

Risk Report 2018Q2

Published 8 August 2018

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

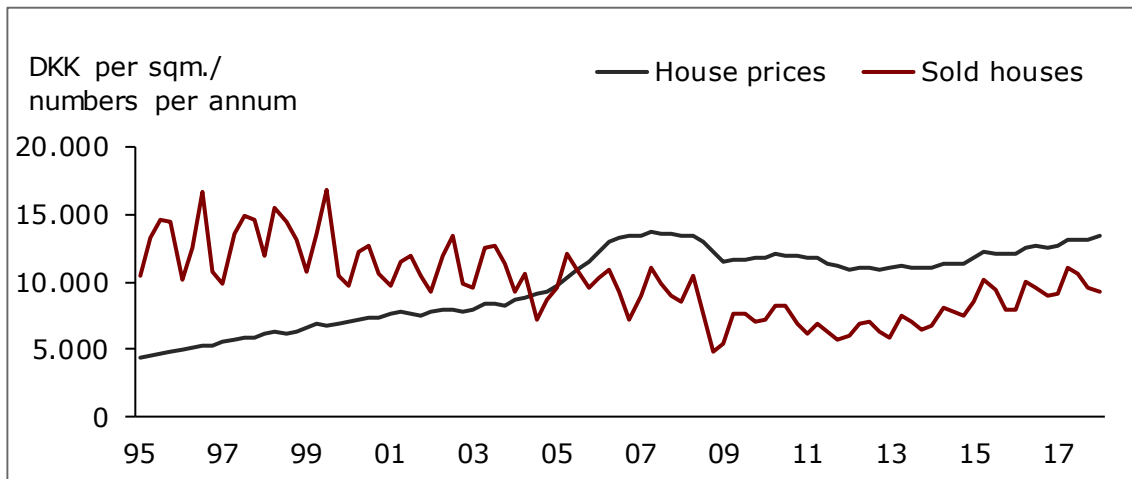
Key Market Indicators

General Market Information

1 House Prices and Homeowners Equity

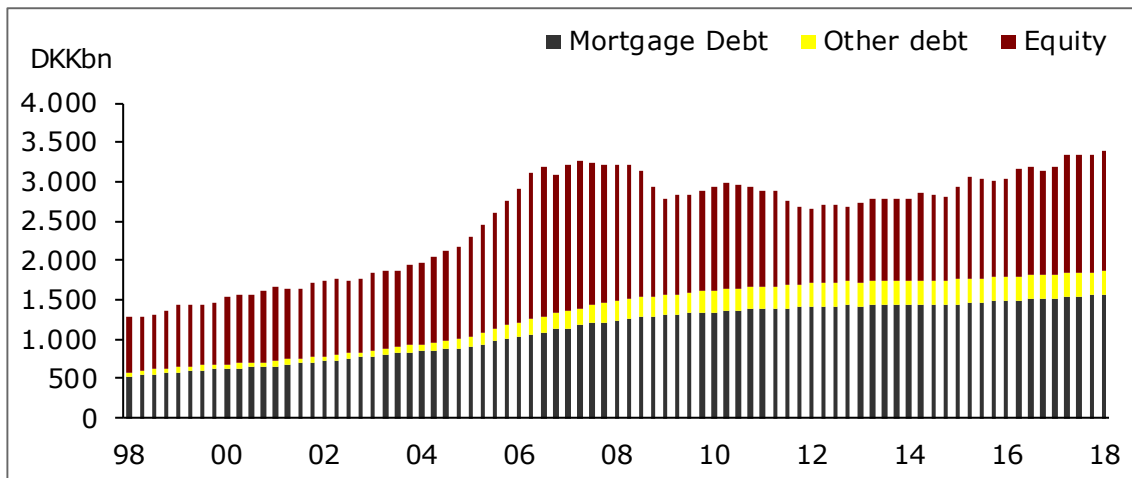
House Price Trends

- House prices on the rise have been driven by historically low interest rates in combination with an economic upswing
- The Danish Central Bank expects an increase in house prices of around 3 per cent per annum in 2018
- Number of houses sold is back to more "normal" levels



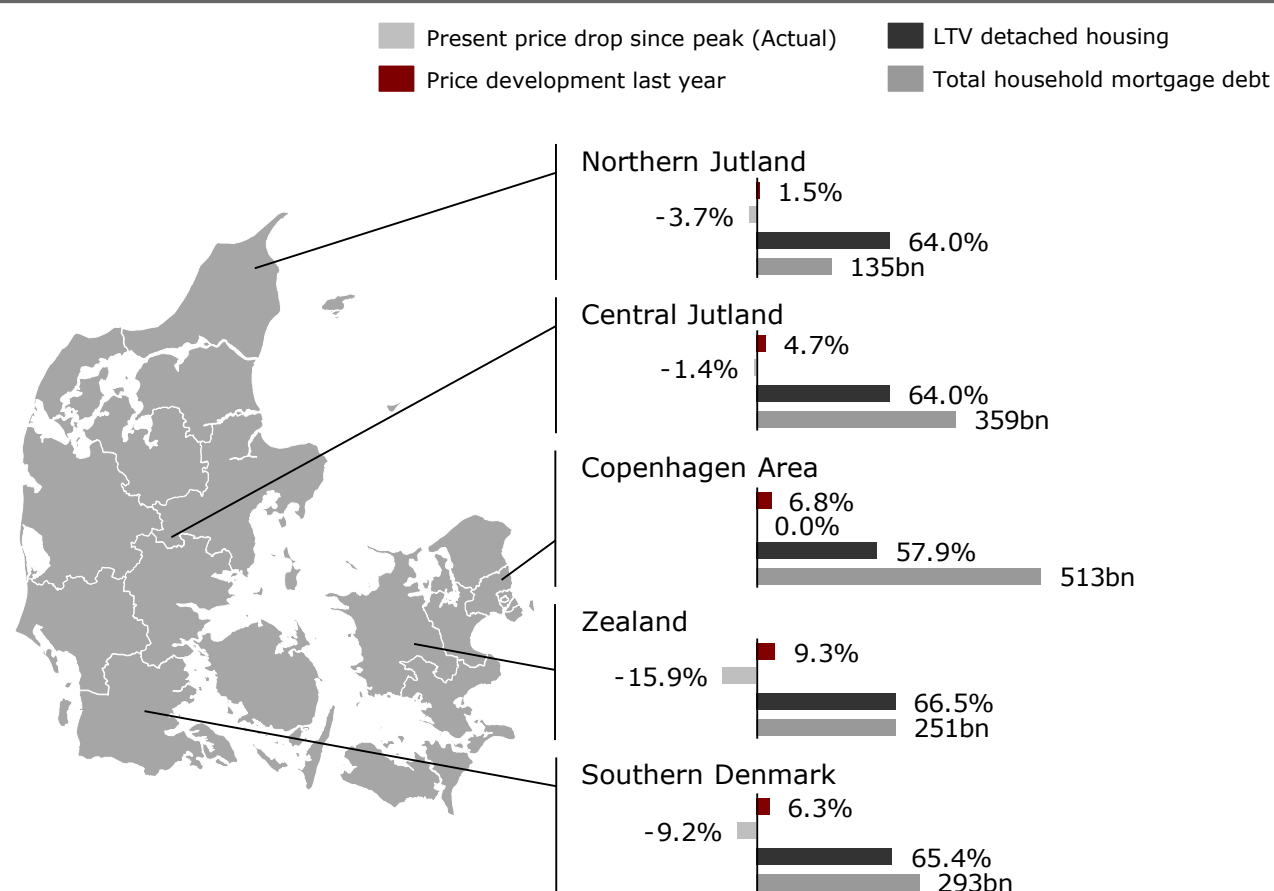
Homeowners Equity

- Homeowners' equity was DKK 1,543bn end 2018Q1
- Since the beginning of 2012 homeowners' equity has risen by DKK 606bn
- In the same period total lending increased by DKK 148bn and thus the total value of the housing stock has increased by DKK 755bn



