

Risk Report 2008Q4

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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
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 - ❑ Over Collateralisation and Capitalisation
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*The Economist website
30 December 2008*

Economist.com

FINANCE & ECON

Fixing finance

A slice of Danish
Dec 30th 2008
From The Economist print edition

An ancient Scandinavian model may help modern mortgage markets

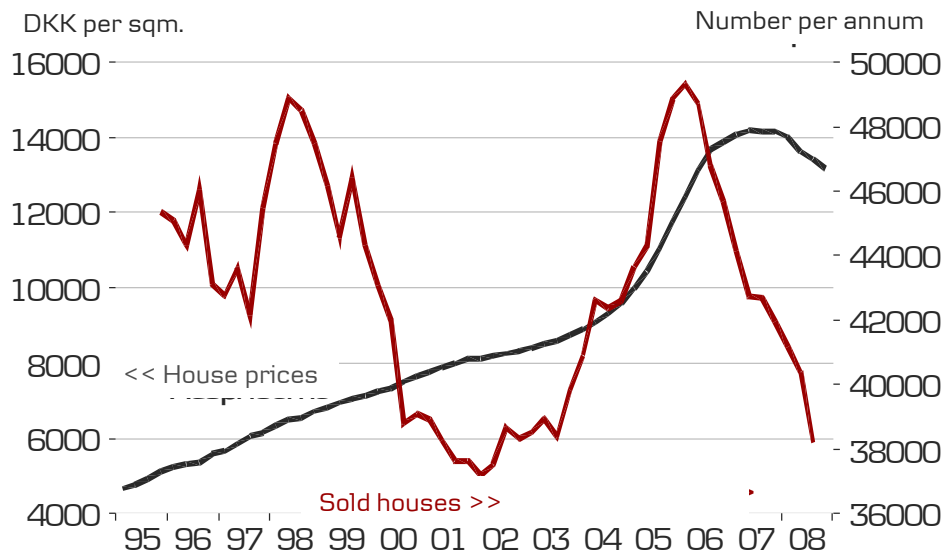
COPENHAGEN'S winding streets and curved waterways are not obvious places to find the answers to one of finance's most pressing questions. Yet some argue that it was here, amid the devastation of the city's great fire of 1795, that a mortgage-lending model was developed that may offer a way to thaw today's mortgage markets in America and Europe.

Key Market Indicators

General Market Information

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1 House Prices and Homeowners Equity

