

# Risk Report 2010Q2

---

Published 09 September 2010

*REALKREDIT*  
**Danmark**

# 0 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
  - ❑ Unemployment and Real Wage Growth
  - ❑ Homeowner Affordability
  - ❑ Foreclosures
  - ❑ Danish economic outlook
  - ❑ Geographical Dispersion
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
  - ❑ Over Collateralisation and Capitalisation
  - ❑ Supplementary Collateral
  - ❑ Guarantees
  - ❑ Market Risk Exposures and Liquidity

“The Danish system is designed to prevent negative equity and discourage speculation. There is a high degree of transparency, so those who buy the mortgage bonds have an accurate assessment of the quality of the credit assessment by each of the mortgage originators.” Joseph Stiglitz, *Freefall, Free markets and the sinking of the global economy*, 2010.

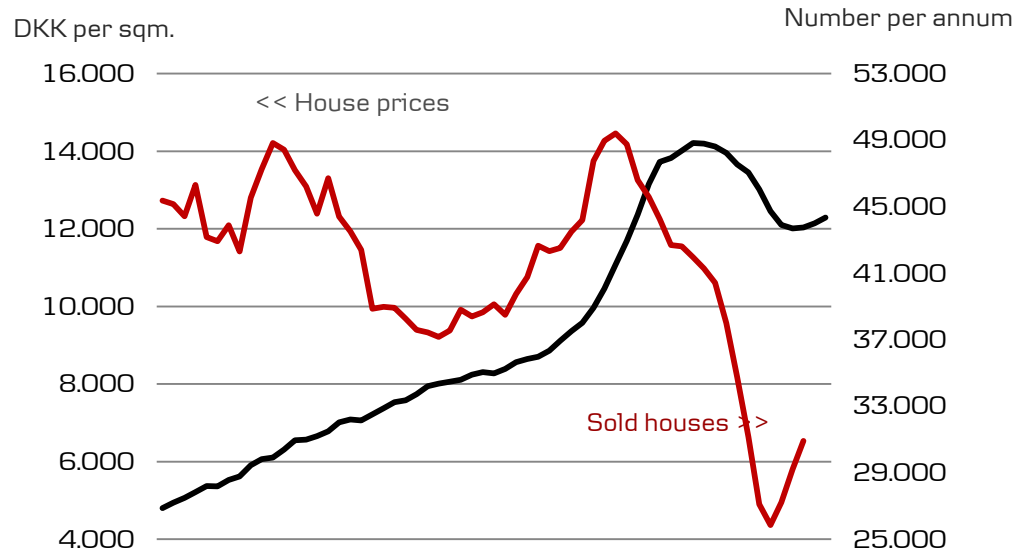
# Key Market Indicators

---

General Market Information

*REALKREDIT*  
**Danmark**

# 1 House Prices and Homeowners Equity

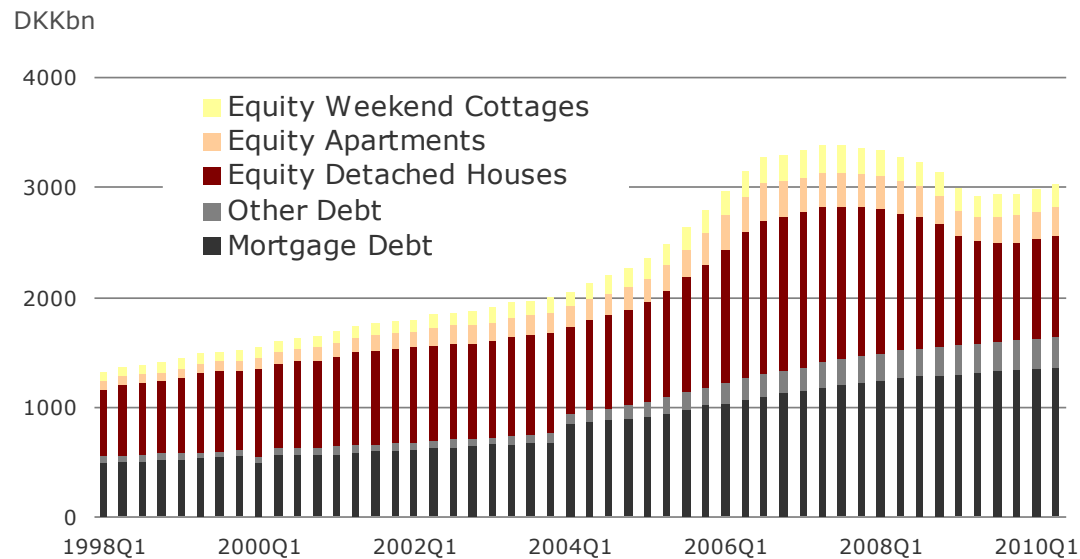


### House Price Trends

- ❑ Stabilisation in house price or even inflation in some areas of Denmark is recorded
- ❑ House prices are down 13.5 per cent for detached housing from the peak mid 2007 and 21.8 per cent for apartments from the peak mid 2006
- ❑ Overall house prices is expected to stay at the current level in 2010

