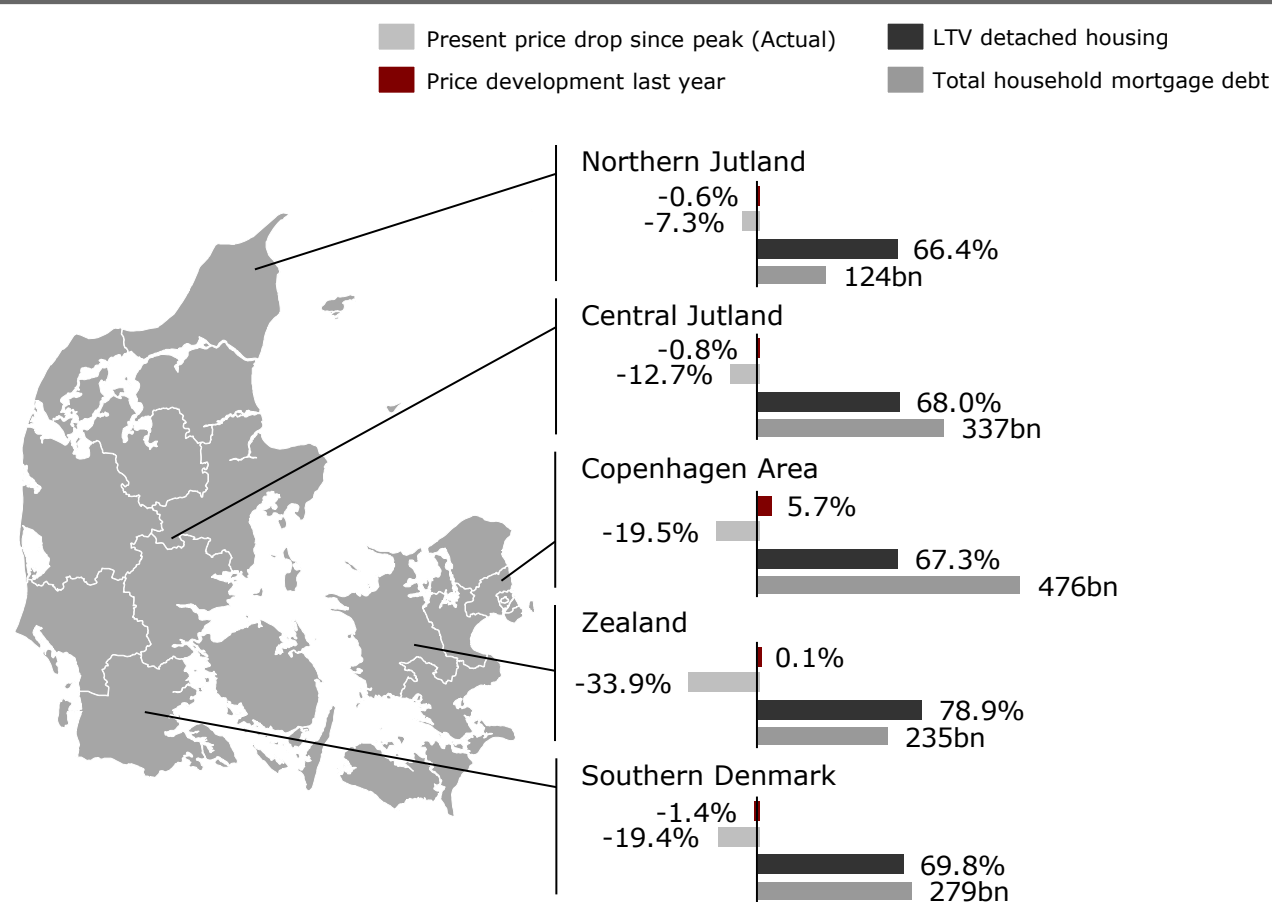
Homeowners Equity

- Homeowners' equity was 1,111 bn end 2014Q3 – down by 776 bn since the peak in 2006Q3
- In the same period total lending increased by 451 bn
- Hence, 58% of the drop in homeowners' equity can be explained by additional lending. 42% is due to house price deflation



1 Geographical Dispersion

Private lending in Denmark in total

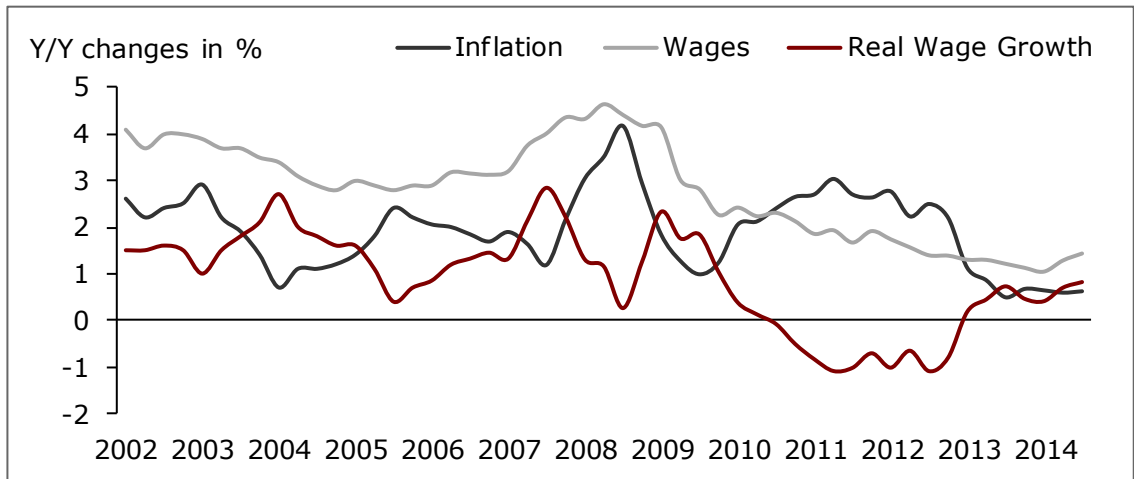


- House prices are now on a 2005 level
- The Copenhagen area was the first to suffer from house price deflation during the crisis in 2008. Prices are now 19% down from the peak in mid 2006
- Total mortgage debt in the Copenhagen area is the highest in the country. However, LTV is only 67.3% and house prices are recovering
- The LTV in Zealand is now below 80% again
- All geographical areas have experienced a positive price development the last year