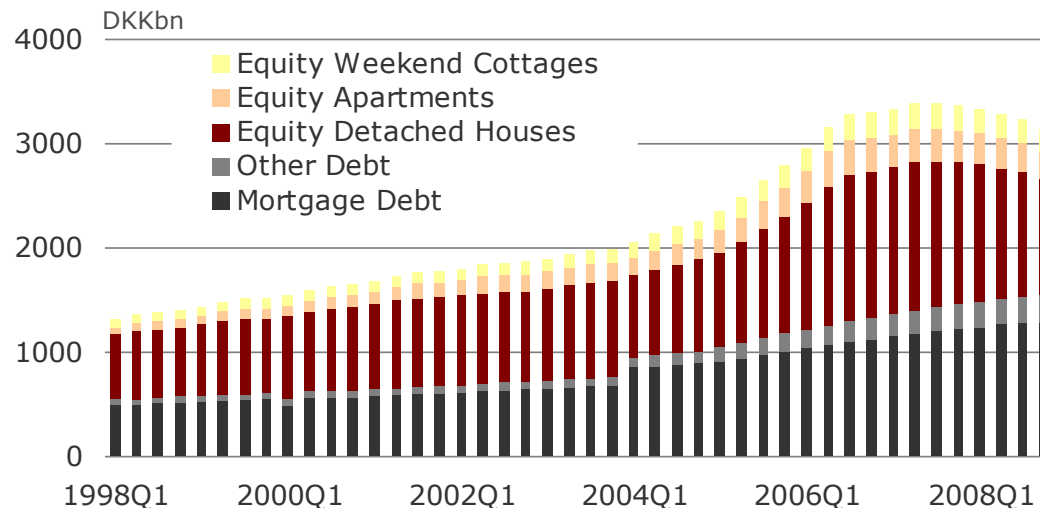


House Price Trends

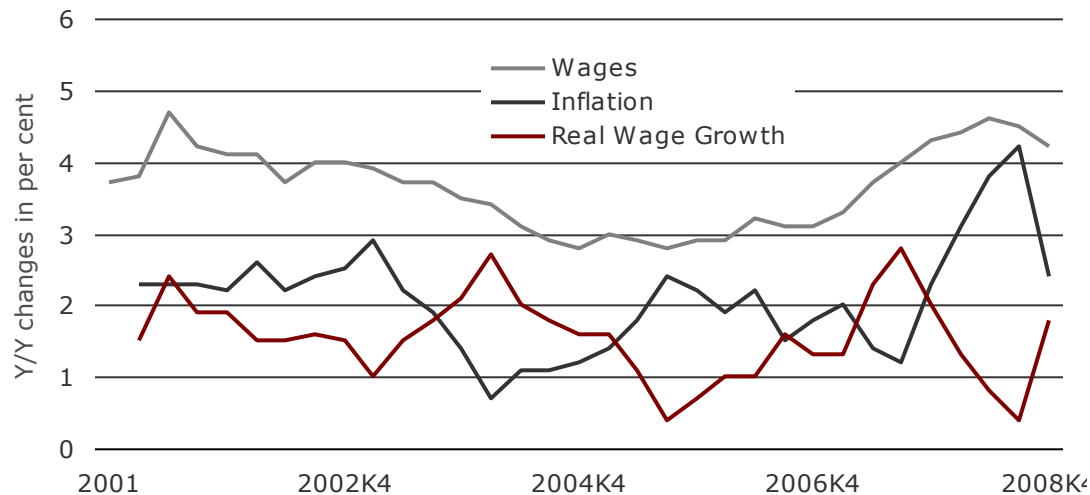
- ❑ The housing market is suffering a broad-based fall in prices
- ❑ The supply of homes for sale has soared at the same time as the number of homes being sold has fallen
- ❑ House prices are down 8.4 per cent for detached housing from the peak mid 2007 and 20.9 per cent for apartments from the peak mid 2006

Homeowners Equity

- ❑ Homeowners' equity peaked 2006Q3 at 1,983bn. Since then equity has dropped by nearly 400bn
- ❑ 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

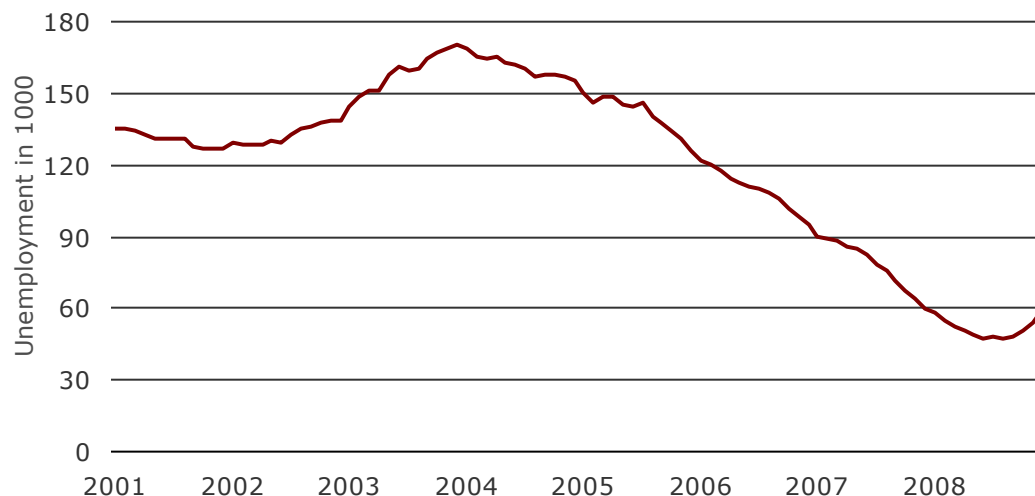


1 Unemployment and Real Wage Growth



Real Wage Growth

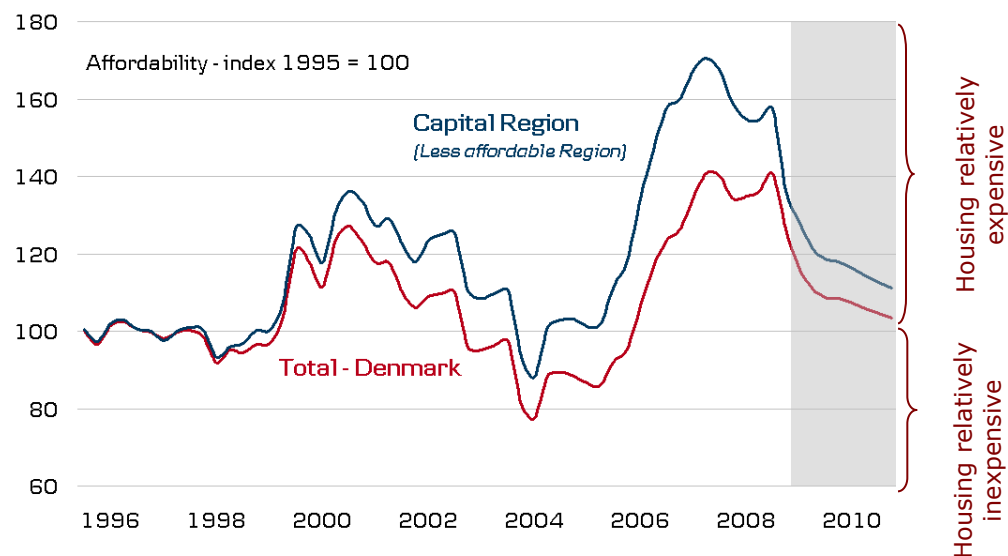
- ❑ Real wage are rising as inflation is decreasing
- ❑ Oil and food prices has dropped bringing inflation down
- ❑ Real wage growth is expected to stay high with low inflation and unchanged wage growth



