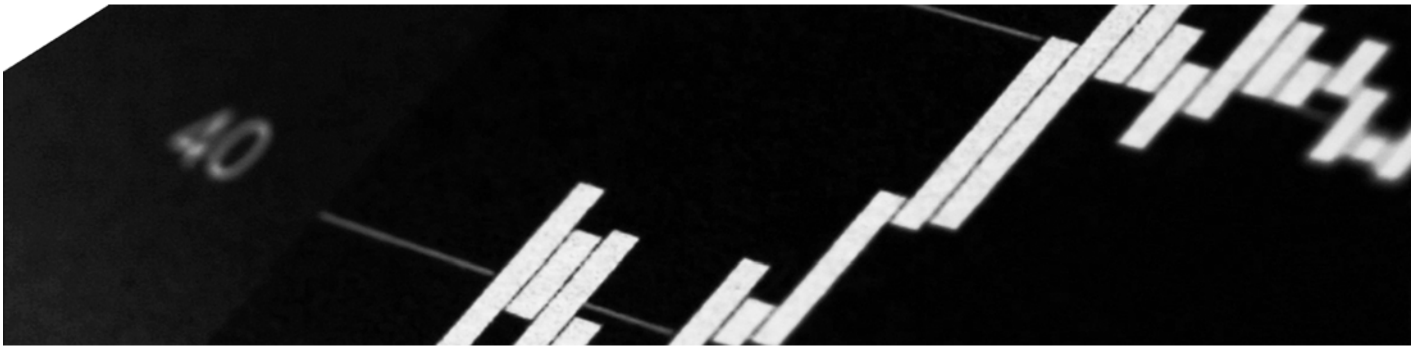
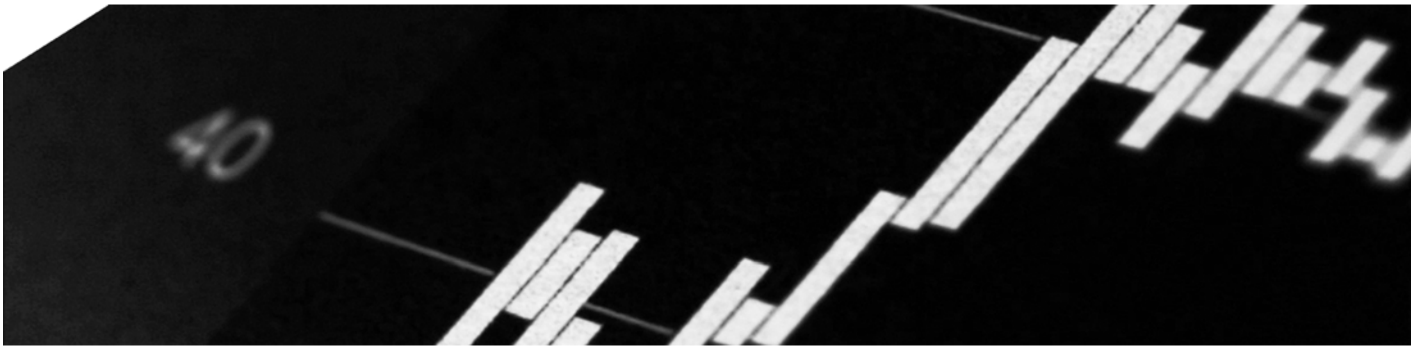
Risk and Capital Management 2007

Nykredit
bank

Contents



Foreword



From 1 January 2008, the most advanced approaches to determine credit risk under Basel II may be applied. The new rules provide for a much closer relationship between risk and capital.

Nykredit started developing internal risk models as early as in the 1990s. These models are now a key element of the Group's risk and capital management.

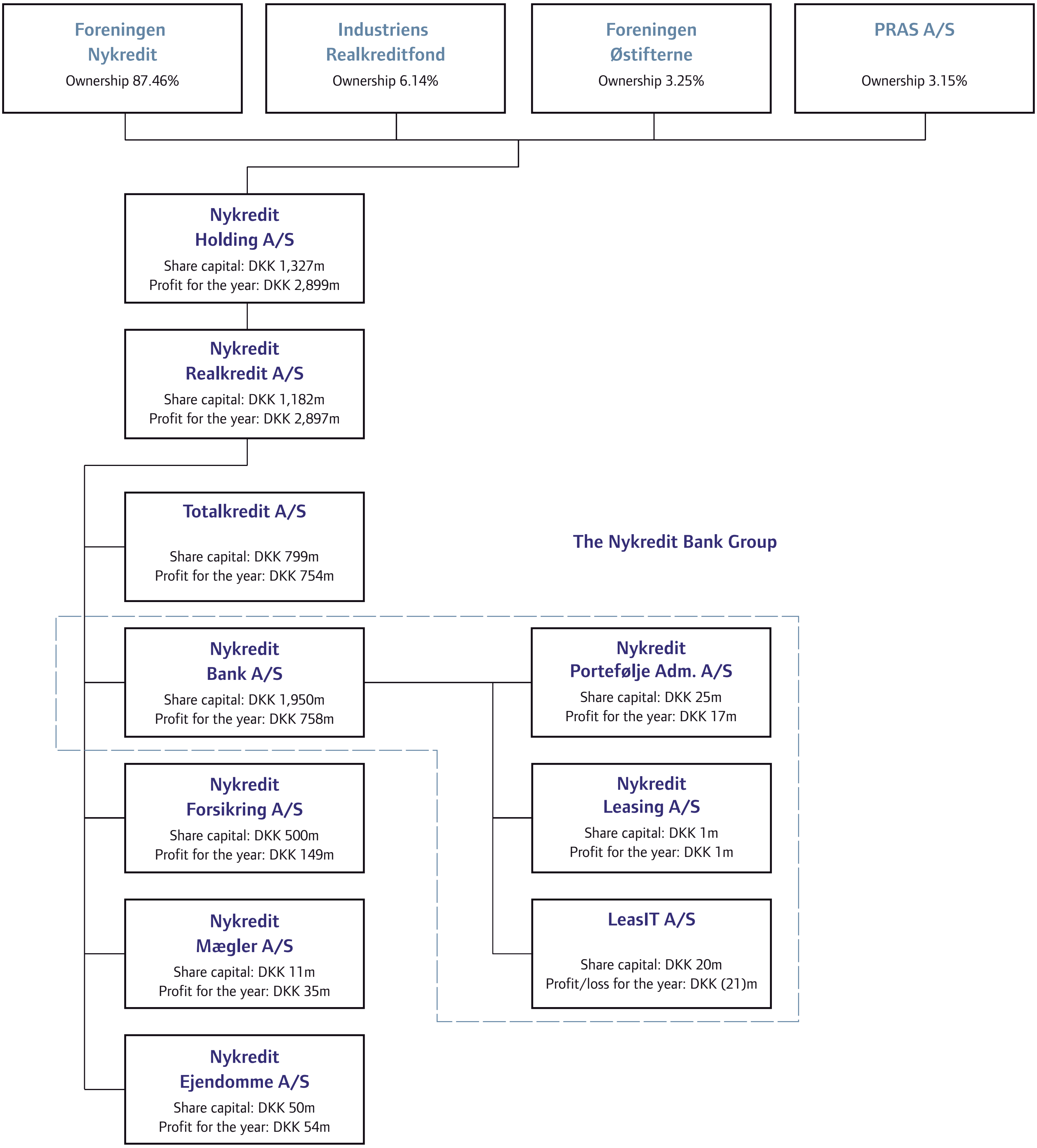
In 2005 Nykredit Bank was granted approval by the Danish Financial Supervisory Authority (FSA) to apply internal Value-at-Risk models in the determination of market risk and from 1 January 2008 to apply the advanced IRB approach in the determination of credit risk on retail lending. The determination of the capital requirement for commercial lending is based on the foundation IRB approach. Up to 2011, internal LGD and CF models will be developed, and the Bank may then apply the advanced IRB approach to this part of the portfolio as well.

This report provides a detailed account of Nykredit Bank's lending, risk and capital.

Following the implementation of IRB approaches from 1 January 2008, Nykredit Bank's capital requirement will increase by approximately DKK 0.7bn compared with the requirement under the former rules (Basel I).

Kim Duus

Group chart


Foreningen Nykredit
Ownership 87.46%
Industriens Realkreditfond
Ownership 6.14%
Foreningen Østifterne
Ownership 3.25%
PRAS A/S
Ownership 3.15%
Nykredit Holding A/S
Share capital: DKK 1,327m
Profit for the year: DKK 2,899m
Nykredit Realkredit A/S
Share capital: DKK 1,182m
Profit for the year: DKK 2,897m
Totalkredit A/S
Share capital: DKK 799m
Profit for the year: DKK 754m
The Nykredit Bank Group
Nykredit Bank A/S
Share capital: DKK 1,950m
Profit for the year: DKK 758m
Nykredit Portefølje Adm. A/S
Share capital: DKK 25m
Profit for the year: DKK 17m
Nykredit Forsikring A/S
Share capital: DKK 500m
Profit for the year: DKK 149m
Nykredit Leasing A/S
Share capital: DKK 1m
Profit for the year: DKK 1m
Nykredit Mægler A/S
Share capital: DKK 11m
Profit for the year: DKK 35m
LeasIT A/S
Share capital: DKK 20m
Profit/loss for the year: DKK (21)m
Nykredit Ejendomme A/S
Share capital: DKK 50m
Profit for the year: DKK 54m

Risk Management

Nykredit Bank forms part of the Nykredit Realkredit Group. Risk management is a key element of Nykredit's day-to-day operations. Through risk management, Nykredit seeks to ensure financially sustainable solutions in the short and long term and focuses on balanced risk management and a sound capital structure.

Nykredit strives always to meet the best practice for risk management. In recent years, the Group has spent resources developing advanced models for quantifying group risks. These models are central elements of the Group's risk and capital management.

RISK PROFILE

Types of risk

The Nykredit Bank Group is exposed to different types of risk. Each type of risk has its own special features, and risk management is structured accordingly.

Nykredit Bank distinguishes between the following general types of risk:

- Credit risk reflects the risk of loss following the non-performance of counterparties
- Market risk reflects the risk of loss of market value as a result of movements in financial markets (interest rate, foreign exchange, equity price, volatility risks, etc)
- Liquidity risk reflects the risk of loss as a result of rising funding costs or insufficient cash to cover current payment obligations
- Operational risk reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

SPECIAL EVENTS IN 2007

Nykredit Bank rated by Moody's

In May 2007 the Bank was assigned an external credit rating by the international rating agency Moody's Investors Service. The rating attracts deposits from new customer segments which require counterparties to have external ratings.