1 Unemployment and Real Wage Growth

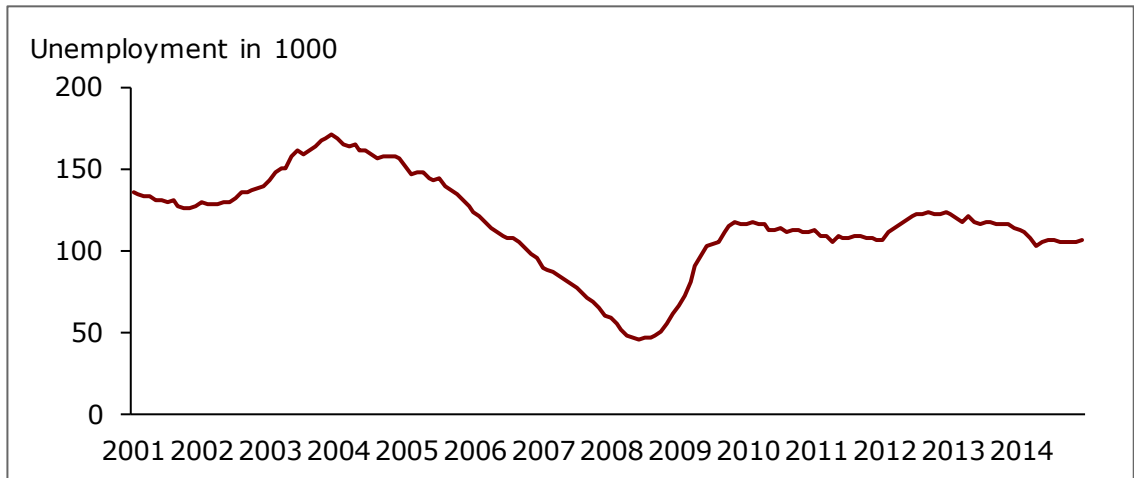
Real Wage Growth

- Real wage growth in Q3 2014 stood at 0.82%.
- 2013 was the first year with positive real wage growth after a period of 2.5 years with negative growth rates



Unemployment

- Net unemployment stood at 105,837 end Q4 2014 up from a historical low of 45,000 in mid 2008
- This is equivalent to an unemployment (net) rate of 4.0%. Gross unemployment rate¹ is 5.0% end Q4 2014

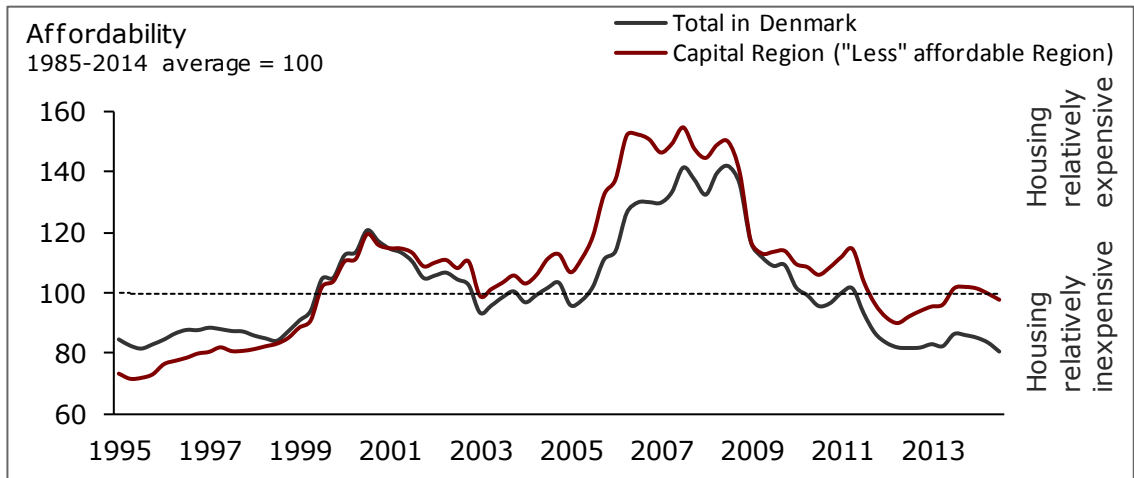


¹. Gross unemployment rate defined as net unemployment plus persons in activation schemes

1 Homeowner Affordability and Foreclosures

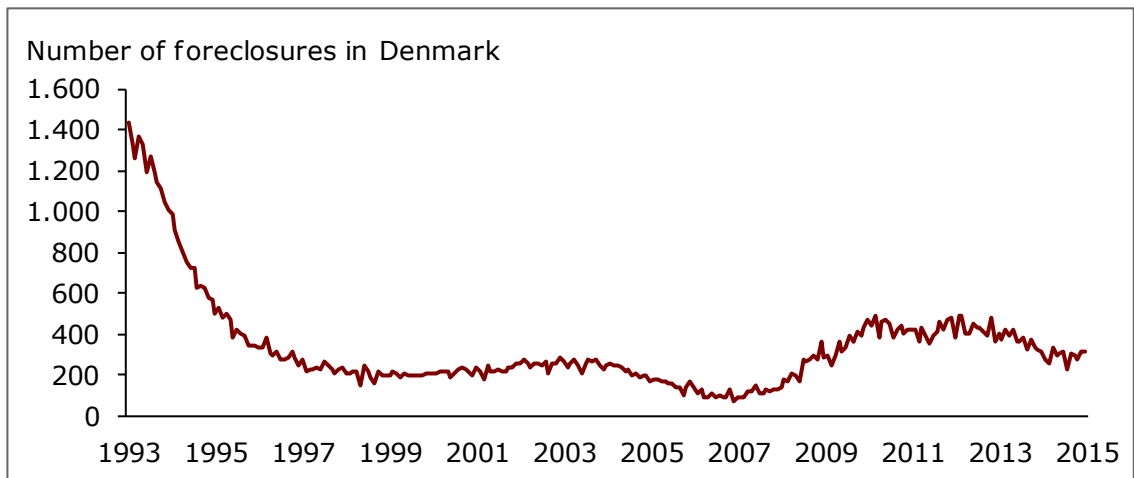
Homeowner Affordability

- House price deflation and lower interest rates has made housing more affordable
- In Copenhagen, the affordability index is very close to 100



Foreclosures

- The number of foreclosed properties in Denmark in December 2014 was 310
- The duration of a foreclosure is approx. 6 months from missed payments to completion



1 Political measures and outlook

Denmark ■ Euro Zone ■	2014		2015		2016	
GDP	0.9	0.9	1.6	1.5	2.0	1.1
Private Consumption	0.4	0.9	1.9	1.5	2.0	1.1
Fixed investments	2.2	0.6	2.2	1.5	4.0	5.4
Export	2.8	3.7	2.3	4.6	4.2	4.2
Unemployment %	5.1	11.6	4.9	11.4	4.7	10.9

