

Risk Report 2015Q4

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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

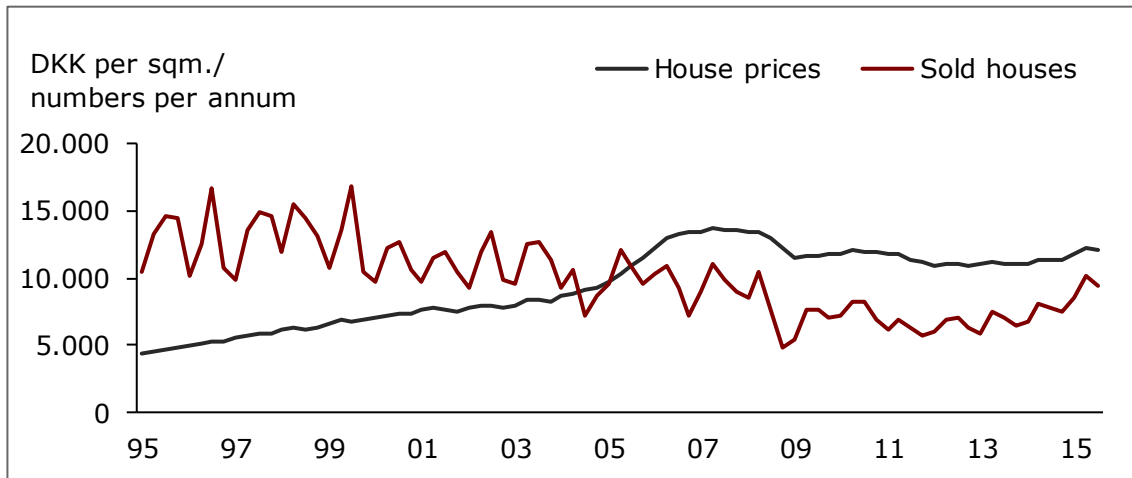
Key Market Indicators

General Market Information

1 House Prices and Homeowners Equity

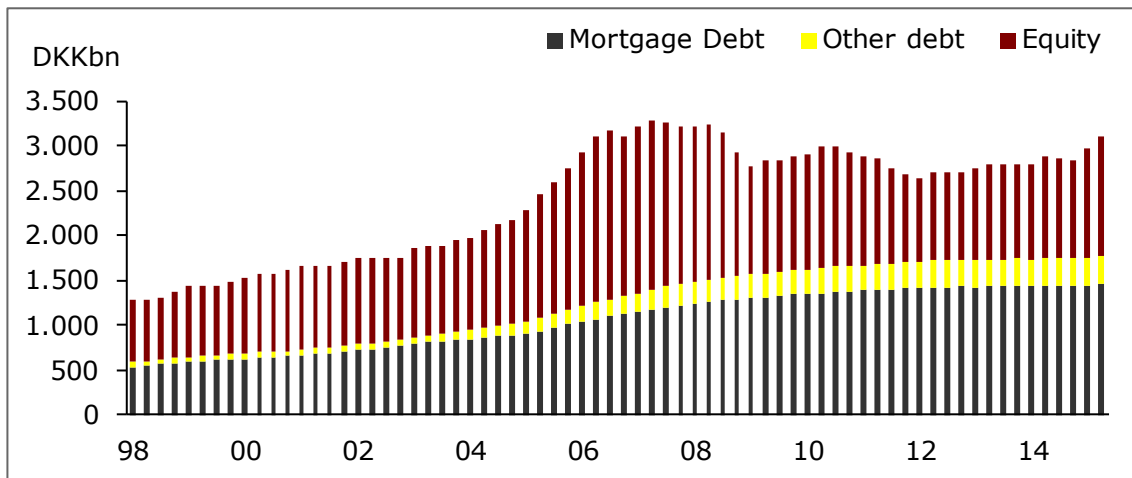
House Price Trends

- House prices are increasing. Large price increases especially in H1 2015 due to better economic climate and very low interest rates
- The Danish Central Bank expects an increase in house prices of around 3.5 per cent per annum from 2016 to 2017
- Number of houses sold is back to more "normal" levels



