Risk and Capital Management 2007

Nykredit

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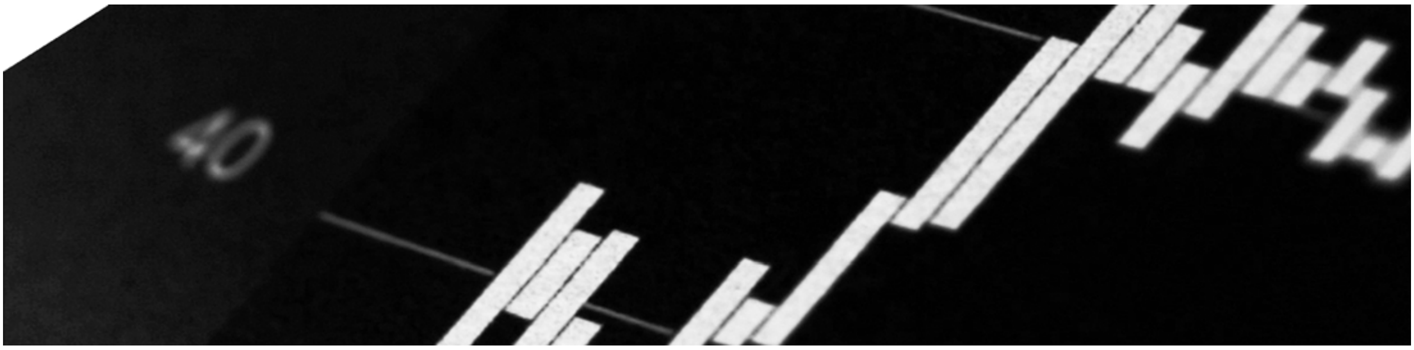

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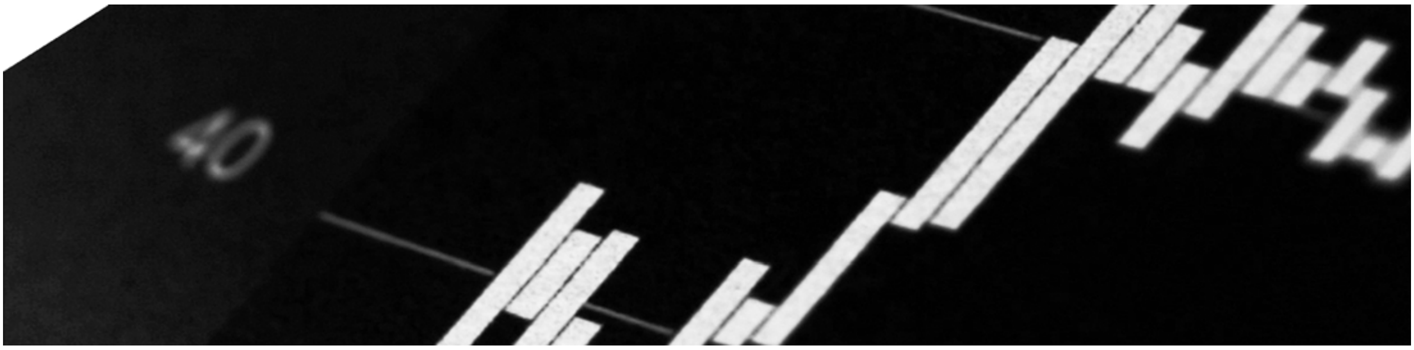
Foreword



On 1 January 2007, the new capital adequacy rules based on the Basel II Accord were implemented into Danish legislation. The most advanced approaches to determine credit risk may not be applied until 1 January 2008, however. The new rules provide for a closer relationship between risk and capital.

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

In 2005, Nykredit was granted approval by the Danish Financial Supervisory Authority (FSA) to apply internal Value-at-Risk models for market risk determination and, from 1 January 2008, to apply the advanced approach to credit risk determination for the greater part of group lending.

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

With the application of the internal ratings-based approaches from 1 January 2008, Nykredit's capital requirement will decrease by around DKK 4bn as compared with under the former rules (Basel I). The capital requirement will decrease by a further DKK 15bn as the transitional rules from Basel I to Basel II expire.

Nykredit pursues a long-term and balanced capital policy to maintain adequate capital to offer customers financial solutions at competitive prices during periods with high as well as low business activity.

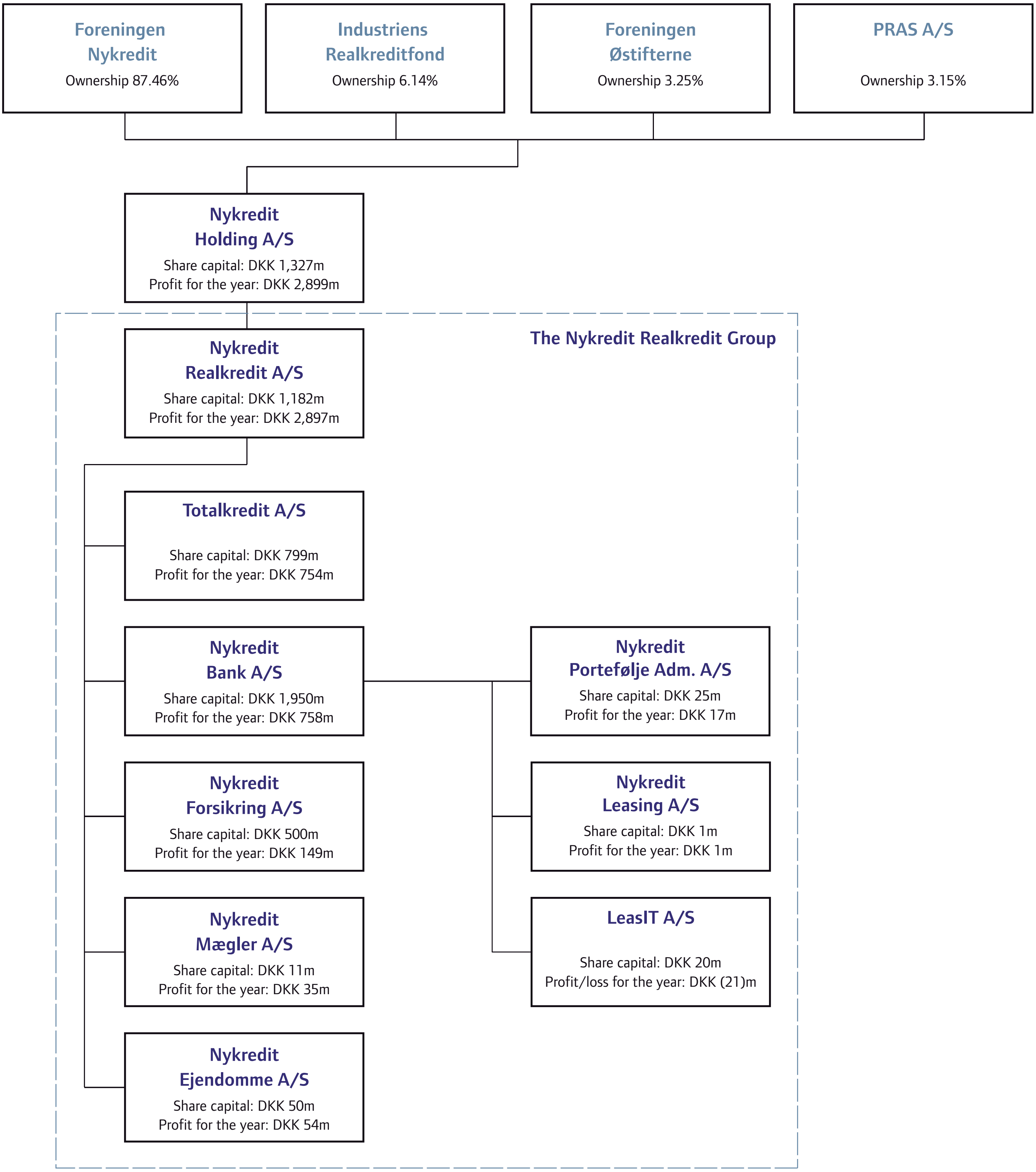
Recent years' booming economic climate has contributed to the low capital requirement under the new rules. In the event of a future recession, the capital requirement will increase. Nykredit wishes to take this into account already at this stage, which is reflected accordingly in the overall capital structure of the Group.

2007 was characterised by continued low loan portfolio risk. Very few customers defaulted on their obligations to the Group, and the level of observed losses remained very low.

The greater part of Nykredit's lending consists of match-funded mortgage loans secured on real property. Match-funded loans and the balance principle constitute the fundamentals of Danish mortgage lending. In practice, this means that Nykredit does not incur any interest rate risk, liquidity risk and refinancing risk in connection with its mortgage lending and underlying funding.

Peter Engberg Jensen
Group Chief Executive

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
The Nykredit Realkredit Group
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
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

Overall risk management is undertaken by the Executive Board and the Board of Directors and is a key element of the Nykredit Group's day-to-day operations. Through risk management, the Group seeks to ensure financially sustainable solutions in the short and long term. Nykredit focuses on balanced risk management and a strong capital structure.

Since 1851 Nykredit has provided loans secured by mortgages on real property on the basis of matching issuance of highly secure bonds. This type of lending still represents by far the greater part of Nykredit's balance sheet.

Nykredit strives to meet best practise for risk management at any time. In recent years, the Group has allocated 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 Group is exposed to different types of risk. Each type of risk has its own special features, and risk management is structured accordingly.

Nykredit 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 insufficient cash to cover current payment obligations.
- *Insurance risk* reflects the risk of claims net of reinsurance payable on insurance policies written.
- *Operational risk* reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Mortgage loan funding

Most of the Group's lending consists of mortgage loans and is therefore subject to the balance principle. The legislative framework behind the balance principle is the Danish Financial Business Act, the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, and the Danish Executive Order on bonds.

Danish legislation specifies risk limits applicable to all types of market risk as well as liquidity risk.

The Group's market and liquidity risks in connection with bond issuance are much lower than the upper limits provided by law. Loans funded by mortgage bonds or Danish covered bonds ("særligt dækkede obligationer" – SDOs) are granted according to uniform principles of market and liquidity risk.

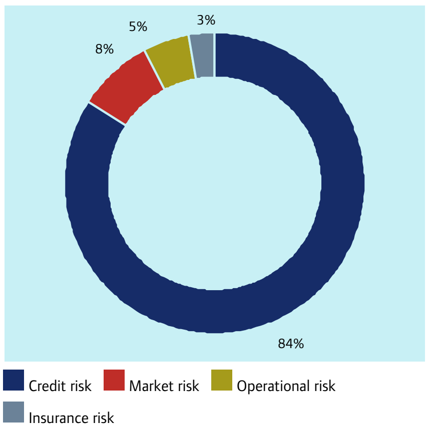
Over 99% of the Group's mortgage loans are match-funded and have the following characteristics:

- On the granting of a loan, Nykredit issues the bonds that fund the loan on a daily basis.
- Underlying each loan is matching funding sold in the bond market.
- The loan rate equals the yield-to-maturity of the bonds sold.
- The majority of loans have fixed funding throughout the loan term. Adjustable-rate mortgage loans have no fixed funding, but are funded by bonds with maturities between 1 and 11 years. On refinancing, the loan rate is adjusted to a rate that equals the yield-to-maturity of the bonds sold for the purpose of refinancing.
- When loans are prepaid, the matching outstanding funding is reduced. Borrowers cover Nykredit's costs incidental to prepayments.
- The due dates of payment of interest and principal on the loans are fixed so that Nykredit receives the funds on or before the date of payment to bondholders, provided payments from borrowers are made on a timely basis.
- Nykredit's earnings margin consists of a separate administration margin which is calculated on the basis of the debt outstanding and may be changed if market conditions change, for instance in loss-making periods.

In practice, this structure ensures that Nykredit incurs neither interest rate risk, liquidity risk nor refinancing risk from its mortgage lending and its underlying funding.

Minor interest rate exposures may arise, however, because of prepayments by customers as well as minor, practical differences between the granting/prepayment of loans and the associated sale/buyback of the underlying bonds.

The Nykredit Realkredit Group
Risk in general



Note: Liquidity risk is not determined but only managed.

Furthermore, in certain cases Nykredit may allow prepayment of mortgage loans by way of bonds other than the underlying bonds of the loan covered where these are traded at a premium in the market. This is because the investors holding these bonds do not want to sell them at a price that reflects the market price of the bonds (lock-in effects). In such cases, Nykredit may fix a prepayment price on the loan which reflects Nykredit's costs of hedging the risk relating to the cash flows concerned.

At end-2007, such prepayments totalled DKK 299m.

SPECIAL EVENTS IN 2007

SDOs

Danish legislation on issuance of "særligt dækkede obligationer" (Danish covered bonds, SDOs) entered into force on 1 July 2007.

In November 2007, Nykredit Realkredit A/S and Totalkredit A/S were granted permission by the Danish FSA to issue SDOs.

Since November 2007, Nykredit has offered loans against mortgages on commercial property funded by SDOs.

In this report, the term mortgage lending denotes mortgage lending funded by mortgage bonds and by SDOs.

Balance principle

With effect from 1 October 2007, Nykredit Realkredit A/S and Totalkredit A/S apply the general balance principle in relation to all capital centres and the mortgage banks in general, but their lending activities are still based on match funding. Consequently, no significant or structural market or liquidity risks are assumed regarding lending and the underlying funding.

Nykredit's funding unaffected by international financial crisis

The crisis in the financial markets which during 2007 limited business opportunities and caused funding costs to rise for financial institutions in general did not have a direct effect on Nykredit's business or funding opportunities.