1 Geographical Dispersion

Private lending in Denmark in total

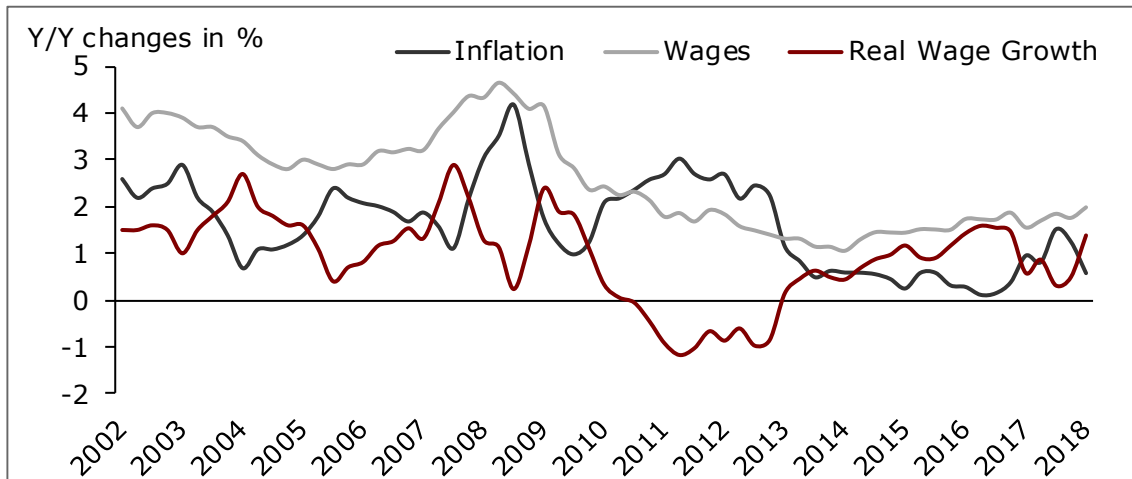


- House prices are generally increasing
- Total mortgage debt in the Copenhagen area is the highest in the country. However, LTV is only 58.0% and house prices are on the rise

1 Unemployment and Real Wage Growth

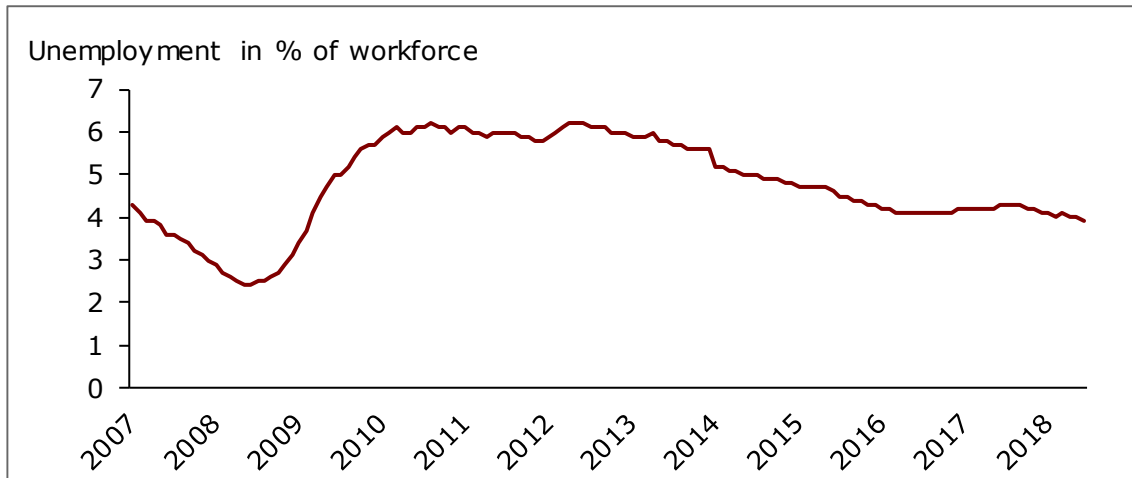
Real Wage Growth

- Real wage growth in Q1 2018 stood at 1.4%.



Unemployment

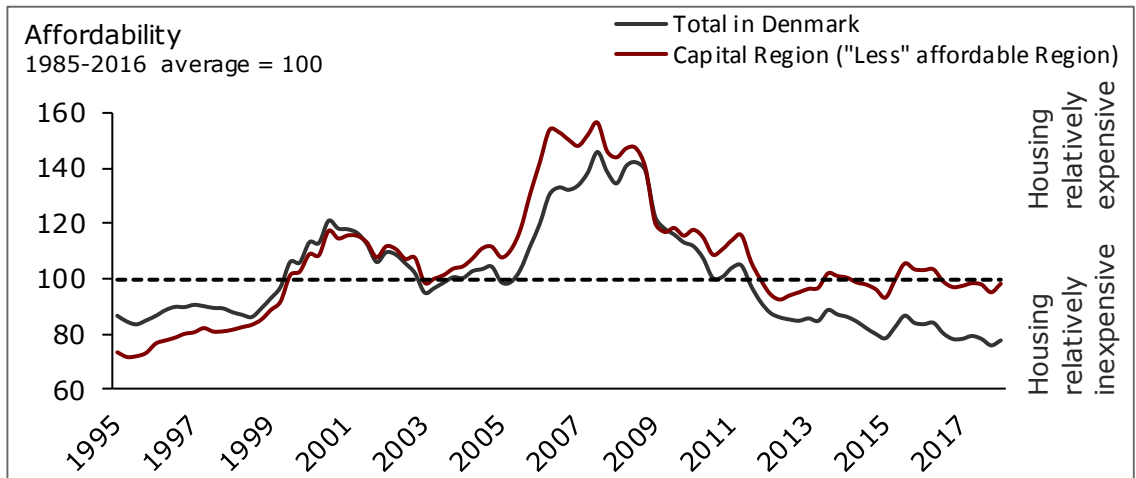
- Gross unemployment rate has declined over the past years and stood at 3.9 per cent end Q2 2018
- In a historical perspective unemployment is on a low level