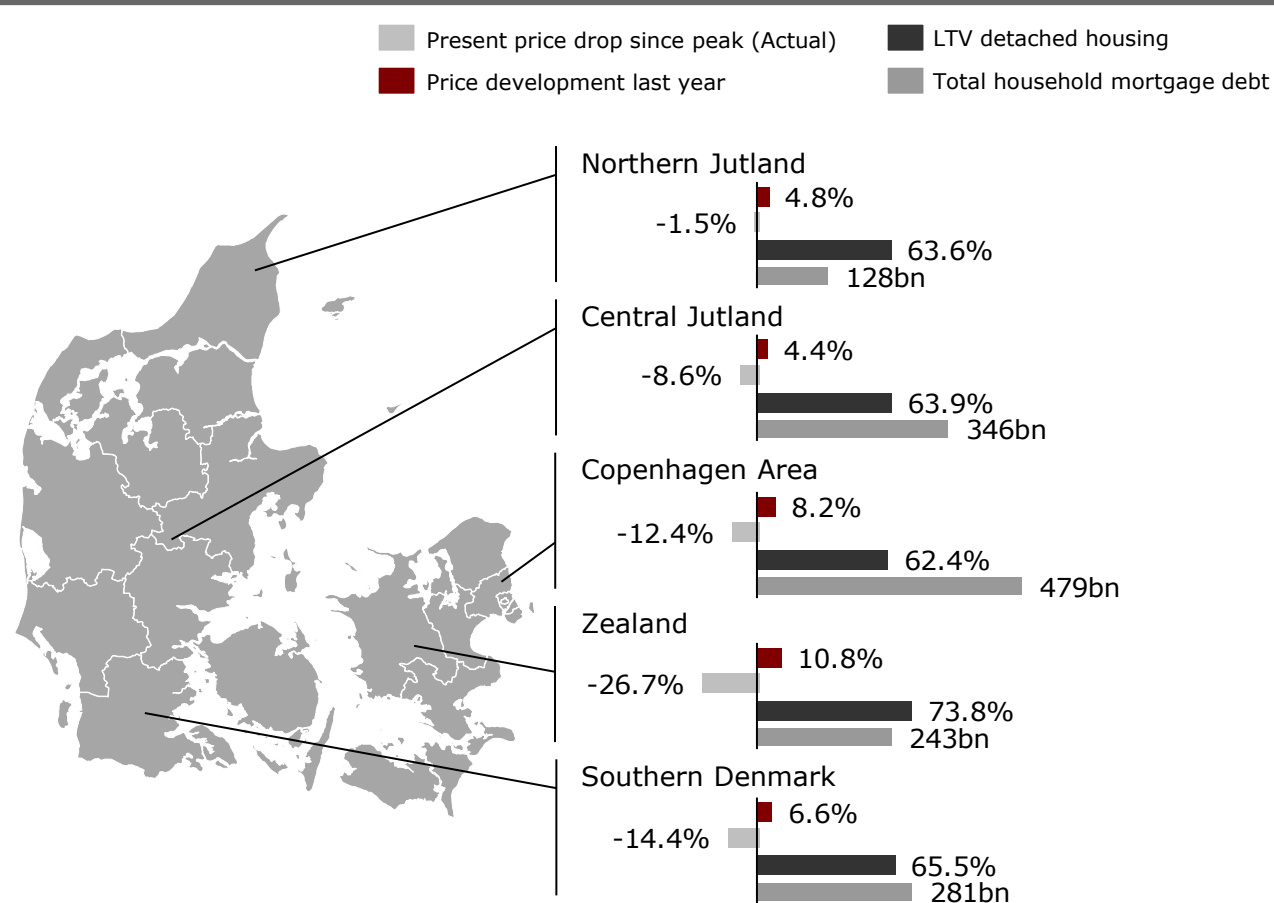
Homeowners Equity

- Homeowners' equity was DKK 1,336 bn end 2015Q2
- Since the beginning of 2012 homeowners' equity has risen by DKK 408bn
- In the same period total lending increased by DKK 60bn and thus the total value of the housing stock has increased by DKK 468bn



1 Geographical Dispersion

Private lending in Denmark in total

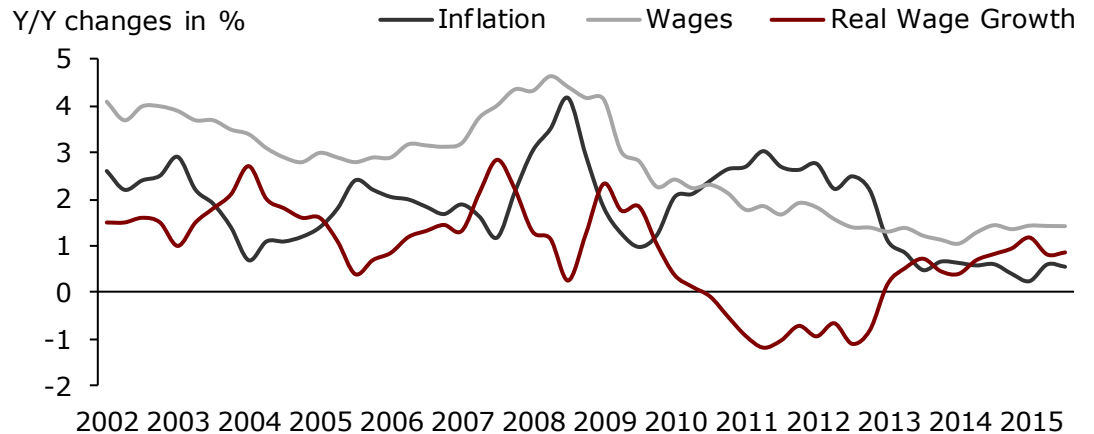


- House prices are generally increasing in all areas of the country
- Total mortgage debt in the Copenhagen area is the highest in the country. However, LTV is only 62.4% and house prices are on the rise

1 Unemployment and Real Wage Growth

Real Wage Growth

- Real wage growth in Q3 2015 stood at 0.9%.
- Current real wage growth is now above average



Unemployment

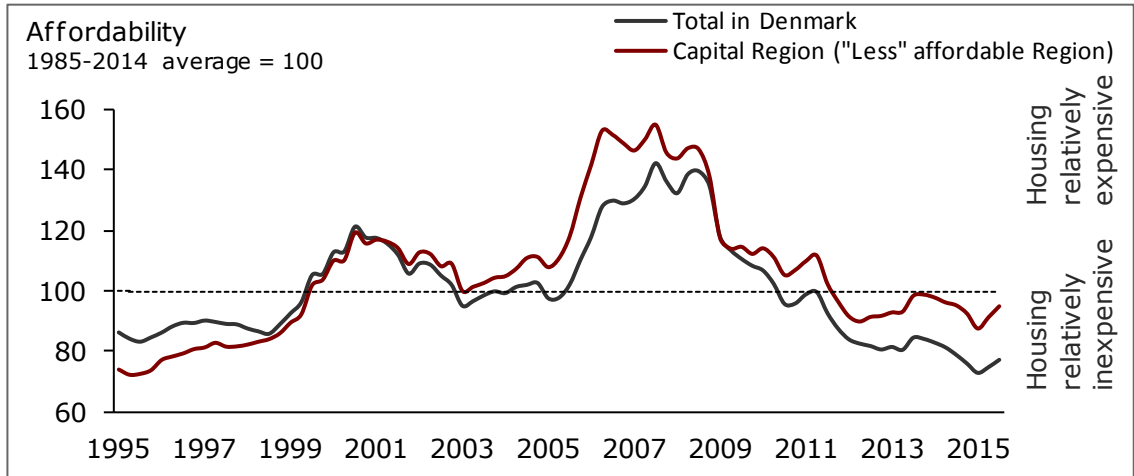
- Gross unemployment rate stood at 4.5 per cent end Q4 2015 up from a historical low of 2.4 per cent in mid 2008
- In a historical perspective unemployment is on a low level



1 Homeowner Affordability and Foreclosures

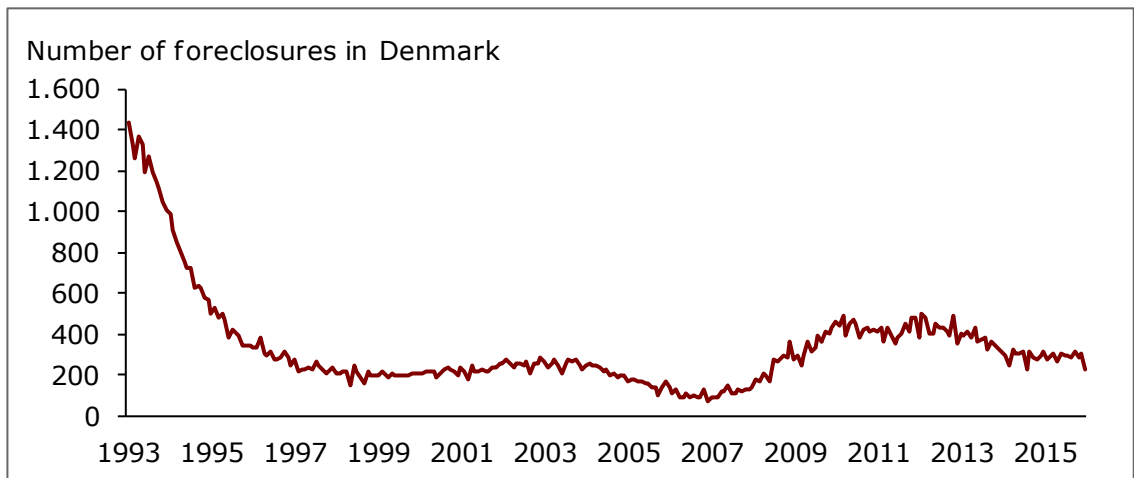
Homeowner Affordability

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



Foreclosures

- The number of foreclosed properties in Denmark in December 2015 was 303
- The number of foreclosures is now back to "normal levels"
- The duration of a foreclosure is approx. 6 months from missed payments to completion