Unemployment

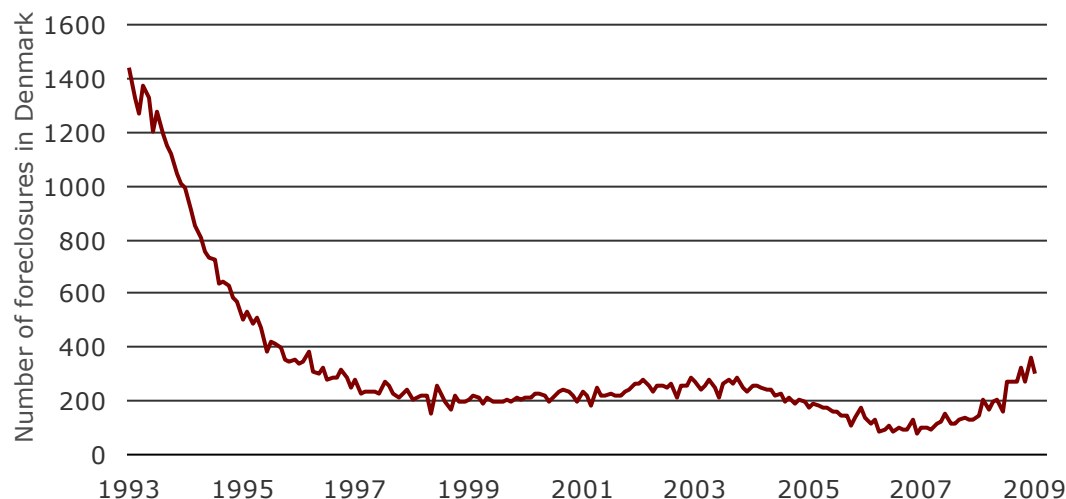
- ❑ Unemployment is up more than 17,200 to 64,200 end 2008 from a historical low of less than 47,000 in mid 2008
- ❑ This is equivalent to an unemployment rate of 2.3 per cent
- ❑ Unemployment is expected to increase to around 100,000 end 2009 and to around 115,000 by end of 2010

1 Homeowner Affordability and Foreclosures



Homeowner Affordability

- ❑ The index indicates the affordability of families to buy new housing based on house prices, post tax income, costs of living etc.
- ❑ Housing is still expensive despite fall in prices
- ❑ Homeowner affordability ratios is expected to fall in 2009 due to lower house prices despite low interest rates, tax cuts and salary increases





Foreclosures

- ❑ The number of foreclosed properties in Denmark in January 2009 was 296 up from a historical low of 76 in December 2006
- ❑ This compares to 1,435 foreclosures in January 1993
- ❑ 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	-0.8	0.9	-0.7	-1.9	0.5	0.4	
Private Consumption	0.7	0.5	-1.1	-0.1	1.5	0.3	
Fixed investments	-1.7	0.6	-3.5	-5.5	-1.4	-0.7	
Export	3.5		-0.3	-4.0	1.4		
Unemployment %	1.8	7.5	2.4	9.3	3.8	10.2	

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 is suffering server economic downturn
- ❑ A hard landing for the Danish economy appears inevitable

Source: Danske Bank forecast and European Commission Interim Forecast, January 2009

Key Market Indicators

Realkredit Danmark Specific Information

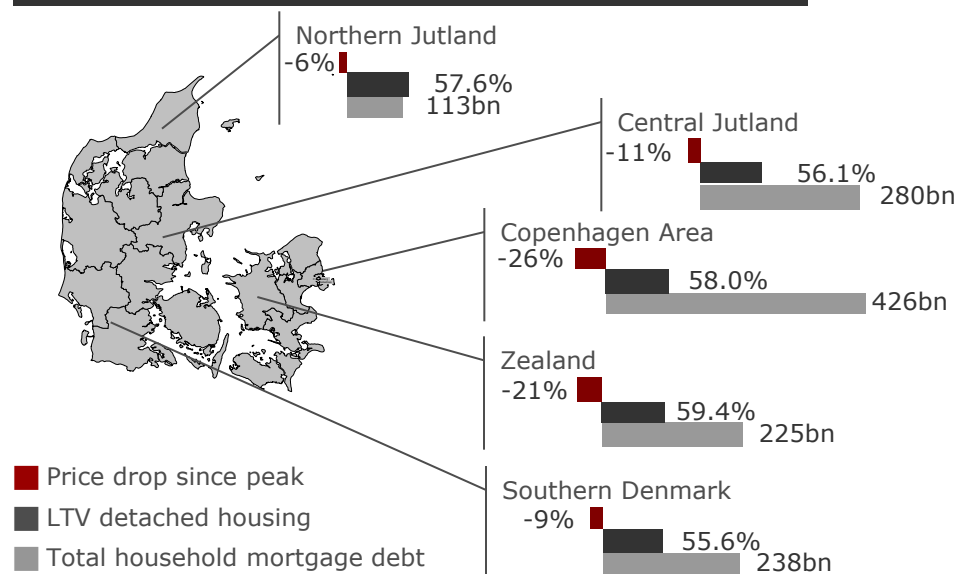
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2 Dispersion and Loan to Value Ratios

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
- ❑ However, homeowner equity are also most solid in and around 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, but still high in a historical perspective, thus we look for further price reductions