1 Homeowner Affordability and Foreclosures

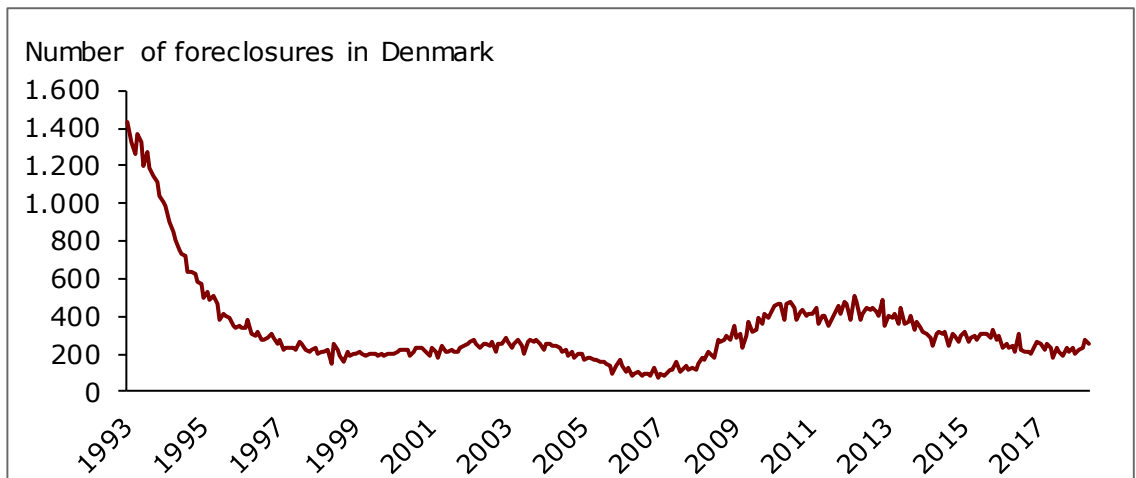
Homeowner Affordability

- Housing remains affordable compared to a 30 year average. However, the Capital region is very close to average (index 100)
- Recent house price inflation is off-set by low interest rates
- The likely impact of interest rate hikes would be a downward trend in house prices.



Foreclosures

- The number of foreclosed properties in Denmark in June 2018 was 207
- The number of foreclosures is at "normal levels"
- The duration of a foreclosure is approx. 6 months from missed payments to completion



1 Political measures and outlook

Denmark ■ Euro Zone ■	2017		2018		2019	
GDP	2.3	2.5	1.8	2.1	1.8	1.7
Private Consumption	1.6	1.7	2.3	1.6	2.4	1.9
Fixed investments	4.5	2.9	5.0	2.6	1.5	1.8
Export	4.4	5.5	0.5	3.7	2.7	3.1
Unemployment %	4.2	9.1	4.0	8.4	3.8	8.0

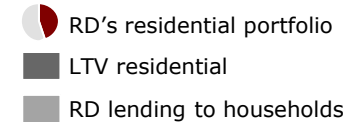
Danish Economy Outlook

- The growth in the Danish and European economy is expected to be 1.8 and 2.1 percent, respectively, in 2018
- Interest rates are a key element in the household economy
- Certificates of deposit rate currently stands at -0.65% p.a.
- We expect the ECB to hike its interest rate in H2 2019. The Danish Central bank is expected to follow the ECB due to the fixed exchange rate regime vis-à-vis the euro

Key Collateral Indicators

Realkredit Danmark Specific Information

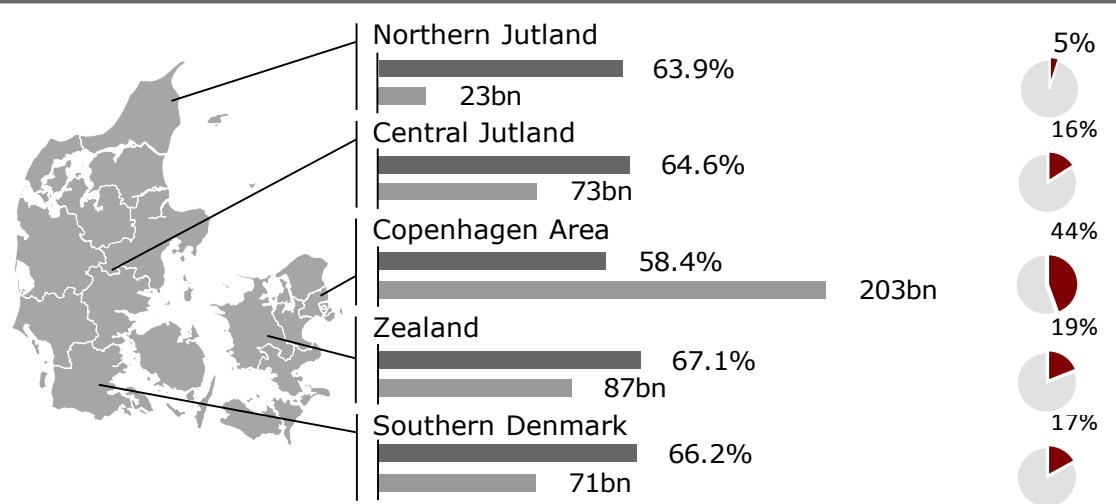
2 Dispersion and Loan to Value Ratios



Dispersion of RD's residential portfolio

- RD's loan portfolio is concentrated in the Copenhagen area and on Zealand
- 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 now very close to index 100

Geographical Dispersion in Realkredit Danmark



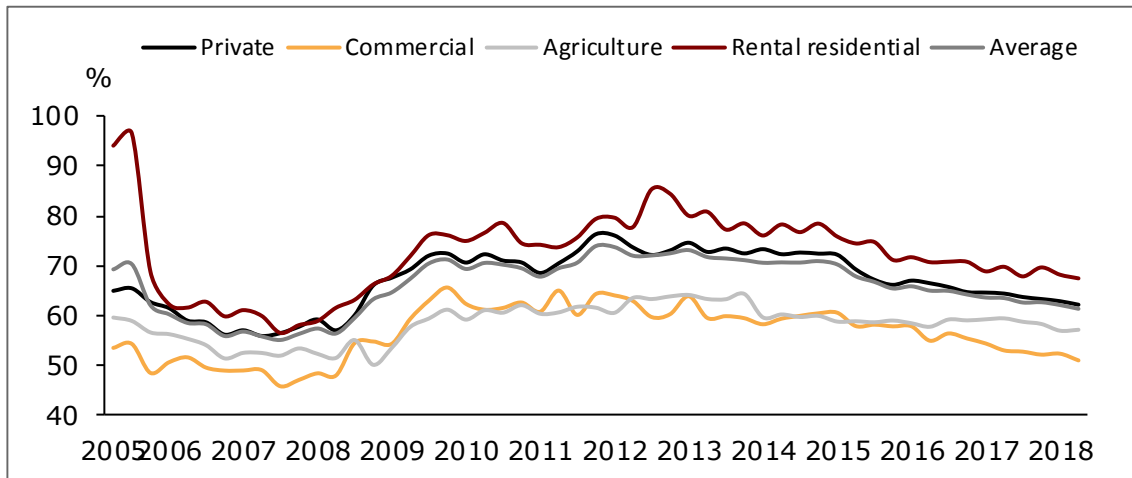
Loan To Value Ratios

- 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
- 39% of mortgage collateral securing covered bonds issued by Realkredit Danmark has a current LTV ratio of 20% or less. More than 70% 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 62.1% in Q1 2018 compared to 64% in Q1 2017
- LTV's for Commercial and Agriculture are based on few observations to confirm correct price levels



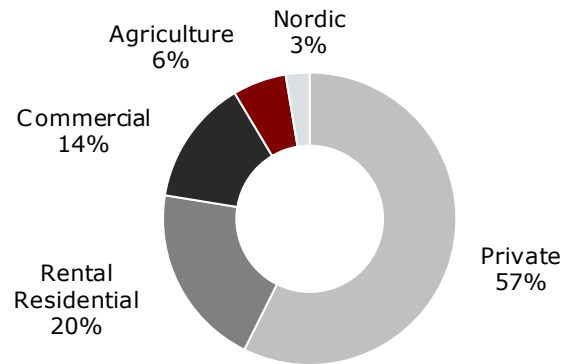
Borrower Classifications

- Borrowers' financial strength is classified on a scale from 1 to 11, 1 being the highest score
- Approx. 3bn of total lending is secured by mortgages above the 80% LTV limit for which the borrowers' financial strength is classified 8-11 — equivalent to 0.4% of the portfolio