1 Political measures and outlook

Denmark ■ Euro Zone ■	2015		2016		2017	
GDP	1.2	1.5	1.5	1.8	1.8	1.9
Private Consumption	2.2	1.7	2.3	1.3	2.2	1.2
Fixed investments	0.2	2.1	2.1	2.3	2.7	4.3
Export	-0.7	4.9	1.7	4.2	4.2	4.3
Unemployment %	4.7	10.9	4.4	10.0	4.1	9.2

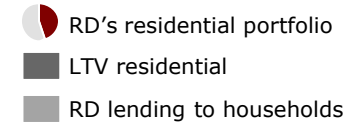
Danish Economy Outlook

- The growth in the Danish and European economy is expected to increase to 1.5 per cent and 1.8 per cent, respectively, in 2016
- Interest rates are a key element in the household economy
- In 2015, Denmark was introduced to negative interest rates
- 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
- As a consequence, the Danish Central Bank has lowered its key interest rates during 2015. Certificates of deposit rate currently stands at - 0.65% p.a.
- We expect very low interest rates in the near future

Key Collateral Indicators

Realkredit Danmark Specific Information

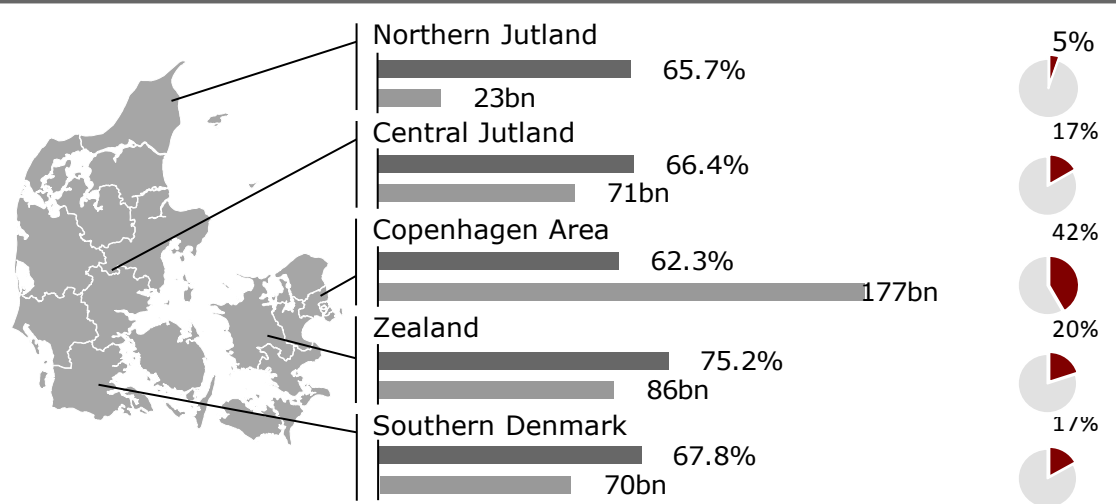
2 Dispersion and Loan to Value Ratios



Dispersion of RD's residential portfolio

- RD's loan portfolio is concentrated in the Copenhagen area and on Zealand where prices were reduced the most during the recent crisis
- 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 getting close to index 100

Geographical Dispersion in Realkredit Danmark



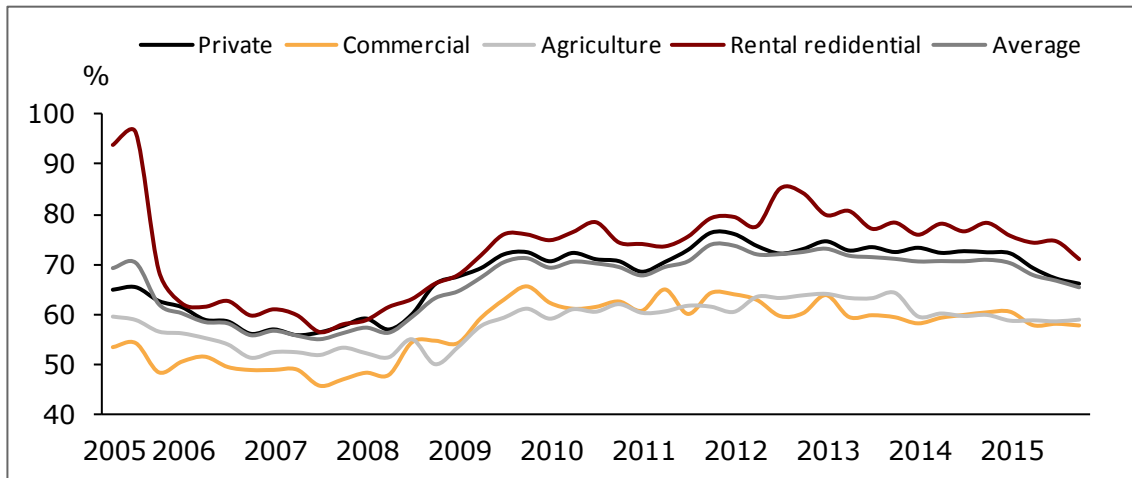
Loan To Value Ratios

- 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
- 37% of mortgage collateral securing covered bonds issued by Realkredit Danmark has a current LTV ratio of 20% or less. More than 66% 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 65% in Q4 2015 compared to 71% in Q4 2014
- LTV's for Commercial and Agriculture are based on few observations to confirm correct price levels



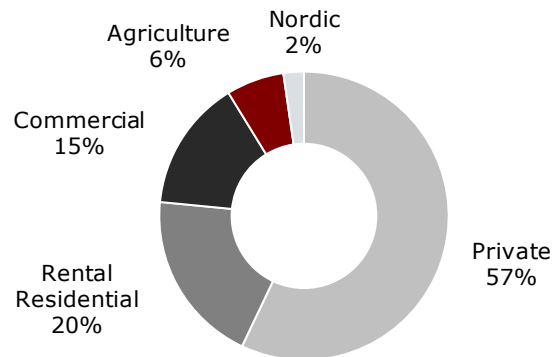
Borrower Classifications

- Borrowers' financial strength is classified on a scale from 1 to 11, 1 being the highest score
- Approx. 6bn 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 %	62	194	18	274
20-40 %	42	164	17	223
40-60 %	24	116	14	154
60-80 %	10	49	8	68
> 80 %	6	17	6	29
Total	144	541	63	748

