

Risk Report 2012Q4

Published 26 February 2013

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

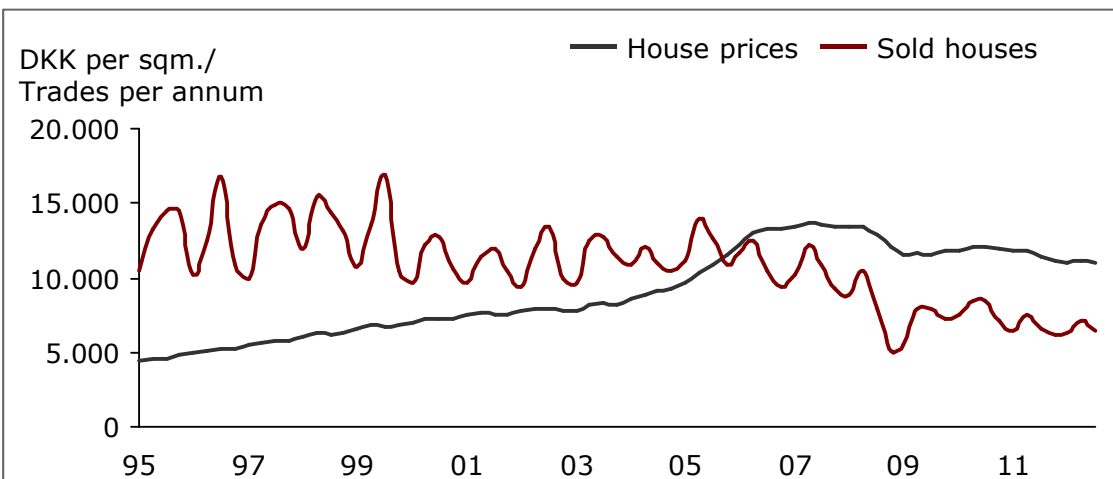
Key Market Indicators

General Market Information

1 House Prices and Homeowners Equity

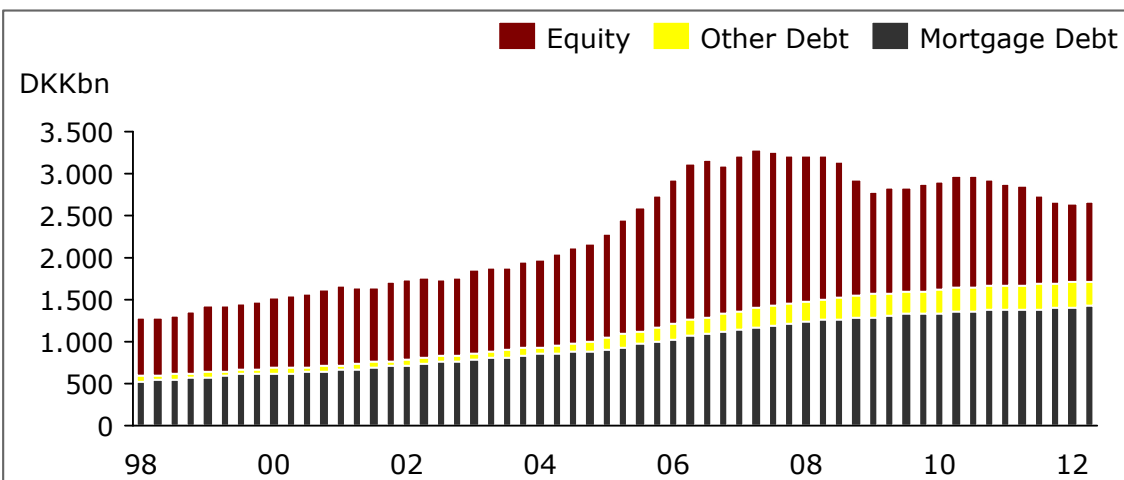
House Price Trends

- The fall in house prices since mid 2011 seems to have stabilised
- House prices are down 20% for detached housing from the peak mid 2007
- Expectations are for house prices to continue the current stabilisation yet uncertainty is high

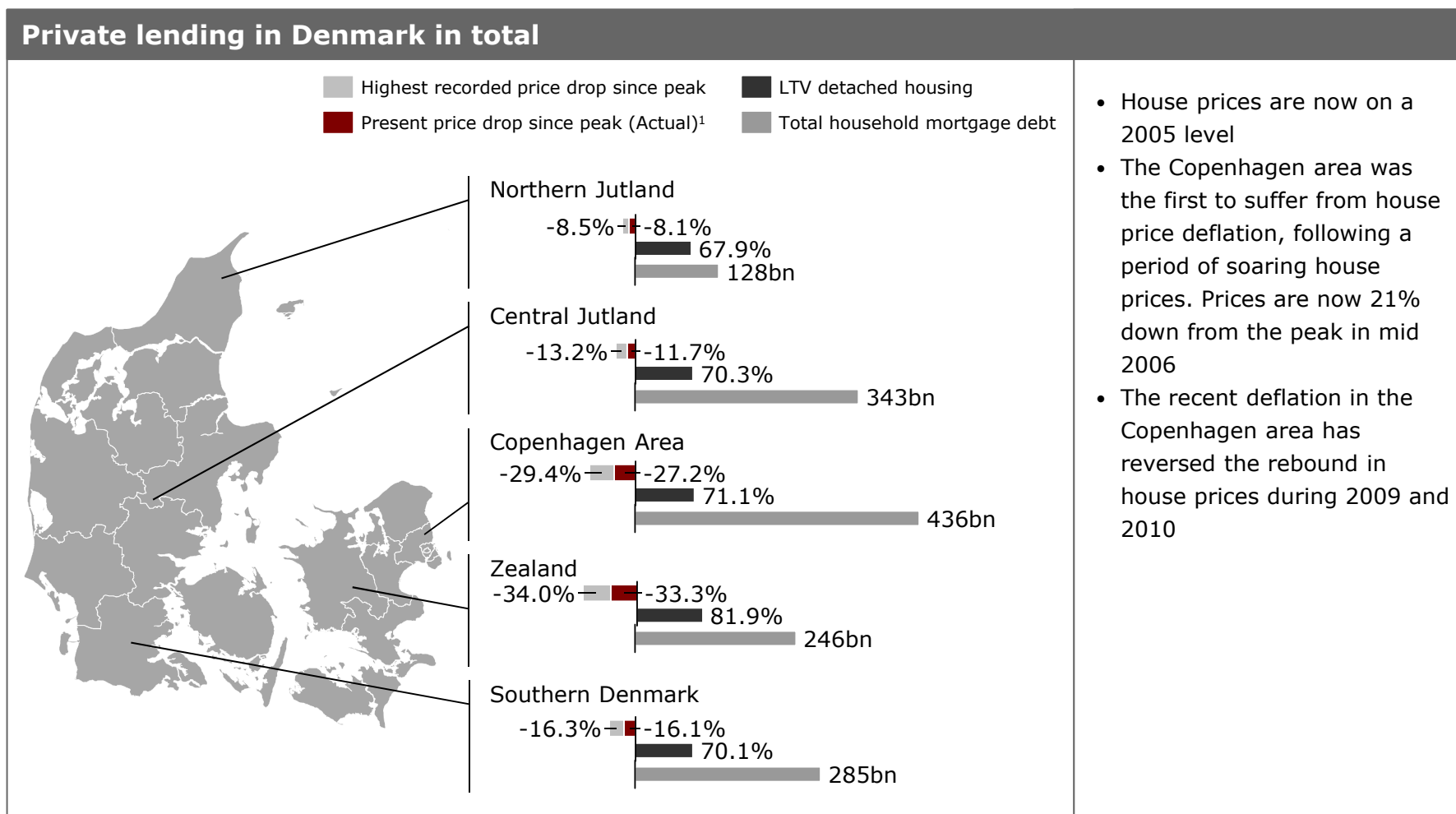


Homeowners Equity

- Homeowners' equity peaked 2006Q3 at 1,887bn. Since then equity has dropped by 934bn
- 53% of the drop can be explained by house price deflation — 47% is due to additional lending