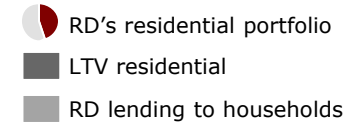
Danish Economy Outlook

- The growth in the Danish as well as European economy was revised to approx. 0.9 per cent in 2014
- The growth in the Danish and European economy is expected to increase to 1.6 per cent and 1.5 per cent, respectively, in 2015
- Interest rates are a key element in the household economy
- Lately, we have experienced negative interest rates in Denmark
- Denmark conducts a fixed-exchange-rate policy vis-à-vis the euro. Consequently, monetary and foreign-exchange policy is aimed at keeping the krone stable against the euro
- The upcoming QE programme from the ECB has put focus on Denmark and its high credit ranking (triple A)
- Further, when the SNB removed the floor, focus turned to the Danish peg
- As a consequence, the Danish Central Bank has lowered its key interest rates. Certificates of deposit rate currently stands at -0.75% p.a.
- We expect very low interest rates in the near future

Key Collateral Indicators

Realkredit Danmark Specific Information

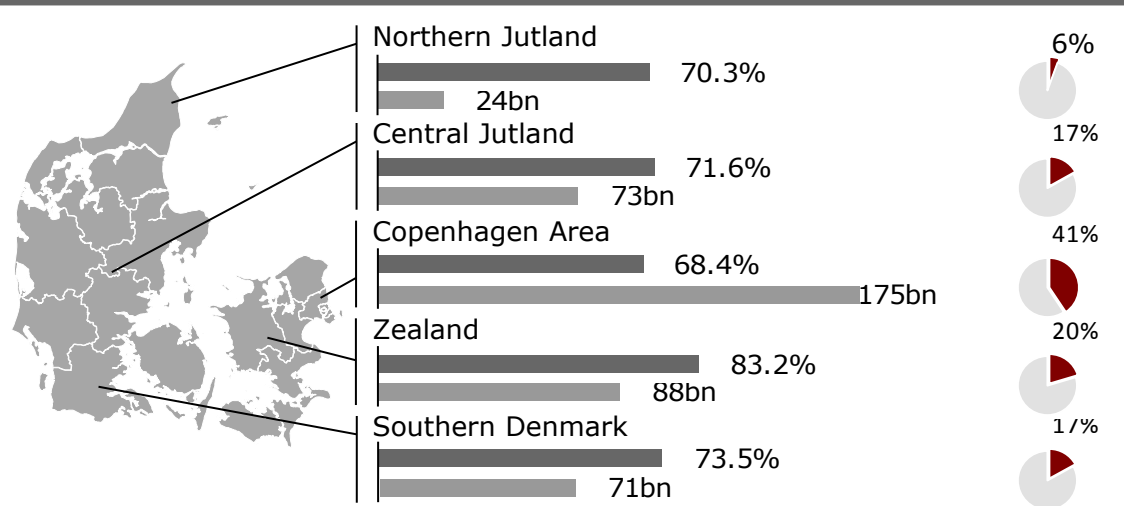
2 Dispersion and Loan to Value Ratios



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
- The affordability ratio in the capital region is rising and is now very close to index 100

Geographical Dispersion in Realkredit Danmark



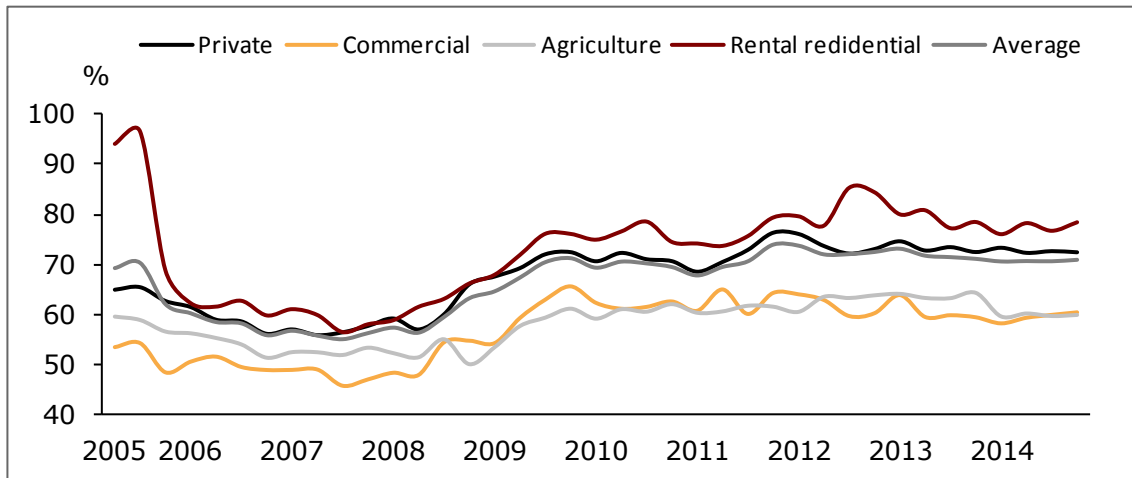
Loan To Value Ratios

- 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 2014 the same as in Q4 2013
- LTV's for Commercial and Agriculture are based on few observations to confirm correct price levels



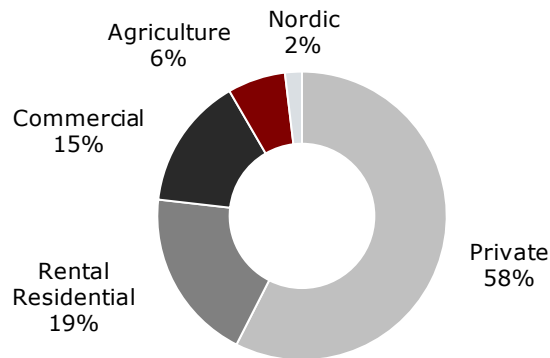
Borrower Classifications

- Borrowers' financial strength is classified on a scale from 1 to 11, 1 being the highest score
- Approx. 8bn 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 %	53	184	18	256
20-40 %	36	157	17	211
40-60 %	23	118	15	156
60-80 %	11	62	10	82
> 80 %	8	28	8	44
Total	132	549	67	748

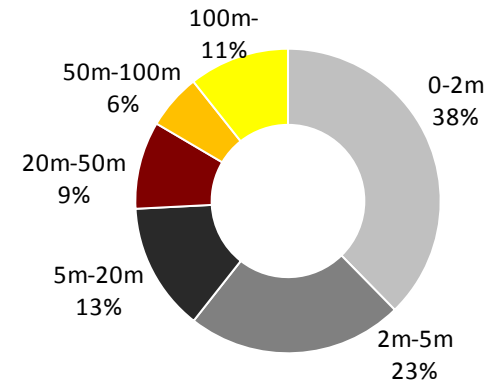
2 Collateral Breakdowns — Total portfolio

