

# Risk Report 2009Q1

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**Danmark**

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The Risk Report has been prepared by Realkredit Danmark 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
  - ❑ 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 and Capital Centre S
  - ❑ Borrower Exposure to interest rates
  - ❑ Arrears and Repossessions
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  - ❑ Market Risk Exposures and Liquidity

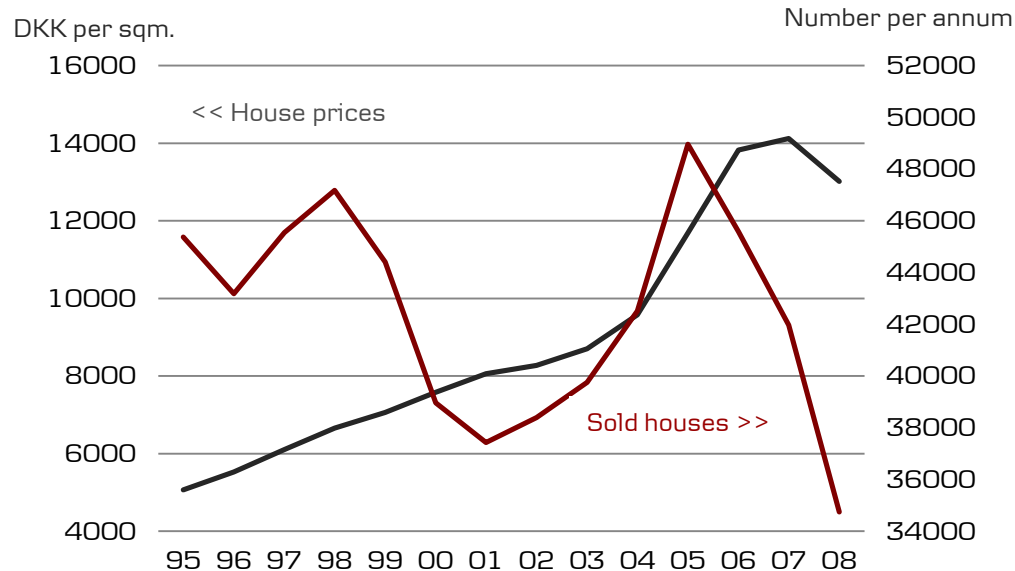
# Key Market Indicators

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General Market Information

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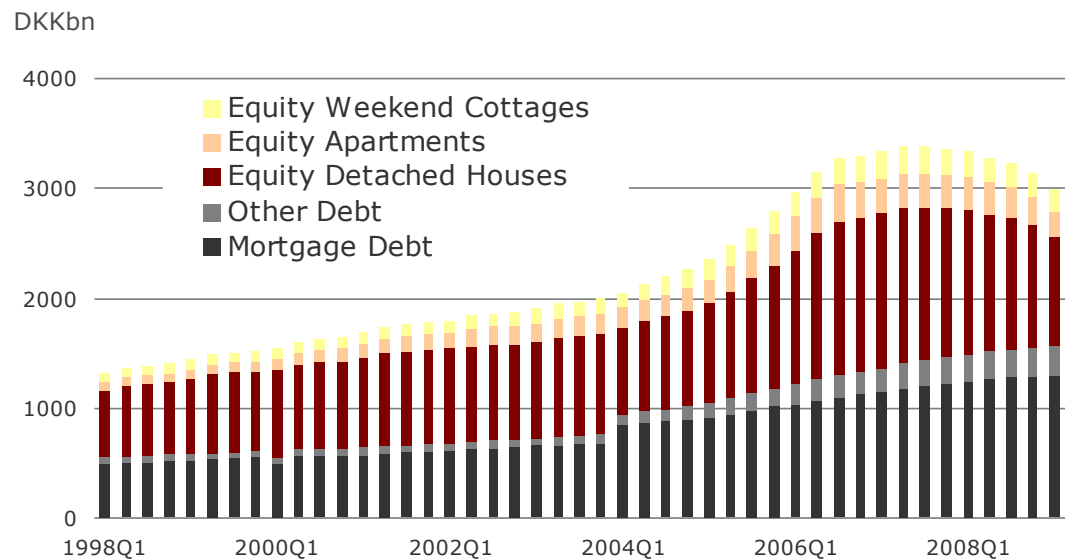
# 1 House Prices and Homeowners Equity



- ### House Price Trends
- ❑ The housing market is suffering a broad-based fall in prices
  - ❑ Signs of recovery remains weak
  - ❑ House prices are down 12.4 per cent for detached housing from the peak mid 2007 and 26.1 per cent for apartments from the peak mid 2006

### Homeowners Equity

- ❑ Homeowners' equity peaked 2006Q3 at 1,983bn. Since then equity has dropped by nearly 560bn
- ❑ Equity remains high enabling homeowners to withstand the effects of house price deflation
- ❑ Homeowners' equity has been cushioned from house price deflation by capital gains on fixed rate debt