1 Geographical Dispersion

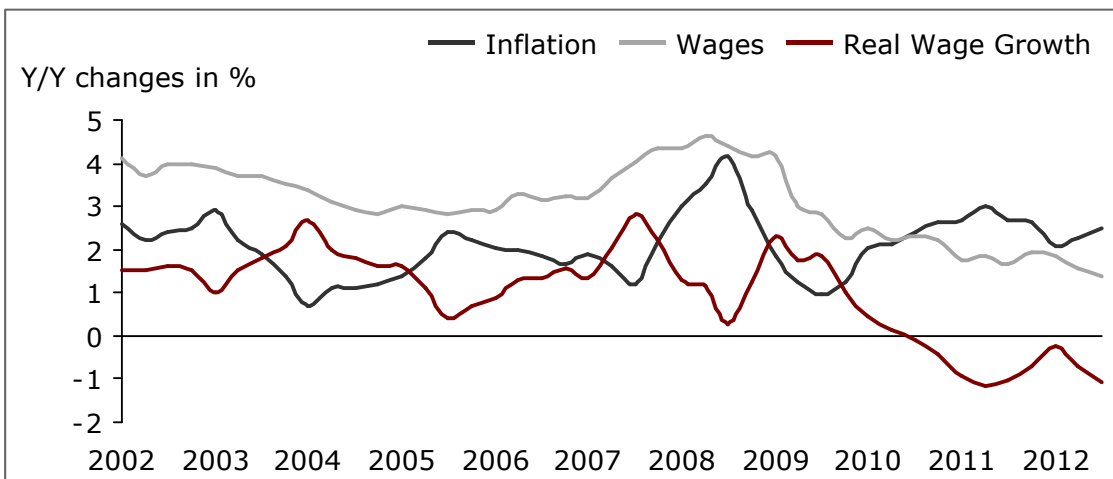


¹. If actual price drop is lower than the highest recorded price drop it means that prices are recovering

1 Unemployment and Real Wage Growth

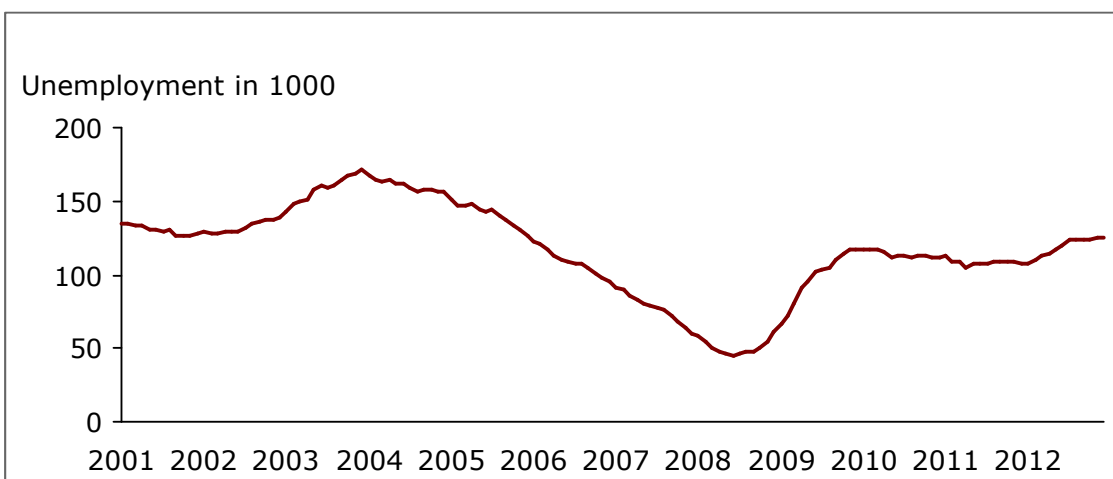
Real Wage Growth

- Real wage growth is negative in Q3 due to quite high inflation outpacing the growth in nominal wages
- Wage development is expected to be close to the inflation rate in 2013



Unemployment

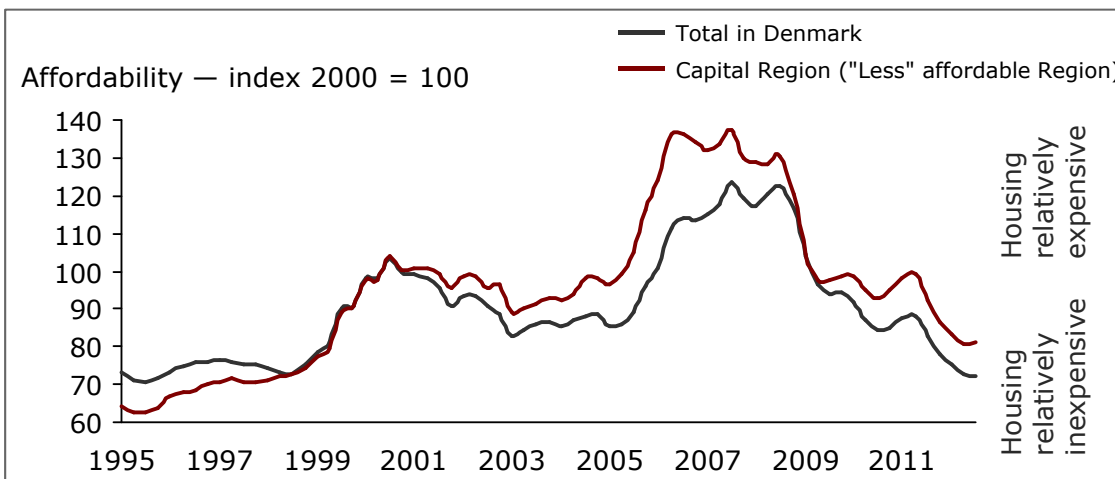
- Net unemployment stood at 124,590 end Q4 2012 up from a historical low of 44,942 in mid 2008
- This is equivalent to an unemployment (net) rate of 6.2%. The unemployment rate is expected to rise a bit over the coming quarters