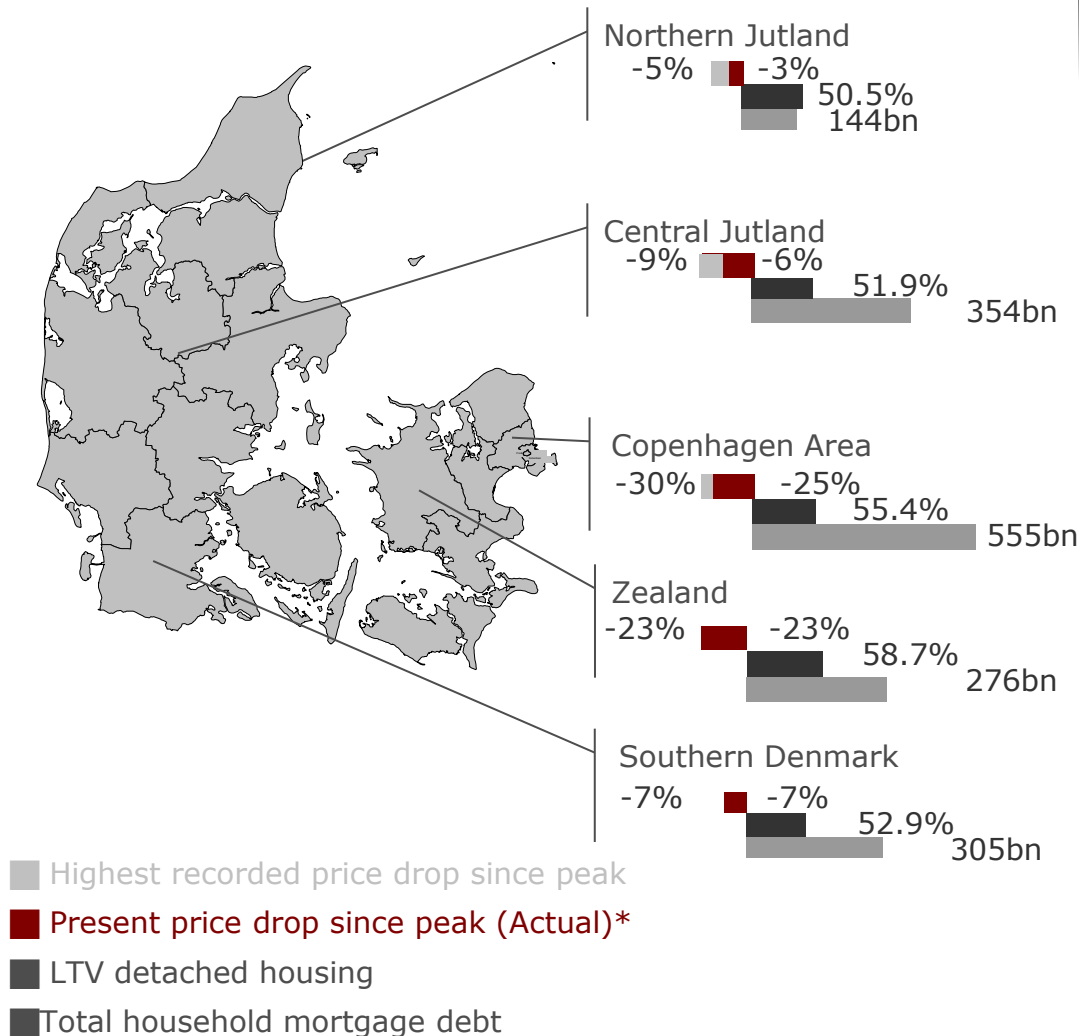
### Homeowners Equity

- ❑ Homeowners' equity peaked 2006Q3 at 1,983bn. Since then equity has dropped by nearly 601bn
- ❑ Only 43 per cent of the drop can be explained by house price deflation – 57 per cent is due to additional lending
- ❑ The last half year equity has increased by more than 62bn due to inflation in house prices in some areas of Denmark



# 1 Geographical Dispersion

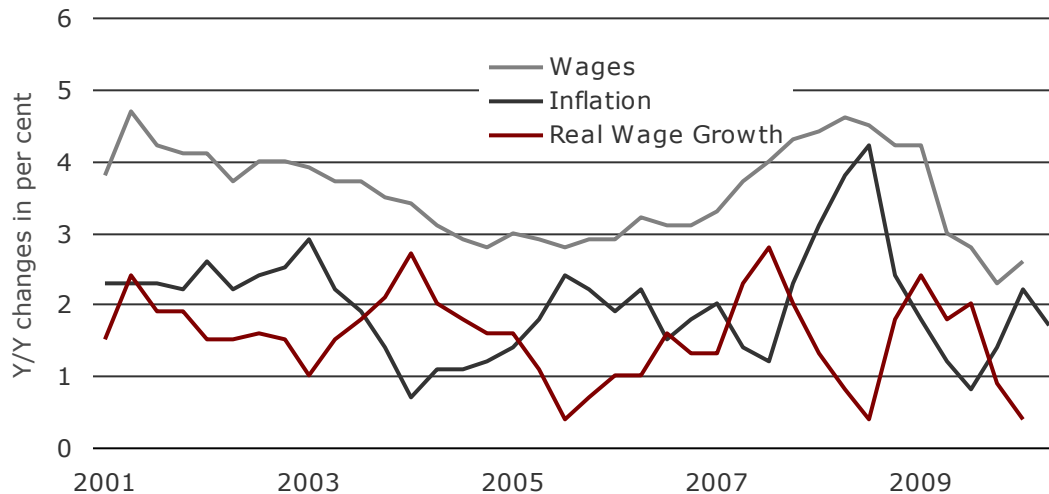
## Private lending in Denmark in total



\* If actual price drop is lower than the highest recorded price drop it means that prices are recovering

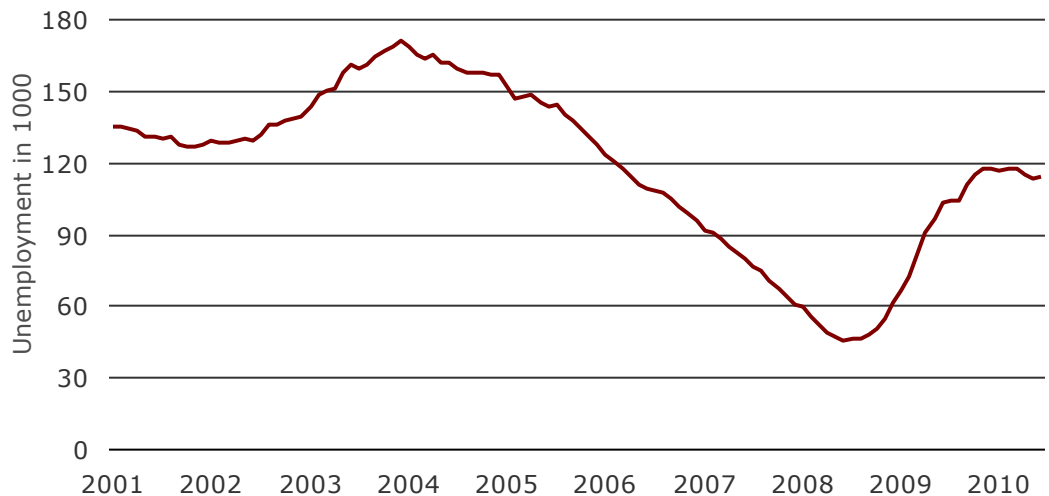
- ❑ From the beginning of 2009 we have seen house prices stabilizing in Denmark throughout all areas
- ❑ The Copenhagen area was the first to suffer from house price deflation, following a decade of soaring house prices. From the mid 2006 peak prices have dropped by a total of 30 per cent
- ❑ Since mid 2009 deflation is partially reversed in the Copenhagen area. Prices have increased by 8 per cent thus, prices are now down by 25 per cent from all time high end 2006