Over 99% of Nykredit's mortgage lending is match-funded for which reason any liquidity and market risk in relation to the mortgage lending is negligible.

The Group pursues a conservative investment policy. Nykredit recorded positive investment portfolio income in 2007 and was thus only marginally and indirectly affected by the financial crisis.

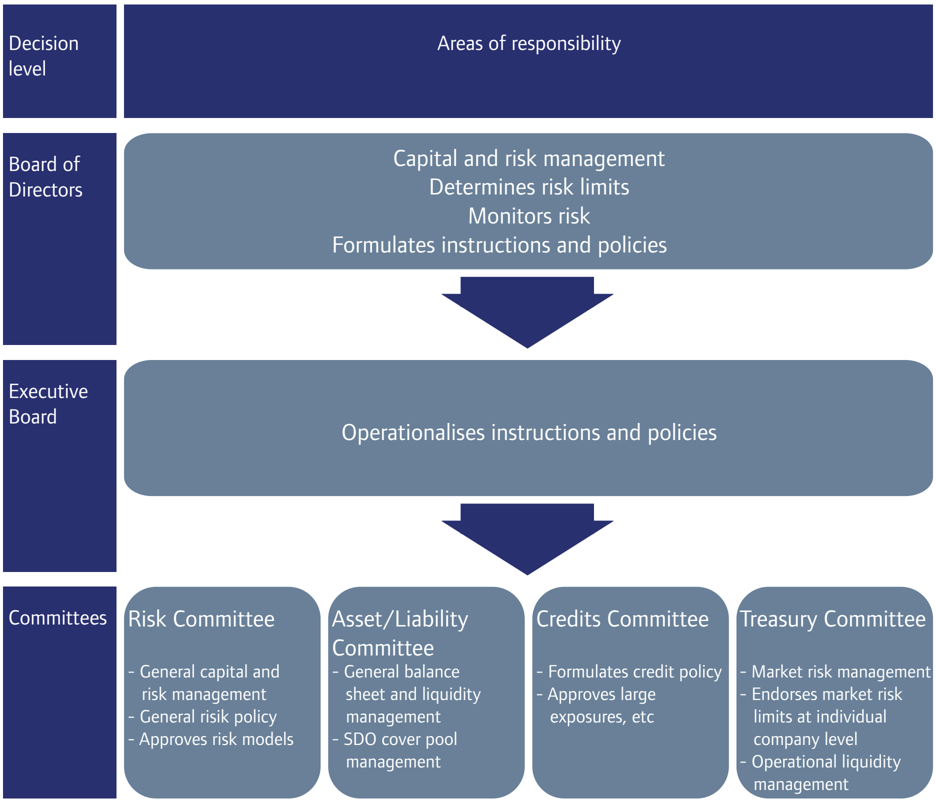
The market has confidence in Nykredit's business model. This was evidenced when the nearly DKK 100bn issue of non-callable fixed bullets for the refinancing of ARMs was sold in December 2007 at ordinary market terms relative to the swap market. In addition, Nykredit issued DKK 5bn-worth of junior covered bonds in December 2007, and its ongoing bond issuance has been continuously absorbed in the market at ordinary market terms.

The Nykredit Realkredit Group
Mortgage loan funding

2007 DKK million	Nominal value of outstanding bonds	Interest rate risk[3]
Bond debt outstanding – match-funded mortgage lending	843,614	(1)
- of which bonds locked-in funding prepaid loans [1]	*299*	-
Bond debt outstanding – other mortgage lending[2]	5,597	-
Pre-issue	71,084	-
Refinancing, etc	130,257	-
Total issued bonds	**1,050,552**	**(1)**

[1] Prepayment by way of bonds other than the underlying bonds of a loan according to the same principles as under the specific balance principle, cf section 21 of the Danish Executive Order on bonds.
[2] Loans with fixed administration margin.
[3] The interest rate exposure has been calculated on the basis of a general interest rate rise of 1 percentage point. The calculation does not include any margin/administration margin.

Risk organisation in the Nykredit Realkredit Group



Risk areas reviewed by the Board of Directors

Annually	
Capital and risk policy	Review and decision on Nykredit's capital adequacy, capital adequacy need and long-term capital requirement and risk policy
Required rate of return	Review and decision on current return targets
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 ■ Liquidity risk - Balance principle and investment rules ■ SDOs and compliance with statutory requirements ■ Credit risk - Exposures by size - Rating assignment and credit parameters - Rating analysis of customer inflow and outflow - Loan impairment and arrears ■ Market risk - Interest rate, foreign exchange and equity price risk (conventional measures and Value-at-Risk) - Back test - Stress test ■ Operational risk ■ Insurance risk Monthly reporting on key risk areas: ■ Market risk - Interest rate, foreign exchange and equity price risk (conventional measures and Value-at-Risk) - Investment portfolio income and return relative to benchmark
Exposure review	Review and assessment of exposures of a certain amount

ORGANISATION, DELINEATION OF RESPONSIBILITIES AND REPORTING

The Board of Directors of Nykredit Realkredit A/S is the highest authority of the Nykredit Realkredit Group. In relation to risk limits, management and monitoring, the Board of Directors delegates certain tasks to the Group Executive Board and a number of committees.

The Board of Directors of Nykredit Realkredit A/S is responsible for defining limits to and monitoring group risks as well as approving overall instructions. The Board is responsible for the overall approach to capital and risk management and knows of the capital requirement rules and the internal models. Risk exposures and activities are reported to the Board of Directors on a current basis.

The Board of Directors has delegated the day-to-day responsibility to the Group Executive Board which is responsible for operationalising overall instructions. The responsibility for the continuous monitoring and managing of risk has been assigned to a number of committees all chaired by a member of the Group Executive Board.

The principal committees of the Nykredit Group are the Risk Committee, the Asset/Liability Committee (ALCO), the Credits Committee and the Treasury Committee.

The Risk Committee is charged with assessing all group risks and the Group's capital adequacy requirement as well as implementing the capital policy. Furthermore, the Risk Committee approves measurement methods for all types of risk and reports risk to the boards of directors of the group companies.

The Asset/Liability Committee is responsible for the Group's overall asset/liability and liquidity management.

The Credits Committee and the Treasury Committee are responsible for managing group credit risk and market risk, respectively. Both committees approve or endorse risk exposures within the limits provided by the Board of Directors to the Executive Board.

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

The internal models are the core of the day-to-day risk management of the Group. The models are checked on a continuous basis and validated at least once a year. The results are submitted 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 and the Financial Business Act.

Over the past few years, Nykredit has expanded and improved the ongoing risk reporting process. Risk is reported to the Board of Directors, the Executive Board, various management levels and the business areas. The tables on this page and previous pages show a selection of the most important risk reporting elements.

Risk areas reviewed by committees

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 assessment factors such as:
exposures	▪ Customer assessment (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 approaches to determine the capital charge for each type of risk. In 2007 the determination of the capital requirement at Nykredit took place according to the existing rules (Basel I).

Credit risk

From 1 January 2008, the advanced approach of Basel II may be applied to determine the capital requirement for credit risk. The Danish FSA has authorised the Nykredit Realkredit Group to calculate its capital requirement for credit risk using the internal ratings-based approaches with internal parameter estimates (advanced IRB approaches) for:

- Mortgage lending by Nykredit Realkredit A/S and Totalkredit A/S
- Retail lending by Nykredit Bank A/S.

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 (EV) at the time of default. These parameters are included in the calculation of the capital charge.

Nykredit has been authorised to use the internal ratings-based approach with its own PD estimates default (foundation IRB approach) for:

- Commercial lending by Nykredit Bank A/S

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, Nykredit has been authorised to use the standardised approach for:

- Sovereign and credit institution exposures
- Individual minor portfolios.

Market risk

For the determination of the capital requirement for market risk, Nykredit Realkredit A/S and Nykredit Bank A/S have obtained FSA approval to apply a Value-at-Risk model to estimate the general position risk for equities and the general position risk for instruments of debt and foreign exchange. Nykredit uses empirical correlations across risk groups.

For Nykredit Realkredit A/S, only assets held in the trading portfolio are included in the Value-at-Risk determination.

Nykredit Bank A/S is authorised to apply its own correlations in Value-at-Risk for the purpose of determining the capital requirement. Equity positions are not included.

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 will apply the basic indicator approach in the calculation of the capital charge to cover operational risk.

The Nykredit Realkredit 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	99.4	-	0.6	100.0	493,465
Of which					
- Mortgages on real property	*99.4*	-	*0.6*	*100.0*	*485,697*
- Revolving exposures, etc	*100.0*	-	-	*100.0*	*3,090*
- Other retail exposures	*100.0*	-	-	*100.0*	*4,678*
Commercial exposures	77.1	22.3	0.6	100.0	339,622
Credit institution exposures[1]	-	-	100.0	100.0	184,372
Sovereign exposures[2]	-	-	100.0	100.0	34,944
Equity exposures[3]	100.0	-	-	100.0	7,196
Assets with no counterparty	100.0	-	-	100.0	2,739
Total	**71.5**	**7.1**	**21.4**	**100.0**	**1,062,339**

[1] Credit institution exposures include guarantees issued by banks of a total of DKK 94.3bn. Guarantees provided by partnership banks in connection with the sale of mortgage loans amount to DKK 94.2bn.
[2] Sovereign exposures include sovereign guarantees of a total of DKK 22.5bn.
[3] 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 – mortgage	Basel I	Advanced	Advanced	Advanced	Advanced
Commercial exposures – bank	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 assets in accordance with the former capital requirement rules (Basel I). At 31 December 2007, the Group's capital requirement was DKK 43.1bn and risk-weighted items totalled DKK 539bn. With the capital base at DKK 55.3bn, this corresponded to a capital adequacy ratio of 10.3%.

The capital requirement of the Nykredit Realkredit Group determined according to the new methods (Basel II) came to DKK 24.1bn at end-2007, corresponding to risk-weighted items of DKK 301bn.

In accordance with section 139 of the Financial Business Act, the core capital and capital base are adjusted for the difference between the model-based expected losses and impairments on exposures subject to 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 29. The expected loss totalled DKK 1,622m and impairments DKK 282m. Total statutory deductions amounted to DKK 1,340m at end-2007.

With the application of the IRB approach, the capital base decreases to DKK 54.0bn, which means that the Nykredit Group had a capital adequacy ratio of 17.9% at 31 December 2007 under Basel II.

Under the transitional rules, the capital charge may not decrease by more than 10% and 20% in 2008 and 2009, respectively, compared with the former rules (Basel I). Using the 10% limit, the Group's capital charge was DKK 38.8bn at 31 December 2007. Under the transitional rules, the capital adequacy ratio must constitute at least 12.9% of risk-weighted items of DKK 301bn.

The tables on this page 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 will apply from 1 January 2008 (Basel II) compared with the determination according to Basel I. In the remaining part of this report, determinations are based on the new methods (Basel II).

The Nykredit Realkredit Group's hybrid core capital came to a nominal EUR 500m. The loan is perpetual, but may be prepaid at par (100) as from 22 September 2014. The loan carries a fixed interest rate of 4.9% until 22 September 2014, after which date the loan rate will be floating.

The Group's subordinate loan capital amounted to a nominal EUR 500m maturing on 20 September 2013 and carrying a floating interest rate.

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 Realkredit A/S (the Parent Company) and the enterprises in which Nykredit Realkredit A/S exercises direct or indirect control of the enterprises' financial and operational management. Nykredit Realkredit A/S and its subsidiaries are collectively referred to as the Nykredit Realkredit Group.

The consolidated risk exposures include:

- Nykredit Realkredit A/S
- Totalkredit A/S
- The Nykredit Bank Group

Enterprises in which the Nykredit Realkredit Group shares joint control with other enterprises which do not form part of the Group are considered joint ventures. One example is JN Data. Group investments in joint ventures are recognised by proportionate consolidation for the purpose of both the financial statements and the determination of capital requirements.

DIFFERENCES COMPARED WITH FINANCIAL STATEMENTS

Nykredit Forsikring A/S is included in the financial statements, but not in the determination of consolidated risk. Rather, the capital charge of Nykredit Forsikring A/S is deducted under the capital base.

Unexercised loan offers, loan commitments, etc, are included in exposures in the determination of capital requirements. The same applies to guarantees.

Capital charges in relation to securities are calculated at ISIN level.