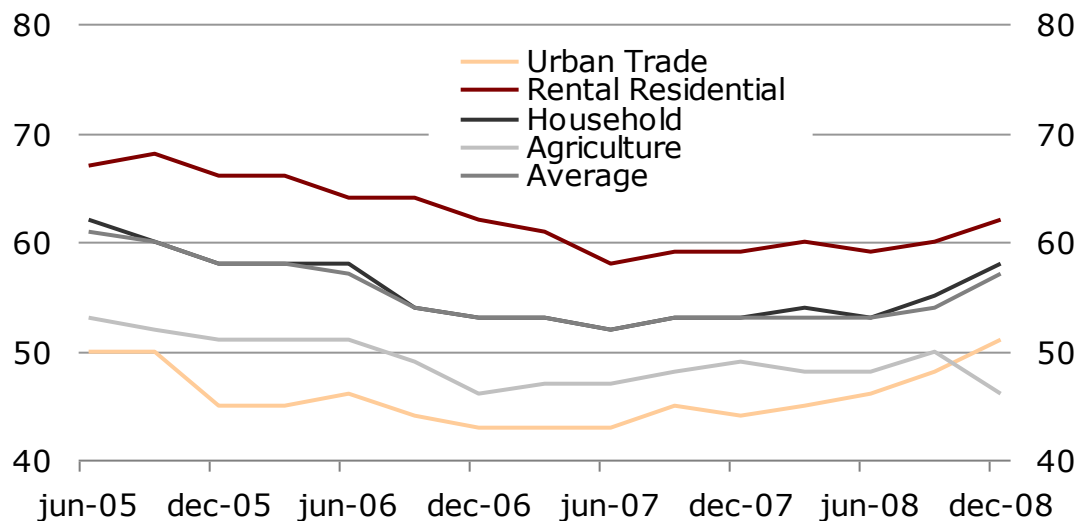
Geographical Dispersion



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 3 per cent point at 57 from 54 per cent in Q4 2008
- ❑ LTV ratios have remained relatively stable
- ❑ Property price deflation has been offset by capital gains on debt (marked to market) until 2008Q4
- ❑ Average LTV ratios remain at a 2006 level

DKKbn	Rating Category (Scaled 1-11)			Total
	LTV	1-3	4-7	8-11
0-20 %	94	161	21	276
20-40 %	66	124	19	209
40-60 %	36	77	14	127
60-80 %	13	32	6	51
> 80 %	2	4	1	7
Total	211	398	61	670

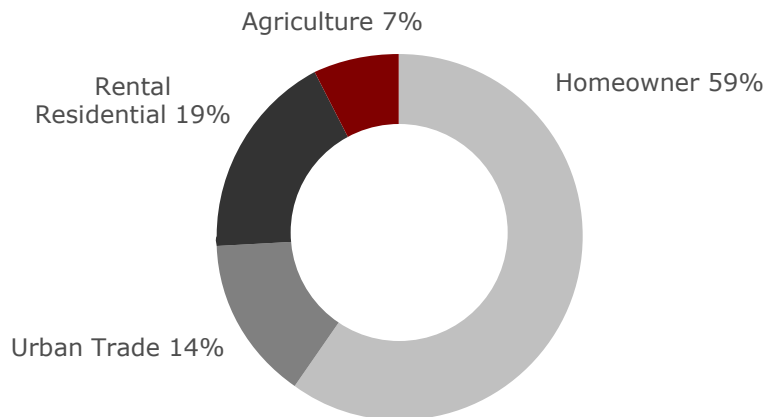
Borrower Classifications

- ❑ Borrowers' financial strength is classified on a scale from 1 to 11, 1 being the highest score
- ❑ Approx. 1% of total lending is secured by mortgages above the 80% LTV limit
- ❑ Approx. 72% of total lending is secured by mortgages below a 40% LTV ratio

Note: RD total

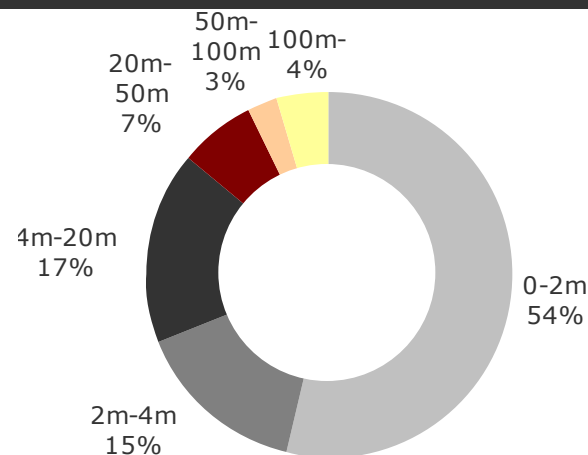
2 Collateral Breakdowns – Total portfolio