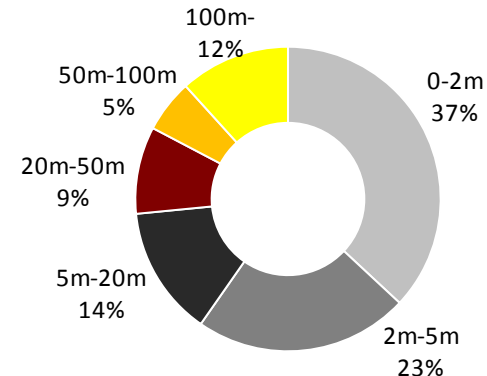
2 Collateral Breakdowns — Total portfolio

Borrower Segmentation



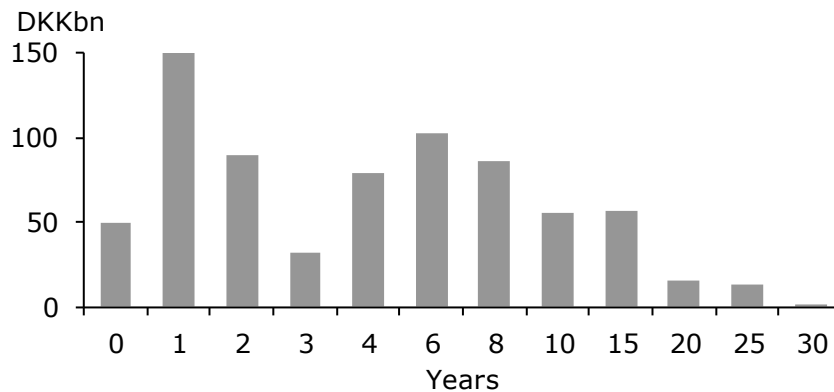
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning



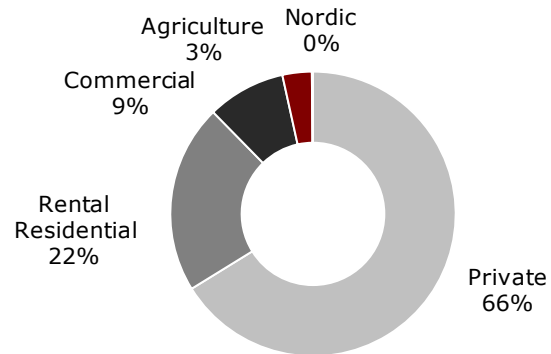
Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	149	128	92	45	14	427
Commercial	48	40	26	7	4	126
Agriculture	19	16	10	3	1	48
Rental Residential	59	39	26	14	9	147
Weighted dist.	37%	30%	21%	9%	4%	100%
Total, DKKbn	274	223	154	68	29	748

Average LTV: 65.4%

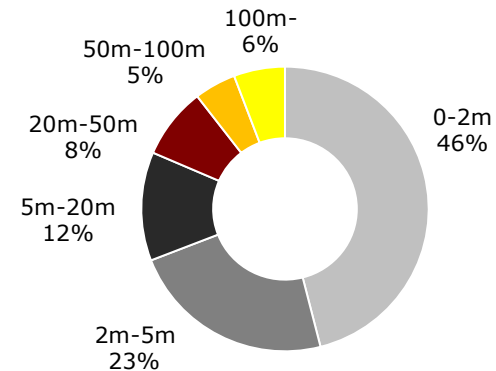
2 Collateral Breakdowns — Capital Centre S

Borrower Segmentation



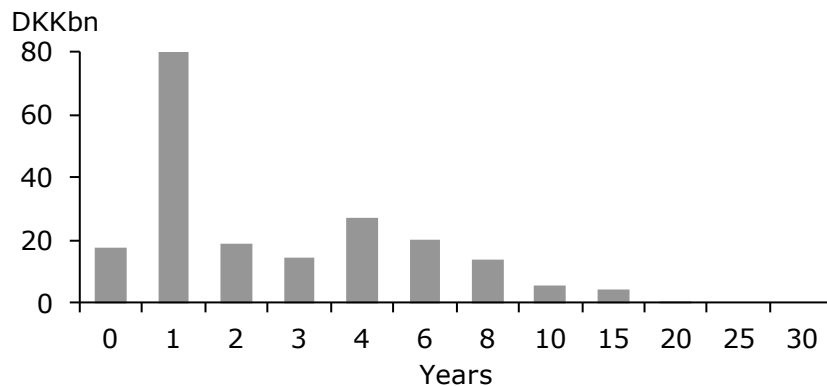
Note: Total lending distributed on segments

Outstanding Loan Balance



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Portfolio Seasoning



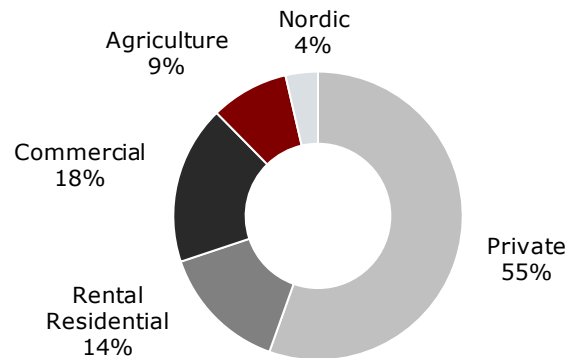
Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	52	46	33	15	4	150
Commercial	7	6	4	2	1	20
Agriculture	3	3	2	0	0	8
Rental Residential	23	13	7	4	3	49
Weighted dist.	37%	30%	20%	9%	3%	100%
Total, DKKbn	84	68	46	21	7	226

Average LTV: 61.6%

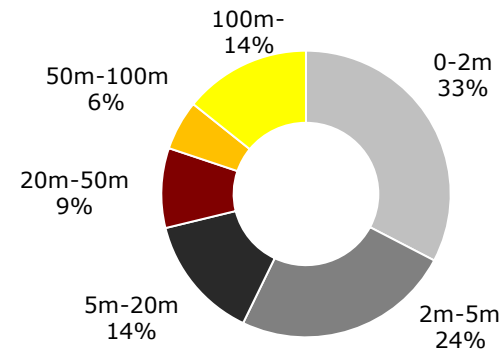
2 Collateral Breakdowns — Capital Centre T

Borrower Segmentation



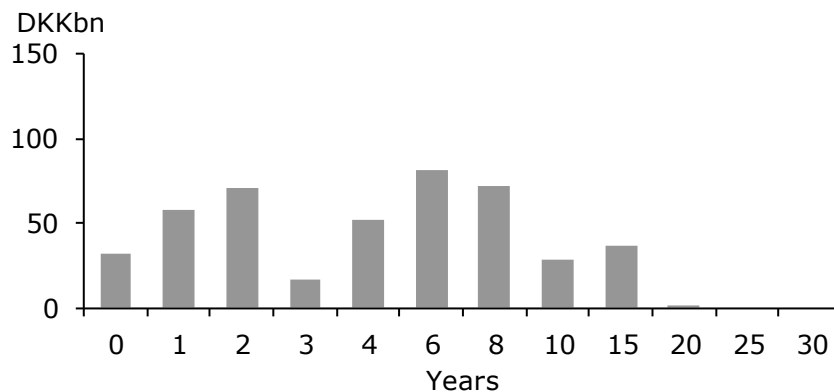
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning



Outstanding Debt in DKKbn by LTV ratio

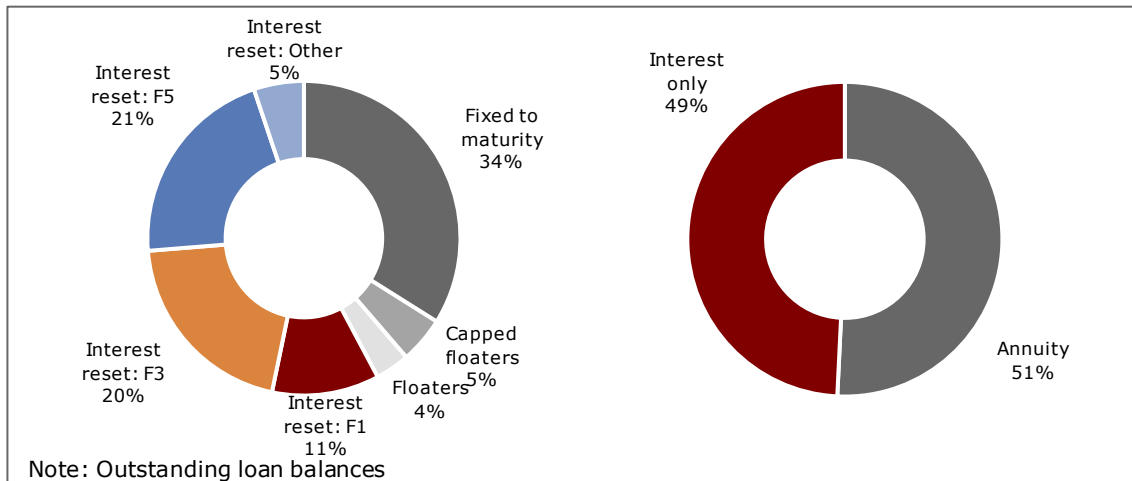
Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	85	74	55	27	9	250
Commercial	38	32	20	4	2	95
Agriculture	15	13	8	3	1	39
Rental Residential	23	19	14	7	4	66
Weighted dist.	36%	30%	21%	9%	3%	100%
Total, DKKbn	161	137	97	41	15	452

Average LTV: 64.5%

2 Borrower Exposure to Interest Rates

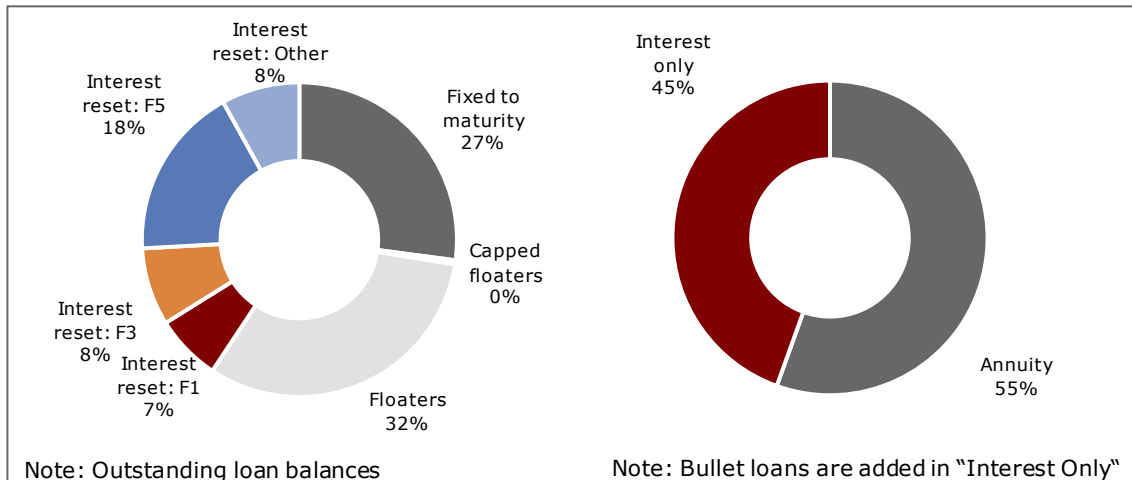
Private Segment

- 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 accounts for 58 %
- Expectations are for this percentage to decline since fixed rates are now only 3% and FlexKort® (floater) is offered as an alternative to interest reset loans
- Negative interest rates has been a reality for F1 – and some floaters' floor of 0% p.a. became effective as of 1 July 2015



Corporate Segments

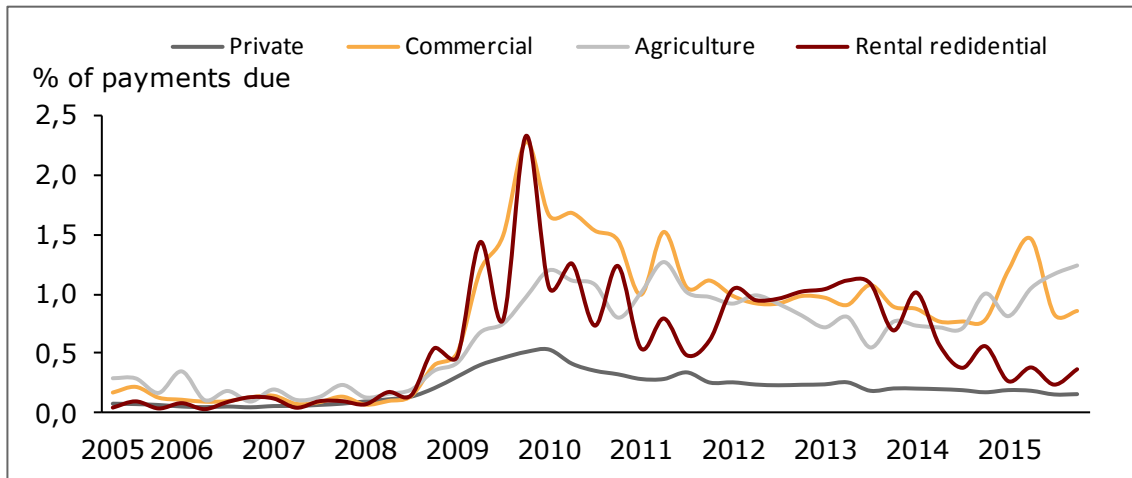
- 27% of all lending in corporate segments is fixed rate to maturity
- 72% are either interest reset (typically, rates are reset every year or every third year) or floating rate (base rates are either 6M CIBOR, 3M EURIBOR or 6M CITA)
- Bullets and Interest only loans make up 45% of corporate lending