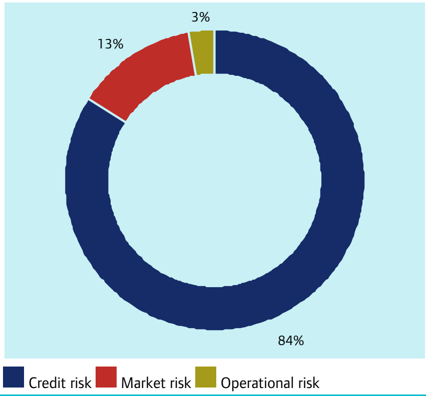
EMTN programme

In continuation of the assignment of an external credit rating, the Bank established a European Medium Term Note (EMTN) programme in November 2007 to gain broader access to funding in international capital markets. At 31 December 2007, the Bank had not made any issues under the EMTN programme.

The international financial crisis

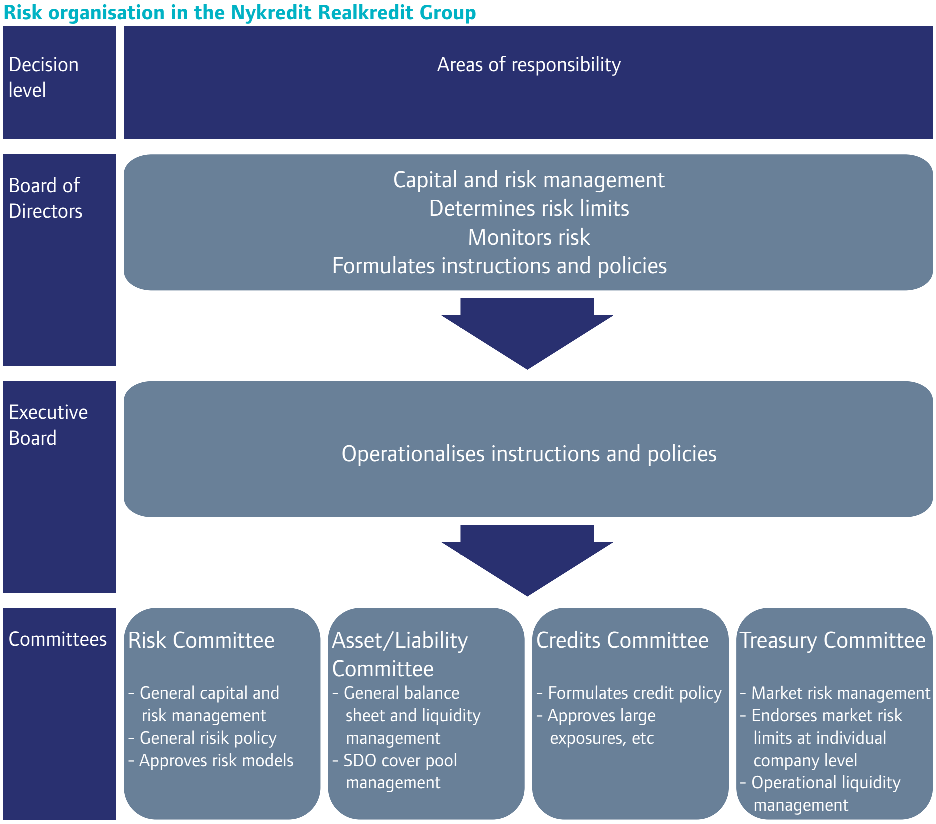
In line with the financial sector in general, Nykredit Bank has recorded rising funding costs as a consequence of the financial crisis in H2/2007. The Bank had no positions in financial instruments based on US subprime loans.

The Nykredit Bank Group
Risk in general (% of capital requirement)



Note: Liquidity risk is not determined but only managed.

Risk organisation in the Nykredit Realkredit Group



Risk areas reviewed by the Board of Directors of the Bank

Annually	
Capital and risk policy	Review and decision on Nykredit Bank's capital adequacy, capital need and risk policy
Risk models	General review of ongoing model development and consequences thereof
Stress tests	Review of results of Nykredit's stress tests and scenario analyses
Ongoing	
Risk reporting	Quarterly reporting on key risk areas: ■ Capital adequacy and capital need ■ Liquidity risk ■ Credit risk - Exposures by size - Loan impairment and arrears ■ Market risk - Interest rate, foreign exchange and equity price risk (conventional measures and Value-at-Risk) - Back test - Stress test Monthly reporting on key risk areas: ■ Market risk - Interest rate, foreign exchange and equity price risk (conventional measures and Value-at-Risk)
Exposure review	Review and assessment of exposures of a certain amount

ORGANISATION, DELINEATION OF RESPONSIBILITIES AND REPORTING

The Board of Directors of the Bank is responsible for defining limits to and monitoring the risk incurred by the Bank as well as for delegating responsibilities and approving overall instructions. The Board of Directors has laid down guidelines and specific limits as to the risk the Bank may assume. Such risk limits have been delegated to each of the departments or subsidiaries. To ensure tight management of the Bank Group's risks, these are monitored from headquarters by Risk Management and Group Credits. The Executive Board is informed about the Group's market risks on a day-to-day basis, while the Bank's overall credit risks are assessed on a weekly basis. The Board of Directors is briefed on a monthly basis.

The Board is responsible for the general approach to risk and capital management and knows of the capital requirement rules and internal models.

The Nykredit Realkredit Group coordinates risk management on an intercompany basis. Risk management at group level has been delegated to a number of committees monitoring and assessing the Group's business development and risk. The principal committees are the Risk Committee, the Asset/Liability Committee (ALCO), the Credits Committee and the Treasury Committee. All committees are chaired by a member of the Group Executive Board and include representatives from the Bank where relevant.

To manage the Group's risk in general, Nykredit Bank's market and credit risk is subject to approval by the Treasury and Credits Committees within the limits laid down by the Board of Directors of Nykredit Realkredit.

Risk monitoring and management activities are independent of the day-to-day business management.

The Nykredit Group's internal models are the core of Nykredit Bank's day-to-day risk management. The models are checked on a continuous basis and validated at least once a year. The results are reported to the Risk Committee for approval once a year.

Internal Audit reviews the Group's internal models and their application annually. The review includes an assessment of the organisational structure, the estimation of risk parameters and verification that the Group complies with the requirements of the Danish Executive Order on Capital Adequacy.

Over the past few years, Nykredit has expanded and improved the ongoing risk reporting process.

Risk areas reviewed by committees in the Nykredit Realkredit Group

Risk Committee	
Capital policy and need	Assessment of Nykredit's capital adequacy and future capital requirement
Models and methods	Review of analyses and model-related initiatives and changes, including
	■ New models and risk assessment techniques
	■ Sensitivity analyses and stress tests
	■ Validation and back tests
Risk reporting	Review and analysis of credit, market, operational and other risks
Legislative measures	Assessment of amendments to existing rules from the Danish FSA or the EU
Asset/Liability Committee	
Liquidity	Liquidity position of group entities
	Current funding levels (money market and senior capital)
	Current funding activity (mortgage bonds and other funding)
Capital structure	Capital structure in group entities
and balance sheet	Current funding level and funding capacity
SDOs	Assessment of development in prices of mortgaged properties
	Assessment of the extent of registration guarantees
Business capital	Capital allocation and return
Credits Committee	
Credit policy	Maintenance and development of credit policies
Approval of selected	Approval based on an assessment of factors such as:
exposures	■ Customer (financial circumstances, payment history, etc)
	■ Exposure
	■ Security
Board approval	Recommendation to the Board of Directors concerning approval of special
	exposures beyond the authority of the Credits Committee
Credit institutions	Review of credit lines granted to credit institutions
Treasury Committee	
General themes	Macroeconomics
	Market themes
Risk and return	Overview of exposures and risk of the individual companies
	Equities: Risk and portfolios
	Interest rates: Risk and portfolios
	Investment portfolio income and return relative to benchmarks
	Value-at-Risk, stress tests and back tests
	Corporate bonds: Risk and portfolios
	Limits and utilisation of market risk limits in subsidiaries
Strategy and	Equity price, interest rate, foreign exchange and credit risk
recommendations	Scope for action
Market risk limits	Limits and utilisation of market risk limits in Group Treasury

Capital Requirements

DETERMINATION METHODS

With the introduction of the new capital requirement rules (Basel II) at the beginning of 2007 followed the choice between different methods of determining the capital requirement for each type of risk. In 2007 the determination of the capital requirement at Nykredit Bank took place according to the existing rules (Basel I).

Credit risk

The FSA has authorised Nykredit Bank A/S to calculate its capital requirement for credit risk using the internal ratings-based approach with internal parameter estimates (advanced IRB approach) for retail lending from 1 January 2008.

The application of the advanced approach implies that Nykredit uses internal models to estimate individual customers' probability of default (PD), the loss given default (LGD) and the exposure value at the time of default (EV). These parameters are included in the calculation of the capital charge.

Nykredit Bank A/S has been authorised to use the internal ratings-based approach with internal PD estimates (foundation IRB approach) for commercial (and corporate) lending.

Nykredit is developing models so that this part of the portfolio may also be determined by means of the advanced IRB approach. The models are expected to be implemented in 2011.

Furthermore, the Bank has been granted permanent approval to apply the standardised approach in relation to sovereign and credit institution exposures as well as subsidiaries with limited risk.

Market risk

For the determination of the capital requirement for market risk, Nykredit Bank A/S has obtained FSA approval to apply a Value-at-Risk model with internal correlations to estimate the general position risk for instruments of debt and foreign exchange.

For the parts of the portfolio for which the capital charge is not determined using Value-at-Risk models, the standardised approach is applied.

Operational risk

From 1 January 2008, Nykredit Bank will apply the basic indicator approach in the calculation of the capital charge to cover operational risk.

The Nykredit Bank Group

Share of portfolio covered by different approaches to credit risk determination – pro forma

2007	Advanced IRB approach %	Foundation IRB approach %	Standardised approach %	Total %	Total exposures DKKm
Retail exposures	100.0	-	-	100.0	17,339
Of which					
- Mortgages on real property	*100.0*	-	-	*100.0*	*9,570*
- Revolving exposures, etc	*100.0*	-	-	*100.0*	*3,090*
- Other retail exposures	*100.0*	-	-	*100.0*	*4,678*
Commercial exposures	-	97.6	2.4	100.0	76,003
Credit institution exposures	-	-	100.0	100.0	18,530
Sovereign exposures	-	-	100.0	100.0	332
Equity exposures[1]	100.0	-	-	100.0	24
Assets with no counterparty	100.0	-	-	100.0	99
Total	**15.6**	**65.9**	**18.5**	**100.0**	**112,328**

[1] Capital requirements for equity exposures have been determined using the simple risk weight approach.

