

Risk Report 2010Q1

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Danmark

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The Risk Report has been prepared by Realkredit Danmarks 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:

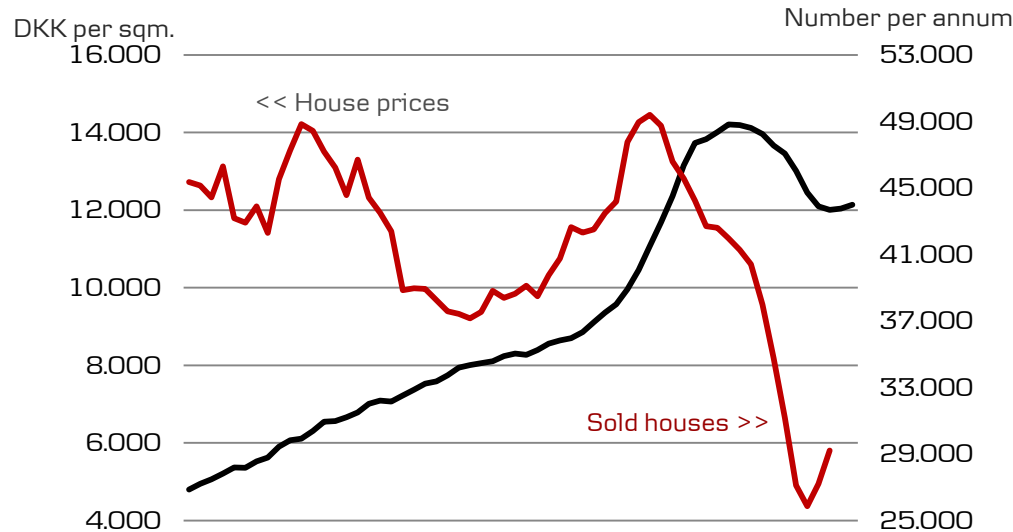
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 - ❑ Homeowner Affordability
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Key Market Indicators

General Market Information

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1 House Prices and Homeowners Equity

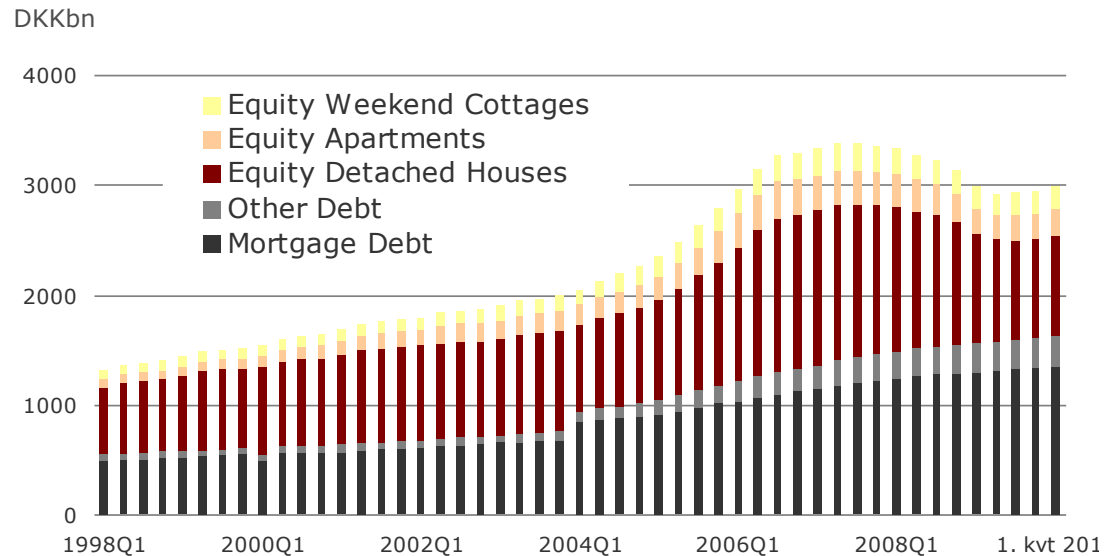


House Price Trends

- ❑ Stabilisation in house price or even inflation in some areas of Denmark is recorded
- ❑ House prices are down 14.6 per cent for detached housing from the peak mid 2007 and 23.9 per cent for apartments from the peak mid 2006