Borrower Segmentation



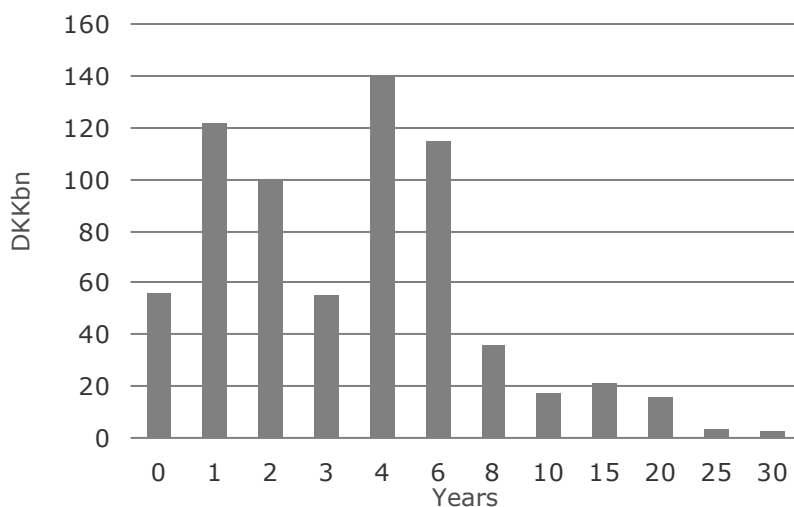
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

Portfolio Seasoning

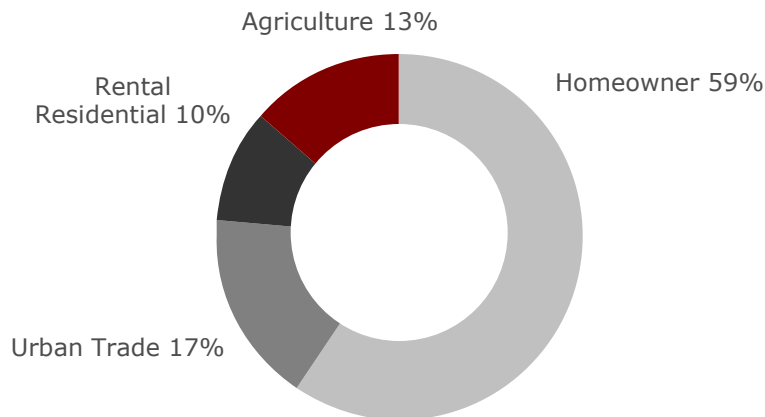


Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	> 80%	Total DKKbn
Household	154	125	79	35	5	398
Urban trade	42	31	17	6	1	97
Agriculture	25	17	7	1	0	50
Rental Residential	54	35	22	12	2	125
Weighted dist.	41%	31%	19%	8%	1%	100 %
Total, DKKbn	275	208	125	54	8	670

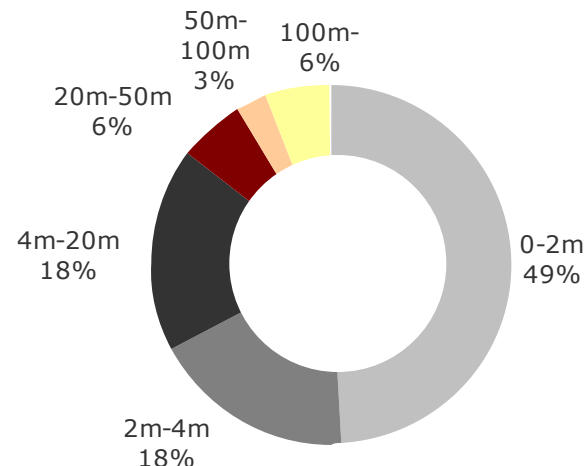
2 Collateral Breakdowns – Capital Centre S

Borrower Segmentation



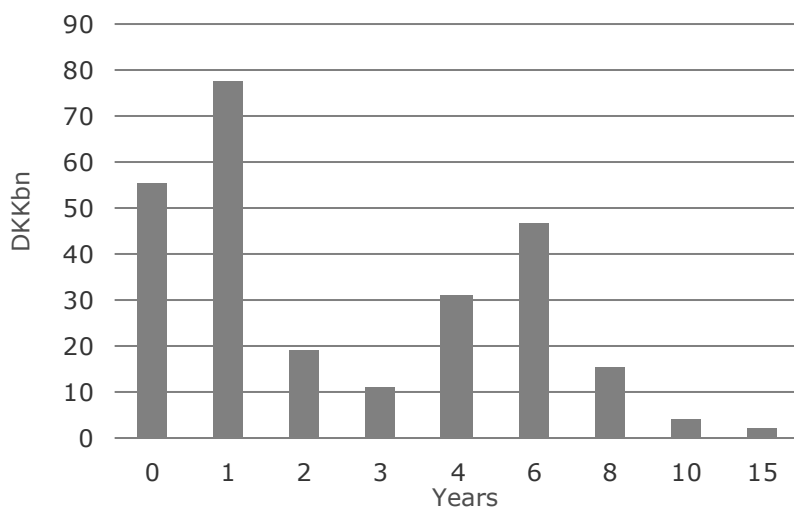
Note: Total lending distributed on segments