The Nykredit Realkredit Group
Capital base

2007 DKK million	Basel II pro forma	Basel I
Core capital		
Equity, year-end	54,447	54,447
Revaluation reserves transferred to supplementary capital	(247)	(247)
Total core capital	**54,200**	**54,200**
Statutory deductions from core capital		
Proposed dividend	(500)	(500)
Intangible assets, including goodwill	(3,999)	(3,999)
Core capital after statutory deductions	**49,701**	**49,701**
Hybrid core capital	3,622	3,622
Core capital incl hybrid core capital after statutory deductions	**53,323**	**53,323**
Other deductions in core capital		
Deduction for insurance business	(177)	(177)
Equity investments >10%	(169)	(169)
Sum of equity investments, etc >10%	(663)	(663)
Deduction for half the difference between expected losses and impairments	(670)	-
Core capital, incl hybrid core capital after deductions	**51,643**	**52,313**
Supplementary capital		
Subordinate loan capital	3,722	3,722
Revaluation reserves	247	247
Reserves in series	68	68
Total supplementary capital	**4,037**	**4,037**
Statutory deductions from capital base		
Deduction for insurance business	(177)	(177)
Equity investments >10%	(169)	(169)
Sum of equity investments, etc >10%	(663)	(633)
Deduction for half the difference between expected losses and impairments	(670)	-
Total statutory deductions from capital base	**(1,680)**	**(1,010)**
Total capital base after statutory deductions	**54,000**	**55,340**

The Nykredit Realkredit Group
Capital requirement and capital adequacy

2007	Basel II	Basel I
DKK million	pro forma	
Credit risk		
Retail exposures	4,793	
Of which		
- Mortgages on real property	*4,642*	
- Revolving exposures, etc	*39*	
- Other retail exposures	*112*	
Commercial exposures	11,156	
Credit institution exposures	2,950	
Sovereign exposures	0	
Equity exposures	1,698	
Assets with no counterparty	219	
Settlement risk	0	
Total credit risk	**20,817**	**41,098**
Market risk	**2,014**	**2,014**
Operational risk	**1,245**	**-**
Total capital requirement	**24,076**	**43,112**
Risk-weighted items	300,959	538,898
Capital base	54,000	55,340
Capital adequacy ratio	17.9	10.3
Basel II transitional rule		
Capital requirement under transitional rule [1]	**38,801**	**-**
Required capital adequacy ratio [2]	**12.9**	**-**

[1] The capital requirement under the transitional rules has been determined in accordance with the transitional rules for 2008 of the Danish Executive Order on Capital Adequacy. In 2008 the capital requirement must as a minimum constitute 90% of the capital requirement determined under Basel I.

[2] The required capital adequacy ratio has been determined as the capital requirement under the transitional rule as a % of risk-weighted items under Basel II. The required capital adequacy ratio thus expresses the requirement for the ratio as a result of the transitional rule.

Capital management

Nykredit 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.

Nykredit's capital resources are as far as possible concentrated in the Parent Company, Nykredit Realkredit A/S, to ensure strategic flexibility and leeway.

With the introduction of the IRB approaches, the capital requirement will, unlike previously, vary concurrently with losses and arrears ascertained, as such changes will affect the estimated risk parameters. Consequently, the capital requirement will become sensitive to economic trends, as opposed to previously when the capital requirement was fixed.

In estimating the risk parameters, Nykredit applies long-term historical data covering all phases of the economic cycle. This ensures that the capital requirement becomes less sensitive to changes in the economy. It also means, however, that during a boom such as the present one, Nykredit will have a capital charge which is higher than had a shorter data range been applied.

Nykredit's capital adequacy expresses the amount of capital that is adequate to cover the Group's risks in the medium term and to safeguard the interests of its investors. Nykredit determines capital adequacy so that it may cover increased losses and increased capital requirements during a mild recession.

Nykredit's overall capital assessment is based on a long-term approach since the Group mainly provides long-term loans with terms of up to 20 or 30 years and has a business objective of an unchanged lending volume during periods of severe recession. To this end, the determination of the long-term capital requirement is based on the ability to cover increased losses and increased capital requirements during a severe recession.

CAPITAL ADEQUACY

Pursuant to the Danish Financial Business Act, it is the responsibility of the Board of Directors and the Executive Board to ensure that Nykredit has adequate capital. Capital adequacy is the minimum capital base which is required as determined by Management to cover all significant risk.

Nykredit's calculation of capital adequacy is based on the model calculations used in the determination of the capital requirement. However, a statistical level of confidence of 99.97% is factored in, equal to an Aa2-Aa3 rating. When calculating the capital requirement and capital adequacy ratio, only a 99.9% confidence level is used, roughly equal to an A$^-$ rating. The confidence level reflects Nykredit's commitment to maintaining a high rating of the bonds issued.

At Nykredit, capital adequacy consists of two components, Pillar I and Pillar II.

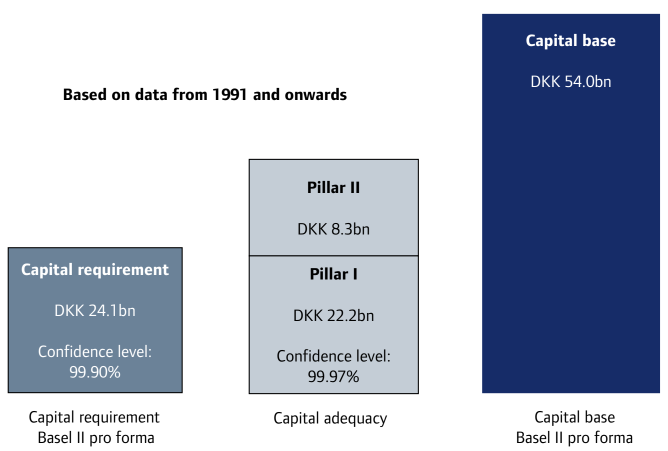
Pillar I capital covers credit, market, operational and insurance risk as well as risk relating to own properties.

Pillar II comprises capital to cover other risks as well as an increased capital charge during a mild recession. The capital charge during a

Risks covered by capital requirement (confidence level: 99.9%, time horizon: 1 year)
Credit risk (IRB models)
Market risk (Value-at-Risk model)
Operational risk (Basic indicator approach)

Risks covered by capital adequacy
Pillar I (confidence level: 99.97%, time horizon: 1 year)
Credit risk (IRB models with internal correlations)
Market risk (internal Value-at-Risk model)
Operational risk (standardised approach)
Insurance risk (internal models)
Capital adequacy requirement for own properties
Pillar II
Additional capital for mild recession (stress tests and scenario analysis)
Risk on investment properties (internal calculations)
Reputation risk (internal calculations)
Partnership banks' choice of set-off rather than guarantees (internal calculations)
Assessment of other factors, eg:
▪ Control risk
▪ Strategic risk
▪ External risks
▪ Other
Capital adequacy = Pillars I+II
Buffer - Pillars I and II during severe recession (stress tests and scenario analysis)
Long-term capital requirement = capital adequacy + cyclical buffer

Capital adequacy and capital requirement



mild recession is determined by means of stress tests and scenario analyses, cf below.

The determination of other risks includes risk relating to investment properties and reputation risk, which are determined using own estimates as well as assessments of control risks, strategic risks, external risks, etc.

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

The Basel II capital requirement and Pillar I capital will as mentioned increase in an adverse economic climate. The capital adequacy factors this in, just as it allows for any operating losses following a rise in impairments, etc. Therefore, capital adequacy will only be affected to a minor extent by the Danish economy moving from a boom to a mild recession.

Partnership banks
A substantial part of the Group's residential mortgage lending is arranged by Danish local and regional banks. In these cases, the bank performs the initial assessment of the customer and valuation of the property. The sale of loans is based on an agreement between the Nykredit Group and the partnership banks. The partnership banks either provide a guarantee or grant a right of set-off.

The guarantee is issued for an amount corresponding to the part of the loan that exceeds 60% of the property value at the time of granting and covers the first eight years of the loan term.

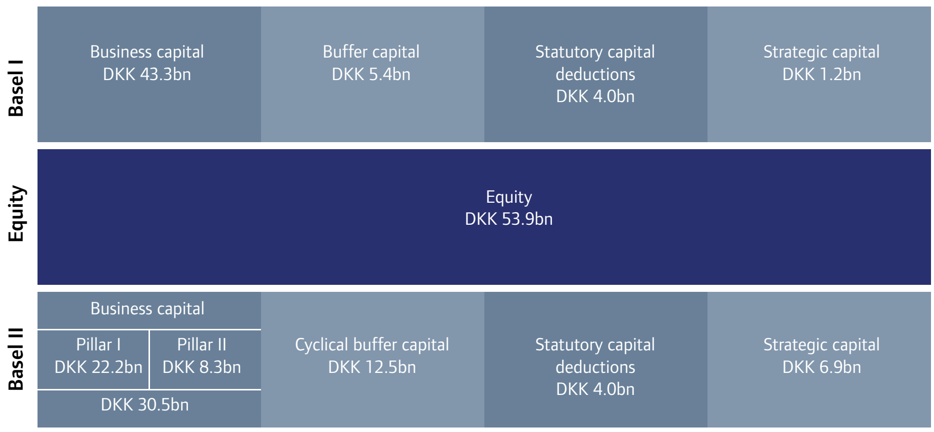
As from 2007, the banks may offer Totalkredit a right of set-off of any losses on the loans arranged against the current commission received. As with the guarantees, the right of set-off applies to the part of the loan exceeding 60% of the property value at the time of loan disbursement and for the first eight years of the loan term.

At end-2007, DKK 200bn of total mortgage lending arranged by the partnership banks was covered by guarantees and DKK 169bn was covered by set-off agreements.

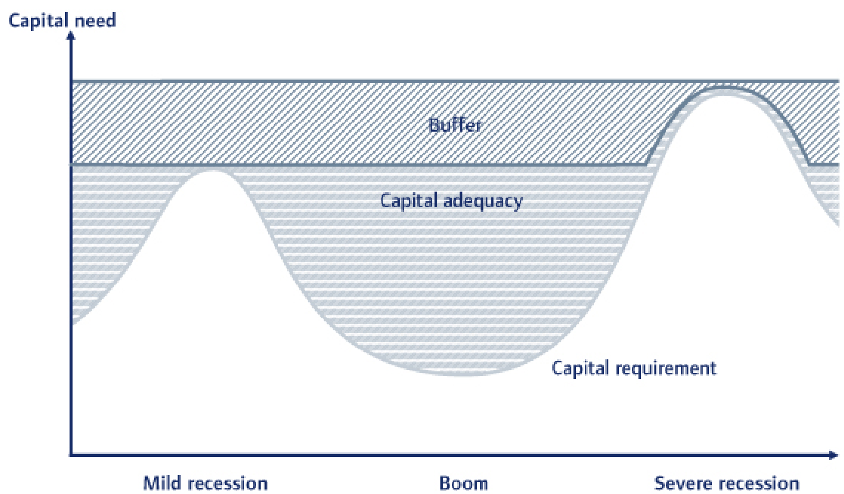
The Basel II capital requirement for credit risk determined on a pro forma basis for mortgage lending arranged by partnership banks came to DKK 3.6bn at 31 December 2007.

If all partnership banks opt for guarantees rather than the set-off option, the capital adequacy requirement will increase by approximately DKK 1bn compared with previous years.

The Nykredit Realkredit Group
Capital structure under Basel I and II



Cyclicality of capital requirement



CAPITAL STRUCTURE

Nykredit's objective is to maintain its lending activities at an unchanged level regardless of economic trends. Nykredit's capital is therefore structured so as to ensure a sound level of capital for periods of severe recession during which the capital requirement, impairment losses and provisions will increase further compared during a mild recession. The capital earmarked to cover the increasing capital charge during a severe recession is called the buffer.

The buffer is determined by means of stress tests and scenario analyses.

Group equity after proposed dividend stood at DKK 53.9bn at end-2007.

Nykredit divides its equity into four elements:

- *Business capital* of DKK 30.5bn equal to the statutory capital adequacy requirement.
- *Cyclical buffer* of DKK 12.5bn covering an expected rise in the capital adequacy should the economic climate change from mild to severe recession.
- *Statutory capital deductions* relating to intangible assets of DKK 4.0bn.
- *Strategic capital* of DKK 6.9bn, the long-term capital maintained for strategic initiatives.

On transition to Basel II, Nykredit's strategic capital will increase from DKK 1.2bn to DKK 6.9bn, notwithstanding the transitional rules.

STRESS TESTS AND SCENARIO ANALYSES

Nykredit uses a range of stress tests and scenario analyses in connection with the determination by the Board of Directors of the capital adequacy and long-term capital requirements. A special model has been developed for this type of analysis. The model is based on special runs from a macroeconomic model (ADAM), internal models for calculating capital requirements and the correlation between Nykredit's losses and arrears data and key economic indicators.

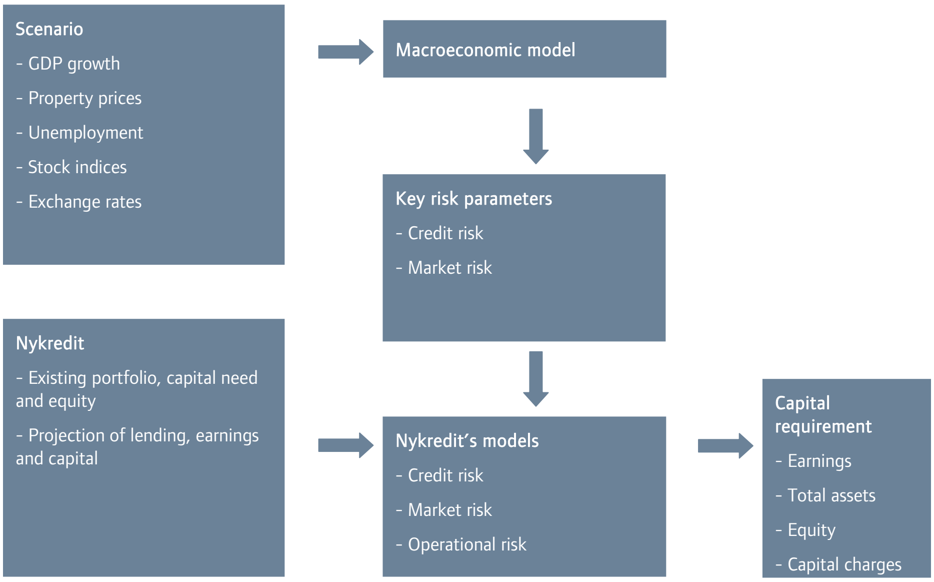
The Board of Directors determines and adjusts the contents of the stress tests and scenario analyses on an ongoing basis to ensure their relevance in relation to the Group's risk profile and macroeconomic trends.