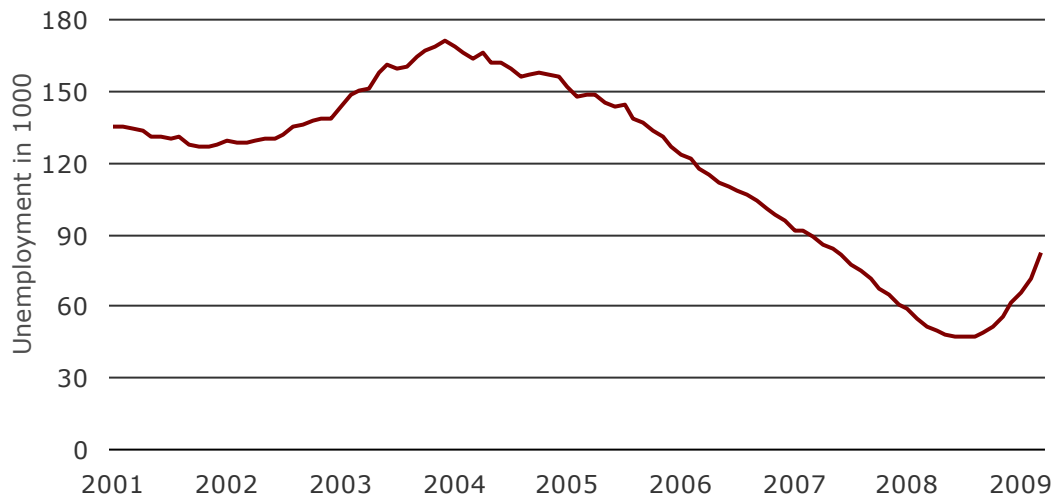


# 1 Unemployment and Real Wage Growth



## Real Wage Growth

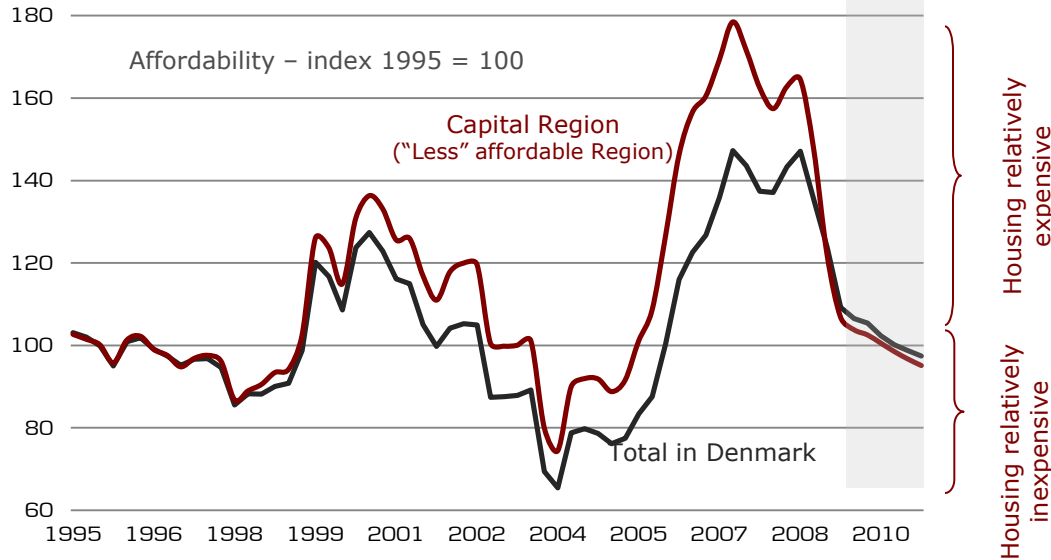
- ❑ Real wage is expected to rise as inflation is expecting to decrease (Q1 figures are not available)
- ❑ Real wage growth is expected to stay high with low inflation and unchanged wage growth



## Unemployment

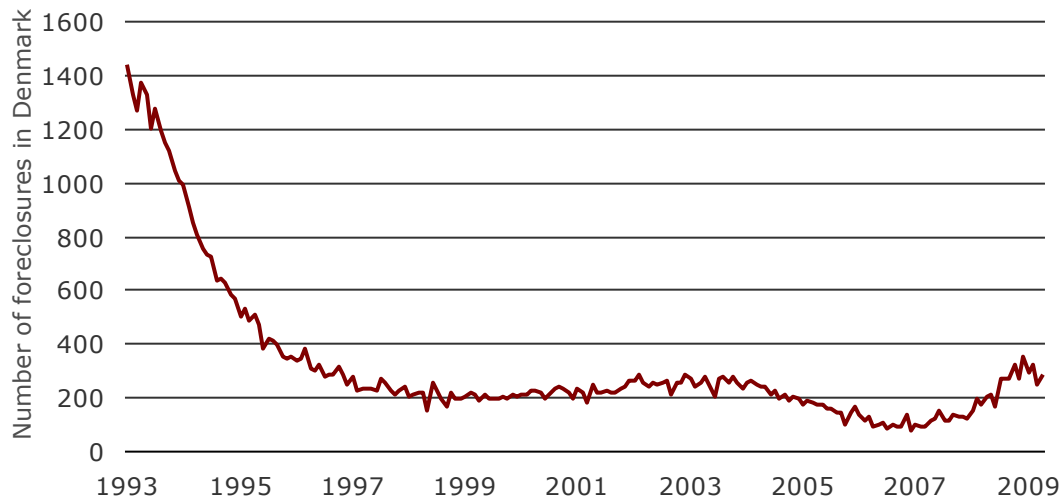
- ❑ Unemployment is up more than 35,100 to 82,100 end Q1 2009 from a historical low of less than 47,000 in mid 2008
- ❑ This is equivalent to an unemployment rate of 2.9 per cent
- ❑ Unemployment is expected to increase to around 100,000 end 2009 and to around 150,000 by end of 2010