Borrower Segmentation



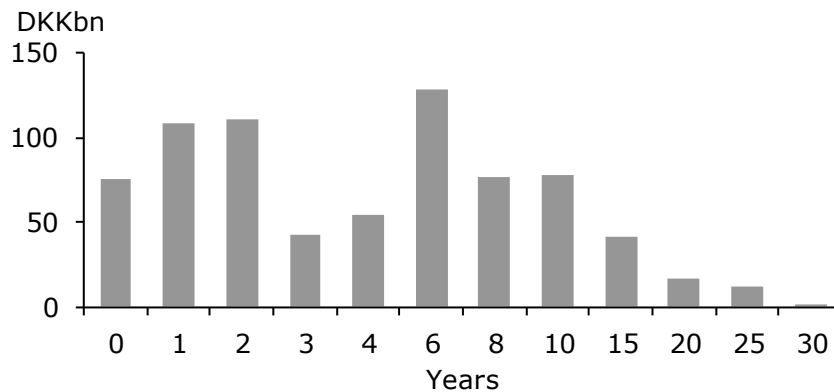
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning



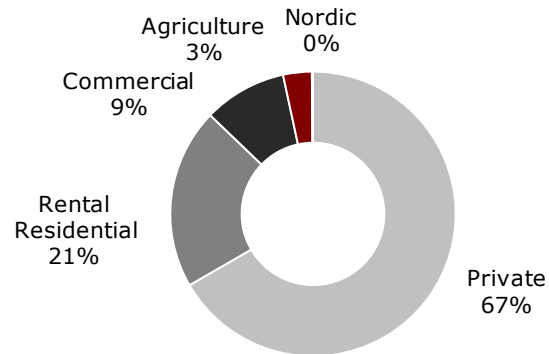
Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	138	121	93	55	24	430
Commercial	45	37	27	9	5	124
Agriculture	19	15	10	4	1	48
Rental Residential	54	37	26	15	14	146
Weighted dist.	34%	28%	21%	11%	6%	100%
Total, DKKbn	256	211	156	82	44	748

Average LTV: 70.9%

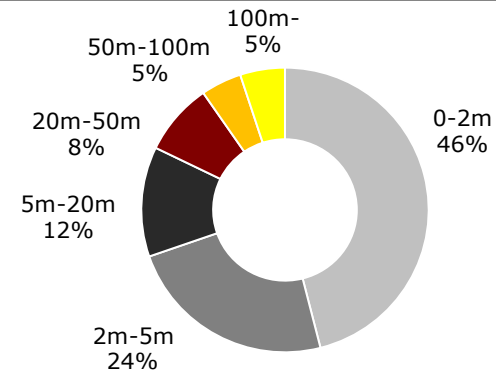
2 Collateral Breakdowns — Capital Centre S

Borrower Segmentation



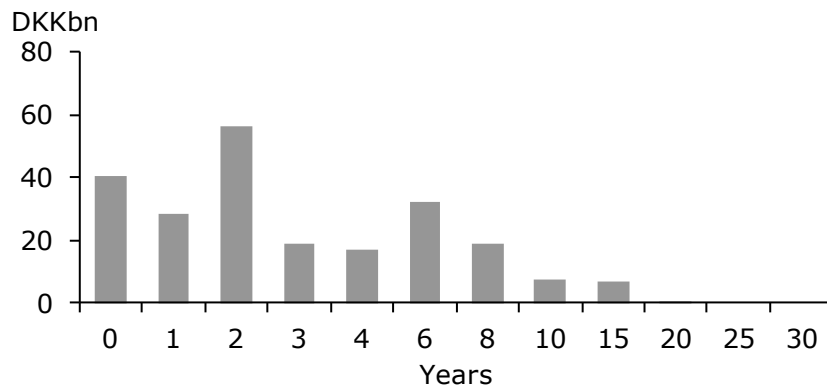
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning



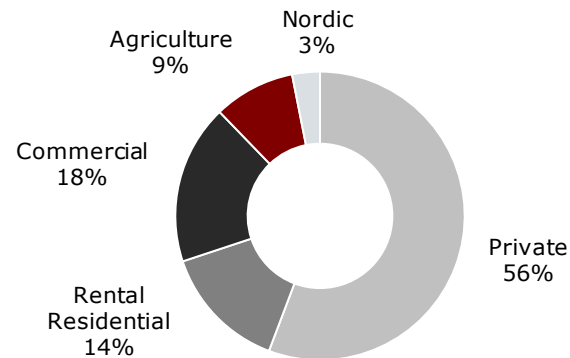
Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	47	43	33	20	8	151
Commercial	7	6	5	2	1	21
Agriculture	3	2	1	0	0	7
Rental Residential	20	12	7	4	4	47
Weighted dist.	34%	28%	21%	12%	6%	100%
Total, DKKbn	77	64	47	26	13	226

Average LTV: 66.9%

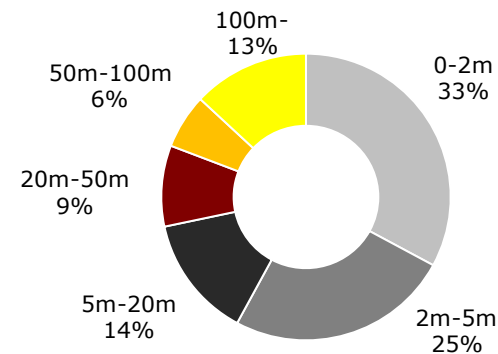
2 Collateral Breakdowns — Capital Centre T

Borrower Segmentation



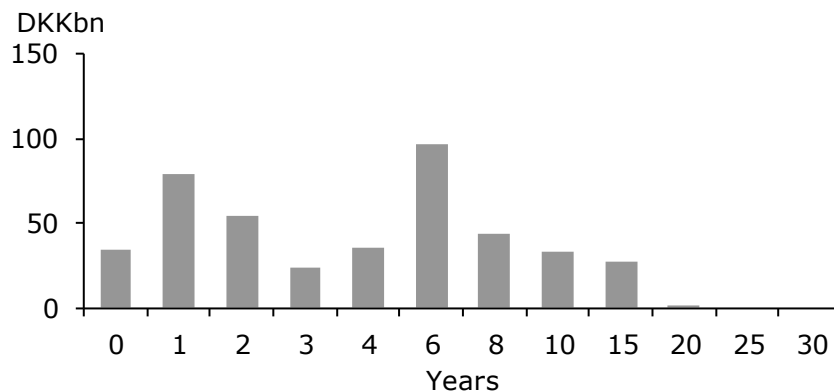
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning



Outstanding Debt in DKKbn by LTV ratio

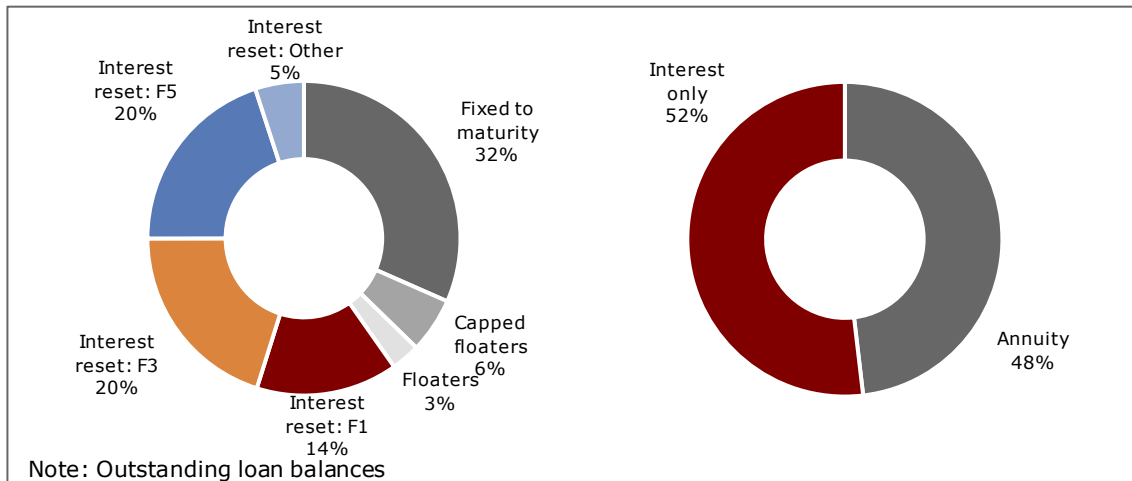
Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	75	67	53	32	14	240
Commercial	34	28	20	5	3	90
Agriculture	15	13	8	3	1	39
Rental Residential	19	16	13	8	6	62
Weighted dist.	33%	29%	22%	11%	5%	100%
Total, DKKbn	142	124	94	48	23	431

Average LTV: 68.6%

2 Borrower Exposure to Interest Rates

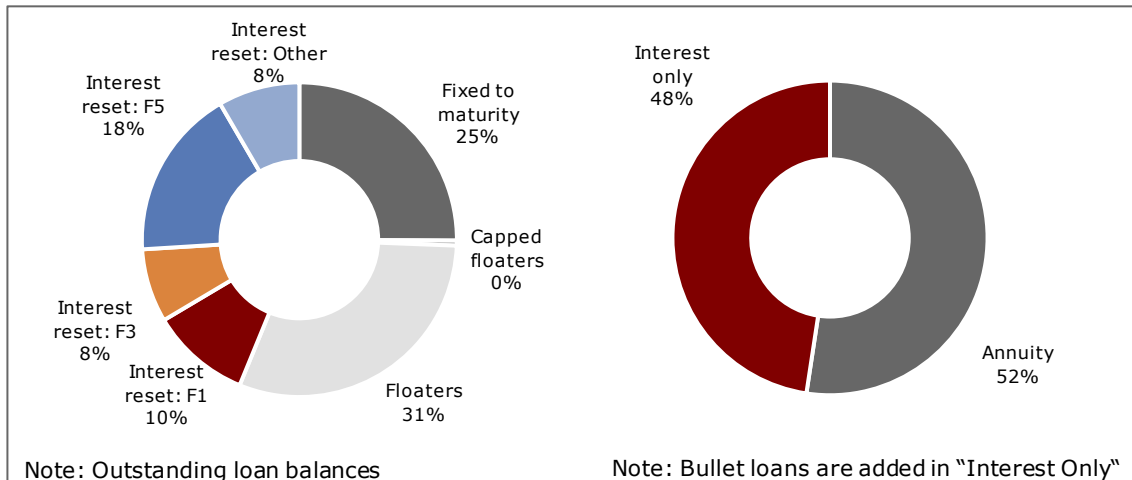
Private Segment

- Homeowners must be able to service a 30-year fixed rate annuity loan for Realkredit Danmark to underwrite
- Originally, fixed rate mortgages were standard in the Danish market, but now interest reset is accounting for 60
- Expectations are for this percentage to decline since fixed rates are now only 2% and FlexKort® (floater) is offered as an alternative to interest reset loans
- More and more customers are choosing interest reset periods of 3 or 5 years



Corporate Segments

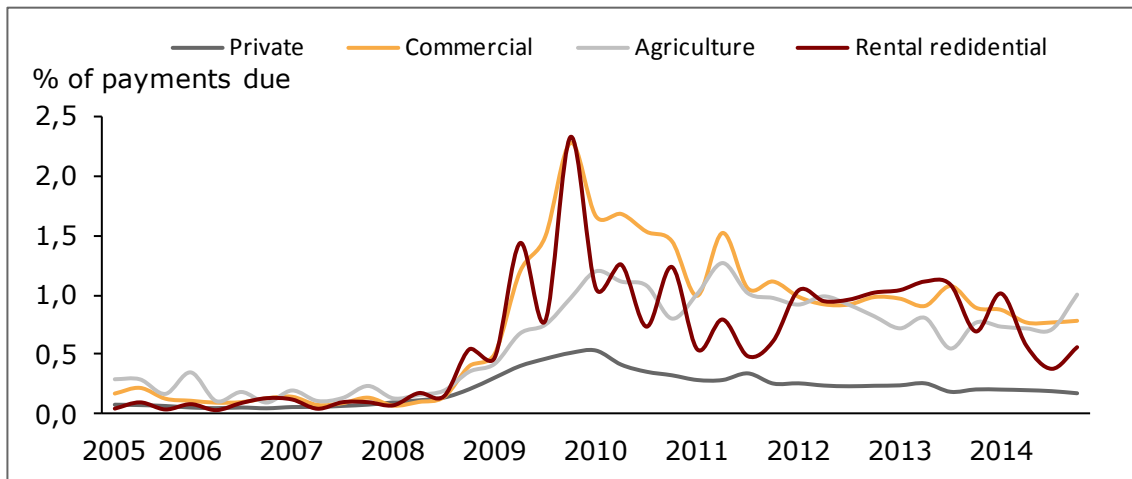
- 25% of all lending in corporate segments is fixed rate to maturity
- More than 74% are either interest reset (typically, rates are reset every year or every third year) or floating rate (base rates are either 6M CIBOR, 3M EURIBOR or 6M CITA)
- Bullets and Interest only loans make up 48% of corporate lending