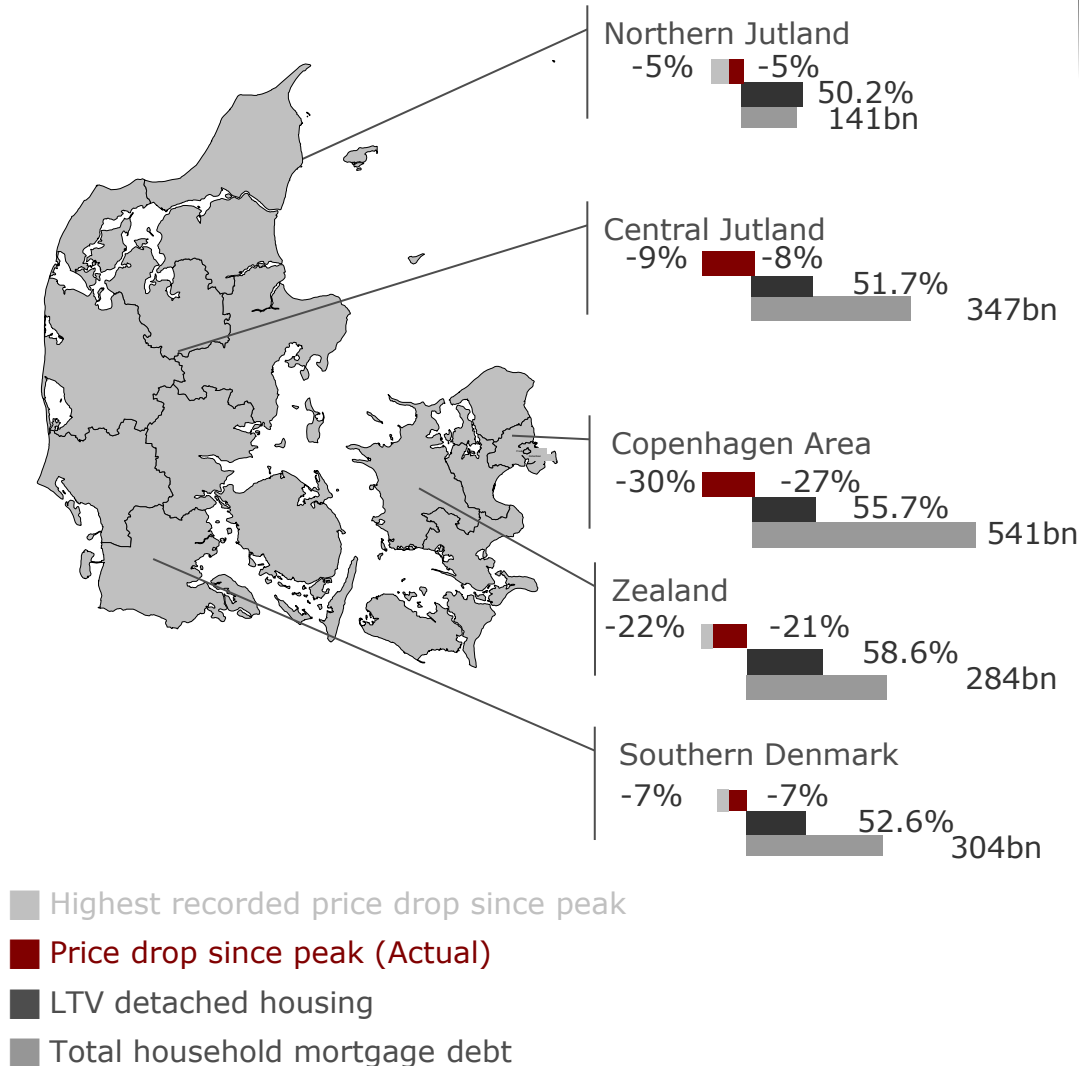
Homeowners Equity

- ❑ Homeowners' equity peaked 2006Q3 at 1,983bn. Since then equity has dropped by nearly 611bn
- ❑ Only 51 per cent of the drop can be explained by house price deflation – 49 per cent is due to additional lending
- ❑ The last half year equity has increased by more than 43bn due to inflation in house prices in some areas of Denmark



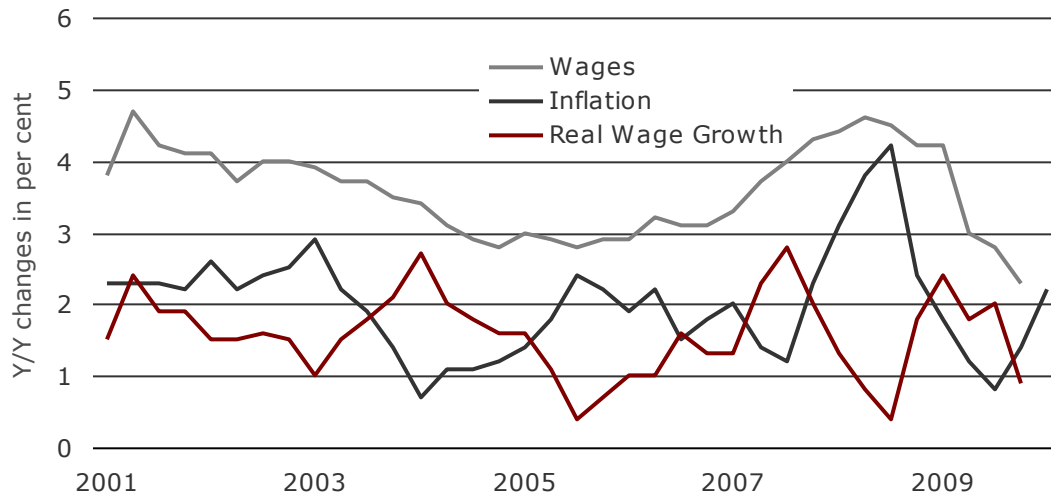
1 Geographical Dispersion

Private lending in Denmark in total



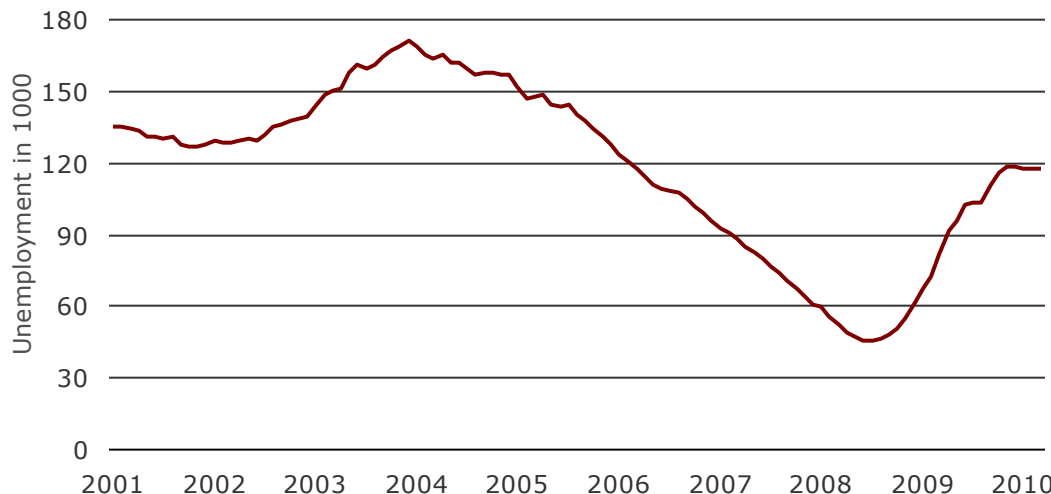
- ❑ From the beginning of 2009 we have seen house prices stabilising in Denmark throughout all areas
- ❑ The Copenhagen area was the first to suffer from house price deflation, following a decade of soaring house prices. From the mid 2006 peak prices have dropped by a total of 30 per cent
- ❑ Since mid 2009 deflation is partially reversed. Prices have increased by 5 per cent thus, prices are now down by 27 per cent from all time high end 2006