1 Homeowner Affordability and Foreclosures

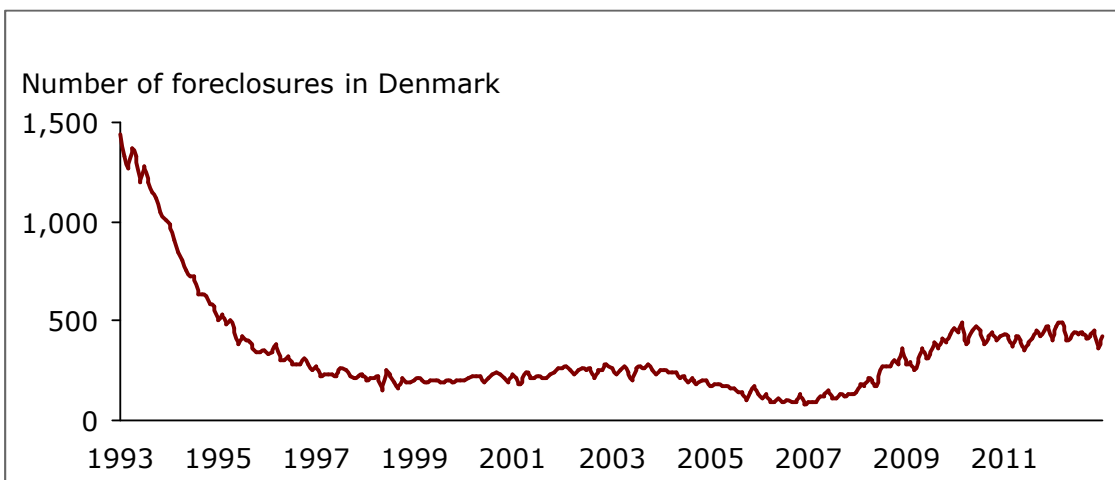
Homeowner Affordability

- 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 end 1990ies





Foreclosures

- The number of foreclosed properties in Denmark in January 2013 was 425
- We expect the numbers to stay at the current level throughout the year 2013
- The duration of a foreclosure is approx. 6 months from missed payments to completion



1 Political measures and outlook

Denmark  Euro Zone 	2012		2013		2014	
GDP	-0.5	-0.4	0.7	0.3	1.6	1.3
Private Consumption	1.1	-0.9	1.3	-0.2	1.2	0.4
Fixed investments	1.8	-3.3	2.1	-0.7	-1.5	2.2
Export	1.8	2.4	1.6	1.9	3.6	4.4
Unemployment %	6.2	11.4	6.5	12.1	6.5	12.2

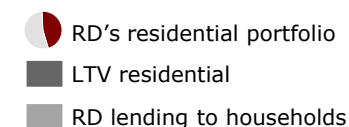
Danish Economy Outlook

- The growth in the Danish economy is expected to be just above 0 in 2013
- We have seen a stabilisation of the unemployment rate in 2011/2012. However overall employment is still falling
- Growth in exports are much lower in 2012 relative to 2011
- Signs of slower global growth is a concern to the Danish economy which is highly dependent on exports
- Interest rates are a key element in the household economy. We still expect very low interest rates in the near future

Key Collateral Indicators

Realkredit Danmark Specific Information

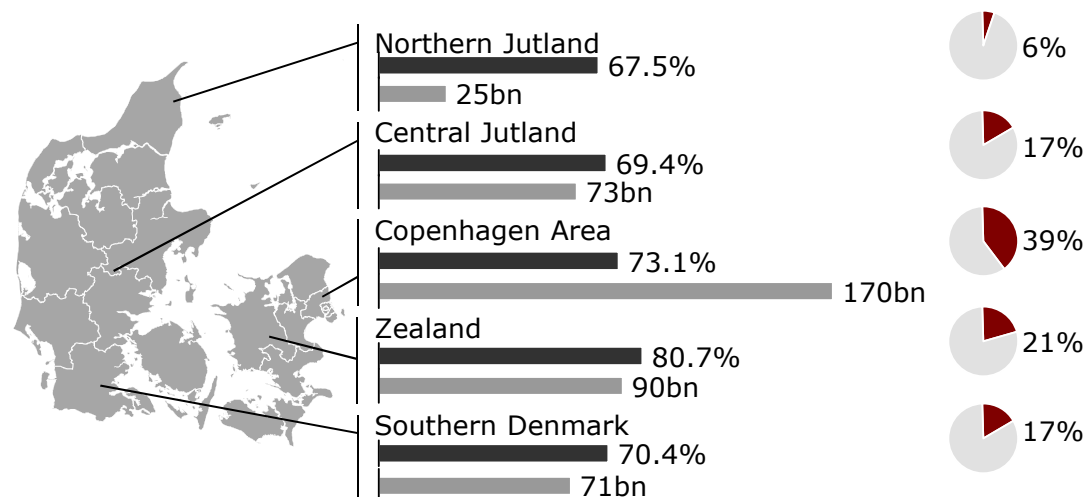
2 Dispersion and Loan to Value Ratios



Dispersion of RD's residential portfolio

- RD's loan portfolio is concentrated in the Copenhagen area and on Zealand where prices have been reduced the most
- In 2012 RD started issuing loans in Norway to large corporate customers who are already customers in Danske Bank. RD has been issuing similar loans in Sweden since 2008
- Homeowners' equity remains highest in the Copenhagen area although LTV ratios have been exposed to a large increase
- Although the affordability ratio in the capital region is expected to rise it is still below index 100
- A minor increase in the household mortgage debt was recorded in Q2 2012

Geographical Dispersion in Realkredit Danmark



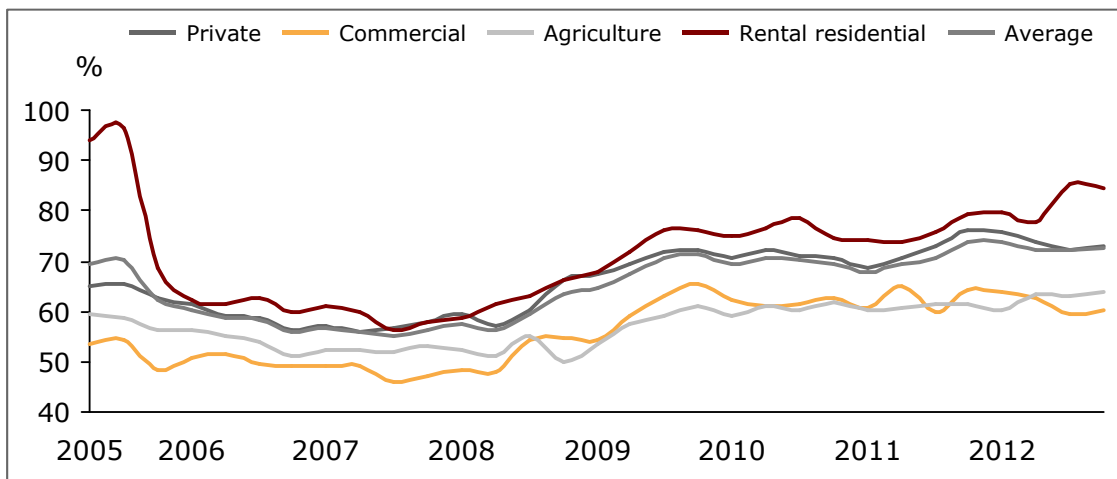
Loan To Value Ratios

- 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
- 33% of mortgage collateral securing covered bonds issued by Realkredit Danmark has a current LTV ratio of 20% or less. More than 60% 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 72.5% in Q4 2012 compared to 73.9% in Q4 2011