2 Arrears and Repossessions

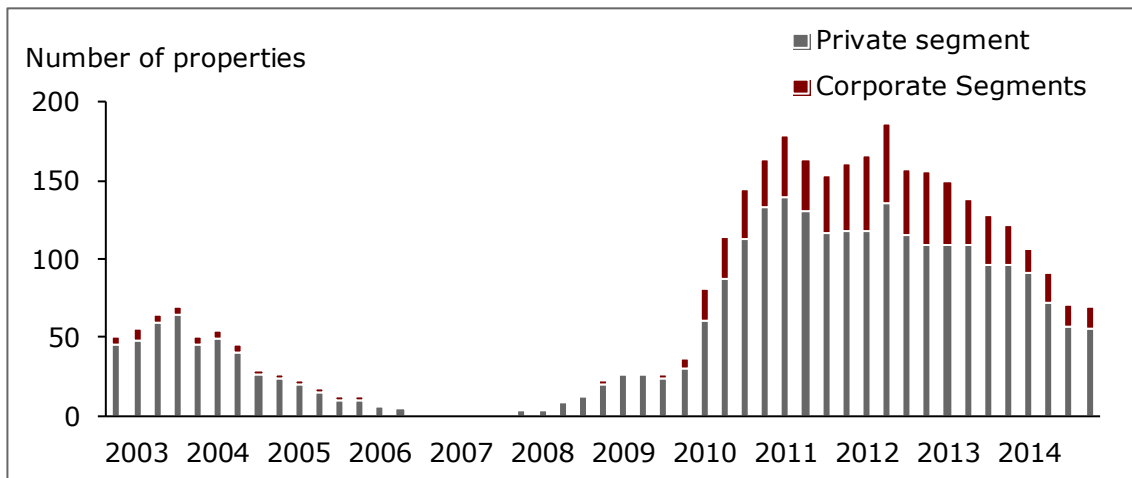
Arrears (3 months)

- Total arrears stood at 0.38% end Q4 2014
- Arrears are rather volatile in the Rental residential segment. However, arrears are down considerably from Q4 2009
- Arrears in the Commercial segment has declined to 0.8%. Down from 2.3% in 2009, but up from normal levels of around 0.1% before 2009
- Arrears in the Private segments have been rather stable around 0.2% for the last years



Repossessions

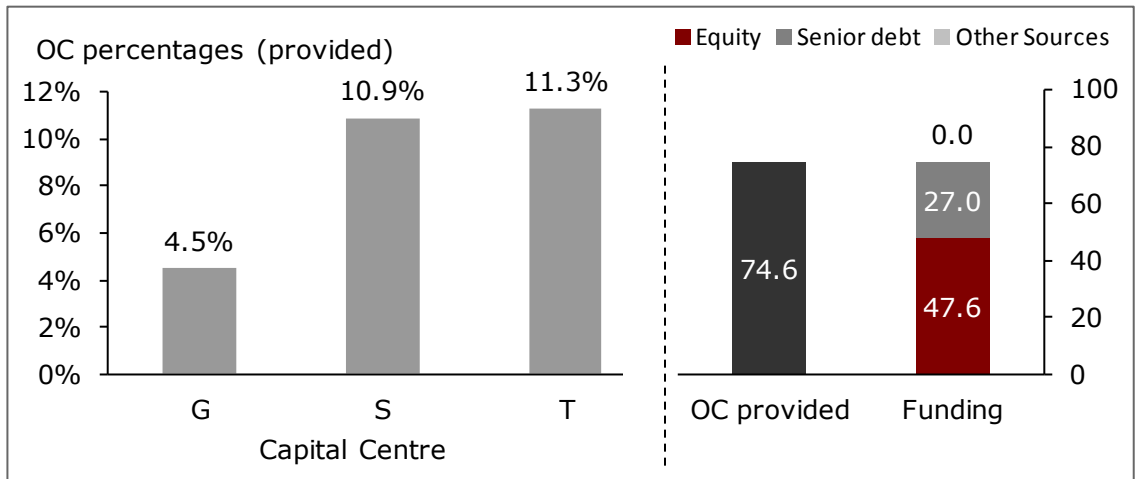
- The stock of repossessed properties stood at 70 end Q4 2014 — down 1 from Q3 2014
- This compares to a total stock of mortgage collateral of 489,040



2 Over Collateralization and Capitalization

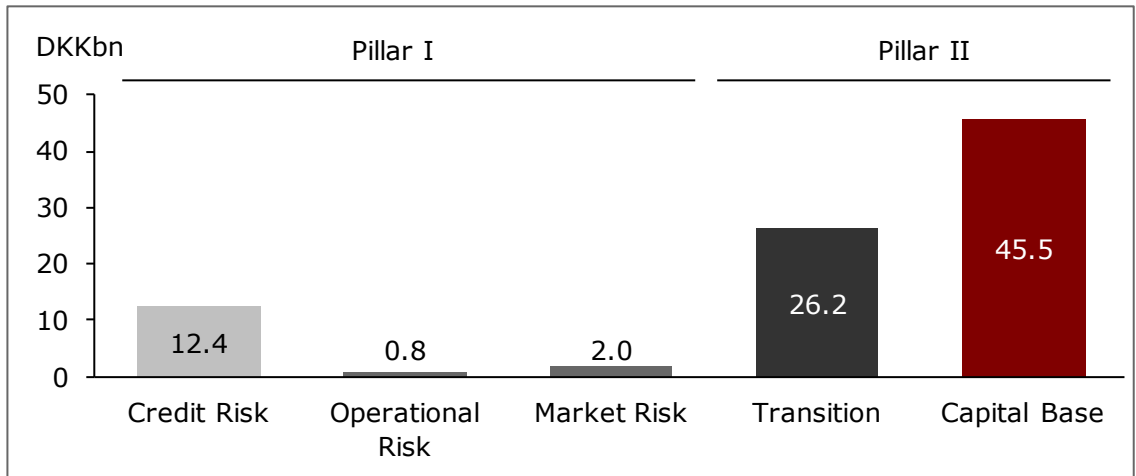
Over Collateralisation

- 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



Capitalisation

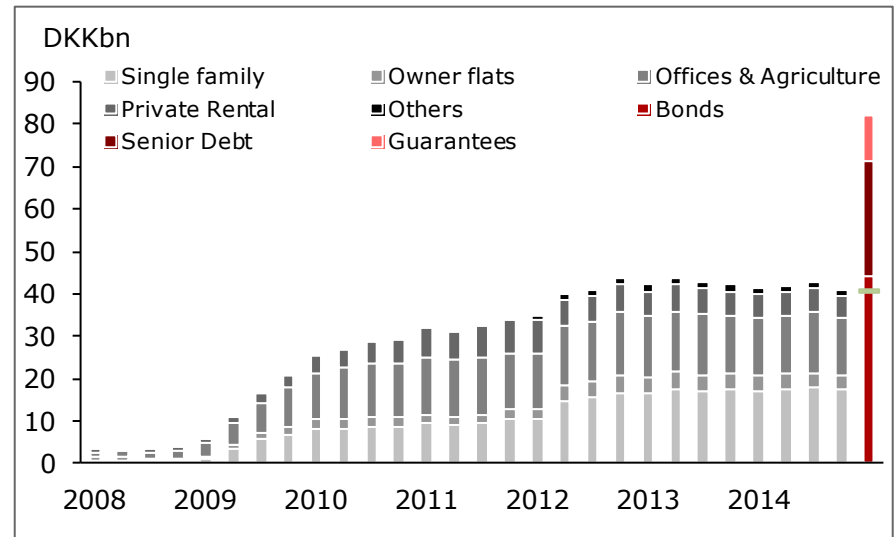
- The solvency ratio stood at 11.8% end Q4 2014 (CRD definition)
- Realkredit Danmark has been issuing senior debt since Q1 2012 to strengthen the capital base