Main approaches to credit risk determination

	2007	2008	2009	2010	2011
Retail exposures	Basel I	Advanced	Advanced	Advanced	Advanced
Commercial exposures	Basel I	Foundation	Foundation	Foundation	Advanced
Credit institution exposures, sovereign exposures, etc	Basel I	Standardised	Standardised	Standardised	Standardised

Note: The advanced IRB approach to credit risk determination is indicated as "Advanced" and the foundation IRB approach as "Foundation".

CAPITAL BASE AND CAPITAL REQUIREMENT

In 2007 Nykredit determined its capital base and risk-weighted items in accordance with the former capital requirement rules (Basel I). At 31 December 2007, the Bank's capital requirement was DKK 5.7bn and risk-weighted items DKK 71.4bn. With the capital base at DKK 8.3bn, this corresponded to a capital adequacy ratio of 11.7%.

The capital requirement of the Nykredit Bank Group determined according to the new approaches (Basel II) came to DKK 6.4bn at 31 December 2007, corresponding to risk-weighted items of DKK 79.8bn.

In accordance with section 139 of the Danish Financial Business Act, core capital and the capital base must be adjusted for the difference between model-based expected losses and impairments on exposures subject to the IRB approaches. The expected loss is calculated based on FSA guidelines and LGDs for the period 1991-1993, cf the section on expected losses on page 20.

As expected losses at end-2007 were significantly higher than Nykredit Bank's impairments, the transition to using the IRB approaches will lead to a decrease in the capital base from DKK 8.3bn to DKK 7.9bn. The Nykredit Bank Group would thus have had a capital adequacy ratio of 9.9% at end-2007 under Basel II.

The tables below and overleaf show the capital requirement, capital base and capital adequacy at 31 December 2007 determined on a pro forma basis according to the methods which Nykredit Bank will apply from 1 January 2008 (Basel II) compared with the determination according to Basel I. In the remaining part of this report, the calculations are based on the new approaches (Basel II).

The Bank's capital base comprises equity and subordinate loan capital. All capital contributions have been made by Nykredit Realkredit A/S.

CONSOLIDATION METHODS

The capital charge is determined according to the rules of the Financial Business Act and the Executive Order on Capital Adequacy. The determination comprises Nykredit Bank A/S (the Parent Company) and the enterprises in which Nykredit Bank A/S exercises direct or indirect control of the enterprises' financial and operational management. Collectively, Nykredit Bank A/S and its subsidiaries are referred to as the Nykredit Bank Group.

The consolidated risk exposures include:

- Nykredit Bank A/S
- Nykredit Porteføljeadministration A/S
- Nykredit Leasing A/S
- LeasIT A/S
- Nykredit Fixed Income Opportunity Fund Limited

Enterprises in which the Nykredit Bank Group shares joint control with other enterprises which do not form part of the Group are considered joint ventures. Group investments in joint ventures are recognised by proportionate consolidation for the purpose of both the financial statements and the determination of capital requirement.

DIFFERENCES COMPARED WITH FINANCIAL STATEMENTS

Unlike the financial statements, the calculation of capital charges includes exposures such as unexercised loan offers, loan commitments, etc. The same applies to guarantees.

The Nykredit Bank Group
Subordinate loan capital

Contributor	Step-up	Maturity	DKK million
Nykredit Realkredit A/S	1 December 2008	1 December 2011	500
Nykredit Realkredit A/S	22 April 2010	22 April 2013	300
Nykredit Realkredit A/S	30 September 2011	30 September 2014	500
Nykredit Realkredit A/S	30 June 2012	30 June 2015	600
Nykredit Realkredit A/S	27 March 2013	27 March 2016	500
Total			**2,400**

The Nykredit Bank Group
Capital base

2007 DKK million	Basel II Pro forma	Basel I
Core capital		
Share capital, year-end	1,950	1,950
Retained earnings	4,149	4,149
Total core capital	**6,099**	**6,099**
Statutory deductions from core capital		
Intangible assets	(2)	(2)
Tax assets	(41)	(41)
Equity investments, etc >10%	(58)	(58)
Deduction for half the difference between expected losses and impairments	(233)	-
Core capital after statutory deductions	**5,764**	**5,997**
Subordinate loan capital	2,400	2,400
Statutory deductions from capital base		
Equity investments, etc >10%	(58)	(58)
Deduction for half the difference between expected losses and impairments	(233)	-
Total statutory deductions from capital base	**(291)**	**(58)**
Total capital base after statutory deductions	**7,872**	**8,338**

The Nykredit Bank Group

Capital requirement and capital adequacy ratio

2007 DKK million	Basel II pro forma	Basel I
Credit risk		
Retail exposures	371	
Of which		
- Mortgages on real property	*220*	
- Revolving exposures, etc	*39*	
- Other retail exposures	*112*	
Commercial exposures	4,682	
Credit institution exposures	297	
Sovereign exposures	0	
Equity exposures	7	
Assets with no counterparty	8	
Settlement risk	0	
Total credit risk	**5,365**	**4,882**
Market risk	**831**	**831**
Operational risk	**185**	**-**
Total capital requirement	**6,381**	**5,713**
Risk-weighted items	79,767	71,418
Capital base	7,872	8,338
Capital adequacy ratio	9.9	11.7

Note: For 2008 and 2009 transitional rules limit the decrease in the capital requirement on the transition from Basel I to Basel II. The transitional rules are not relevant to Nykredit Bank as its capital requirement will increase on the transition to using the IRB approaches.

Capital Management

The Nykredit Realkredit Group has an objective of being able to maintain its lending activities at an unchanged level regardless of economic trends. Nykredit's capital is therefore structured so as to ensure the presence of a sound level of capital for periods of severe recession during which the capital requirement, impairment losses and provisions will increase.

In Nykredit, excess capital is as far as possible consolidated in the Parent Company Nykredit Realkredit A/S. Nykredit Bank A/S aims always to maintain a capital adequacy ratio that is at least 1 percentage point higher than the higher of the statutory capital adequacy requirement and the capital need. The capital need reflects the relationship between the required capital base and the risk-weighted items.

The Nykredit Realkredit Group's capital policy is described in detail in its report Risk and Capital Management 2007, which is available at nykredit.com/reports.

CAPITAL ADEQUACY

The Financial Business Act applies the concepts capital requirement and required capital base (capital adequacy).

The capital requirement is the absolute minimum capital required by law. Capital adequacy is the minimum capital base necessary in the Bank Management's opinion.

The capital adequacy is laid down by the Board of Directors on an annual basis in accordance with the Internal Capital Adequacy Assessment Process (ICAAP).

Capital adequacy has been determined on the basis of the capital required to cover risk in general. Risk is determined using internal credit and market risk models which also form part of the Bank's calculation of its economic business capital. Risk generally comprises credit, market, liquidity and operational risk. The capital requirement for risk in general is comparable to the Basel II capital requirement. The calculation is, however, subject to a higher confidence level of 99.93% rather than the confidence level of 99.9% stipulated in the Danish Executive Order on Capital Adequacy. The calculation of the capital charge for risk in general is referred to as Pillar I in Nykredit Bank.
The capital charge for other risk categories is referred to as Pillar II. The determination of other types of risk includes stress tests of credit, market and liquidity risk as well as reputation risk which is computed using internal models. In addition, control risk, strategic risk and external risk, etc are assessed.

Capital adequacy consists of the sum of Pillars I and II.

No deductions are made for any diversification effect between the individual types of risk in the determination of capital adequacy.

The capital adequacy of the Nykredit Bank Group in the form of the required capital base was DKK 6,253m at end-2007; consequently, the future solvency requirement constitutes 8% of risk-weighted items.

NYKREDIT BANK'S RATINGS

Nykredit Bank A/S has been assigned an external credit rating by the international rating agency Moody's Investors Service.

Nykredit Bank has a Bank Financial Strength Rating (BFSR) of C+ equal to a stand-alone rating of A2. Relative to the BFSR, the Bank's long-term deposit rating has been raised by two notches to Aa3, which Moody's in its latest rating report motivated by the Bank's integration into the Nykredit Realkredit Group and the extent of systemic support.

The most recent analyses of Nykredit Bank by Moody's are available at nykredit.com/downloads.

Nykredit Bank A/S
List of ratings

	Moody's Investors Service
Short-term deposit rating	Prime-1
Long-term deposit rating	Aa3
Bank Financial Strength Rating	C+

Credit Risk

Credit risk reflects the risk of loss following the non-performance of payment obligations by counterparties. This applies to counterparties in the form of Nykredit's borrowers and counterparties under financial contracts.

The Board of Directors lays down the overall framework of credit granting and is presented, on a current basis, with the largest credit applications for approval or briefing. The Bank's credit risk is managed in accordance with credit policies, business procedures and credit granting instructions, etc specific to the three business areas Retail Banking, Corporate Banking and Markets & Asset Management.

Group Credits is responsible for managing and monitoring credit risk in accordance with the guidelines laid down by the Board of Directors and the Executive Board and for reporting credit risk internally as well as externally. Group Credits serves all entities of the Nykredit Group and is, accordingly, responsible at group level.

Nykredit's local centres have been authorised to process a considerable part of customer applications for bank facilities independently.

Applications exceeding the authority of the centres are processed at central level by Group Credits. Applications involving large amounts must be presented to the Executive Board or the Board of Directors. Applications that bring the Bank's total exposure to any one customer over DKK 100m are subject to Board approval initially as well as subsequently every time an exposure increases by multiples of DKK 50m.

In connection with the processing of applications for bank facilities, the individual customers and their financial positions are assessed. Overall guidelines on credit assessment have been laid down centrally and depend for example on the customer's relationship with the different business areas of the Bank. Internal credit models continuously form part of the assessment of the majority of retail and commercial customers.

All bank exposures exceeding DKK 3m are reviewed at least once a year as part of the monitoring of credit exposures based on updated financial and customer information. In addition, all exposures showing signs of risk are reviewed.