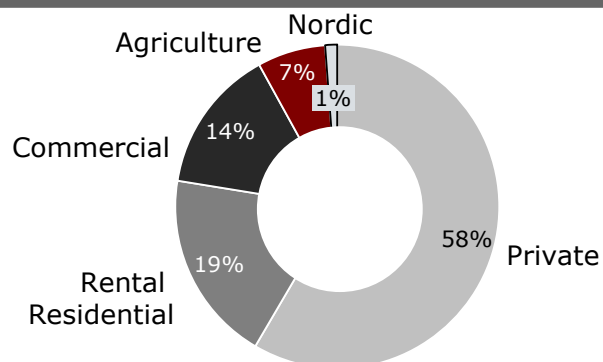
Borrower Classifications

- Borrowers' financial strength is classified on a scale from 1 to 11, 1 being the highest score
- Approx. 10bn 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)			
LTV	1-3	4-7	8-11	Total
0-20 %	56	166	26	248
20-40 %	39	140	23	202
40-60 %	25	106	19	150
60-80 %	12	61	13	86
> 80 %	10	32	10	53
Total	141	505	92	738

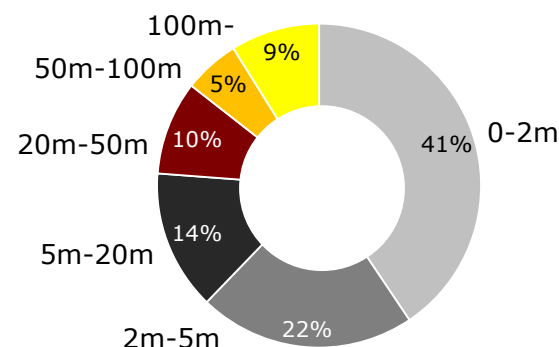
2 Collateral Breakdowns — Total portfolio

Borrower Segmentation



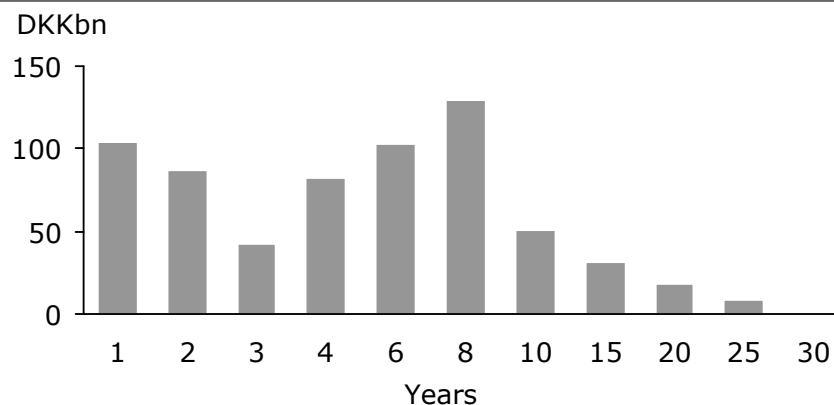
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning

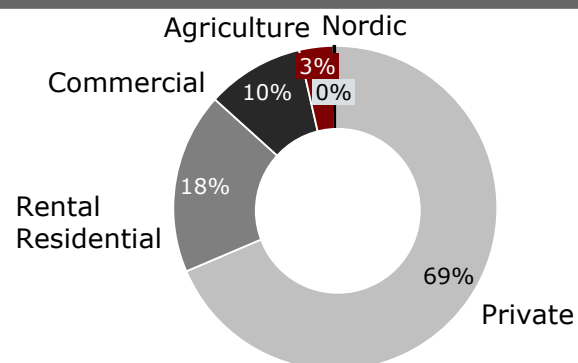


Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	137	118	91	57	28	430
Commercial	43	34	24	8	5	115
Agriculture	18	16	10	4	2	50
Rental Residential	50	34	25	16	18	143
Weighted dist.	34%	27%	20%	12%	7%	100%
Total, DKKbn	248	202	150	86	53	738

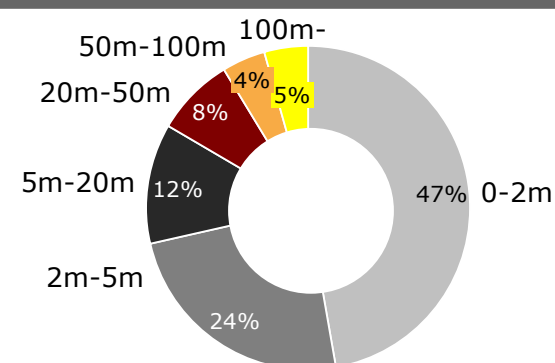
2 Collateral Breakdowns — Capital Centre S

Borrower Segmentation



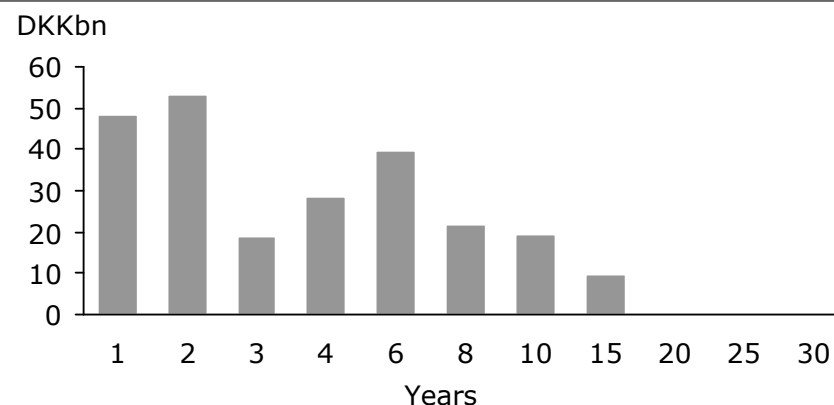
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning

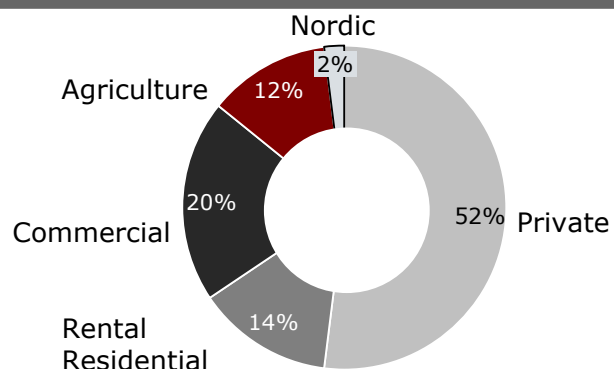


Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	58	52	42	27	13	192
Commercial	9	8	6	3	2	29
Agriculture	3	3	2	1	0	9
Rental Residential	18	13	9	6	6	50
Weighted dist.	31%	27%	21%	13%	8%	100%
Total, DKKbn	88	76	58	37	21	280

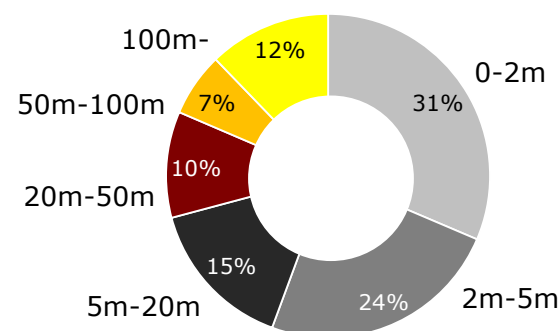
2 Collateral Breakdowns — Capital Centre T