# 1 Unemployment and Real Wage Growth



## Real Wage Growth

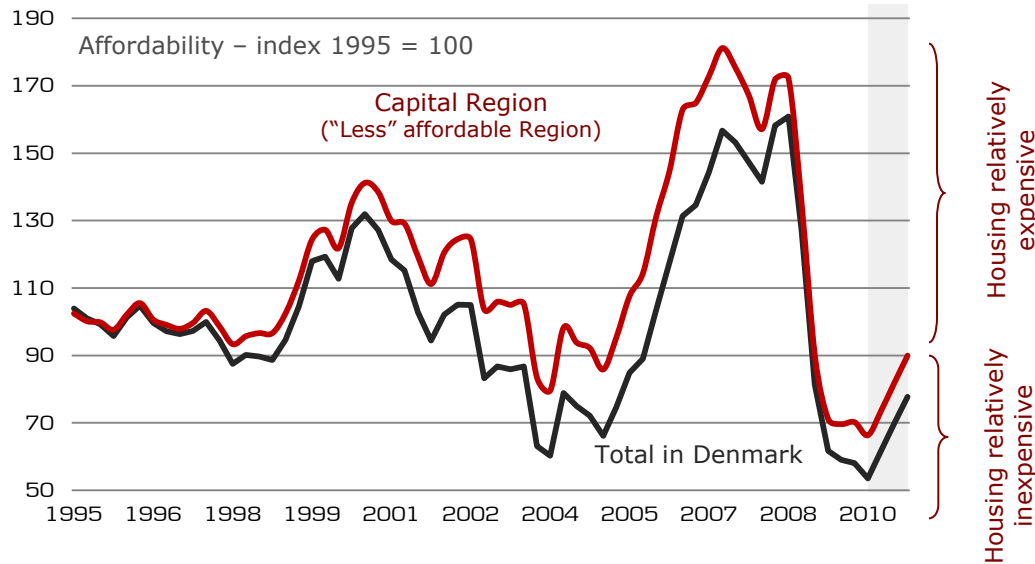
- ❑ Real wage has decreased in 2010Q1 (Q2 figures are not available) due to inflation outpacing the growth in nominal wages
- ❑ Growth expectations has lead to inflation in Q1 which can lead to a further decreases in real wages
- ❑ Still lower interest rates and tax reductions in 2010 increase the disposable income net of housing costs



## Unemployment

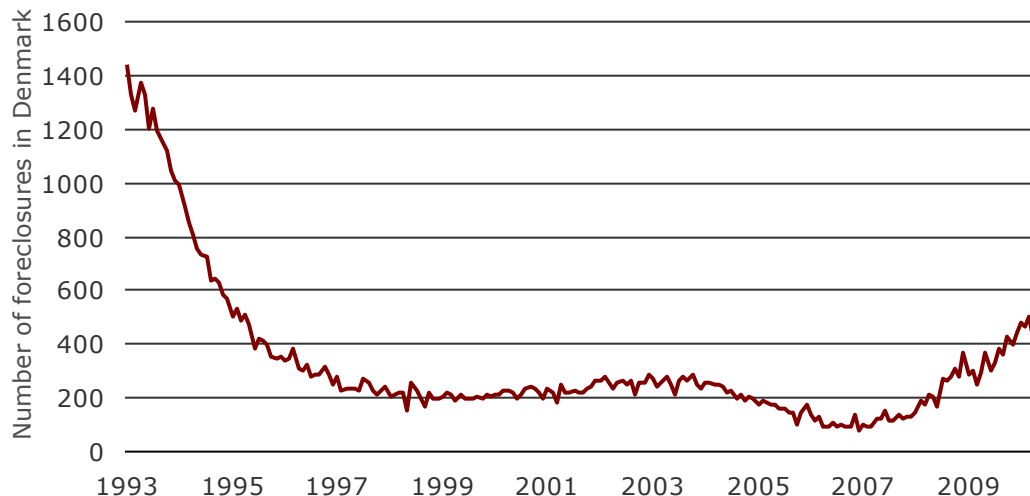
- ❑ Stabilisation is observed with a small drop in unemployment from Q1 to Q2
- ❑ Unemployment stood at 114,000 end Q2 2010 up from a historical low of 45,300 in mid 2008
- ❑ This is equivalent to an unemployment rate of 4.2 per cent
- ❑ Unemployment is expected to stay at the current level in 2010

# 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 fall due to higher interest rates and house price inflation





## Foreclosures

- ❑ The number of foreclosed properties in Denmark in June 2010 was 438
- ❑ There is still an upward trend in the numbers of foreclosed properties recorded, but we expect the numbers to stabilise or even fall in the coming years
- ❑ 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	-4,7	-4,0	1,5	1,3	1,8	2,1
Private Consumption	-4,6	-0,5	2,8	0,1	2,3	1,2
Fixed investments	-13	-10,8	-6,9	-2,0	1,2	3,8
Export	-10,2	-12,6	2,6	7,9	3,9	5,4
Unemployment %	3,6	9,4	4,1	9,8	4,0	9,5

Source: Danske Bank, June 2010

## Danish Economy Outlook

- ❑ The growth in the Danish economy is expected to rise to 1.5 per cent in 2010, due to a expected increase in private consumption and export
- ❑ In other words the growth in Denmark in 2010 depends on private consumer confidence and their intention 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
- ❑ Interest rates have decreased to all time low levels and is expected to stay low the next 12 months