DETERMINATION OF CREDIT RISK

In the determination of credit risk, exposures are calculated as the sum of the actual loans, credit commitments/obligations and guarantees of individual customers. The exposures are adjusted for the expected utilisation of the undrawn part of the credit commitments made and outstanding credit offers. The determination of credit risk also includes counterparty risk.

Total credit exposures came to DKK 112.3bn at end-2007 against DKK 73.4bn at end-2006. Of this amount, undrawn credit commitments and loan offers accounted for 31%.

The Basel II rules imply that undrawn commitments are subject to capital requirements. In 2008 Nykredit Bank will significantly reduce the credit offers and commitments granted to commercial customers. The current level of credit offers and commitments reflects the previous practice in the Danish credit market. The expected drawdown from the credit offers and commitments is only expected to increase actual commercial lending marginally. The credit offers and commitments have been granted to a large number of commercial customers and do not imply significant concentration risk.

The Nykredit Bank Group
Credit exposures

	2007	2006
DKK million		
Retail exposures	17,339	16,556
Of which		
- Mortgages on real property	*9,570*	*10,459*
- Revolving exposures, etc	*3,090*	*4,059*
- Other retail exposures	*4,678*	*2,037*
Commercial exposures	76,003	43,075
Credit institution exposures	18,530	10,878
Sovereign exposures	332	840
Equity exposures	24	131
Assets with no counterparty	99	1,945
Total	**112,328**	**73,424**

The Nykredit Bank Group
Credit exposures and capital requirement

2007 DKK million	Loans and advances	Guarantees issued	Other	Total exposures	*Of which undrawn commitments*	Exposure-weighted average risk weight, %	Basel II capital requirement credit risk
Retail exposures	12,603	4,736	-	17,339	*4,528*	26.7	371
Of which							
- Mortgages on real property	*7,962*	*1,608*	-	*9,570*	*2,592*	*28.7*	*220*
- Revolving exposures, etc	*3,090*	-	-	*3,090*	*1,376*	*15.9*	*39*
- Other retail exposures	*1,551*	*3,128*	-	*4,678*	*560*	*29.8*	*112*
Commercial exposures	66,537	9,466	-	76,003	*28,144*	77.0	4,682
Credit institution exposures	-	158	18,372	18,530	*1,997*	20.0	296
Sovereign exposures	-	225	107	332	*24*	0.0	0
Equity exposures	-	-	24	24	-	370.0	7
Assets with no counterparty	-	-	99	99	-	100.0	8
Total 2007	**79,141**	**14,584**	**18,602**	**112,328**	*34,693*	**59.7**	**5,365**
Total 2006	53,308	6,458	13,658	73,424	33,731	65.3	3,827

The Nykredit Bank Group
Credit exposures by time-to-maturity

2007 DKK million	Up to 1 year	1 year and up to 5 years	Over 5 years	Total exposure
Retail exposures	10,443	-	6,896	17,339
Of which				
- Mortgages on real property	*2,674*	-	*6,896*	*9,570*
- Revolving exposures, etc	*3,090*	-	-	*3,090*
- Other retail exposures	*4,678*	-	-	*4,678*
Commercial exposures	28,913	17,923	29,167	76,003
Credit institution exposures	18,530	-	-	18,530
Sovereign exposures	332	-	-	332
Equity exposures	-	-	24	24
Assets with no counterparty	99	-	-	99
Total 2007	**58,318**	**17,923**	**36,087**	**112,328**
Total 2006	46,563	11,120	15,740	73,424

The Nykredit Bank Group
Credit exposures by type of counterparty

2007 DKK million	Retail customers	Agriculture	Property companies, etc	Trade	Industry	Other	Total exposure
Retail exposures	17,157	102	51	11	18	-	17,339
Of which							
- Mortgages on real property	*9,485*	*50*	*28*	*5*	*2*	-	*9,570*
- Revolving exposures, etc	*3,068*	*6*	*13*	*3*	*1*	-	*3,090*
- Other retail exposures	*4,604*	*45*	*10*	*3*	*16*	-	*4,678*
Commercial exposures	17,803	4,579	19,217	23,822	8,738	1,844	76,003
Credit institution exposures	-	-	-	-	-	18,530	18,530
Sovereign exposures	-	-	-	-	-	332	332
Equity exposures	-	-	-	-	-	24	24
Assets with no counterparty	-	-	-	-	-	99	99
Total 2007	**34,960**	**4,681**	**19,268**	**23,833**	**8,756**	**20,829**	**112,328**
Total 2006	14,505	1,412	13,473	20,214	9,978	13,843	73,424

LARGE EXPOSURES

Monitoring of large exposures is an integral part of the Group's risk management.

Pursuant to section 145 of the Financial Business Act, an exposure with any one customer or group of interconnected customers after statutory deductions must not exceed 25% of the capital base.

Furthermore, the sum of the exposures which, after statutory deductions, constitute at least 10% of the capital base must not exceed 800% of the capital base.

At 31 December 2007, Nykredit Bank A/S had 10 exposures which individually, after statutory deductions, represented between 10% and 25% of the capital base. The 10 exposures made up an aggregate exposure after statutory deductions of DKK 11.2bn. Accordingly, the large exposures of the Bank accounted for 135% of its capital base.

COUNTERPARTY RISK

Nykredit uses various financial products, eg, derivative instruments and repurchase transactions, to manage risk. In addition, financial products are traded with customers. The value of many financial products changes over time, which may lead to the accumulation of large potential claims or obligations of either party to a contract. When entering into financial contracts, the Group incurs a risk that the counterparty defaults on its obligations. Moreover, financial contracts with customers involve the risk that the customers are unable to meet the obligations accumulated under the contracts.

The use of derivative instruments is governed by the ordinary credit granting rules and credit policies supplemented with a number of restrictions and policy rules designed to limit Nykredit's counterparty risk. Examples are assessments of customer creditworthiness and limits to amount and loan term.

Credit limits and security are applied for the purpose of limiting counterparty risk. The contractual framework is mainly based on market-conform standards such as ISDA or ISMA agreements.

The capital requirement for counterparty risk is calculated according to the same methods as those applied to other credit risk.

For the purpose of calculating the capital charge, the exposure value of counterparty risk is calculated according to the market value method, ie, as any positive market value of the transaction plus the potential future credit exposure. The exposure value of counterparty risk was DKK 10.6bn at 31 December 2007 and the capital requirement DKK 169m.

The Nykredit Bank Group
Credit exposures

2007	Market value
DKK million	
Positive gross fair value	15,516
Netting proceeds	(1,894)
Security	(3,903)
Netted current credit exposure	**9,719**

Note: In respect of repo and reverse transactions, collateral in the form of bonds has been deducted from the positive market value. The bonds have therefore not been included in the determination of security provided.

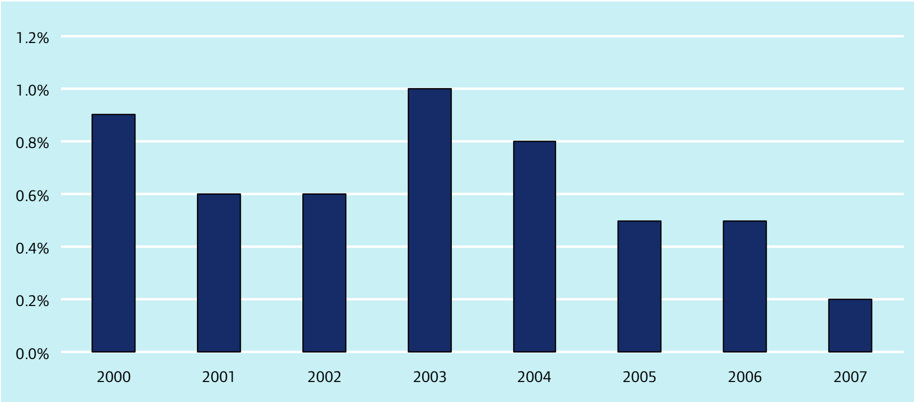
NON-PERFORMING EXPOSURES

Continuous individual reviews and risk assessments of exposures over DKK 50m are performed with a view to uncovering any objective evidence of impairment and an expected adverse effect on future cash flows from loans. If necessary, impairment provisions are subsequently made for individual exposures. Exposures not subject to individual provisioning are subject to group-based assessment. Group-based impairment provisions are made for groups of customers involving uniform credit risk.

Impairment provisions totalled DKK 95m at 31 December 2007 against DKK 88m at the beginning of the year.

Recognised losses totalled DKK 7m at 31 December 2007. The level of recognised losses therefore remains very low.

The Nykredit Bank Group
Impairment provisions as % of loans, advances and guarantees



Note: Year-end

The Nykredit Bank Group
Individual and group-based impairment provisions

		2007		2006
	Individual	Group-based	Total	Total
DKK million	impairment provisions	impairment provisions	impairment provisions	impairment provisions
Impairment provisions, beginning of year	27	61	88	182
Impairment provisions for the year	43	(50)	(7)	22
Reversal of impairment provisions	(5)	-	(5)	(64)
Other additions and disposals	28	-	28	-
Impairment provisions recognised as lost	(9)	-	(9)	(52)
Impairment provisions, year-end	**84**	**11**	**95**	**88**
Lending subject to impairment[1]	**121**	**102**	**223**	**5,954**
Impairments	84	11	95	88
Lending after impairment	**37**	**91**	**128**	**5,866**

[1]The method of determination for lending subject to impairment has changed from 2006 to 2007.

The Nykredit Bank Group
Impairment provisions for loans, advances and guarantees

2007	Individual	Group-based	Total	Total claims
DKK million	impairment	impairment	impairment	in default
	provisions	provisions	provisions	
Retail exposures	11	7	18	56
Of which				
- Mortgages on real property	*0*	*1*	*1*	*8*
- Revolving exposures, etc	*0*	*0*	*0*	*4*
- Other retail exposures	*11*	*6*	*17*	*44*
Commercial exposures	73	4	77	170
Credit institution exposures	-	-	-	-
Sovereign exposures	-	-	-	-
Total	**84**	**11**	**95**	**226**

CREDIT RISK MODELS

The determination of credit risk is based on three key parameters:

- PD: Probability of Default – the probability of a customer defaulting on an obligation to the Nykredit Group
- LGD: Loss Given Default – the loss rate of an exposure given a customer's default.
- EV: Exposure Value – the total exposure to a customer in DKK at the time of default. The exposure value is adjusted for any undrawn part of a credit commitment.

The PD is customer-dependent, while the other parameters are product-dependent. A PD is therefore assigned to each customer, while each exposure has a separate LGD and EV.