Borrower Segmentation



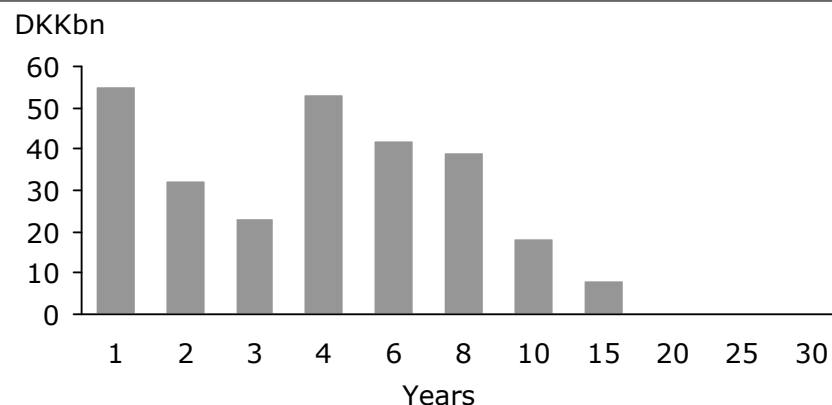
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning



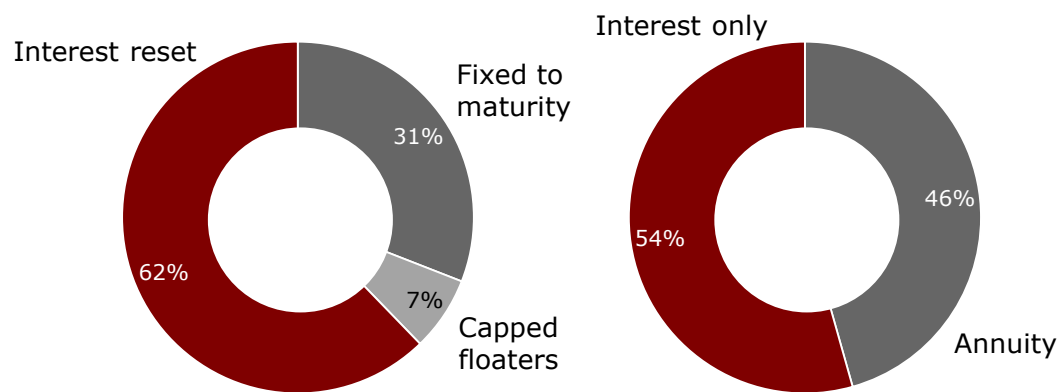
Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	>80%	Total DKKbn
Private	49	44	36	24	11	163
Commercial	26	21	16	4	2	69
Agriculture	13	12	8	3	2	38
Rental Residential	13	10	9	6	5	43
Weighted dist.	32%	28%	22%	12%	7%	100%
Total, DKKbn	100	87	68	37	21	313

2 Borrower Exposure to Interest Rates

Private Segment

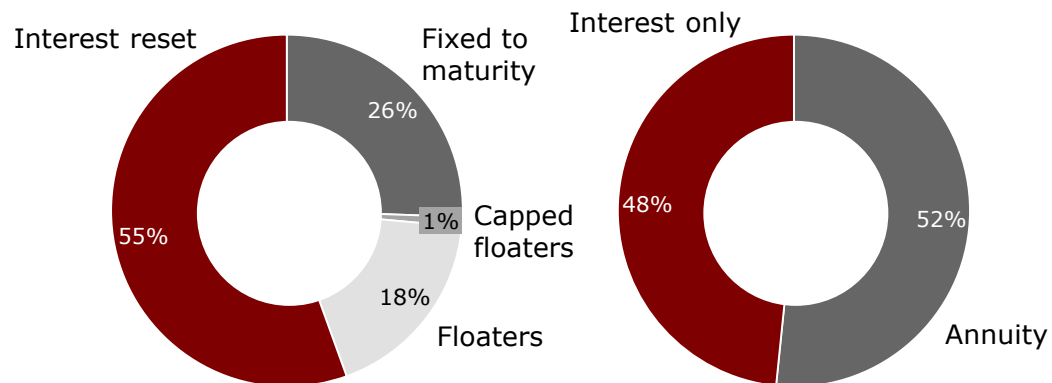
- Homeowners must be able to service a 30-year fixed rate annuity loan for Realkredit Danmark to underwrite
- For the past decade borrowers have remortgaged from fixed rate into interest reset — now accounting for 62% of the loan book. Expectations are for this trend to reverse from fixed rates reaching an all time low of 3%



Note: Outstanding loan balances

Corporate Segments

- 26% of all lending in corporate segments is fixed rate to maturity
- More than 70% 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 48% of corporate lending