# Key Market Indicators

---

Realkredit Danmark Specific Information

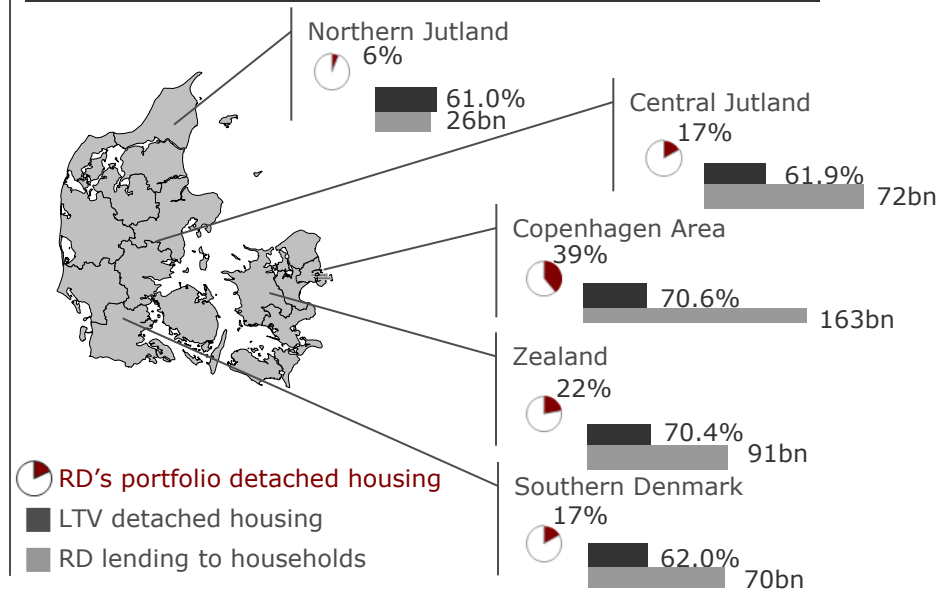
*REALKREDIT*  
**Danmark**

## 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
- ❑ The highest growth in household mortgage debt is recorded in the Copenhagen area

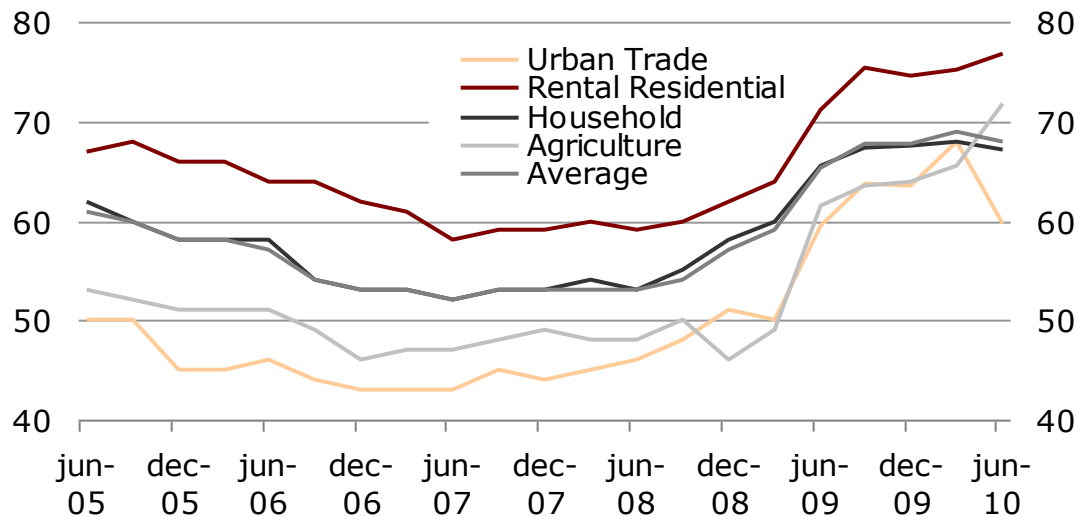
### Geographical Dispersion in Realkredit Danmark



### 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
- ❑ 35 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 63 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 down 1 percentage points at 68 from 69 per cent in Q1 2010
- ❑ With house price stability and even inflation observed in some parts of Denmark LTV ratios are beginning to stabilise as well
- ❑ LTV for private household has stabilised over the last year

### Borrower Classifications

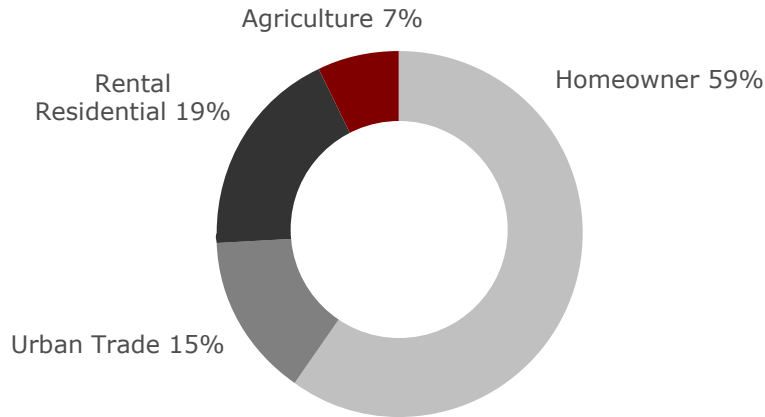
- ❑ Borrowers' financial strength is classified on a scale from 1 to 11, 1 being the highest score
- ❑ Approx. 8bn of total lending is secured by mortgages above the 80% LTV limit for which the borrowers' financial strength is classified 8-11 – equivalent to 1.1 per cent of the portfolio

DKKbn	Rating Category (Scaled 1-11)			Total
	1-3	4-7	8-11	
LTV				
0-20 %	60	156	29	245
20-40 %	42	132	27	200
40-60 %	25	97	22	144
60-80 %	12	55	14	81
<b>&gt; 80 %</b>	<b>8</b>	<b>22</b>	<b>8</b>	<b>38</b>
Total	147	462	99	708

Note: RD total

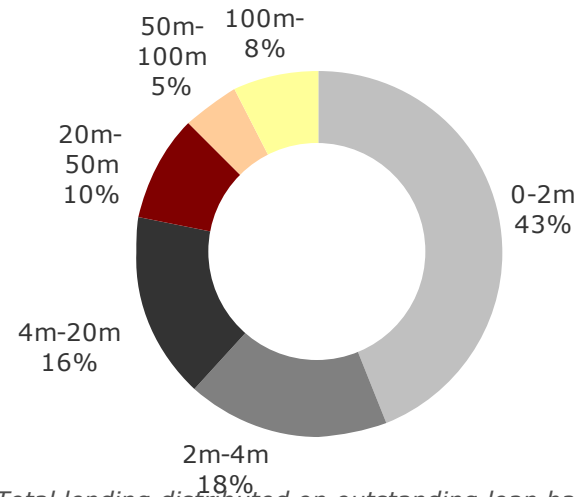
## 2 Collateral Breakdowns – Total portfolio