1 Unemployment and Real Wage Growth



Real Wage Growth

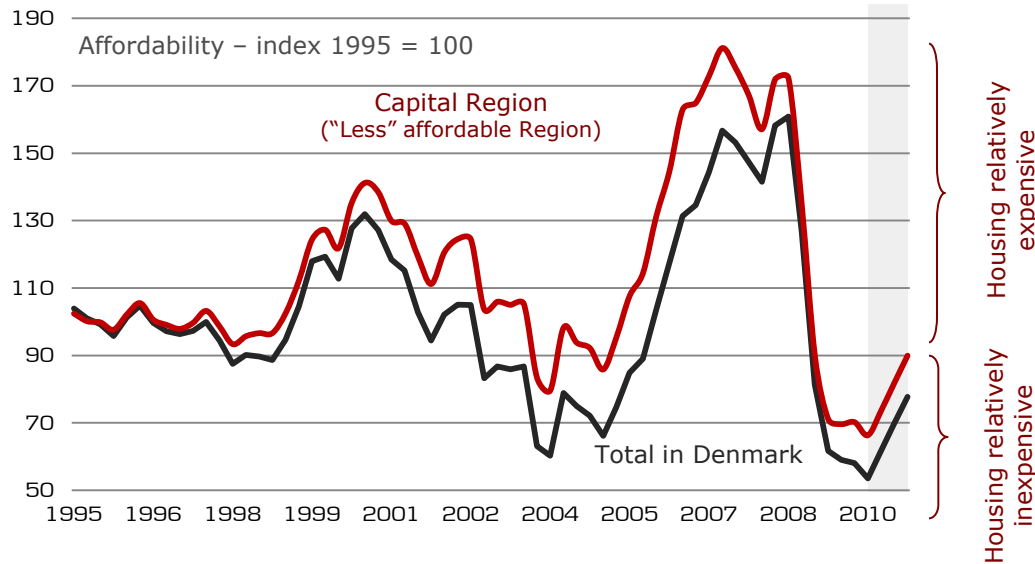
- ❑ Real wage has decreased in 2009Q4 (Q1 figures are not available) due to a nominal wage drop and inflation
- ❑ Growth expectations in GDP has lead to inflation in Q1 which can lead to a further decreases in real wages
- ❑ Still lower interest rates and tax reductions in 2010 increase the disposable income net of housing costs



Unemployment

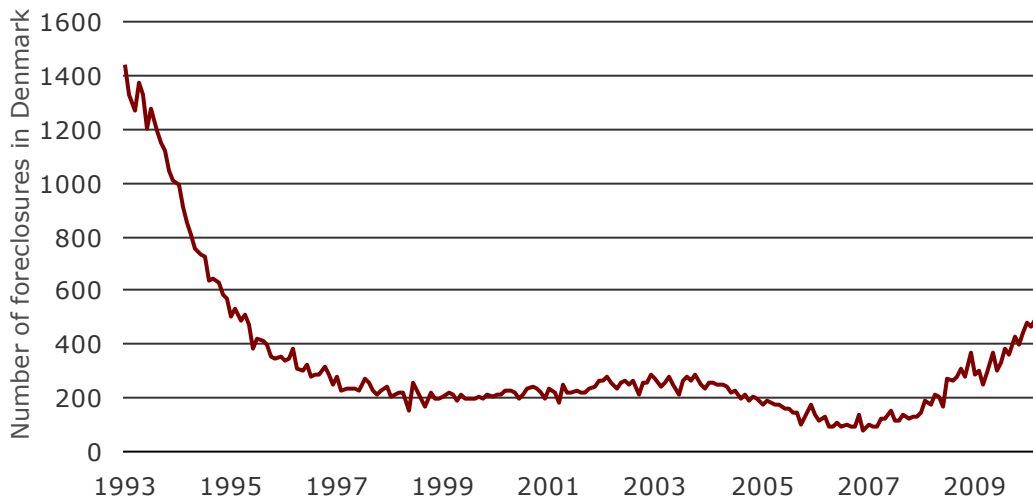
- ❑ Stabilisation is observed with a small drop in unemployment from Q4 to Q1
- ❑ Unemployment stood at 116,800 end Q1 2010 up from a historical low of 45,300 in mid 2008
- ❑ This is equivalent to an unemployment rate of 4.2 per cent
- ❑ Despite unemployment has dropped unemployment is still expected to increase to approx. 140,000 end 2010

1 Homeowner Affordability and Foreclosures



Homeowner Affordability

- ❑ House price deflation and lower interest rates has made housing more affordable even in the Copenhagen area
- ❑ Housing costs are now at the lowest level since 1995
- ❑ We expect housing affordability to rise due to higher interest rates and house price inflation





Foreclosures

- ❑ The number of foreclosed properties in Denmark has decreased in April 2010 to 380 from 438 foreclosures in December 2009
- ❑ There is still an upward trend in the numbers of foreclosed properties recorded
- ❑ The duration of a foreclosure is approx. 6 months from missed payments to completion

Note: Seasonally adjusted, all product categories included

1 Political measures and outlook

Denmark  Euro Zone 	2009		2010		2011	
GDP	-4,9	-3,9	1,8	1,8	1,9	2,2
Private Consumption	-4,6	-0,6	2,7	0,3	2,5	1,5
Fixed investments	-12	-10,9	-2,3	-0,1	1,3	4,7
Export	-10,3	- 13	2,7	6,8	3,5	5,3
Unemployment %	3,5	9,6	4,6	9,5	5	9,5

Source: Danske Bank, March 2010

Danish Economy Outlook

- The growth in the Danish economy is expected to rise to 1.8 per cent in 2010, due to a expected increase in private consumption and the export
- In other words the growth in Denmark in 2010 depends on private consumer confidence and their intension to spend more as well as the recovery of the foreign economies
- Interest rates are a key element in the household economy and therefore a key element in how much the private spending will rise

Key Market Indicators

Realkredit Danmark Specific Information

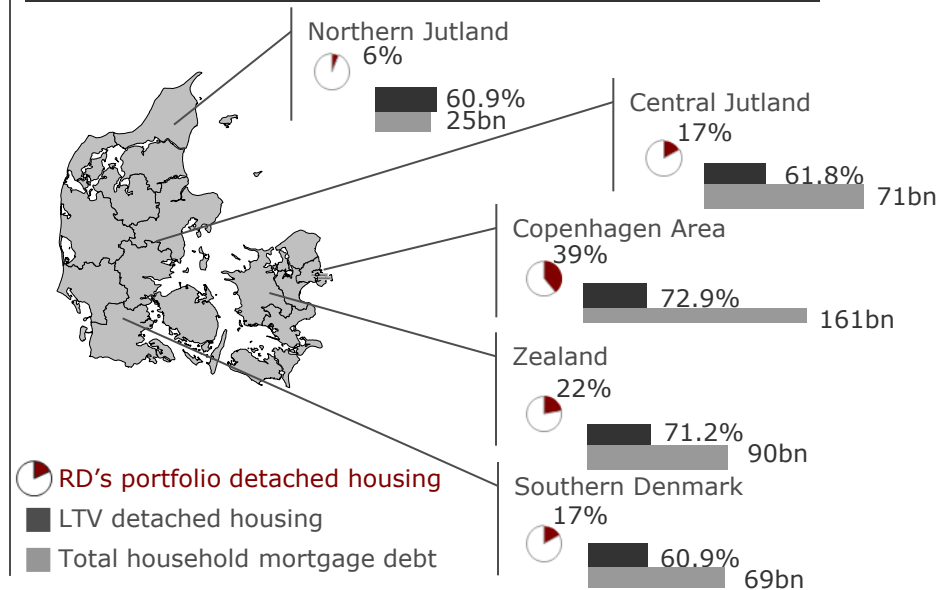
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2 Dispersion and Loan to Value Ratios