# 1 Homeowner Affordability and Foreclosures



## Homeowner Affordability

- ❑ House price deflation and lower interest rates makes housing more affordable even in the Copenhagen area
- ❑ Housing affordability is now at the same level as in 1995 when house prices began to soar



## Foreclosures

- ❑ The number of foreclosed properties in Denmark has diminished in April 2009 to 282 from 296 foreclosures in January 2009
- ❑ This compares to 1,435 foreclosures in January 1993 and a historical low of 72 in December 2006
- ❑ The duration of a foreclosure is approx. 6 months

Note: Seasonally adjusted, all product categories included

# 1 Political measures and outlook

	Denmark	Euro Zone	2008	2009	2010	
GDP	-1.1	0.7	-2.4	-2.4	0.8	0.8
Private Consumption	0.0	0.5	-2.5	-0.5	2.3	0.4
Fixed investments	-2.5	0.6	-8.8	-6.0	-5.3	0.6
Export	1.9	1.7	-5.5	-10.1	1.9	2.4
Unemployment %	1.8	7.7	3.3	8.9	5.4	9.5

Source: Danske Bank forecast, April 2009

- ### Danish Economy Outlook
- ❑ The downtrend in private consumption is expected to continue in 2009
  - ❑ Tighter credit standards could limit the investment opportunities for companies
  - ❑ The main export markets of Denmark are suffering from a severe economic downturn
  - ❑ A hard landing for the Danish economy appears inevitable

# Key Market Indicators

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Realkredit Danmark Specific Information

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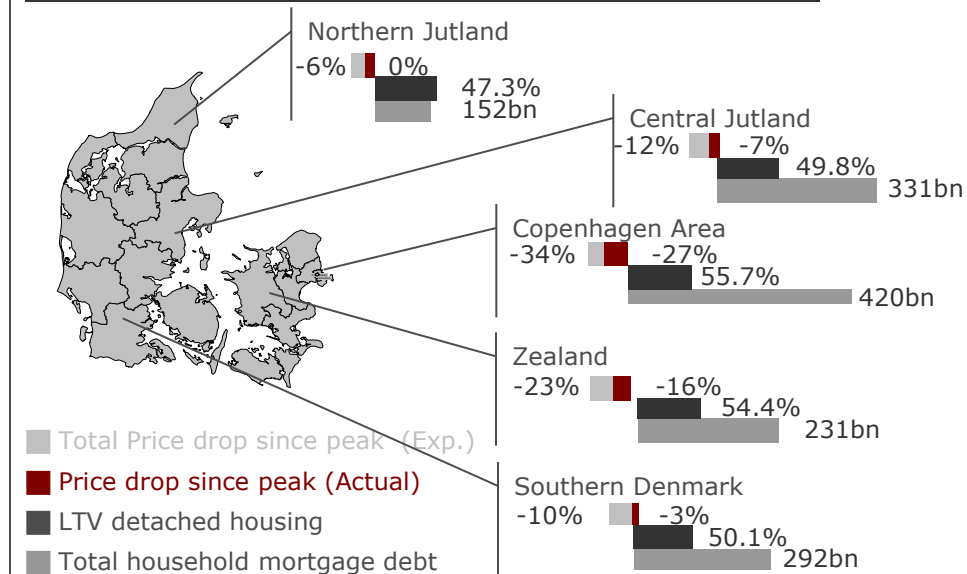


## 2 Dispersion and Loan to Value Ratios

### 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
- ❑ In spite here off homeowner equity remains highest in the Copenhagen area
- ❑ Prices went up the most in the Copenhagen area and on Zealand in 2003-2006 and affordability ratios reached an all time high in 2007
- ❑ Affordability ratios are now down from the top, prices have been recorded stable in some areas around Copenhagen (Q/Q)
- ❑ Still room for further price reductions although the actual price drop is near the expected