The scenarios and stress tests applied are converted into macroeconomic variables which are incorporated into Nykredit's internal models for calculating capital requirements. The models are applied for calculating the effect of the scenarios on impairment losses and provisions, investment portfolio income, the capital base and capital requirement within two to three years. Any positive effect of projecting operating results is not included in the results of the models.

The scenario "mild recession" is currently applied to determine capital adequacy. The scenario reflects a situation with rising wage pressures leading to inflation and increasing interest rates. This will lead to a decrease in GDP and property and equity prices.

The determination of the long-term capital need includes the scenario "severe recession". In this scenario, oil prices increase and lead to inflationary pressures in Europe, prompting the European Central Bank and Danmarks Nationalbank to raise interest rates. This will lead to a decline in demand and subsequently decreasing GDP and property prices as well as rising unemployment. Danish equity prices will also fall.

Structure of models for stress tests and scenario analysis



Scenarios for assessment of capital requirement

Scenario	Description
Mild recession	GDP growth drops to just under a negative 2% pa after 2 years
	Rising interest rates and falling property prices
	Danish stock indices shed 25% in 1 year
Falling property prices	Changed expectations for price rises in the property market
	Property prices fall 20% (equal to a 30% decrease in terms of fixed prices) over 3 years
USD depreciation	DKK rises by 30% relative to USD in 1 year
Stagnation	Decreasing demand in export markets
	No growth in GDP over 3 years
	Property prices remain largely unchanged
Recession	Rising oil prices and increasing wage pressure
	GDP growth falls to a negative 3% pa after 2 years
Severe recession	Rising oil prices, increased inflationary pressures and increasing interest rates
	Property prices fall 20% (equal to a 30% decrease in terms of fixed prices) over 3 years
	GDP growth falls to a negative 3% pa after 2 years
	Danish stock indices shed 40% in 1 year

NYKREDIT'S RATINGS

Nykredit Realkredit A/S, Nykredit Bank A/S, the majority of the Group's mortgage bonds, the hybrid core capital and supplementary capital have been rated by the international rating agency Moody's Investors Service. Standard & Poor's has rated Nykredit Realkredit's A/S's "Nykredit In General" and short-term unsecured debt.

All mortgage bonds have since the autumn of 2002 been issued out of Nykredit's Capital Centre D or Totalkredit's Capital Centre C, which have been rated by Moody's. In addition, mortgage bonds have previously been issued out of Totalkredit's Capital Centre C, Nykredit's Capital Centre C and Nykredit In General, which have also been rated by Moody's.

Nykredit commenced issuing SDOs in November 2007 out of the newly established Capital Centre E in Nykredit Realkredit A/S for the funding of loans granted by Nykredit and Totalkredit. The new capital centre has also been rated by Moody's.

According to the rating agencies, Nykredit's high ratings are based on the Group's leading market share within mortgage lending, its high asset quality, strong capitalisation and sound financial fundamentals in general.

The most recent analyses of Nykredit by Moody's and Standard & Poor's are available at nykredit.com/downloads.

The Nykredit Realkredit Group
Ratings

	Moody's Investors Service	Standard & Poor's
Bond issues		
Nykredit Realkredit A/S		
Capital Centre E	Aaa	-
Capital Centre D	Aaa	-
Capital Centre C	Aa1	-
Nykredit In General	Aa1	AA
Totalkredit A/S		
Capital Centre C	Aaa	-
Other ratings		
Nykredit Realkredit A/S		
Short-term, unsecured rating	Prime-1	A-1
Long-term, unsecured rating	Aa3	-
Supplementary capital (Tier 2)	A1	-
Hybrid capital (Tier 1)	A2	-
Nykredit Bank A/S		
Short-term deposit rating	Prime-1	-
Long-term deposit rating	Aa3	-
Bank Financial Strength rating	C+	-

Credit risk

Credit risk denotes 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.

Because of Nykredit's size, the credit policy has been formulated to take into consideration the objective of a suitable market presence and limited losses.

The Board of Directors lays down the overall framework of credit granting and is presented, on a current basis, with the Group's largest credit applications for approval or briefing. Within the framework laid down by the Board of Directors, the Group Executive Board is responsible for the policies governing the individual business areas and Treasury. On behalf of the Group Executive Board, the Credits Committee considers large credit applications on a current basis.

Group Credits is responsible for managing and monitoring credit risk in accordance with the guidelines laid down by the Board of Directors and the Group Executive Board. The Credits Committee undertakes all reporting on individual credit facilities. The Risk Committee is responsible for approving credit models and assessing credit risk at portfolio level.

Nykredit's local centres are authorised to decide on most credit applications in line with the Group's aim to process most credit applications locally.

Credit applications exceeding the authority assigned to the local centres are processed centrally by Group Credits. The applications submitted are decided by Group Credits unless they involve exposures requiring the approval of the Credits Committee or the Board of Directors. The Board of Directors must grant or approve loans and/or facilities that, if granted, will bring Nykredit's total exposure to any one customer over DKK 200m and, subsequently, when the exposure increases by multiples of DKK 100m.

When processing credit applications, the centres perform an assessment of the individual customer. The assessment is based on a customer rating computed by Nykredit's credit models which reflects a conversion of a customer's PD. The customer rating is supplemented by an assessment of the customer's financial position and other relevant matters. In connection with mortgage loan applications, the statutory property valuations are also performed. The overall guidelines on customer assessment and property valuation have been prescribed by Group Credits.

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 1,062bn at end-2007 against DKK 899bn at end-2006.

Guarantees issued by banks are recognised as credit institution exposures under mortgage lending. At 31 December 2007, such guarantees amounted to DKK 94.3bn. Of this amount, guarantees issued by partnership banks in connection with the sale of mortgage loans amounted to DKK 94.2bn.

Similarly, guarantees issued by sovereigns are recognised as sovereign exposures under mortgage lending. At end-2007 they amounted to DKK 22.5bn.

The Nykredit Realkredit Group
Credit exposures

	2007	2006
DKK million	Exposure	Exposure
Retail exposures	493,465	417,590
Of which		
- Mortgages on real property [1]	*485,697*	*411,494*
- Revolving exposures, etc	*3,090*	*4,059*
- Other retail exposures	*4,678*	*2,037*
Commercial exposures	339,622	276,301
Credit institution exposures	184,372	152,626
Sovereign exposures	34,944	45,508
Equity exposures	7,196	5,421
Assets with no counterparty	2,739	1,945
Total	**1,062,339**	**899,391**

[1] Including exposures relating to the right of set-off, cf the agreement with partnership banks.

The Nykredit Realkredit Group

Credit exposures and capital requirements

2007 DKK million	Mortgage lending	Bank lending	Guarantees issued	Other	Total exposures	*Of which undrawn commitments*	Exposure-weighted average risk weight, %	Basel II capital requirement credit risk
Retail exposures	476,126	12,603	4,736	-	493,465	*6,540*	12.1	4,793
Of which								
- Mortgages on real property	*476,126*	*7,962*	*1,608*	-	*485,697*	*4,604*	*11.9*	*4,642*
- 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	263,619	66,537	9,466	-	339,622	*32,657*	41.1	11,156
Credit institution exposures	94,329	-	158	89,885	184,372	*1,999*	20.0	2,950
Sovereign exposures	22,546	-	225	12,173	34,944	*24*	-	-
Equity exposures	-	-	-	7,196	7,196	-	295.0	1,698
Assets with no counterparty	-	-	-	2,739	2,739	-	100.0	219
Total 2007	**856,620**	**79,141**	**14,584**	**111,994**	**1,062,339**	*41,220*	**24.5**	**20,817**
Total 2006	781,576	53,067	6,458	58,291	899,391	35,887	21.0	15,075

The Nykredit Realkredit 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	18,923	5,900	468,642	493,465
Of which				
– Mortgages on real property	*11,154*	*5,900*	468,642	*485,697*
- Revolving exposures, etc	*3,090*	-	-	*3,090*
- Other retail exposures	*4,678*	-	-	*4,678*
Commercial exposures	40,901	25,189	273,532	339,622
Credit institution exposures	90,043	55	94,273	184,372
Sovereign exposures	12,415	193	22,336	34,944
Equity exposures	-	-	7,196	7,196
Assets with no counterparty	2,739	-	-	2,739
Total 2007	**165,021**	**31,338**	**865,980**	**1,062,339**
Total 2006	126,455	27,359	745,577	899,391

The Nykredit Realkredit Group

Credit exposures by type of counterparty

2007 DKK million	Retail customers	Agriculture	Property companies, etc	Trade	Industry	Other	Total exposure
Retail exposures	460,444	7,911	10,640	10,765	3,705	-	493,465
Of which							
- Mortgages on real property	*452,771*	*7,859*	*10,618*	*10,759*	*3,689*	-	*485,697*
- Revolving exposures, etc	*3,068*	*6*	*13*	*3*	*1*	-	*3,090*
- Other retail exposures	*4,605*	*45*	*9*	*3*	*16*	-	*4,678*
Commercial exposures	20,401	74,695	159,378	56,181	28,968	-	339,622
Credit institution exposures	-	-	-	-	-	184,372	184,372
Sovereign exposures	-	-	-	-	-	34,944	34,944
Equity exposures	-	-	-	-	-	7,196	7,196
Assets with no counterparty	-	-	-	-	-	2,739	2,739
Total 2007	**480,844**	**82,606**	**170,018**	**66,946**	**32,673**	**229,252**	**1,062,339**
Total 2006	392,893	73,806	140,438	59,671	27,067	205,517	899,391

LARGE EXPOSURES

Monitoring of large exposures forms 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.

Nykredit Realkredit A/S has no exposures which, after statutory deductions, constitute more than 10% of the capital base. At end-2007 Totalkredit A/S and Nykredit Bank A/S had 2 and 10 exposures, respectively, which individually, after statutory deductions, represented between 10% and 25% of the capital base. The 2 exposures of Totalkredit accounted for 22% of the Company's capital base. The 10 exposures of Nykredit Bank accounted for 135% of the Company's capital base.

COUNTERPARTY RISK

Nykredit applies various financial products, eg derivative instruments and repurchase transactions, to manage risks. 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 contract.

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

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

Capital requirements for counterparty risk are calculated according to the same approach as that applied to other types of 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 22.5bn at 31 December 2007 and the capital requirement DKK 0.5bn.

MORTGAGE LENDING

The composition of the Group's mortgage lending can be described by breaking down the bond debt outstanding by property type, loan type, etc.

The Group's nominal mortgage lending rose from DKK 766bn at end-2006 to DKK 849bn at end-2007.

The portfolio is highly diversified in terms of loan type, geography, maturity and size of debt outstanding. The major part of the portfolio is residential mortgages in Denmark, which accounted for 62% of total mortgage lending at 31 December 2007.

Geographically, around half of the loan portfolio relates to Jutland and one-third to the metropolitan area. The share of foreign lending is rising slightly and represented 2.8% at 31 December 2007 against 2.0% at end-2006. Foreign lending comprises Nykredit's activities in England, France, Norway, Poland, Sweden, Germany and Spain. Around a quarter of foreign lending relates to residential mortgages.

The distribution of lending by loan type changed slightly in 2007. The share of loans with interest-only periods was unchanged, while the share of adjustable-rate mortgages fell from 25% to 20%.

When a mortgage loan is granted, it must not exceed a certain proportion of the value of the mortgaged property pursuant to Danish legislation. Subsequently, the relationship between the mortgage debt outstanding and the value of the property will change with the amortisation of the loan, interest rate changes and/or as a result of changes in the market value of the property or loan. The market value of match funded loans is determined on the basis of the market value of the underlying bonds as borrowers may prepay their loans by way of a delivery of the bonds behind the loans.

The Nykredit Realkredit Group
Exposures to counterparty credit risk

2007 DKK million	Market value
Positive gross fair value	21,858
Netting proceeds	(4,787)
Security	(4,806)
Netted current credit exposure	**12,265**

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.

The tables below break down the Group's mortgage lending by type of property. The proportion of lending covered by either public authority guarantees or bank guarantees has been deducted.

The table that shows the Group's mortgage lending broken down by loan-to-value (LTV) ratios, loans with security covering for example between 0 and 30% of the mortgageable value are distributed with two thirds of the debt outstanding in the LTV range 0-20% and one third in the LTV range 20-40%. The table shows that where owner-occupied dwellings are concerned, 76% of mortgage lending falls within 40% of the property values.

In the table where the entire debt outstanding is entered under the top LTV bracket, the full amount of the loan of the example above is included in the LTV bracket 20-40%. The table shows that 23% of private residential lending has an LTV ratio below 40%.