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
- ❑ Homeowner equity remains highest in the Copenhagen area although LTV ratios have been exposed to the largest increase
- ❑ All though the affordability ratio in the capital region is expected to rise it is still below index 100

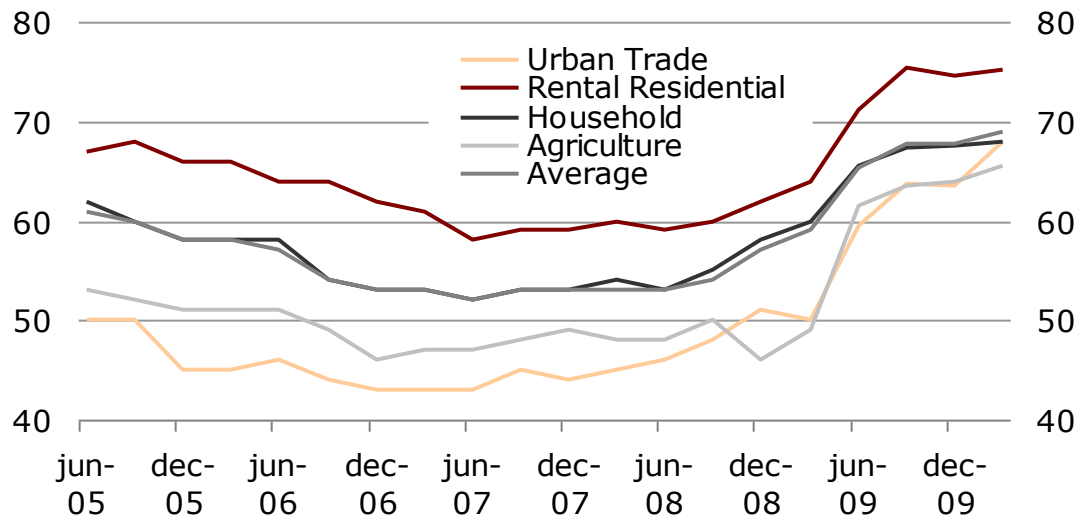
Geographical Dispersion in Realkredit Danmark



Loan To Value Ratios

- ❑ Covered bonds are secured by a first claim on the mortgage collateral and the reserves of the issuer
- ❑ 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
- ❑ 34 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 62 per cent has a current loan to value ratio lower than 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 10 percentage points at 69 from 59 per cent in Q1 2009
 - With house price stability and even inflation observed in some parts of Denmark LTV ratios are beginning to stabilise as well

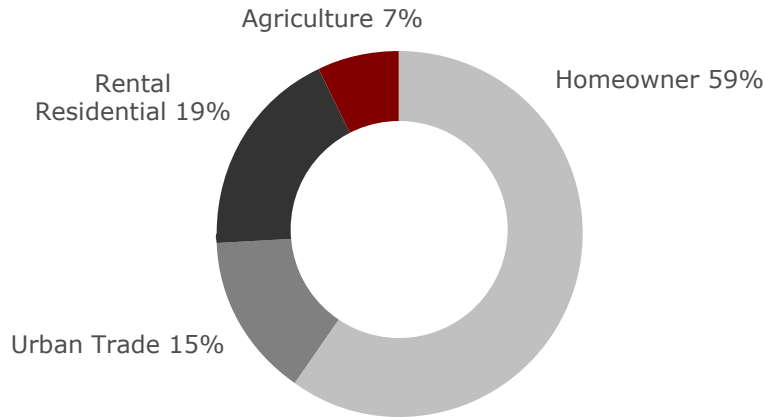
DKKbn	Rating Category (Scaled 1-11)			Total
	1-3	4-7	8-11	
LTV				
0-20 %	68	150	22	240
20-40 %	49	127	20	197
40-60 %	30	95	17	141
60-80 %	15	56	11	82
> 80 %	9	25	6	40
Total	170	454	75	699

- ### 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 0.9 per cent of the portfolio

Note: RD total

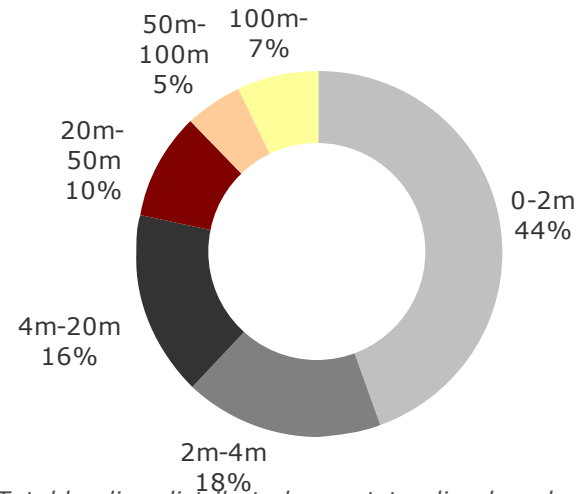
2 Collateral Breakdowns – Total portfolio

Borrower Segmentation



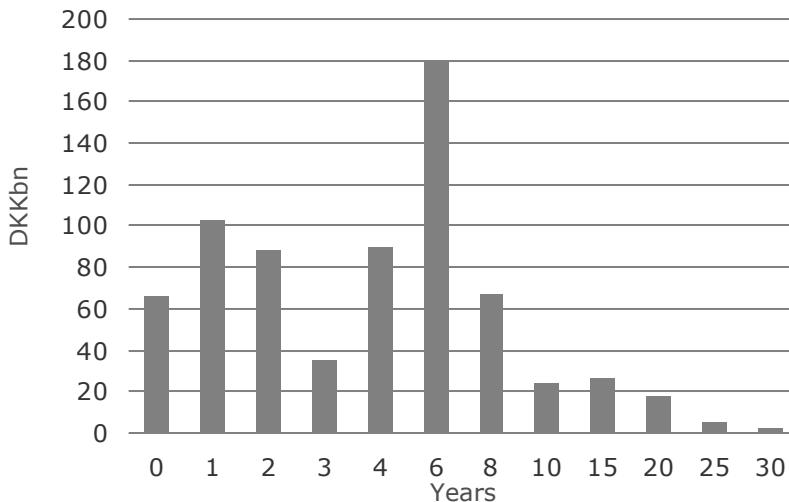
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning

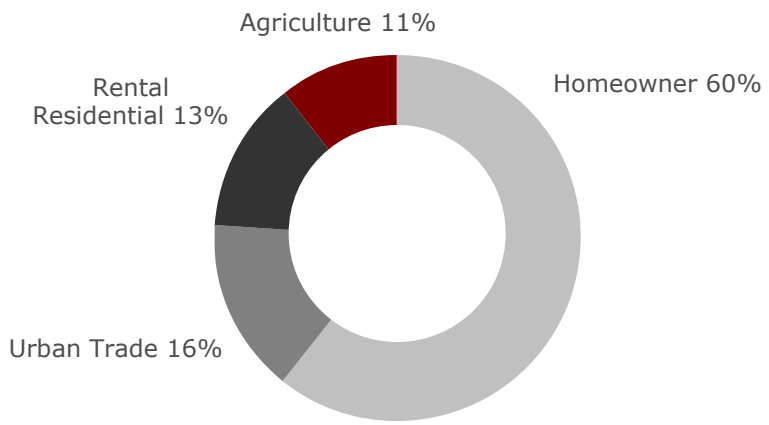


Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	> 80%	Total DKKbn
Household	140	119	87	50	19	416
Urban trade	34	29	21	12	7	102
Agriculture	18	15	10	5	2	51
Rental Residential	46	32	23	16	13	131
Weighted dist.	34%	28%	20%	12%	6%	100 %
Total, DKKbn	238	195	142	83	41	699

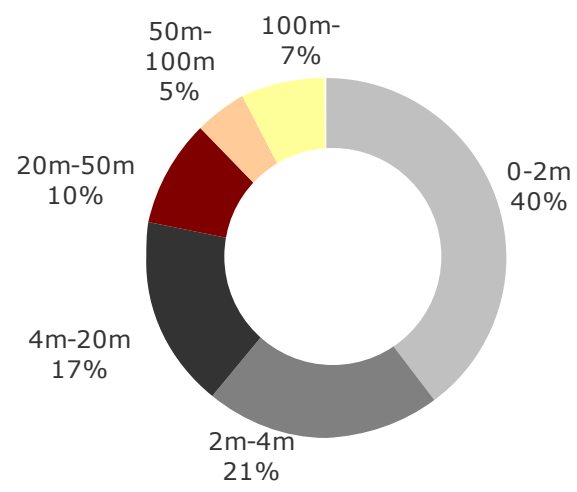
2 Collateral Breakdowns – Capital Centre S

Borrower Segmentation



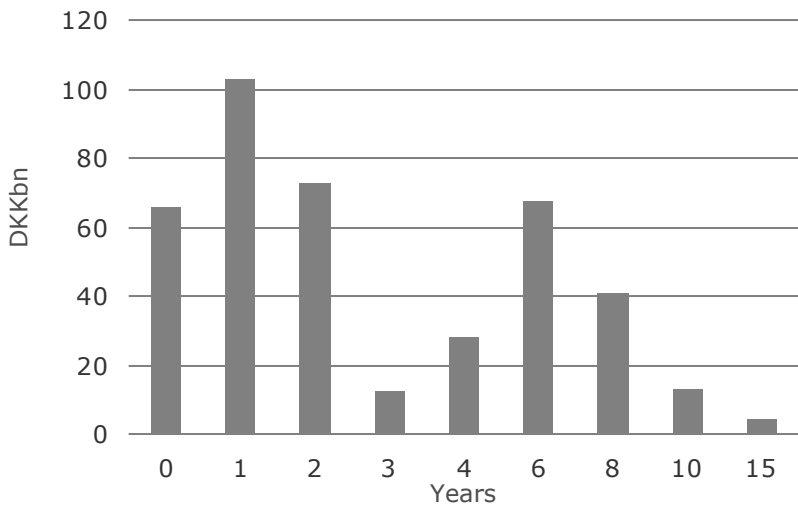
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning

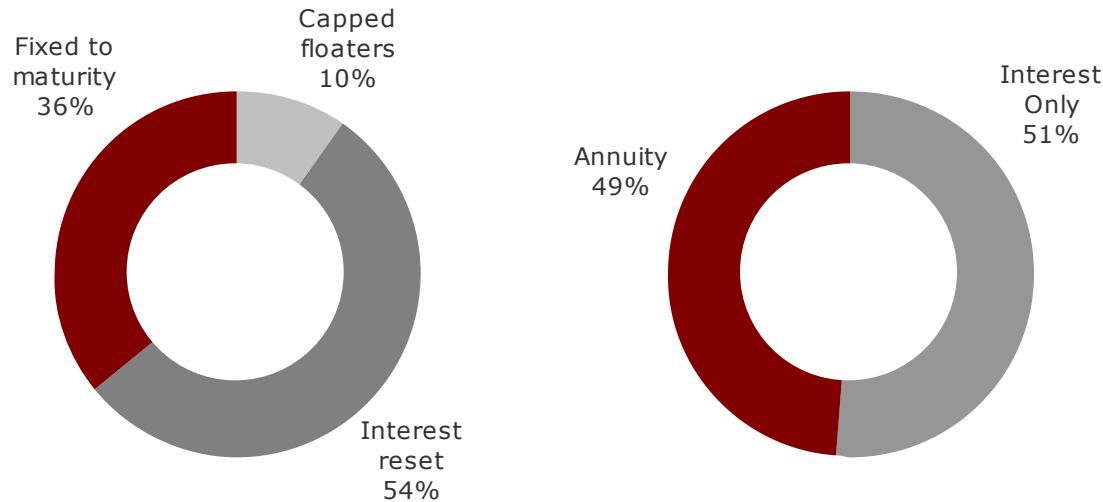


Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Household	73	68	55	36	14	245
Urban trade	19	17	14	9	5	64
Agriculture	14	13	9	5	2	43
Rental Residential	16	14	11	7	6	54
Weighted dist.	30%	27%	22%	14%	7%	100 %
Total, DKKbn	121	111	89	57	27	406