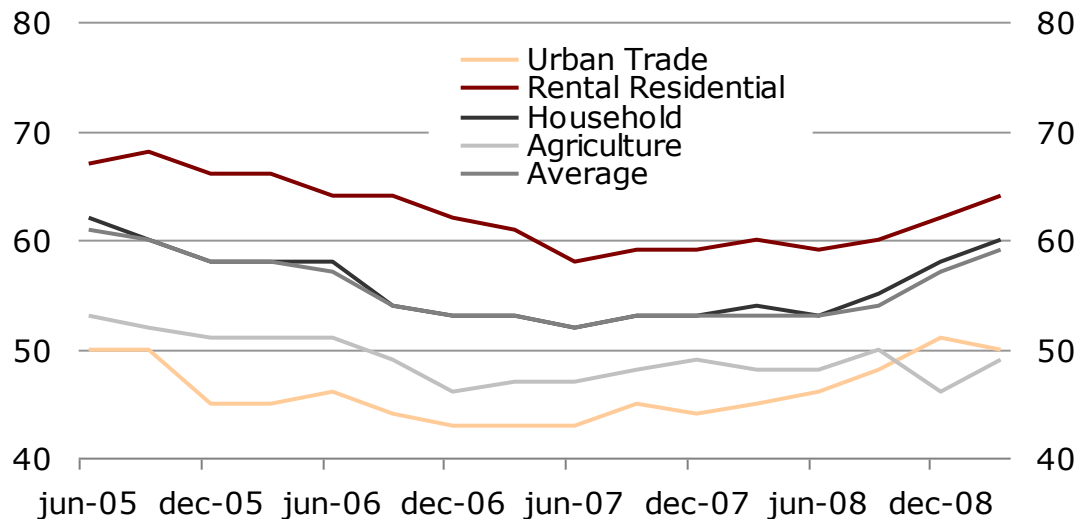
### Geographical Dispersion



### 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
- ❑ More than 40 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 70 per cent has a current loan to value ratio between 20 and 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 up 2 percentage points at 59 from 57 per cent in Q1 2009
- ❑ Property price deflation has been offset by capital gains on debt (marked to market) until 2008Q4
- ❑ Average LTV ratios remain at a 2005 level

DKKbn	Rating Category (Scaled 1-11)			Total
	1-3	4-7	8-11	
LTV				
0-20 %	83	173	18	274
20-40 %	58	136	15	209
40-60 %	31	88	11	130
60-80 %	13	40	5	58
<b>&gt; 80 %</b>	<b>4</b>	<b>7</b>	<b>1</b>	<b>11</b>
Total	188	444	49	682

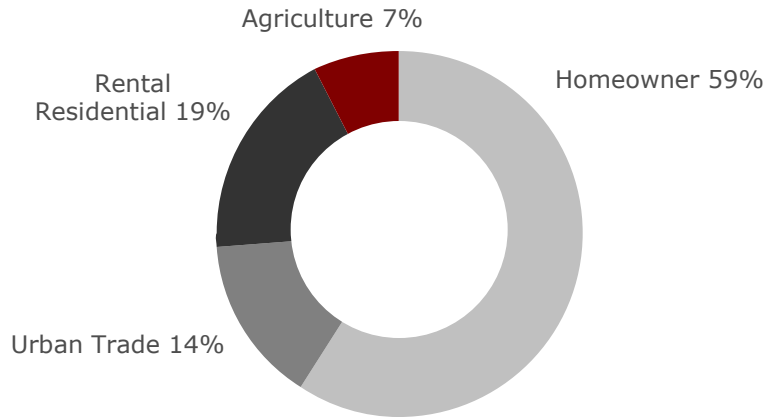
### Borrower Classifications

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

Note: RD total

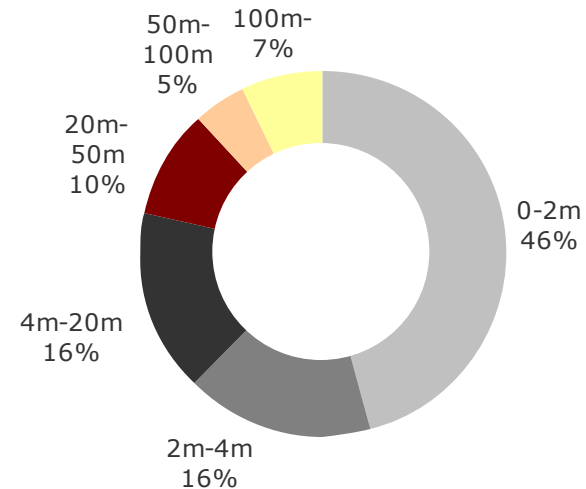
## 2 Collateral Breakdowns – Total portfolio

### Borrower Segmentation



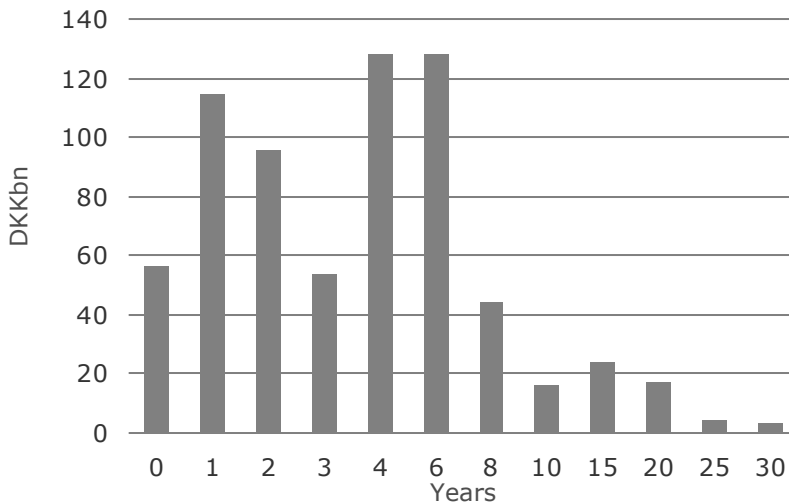
Note: Total lending distributed on segments

### Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

### Portfolio Seasoning

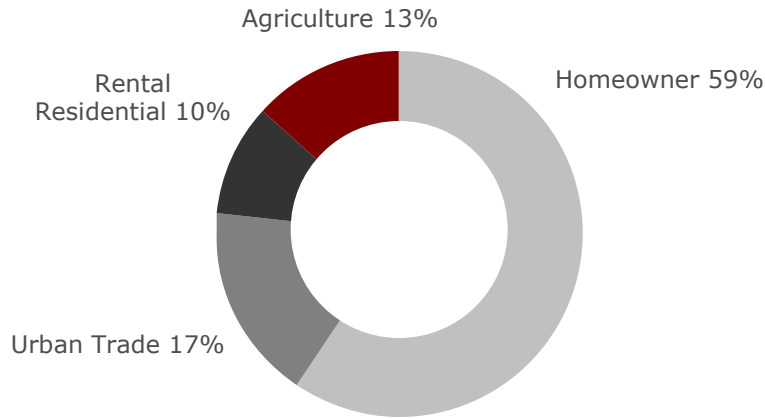


### Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Household	152	124	81	38	7	402
Urban trade	45	32	18	5	0	100
Agriculture	24	17	8	2	0	51
Rental Residential	53	36	23	13	4	129
Weighted dist.	40%	31%	19%	8%	2%	100 %
Total, DKKbn	274	209	130	58	11	682

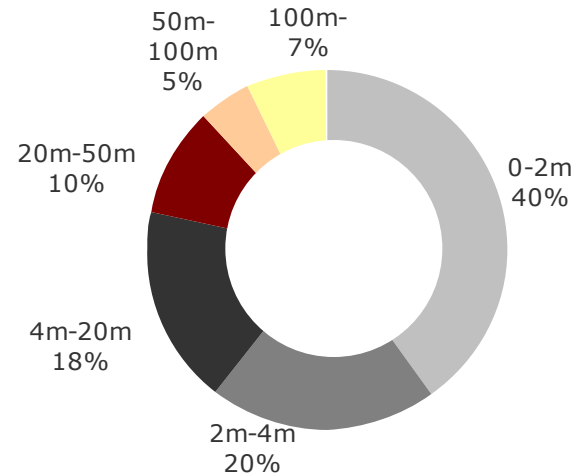
## 2 Collateral Breakdowns – Capital Centre S

### Borrower Segmentation



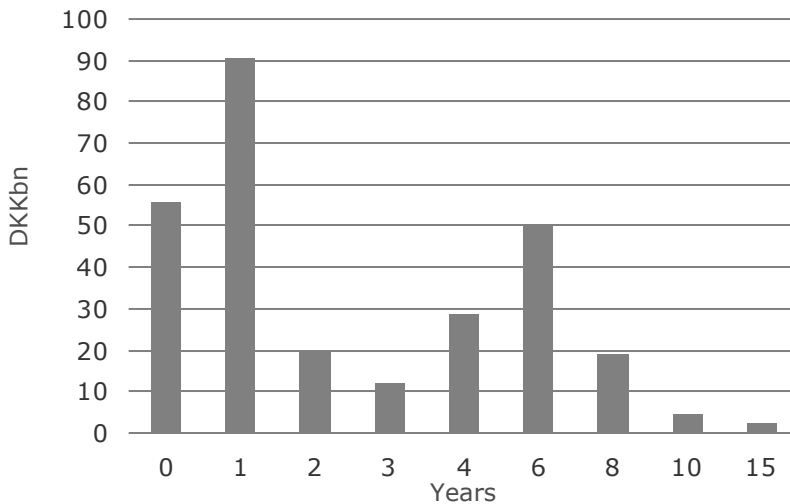
Note: Total lending distributed on segments

### Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

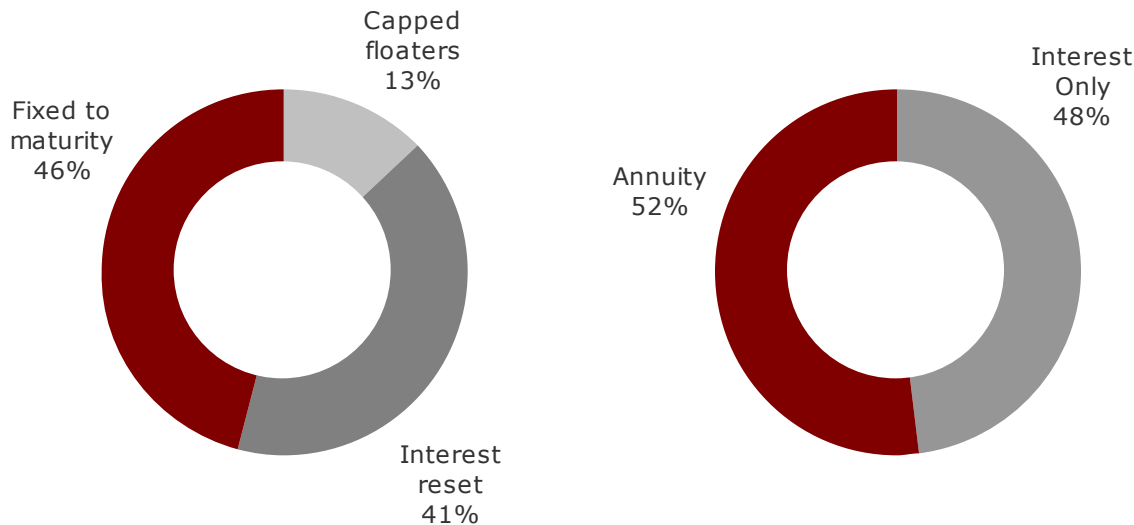
### Portfolio Seasoning



### Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	> 80%	Total DKKbn
Household	56	49	36	21	3	166
Urban trade	20	15	11	4	0	49
Agriculture	16	13	7	1	0	37
Rental Residential	10	8	6	3	0	28
Weighted dist.	36%	30%	22%	11%	2%	100 %
Total, DKKbn	102	84	60	30	4	280

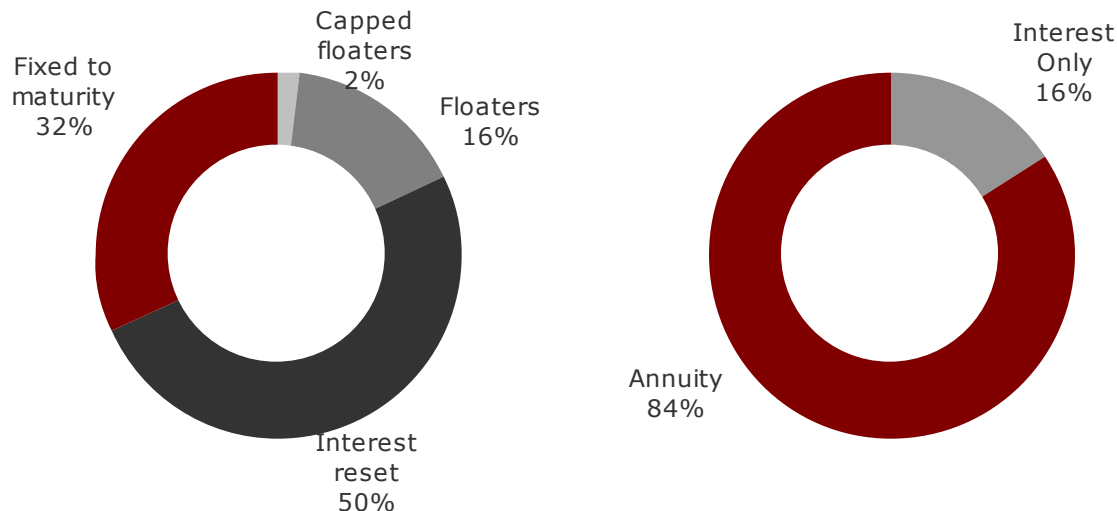
## 2 Borrower Exposure to Interest Rates



*Note: Outstanding loan balances*

### Homeowner Segment

- ❑ Homeowners must be able to service a 30-year fixed rate annuity loan for Realkredit Danmark to underwrite the loan
- ❑ One in two homeowners are not exposed to interest rate hikes, loan interest rates being fixed to maturity
- ❑ 13 per cent of all mortgages are floaters capped at 5 or 6 per cent