Supplementary Collateral — Total in S and T

Buffer in Capital Centres S and T

- End Q4 total OC provided was DKK 71.4bn in Capital Centres S and T of which 27.0bn was funded by Senior debt
- Supplementary Collateral of DKK 41.1bn is required end Q4 2014 in Capital Centres S and T
- Loss Guarantees of DKK 10.9bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centres S and T is DKK 41.2bn
- 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% limitation of issued bonds



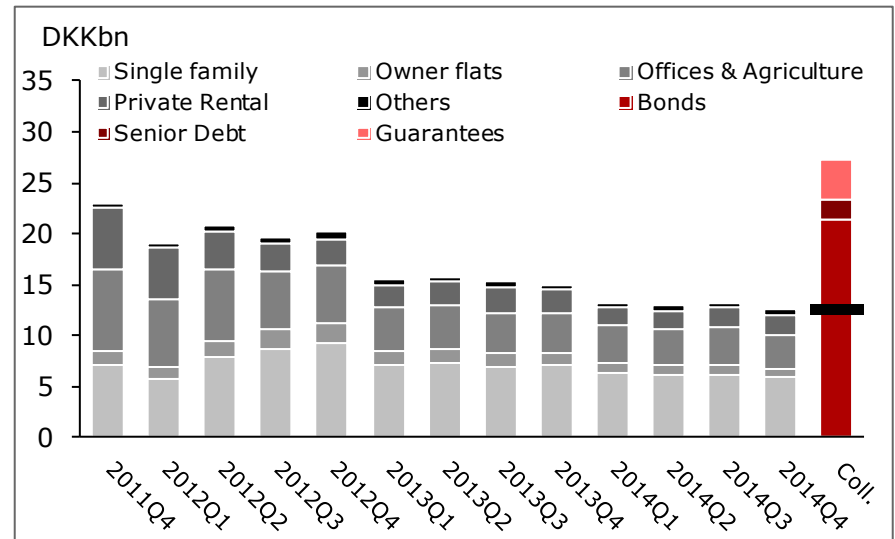
Supplementary Collateral requirements

- 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

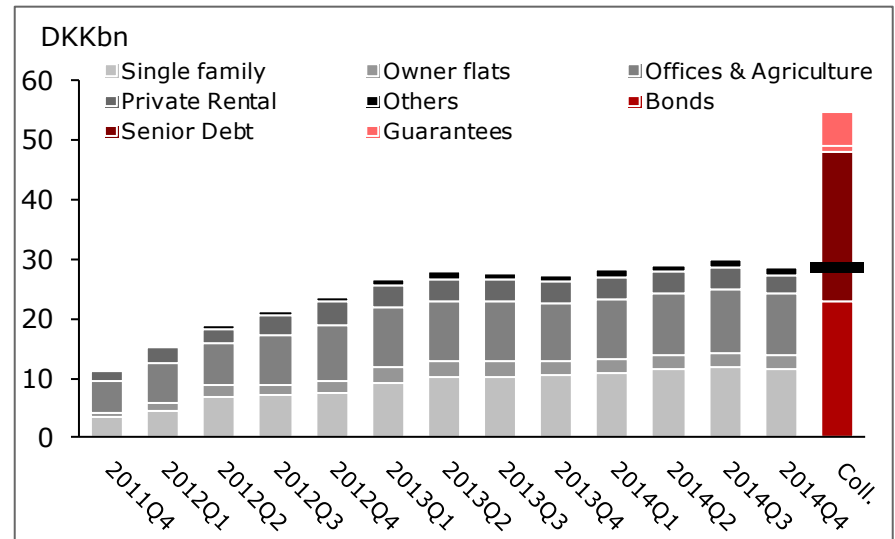
- End Q4 2014 total OC provided was DKK 23.3bn in Capital Centre S of which 1.9bn was funded by Senior debt
- Supplementary Collateral of DKK 12.5bn is required end Q4 2014 in Capital Centre S
- Loss Guarantees of DKK 4.0bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centre S is DKK 14.8bn
- 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



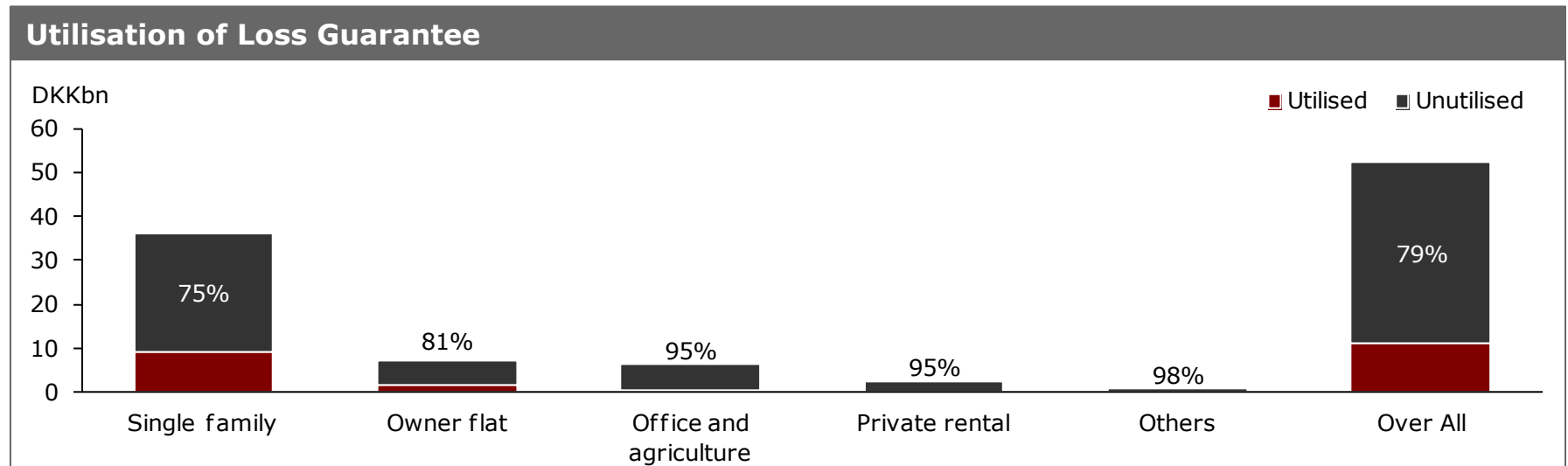
Supplementary Collateral – T

Buffer in Capital Centre T

- End Q4 2014 total OC provided was DKK 48.1bn in Capital Centre T of which 25.1bn was funded by Senior debt
- Supplementary Collateral of DKK 28.5bn is required end Q4 2014 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 26.4bn
- 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