Outstanding Loan Balance



Note: Total lending distributed on outstanding loan balances

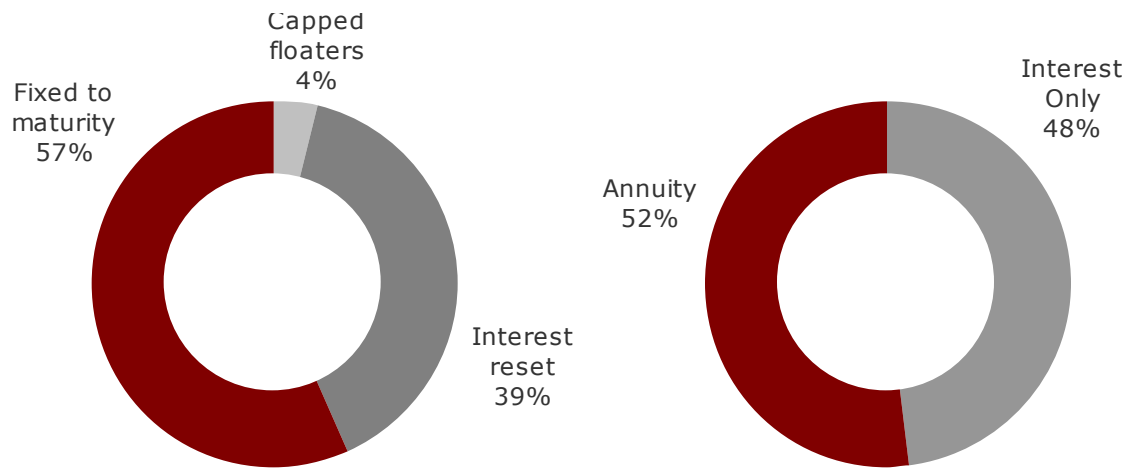
Portfolio Seasoning



Outstanding Debt in DKKbn by LTV ratio

Segment	0-20%	20-40%	40-60%	60-80%	> 80%	Total DKKbn
Household	54	46	33	18	2	153
Urban trade	18	13	10	5	0	45
Agriculture	16	12	6	1	0	35
Rental Residential	10	8	5	3	0	26
Weighted dist.	38%	31%	21%	10%	0%	100 %
Total, DKKbn	98	80	54	26	3	260

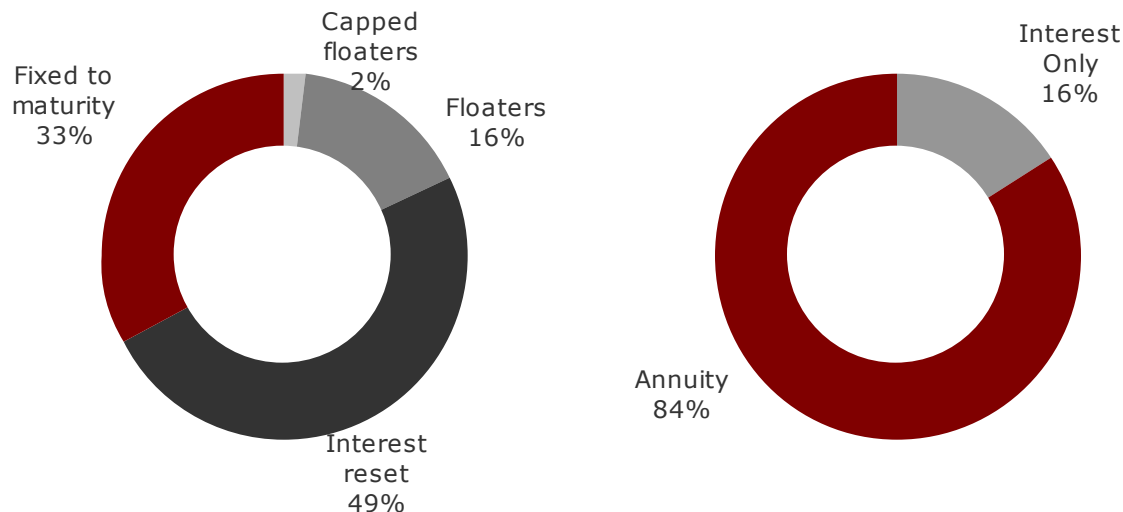
2 Borrower Exposure to Interest Rates



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
- ❑ 4 per cent of all mortgages are floaters capped at 5 or 6 per cent