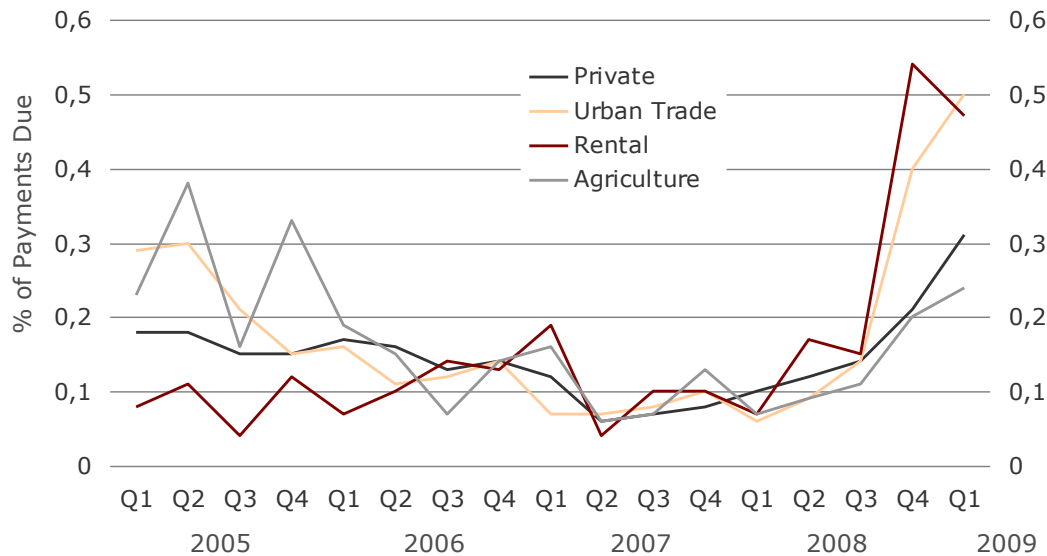


*Note: Outstanding loan balances*

### Corporate Segments

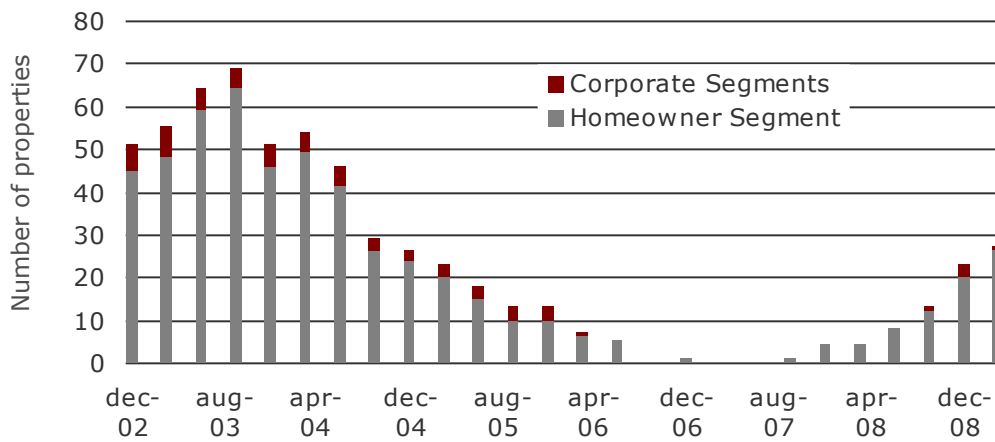
- ❑ One third of all lending in corporate segments is fixed rate to maturity
- ❑ Two thirds are either interest reset (typically, rates are reset every year or every third year) or floating rate (base rates are either 6M CIBOR or 3M EURIBOR)
- ❑ Interest only loans only make up 16 per cent of corporate lending

## 2 Arrears and Repossessions



### Arrears (3 months)

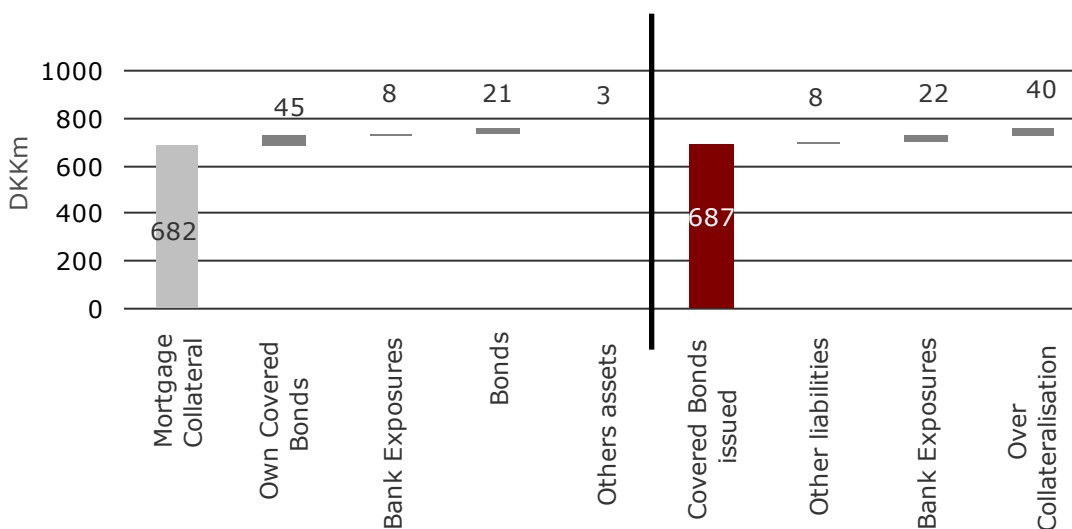
- ❑ Arrears are up from a historical low level in 2006 and 2007
- ❑ Increases in arrears have been most significant in residential rental and urban trade



### Repossessions

- ❑ The stock of repossessed properties stood at 27 end 2009Q1
- ❑ This compares to a total stock of mortgages of 564,000
- ❑ End 2007Q2 the stock reached a historical low of none repossessed properties