DKKbn	Rating Category (Scaled 1-11)			
	1-3	4-7	8-11	Total
LTV				
0-20 %	83	217	12	313
20-40 %	56	180	11	247
40-60 %	31	116	9	156
60-80 %	12	44	5	61
> 80 %	6	12	3	21
Total	187	569	41	797

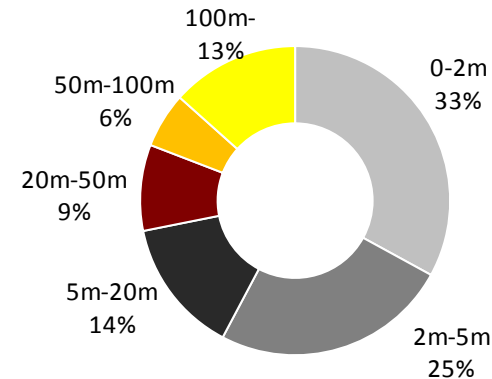
2 Collateral Breakdowns — Total portfolio

Borrower Segmentation



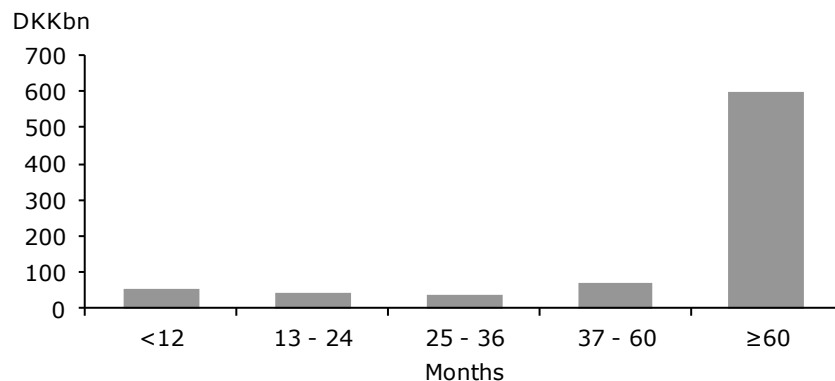
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning *defined by duration of customer relationship*



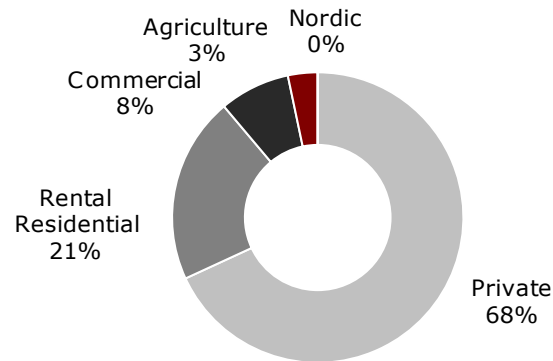
Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	168	142	97	42	8	457
Commercial	56	44	22	4	2	129
Agriculture	19	16	10	3	1	47
Rental Residential	70	45	27	13	10	164
Weighted dist.	39%	31%	20%	8%	3%	100%
Total, DKKbn	313	247	156	61	21	797

Average LTV: 61.4%

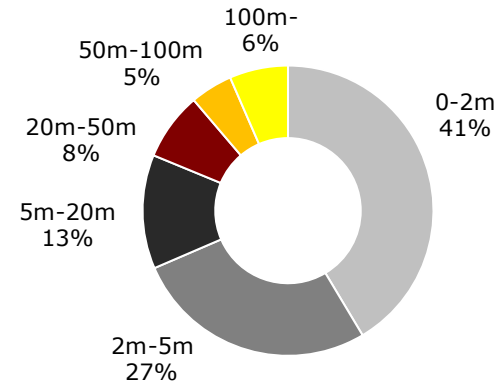
2 Collateral Breakdowns — Capital Centre S

Borrower Segmentation



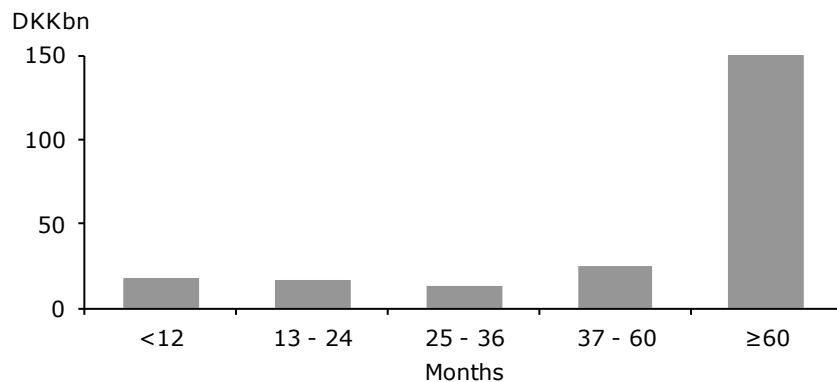
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning *defined by duration of customer relationship*



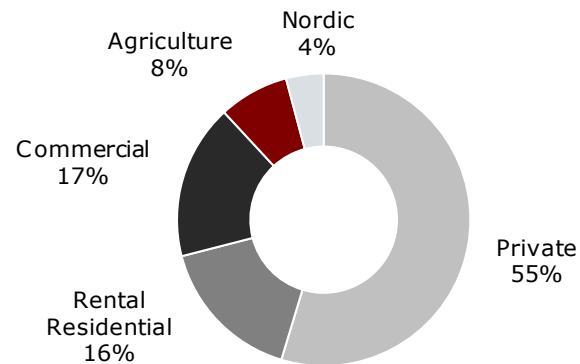
Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	62	54	37	17	3	172
Commercial	7	7	4	1	0	20
Agriculture	3	3	2	1	0	8
Rental Residential	26	13	7	4	4	53
Weighted dist.	39%	30%	20%	8%	3%	100%
Total, DKKbn	98	76	50	22	7	253

Average LTV: 59.6%

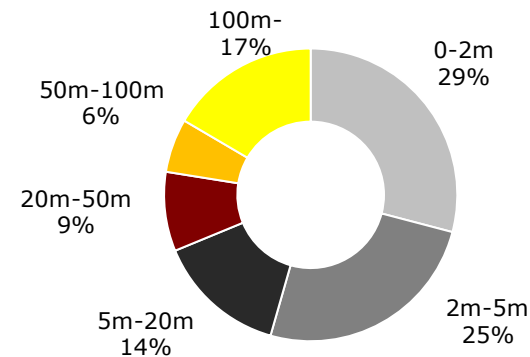
2 Collateral Breakdowns — Capital Centre T