### Borrower Segmentation



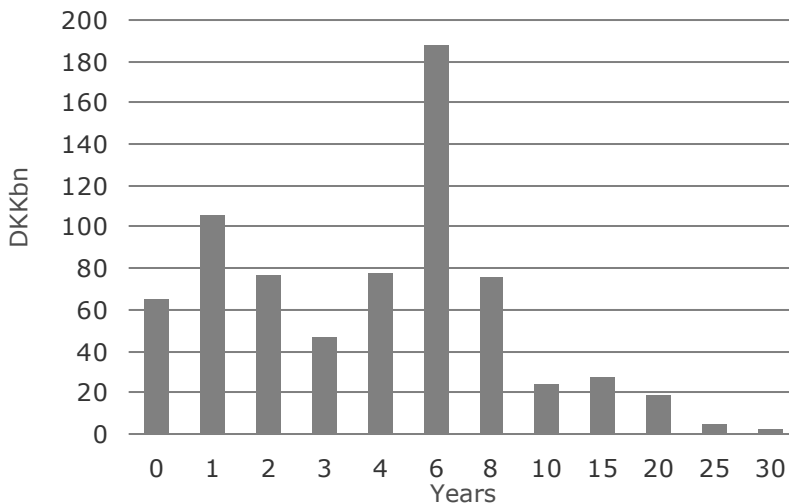
Note: Total lending distributed on segments

### Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

### Portfolio Seasoning

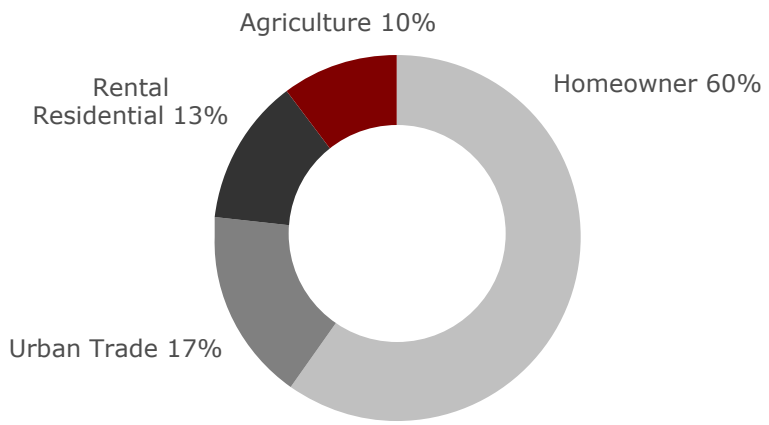


### Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Household	143	121	88	50	18	421
Urban trade	40	32	21	9	3	105
Agriculture	17	14	10	6	4	51
Rental Residential	46	33	24	16	13	132
Weighted dist.	35%	28%	20%	11%	5%	100 %
Total, DKKbn	245	200	144	81	38	708

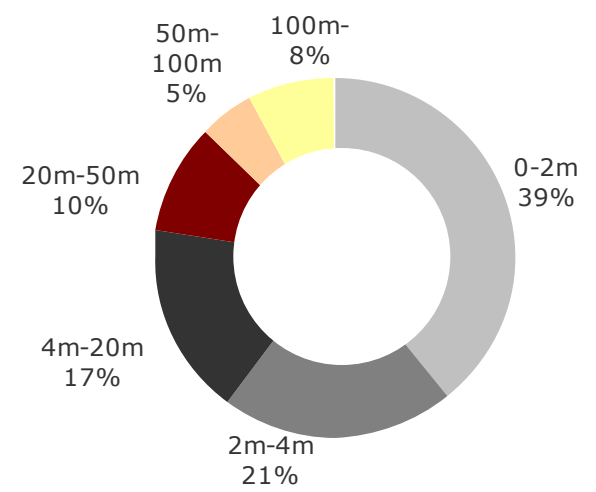
## 2 Collateral Breakdowns – Capital Centre S

### Borrower Segmentation



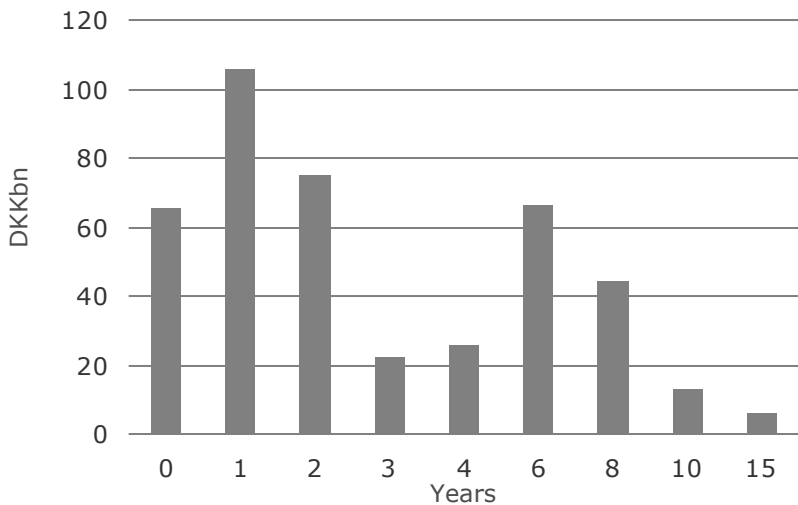
Note: Total lending distributed on segments

### Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

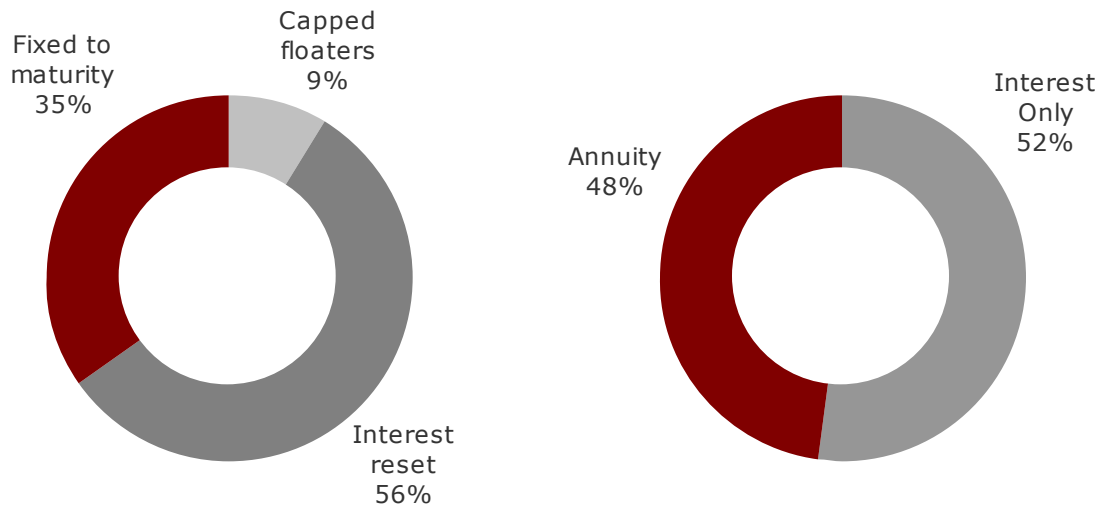
### Portfolio Seasoning



### Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	> 80%	Total DKKbn
Household	77	70	56	36	12	252
Urban trade	25	21	16	7	2	71
Agriculture	13	12	9	5	3	43
Rental Residential	16	14	11	7	6	55
Weighted dist.	31%	28%	22%	13%	6%	100 %
Total, DKKbn	132	118	93	55	24	421