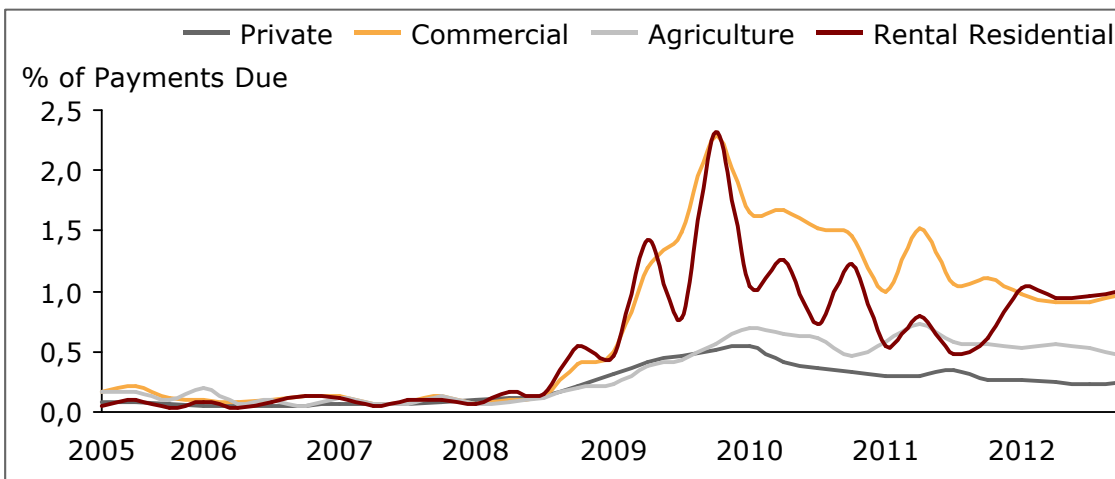
Note: Outstanding loan balances

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

2 Arrears and Repossessions

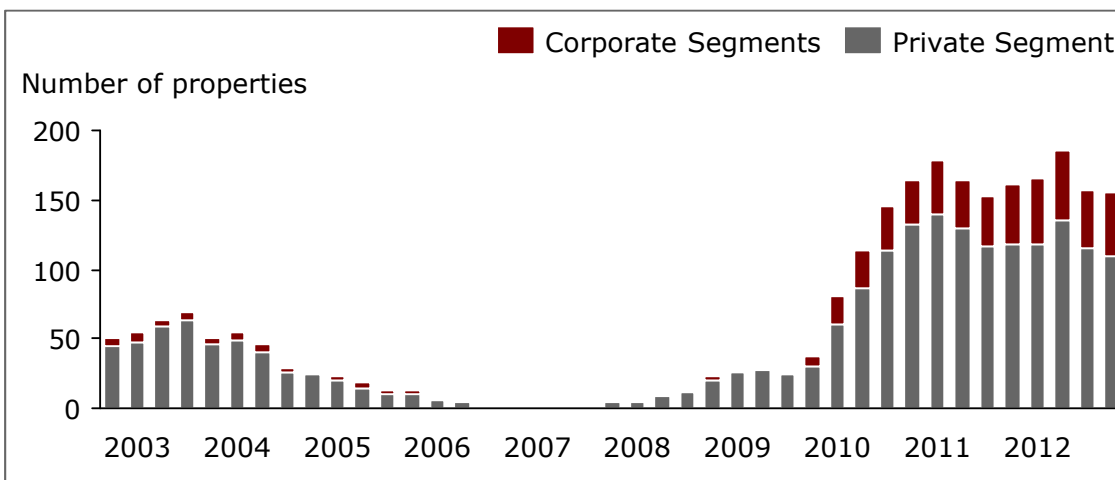
Arrears (3 months)

- Arrears are down considerably from Q4 2009 in Commercial and Rental Residential
- Arrears in the Private segments and Agriculture are stabilising
- Total arrears stood at 0.49% end Q4 2012



Repossessions

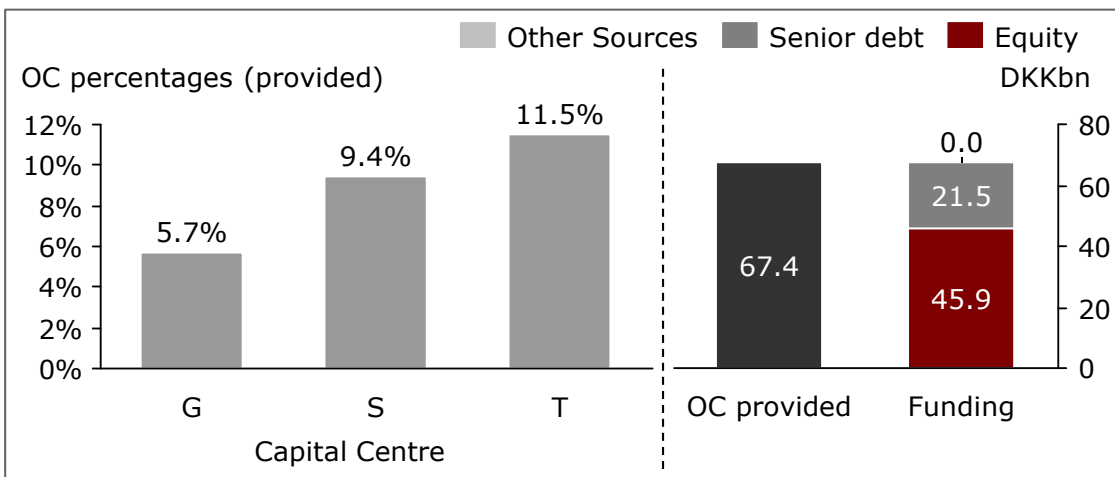
- The stock of repossessed properties stood at 156 end Q4 2012 — down 1 from Q3 2012
- This compares to a total stock of mortgages collateral at 515,793



2 Over Collateralization and Capitalization

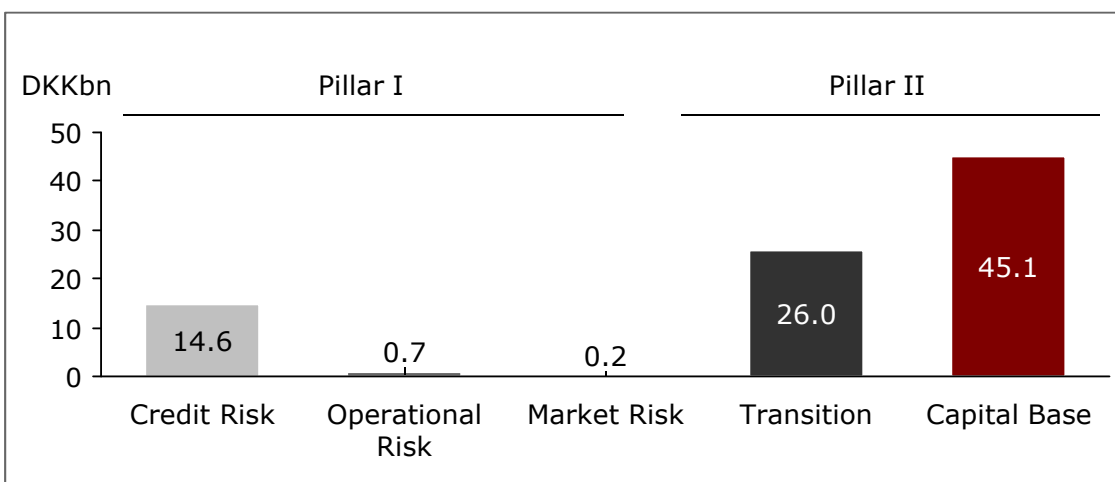
Over Collateralisation

- 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

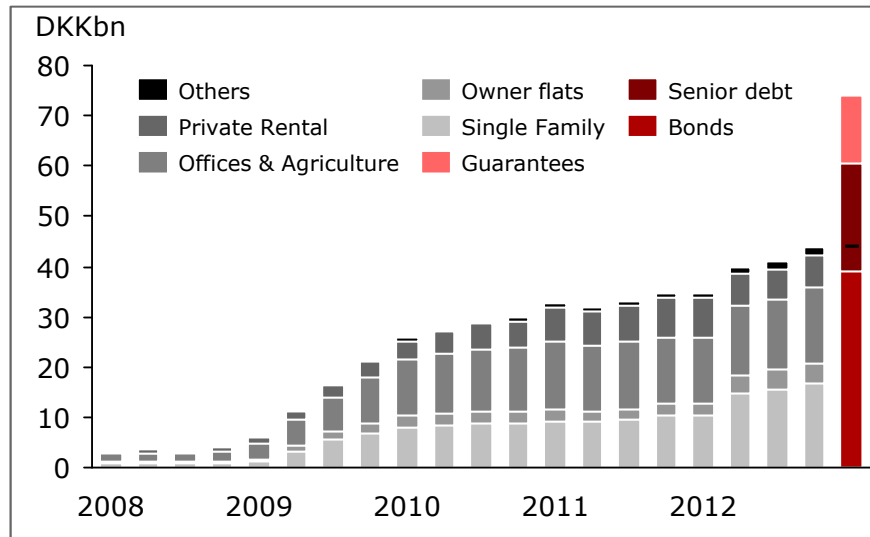
- The solvency ratio stood at 19.7% end Q4 2012 (CRD definition)
- Realkredit Danmark started issuing senior debt in Q1 2012 to strengthen the capital base



Supplementary Collateral — Total in S and T

Buffer in Capital Centre S and T

- For Q4 2012 total OC provided was DKK 60.6bn in Capital Centres S and T of which 21.5bn was Senior debt
- Supplementary Collateral of DKK 43.9bn are required end Q4 2012 in Capital Centres S and T
- Loss Guarantees of DKK 13.3bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centre S and T is DKK 30.0bn
- 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