Borrower Segmentation



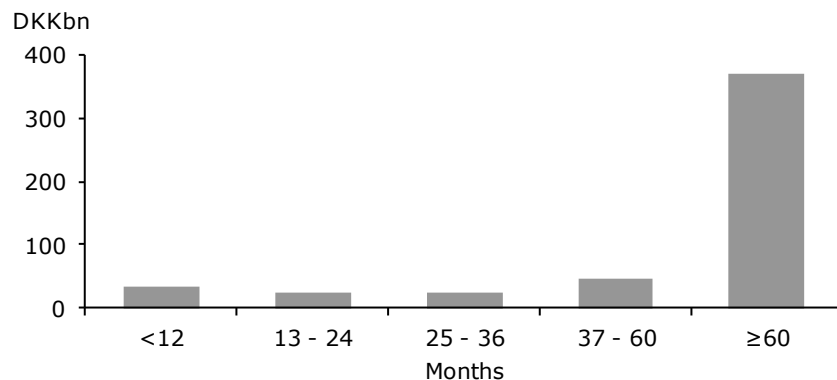
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning *defined by duration of customer relationship*



Outstanding Debt in DKKbn by LTV ratio

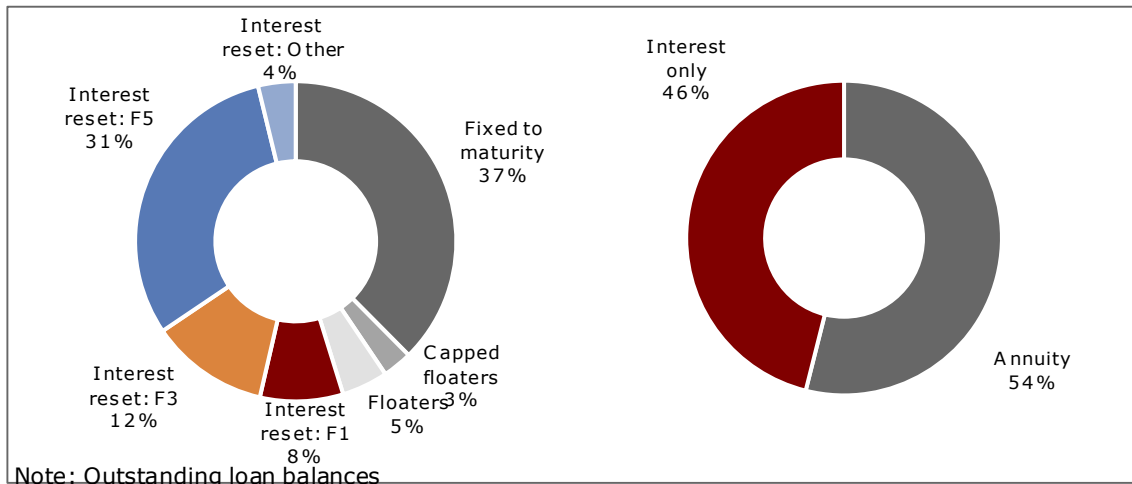
Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	99	85	58	24	5	271
Commercial	46	35	17	3	1	102
Agriculture	15	13	8	2	0	38
Rental Residential	32	25	16	7	4	84
Weighted dist.	39%	32%	20%	7%	2%	100%
Total, DKKbn	193	157	98	36	11	495

Average LTV: 59.7%

2 Borrower Exposure to Interest Rates

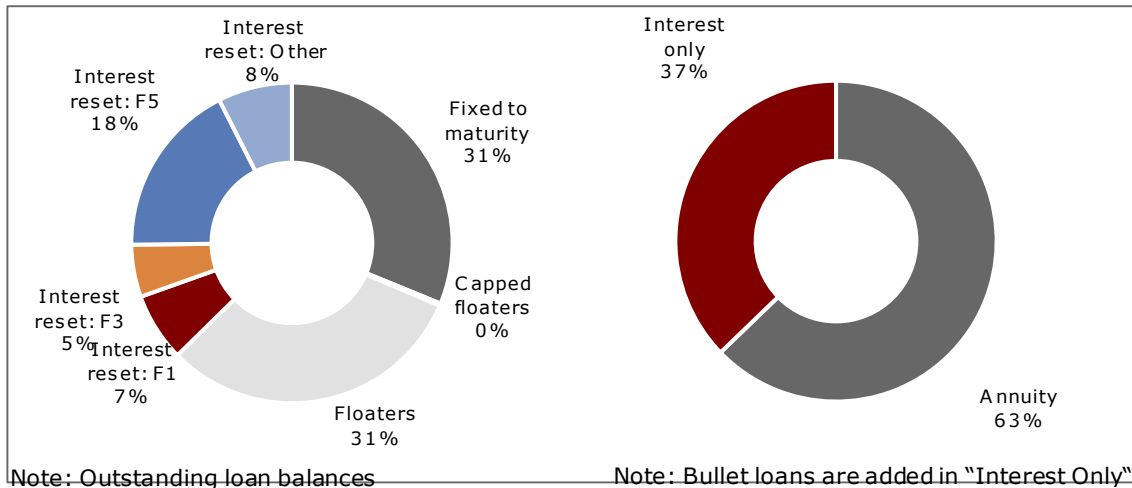
Private Segment

- Homeowners must be able to service a 30-year fixed rate annuity loan of 4% for Realkredit Danmark to underwrite
- Originally, fixed rate mortgages were standard in the Danish market, but now interest reset accounts for 55%
- Expectations are for this percentage to decline since 30Y fixed rates are now only 2% and FlexKort® (floater) is offered as an alternative to interest reset loans
- Negative interest rates has been a reality for a while now



Corporate Segments

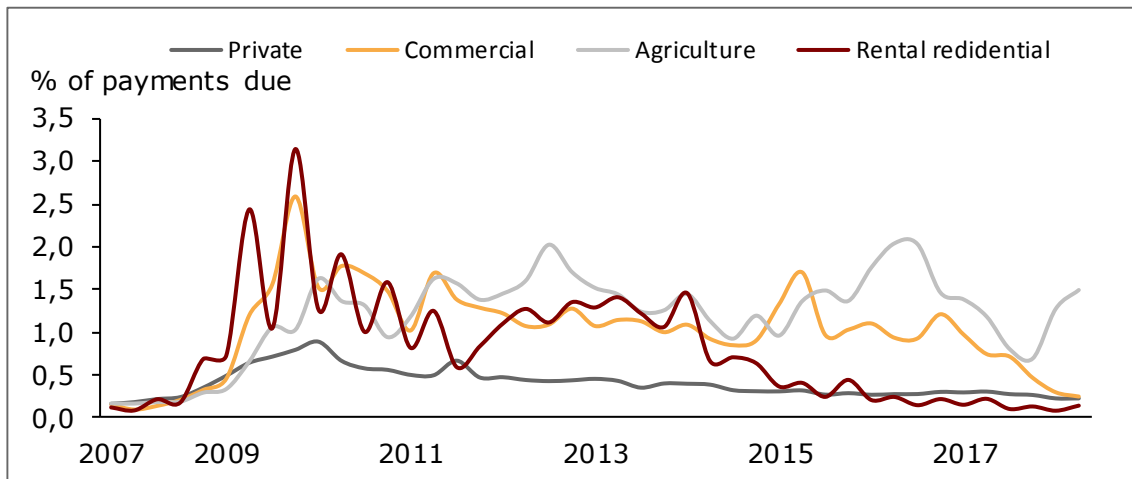
- 31% of all lending in corporate segments is fixed rate to maturity
- 69% are either interest reset (typically, rates are reset every 1, 3 or 5 years) or floating rate (base rates are either 6M CIBOR, 3M EURIBOR or 6M CITA)
- Bullets and Interest only loans make up 37% of corporate lending