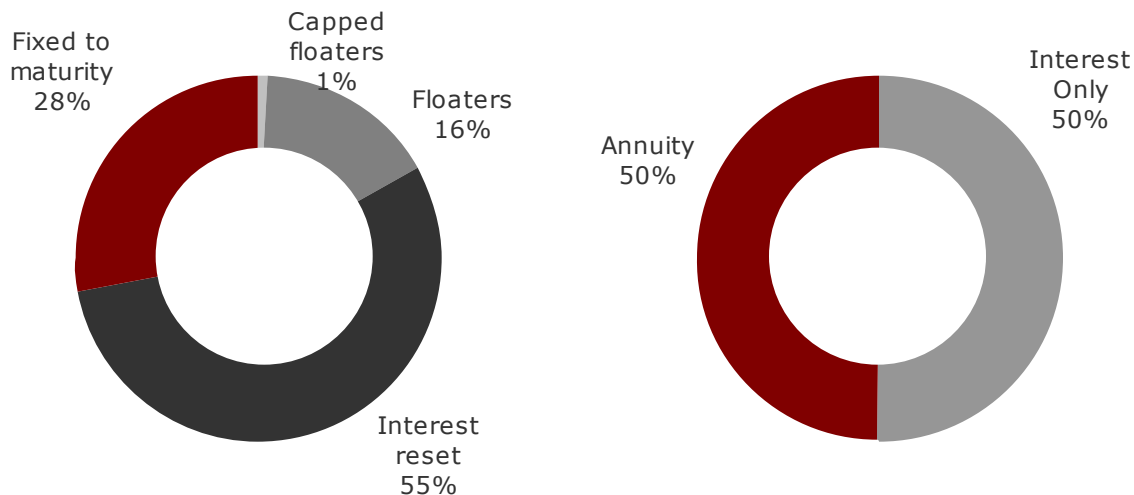
## 2 Borrower Exposure to Interest Rates



*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
- ❑ The impact of remortgaging from fixed to floating is mirrored in the chart by interest reset up by 2 percentage points to 56 per cent
- ❑ Annuity and interest only loans are divided equally in the homeowner segment



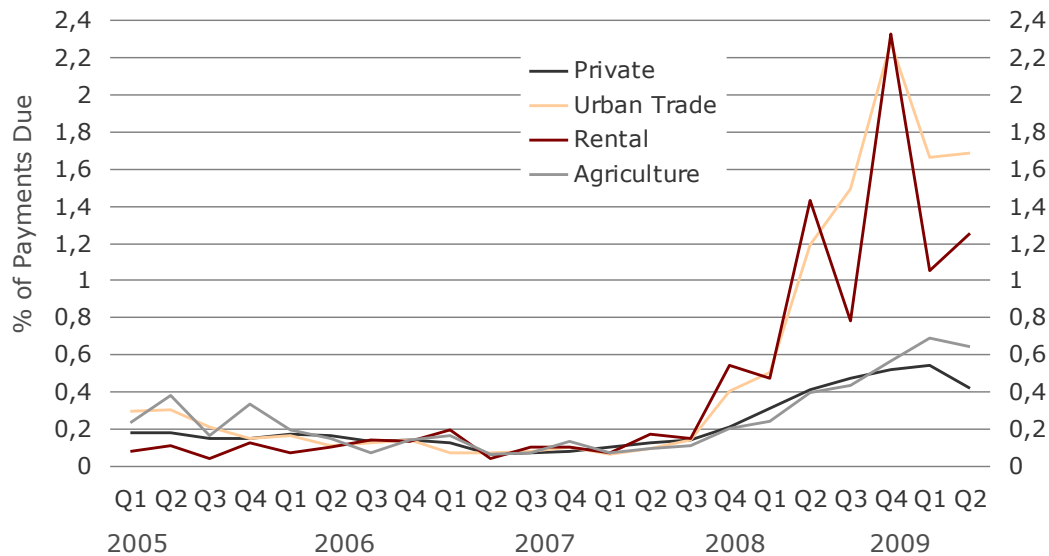
*Note: Outstanding loan balances*

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

### Corporate Segments

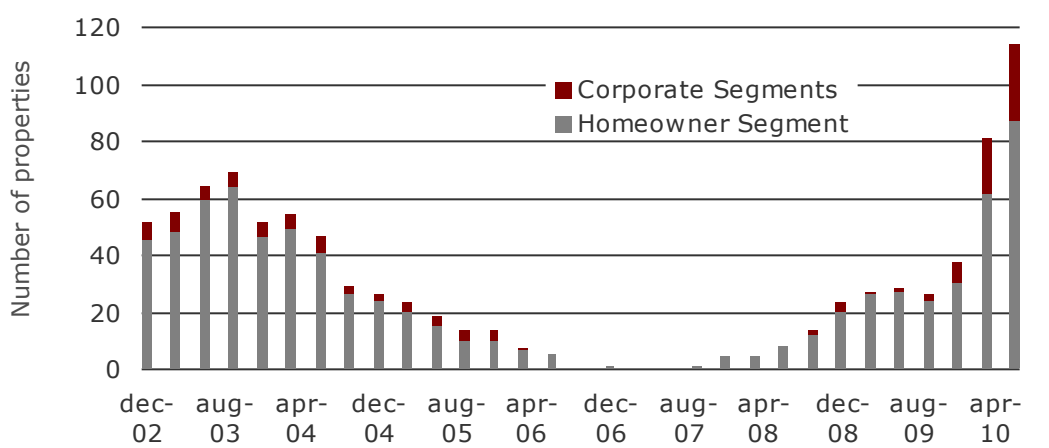
- ❑ 28 per cent of all lending in corporate segments is fixed rate to maturity
- ❑ More than 70 per cent are either interest reset (typically, rates are reset every year or every third year) or floating rate (base rates are either 6M CIBOR or 3M EURIBOR)
- ❑ Bullets and Interest only loans make up 50 per cent of corporate lending