The Nykredit Realkredit Group
Mortgage debt outstanding relative to estimated property values
Debt outstanding distributed continuously by LTV range up to the top LTV bracket

2007			LTV (loan-to-value)			
%	0-20	20-40	40-60	60-80	Over 80	Total
Owner-occupied dwellings	42	34	18	5	0	100
Private rental housing	43	27	19	11	0	100
Trade and industry	53	31	15	2	0	100
Office and retail	53	32	14	1	0	100
Agriculture	52	32	13	2	0	100
Non-profit housing	60	23	13	4	0	100
Other	51	32	17	0	0	100

The Nykredit Realkredit Group
Debt outstanding relative to estimated property values
Entire debt outstanding entered under the top LTV bracket

2007			LTV (loan-to-value)			
%	0-20	20-40	40-60	60-80	Over 80	Total
Owner-occupied dwellings	3	20	44	27	6	100
Private rental housing	10	16	18	56	0	100
Trade and industry	11	33	44	11	1	100
Office and retail	9	33	47	10	1	100
Agriculture	10	31	40	18	1	100
Non-profit housing	29	21	24	26	0	100
Other	10	26	65	0	0	100

The Nykredit Realkredit Group
Mortgage lending

Nominal value at 31 December 2007 DKK million	Owner-occupied dwellings	Private rental housing	Trade and industry	Office and retail	Agriculture	Non-profit housing	Other	Total DKKm/ number
Mortgage lending								
- Bond debt outstanding	533,272	69,162	22,024	61,331	84,188	66,742	12,491	849,211
- Number of loans	621,468	19,201	3,481	17,435	47,209	23,217	3,031	735,042
Bond debt outstanding distributed by								
- Public authority guarantees	1	302	0	15	370	50,936	235	51,859
- Bank guarantees	200,189	0	0	0	109	0	1	200,300
- Set-off agreement with banks	168,796	0	0	0	0	0	0	168,796
- No guarantee	164,287	68,860	22,024	61,315	83,709	15,806	12,256	428,256
Total	**533,272**	**69,162**	**22,024**	**61,331**	**84,188**	**66,742**	**12,491**	**849,211**
Bond debt oustanding by type of loan								
Fixed-rate loans								
- with principal payments	180,312	15,233	6,707	15,420	17,369	13,699	4,916	253,657
- with temporary interest-only period	85,646	4,401	46	2,614	3,652	33	80	96,472
Adjustable-rate mortgage loans								
- with principal payments	28,476	5,365	2,835	9,145	11,394	18,449	902	76,565
- with temporary interest-only period	52,193	11,222	4,400	12,282	9,660	471	145	90,372
Loans based on money market								
With interest rate caps								
- with principal payments	88,580	2,457	406	2,484	5,145	135	1,115	100,321
- with temporary interest-only period	94,902	1,899	34	648	4,180	25	137	101,824
Without interest rate caps								
- with principal payments	2,028	4,912	3,611	7,969	6,643	276	3,678	29,116
- with temporary interest-only period	1,103	23,510	3,985	10,730	25,510	164	1,040	66,043
Index-linked loans	32	163	1	39	635	33,491	479	34,840
Total	**533,272**	**69,162**	**22,024**	**61,331**	**84,188**	**66,742**	**12,491**	**849,211**
Bond debt outstanding, geographic distribution								
Metropolitan area	156,945	28,947	2,545	17,208	3,242	26,966	3,569	239,422
Rest of Eastern Denmark	58,785	3,780	1,494	3,436	12,131	5,530	1,204	86,358
Funen	46,851	5,082	891	3,946	8,383	6,296	1,192	72,642
Jutland	264,172	24,800	14,888	26,993	60,432	27,950	6,513	425,749
The Faroe Islands and Greenland	923	277	3	124	0	0	13	1,341
International	5,597	6,275	2,202	9,624	0	0	0	23,699
Total	**533,272**	**69,162**	**22,024**	**61,331**	**84,188**	**66,742**	**12,491**	**849,211**
Bond debt outstanding by amount, DKKm								
0-2	440,958	10,397	1,637	10,189	23,601	8,192	1,199	496,173
2-5	86,040	11,664	2,253	9,157	26,711	10,448	1,888	148,161
5-20	3,038	21,115	5,010	15,102	29,336	28,853	4,405	106,859
20-50	3,236	10,091	3,193	7,285	3,531	14,040	3,053	44,429
50-100	0	3,417	2,151	4,212	713	3,769	745	15,006
100-…	0	12,479	7,779	15,386	296	1,440	1,202	38,582
Total	**533,272**	**69,162**	**22,024**	**61,331**	**84,188**	**66,742**	**12,491**	**849,211**
Bond debt outstanding by time-to-maturity, years								
0-10	12,731	2,792	4,040	9,085	2,652	3,426	1,014	35,741
10-15	19,414	2,338	5,791	12,767	3,446	4,855	972	49,582
15-20	37,803	9,736	10,820	27,605	5,691	10,692	3,559	105,906
20-25	74,021	9,550	549	1,832	15,288	14,093	1,556	116,890
25-30	389,302	44,586	823	10,041	57,112	7,903	5,338	515,105
30-35	0	128	0	0	0	7,688	52	7,869
35-…	0	32	0	1	0	18,085	0	18,118
Total	**533,272**	**69,162**	**22,024**	**61,331**	**84,188**	**66,742**	**12,491**	**849,211**

BANK LENDING

The credit exposure of the Nykredit Bank Group totalled DKK 112.3bn at end-2007.

Undrawn commitments amounted to DKK 34.7bn, or 31% of the total credit exposure.

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.

INVESTMENT PORTFOLIO CREDIT EXPOSURES

Nykredit invests in bonds with issuer credit exposures. Significant amounts are invested in government bonds, bonds issued by Danish mortgage banks and Aaa-rated covered bonds. Further, investments are made in deposits and senior debt in large Aa-rated banks. To a lesser extent, investments are made in smaller Danish banks in connection with Nykredit Bank's trading and investment activities and Totalkredit's transaction flow.

Investments are also made in subordinate debt raised by financial enterprises with investment grade ratings or according to specific credit assessments if the issues are not rated. Add to this investments in investment grade bonds from other issuers, whereas investments in high yield bonds are negligible. Investments in CDOs, CLOs, US subprime and similar structured bonds accounted for less than DKK 50m at end-2007.

Nykredit uses credit derivatives in managing the investment portfolio credit risk. Credit derivatives are used in relation to individual issuers as well as indices such as ITRAXX.

Nykredit holds no Structured Investment Vehicles (SIV) nor conduit structures.

The Nykredit Bank Group
Credit exposures

2007 DKK million	Loans and advances	Guarantees issued	Other	Total exposure	*Of which undrawn commitments*
Retail exposures	12,603	4,736	-	17,339	*4,528*
Of which					
- Mortgages on real property	*7,962*	*1,608*	-	*9,570*	*2,592*
- Revolving exposures, etc	*3,090*	-	-	*3,090*	*1,376*
- Other retail exposures	*1,551*	*3,128*	-	*4,678*	*560*
Commercial exposures	66,537	9,466	-	76,003	*28,144*
Credit institution exposures	-	158	18,372	18,530	*1,997*
Sovereign exposures	-	225	107	332	*24*
Equity exposures	-	-	24	24	-
Assets with no counterparty	-	-	99	99	-
Total 2007	**79,141**	**14,584**	**18,602**	**112,328**	*34,693*
Total 2006	53,308	6,458	13,658	73,424	*33,731*

The Nykredit Realkredit Group
Investment portfolio credit exposures other than exposures carrying 20% weightings

2007 DKK billion	Market value
Financial enterprises, subordinate	3.4
Other issuers	2.5
CDO, CLO, US subprime, structured bonds, etc	0.0
Total 2007	**5.9**
Total 2006	

Note: Excluding senior debt in credit institutions, covered bonds, etc with a 20% risk weighting according to the standardised approach.

The Nykredit Realkredit Group
Credit derivatives transactions

2007 DKK million	Risk hedge acquired	Risk hedge sold	Total nominal value
Sovereigns	-	-	-
Financial institutions	-	482	482
Index	-	688	688
Total 2007	**-**	**1,170**	**1,170**
Total 2006	170	(85)	85

NON-PERFORMING EXPOSURES

The Group performs continuous individual reviews and risk assessments of all mortgage exposures over DKK 200m and bank exposures over DKK 50m 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.

As in the past few years, the Group's loan impairments decreased in 2007.

Impairment provisions totalled DKK 349m at end-2007 against DKK 406m at the beginning of the year. Of this amount, total provisions for mortgage loan impairment amounted to DKK 254m at 31 December 2007.

The operating results of the Nykredit Realkredit Group were affected by an income of DKK 67m in 2007 against DKK 369m in 2006.

The arrears ratio remained low.

The Group's portfolio of properties remained at a low level. Since the beginning of the year, the Group foreclosed 21 properties and sold 27 properties. The portfolio counted seven properties at end-2007.

The repossessed properties will be sold at the highest possible price, thus ensuring the best possible satisfaction of Nykredit's claim. Because of recent years' general rise in property prices, the value of many of the repossessed properties exceeds the Group's claim. Accordingly, the Group's mortgages on properties resulted in a limited amount of impairment losses and provisions.

The Nykredit Realkredit Group
Individual and group-based impairment provisions

DKK million	Individual impairment provisions	2007 Group-based impairment provisions	Total impairment provisions	2006 Total impairment provisions
Impairment provisions, beginning of year	222	184	406	798
Foreign currency translation adjustment	-	-	-	-
Impairment provisions for the year	107	40	147	112
Impairment provisions reversed	(107)	(51)	(158)	(435)
Impairment provisions recognised as lost	(47)	-	(47)	(69)
Impairment provisions, year-end	**176**	**173**	**349**	**406**
Loans and advances subject to provisioning	**325**	**22,439**	**22,764**	**13,237**
Impairment provisions	176	173	349	406
Loans and advance after provisioning	**149**	**22,266**	**22,415**	**12,831**

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

2007 DKK million	Individual impairment provisions	Group-based impairment provisions	Total Impairment provisions	Total claims in default
Retail exposures	18	91	108	737
Of which				
- Mortgages on real property	*7*	*85*	*92*	*689*
- Revolving exposures, etc	*-*	*-*	*-*	*4*
- Other retail exposures	*10*	*6*	*16*	*44*
Commercial exposures	158	83	241	567
Credit institution exposures	-	-	-	-
Sovereign exposures	-	-	-	-
Total	**176**	**173**	**349**	**1,304**

The Nykredit Realkredit Group

Arrears ratio for mortgage loans 75 days after the due date

%	Arrears of total mortgage payments	Bond debt outstanding affected by arrears of total bond debt outstanding
Settlement period		
2007		
- September	0.16	1.94
- June	0.16	1.80
- March	0.16	1.79
2006		
- December	0.14	1.72
- September	0.17	1.57

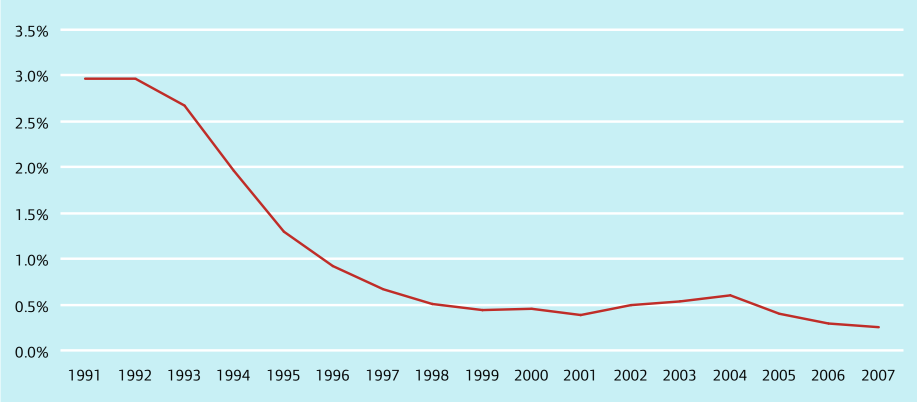
The Nykredit Realkredit Group

Arrears by number of days in arrears and time-to-maturity

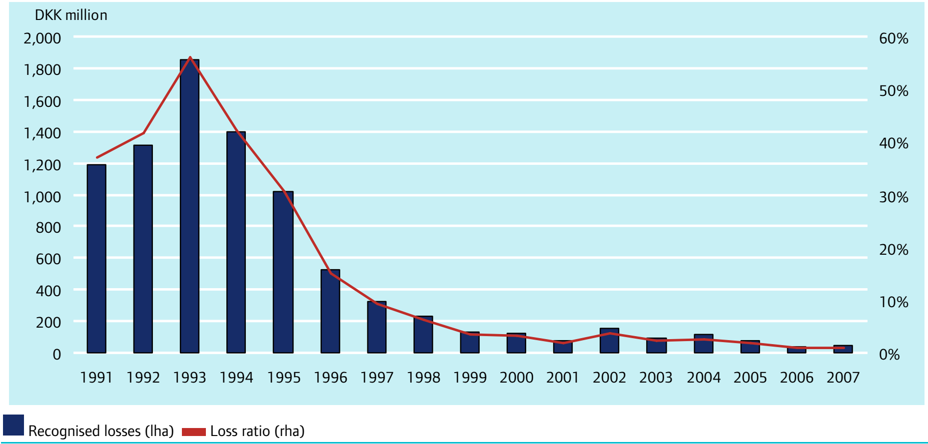
		2007		2006	
DKK million	September	June	March	December	September
Up to 45 days	31	34	30	28	26
45-75 days	21	23	19	20	18
75-195 days	-	-	6	8	6
Over 345 days	-	-	-	2	2

Nykredit Realkredit A/S

Arrears ratio – 75 days in arrears



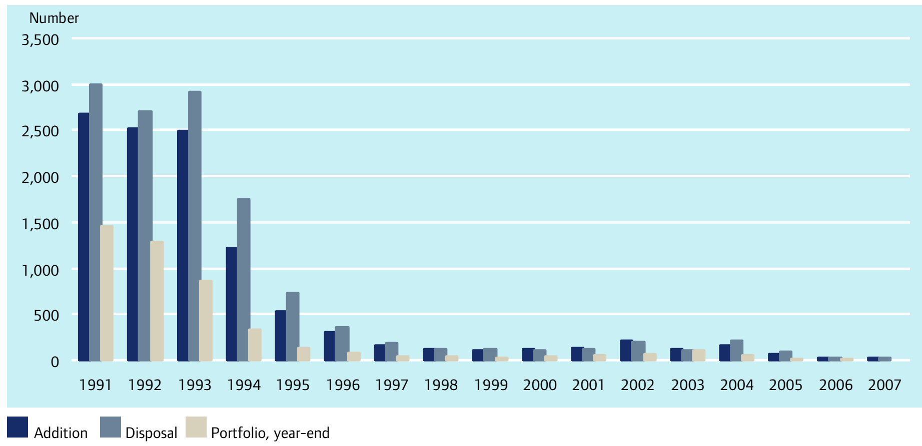
Nykredit Realkredit A/S
Recognised losses