Modelling principles

The Nykredit Realkredit Group has developed internal credit risk models which Nykredit Bank also applies.

According to the Executive Order on Capital Adequacy, PDs must be estimated on the basis of long-term averages of one-year default rates, while the LGD estimates must reflect an economic downturn.

In the early 1990s, the Danish economy suffered a general crisis, and the financial sector saw a relatively large number of borrower defaults and increased losses. Nykredit stores mortgage lending data from this period and may thereby factor in the experiences made during a recession when developing models.

PDs are calibrated by weighting data from 2003-2004 against data from the early 1990s at a 40:60 ratio. PDs will therefore be higher during an economic boom than if based exclusively on current data, and vice versa during a recession.

LGDs are calibrated so that the parameters reflect an economic downturn. For exposures secured on real property, this equals the period 1991-1993.

It is important to keep the modelling principles in mind when comparing PD and LGD estimates with current, observed values of default and loss rates. During an economic boom, the PD and LGD estimates applied to calculate capital charges will be higher than the observed values. This is due to the fact that the observed values, contrary to the risk parameters, mirror only the current economic climate.

The principles applied to estimate the risk parameters ensure that Nykredit's capital requirement remains more stable during an economic cycle than if the estimation was based exclusively on new data.

Probability of default (PD)
PDs are calculated for each individual customer of the Group. PD expresses the probability of the customer defaulting on his/her payment obligations. This method is called direct estimation.

An exposure is in default when it is deemed improbable that the customer will repay all debt in full, or when a significant amount has been in arrears for 90 days. Depending on the customer group, Nykredit Bank considers the forwarding of a second or third collection letter to be a clear signal that a customer will fail to repay the debt in full.

The PD of retail customers and small enterprises is determined on the basis of a customer's credit score and payment behaviour. Credit scoring is a statistical calculation of a customer's creditworthiness based on the customer's financial circumstances and other factors. Credit scoring models have been applied at Nykredit Bank since 1998.

With respect to other customer groups, statistical models have been developed based on conditional probabilities estimating PDs that factor in business-specific circumstances such as accounting figures, arrears and impairment as well as industry-specific conditions and the macroeconomic climate.

External ratings are used to a very limited extent in respect of a few types of counterparties for which no meaningful statistical models can be developed due to a lack of default data. External ratings are translated into PDs.

PDs are updated as Nykredit receives new information about economic conditions or the customer. Updates take place at least once a year.

The accuracy of the estimated PDs can be assessed by comparing the estimates at the beginning of the year with the PDs observed at the end of the year. Observed PD is the observed default rate of Nykredit's exposures and thus reflects the current economic climate. To obtain a meaningful comparison, it is therefore necessary to translate the estimated PDs at the beginning of the year into estimates which reflect only the current economic climate (point-in-time estimates).

The table below shows applied PD stated as point-in-time PD, observed PD as well as applied PD used to calculate the capital requirement at year-end.

The PD estimates applied for calculating the capital requirement are based on data covering economic upturns as well as downturns and are therefore not directly comparable to the observed default rates or point-in-time PDs. The table shows that the applied PDs are higher than the observed PDs.

From PD to rating
The PD of the individual customer is converted into a rating from 0 to 10, 10 being the highest rating. The individual rating categories are defined as fixed PD ranges. This means that, in a favourable economic climate, high ratings will be assigned to a relatively large number of customers, while the opposite will apply during an economic downturn.

A customer rating is an important element of the credit policy and customer assessment. Ratings are also applied to increase the efficiency of credit granting procedures and to monitor exposures of low credit quality.

Group Credits may, if so recommended, allow that a rating be replaced by a rating assigned by a credit specialist.

The Nykredit Bank Group
Probability of Default, PD

%	Point-in-time PD Beginning of 2007	Observed PD End-2007	Applied PD End-2007
Retail exposures	0.45	0.39	1.25
Of which			
- Mortgages on real property	*0.45*	*0.12*	*1.33*
- Revolving exposures, etc	*0.14*	*0.15*	*1.12*
- Other retail exposures	*0.27*	*0.85*	*1.18*
Commercial exposures	0.73	0.12	1.20
Total	**0.56**	**0.17**	**1.21**

Note: Exposure-weighted. Includes exposures subject to the advanced as well as the foundation IRB approach for which own PD estimates are applied.

The Nykredit Bank Group
Rating scale and marginal Probabilities of Default (PD)

Rating category	PD floor %	PD ceiling %	Average applied PD %
10	> 0.00	≤ 0.15	0.12
9	> 0.15	≤ 0.25	0.20
8	> 0.25	≤ 0.40	0.33
7	> 0.40	≤ 0.60	0.50
6	> 0.60	≤ 0.90	0.77
5	> 0.90	≤ 1.30	1.05
4	> 1.30	≤ 2.00	1.75
3	> 2.00	≤ 3.00	2.47
2	> 3.00	≤ 7.00	4.42
1	> 7.00	≤ 25.00	12.60
0	> 25.00	< 100.00	35.89
Exposures in default	100.00		100.00

Note: Average applied PD has been weighted by exposure. Comprises exposures subject to the advanced as well as the foundation IRB approach for which own PD estimates are applied.

The Nykredit Bank Group

Retail exposures covered by IRB

2007 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD [1] %	Exposure-weighted average risk weight %	Basel II capital requirement credit risk DKKm
10	1,360	1,132	30.6	6.1	7
9	1,606	1,403	30.2	9.2	12
8	1,370	1,175	29.8	13.3	15
7	1,453	1,127	26.7	17.2	20
6	2,898	1,923	22.9	19.8	46
5	2,588	1,575	21.6	23.3	48
4	1,618	779	19.6	26.9	35
3	4,049	2,776	29.9	52.5	170
2	254	199	30.1	62.2	13
1	74	78	30.4	80.8	5
0	13	32	30.4	96.8	1
Exposures in default	56	5	34.3	421.6	19
Total	**17,339**	**12,205**	**26.4**	**28.17**	**390**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using own PD estimates.

[1] Pursuant to section 11 of the Executive Order on Capital Adequacy, the exposure-weighted average LGD for retail exposures secured by mortgages on real property must be at least 10% in the calculation of the capital requirement. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the 10% requirement, cf section 11 of the Executive Order.

The Nykredit Bank Group

Commercial exposures covered by IRB

2007 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	Basel II capital requirement credit risk DKKm
10	6,302	3,934	51.1	32.7	165
9	5,413	3,614	51.2	42.7	185
8	15,385	8,126	48.6	57.8	712
7	12,475	8,045	48.1	66.8	667
6	8,663	5,574	50.7	79.2	549
5	15,354	7,061	55.1	96.2	1,182
4	5,226	2,080	49.7	113.3	474
3	1,446	1,185	48.2	110.4	128
2	2,176	1,207	47.8	133.6	233
1	1,072	780	41.8	173.4	149
0	477	466	50.3	245.0	94
Exposures in default	170	11	48.9	0	0[1]
Total	**74,159**	**42,083**	**50.5**	**76.4**	**4,535**

Note: Comprises exposures subject to the advanced as well as the foundation IRB approach using own PD estimates.

[1] Capital must only be maintained for defaulted exposures when using the advanced IRB approaches, cf appendix 8 of the Danish Executive Order on Capital Adequacy.

Loss given default (LGD)
The LGD is calculated for each customer exposure and reflects the percentage share of the exposure which is expected to be lost if a customer defaults on an exposure.

The capital charge for commercial lending is calculated using the foundation IRB approach which implies using LGDs as stipulated in the Executive Order on Capital Adequacy.

For retail lending, LGDs are calculated using internal methods based on loss and default data. The determination of LGDs factors in any security provided such as mortgages on real property or financial collateral.

Nykredit Bank calculates losses as receivables at the time of realisation. Furthermore, costs incidental to debt collection and proceeds from the realisation of collateral, payments from customers, etc, are included.

The loss on a defaulting borrower cannot be determined until the case has been finally settled. In many cases, this may take several years. In cases involving collateral in the form of a mortgage on real property, for example, the loss cannot be determined until the property has been sold. The determination of losses includes an estimate of the final loss in cases not finally settled at the time of determination.

LGDs vary with economic trends. In a favourable economic climate, default will often not lead to any loss as the value of the security will typically exceed the value of the loan. This applies in particular to loans secured by mortgages on real property. Conversely, the Group would expect more and greater losses during an economic downturn.

The accuracy of the estimated LGDs can be assessed by comparing the estimates at the beginning of the year with the LGDs observed at the end of the year. Observed LGD is determined on the basis of actual losses for the year with the addition of individual impairment provisions at year-end. Observed LGDs reflect the current economic climate. To obtain a meaningful comparison, it is therefore necessary to recalculate the estimated LGDs at the beginning of the year into point-in-time estimates.

The table below shows applied LGD stated as point-in-time LGD, observed LGD as well as applied LGD used to calculate the capital requirement at the end of the year.

Applied LGD reflects an economic downturn and corresponds to the loss during a recession. Applied LGD is therefore not directly comparable with the observed losses or point-in-time estimates, which both reflect the current economic climate.

Exposure value (EV) and conversion factors (CF)
EV is estimated for all exposures to a customer and reflects the total expected exposure to a customer at the time of default, including the utilisation of any credit commitments granted through conversion factors (CF).

CF is estimated for products subject to flexible utilisation, eg, revolving exposures, equity withdrawal credits, credit lines, loan offers, etc. In respect of non-performing exposures subject to flexible utilisation, the credit maximum has often been reached or exceeded at the time of default. This applies to revolving exposures and similar credit facilities, for which reason Nykredit applies a conversion factor above 1.

The table below shows observed and applied CFs for exposures for which customers have undrawn credit lines. Observed CF is the average utilisation rate for Nykredit's exposures and other credit commitments at the time of default. Applied CF at year-end is the parameter for the utilisation rates applied to calculate capital charges.

The Nykredit Bank Group
Loss Given Default, LGD

%	Point-in-time LGD Beginning of 2007	Observed LGD End-2007	Applied LGD End-2007
Retail exposures	2.49	1.62	26.34
Of which			
- Mortgages on real property	*1.89*	*1.20*	*18.59*
- Revolving exposures, etc	*15.75*	*11.15*	*39.97*
- Other retail exposures	*15.82*	*13.84*	*33.25*
Total	**2.49**	**1.62**	**26.34**

Note: Exposure-weighted. Includes only exposures subject to the advanced IRB approach using own LGD estimates. LGD for retail exposures has been determined after adjustment to ensure compliance with the 10% requirement, cf section 11 of the Executive Order on Capital Adequacy.