2 Arrears and Repossessions

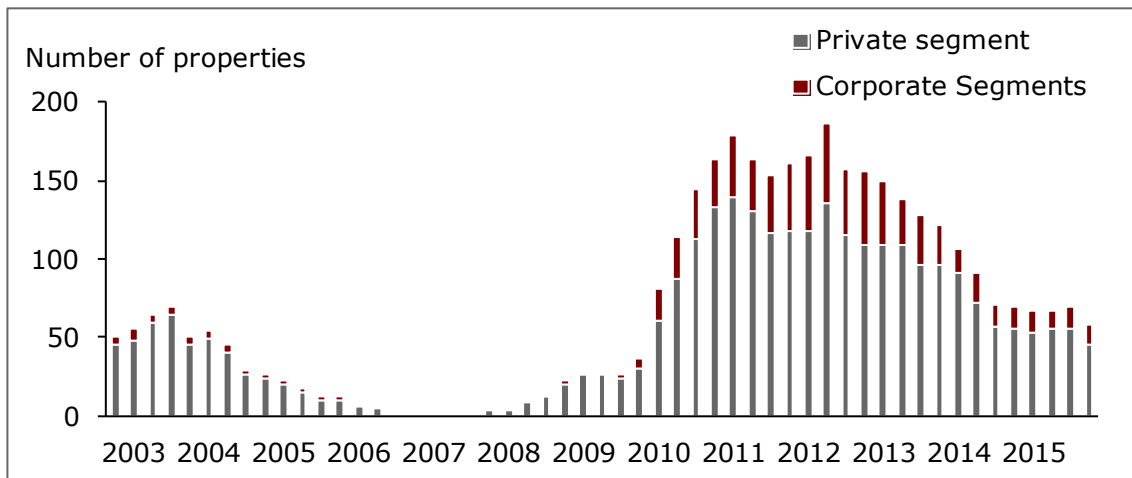
Arrears (3 months)

- Total arrears stood at 0.36% end Q4 2015
- Arrears are rather volatile in the Rental residential segment. However, arrears are down considerably from Q4 2009
- Arrears in the Commercial segment is now 0.85%. The peak in Q2 2015 was due to a few individual loans
- Arrears in the Private segments have been rather stable around 0.2% for the last years



Repossessions

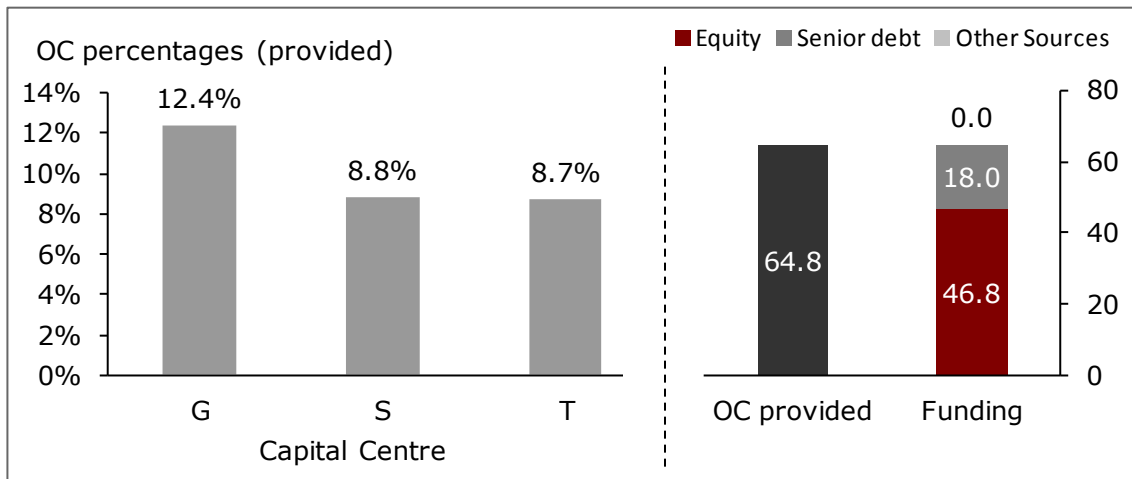
- The stock of repossessed properties stood at 58 end Q4 2015 — down by 11 since Q3 2015
- This compares to a total stock of mortgage collateral of 478,918



2 Over Collateralization and Capitalization

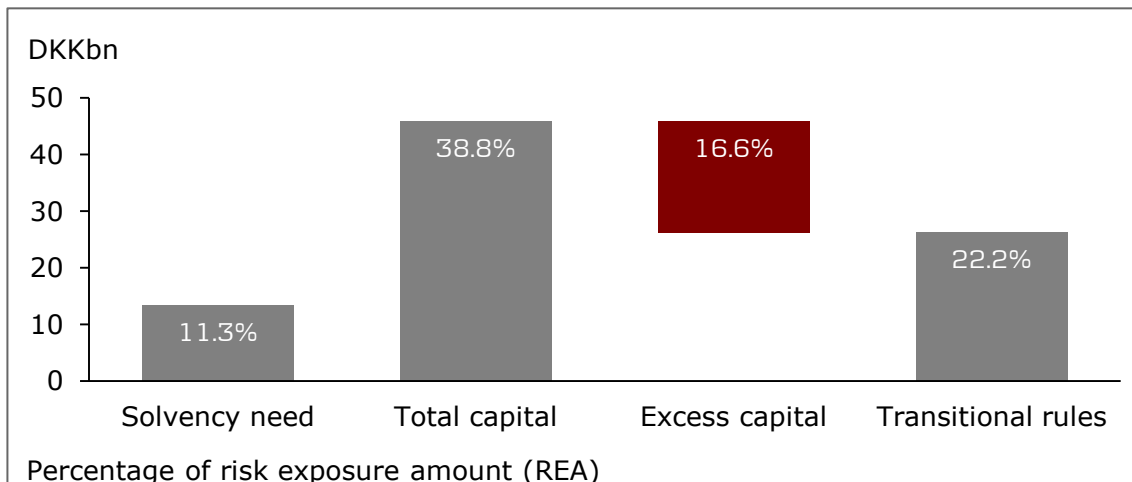
Over Collateralisation

- 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

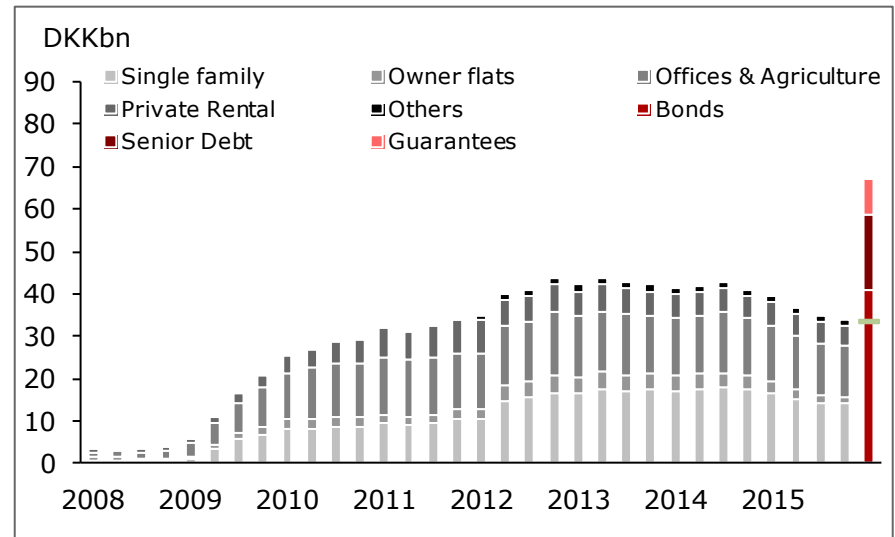
- End 2015, Realkredit Danmark's solvency need was calculated at 13.3 bn
- Calculated on the basis of the transitional rules, the capital need was 26.2 bn
- With total capital of 45.8 bn, Realkredit Danmark had 19.6 bn in excess of the requirement according to the transitional rules