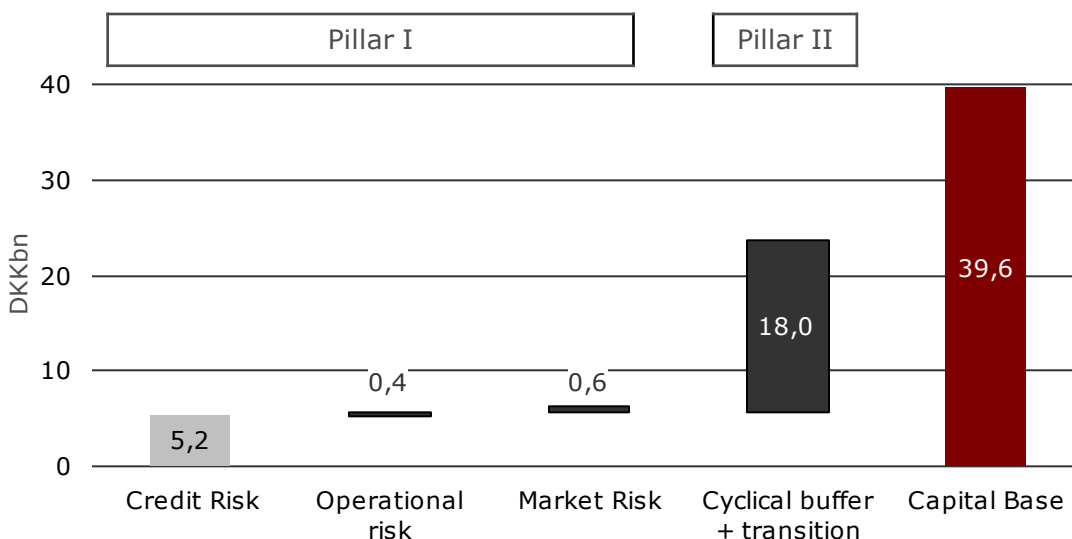
## 2 Over Collateralisation and Capitalisation



### 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 be comprised by bondholders preferential claim

Note: Nominal values



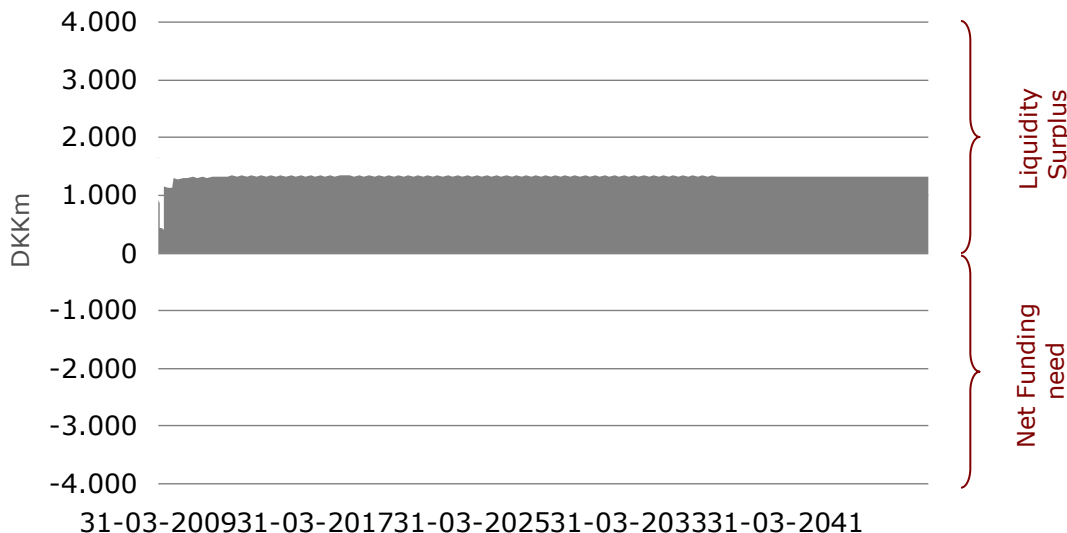
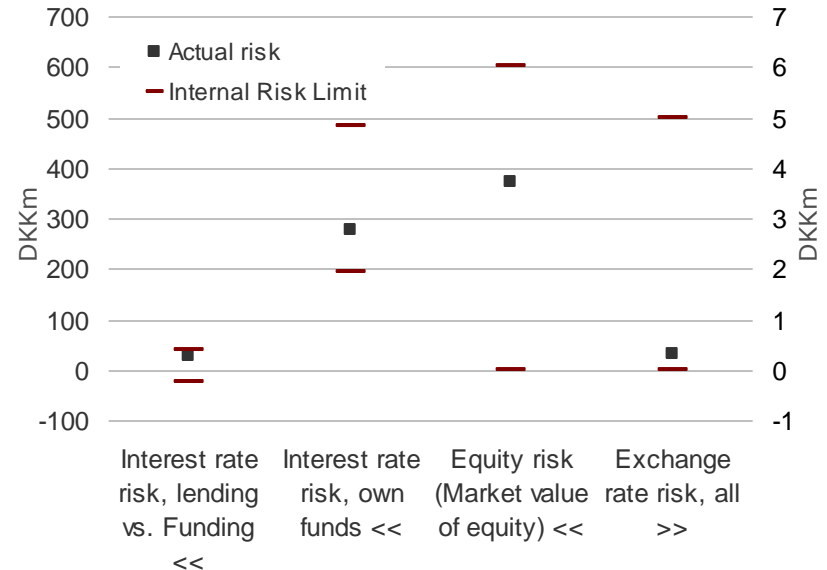
### Capitalisation

- ❑ The solvency ratio stood at 50.7 per cent end 2009Q1 (CRD definition)
- ❑ Realkredit Danmark has obtained hybrid core capital in volume of DKK2 bn under the Act of State-Funded Capital Injections
- ❑ If obtained in 2009Q1 Realkredit Danmark solvency ratio would have stood at 53.30 per cent

## 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 2009Q1 interest rate risk on lending vs. funding stood at DKK26.6m
- ❑ 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



# Disclaimer

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