The Nykredit Bank Group
Utilisation of commitments and credit lines at default, conversion factor (CF)

Factor	Observed CF End-2007	Applied CF End-2007
Retail exposures	1.04	1.09
Of which		
- Mortgages on real property[1]	*1.06*	*1.13*
- Revolving exposures, etc	*1.03*	*1.07*
- Other retail exposures	*1.13*	*1.00*
Total	**1.04**	**1.09**

Note: Exposure-weighted. Includes only exposures subject to the advanced IRB approach using own CF estimates for products with credit facilities.
[1] Including exposures such as equity release and equity withdrawal credits.

Expected losses

The expected losses and the observed losses are shown in the table below. The expected loss on an exposure can be calculated as the product of the PD, LGD and EV estimates.

The calculation of expected losses is based on LGDs calibrated to the period 1991-1993. During economic booms as well as mild recessions, calculated expected losses will therefore typically be higher than observed losses.

As in recent years, the level of observed losses was very low in 2007.

Validation and control of models

Nykredit develops and improves its credit risk models on an ongoing basis. As the parameter estimates are used both in the determination of the capital requirement and for many internal business purposes, it is decisive that the models work as intended and provide consistent results.

The models are developed by a staff function that is independent of group credit granting and operations in general. To ensure a reliable forecasting ability and consistent estimates, all credit models are validated at the development stage and are furthermore subject to ongoing validation – at least once a year. Model development and model validation are separate functions. The results are reported to the Risk Committee.

The ongoing validation includes:

- *Back tests:* Comparison of the expected and the actual number of defaults, as well as the losses within and across rating categories. Analysis of changes in ratings during the year.
- *Expert forums*: Nykredit's experienced credits and case officers and analysts compile and analyse any discrepancies between model estimates and internal assessments of risk related to the business activities.
- *Ongoing monitoring*: Ongoing monitoring of model ranking of customers, payment patterns, etc.
- *Quality assurance and data input checks:* Data used for calculating the risk parameters are subject to a number of automatic controls. This applies to both internal data and data from external suppliers.
- *Data representativity:* The composition of customers may change over time. Assessment of whether the models work as intended if the composition of customers has changed since the model was developed.
- *Data entry control:* At least once a year, Nykredit's controllers review the case processing at all centres, including data entry.

Internal estimates

For a number of years, Nykredit has applied credit models for risk management, capital management, customer assessment and pricing. The credit models have become an integral part of business and are applied in several areas:

Capital management

Nykredit's risk and capital management is based on a required capital base (capital adequacy), which is also applied in connection with the internal performance measurement.

Granting of loans

A uniform approach to credit assessment is taken across the Nykredit Group, but taking into consideration the special characteristics of the individual business units. Credit assessment comprises the customer's creditworthiness and an assessment of the security provided and the nature of the transaction concerned.

The credit assessment of customers and granting of loans are typically based on an overall assessment of the risk elements of the individual case and take into consideration the size of the total exposure to the customer concerned. Creditworthiness is determined on the basis of financial strength, stability in relation to external factors, managerial strength (businesses), etc.

When granting loans to retail customers, customer ratings are applied. The rating is supplemented with policy rules based on key ratios on customers' finances and behaviour. For selected exposures, the customer's rating is also used as input for granting advance approval of credit extensions. Furthermore, the quality of the security provided is included in the assessment.

This loan granting approach is used for retail exposures secured on real property, revolving exposures, etc, and other retail exposures.

The assessment of commercial customers includes an assessment of the customer's financial position, payment history and rating as well as the stability of value and transferability of the security provided, etc. The lower the customer rating, the greater the importance of the security to the overall assessment.

The granting of financial products is based on a customer's creditworthiness, delimitation of the life of each product, contractual basis, an assessment of the quality of the security, etc.

The Nykredit Bank Group
Expected and observed losses

DKK million	Point-in-time expected loss Beginning of 2007	Observed loss End-2007	Expected loss[1] End-2007
Retail exposures	9	24	58
Of which			
- Mortgages on real property	*1*	*0*	*26*
- Revolving exposures, etc	*1*	*9*	*14*
- Other retail exposures	*8*	*15*	*18*
Commercial exposures	154	9	401
Total	**164**	**33**	**459**

Note: Comprises exposures subject to the advanced as well as the foundation IRB approach. Expected losses on retail exposures have been determined on the basis of LGD after adjustment to ensure compliance with the 10% requirement, cf section 11 of the Executive Order on Capital Adequacy.

[1]Expected loss using LGDs for 1991-1993.

SECURITY

The decision to grant a loan is usually based on a customer's creditworthiness and an assessment of the assets provided as security. Security comprises guarantees, financial collateral and charges on equipment, machinery, plant, vehicles, etc.

In the determination of the capital requirement and capital adequacy, only the effect of mortgages on real property and financial collateral is currently included.

Real property

Mortgages on real property reduce credit risk substantially. Typically, no losses are incurred on loans secured on properties with high equity, as the customers, in case of default, may mortgage their equity in order to pay off debt to Nykredit. Alternatively, properties may be sold at a price that exceeds the amount owed to Nykredit.

The mortgageable value of a property is assessed at the time when a loan is granted. The valuation is based on the marketability, stability of value, alternative use, letting possibilities, etc, of the property.

Financial collateral

Financial collateral includes deposits denominated in DKK or other currencies, listed Danish government bonds, mortgage bonds and SDOs, other liquid Danish and foreign bonds with high ratings, listed and liquid equities, etc.

Nykredit assigns an internal collateral value to the different types of financial collateral depending on the risk involved. The lower the market and credit risk, the higher the collateral value.

Nykredit incurs risk on financial counterparties and customers. The largest counterparties and customers are required to provide additional collateral as Nykredit's exposures to such customers increase.

When establishing the limits to financial products, Nykredit will also often require that a contractual basis be established providing group companies with a netting option. The contractual framework will typically be based on market-conform standards such as ISDA or ISMA agreements. In the determination of the need for collateral from the individual counterparty or customer, all the financial contracts of a customer governed by the contractual basis are netted. Netting means that the potential liability of each customer is determined as the sum of potential liabilities under all the contracts of a customer less the sum of potential gains.

Financial collateral is offset in the determination of Nykredit Bank's capital requirement and capital adequacy, where netting is applied as well.

The Nykredit Bank Group
Types of security and credit exposures

2007 DKK million	Real property[1]	Financial collateral[2]	Total collateral value	Total exposure
Retail exposures	2,309	3	2,312	17,339
Of which				
- Mortgages on real property	*2,309*	*-*	*2,309*	*9,570*
- Revolving exposures, etc	*-*	*-*	*-*	*3,090*
- Other retail exposures	*-*	*3*	*3*	*4,678*
Commercial exposures	379	2,421	2,800	76,003
Credit institution exposures	-	-	-	18,530
Sovereign exposures	-	-	-	332
Equity exposures	-	-	-	24
Assets with no counterparty	-	-	-	99
Total 2007	**2,687**	**2,424**	**5,111**	**112,328**
Total 2006	1,835	-	1,835	73,424

[1] The collateral value of real property has been determined at the nominal value.
[2] The determination of financial collateral for calculating the capital requirement was introduced in 2007.

Market Risk

Nykredit Bank assumes market risk in connection with its trading activities with customers and the optimisation of the return on the Bank's equity. The most significant market risk relates to the Bank's Markets & Asset Management activities within securities trading, derivatives and money market transactions. Furthermore, the Bank incurs market risk through its investment in Nykredit Fixed Income Opportunities Fund (NFIOF). Market risk in the Bank's other subsidiaries is either hedged with the Bank as counterparty or is negligible.

The calculation of market risk mainly takes place through the trading and risk management system SUMMIT by the firm Misys Plc. The system handles all types of financial instruments and provides a high degree of reliability in relation to consistent monitoring and computation of market risk. The validity of the price and risk models is tested on a current basis.

Nykredit Bank's Board of Directors fixes the limits to market risk - including Value-at-Risk, interest rate, equity price, foreign exchange and volatility risk. The Executive Board fixes the market risk limits of Markets & Asset Management and subsidiaries. Risk Management monitors market risk on a current basis and reports to Management on a day-to-day basis. Acting and reporting entities have been segregated.

The management of market risk is based on Value-at-Risk and more traditional risk measures such as basis point value (BPV) and interest rate vega. The Bank has also defined a number of stress and scenario tests that form part of the management of market risk.

Nykredit Bank A/S has FSA approval to calculate capital charges in relation to market risk using Value-at-Risk. All related validation requirements have been satisfied, including a documented annual validation of all pricing models.

The Nykredit Bank Group
Basel II capital requirement for items incurring market risk

2007 DKK million	Specific risk	General risk	Basel II capital requirement, total
Debt instruments	603	-	603
Equities	*2*	*3*	*5*
Collective investment schemes[1]	*33*	-	*33*
Foreign exchange risk	-	-	-
Value-at-Risk (99%, 10 days)	-	190	190
Total market risk	**638**	**193**	**831**

[1] Total position risk classified under specific risk

Parameters included in Value-at-Risk calculations

Risk factors:	All positions are transformed into a number of risk factors relating to equity price, interest rate and foreign exchange risk.
Volatilities and correlations:	Daily volatilities and correlations of the factors above. In calculating the volatilities, lastdated observations carry the largest weight. Volatilities and correlations are calculated on the basis of data for the last 250 banking days.
Time horizon:	Value-at-Risk is estimated based on a time horizon of one day, but the number may be scaled to other time horizons: ▪ Capital charge for market risk: 10 days ▪ Daily business management: 1 day ▪ Required capital base: 1 year
Confidence level:	Value-at-Risk is estimated subject to the following confidence levels: ▪ Capital charge for market risk: 99% ▪ Daily business management: 99% ▪ Required capital base: 99.93%

The Nykredit Bank Group
Value-at-Risk (99%, 1 day)

DKK million	Average	Minimum	Maximum	End of period
Interest rate VaR[1]	2.85	1.82	7.04	7.04
FX VaR	0.48	0.16	1.35	0.74
Vega VaR	2.48	0.54	4.49	3.15
OAS VaR	8.93	4.62	13.38	11.45
Index-linked bonds VaR	0.22	0.15	0.73	0.23
NFIOF	1.20	0.93	2.24	1.27
Total VaR 2007	**13.67**	**0.41**	**22.09**	**22.09**
Total VaR 2006	11.65	6.38	17.76	17.65

[1] Figures only available from 2 July 2007

VALUE-AT-RISK

Value-at-Risk is a statistical measure of market risk based on historical market data. Value-at-Risk measures the maximum loss on an investment portfolio at a given probability within a given time horizon.