2 Borrower Exposure to Interest Rates

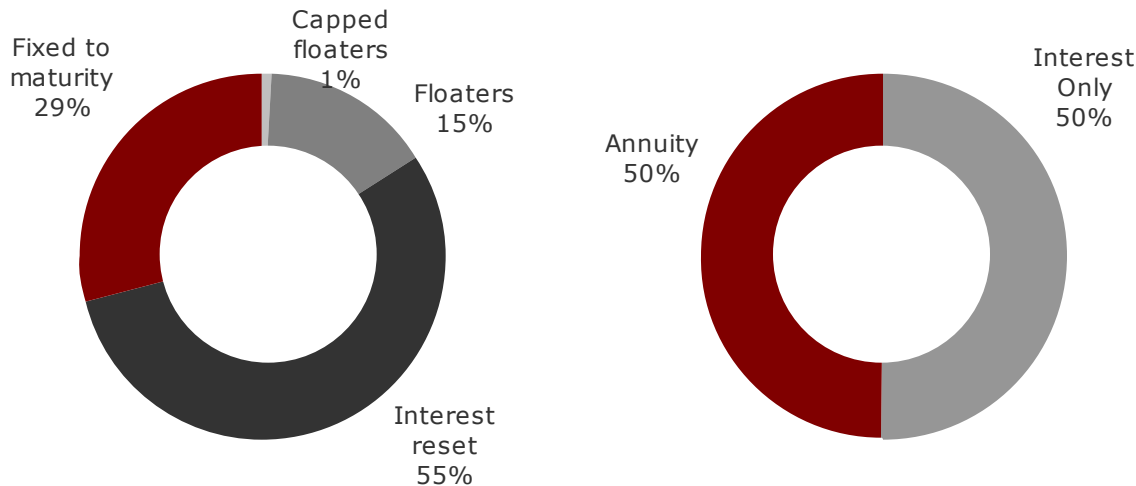
Homeowner Segment



- ❑ Homeowners must be able to service a 30-year fixed rate annuity loan for Realkredit Danmark to underwrite the loan
- ❑ The impact of remortgaging from fixed to floating is mirrored in the chart by interest reset up by 4 percentage points to 54 per cent
- ❑ Annuity and interest only loans are divided equally in the homeowner segment

Note: Outstanding loan balances

Corporate Segments

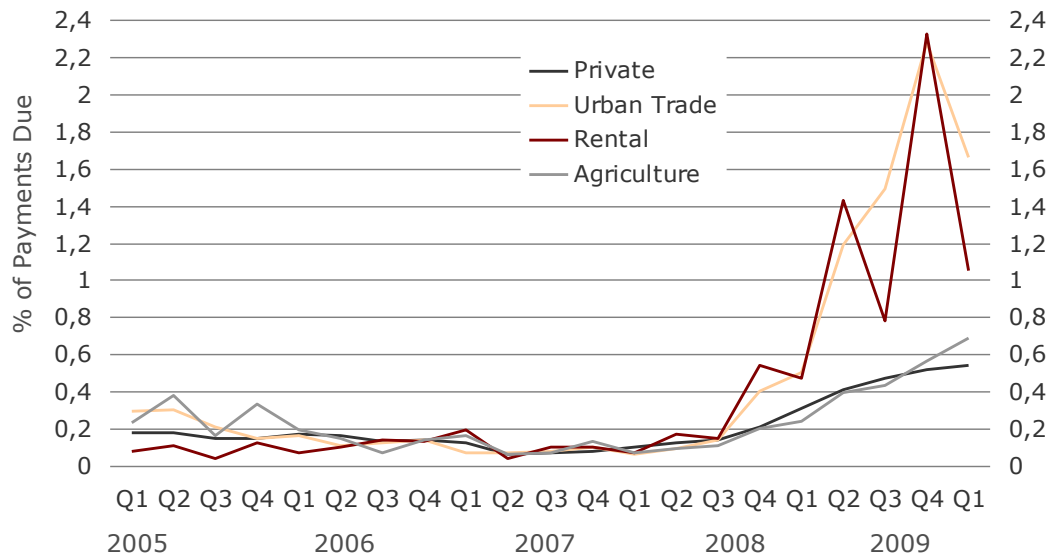


- ❑ Nearly one third of all lending in corporate segments is fixed rate to maturity
- ❑ Two thirds are either interest reset (typically, rates are reset every year or every third year) or floating rate (base rates are either 6M CIBOR or 3M EURIBOR)
- ❑ Bullets and Interest only loans make up 50 per cent of corporate lending

Note: Outstanding loan balances

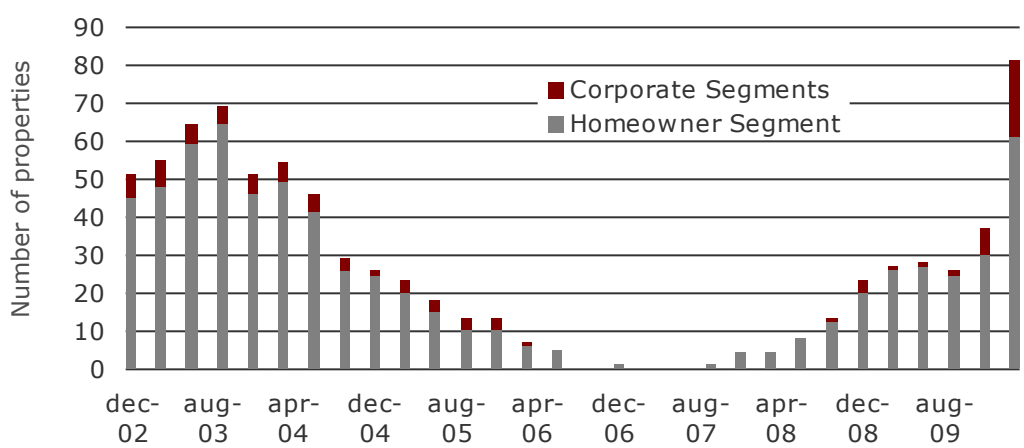
Note: Bullet loans are added in "Interest Only" is of 2009Q4

2 Arrears and Repossessions



Arrears (3 months)