The Nykredit Realkredit Group
Owner-occupied dwellings repossessed/sold

Number	2007	2006	2005	2004	2003
Addition of dwellings	21	28	71	159	122
Of which owner-occupied dwellings	*17*	*25*	*59*	*140*	*100*
Disposal of dwellings	27	34	101	212	108
Of which owner-occupied dwellings	*21*	*29*	*86*	*185*	*83*
Portfolio of properties, year-end	7	13	19	47	100
Of which owner-occupied dwellings	*3*	*7*	*12*	*37*	*82*

Nykredit Realkredit A/S
Owner-occupied dwellings repossessed/sold



CREDIT RISK MODELS

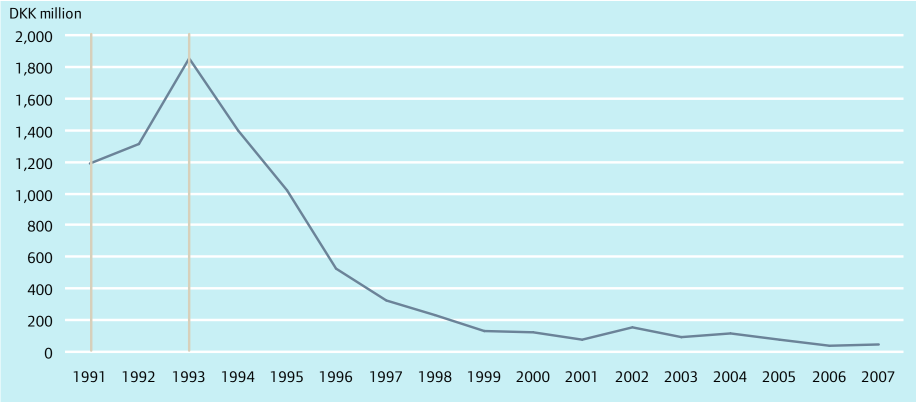
The determination of credit risk is based on three key parameters:

- 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.

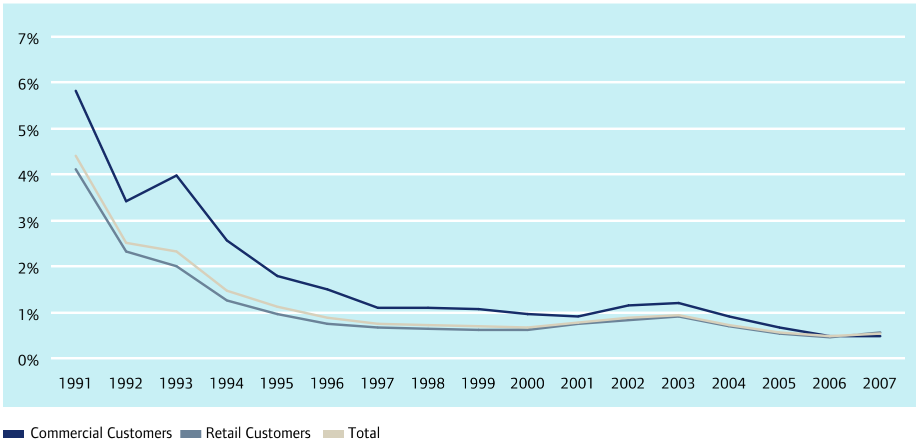
The PD is customer-dependent, while the other parameters are product-dependent. A PD is therefore assigned to each customer, while each exposure has a separate LGD and EV.

Nykredit Realkredit A/S
Recognised losses and calibration of LGD

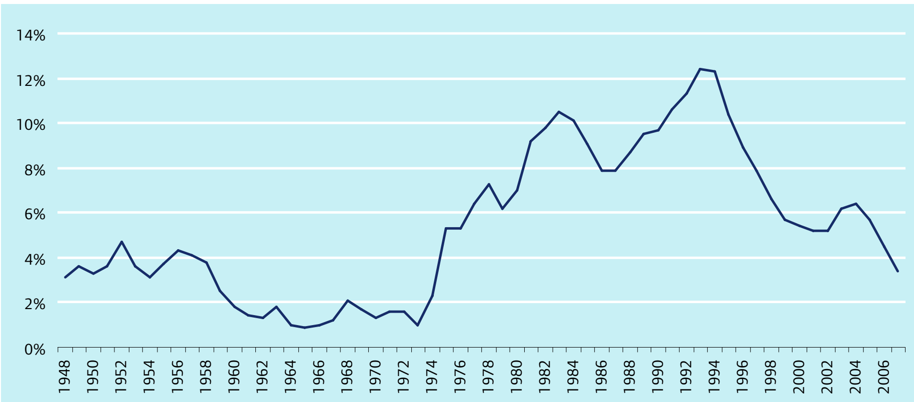


Data behind LGD: 1991-1993

Nykredit Realkredit A/S
Default rate



Danish economic developments since 1948
Unemployment rate



Modelling principles

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 data from that period and may thereby take into account the experiences made during a recession when developing models. For example, in 1993 Nykredit Realkredit A/S recorded losses of DKK 1.8bn and a borrower default rate of 2.34%. In comparison, recognised losses in 2007 had fallen to DKK 44m, while the share of mortgage defaults had dropped to 0.5%.

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 equal to 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, contrary to the risk parameters, the observed values 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 current data.

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

An exposure is in default where it is deemed improbable that the customer will repay all debt in full, or where a significant amount has been in arrears for 90 days. Where mortgage products are concerned, Nykredit considers 75 days of arrears to be a clear sign of a customer's inability to repay the debt in full, while banking products are considered in default on the forwarding of the second or third reminder depending on the customer category.

The PDs of retail customers and small enterprises are 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 a customer's financial position and other factors. Credit scoring models have been applied by Nykredit Bank since 1998 and by Nykredit Realkredit since 2000.

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 the absence of default data. External ratings are translated into PDs.

PDs are updated as Nykredit receives new information about general 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 year-end. Observed PD is the observed default rate of Nykredit's exposures and thus reflects the current economic situation. To obtain a meaningful comparison, it is therefore necessary to recalculate the estimated PDs at the beginning of the year into estimates which reflect only the current economic trend (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 PDs of individual customers are converted into ratings 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, a high rating 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 calculated rating be replaced by a rating made by a credit specialist.

The Nykredit Realkredit Group
Probability of Default, PD

%	Point-in-time PD Beginning of 2007	Observed PD End-2007	Applied PD End-2007
Retail exposures	0.45	0.15	0.90
Of which			
- Mortgages on real property	*0.45*	*0.14*	*0.89*
- Revolving exposures, etc	*0.14*	*0.15*	*1.12*
- Other retail exposures	*0.27*	*0.85*	*1.18*
Commercial exposures	0.73	0.13	1.22
Total	**0.56**	**0.14**	**1.03**

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

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

Rating category	PD floor %	PD ceiling %	Average applied PD %
10	> 0.00	≤ 0.15	0.11
9	> 0.15	≤ 0.25	0.20
8	> 0.25	≤ 0.40	0.32
7	> 0.40	≤ 0.60	0.50
6	> 0.60	≤ 0.90	0.74
5	> 0.90	≤ 1.30	1.06
4	> 1.30	≤ 2.00	1.55
3	> 2.00	≤ 3.00	2.44
2	> 3.00	≤ 7.00	4.40
1	> 7.00	≤ 25.00	11.46
0	> 25.00	< 100.00	36.32
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 approaches for which own PD estimates are applied.

The Nykredit Realkredit 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 for credit risk DKKm
10	14,626	1,132	7.6	3.0	35
9	40,683	1,403	6.9	3.9	127
8	70,423	1,175	7.5	5.5	308
7	91,929	1,127	9.1	8.1	596
6	131,982	1,923	11.0	11.8	1,248
5	90,687	1,575	12.4	16.1	1,166
4	26,311	779	13.9	23.0	484
3	11,542	2,776	19.5	39.9	368
2	7,806	199	14.3	45.8	286
1	3,071	78	16.6	80.9	199
0	703	32	16.4	92.6	52
Exposures in default	737	5	14.3	131.7	78
Total	**490,501**	**12,205**	**10.4**	**12.6**	**4,947**

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 Realkredit 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 for credit risk DKKm
10	20,365	3,934	21.5	19.1	311
9	32,900	3,614	18.3	22.7	598
8	65,859	8,126	18.8	29.1	1,532
7	68,799	8,045	17.5	32.8	1,807
6	44,893	5,574	18.6	38.4	1,378
5	45,189	7,061	28.5	62.2	2,250
4	29,292	2,080	25.3	73.6	1,725
3	11,350	1,185	18.5	56.2	511
2	10,642	1,207	18.9	63.4	539
1	5,609	780	18.4	87.2	391
0	2,314	466	26.6	151.7	281
Exposures in default	567	11	23.0	0	0[1]
Total	**337,778**	**42,083**	**20.5**	**41.9**	**11,322**

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

[1]Capital shall only be maintained for defaulted exposures when using the advanced IRB approaches, cf appendix 8 of the Danish Executive Order on Capital Adequacy, ie commercial exposures of Nykredit Realkredit A/S. The calculation is based on the difference between the LGD and individual impairment provisions. As individual impairment provisions exceed the LGD, the capital requirement equals zero.

Loss given default (LGD)

The LGD, which is calculated for each customer exposure, reflects the percentage share of the exposure which is expected to be lost if a customer defaults on a loan.

The LGDs of the majority of the Group's exposures are determined using internal approaches based on loss and default data. The calculation of LGD factors in any security such as mortgages on real property, including the type of security, its quality and ranking in the order of priority.

Nykredit calculates losses as the Group's 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 security in the form of a mortgage on real property, for example, the loss cannot be determined until Nykredit has sold the repossessed property. The determination of losses includes an estimate of the final loss in cases not finally settled.

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 will incur 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 LGDs are determined on the basis of the actual losses of the year plus individual impairment provisions at end-2007. 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 is the loss parameter applied 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.

Mortgage banking is characterised by low LGDs as the security provided by way of mortgages on real property offers good protection against losses. Nykredit's use of security is described in more detail in the section about security.

Exposure value (EV) and conversion factor (CF)

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

CF is only estimated for products subject to flexible utilisation, eg, revolving exposures, equity withdrawal, 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 where 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 Realkredit 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	10.58
Of which			
- Mortgages on real property	*1.89*	*1.20*	*10.17*
- Revolving exposures, etc	*15.75*	*11.15*	*39.97*
- Other retail exposures	*15.82*	*13.84*	*33.25*
Commercial exposures	3.50	2.66	21.07
Total	**2.73**	**1.98**	**14.89**

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

The Nykredit Realkredit 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 estimates of PD, LGD and the exposure value.

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. Nykredit's lending is for the most part secured on real property. Because of the general increase in property prices in recent years, most non-performing loans may be settled at no loss to the Group. Customers may mortgage any home equity to meet their payment obligations, whereby the loans will cease being non-performing. Consequently, observed PDs will be low. Alternatively, the property may be sold at a price that exceeds the outstanding amount, whereby Nykredit avoids losses. All in all, this results in a low level of observed losses.

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 future 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 separate staff function that is independent of Group credit granting and operations in general. To ensure good forecasting ability and consistent estimates, all credit models are validated at their development stage and are 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, including analysis of changes in ratings during the year.
- *Expert teams:* Nykredit's experienced credits and case officers and analysts compile and analyse any discrepancies between model estimates and own assessments of risk in the business.
- *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. It is assessed 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 Nykredit's business and are applied in several areas:

Capital management

Nykredit's risk and capital management is based on a required capital base, 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 which, however, allows for 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 the 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, the contractual basis, an assessment of the quality of the security, etc.

The Nykredit Realkredit 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	46	23	528
Of which			
- Mortgages on real property	*38*	*13*	*496*
- Revolving exposures, etc	*1*	*0*	*14*
- Other retail exposures	*8*	*10*	*18*
Commercial exposures	218	139	864
Total	**264**	**162**	**1,391**

Note: Comprises exposures subject to the advanced as well as the foundation IRB approaches. 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 LGD 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. The major part of Nykredit's lending is secured by mortgages on real property. Other types of security are 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, guarantees received 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, as mentioned above, may mortgage their equity in case of default 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.

Nykredit has obtained the approval of the Danish FSA to apply a statistical model as part of the valuation of properties. The model-based valuation is applied to detached and non-detached houses that meet the predefined requirements for mortgageable value and risk classification. Valuations must always be approved by the relevant local centre and are supervised centrally.

Following the initial valuation, the market value of the properties is monitored regularly. Nykredit uses a statistical model in respect of detached and non-detached houses and owner-occupied flats that satisfy specific requirements for LTV rates, risk classification and time since last valuation. The statistical valuations are performed centrally and supplemented by local valuations as required. The valuations are included in the LGD estimate.