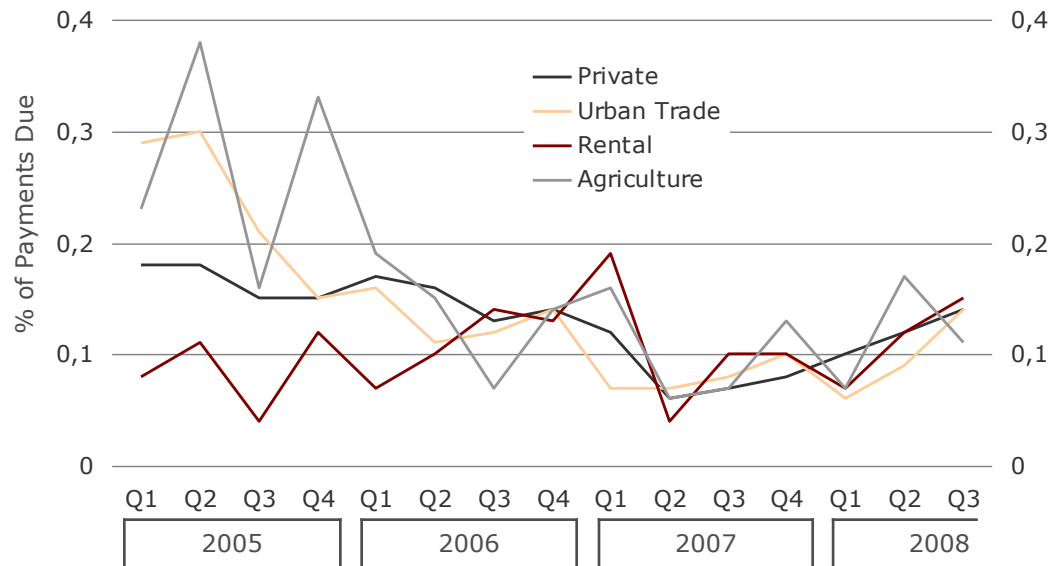


Note: Outstanding loan balances

Corporate Segments

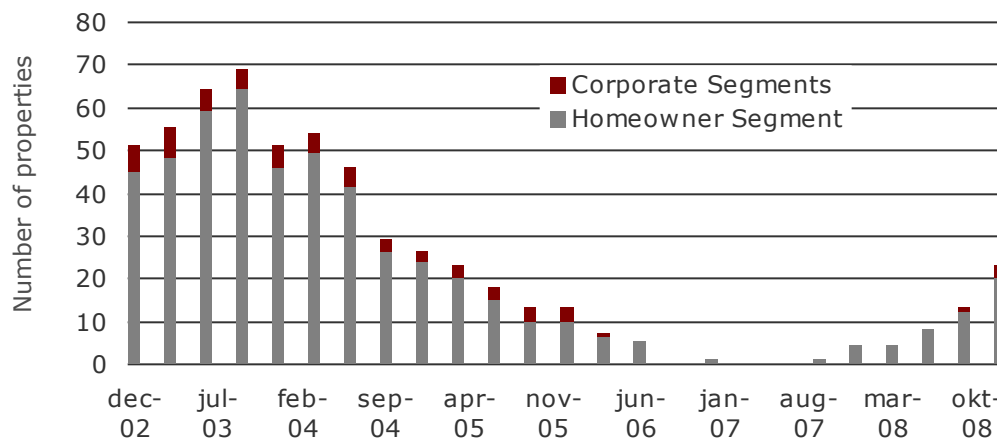
- ❑ One third of all lending in corporate segments is fixed rate to maturity
- ❑ Two thirds are either interest reset (typically, rates are reset every year or every third year) or floating rate (base rates are either 6M cibor or 3M euribor)
- ❑ Interest only loans only make up 16 per cent of corporate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

2 Arrears and Repossessions



Arrears

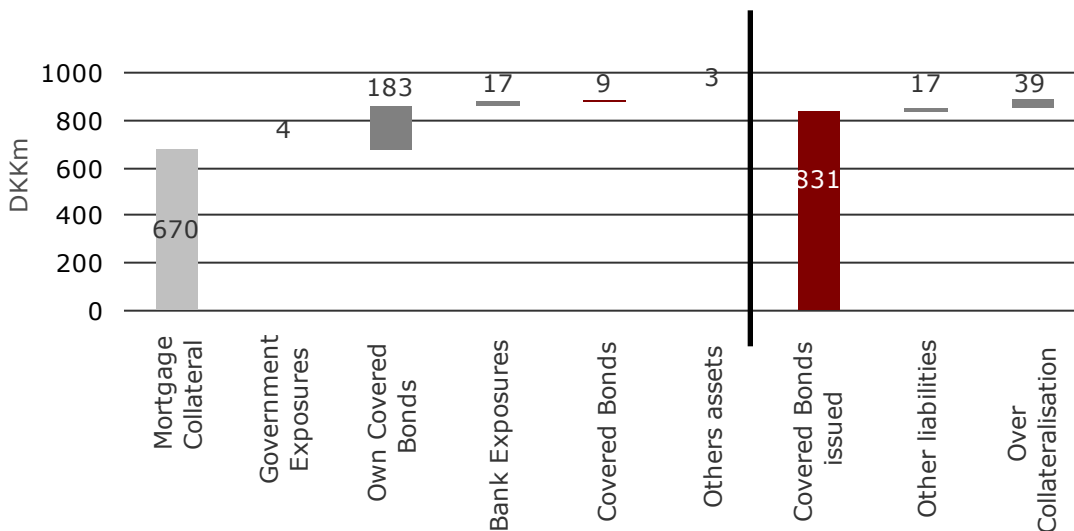
- Arrears are up from a historical low level in 2006 and 2007, however, arrears remain below 2005 level
- Increases in arrears have been most significant in residential rental and household segments reflecting the weakening housing market



Repossessions

- The stock of repossessed properties stood at 23 end 2008Q4
- This compares to a total stock of mortgages of 427,000
- End 2007Q2 the stock reached a historical low of none repossessed properties