The risk calculations relating to the embedded option of callable mortgage bonds and capped floating-rate mortgage bonds form part of the overall analytical model for the calculation of Value-at-Risk.

In general, the Bank calculates risk factors relating to foreign exchange and interest rate risk, vega risk (risk of fluctuations in interest rate volatility), risk on index-linked bonds and OAS (option-adjusted spread) risk. OAS is estimated for mortgage bonds of the capped floater and callable types.

The calculation of Value-at-Risk includes yield curves based on closing prices in the market as well as historical correlations and volatilities. These are calculated using an EWMA model with a decay factor of 0.94 whereby the latest market observations will have the highest weighting, and the latest 74 observations will thus in practice form the basis of the calculations.

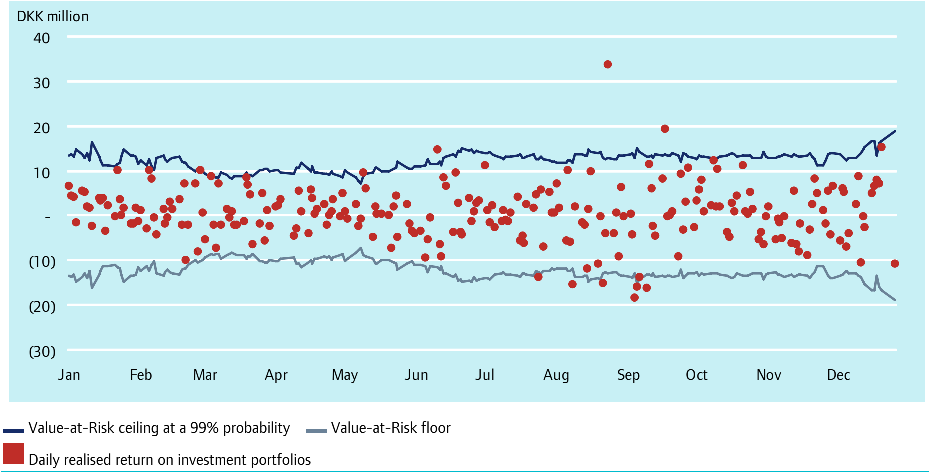
The VaR model results are subject to a daily back test, which is presented to the Executive Board on a weekly basis and to the Board of Directors on a monthly basis.

Value-at-Risk provides no indication of the distribution of losses under unusual market conditions. In consequence, a number of scenarios depicting usual and unusual market conditions have been drawn up. The scenarios are calculated on a daily basis and reported to the Board of Directors on a monthly basis.

Nykredit Bank A/S
Stress and scenario tests

Scenario	Definition	End-2007 DKKm	End-2006 DKKm
Interest rate exposure 1bp	Change in the market value on rise in market rates of 1bp	2.06	1.71
Interest rate exposure 1bp excl DKK and EUR	Change in the market value on rise in market rates of 1bp excl DKK and EUR	(0.08)	0.06
Interest rate exposure 1bp at single currency level excl DKK and EUR	Maximum change in the market value at single currency level on rise in market rates of 1bp excl DKK and EUR	(0.13)	(0.08)
Gross interest rate exposure 1bp	Numerical sum of a change in the market value of long and short-term positions on a rise in market rates of 1bp	6.01	6.59
Interest rate vega 1%	Change in the market value on a rise in implied volatility of 1 percentage point	(14.61)	(6.37)
Gross interest rate vega 1%	Numerical sum of a change in the market value of long and short-term positions on a rise in the implied volatility of 1 percentage point	59.26	48.33
Gross interest rate vega 1% excl DKK and EUR	Numerical sum of a change in the market value of long and short-term positions on a rise in the implied volatility of 1 percentage point excl DKK and EUR	0.01	0.01
Interest rate gamma 100bp	The maximum difference between the market value on a change in market rates of 100bp and a change in market rates of 1bp multiplied by 100	(27.28)	(42.27)
FX indicator 1	The greater of the sum of long-term positions and the sum of short-term positions	364.20	249.92
Gross FX vega 1%	The numerical sum of vega at single currency level computed as the change in the market value on a rise in implied volatility of 1 percentage point	0.03	0.06
FX gamma 10% per currency	Largest loss at single currency level computed as the difference between the change in the market value on a change in the exchange rate of 10% and 10% of the current foreign exchange position	0.00	(3.00)
Govt/swap spread	Change in the market value on a rise in all market rates of 20bp save yields on sovereign risk exposures	49.57	51.67
Currency crisis 1	Change in the market value on a rise in Danish rates of: 1week 500bp, 1month 300bp and 3months 100bp	84.39	28.56
Currency crisis 2	Change in the market value on a rise in all Danish rates of 20bp and a DKK weakening of 5%	65.36	71.54

The Nykredit Bank Group
Back test of overall market risk (99%, 1 day)



EQUITY PRICE RISK

Equity price risk does not form an integral part of the Value-at-Risk model. Therefore, the loss distribution of the equity portfolio is assessed on a continuous basis as a supplement to the Value-at-Risk model in the daily determination of market risk.

The equities exposure is calculated as the sum total (gross positions) of own positions and non-settled positions which the Bank holds on behalf of customers.

At 31 December 2007 equity price risk was calculated as 2.5% of the Bank's gross exposure to equities and investment units. However, positions in equity-based investment funds are hedged with futures on equity indices reflecting the equity positions, determined as the market value of the investment funds less 85% of the underlying market value of the sold equity index futures.

TRADING BOOK AND BANKING BOOK

Nykredit Bank classifies the trading and banking books at portfolio level on the basis of the application of the portfolio concerned.

Portfolios with positions held for trading are placed in the trading book. Positions forming part of the lending business and strategic positions are placed in the banking book. Furthermore, portfolios not unambiguously classifiable under the trading book are placed in the banking book.

Interest rate and foreign exchange risk on the banking book is fairly limited as any risk is generally hedged with financial instruments.

At end-2007 the banking book equity price risk consisted of ownership shares in VP Securities Services of DKK 15m and minor ownership shares in private equity funds of a total of DKK 9m.

The Nykredit Bank Group
Equity portfolio

2007 DKK million	Market value
Danish equities	244
Foreign equities	14
Equities on the banking book[1]	24
Total 2007	**282**
Total 2006	258

[1] Exclusively unlisted equities

Liquidity Risk

Liquidity risk is the risk of loss as a result of insufficient cash to cover current payment obligations. The loss may result from a disproportionate increase in Nykredit's funding costs or Nykredit becoming unable to fulfil its payment obligations due to a lack of funding or inability to divest its assets at a reasonable price.

Overall liquidity risk of the Nykredit Group is assessed by the Asset/Liability Committee, while the daily liquidity management is performed by the individual companies of the Group.

Nykredit Bank monitors the Bank's balance sheet and liquidity on a day-to-day basis. The Bank manages the balance sheet based on the liquidity of assets and liabilities and operates in that connection with a trading book and a banking book. The trading book includes a portfolio of corporate bonds and the Bank's repo/reverse transactions. Securities not serving as collateral in the trading book constitute a short-term liquidity buffer that may be applied in the case of unforeseen claims on the Bank's liquidity. The Bank's liquidity instructions as formulated by the Board of Directors specify minimum requirements for the size of its liquidity buffer.

The average liquidity buffer in 2007 was DKK 11bn. At end-2007, the liquidity buffer was DKK 20.2bn against DKK 12.9bn at end-2006.

The banking book includes the Bank's structural liquidity risk. The banking book consists of loans and advances and is funded through deposits and structured finance defined as issued bonds, long-term deposits from financial counterparties, subordinate loan capital, equity and credit commitments. The ratio of loans and advances to deposits plus structured funding was 118% at end-September 2007 against 123% at end-2006. The Bank aims to retain the level between lending and deposits plus structured finance.

To strengthen the access to funding through international capital markets, the Bank established a European Medium Term Note (EMTN) programme in Q4/2007 for EUR 5bn. Issues under the EMTN programme are intended to replace the Bank's long-term deposits from financial counterparties as the EMTN programme offers faster and easier access to long-term funding. At end-January 2008 DKK 2.8bn had been issued under the EMTN programme. The bonds were issued at satisfactory spreads in relation to swaps reflecting the Nykredit Group's low risk profile and strong capital structure.

The management of the Bank's structural liquidity risk is based on an internal liquidity model quantifying the Bank's expected liquidity position at any future time, in other words, the most likely development in liquidity if no steps are taken to raise new liquidity. The liquidity model shows for each point over time the sum of deterministic payments and the expected value of market-related and random payments. The liquidity model is a management tool which serves to illustrate the level of liquidity Nykredit Bank needs to raise or place.

The model assumptions are subjected to daily stress tests, which also calculate the effect of a liquidity crisis in the market preventing the bank from settling its liabilities or raising new liquidity.

The Board of Directors of the Bank formulates the liquidity policy, liquidity model principles and requirements and targets for the Bank's structural liquidity risk.