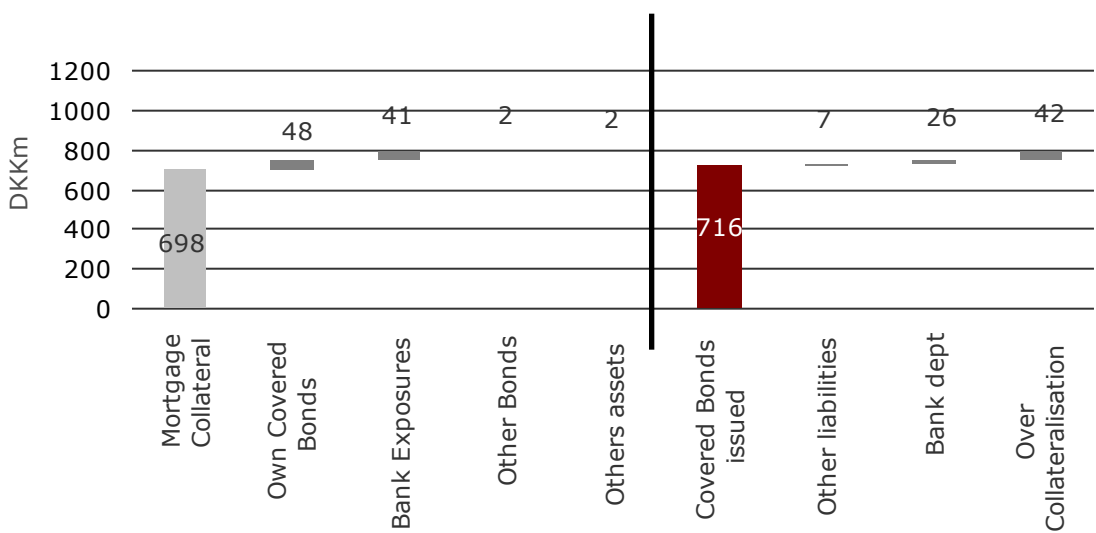
- ❑ Arrears are down considerably from Q4 2009 to Q1 2010 in Urban Trade and Rental due to individual programmes introduced to minimize arrears
- ❑ The trend in arrears is still upward in the Private and Agriculture segments



Repossessions

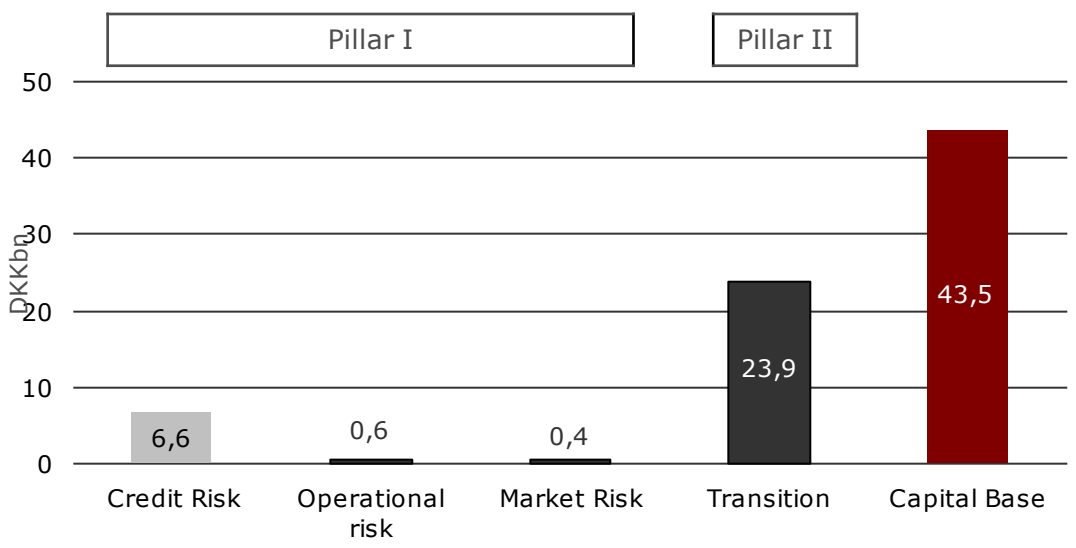
- ❑ The stock of repossessed properties stood at 81 end 2010Q1 – up 44 from 2009Q4
- ❑ This compares to a total stock of mortgages collateral at 525,000
- ❑ The number of repossessed properties has not been affected by the increase in foreclosures as in the early 90's

2 Over Collateralisation and Capitalisation



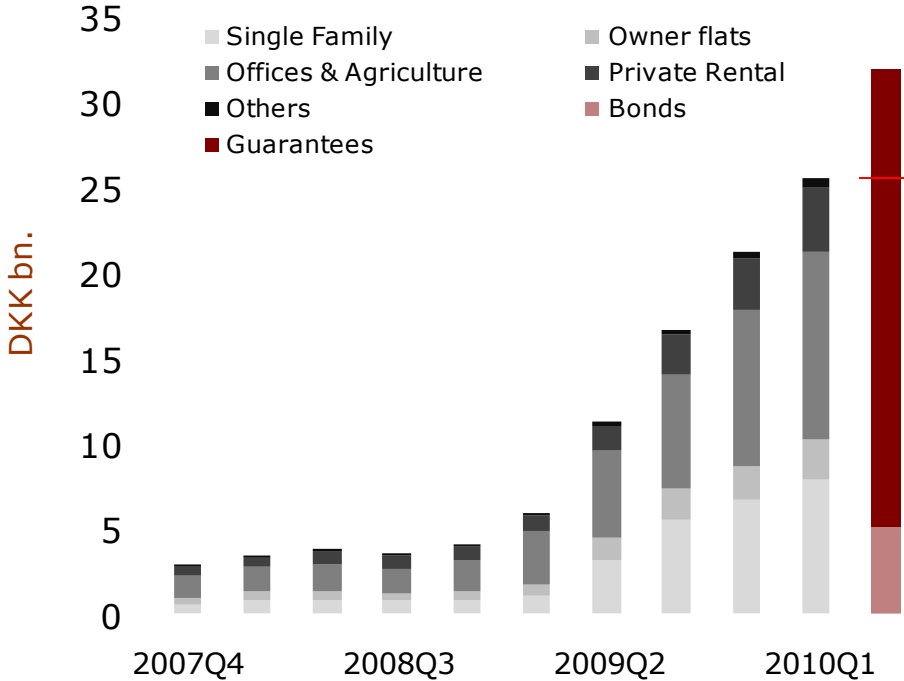
- ### Over Collateralisation
- ❑ Covered bonds issued by Realkredit Danmark are secured by mortgage collateral and reserves
 - ❑ Reserves are invested in government exposures, covered bonds and bank exposures
 - ❑ In case of bankruptcy Over Collateralisation will also be comprised by bondholders preferential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