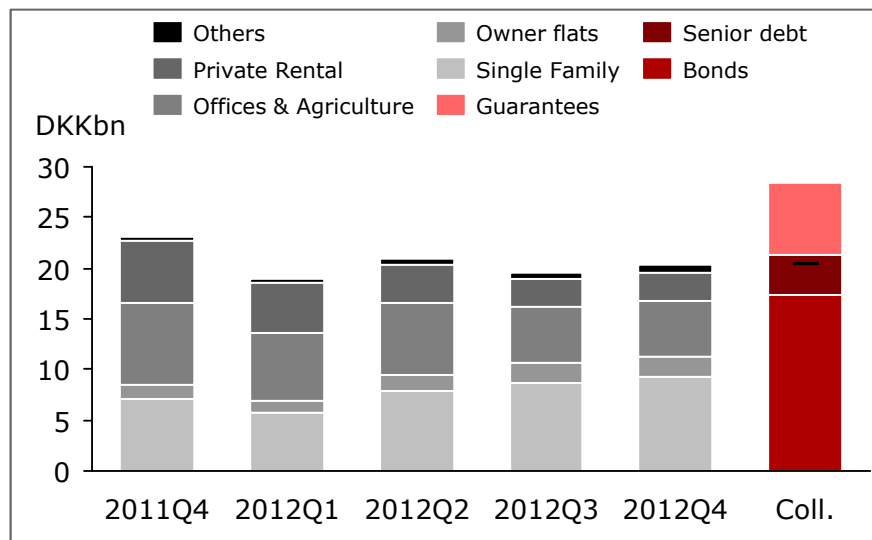
Supplementary Collateral requirements

- 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 CRD eligible assets are eligible as Supplementary Collateral

Supplementary Collateral — S

Buffer in Capital Centre S

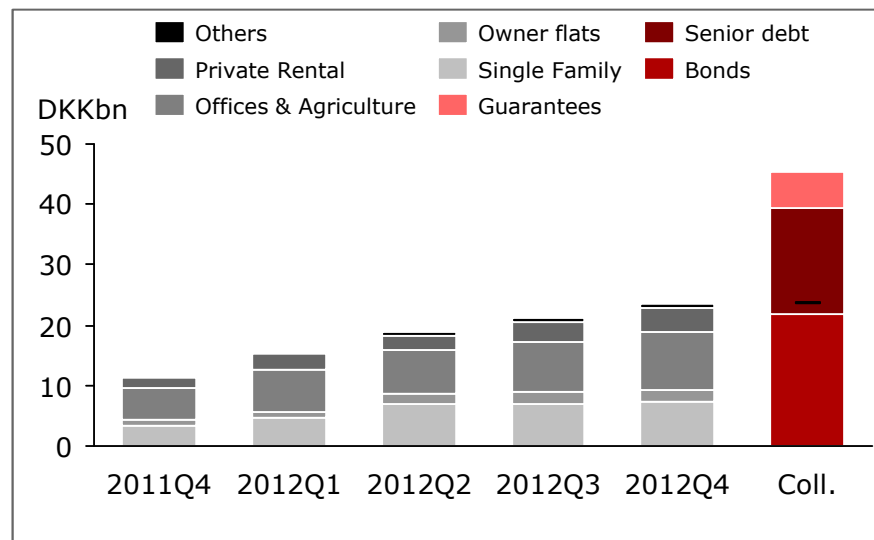
- For Q4 2012 total OC provided was DKK 21.3bn in Capital Centre S of which 4.0bn was Senior debt
- Supplementary Collateral of DKK 20.2bn are required end Q4 2012 in Capital Centre S
- Loss Guarantees of DKK 7.2bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centre S is DKK 8.3bn
- 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 Guaranties within the 15% limitation of issued bonds



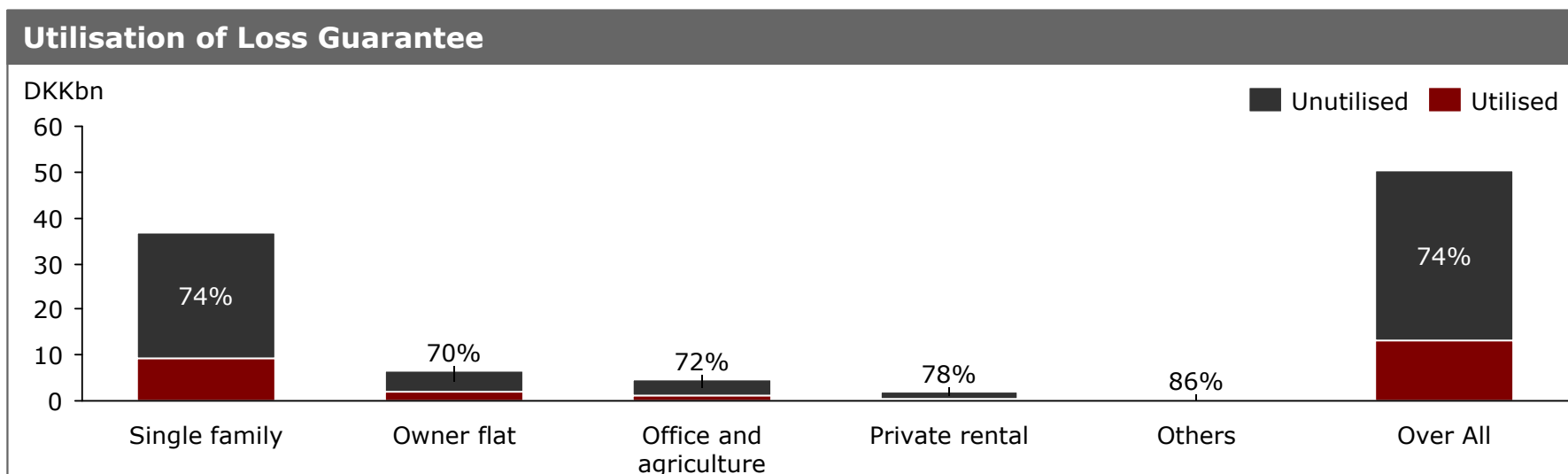
Supplementary Collateral — T

Buffer in Capital Centre T

- For Q4 2012 total OC provided was DKK 39.3bn in Capital Centre T of which 17.5bn was Senior debt
- Supplementary Collateral of DKK 23.6bn are required end Q4 2012 in Capital Centre T
- Loss Guarantees of DKK 6.2bn are utilised
- Buffer for further growth in need for supplementary Collateral in Capital Centre T is DKK 21.9bn
- 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