Nykredit has set up a special monitoring team comprising experienced staff with in-depth knowledge of the housing market and solid valuation competencies. This team monitors market conditions and may identify areas and properties which should be checked separately and propose adjustments of the statistical models and policies.

Guarantees

Nykredit mainly receives guarantees from public authorities and banks.

Guarantees issued by public authorities contribute to reducing the credit risk mainly within mortgage lending to non-profit housing. Public guarantees are guarantees whereby the guarantor assumes primary liability. This means that Nykredit may enforce the guarantee if a loan falls into arrears.

The vast majority of bank guarantees are issued under Nykredit's partnership agreement with the local and regional banks behind Totalkredit. For each mortgage loan arranged, the banks may choose to issue a guarantee covering an amount equal to the part of the loan exceeding 60% of the property value when the loan is issued. The guarantees cover the first eight years of the term of the loan. Alternatively, the banks may choose to offset any losses incurred on the loans against the current commission paid by Nykredit.

In the determination of the capital requirement and capital adequacy, Nykredit's internal models divide each individual loan into a guaranteed and a non-guaranteed part, and the credit risk is subsequently calculated separately for each part.

The partnership agreement and the determination of capital requirements for mortgage lending governed by such agreement are described in more detail in the section about capital management.

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 their exposures 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

The Nykredit Realkredit Group
Types of security and credit exposures

2007 DKK million	Real property[1]	Guarantees received	Financial collateral[2]	Total collateral value	Total exposure
Retail exposures	567,731	94,329	3	662,063	493,465
Of which					
– Mortgages on real property	*567,731*	*94,329*	*-*	*662,060*	*485,697*
- Revolving exposures, etc	*-*	*-*	*-*	*-*	*3,090*
- Other retail exposures	*-*	*-*	*3*	*3*	*4,678*
Commercial exposures	281,243	22,546	*2,421*	306,209	339,622
Credit institution exposures	-	-	-	-	184,372
Sovereign exposures	-	-	-	-	34,944
Equity exposures	-	-	-	-	7,196
Assets with no counterparty	-	-	-	-	2,739
Total 2007	**848,974**	**116,875**	**2,424**	**968,272**	**1,062,339**
Total 2006	476,878	107,539	-	584,416	899,391

Note: Exposures also include guarantees issued by banks (DKK 94.3bn), which have been recognised under credit institution exposures, and sovereign guarantees (DKK 22.5bn), which have been recognised under sovereign exposures.

[1] The collateral value of real property is measured at nominal value.

[2] Determination of financial collateral for the calculation of capital requirement introduced in 2007.

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's capital requirement and capital adequacy, where netting is applied as well.

Market risk

Market risk reflects the risk of loss of market value as a result of movements in financial markets (interest rate, foreign exchange, equity price and volatility risk, etc).

The Nykredit Group's business activities involve a number of different market risks. The majority of the Group's market risks relate to the investment portfolios. Furthermore, the activities of Markets & Asset Management involve market risk.

The Executive Order on bonds lays down limits to the liquidity, interest rate, volatility and foreign exchange risk of mortgage banks within the framework of the general or the specific balance principle.

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

2007 DKK million	Specific risk	General risk	Basel II capital requirement, total
Debt instruments	815	199	1,014
Equities	69	16	85
Collective investment schemes[1]	33	-	33
Foreign exchange risk[2]		2	2
Value-at-Risk (99%, 10 days)		880	880
Total market risk	**917**	**1,097**	**2,014**

[1] Total position risk classified as specific risk.
[2] Total foreign exchange risk classified as general risk.

The Nykredit Realkredit Group
Market risk limits at group level laid down by the Board of Directors

Key figure	Definition	Limit
Value-at-Risk	Maximum loss in one day at a 99% confidence level	DKK 300m
Interest rate risk	Loss on general rise in interest rates of 1 percentage point	DKK (200)m to 1,600m
Equities	Measured at book value	DKK 8,250m
Credit bonds	Measured at book value	DKK (2,000)m to 6,000m
Volatility risk	Measured as losses on a general rise in interest rate volatility of 1 percentage point	DKK (200)m to 200m

Parameters of Value-at-Risk determination

Risk factors:	All positions are transformed into a number of risk factors for equity price, interest rate and foreign exchange risk.
Volatilities and correlations:	Daily volatilities and correlations for the above-mentioned risk factors. Volatilities are calculated so that the latest observations have the highest weighting. Volatilities and correlations are calculated on the basis of data for the last 250 banking days.
Time horizon:	Value-at-Risk is calculated with a time horizon of one day, but the figure may be scaled to other time horizons. The following horizons are applied: ▪ Capital requirement for market risk: 10 days ▪ Day-to-day business management: 1 day ▪ Capital adequacy: 1 year
Confidence level:	Value-at-Risk is calculated with the following confidence levels: ▪ Capital requirement for market risk: 99% ▪ Day-to-day business management: 99% ▪ Capital adequacy: 99.97%

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

DKK million	Average	Minimum	Maximum	Year-end
2007	181	115	332	182
2006	157	99	296	115

With effect from 1 October 2007, Nykredit Realkredit and Totalkredit have applied the general balance principle in relation to all capital centres and the mortgage banks in general, but have otherwise structured their lending activities according to the match-funding principle. Consequently, no significant market risks are assumed regarding lending and the funding thereof.

The risk relating to bank exposures to customers is hedged by the Bank's Treasury function, and involves only negligible market risk for the Group.

The limits relating to market risk in the Nykredit Realkredit Group, including Value-at-Risk, interest rate, equity price, foreign exchange and volatility risk, are subject to approval by the Board of Directors. Through the Treasury Committee and within the limits provided by the Board of Directors, the Executive Board assigns and approves market risk limits for group companies.

Compliance with the risk limits is monitored on a daily basis, and any non-compliance is reported to the Treasury Committee or Nykredit's Board of Directors depending on the amount.

Determination, management and reporting of market risk take place by combining a range of different tools in the form of statistical models, key ratios and limits. In addition to the Value-at-Risk model approved by the Danish FSA for the determination of capital requirements, Nykredit applies an internal Value-at-Risk model covering the entire Group.

VALUE-AT-RISK

Nykredit applies an internal Value-at-Risk model in the day-to-day management of market risk. This model is described below.

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.

In connection with the determination of the capital requirement, Value-at-Risk is only calculated in relation to the trading book as regards Nykredit Realkredit A/S, while Value-at-Risk is calculated in relation to all positions in all other cases.

Risk is determined through a Value-at-Risk model allowing for the embedded options of callable mortgage bonds.

Value-at-Risk is calculated and reported daily. Value-at-Risk limits exist at group, company and organisational entity levels. The model forms an integral part of Nykredit's securities systems.

Group Value-at-Risk totalled DKK 182m at 31 December 2007, meaning that Nykredit, at a 99% probability, risked losing a maximum of DKK 182m in one day in consequence of market fluctuations.

Daily stress tests are performed to determine the risk of losses under extreme market conditions. The tests are based on simulated market movements and events. More comprehensive stress testing is performed periodically. Stress testing is an attempt to assess the sensitivity of the portfolios to probable events.

The stress tests are designed so as to focus mainly on the market risks to which the individual companies are exposed. The scenarios applied in the individual companies are therefore different and reflect the different risk profiles. The tests are adjusted in line with business developments.

Additional stress tests are included in the determination of capital adequacy, cf the section on capital management. The stress tests included in the capital adequacy determination also contain elements relating to market risk, but they are less detailed than the daily stress tests performed on the Value-at-Risk model.

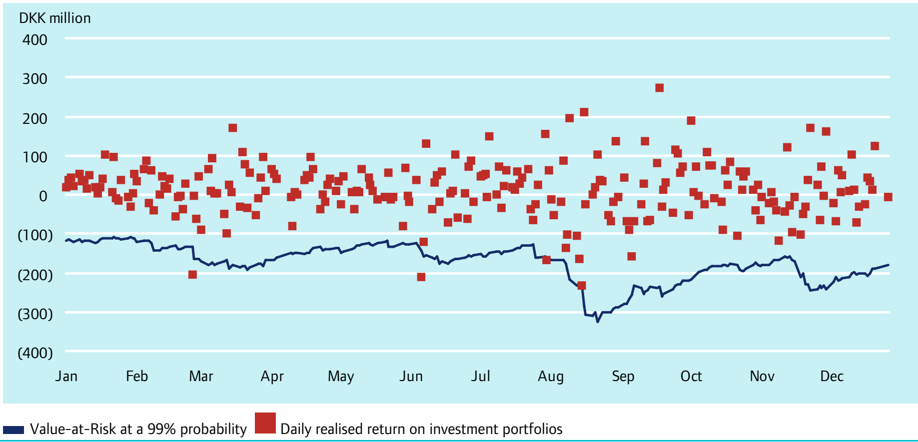
It is essential that the Value-at-Risk model is reliable. The model results are therefore tested on a daily basis against actual realised returns on the investment portfolios through back tests. The daily earnings (gains/losses) are compared with the model's estimate of the maximum loss. The actual losses are expected to exceed the maximum loss predicted by the Value-at-Risk model two or three times a year because of the statistical properties of the model. The purpose of the tests is to ensure that the model estimates are reliable and correct at any time.

If the actual losses exceed the maximum loss estimate of the model five or more times within one year, the capital requirement will be adjusted upwards. A back test of the Group's total Value-at-Risk is illustrated below.

Stress test scenarios

Nykredit Realkredit A/S	Nykredit Bank A/S
▪ EUR rates rise by 0.25 percentage point ▪ Other rates rise by 0.50 percentage point ▪ Interest rate spread between government bonds and swaps widens by 0.25 percentage point ▪ Equities decrease by 5% in general ▪ Danish bank shares decrease by 10%	▪ Interest rate spread between government bonds and swaps widens by 0.20 percentage point ▪ Rise in Danish rates: 1 week (5 percentage points), 1 month (3 percentage points) and 3 months (1 percentage point) ▪ Interest rate spread between Danish and foreign rates widens by 0.20 percentage point ▪ 5% devaluation of DKK vs all other currencies

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



CONVENTIONAL RISK MEASURES

The Value-at-Risk calculations are supplemented by more conventional risk measures.

Interest rate risk

Interest rate risk is the risk of loss as a result of interest rate changes and is determined on a daily basis as the loss in case of a general interest rate change of 1 percentage point.

Equity price risk

Equity price risk is the risk of loss as a result of changes in equity prices and is determined as the loss in case of an equity market decrease of 10%.

Foreign exchange risk

Foreign exchange risk is the risk of loss as a result of changes in exchange rates.

Nykredit Realkredit and Totalkredit generally hedge the foreign exchange risk of their investments and therefore only had minor foreign exchange positions in currencies other than EUR in 2007. Foreign exchange risk is measured by Exchange Rate Indicator 2 – a measure of the maximum loss at a 99% probability on unchanged foreign exchange positions for the subsequent ten days.

The Nykredit Realkredit Group
Listed and unlisted equities in the banking book

2007	Market value
DKK million	
Listed equities	4,777
Unlisted equities	1,138
Total	**5,915**

Volatility risk

Volatility is the size of fluctuations in the price of an asset, eg, the movement in an equity price. The market value of options and financial instruments with embedded options such as callable mortgage bonds partly depends on the expected market volatility. Volatility risk is the risk of loss of market value as a result of changes in market expectations for future volatility.

Volatility trading is used in connection with the opening of active positions. Risk is determined and managed on a continuous basis with respect to all financial instruments with embedded options by means of limits.

Refinancing risk

Refinancing risk is the risk of having to refinance debt in a period with high interest rates or with particularly unfavourable loan terms.

The refinancing risk in relation to mortgage banking is very limited.

The mortgage loan types Tilpasningslån, BoligXlån and RenteMax (with an interest rate cap shorter than the loan term) are refinanced by way of issuance of new bonds. At refinancing, borrowers obtain a loan rate that mirrors the yield-to-maturity of the bonds sold. Consequently, the Nykredit Realkredit Group does not incur any interest rate risk in connection with refinancing. Furthermore, the bond sale is organised so that the Nykredit Realkredit Group does not incur any liquidity risk in connection with the refinancing.

COVERED BONDS (SDOs)

Mortgage bonds issued before 1 January 2008 are approved as covered bonds ("særligt dækkede obligationer" – SDOs) pursuant to the EU's Capital Requirements Directives (CRD) and the Danish capital adequacy rules, etc. Consequently, such bonds when owned by credit institutions may be assigned a 10% weighting under the standardised approach to determine the capital requirement for credit risk, as opposed to 20% otherwise. Similarly, the placement rules applicable to the life and pension sector are less strict in relation to bonds approved as SDOs.

Mortgage bonds issued after 1 January 2008 have not been approved as SDOs and therefore carry a 20% risk weighting at credit institutions.

SDOs issued in pursuance of the special legislative framework for SDOs are assigned a 10% weighting if they satisfy certain requirements. SDOs must be issued against security by way of one or more of the following three types of assets:

- Government bonds or other claims against EU/EEA member states, etc
- Mortgages on real property within 80% of the property value of owner-occupied dwellings or 60% of the value of commercial properties
- Claims against credit institutions, including guarantees for registration of mortgages without endorsements and guarantees for interim loans in connection with new building.

The said claims against credit institutions, etc may only be included in the cover pool for SDOs within a limit of 15% of the issued bonds.

In connection with the opening of new capital centres or refinancing surges, the amount of registration guarantees and guarantees for interim loans will typically exceed the 15% limit. In practice, the excess amount must therefore be secured by the provision of supplementary security in the form of claims against EU/EEA member states, etc.