2 Arrears and Repossessions

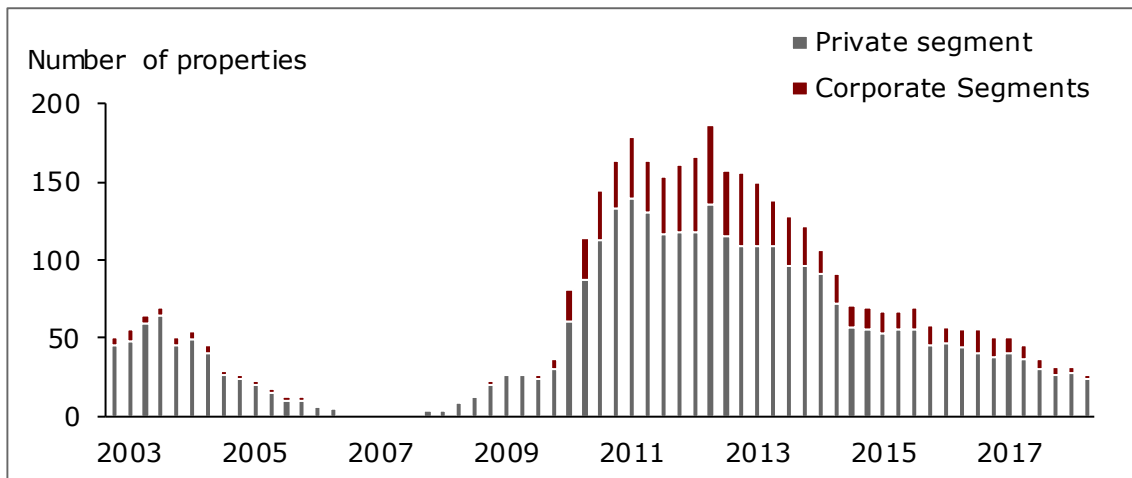
Arrears (3 months)

- Total arrears stood at 0.30% end Q2 2018
- Arrears are rather volatile in the Rental residential segment. However, down considerably from Q4 2009
- Arrears in the Commercial segment is now 0.24%. The segment is sensitive to the development in few individual loans
- Arrears in agriculture has increased to 1.49 % in Q2 2018
- The Private segment is slightly decreasing - now 0.22%



Repossessions

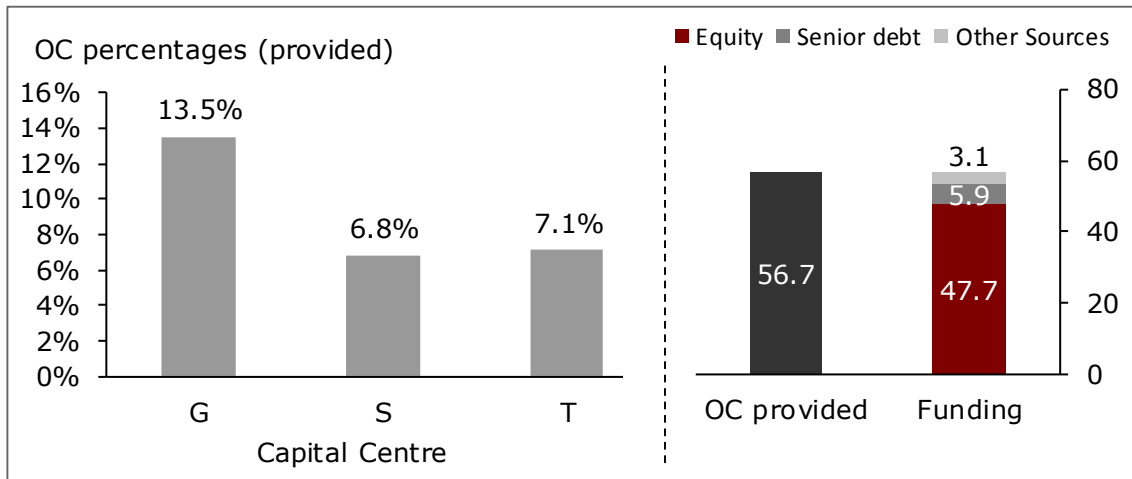
- The stock of repossessed properties stood at 27 end Q2 2018 — down by 4 since Q1 2018
- This compares to a total stock of mortgage collateral of 470,542



2 Over Collateralization and Capitalization

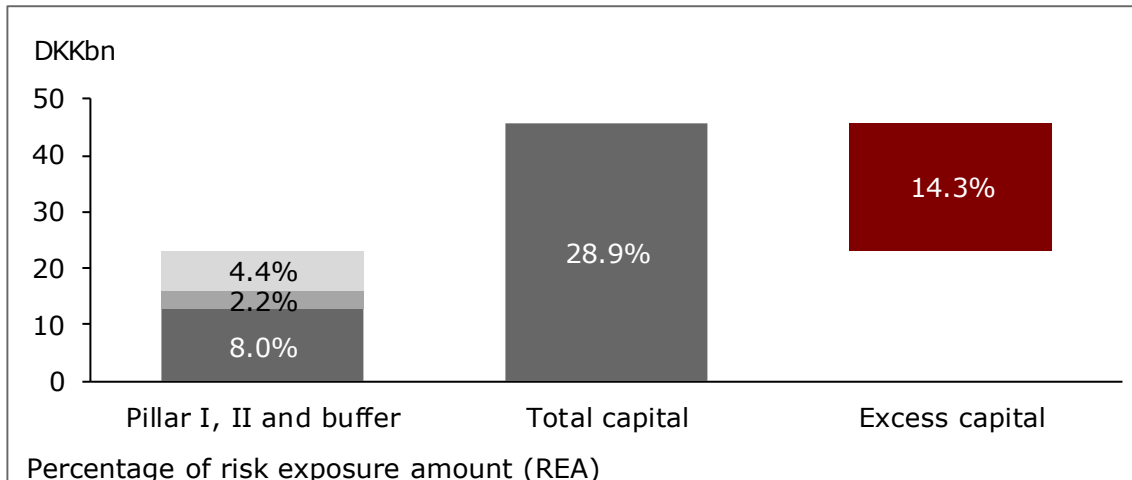
Over Collateralisation

- 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

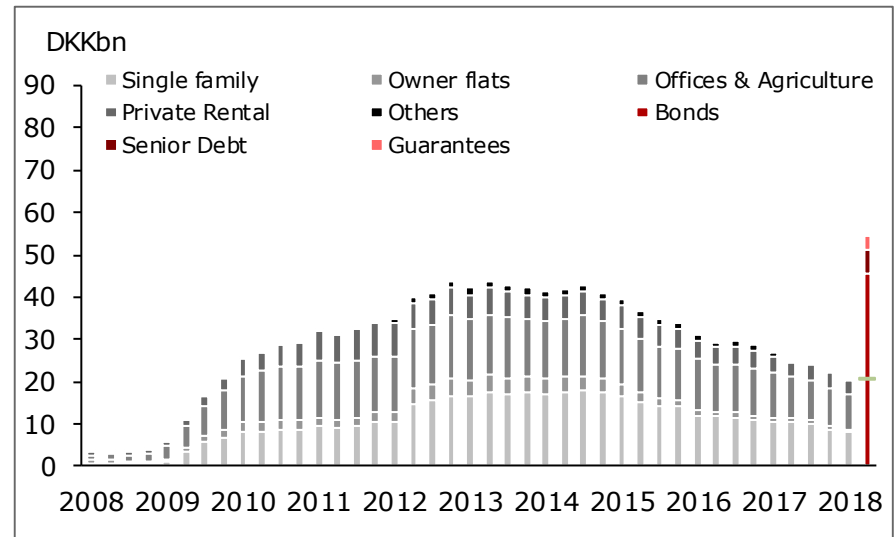
- End Q2 2018, Realkredit Danmark's solvency need was calculated at 16.2bn
- Including the combined buffer requirement, the capital need was 23.1bn
- With total capital of 45.8bn, Realkredit Danmark had 22.7bn in excess of the requirement including combined buffers