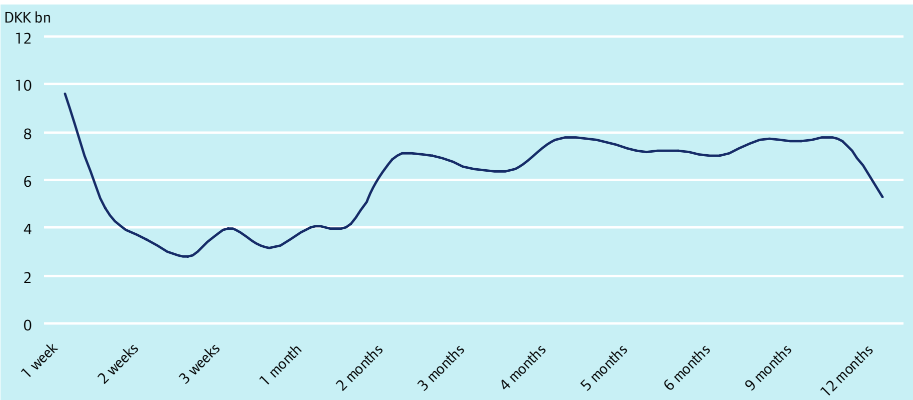
The Nykredit Bank Group
Funding sources – banking book

DKK million	2007	2006
Retail deposits	10,036	9,670
Commercial deposits from SMEs	6,037	2,807
Commercial deposits from municipalities and other	15,962	10,219
Long-term deposits from financial counterparties	2,052	3,043
Issued bonds	1,562	1,741
Equity and subordinated loan capital	8,499	5,541
Undrawn back-up facilities	2,722	2,721
Total funding sources (banking book)	**46,870**	**35,742**
Lending (banking book)	**39,659**	**28,983**
Funding sources relative to lending (banking book)	**118%**	**123%**

Nykredit Bank A/S
Targets fixed by the Board of Directors for the Bank's maximum liquidity deficit

2007 DKK million	Target for maximum liquidity deficit	Absolute minimum point of the period	Average of minimum points for the period
0 – 20 days	0	(192)	4,977
21 days – 3 months	(3,000)	(482)	3,989
3 months – 5 years	(4,500)	(250)	1,441
5 years – 10 years	(1,000)	1,376	2,575
Over 10 years	0	2,769	3,743

Nykredit Bank A/S
12-month liquidity, end-2007



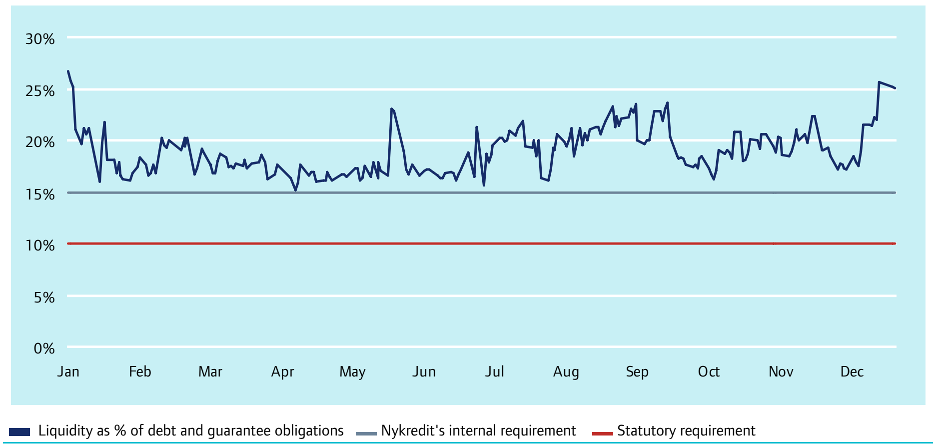
The structural liquidity risk limits appear from the table below. The Bank's liquidity position must for example not be negative within the coming 20 banking days.

In terms of the period's minimum point average within the maturity categories, structural liquidity risk has generally been significantly lower than the limits laid down by the Board of Directors.

According to the Financial Business Act, a bank's liquidity must total at least 10% of reduced total debt and guarantee obligations. Nykredit Bank's internal liquidity requirement is at least 15%. At end-2007 liquidity relative to reduced debt and guarantee obligations of the Nykredit Bank Group was 25.1%.

Nykredit Bank A/S

Liquidity relative to statutory requirement



Note: The graph shows Nykredit Bank's liquidity as % of reduced debt and guarantee obligations, cf section 152 of the Danish Financial Business Act.

Operational Risk

Operational risk reflects the risk of loss resulting from inadequate/failed internal processes, people and systems or from external events.

The Nykredit Bank Group's capital requirement for operational risk has been determined on the basis of the basic indicator approach and came to DKK 185m at end-2007. This means that the capital charge is stated as 15% of average gross earnings.

The day-to-day management of operational risk in the Nykredit Bank Group is a natural part of business operations. The business areas are responsible for the day-to-day management of operational risk.

Operational risk management activities are coordinated centrally to ensure consistency and optimisation across the Group.

The Group strives always to limit operational risk taking into consideration the related costs.

Nykredit Bank and the Nykredit Realkredit Group develop tools and techniques to identify, analyse and report operational risk. The tools are gradually implemented into the business areas and headquarter staff functions.

Systematic registration and categorisation of loss-making operational events give an overview of the loss experience in all significant parts of the Group. In respect of all loss-making events over a certain amount depending on the business area, information is recorded about the event, product, process and risk type, as well as information on any insurance cover and time consumption relating to the event. This creates a database for further analysis.

Business contingency plans ensure constant and secure operations in case of a shutdown of the IT supply or other emergencies.

Risk Management in Nykredit Portefølje Administration

Nykredit Portefølje Administration A/S is a wholly-owned subsidiary of Nykredit Bank A/S.

As a subsidiary of the Nykredit Group, the risk management activities of Nykredit Portefølje Administration are subject to continuous intercompany coordination.

The risk and capital structure of Nykredit Portefølje Administration is described below.

The transition to the Basel II rules in 2008 does not have a significant effect on the capital requirement of Nykredit Portefølje Administration.

ORGANISATION, DELINEATION OF RESPONSIBILITIES AND REPORTING

The Board of Directors of the company is responsible for defining limits to and monitoring the risk incurred by the company as well as for delegating responsibilities and approving overall instructions. The Board of Directors has laid down guidelines and specific limits as to the types of risk the company may assume. Such risk limits have been delegated to each of the departments. To ensure tight risk management, risk is monitored from headquarters by Risk Management of Nykredit Bank A/S. The Executive Board is briefed on company risk on a monthly basis. The Board of Directors is briefed at its quarterly meetings.

The Board is responsible for the general approach to risk and capital management and knows of the capital requirement rules.

Nykredit Bank's Management is briefed on a current basis about the company's risk and capital management to ensure compliance with the principles applicable to the entire Bank Group.

Risk monitoring and management activities are independent of the day-to-day business management.

DETERMINATION METHODS

In 2007 the determination of the capital requirement in Nykredit Portefølje Administration A/S took place according to the former capital requirement rules (Basel I) in line with the Nykredit Bank Group.

Credit risk

Nykredit Portefølje Administration is exclusively engaged in the administration of investment management activities. In consequence, the company does not enter into transactions involving elements of credit risk, apart from the risk inherent in short-term fees relating to the operating activities of the company (administration charges). Furthermore, the Board has resolved to place excess liquidity in Danish government bonds with maturities below 1 year.

Consequently, Nykredit Portefølje Administration does not conduct any lending nor has any financial instruments involving actual credit risk.

The vast majority of the company's financial assets consist of balances with banks, including Nykredit Bank A/S, and positions in short-term government bonds.

In addition, assets typically consist of short-term receivables relating to the company's administration activities.

Market risk

The most significant market risk relates to the company portfolio of short-term Danish government bonds.

The market risk exposure amounted to DKK 1m in 2007, the same as in 2006.

The interest rate exposure relating to the portfolio of short-term Danish government bonds totalled DKK 0.3m at end-2007 against DKK 0.4m at end-2006. The interest rate exposure in relation to the core capital after statutory deductions amounted to 0.3% against 0.5% in 2006.

The company does not incur risk in relation to equities, derivatives or foreign exchange positions.

Operational risk

From 1 January 2008, Nykredit Portefølje Administration A/S will apply the basic indicator approach in the calculation of the capital charge to cover operational risk.

Liquidity risk

The company's overall liquidity risk is assessed by the Executive Board and Board of Directors on a continuous basis.

In Management's opinion, the liquidity buffer has ranged between DKK 67m and DKK 101m in 2007 which is considered adequate to cover the company's liquidity requirement.

The company's funding sources consisted chiefly of capital injections made by Nykredit Bank A/S and operating finance. The company's equity stood at DKK 89.5m, equal to approximately 82% of the company's total liabilities and equity. The remaining part of the company's loan financing (liabilities) concerns taxes payable and other minor items of payables and deferred income, etc and totals an amount considerably lower than the company's short-term cash and cash equivalents.

CAPITAL BASE AND CAPITAL REQUIREMENT

Nykredit Portefølje Administration's capital requirement is determined on the basis of the company's assets under administration, cf section 125 of the Financial Business Act. In 2007 Nykredit Portefølje Administration's minimum capital requirement totalled DKK 64.8m.

Determined under the capital adequacy rules, the capital requirement of Nykredit Portefølje Administration comes to DKK 1.0m at end-2007 and the risk-weighted items DKK 28.5m. With the capital base at DKK 89.1m, this corresponds to a capital adequacy ratio of 312.8%.

The capital requirement determined on a pro forma basis in accordance with the Basel II rules came to DKK 4.5m at 31 December 2007, corresponding to risk-weighted items of DKK 72.2m.

The company's capital resources consist of the contributed share capital and accumulated profit.

CAPITAL ADEQUACY

The capital adequacy in the form of the required capital base is fixed by the Board of Directors on an annual basis.

Capital adequacy has been determined on the basis of the capital required to cover risk in general and is comparable with the minimum capital requirement laid down in the Executive Order on Capital Adequacy.

Assessment of the capital adequacy of the Nykredit Bank Group factors in the capital requirement of Nykredit Portefølje Administration.

Nykredit Portefølje Administration A/S
Capital requirement relative to assets under administration

DKK million	2007
Minimum capital requirement EUR 0.3m	2.2
Assets under administration	
Portfolio value, year-end	321,121
Statutory deductions EUR 250m	1,864
Portfolio value after statutory deductions	**319,257**
Add-on amount to minimum capital requirement	
0.02% of portfolio value after deductions	63.9
Deductions EUR 0.175m	1.3
Total add-on amount	**62.6**
Minimum capital requirement	**64.8**

Nykredit Portefølje Administration A/S
Capital requirement and capital adequacy under the capital adequacy rules

2007 DKK million	Basel II pro forma	Basel I
Credit risk	0.0	0.0
Market risk	1.0	1.0
Operational risk	3.5	-
Total capital requirement	**4.5**	**1.0**
Risk-weighted items	72.2	28.5
Core capital	89.5	89.5
Capital adequacy ratio, %	123.3	312.8

Nykredit Portefølje Administration A/S
Capital base

2007 DKK million	Basel II Pro forma	Basel I
Core capital		
Equity, year-end	89.5	89.5
Revaluation reserves transferred to supplementary capital	0	0
Total core capital	**89.5**	**89.5**
Tax assets	0.4	0.4
Core capital after statutory deductions	**89.1**	**89.1**
Hybrid core capital	0	0
Core capital, incl hybrid core capital after statutory deductions	**89.1**	**89.1**
Supplementary capital	**0**	**0**
Deductions from the capital base		
Deductions for difference between expected losses and impairments	0	0
Total deductions from the capital base	**0**	**0**
Total capital base after statutory deductions	**89.1**	**89.1**