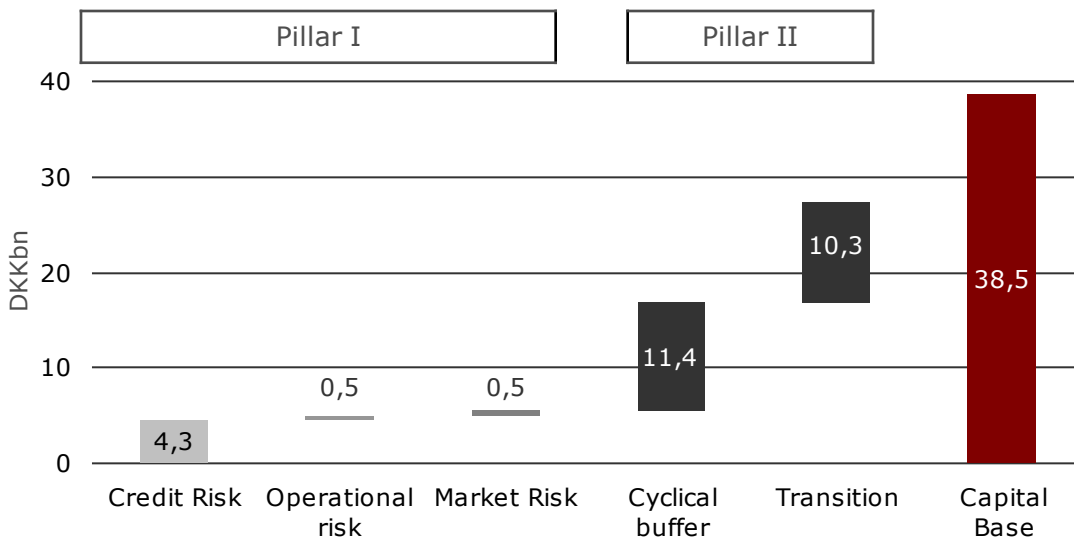
2 Over Collateralisation and Capitalisation



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



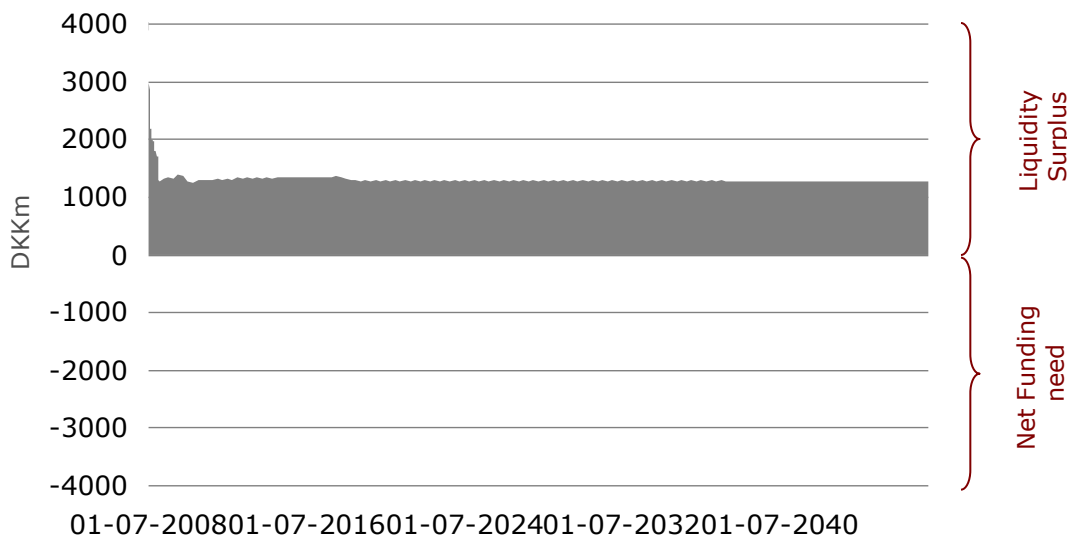
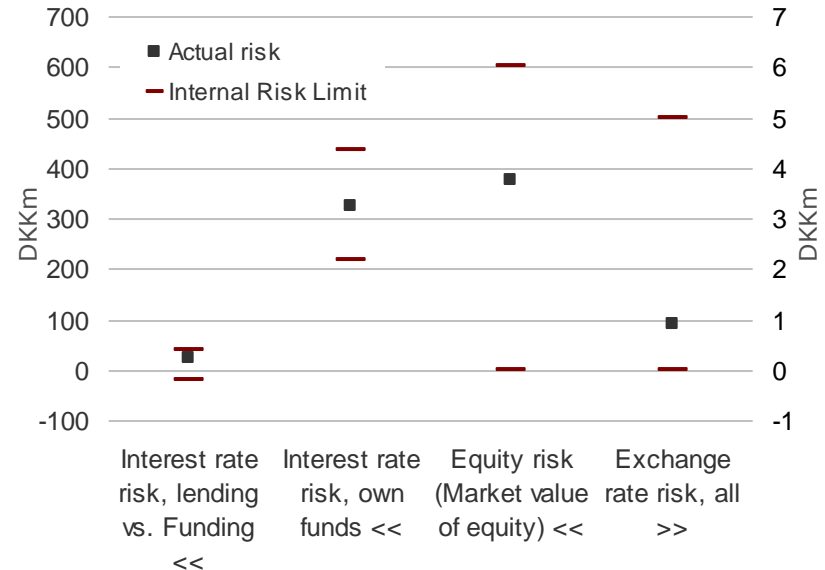
Capitalisation

- ❑ Realkredit Danmark's capital base stood at 38.5bn end 2008Q4
- ❑ The solvency ratio stood at 56.6 per cent end 2008Q4 (CRD definition)
- ❑ The current capitalisation is sufficient to withstand the effects of the recession scenario with a capital buffer of 12.5bn

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 2008Q4 interest rate risk on lending vs. funding stood at DKK24.7m
- ❑ 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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