Supplementary Collateral — Total in S and T

Buffer in Capital Centres S and T

- End Q2 total OC provided was DKK 51.4bn in Capital Centres S and T of which 5.9bn was funded by Senior debt
- Supplementary Collateral of DKK 20.5bn is required end Q2 2018 in Capital Centres S and T
- Loss Guarantees of DKK 3.3bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centres S and T is DKK 34.2bn
- If the OC is insufficient to comply with Supplementary Collateral requirements, RD can transfer OC from the General Capital Centre or write Loss Guarantees within the 15% limitation of issued bonds



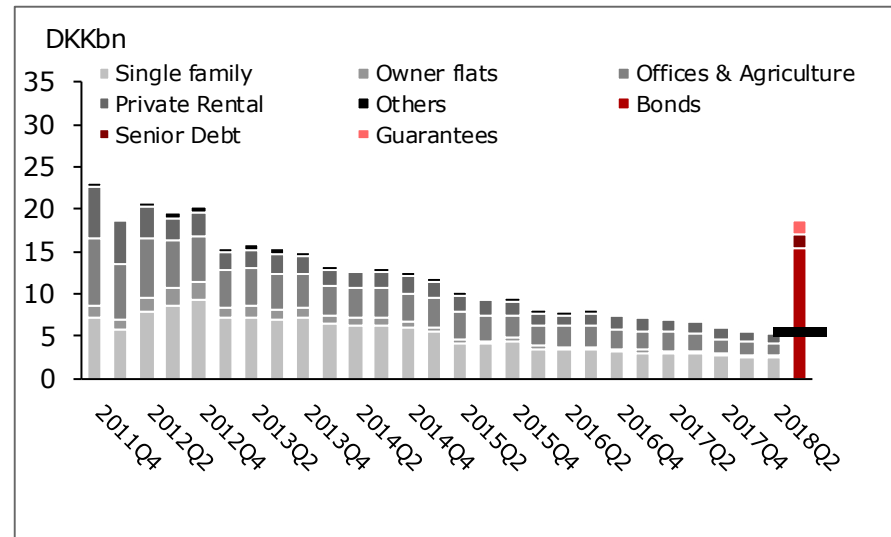
Supplementary Collateral requirements

- 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

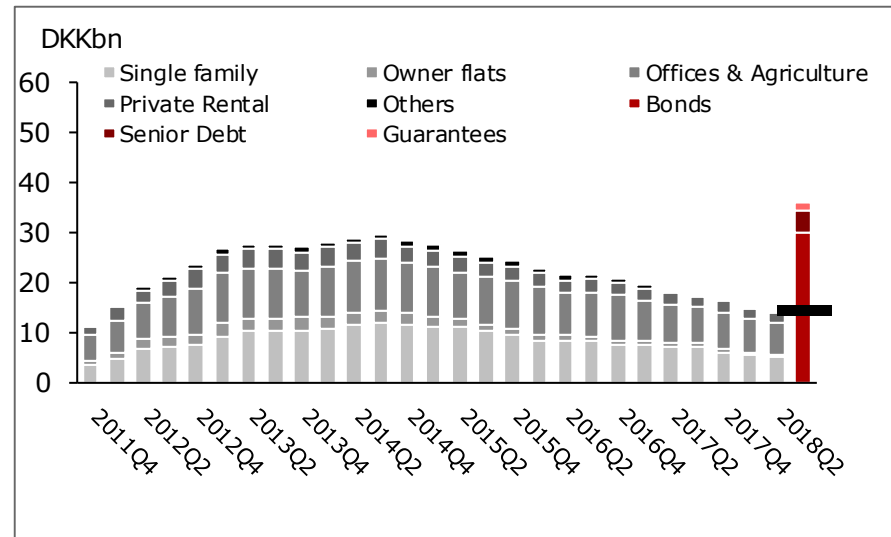
- End Q2 2018 total OC provided was DKK 17.0bn in Capital Centre S of which 1.6bn was funded by Senior debt
- Supplementary Collateral of DKK 5.4bn is required end Q2 2018 in Capital Centre S
- Loss Guarantees of DKK 1.7bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centre S is DKK 13.3bn
- 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 Guarantees within the 15% limitation of issued bonds



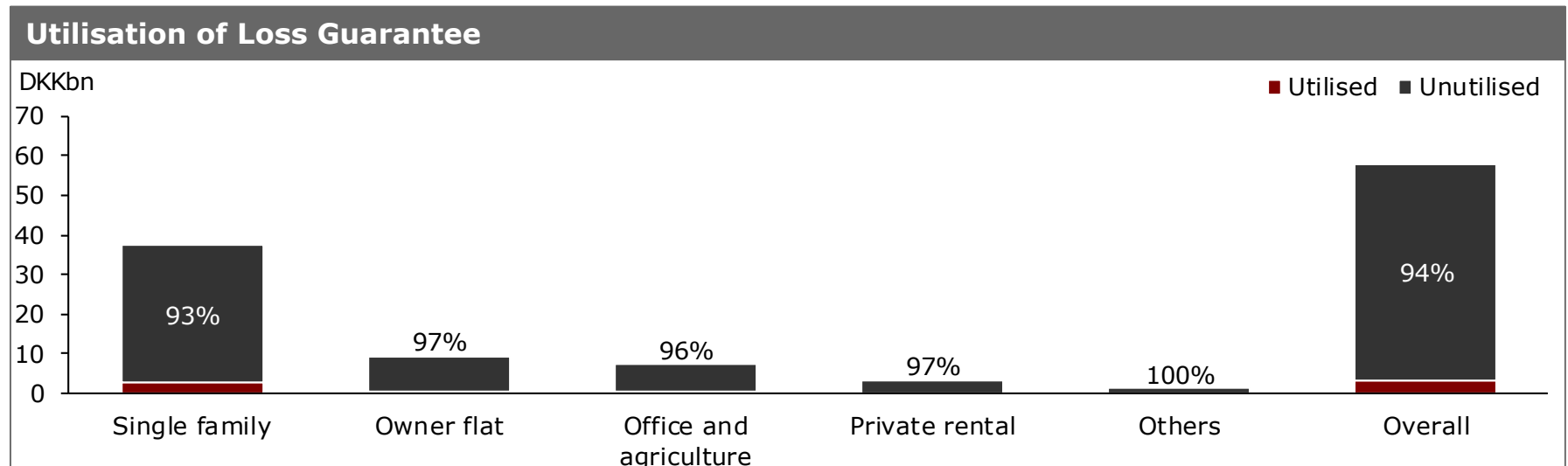
Supplementary Collateral — T

Buffer in Capital Centre T

- End Q2 2018 total OC provided was DKK 34.4bn in Capital Centre T of which 4.3bn was funded by Senior debt
- Supplementary Collateral of DKK 14.2bn is required end Q1 2018 in Capital Centre T
- Loss Guarantees of DKK 1.6bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centre T is DKK 21.8bn
- 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 Guarantees within the 15% limitation of issued bonds