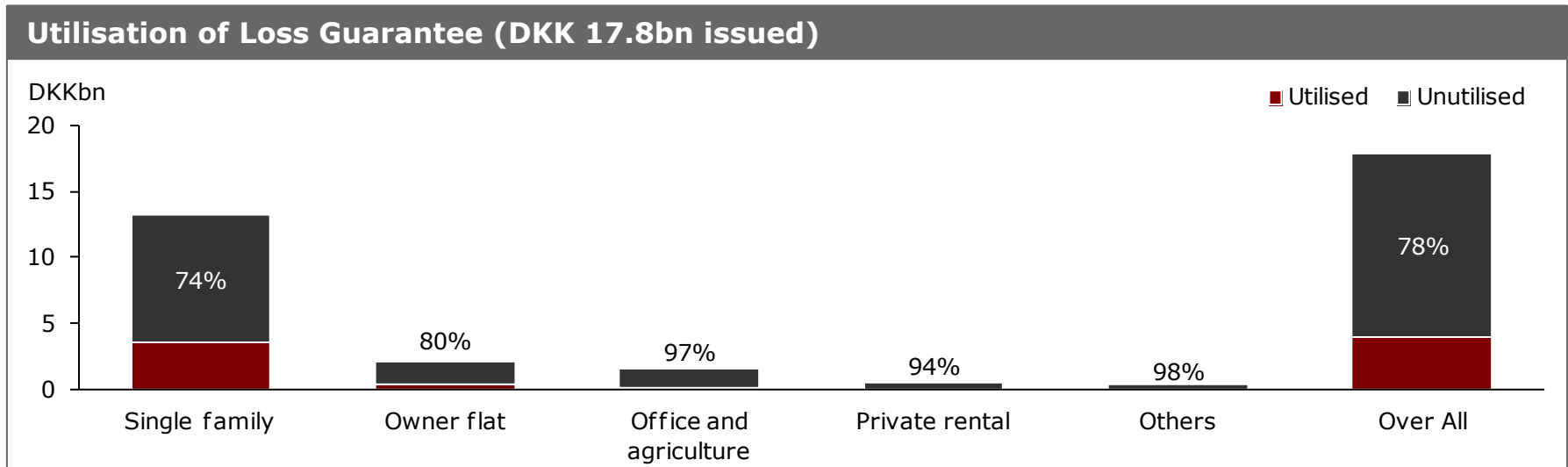
Guarantees — Total



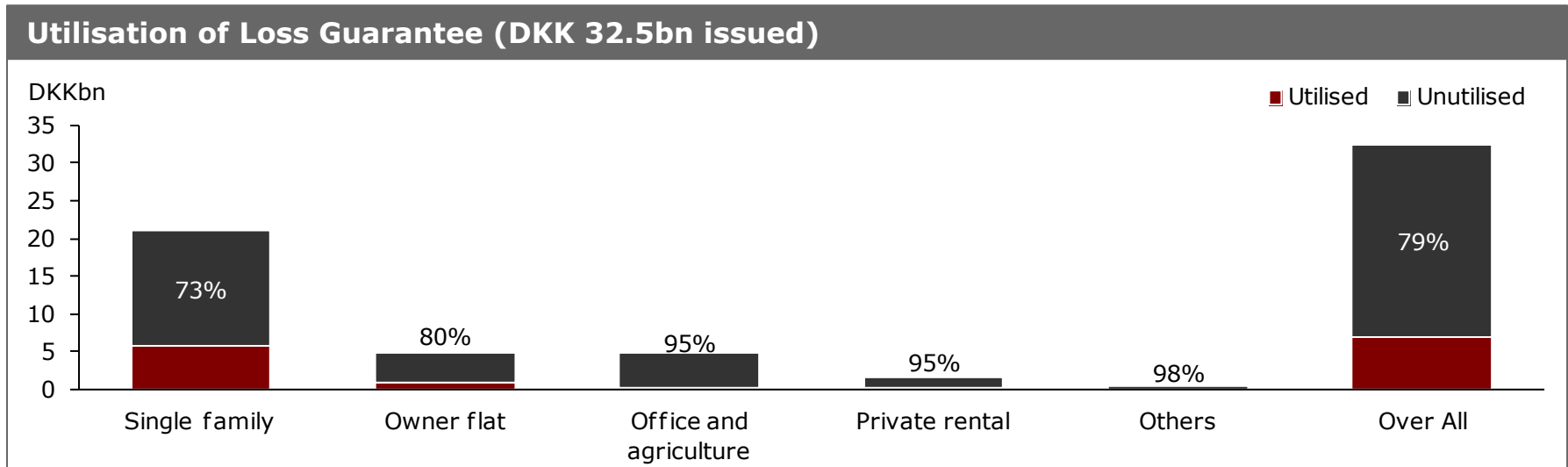
Loss Guarantees issued by Danske Bank (DKK 52.5bn)

- RD loans 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 costs

Guarantees — S



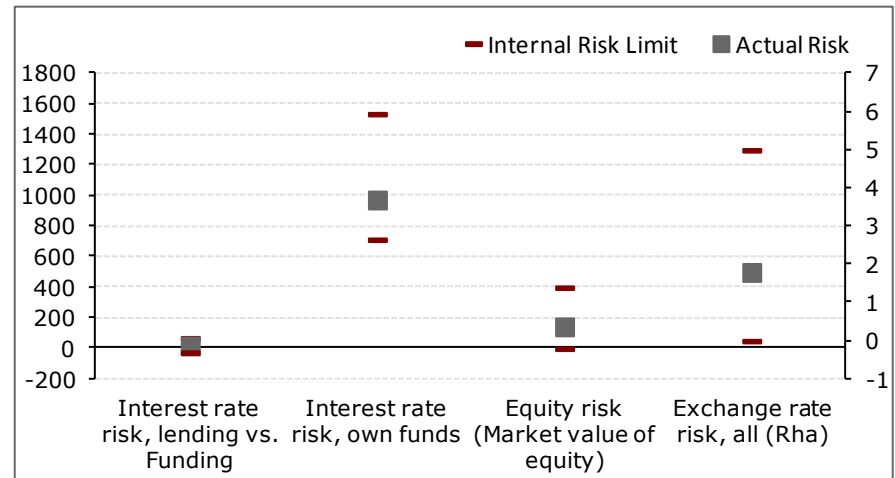
Guarantees — T



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 2014 interest rate risk on lending vs. funding stood at DKK 18.0m
- Derivatives are not employed for hedging imbalances on lending and funding



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