Supplementary Collateral — Total in S and T

Buffer in Capital Centres S and T

- End Q4 total OC provided was DKK 58.7bn in Capital Centres S and T of which 18.0bn was funded by Senior debt
- Supplementary Collateral of DKK 33.9bn is required end Q4 2015 in Capital Centres S and T
- Loss Guarantees of DKK 8.3bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centres S and T is DKK 33.1bn
- 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



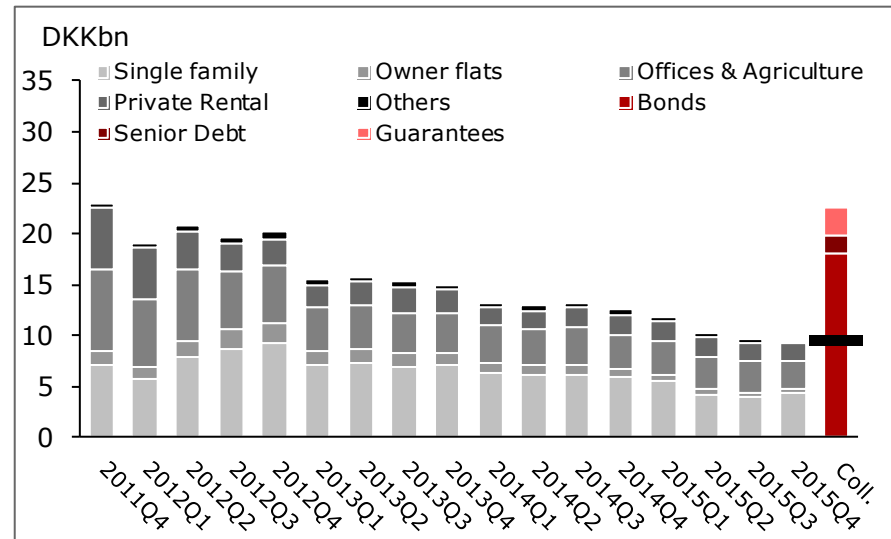
Supplementary Collateral requirements

- 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

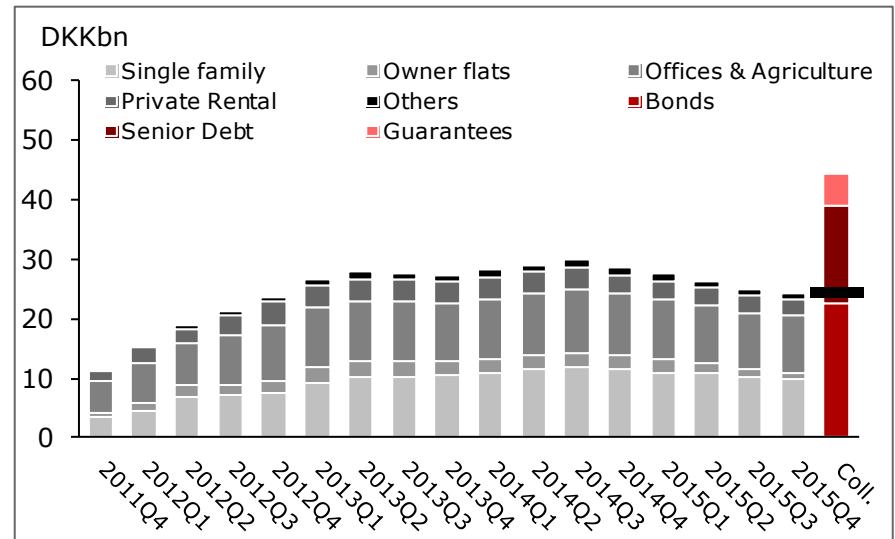
- End Q4 2015 total OC provided was DKK 19.8bn in Capital Centre S of which 1.8bn was funded by Senior debt
- Supplementary Collateral of DKK 9.5bn is required end Q4 2015 in Capital Centre S
- Loss Guarantees of DKK 2.7bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centre S is DKK 13.0bn
- 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



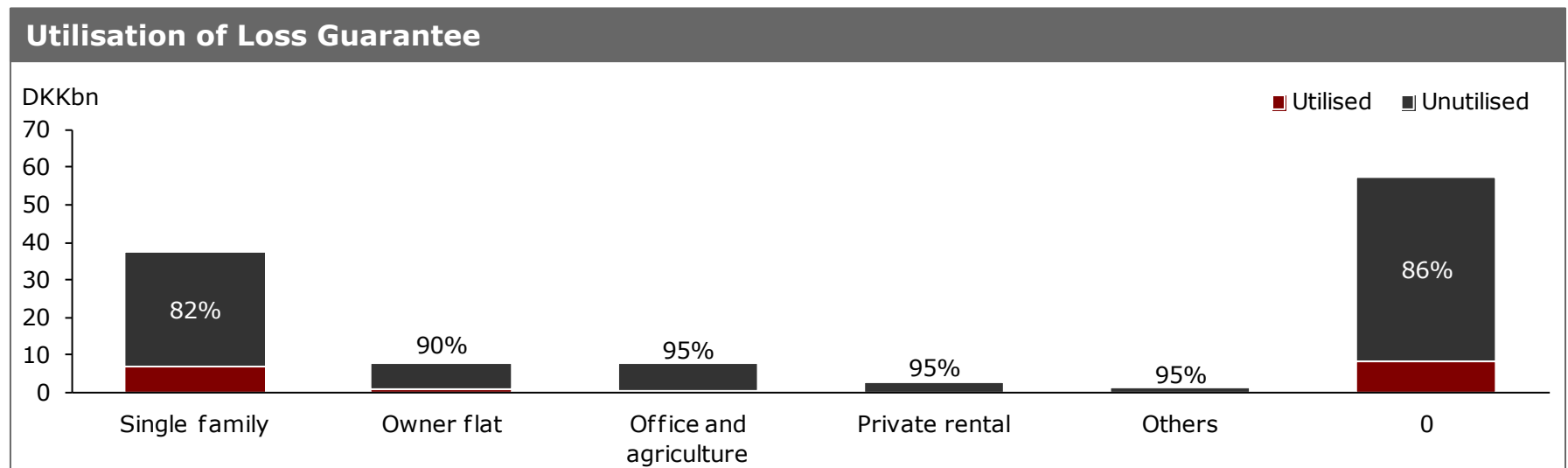
Supplementary Collateral — T

Buffer in Capital Centre T

- End Q4 2015 total OC provided was DKK 38.9bn in Capital Centre T of which 16.2bn was funded by Senior debt
- Supplementary Collateral of DKK 24.4bn is required end Q4 2015 in Capital Centre T
- Loss Guarantees of DKK 5.5bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centre T is DKK 20.1bn
- 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