Note: Nominal values



- ### Capitalisation
- ❑ The solvency ratio stood at 45.8 per cent end 2010Q1 (CRD definition)
 - ❑ Realkredit Danmark has obtained hybrid core capital in volume of DKK2 bn under the Act of State-Funded Capital Injections
 - ❑ If not obtained the solvency ratio stood at 43.7 per cent

Supplementary Collateral



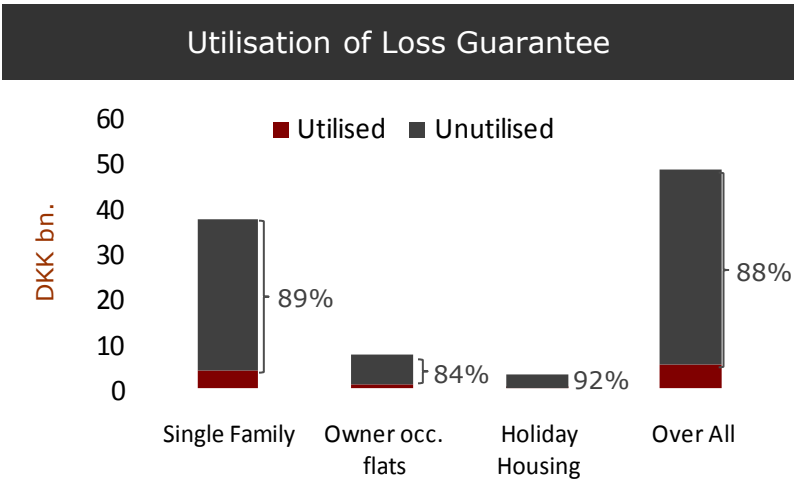
Buffer in Capital Centre S

- ❑ Total OC of DKK 27.0 bn in Capital Centre S
- ❑ Supplementary Collateral of DKK 25.6 bn are required end Q1 2010 in Capital Centre S
- ❑ Loss Guarantees of DKK 5.2 bn are utilised
- ❑ Buffer for further growth in need for supplementary Collateral in Capital Centre S is DKK 6.5 bn
- ❑ If the OC in Capital Centre S is insufficient to comply with Supplementary Collateral requirements RD can transfer OC from the General Capital Centre of up to DKK 12.6 bn end Q1 2010 or write Loss Guaranties within the 15 per cent limitation of issued bonds

Supplementary Collateral requirements

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

Guarantees

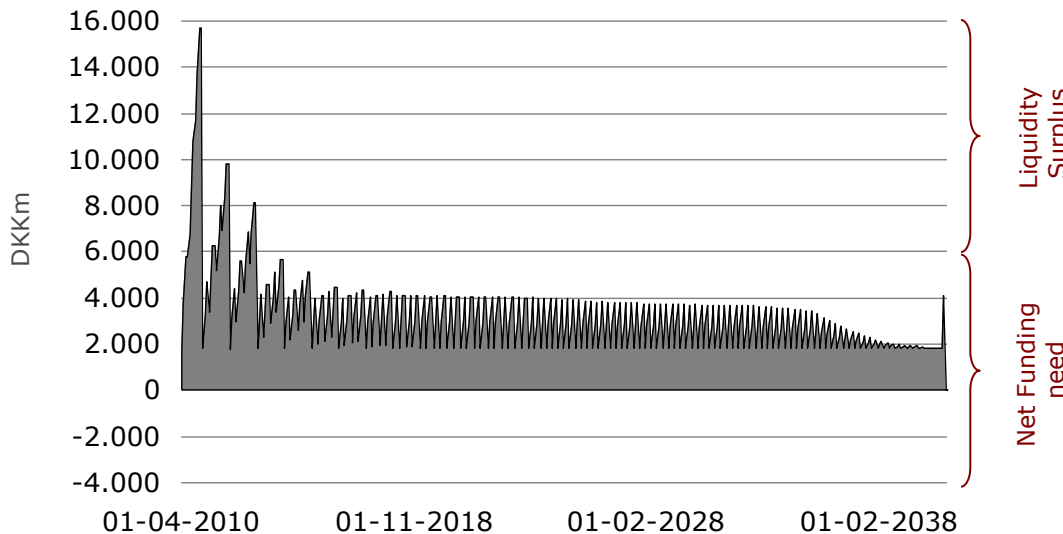
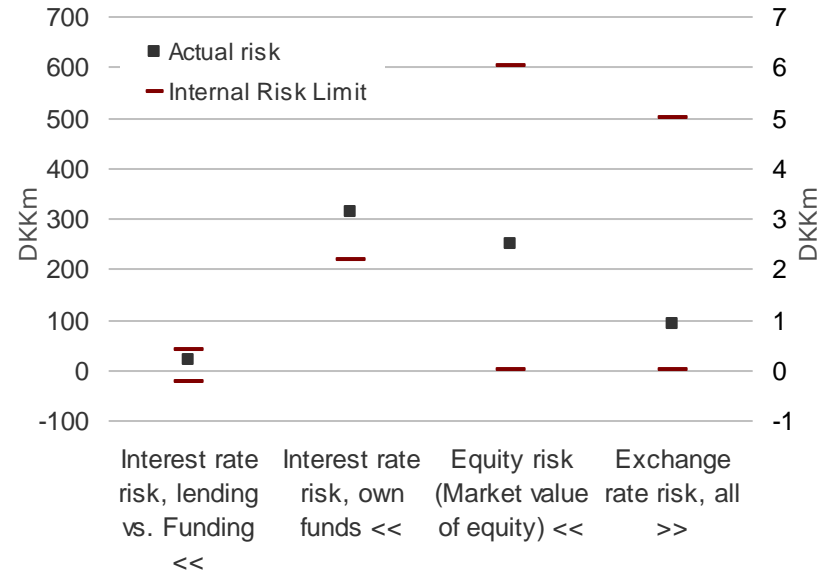


- Loss Guarantees issued by Danske Bank (DKK 44 bn)**
- RD loan disbursed through Danske Bank and former BG Bank has a Loss Guarantee
 - Loss Guarantees covers the outmost LTV limited to 20 per cent of the maximum lending corresponding to LTV from 60-80 per cent for Single Family Housing and 40-60 per cent for Corporate and Holiday Housing
 - Maturity of 8 years with an amortisation equivalent to the covered loan
 - Loss Guarantee covers losses obtained from forced sales including cost

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 2010Q1 interest rate risk on lending vs. funding stood at DKK19.7m
- ❑ 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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