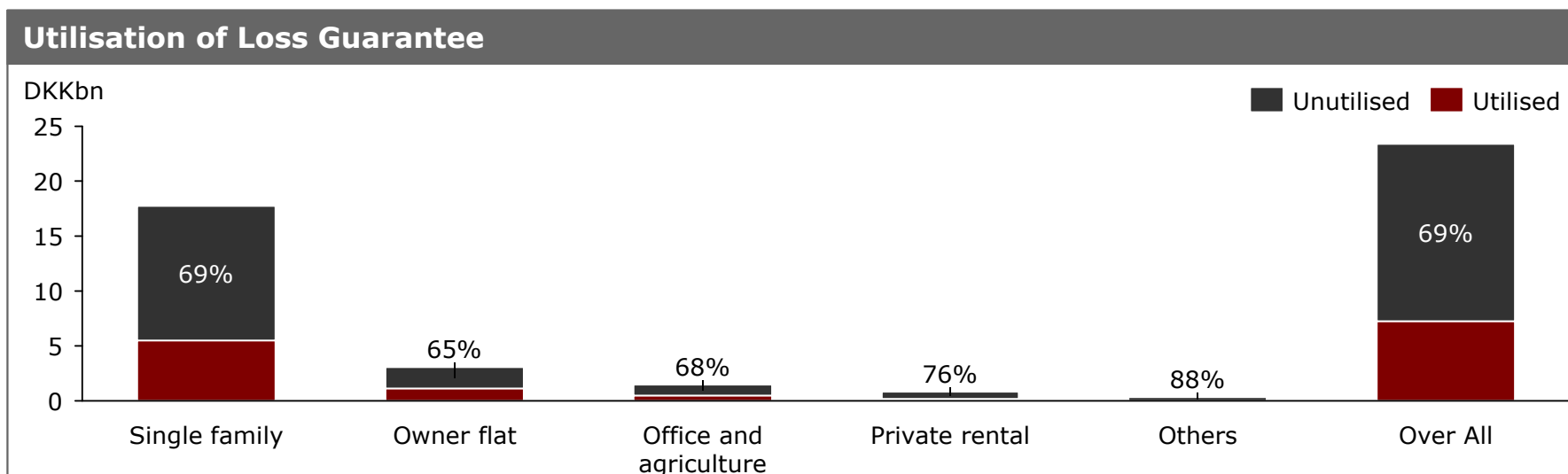
Guarantees — Total



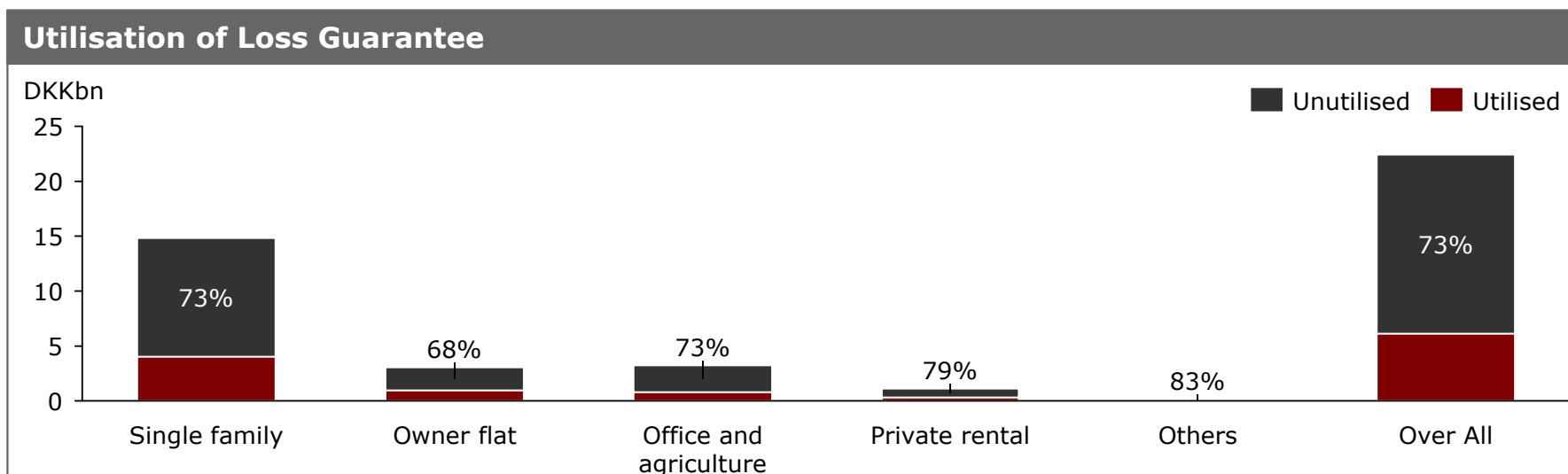
Loss Guarantees issued by Danske Bank (DKK 50,5bn)

- RD loan 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 cost

Guarantees — S



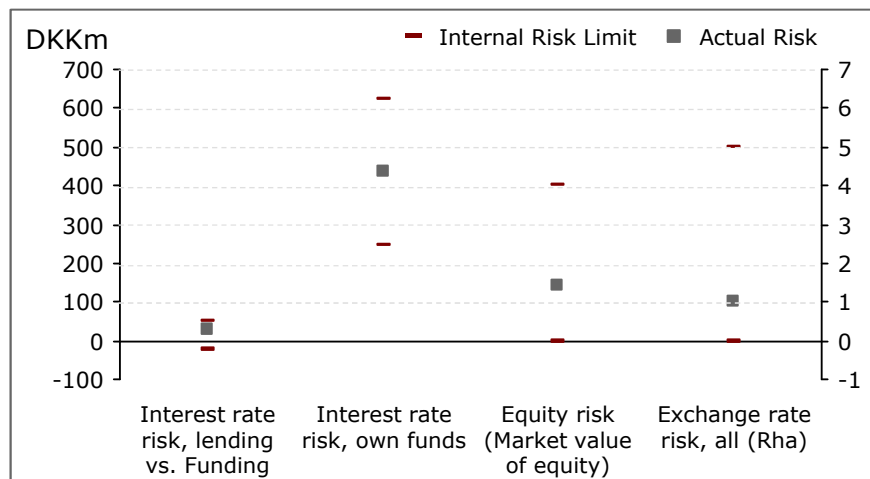
Guarantees — T



2 Market Risk Exposure and Liquidity

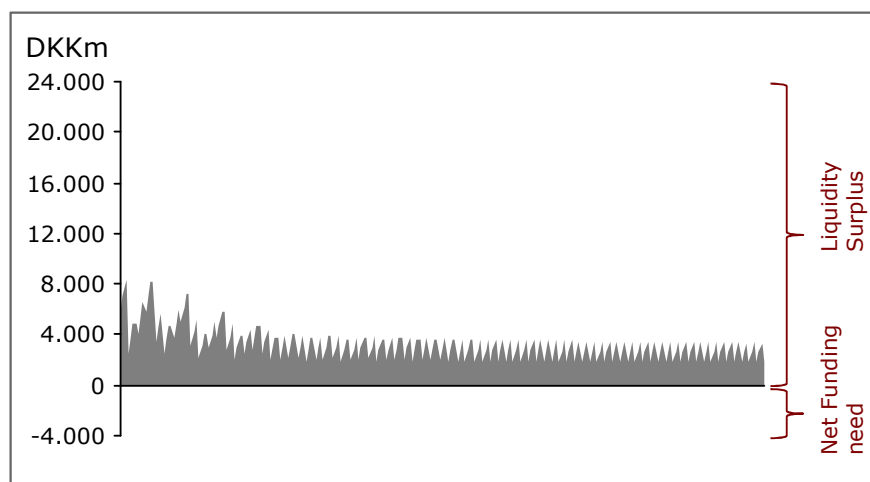
Market Risk Exposures

- RD operates subject to the specific balance principle
- In adherence with the principle RD 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 2012 interest rate risk on lending vs. funding stood at DKK 27.0m
- 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. RD 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.