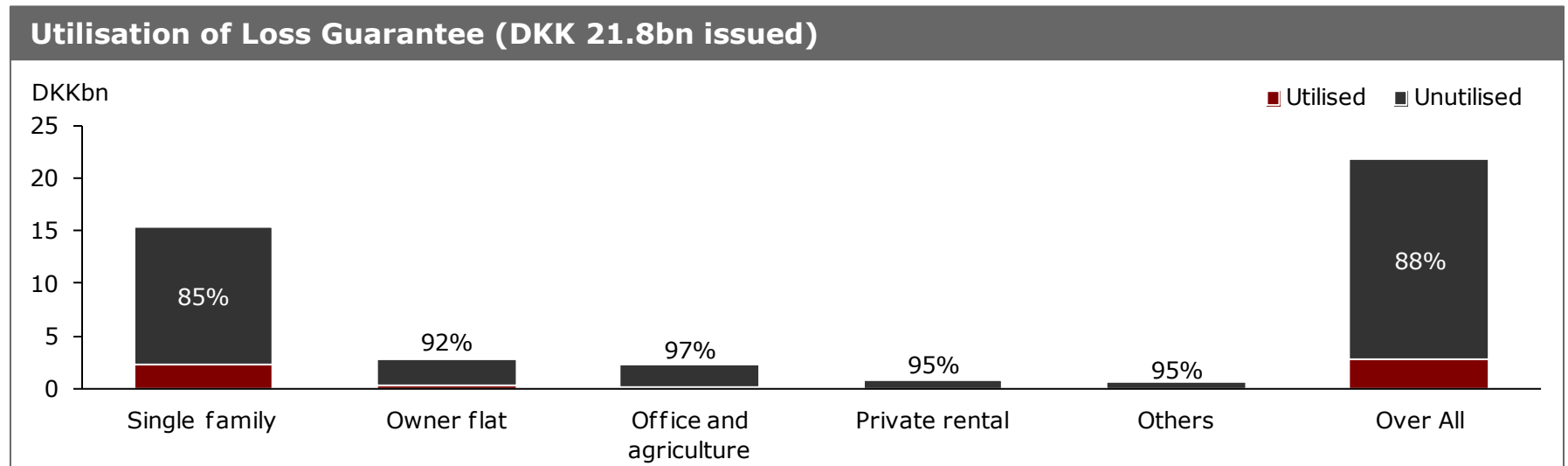
Guarantees — Total



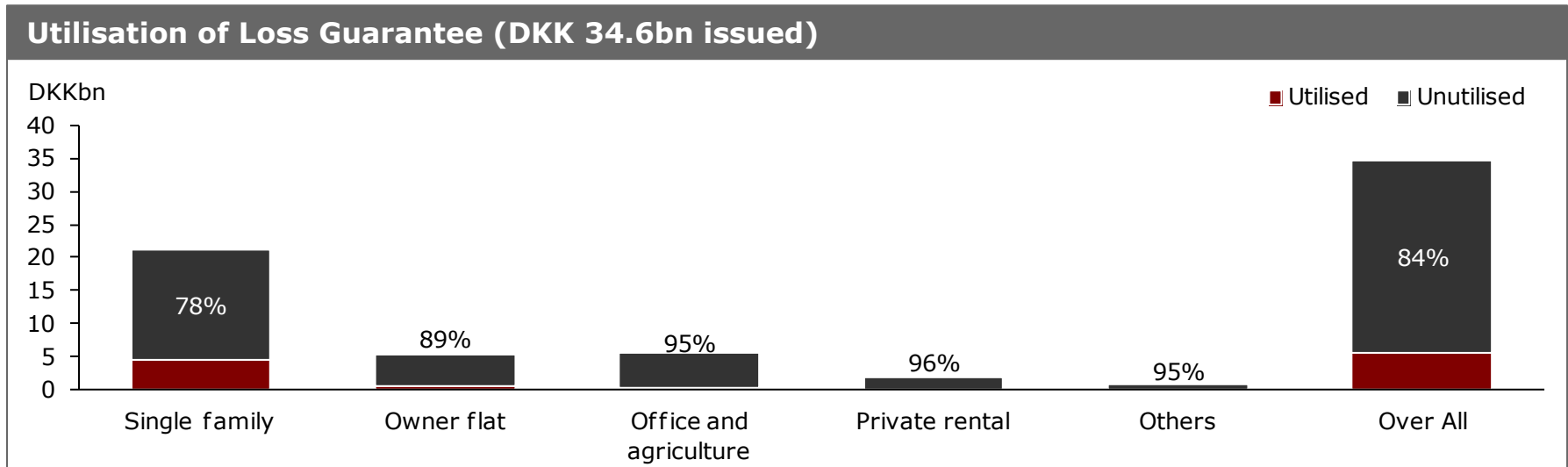
Loss Guarantees issued by Danske Bank (DKK 57.7bn)

- 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



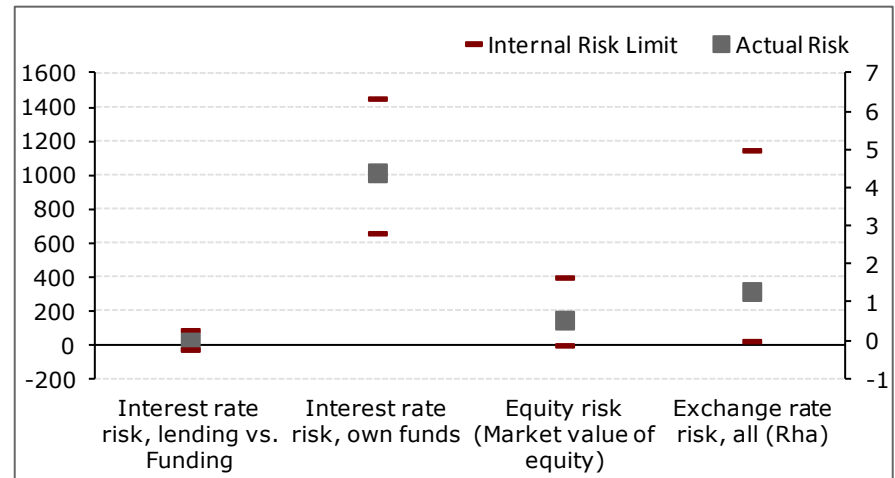
Guarantees — T



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 2015 interest rate risk on lending vs. funding stood at DKK 19.5m
- Derivatives are not employed for hedging imbalances on lending and funding



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