The Nykredit Realkredit Group
Market risk (conventional calculation)

	2007				2006			
DKK million	Average	Max	Min	Year-end	Average	Max	Min	Year-end
Interest rate risk (1 percentage point change)	624	895	403	829	449	632	186	632
– of which outside trading book	*49*	*75*	*7*	*15*	*45*	*87*	*8*	*32*
– of which from mortgage activities (balance principle)	*6*	*163*	*(166)*	*163*	*19*	*83*	*(19)*	*34*
Equity price risk (10% change)	746	857	648	704	721	871	647	788
Foreign exchange risk (Exchange Rate Indicator 2)	11	18	4	7	13	20	9	13
Interest rate volatility (vega)	(4)	48	(59)	(52)	(60)	70	(148)	67

Note: Calculation of market risk covers both the trading and banking books. As some of the mortgage activities have been classified as belonging to the banking book, interest rate risk on the trading book and interest rate risk on mortgage activities overlap.

Correspondingly, a decline in property prices or a rise in the market value of the loans as a result of rising bond prices may trigger a need for supplementary cover assets.

Nykredit Realkredit and Totalkredit may raise supplementary security by investing part of the capital base or any borrowed funds in government bonds, which are placed as cover assets in the SDO Capital Centre E.

In Nykredit, the need for supplementary security for the first one or two years is estimated to DKK 20bn, primarily as a result of registration and interim loan guarantees.

A general decrease in property prices of 10% will trigger an additional need for supplementary security of approximately DKK 1.8bn, as Danish law prescribes that supplementary security must be provided for each individual loan the security of which does not satisfy the minimum requirements. The need for supplementary security should be seen in relation to Nykredit's subordinate loan capital of DKK 53bn, which may extensively be placed in government bonds.

It is Nykredit's policy to maintain a substantial buffer against declining property prices or refinancing surges. To this end, Nykredit has raised loans to fund the need for supplementary security already in late 2007.

Nykredit raised the loan by issuing bonds pursuant to section 33 e of the Financial Business Act. This means that the holders of the issued bonds (junior covered bonds) have a secondary preferential right to the cover assets of Capital Centre E. In the event of insolvency, the cover assets of Capital Centre E will be applied first to pay the holders of SDOs and subsequently the holders of junior covered bonds.

At end-2007 Nykredit had issued DKK 5bn-worth of junior covered bonds.

TRADING BOOK AND BANKING BOOK

Nykredit 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 Nykredit's lending business and strategic positions are placed in the banking book. Furthermore, portfolios which cannot be unambiguously classified under the trading book are placed in the banking book.

Interest rate risk on the banking book

Interest rate risk in the banking book is limited and derives mainly from the following sources:

- Balance sheet funds from borrowers with fixed-price agreements and borrowers prepaying their loans. Other elements are balance-sheet funds in the form of refinancing of the loan types Tilpasningslån, BoligXlån and RenteMax as well as accumulated interest and principal payments on certain types of adjustable-rate mortgage loans (Tilpasningslån).
- Subordinate loan capital, which is hedged by way of interest rate swaps
- Strategic bonds carrying mainly floating rates
- Payments relating to the acquisition of Totalkredit

Equity price risk on the banking book

Equities in the banking book comprise Nykredit's strategic equities and private equity.

Strategic equities exposures in 2007 ranged between DKK 5.1bn and DKK 6.2bn, while private equity exposures ranged between DKK 0.5bn and DKK 0.8bn.

Strategic equities comprise equities in a number of regional banks with which Nykredit cooperates, equities in the property companies Jeudan A/S and Dades A/S, and equities in Værdipapircentralen A/S. They are classified as available for sale in accordance with IAS 39 and are therefore value adjusted directly against equity.

Private equity is priced at fair value according to the EVCA (European Venture Capital Association) or BVCA (British Venture Capital Association) principles. The individual EVCA/BVCA estimates are adjusted in a relevant equity index or benchmark/peer group.

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 to sell its assets at a reasonable price.

The Group's total liquidity risk is assessed by the Asset/Liability Committee, while day-to-day liquidity management is handled by the individual group companies.

Nykredit Realkredit and Totalkredit fund their mortgage lending by daily issuance of mortgage bonds and SDOs. Because of the match-funding applied to group mortgage lending, Nykredit does not incur any liquidity risk in connection with the funding of mortgage loans.

At Nykredit Realkredit and Totalkredit, major liquidity fluctuations occur in connection with the settlement dates. Borrowers make their mortgage payments the day before the coupon date of the bonds at the latest. Liquidity risk is therefore only incurred on late payments. This liquidity risk is hedged by Nykredit/Totalkredit's access to using its bond portfolio as collateral with the Danish central bank, Danmarks Nationalbank, and the establishment of intraday credit line facilities with the largest Danish banks participating in the settlement of mortgage payments.

Moody's has fixed a number of requirements for the liquidity management of banks. A bank's liquidity curve must as a main rule remain positive 12 months ahead. As a consequence of the match-funding principle, Nykredit Realkredit and Totalkredit have positive balance sheet liquidity and must also maintain a certain amount of liquid/repo-eligible bonds in the securities portfolio.

The management of liquidity risk at Nykredit Bank is based on an internal liquidity model quantifying the Bank's expected liquidity position at any future time. The Board of Directors lays down the Bank's liquidity policy and limits as well as principles and requirements of the liquidity models. Furthermore, the liquidity instructions specify minimum requirements for the size of the Bank's liquidity buffer.

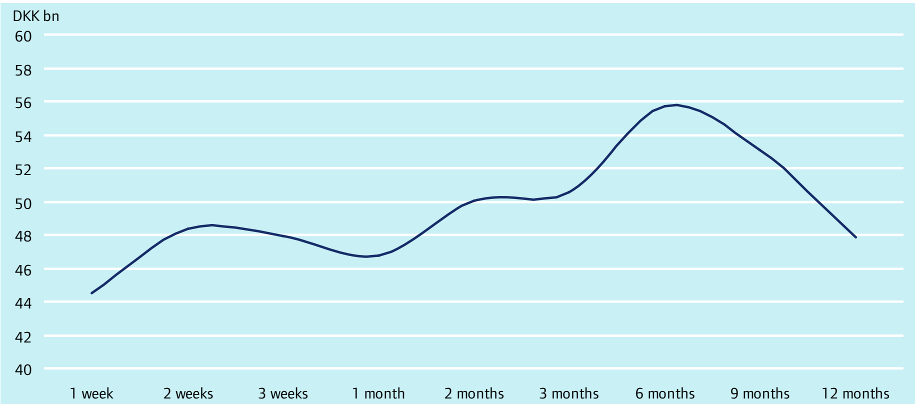
Nykredit Bank monitors its balance sheet and liquidity on a day-to-day basis. The Bank manages its balance sheet based on the liquidity of assets and liabilities and operates in that connection with a trading book and a banking book. The trading book includes a portfolio of corporate bonds and the Bank's 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 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 Bank's banking book includes its 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. Deposits plus structured finance relative to loans and advances came to 118% at end-2007 against 123% at end-2006. The Bank aims to retain the ratio of lending to deposits plus structured finance.

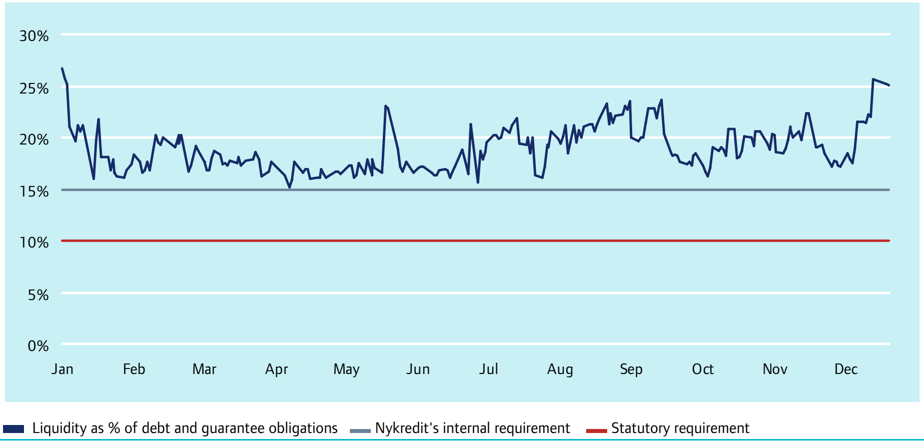
To improve its access to funding through international capital markets, the Bank established a European Medium Term Note (EMTN) programme in Q4/2007 for EUR 5bn. Issues under the EMTN programme are intended to gradually replace the Bank's long-term deposits from financial counterparties as the EMTN programme 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 Nykredit Realkredit Group
12-month liquidity, end-2007



According to the Financial Business Act, a bank's liquidity must total at least 10% of total reduced debt and guarantee obligations. Nykredit Bank operates with an internal liquidity requirement of at least 15%. The Nykredit Bank Group's excess cover relative to statutory liquidity requirements amounted to 25.1% at end-2007.

Nykredit Bank A/S
Liquidity as % of debt and guarantee commitments



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

Insurance risk

Insurance risk is the risk of fluctuations in claims under insurance contracts written. Insurance risk is divided into catastrophe risk and non-catastrophe risk.

Catastrophe risk is the risk of loss as a result of a catastrophe such as hurricanes, floods, terrorism, etc. The losses are characterised by occurring rarely, but resulting in major financial losses when they do occur. Catastrophe risk is the greatest risk by far and is hedged to a wide extent.

Non-catastrophe risk relates to ordinary business operations and includes uncertainty about the size and timing of claims. Non-catastrophe risk can be divided into reserve risk (provisioning risk) relating to preceding claims years, and premium risk relating to the future period for which premiums have been paid.

Reserve risk includes the risk of fluctuations in average claims and the risk of final realised losses exceeding estimated losses.

Premium risk includes the risk of premium income for the coming period being insufficient to cover future claims payments.

Nykredit's insurance activities are exclusively concentrated within retail and agricultural customers as well as commercial buildings insurance. Nykredit Forsikring has a well-diversified portfolio with many different customers.

The board of directors of the insurer, Nykredit Forsikring, holds the overall responsibility for managing insurance risk. The board lays down guidelines for the types of risk written and their size as well as the principles of risk assessment and reinsurance. In cooperation with the technical departments, the risk management department of the insurer has the day-to-day responsibility for managing insurance risk.

In the Commercial Customers area, a Risk Committee has been appointed that reviews and approves insurance offers of substantial amounts to commercial customers. Unusual or substantial risk exposures are subject to board approval.

It is a company objective to limit the risks through reinsurance. As a result of the reinsurance cover for 2007, the part of catastrophe claims of up to DKK 1,000m which the Insurance Company has to cover was limited to DKK 30m. Should the claim exceed DKK 1,000m, the company's expense will rise proportionally up to DKK 155m in case of a claim of DKK 1,500m. In connection with payments from the reinsurance programme, a small reinstatement premium is payable in accordance with usual reinsurance practice.

Owing to the reinsurance cover for 2008, the company's net expense in a catastrophe event of up to DKK 1,700m is limited to DKK 30m plus expenses for reinstating the reinsurance cover equal to the standard level in the industry.

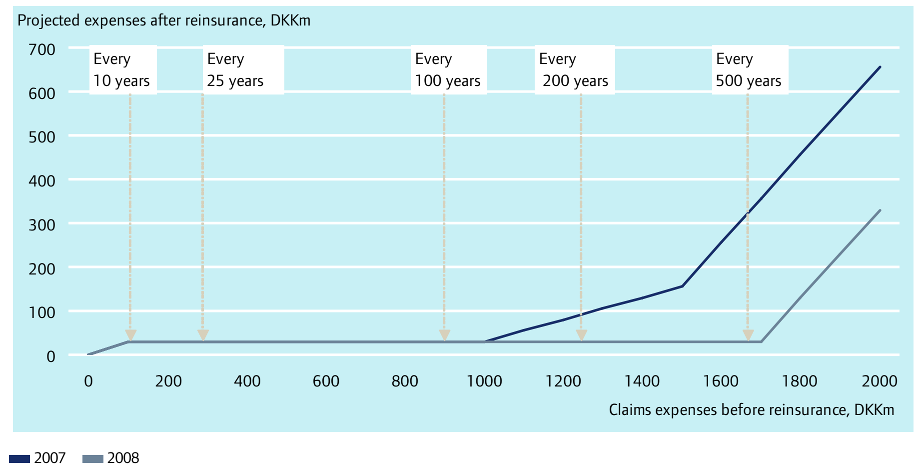
In comparison, the insurance company's largest claim was a gross amount of DKK 640m in connection with the hurricane on 3 December 1999.

Reinsurance business ceded goes to other insurance companies in accordance with the overall guidelines laid down by the board of directors for rating requirements for reinsurance companies.

The ratings of reinsurance companies are reviewed on a current basis.

In 2007 the insurer had claims expenses of DKK 962m and net claims expenses of DKK 896m, which is on a level with expectations.

Nykredit Forsikring A/S
Expenses after reinsurance in 2007



Operational risk

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

Nykredit's capital requirement for operational risk, as determined on a pro forma basis using the basic indicator approach under Basel II, came to DKK 1.2bn 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 at Nykredit 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 develops tools and techniques to identify, analyse and report operational risk. The tools are gradually implemented into the business areas and management support functions.

Systematic registration and categorisation of loss-making operational events create 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.

In 2007 loss-making operational events of DKK 7.2m were registered.

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

As a consequence of the legislative framework for mortgage banking, which accounts for the majority of the Group's activities, and the highly standardised mortgage products, the operational risk relating to this area is inherently limited.