## 2 Arrears and Repossessions



### Arrears (3 months)

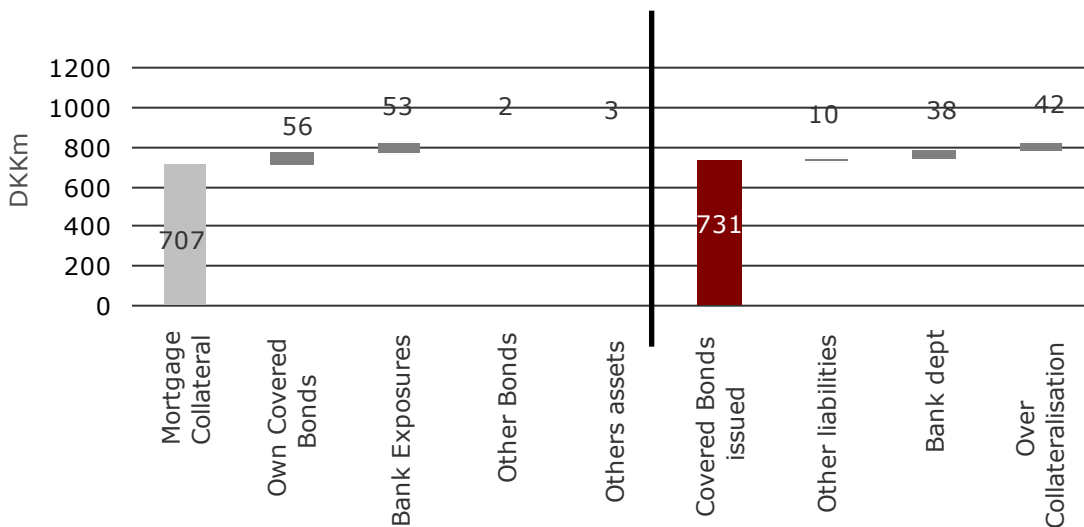
- ❑ Arrears are down considerably from Q4 2009 to Q2 2010 in Urban Trade and Rental due to individual programmes introduced to minimize arrears. We expect this trend to continue
- ❑ The arrears in the Private and Agriculture segments are also beginning to fall



### Repossessions

- ❑ The stock of repossessed properties stood at 114 end 2010Q2 – up 33 from 2010Q1
- ❑ This compares to a total stock of mortgages collateral at 409,000
- ❑ The number of repossessed properties has not been affected by the increase in foreclosures as in the early 90's

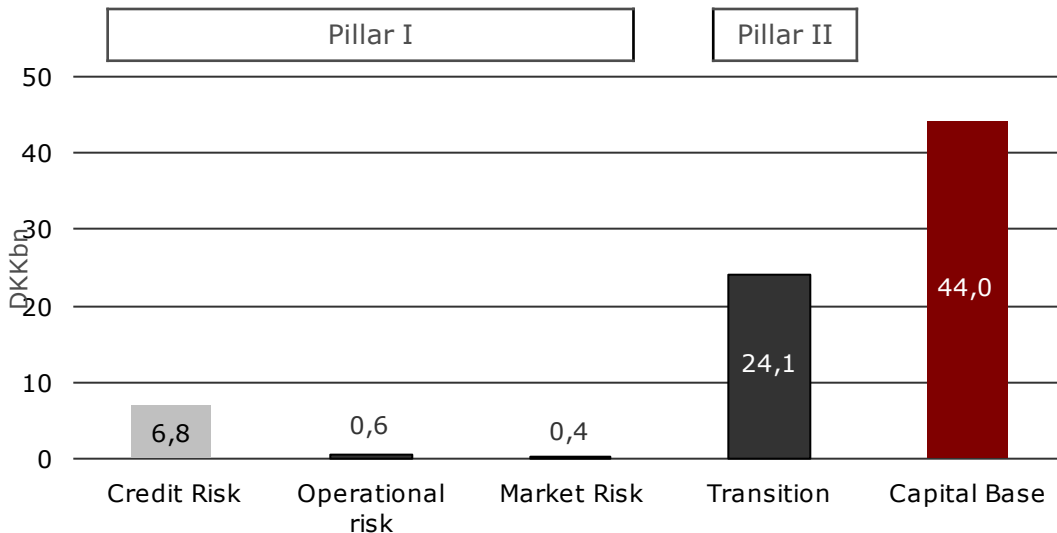
## 2 Over Collateralisation and Capitalisation



### 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

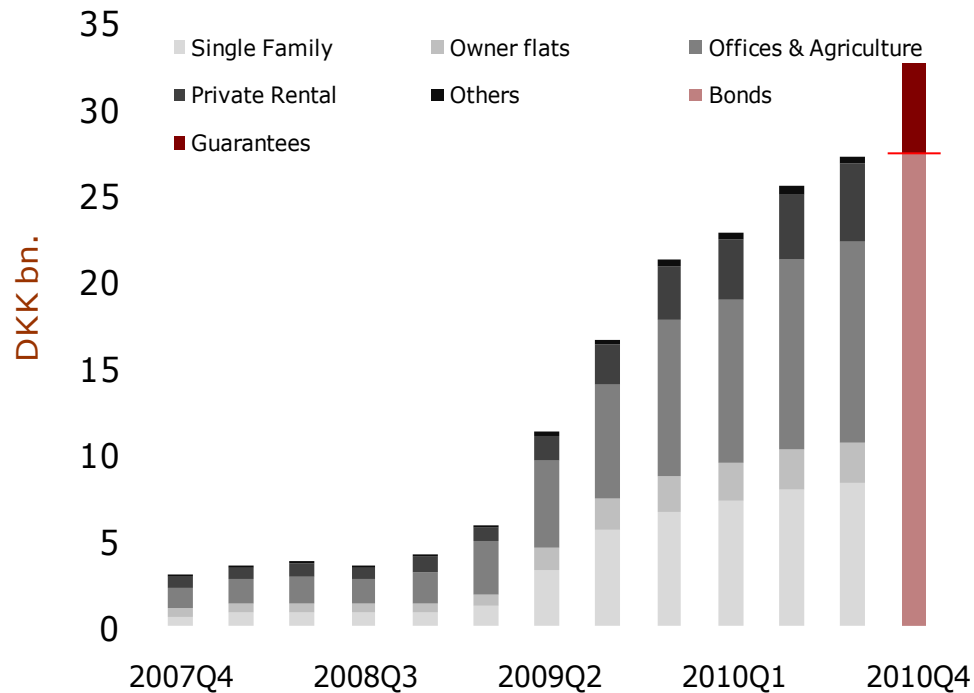


### Capitalisation

- ❑ The solvency ratio stood at 45.5 per cent end 2010Q2 (CRD definition)
- ❑ Realkredit Danmark has obtained hybrid core capital in volume of DKK 2 bn under the Act of State-Funded Capital Injections
- ❑ If not obtained the solvency ratio stood at 43.4 per cent