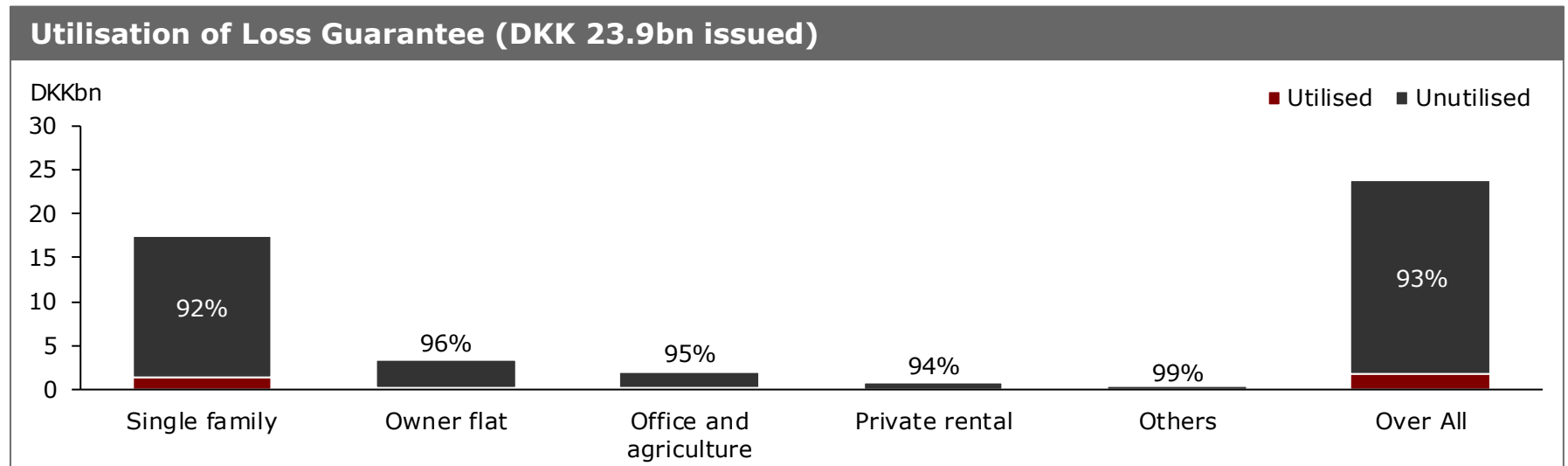
Guarantees — Total



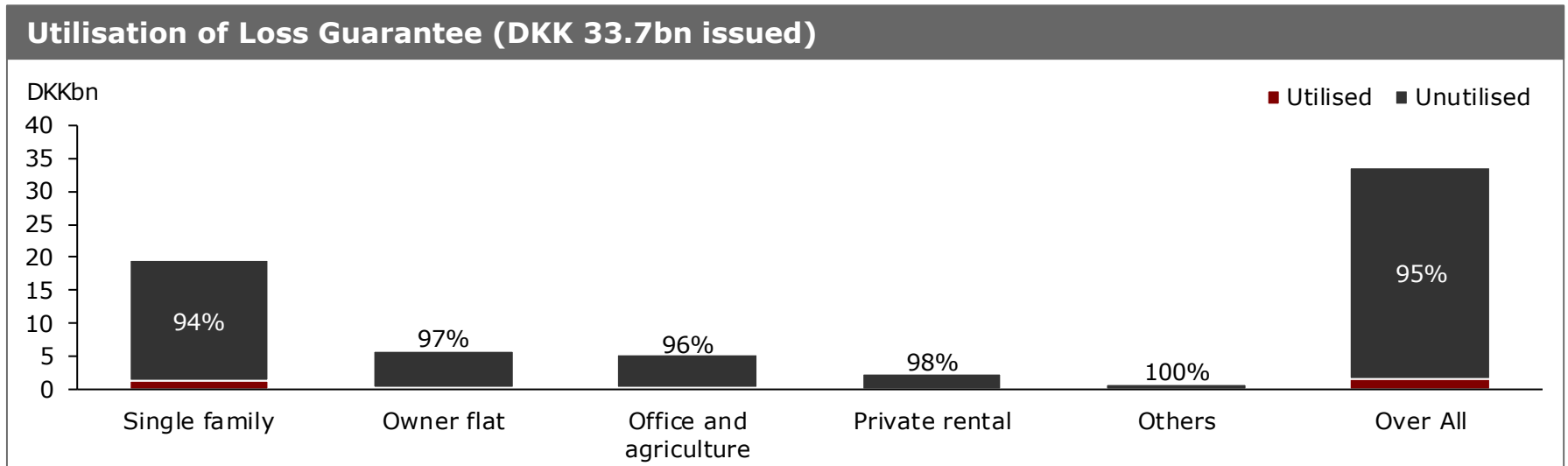
Loss Guarantees issued by Danske Bank (DKK 58.0bn)

- 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



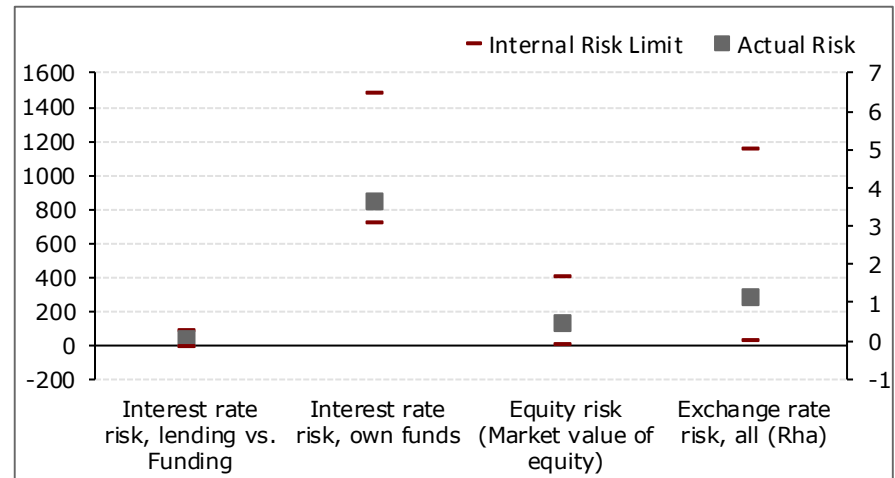
Guarantees — T



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 Q2 2018 interest rate risk on lending vs. funding stood at DKK 20.6m
- Derivatives are not employed for hedging imbalances on lending and funding



Disclaimer

This publication has been prepared by Realkredit Danmark for information purposes only and should be viewed solely in conjunction with the oral presentation provided by Realkredit Danmark. It is not an offer or solicitation of any offer to purchase or sell any financial instrument. Whilst reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and no liability is accepted for any loss arising from reliance on it. Danske Bank, its affiliates or staff, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives), of any issuer mentioned herein. The Equity and Corporate Bonds analysts are not permitted to invest in securities under coverage in their research sector. This publication is not intended for retail customers in the UK or any person in the US. Realkredit Danmark A/S is a subsidiary company of Danske Bank A/S. Danske Bank A/S is authorised by the Danish Financial Supervisory Authority and subject to limited regulation by the Financial Services Authority (UK). Details on the extent of our regulation by the Financial Services Authority are available from us on request. Copyright (C) Realkredit Danmark A/S. All rights reserved. This publication is protected by copyright and may not be reproduced in whole or in part without permission.