# Supplementary Collateral



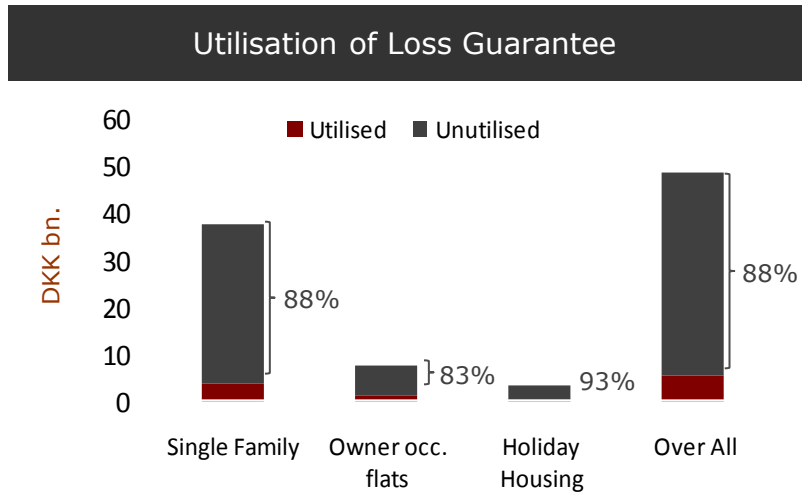
## Buffer in Capital Centre S

- ❑ Total OC of DKK 27.5 bn in Capital Centre S
- ❑ Supplementary Collateral of DKK 27.3 bn are required end Q2 2010 in Capital Centre S
- ❑ Loss Guarantees of DKK 5.3 bn are utilised
- ❑ Buffer for further growth in need for supplementary Collateral in Capital Centre S is DKK 5.4 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 approx. DKK 12.5 bn end Q2 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

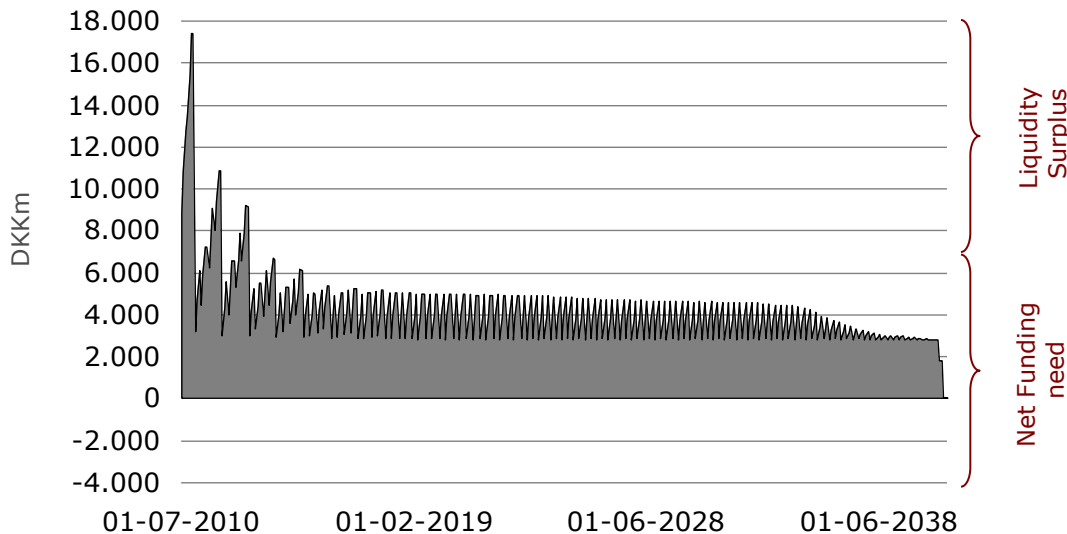
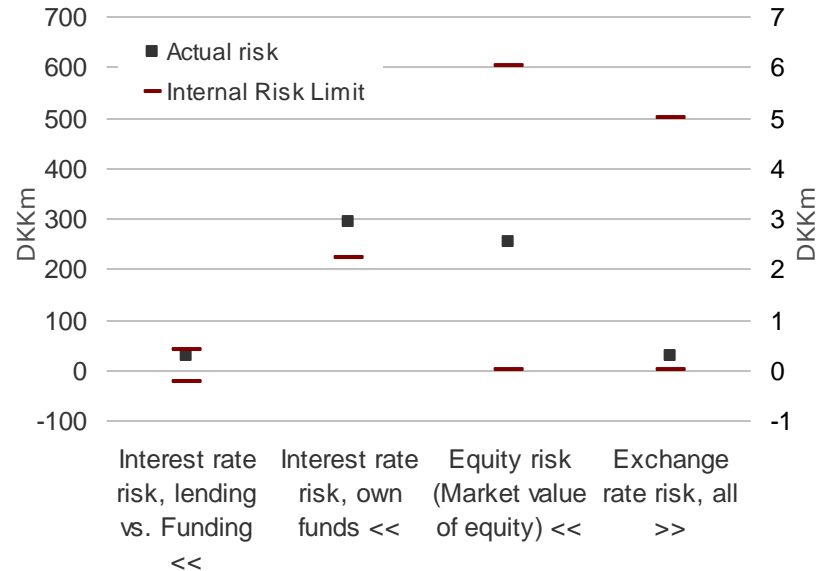


- ### Loss Guarantees issued by Danske Bank (DKK 43 bn)
- RD loan disbursed through Danske Bank and former BG Bank has a Loss Guarantee
  - Loss Guarantees covers the outmost LTV limited to 20 per cent of the maximum lending corresponding to LTV from 60-80 per cent for Single Family Housing and 40-60 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 2010Q2 interest rate risk on lending vs. funding stood at DKK24.9m
- ❑ 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

---

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.